

REPORT ON OPERATIONS FOR 12 MONTHS
ENDED DECEMBER 31, 2017



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1. Market environment

1.1. General macroeconomic situation

In the opinion of the Management Board of the Parent Company, the following market factors and trends significantly impacted the Group's results in the period in question or are expected to significantly affect its future:

- macroeconomic situation of the Polish economy;
- level of investment outlays on the Polish market and other European Union countries;
- regulatory environment;
- exchange rates fluctuations;
- seasonality;
- participation in the implementation of large investment projects in the Polish power sector;
- the value of order portfolio held;
- restructuring of operating activities;
- disinvestment activities carried out;
- manufacturing operations.

Macroeconomic situation of Polish economy

The Group operates mainly in Poland, where a significant majority of its revenues is obtained from construction contracts and from operations in the energy and manufacturing segment. Due to the fact that the activity in particular sectors, in which the Group operates, is significantly correlated with the business cycle, a key factor affecting the Group's operations is the macroeconomic situation in Poland, in particular:

- real GDP growth, which is a measure of the size of the economy, reflecting the level of economic activity and the cyclical nature of the economy;
- the size and dynamics of industrial production, showing the economic situation on the part of producers;
- the ability of companies from the energy, chemical and fuel industries to generate cash and conduct investments;
- unemployment rate, illustrating the condition of the labour market, which directly translates into trends in consumer demand;
- the level of real wages, which is a measure of the purchasing power of households;
- the level of interest rates, determining the cost of money and affecting the level and dynamics of prices of products and services;
- the condition of EU economies (major importers of services offered by the Group) and the degree of absorption of EU funds;
- change in market prices of raw materials and materials.

According to preliminary estimates of the General Statistical Office, gross domestic product (GDP) in the fourth quarter of 2017 was 5.1% higher in real terms compared to the fourth quarter of 2016, compared to 2.7% in the corresponding period of 2016 (in fixed average annual prices of the previous year).

According to preliminary data, in December 2017 prices of sold production of industry were higher by 0.3% as compared to December 2016. The price increase was also recorded in construction and assembly production by 1.4%. In January-December 2017, the prices of sold production of industry were by 2.9% higher than in the corresponding period of 2016 (when a decrease of 0.1% was recorded), and prices of construction and assembly production by 0.6% (drop in last year by 0.4%).

The unemployment rate at the end of December 2017 was 6.6%. It means its drop by 1.6 p.p. compared to 2016. The decline in the unemployment rate partly is a seasonal phenomenon, but to a large extent it is the result of the observed economic recovery. The unemployment rate should systematically decline and support economic development.

1.2. Basic products and services

In 2017, the scope of Polimex-Mostostal Capital Group's operations did not change compared to the previous period, and in the basic assortments included:

- comprehensive support for the investment process, completion of equipment supplies and industrial installations;
- general contracting of industrial and public utilities facilities, roads and railway routes;
- assembly of specialist equipment, especially for the needs of the petrochemical and energy industries;
- maintenance services for the permanent and comprehensive service of industrial plants;
- steel structures manufacturing for the purposes of industrial construction, mainly power and petrochemical sectors;
- production, delivery and assembly of steel structures used in the construction of shopping centres, warehouses, sports and public facilities, petrol stations and storage terminals; The Group performs orders using its own, tested technical solutions or according to individual clients' projects;
- production, delivery and assembly of bridges, viaducts, footbridges, trestles, and protective barriers and sound absorbing screens used in road construction;
- production and delivery of welded and pressed MOSTOSTAL type gratings together with fastening elements ensuring quick and safe assembly; Grates are used in production plants as an element of bridges for the service of production lines and passageways for pipelines and reservoirs; They are also used as walkways on footbridges and bridges, channel covers, manhole protection and stair steps;
- production and delivery of shelving systems, pallets and containers for transporting various types of products and a wide range of construction accessories, including construction supports used for roof construction;
- services in the field of anti-corrosive protection of steel structures by:
 - hot dip galvanising (immersion),
 - Duplex system (galvanising + hydrodynamic painting), hydrodynamic painting.

1.3. Revenues and their structure

In 2017 operational segments of Polimex-Mostostal Capital Group participated in the sales in the following way:

Segment	Year ended December 31, 2017		Year ended December 31, 2016		Change 2017 / 2016
	value	share	value	share	
Production	657 304	27.1%	434 601	16.3%	51.2%
Industrial construction	23 470	1.0%	13 216	0.5%	77.6%
Power	1 517 222	62.7%	1 904 341	71.4%	(20.3%)
Oil, gas, chemistry	205 905	8.5%	274 720	10.3%	(25.0%)
Infrastructural construction	8	0.0%	536	0.0%	(98.5%)
Other operations	17 169	0.7%	40 807	1.4%	(57.9%)
Total sales revenues	2 421 078	100.0%	2 668 221	100.0%	(9.3%)

1.4. Sales markets and sources of procurement

Value and geographical structure of Polimex-Mostostal Capital Group's sales in the year 2017 was as follows:

Market	Year ended December 31, 2017		Year ended December 31, 2016		Change 2017 / 2016
	value	share	value	share	
Local	1 874 945	77.4%	2 179 352	81.7%	(14.0%)
Foreign	546 133	22.6%	488 869	18.3%	11.7%
Total sales revenues	2 421 078	100.0%	2 668 221	100.0%	(9.3%)

Compared to 2016 the decrease of the sales value in the local market was notice and an increase in the foreign markets. Basic market of the Capital Group remained the local market in which 77.4% of sales revenues was obtained.

1.5. Market development prospects

Prospects for development in the sectors in which the Polimex-Mostostal Capital Group operates are good, although each of them is characterised by its own specificity. The strategic goal of PxM CG is to build Group's value through intensive development in five main areas: 1) Power engineering; 2) Oil, chemistry, gas; 3) Industrial construction; 4) Construction engineering and 5) Manufacturing. The Group intends to achieve the position of the leading Polish industrial engineering company. The main factor supporting the achievement of the above-mentioned goals is the start of tender procedures co-financed from the European Union budget allocated to Poland under the new financial perspective 2014-2020 and the investment needs of the most important entities operating in the power and fuel and gas sectors.

One of the main development challenges for Poland in the coming years is to ensure stable energy supplies. Prospects for the development of the construction market in the energy sector are on a predictable and stable level. Polimex-Mostostal Group will strengthen its position on the conventional energy and heat generation, co-generation and fuel and chemical market as well as plan to enter new areas, including the market for smaller generation capacities and gas projects. Unique references and qualifications allow Polimex-Mostostal Group to participate in tenders both in terms of adapting units to BAT requirements, as well as involvement in the implementation of innovative technological solutions (construction of duoblocks in the power industry). These credentials are based on experience gained in implementing strategic investments in the national power sector, including, but not limited to the construction of modern power block No. 11 in Kozienice Power Plant.

Due to the considerable degree of exploitation and low efficiency of generating units, the vast majority of national power units are or should be modernised or replaced with new generation sources in the coming years.

Energy security requires, *inter alia*, diversification of electricity sources. Implemented tasks related to the construction of 2 x 900 MWe power units in Opole, as well as gas and steam units at EC Żerań and planned in ZA Puławy and PDH Police create the opportunity to win new contracts.

It should be borne in mind that generating units with a capacity of around 200 MW or less will be gradually decommissioned or will require costly adaptation to stricter environmental requirements. The construction market in the energy sector will be stimulated, among others through the planned introduction of the capacity market. An opportunity to supplement the order portfolio is the implementation of planned government programs in the hydropower and hydrotechnical areas.

Guaranteeing the security of electricity supply in the medium term will require the construction of new generating units regardless of the approach to fulfilling the BAT conclusions for existing generation sources. In the coming years, Polimex-Mostostal Group assumes building strong position in the gas and chemical sectors and strengthening the role in the fuel sector as well as maintaining significant position abroad in the fuel and chemistry sector. Naftoremont-Naftobudowa is a supplier of technological nodes and a contractor of point and line objects. The above is a response to the clients' needs as well as the implementation of the EPC projects strategy. The company's competences allow to respond to significant market potential. The strategy adopted by GazSystem provides for significant investment expenditures for the development of transmission networks, it is planned to build around 2000 km of network with nodes. Similarly, PGNiG and cooperating companies that have a gas license. The fuel market is still dominant for the company, the company's presence in this segment is supported by many years of experience. Naftoremont-Naftobudowa is still developing its activity to meet the expectations of customers and providing service at the highest level. Investments for entities such as PKN Orlen or Lotos will constitute the foundation of revenues. The company also intends to maintain long-term cooperation with international fuel companies such as Shell, BP, TOTAL, and MOL. Naftoremont-Naftobudowa is one of the most well-known and valued companies, in particular in the repair industry, where it has a strong qualitative and competitive price advantage. One of the ways to achieve the intended goals is to obtain multi-annual framework contracts, in particular for large clients with a significant position on the national and European scale.

The Polimex-Mostostal Group is one of the largest steel structures' manufacturers in Poland, and as a producer of bridge gratings, it has an established position both in Poland and abroad. The strategic goal of the production segment is to increase efficiency, increase foreign sales, and diversify the portfolio with high-margin products. The main recipients of steel structures as well as gratings are the energy, industry and construction industries. Estimated market potential for the Polimex-Mostostal Group in 2018-2024 amounts to 616 ths tonnes on average annually.

In the perspective of the next years, it is important from the point of view of liquidity to effectively win contracts whose target scale should replace currently implemented strategic contracts. Supplementing the current portfolio of contracts along with the advancement of strategic contracts is one of the main priorities of the Group's Management Board. Although the impact of strategic contracts on the Company and Group's results is currently dominant, the additional contracts currently acquired and planned to be acquired in the coming years should have a growing share in the Group's results, providing additional cash flows for the Company and Segment Companies.

2. The most significant events in the year 2017

2.1. Events affecting Polimex-Mostostal Capital Group's situation in the year 2017

- On January 18, 2017, between the Group 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, concluded an Investment Agreement specifying the parameters of investors' capital commitment and the mutual rights and obligations of the parties. The investors agreed to invest in the Parent Company of PxM CG, consisting in taking up the T-series shares of the Group at an issue price of PLN 2 each, in the number of 37 500 000 shares attributable to each of the Investors. On January 18, 2017, the Supervisory Board of the Company 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 Polimex-Mostostal S.A. and the Investors, according to which the Investors took all

offered shares, that is, a total of 150 000 000 shares with a total value of PLN 300 000 000. The shares were fully paid by the Investors on 25 January 2017 and the Company was provided with cash in the amount of PLN 300 000 000.

- On May 18, 2017, the Supervisory Board approved the Development Plan of the Polimex-Mostostal Capital Group for the years 2017-2023, i.e. the Comprehensive Development and Business Plan of the Capital Group of the Company (regulatory announcement No. 48/2017).
- On 26 May 2017, the Management Board of Polimex-Mostostal S.A. announced that the Parent Company signed with the State Treasury represented by the General Directorate for National Roads and Motorways a contract on confidentiality of sensitive data that may be transferred in the course of talks on concluding a possible settlement regarding mutual claims raised by the parties in court proceedings or other possible claims that may arise under contracts whose subject matter was: (i) Design and construction of the A1 motorway Stryków - "Tuszyn" node on the section from km 295 + 850, (ii) Construction of the S-69 expressway - Bielsko Biala - Żywiec - Zwardoń, section "Mikuszowice" - Żywiec node, and (iii) Construction of the A-4 motorway, Rzeszów section (Rzeszów Wschód node) - Jarosław (Wierzbna node) from km 581 + 250 to km 622 + 450. Total the value of the subject of the dispute arising from pending court cases concerning the above-mentioned agreements is: (i) by the action of the Group and consortium members: PLN 507 527 243, (ii) for action by the State Treasury - General Directorate for National Roads and Motorways: PLN 503 879 704.77 (regulatory announcement no. 50/2017).
- On June 20, 2017, the following was concluded: (i) an agreement between the Group and Towarzystwo Finansowe "Silesia" Sp. z o.o. and Bankowe Towarzystwo Kapitałowe S.A. concerning the change and unification of the terms of issue of Series A convertible bonds originally dated September 12, 2014, and the agreement between the Company and the Industrial Development Agency S.A. regarding the change and unification of the terms of issue of Series B ordinary bonds originally dated September 12, 2014, (ii) Annex No. 10 to the Agreement on the principles of servicing financial debt of December 21, 2012 between the Company and Bank Polska Kasa Opieki S.A., Bank Ochrony Środowiska S.A., Powszechna Kasa Oszczędności Bank Polski S.A., PKO Parasolowy Fundusz Inwestycyjny Otwarty, Unifundusze Specjalistyczny Funduszem Investment Open and Unifundusze Fundusz Inwestycyjny Otwarty, (iii) Annex No. 3 to the Agreement between Creditors of September 11, 2014 between Polimex-Mostostal S.A., Polimex Energetyka Sp. z o.o., Naftoremont - Naftobudowa Sp. z o.o., Mostostal Siedlce Sp. z o.o. Sp. k., Polimex Budownictwo Sp. z o.o. Sp. k. and the Financing Banks (Bank Polska Kasa Opieki S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Bank Ochrony Środowiska S.A., Bank Zachodni WBK S.A., Bank Millennium S.A.), Bondholders 2007 Bonds (PKO Parasolowy FIO represented by PKO Towarzystwo Funduszy Inwestycyjnych SA; UniFundusze SFIO represented by Union Investment TFI SA, UniFundusze FIO represented by Union Investment TFI SA), Bondholders of 2014 Bonds (Towarzystwo Finansowe "Silesia" sp. z o.o., Agencja Rozwoju Przemysłu SA, Bankowe Towarzystwo Kapitałowe SA), Bondholders of 2017 Bonds (Towarzystwo Finansowe "Silesia" sp. z o.o., Bankowe Towarzystwo Kapitałowe S.A., Bank Millennium S.A., Bank Gospodarstwa Krajowego and Powszechna Kasa Oszczędności Bank Polski S.A. and Towarzystwo Finansowe "Silesia" Sp. z o.o., (iv) Annex No. 3 to the loan agreement regarding the new guarantee facility and related revolving credit dated December 21, 2012 between the Company, Polimex Energetyka Sp. z o.o., Naftoremont - Naftobudowa Sp. z o.o. and Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A., Bank Ochrony Środowiska S.A., Bank Millennium S.A. and Bank Zachodni WBK S.A., (v) Agreements between the Company and Bank Millennium S.A. (regulatory announcement No. 55/2017).
- On June 29, 2017, the Management Board of the Parent Company announced that between PGNiG TERMIKA S.A. and Mitsubishi Hitachi Power Systems Europe GmbH as the consortium leader, Mitsubishi Hitachi Power Systems Ltd., Mitsubishi Hitachi Power Systems Europe Ltd. and

- the Group as members of the consortium, an agreement was concluded for the supply and assembly of a gas and steam unit at the Żerań Heat and Power Plant in Warsaw (regulatory announcement no. 61/2017).
- On June 30, 2017, an agreement was concluded for the in-kind contribution in the form of an organised part of the enterprise called Zakład Konstrukcji Stalowych in Rudnik nad Sanem from the Parent Company to Mostostal Siedlce spółka z ograniczoną odpowiedzialnością spółka komandytowa in exchange for increasing the value of the Parent Company's share in this company by PLN 24 989 676,54. The subject of activity of Zakład Konstrukcji Stalowych in Rudnik is the production of steel structures mainly for the needs of industry and the energy sector. The transaction was related to the continuation of the optimisation of the structure of the Capital Group and was aimed at allocating production activities to the organisational structures of Mostostal Siedlce (regulatory announcement 63/2017).
- on July 25, 2017, the Group signed 3 contracts for in-kind contribution in the form of organised parts of the enterprise from "Polimex-Mostostal" S.A. to new subsidiaries, as of August 1, 2017, under the names:
 1. ZCP Budownictwo Ogólne to a subsidiary under the name of Polimex Budownictwo spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Siedlce in exchange for increasing the value of the share of Polimex-Mostostal S.A. in this company. The necessary corporate approvals for the transaction were obtained. The transaction is related to the continuation of the optimisation of the Capital Group's structure. The object of ZCP Budownictwo's activity is comprehensive services in the industrial construction sector. The transaction value is PLN 9 122 300,00
 2. ZCP Operator to a subsidiary under the name of Polimex Operator spółka z ograniczoną odpowiedzialnością spółka komandytowa with a registered office in Warsaw in exchange for increasing the value of the share of Polimex-Mostostal S.A. in this company. The necessary corporate approvals for the transaction were obtained. The transaction is related to the continuation of the optimisation of the Capital Group's structure. The subject of activity of ZCP Operator is rental and lease of construction machinery and equipment as well as heavy construction equipment. The value of the transaction is PLN 17 013 300,00
 3. ZCP Infrastruktura to a subsidiary under the name Infrastruktura Drogowa spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw in exchange for increasing the value of the share of Polimex-Mostostal S.A. in this company. The necessary corporate approvals for the transaction were obtained. The transaction is related to the continuation of the optimisation of the Capital Group's structure. The subject of activity of ZCP Infrastruktura are works related to the construction of roads and highways. The transaction value is PLN 1 503 078,00
- On September 27, 2017, the Management Board of the Parent Company referred to Bankowe Towarzystwo Kapitałowe S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. proposals for the purchase of series C bonds convertible into series U bearer shares. The proposal to acquire the Bonds was accepted and the Bonds were issued and paid up. The subject of the issue is 29 Bonds with no form of a document with a total nominal value of up to PLN 14 500 000. Nominal value and the issue price of one bond is PLN 500 000 (regulatory announcement No 78/2017).
- On December 29, 2017, the Management Board of "Polimex-Mostostal" S.A. reports that it has entered into a court settlement with Europa Centralna Sp. z o.o. regarding disputes arising in connection with the performance of the agreement dated November 10, 2011 for construction works related to the construction of the Europa Centralna shopping centre located in Gliwice. According to the settlement, Europa Centralna Sp. z o.o. will pay the Company the amount of EUR 3 000 000 as settlement benefits, and the Company hereby confirms the entitlement of Europa Centralna Sp. z o.o. to keep the amount of PLN 25 938 604,23 – the amount which Bank BGŻ BNP

- Paribas S.A. paid to Central Europe Sp. z o.o. for the performance of the bank guarantee for due performance of the contract No. 2324/11/WAR (regulatory announcement No. 105/2017).

2.2. The most significant contracts implemented by Polimex-Mostostal Group.

In 2017, the Group implemented two strategic contracts in the energy segment.

Since January 2014, "Polimex-Mostostal S.A." has been implementing a contract in the consortium for the construction of two new power units at Opole Power Plant. This contract is a significant contract of Polimex-Mostostal in the power sector which is strategic for the company. This is historically the largest and most important investment for the Polish energy sector in the Polish energy sector. Its value is PLN 11.6 billion gross, of which about 42%, or PLN 4.84 billion, is attributable to the Polimex-Mostostal. Under the contract, "Polimex-Mostostal" S.A. shall construct turbine islands and built-in cooling towers with cooling water system. Electrical systems will also be implemented, including control and measurement equipment and automation. The planned delivery of the unit No. 5 to operation will take place on May 31, 2019, and block No. 6 on September 30, 2019.

From June 2017, Polimex-Mostostal (in a consortium) also provides delivery and assembly of a gas and steam power plant with a capacity of 497 MW and thermal power of 326 MW together with installations and auxiliary facilities at the Żerań Heat and Power Plant in Warsaw. The total value of the contract is approximately PLN 982.28 million and EUR 111.93 million, of which 26% is attributable to Polimex-Mostostal.

"Polimex-Mostostal" S.A. completed the implementation in the consortium contract at Kozienice Power Plant for a new block with a capacity of 1075 MW. The main scope of the Group's work included:

- Construction works together with general construction installations of all facilities,
- Cooling water system with cooling tower, water preparation station, fresh water pumping station,
- Carburising, ash removal, deslagging, oil management along systems with track system,
- Power distribution system 110 KV and 400 KV, electrical part in the low voltage range, AKPiA (measuring and control apparatus and automation) for the above technological facilities,
- Assembly of boiler and machine room technologies, excluding the turbine set.

The total value of the aforementioned works is approx. PLN 6.3 billion gross, of which the Company accounts for 42.8%. As a result of actions undertaken related to the construction of the power unit at Kozienice Power Plant, which partially limited the previously diagnosed technical risks, optimisation of procurement processes and improvement of verification and settlement processes with subcontractors and suppliers, and also in connection with the signing of the block takeover protocol on December 19, 2017, the Management Board of the Company, after conducting the analysis in the course of the process of closing the Company's accounting books for 2017, adopted a resolution to reduce the total costs of the Kozienice Project in the amount of PLN 42.3 million. The impact of the budget adjustment has been fully included in the financial result for 2017.

The current order portfolio of the Group decreased by sales attributable to consortium members is approx. PLN 1.9 billion and relates entirely to contracts concluded. The current order portfolio in individual years is as follows: 2018 PLN 1.4 billion, 2019 PLN 0.46 billion, 2020 PLN 0.04 billion.

2.3. Risk factors

The activities conducted by the Group are exposed to a number of risks related to both the macroeconomic situation and internal phenomena.

Management of risks significant from the perspective of strategy is implemented at the level of the highest authorities of the Group.

Macroeconomic and political risks:

- risks delaying the development of industries in which the Group operates, both by stopping the investment process and the lack of full implementation of investment assumptions, abandonment of implementation or change of investment programs dependence of financing investment projects in the country by the majority of banks operating on the domestic market from the assessment from the perspectives of foreign decision centres of the country's economic risk, perspectives for

- the development of individual industries and sectors as well as individual business entities;
- risk related to the change of legal regulations. One of the important factors increasing the risk of running a business in Poland is the relative lack of stability of the legal system - its frequent changes, as well as conflicting legal provisions or implementing ad hoc solutions resulting from the general market, political and social pressure.

Internal risks identified by the entities of Polimex-Mostostal Capital Group are but are not limited to the following:

- **strategic risks** including those resulting from mismatching strategies to changing market conditions and restructuring processes:
 - the risk of failure to implement economic and financial plans, including the risk related to the uncertainty of the success of operational and financial organisational restructuring,
 - the risk of building a new order portfolio and the risk of termination of contracts, in particular long-term ones,
 - the risk of competitive imbalance,
 - legal risks related to long-term and costly lawsuits.
- **operational risks:**
 - the risk of valuation of long-term construction contracts,
 - changes in the demand for specialised services,
 - price fluctuations on the main commodity markets and specialist services,
 - the risk of losing resources,
 - the risk of losing qualified staff,
 - the risk of implementation, including the risk of obtaining partners with appropriate know-how and the risk of penalties for delays, e.g. due to weather conditions,
 - the risk related to provisions for the coverage of claims under historical contracts,
 - the risk of negative cash-flow on contracts.
- **financial risks:**
 - financial liquidity (credit)
 - the risk of contractual guarantees (including the risk of limited access to new guarantees and the risk of accumulation of payments from bank and insurance guarantees),
 - the risk of trade credit,
 - interest rates,
 - currency risk.

From the point of view of strategy the material risk is the possibility:

- to lose contracts significant for the development of the Capital Group;
- of the limitation / loss of the possibility of public procurement,
- of the loss of trust of key business partners,
- of lack of the possibility of obtaining reliable, proven subcontractors in the energy and petrochemical industries.

The Group implements long-term construction contracts, including energy ones. The loss of even one such contract may result in the loss of significant sources of the Group's revenues and may result in the necessity to return the advance payments received, the risk of contractual penalties as a result of loss of liquidity and making it difficult or impossible to service debt and receivables.

The restructuring process carried out in previous years, liquidity problems of the Company and problems with the timely implementation of projects, including the inability to obtain bank or insurance guarantees caused a significant limitation of trade partners' trust in relation to the Company and companies of the Group. Successful implementation of the restructuring process, financial stability of the Capital Group enables the systematic reestablishment of co-operation with key trading partners.

The Group focuses its activities in the energy and petrochemical industries. Due to the limited number of subcontractors with appropriate competencies, there is a risk of not finding suitable subcontractors, which may considerably impede the due performance of contracts or cause the necessity to engage subcontractors offering services at significantly higher remuneration, which in turn may result in a deterioration of the Group's companies offer and bidding effectiveness, and consequently, negatively affect the results of the Group's operations.

Counteracting materialisation of risks relevant to the strategy is the basic task of the Management Board of the Parent Company and the Segment Companies, which conducts talks with ordering parties, syndicated partners and banks and manages changes implemented in the processes and procedures in the Group. There is a risk that the actions taken to implement economic and financial plans and the terms of the Agreement on the Rules of Debt Service will not bring the intended results. Implemented procedures for the observed procedures of correct implementation of projects, preparation of offers and contracts, verification of financial and technical / technological reliability of business partners, control and supervision as well as controlling are important elements of controlling the level of risk.

Operational risks

In this respect, a significant risk is associated with the selection of potential orders and their valuation and implementation of construction contracts, as well as the contractual penalty risk associated with these contracts. Cumulative management at the level of the Capital Group and the risk associated with the valuation and performance of contracts requires correctly functioning information flow channels, uniform rules for budget verification and cost discipline during project implementation. There are also residual risks related to historical contracts executed and currently in the warranty period. As at the date of preparing this report the Company and the Capital Group's companies and in particular the Segment Companies: Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o. also introduce uniform tools supporting the offering activities and planning and settling long-term contracts and also supervising the contracts during the warranty. Parent Company and in particular the Segment Companies implement also uniform tools supporting the budgeting process and ongoing control of strategic costs of projects and planning and preparing project implementation schedules. In connection with the implementation of long-term energy contracts, operational risk management is one of the most important tasks at every level and at each stage of implementation and supervision that is correct, consistent with the contract course of events ensuring timely and consistent with the assumed cost plan of these contracts. As a result of the restructuring plan, the operational activity in the two basic industries - energy, petrochemical and chemical - was transferred to Segment Companies, which are currently exposed to significant operational risks.

Raw materials and materials prices risk

The economic effectiveness of the Capital Group's Companies operations depends to a large extent on fluctuations in the prices of raw materials, mainly steel, cement and zinc composite. An increase in the prices of raw materials and materials may increase the operating costs of the Group's activities. If the concluded contracts do not allow revision/renegotiation of remuneration, which would enable covering higher costs of their implementation, it may cause deterioration of the Company's results. The Company has implemented a central material procurement procedure (economy of scale, the ability to negotiate lower purchase prices). The implemented procedures did not offset the negative impact of the increase in raw material and material prices in long-term contracts to the desired degree.

In this regard, both procedural changes in the main investors' approach to the possibility of using price indexation in long-term contracts as well as setting the acceptable risk limit for Group's Companies at a level adequate to the ability to cover the price increase without losing the planned margin in the project, are necessary.

Risk of losing the Group's assets

The Group uses, on the market, both property insurance (including, above all, third-party liability insurance for business, professional civil liability [civil liability of the designer, architect and civil engineer], civil liability of management board members, property insurance against accidental and theft with burglary and electronic equipment, insurance of property in transport), as well as construction / assembly insurance arranged under general contracts and individual policies arranged for specific contracts. In all companies there were motor insurance in the scope of civil liability insurance, AC, KR (theft) and NNW (unfortunate accident), both under general (fleet) agreements and on the basis of individual insurance. The costs of transfer of insurance risks are analysed as well as detailed terms and conditions of contract insurance required by contractors. The risk in this respect is transferred to a large extent outside the Group's companies, and costs are included in the costs of contracts. However, there is a risk that insurance policies held will not protect the Group against losses that will have a negative impact on the business, financial

condition and results of the Group's operations. An important factor increasing the risk of loss of assets could be the termination of the Agreement on the Principles of Debt Servicing and Terms and Conditions of Bonds Issuance by the Bondholders, as the assets of the Group's Companies are the collateral for the performance of the Group's obligations under these agreements.

Risk of losing resources by using the receivables' collaterals on the Group's assets

The risk of using the collateral by creditors is a significant potential threat from the point of view of the Group's ability to operate in a situation of payment bottlenecks despite a noticeable improvement in the construction industry since 2015, which may put pressure on the use of collateral, even if it is not justified by the terms of contracts. This risk, to a significant degree, could prevent timely and correct performance of agreements and contracts, and as a consequence, it would escalate contractual sanctions, such as charging contractual penalties, hiring replacement contractors at the Group's expense, and terminating contracts through the fault of the Group.

Liquidity risk

In the Group's opinion, this is a risk which is at a moderate level. Maintaining financial liquidity in the medium and long-term perspectives requires involvement in projects and contracts ensuring neutral and positive financial flows. This risk is constantly monitored and analysed in both the short and long term.

In January 2017, the Group completed the recapitalisation process, under which its liquidity was provided with the amount of PLN 300 000 thousand in connection with the subscription of the newly issued series T shares by a group of investors from the energy sector. In the second quarter of 2017, as a result of the renegotiation process of debt financing agreements, including credit and bond agreements, the financial documentation linking the Parent Company and its selected subsidiaries with financial institutions was adapted to the new ownership realities and strategic plans. As part of this process, the Issuer's Group also gained wider access to guarantee instruments, which are an indispensable element of investment processes implemented by the Group's project companies 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 cash resources 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 series of activities aimed at further improvement of operating conditions and they include:

- further optimisation of operating activities to streamline processes related to the implementation, management and monitoring of construction and assembly projects and to reduce operating costs through, *inter alia*, reduction of general administrative expenses, centralisation of purchases, optimisation of organisational structures, optimisation of the contract portfolio and concentration of the Group's operations on core operations;
- 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.

The documentation, in particular the Agreement on the Principles of Debt Servicing and the Conditions for the Issue of Bonds Series A, B and C, which imposes on the Group a number of obligations, in particular such as the commitment to:

- making timely payments to Creditors and Bondholders;
- failure to perform a series of activities without the prior consent of Creditors and Bondholders.

The Group's failure to perform its obligations under the Agreement on the Principles of Debt Servicing and the Terms and Conditions of Issuing Bonds may result in the immediate maturity of the entire financial debt of the Group to the Financing Banks and Bondholders.

The relatively high level of indebtedness of the Group and the Group may have significant consequences, including in particular it may affect:

- limited ability of the Group's companies to obtain additional financing from financial institutions, including in particular bank and insurance guarantees;
- slower growth dynamics of the Group's companies operations due to a significant reduction in the availability of trade credit and shortening payment dates or demanding prepayments by contractors;
- the need to allocate a certain portion of cash flows from the Group's operating activities for repayment of debt, which means that these flows may not always be used to finance the Group's operations or capital expenditures;
- limiting the flexibility of the Group when planning or responding to changes in its operations, in the competitive environment and in the markets in which it operates;
- a less favourable market position of the Group in relation to its competitors with lower credit exposure.

Contract guarantee risk

At the stage of submitting bids, especially in procedures carried out in accordance with the provisions of the Public Procurement Law, it is necessary to submit a bid bond, which the Group has so far fulfilled by applying banking and insurance tender guarantees. On May 31, 2017, the Group and its subsidiaries, i.e. Naftoremont - Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o., Polimex Budownictwo Sp. z o.o. Sp.k. as the obligated (as the "Obligated"), concluded a loan agreement with Bank Gospodarstwa Krajowego (as the "Bank") as the guarantor and loan provider regarding guarantee lines and related open-end and non-open-end credits (as the "BGK Agreement"). Under the BGK Agreement, the Bank granted the Obligated a guarantee line up to PLN 140 000 thousand. At the same time, the Bank has declared to consider making available to the Obligated an additional guarantee line, under which additional bank guarantees may be issued up to the total amount, together with guarantees issued based on the BGK Agreement, amounting to PLN 240 000 thousand. The guarantee limit is subject to reduction during the term of the Agreement, however the final expiration date of the guarantees issued under the Agreement has been fixed as at December 31, 2023.

On June 20, 2017, a package of amending agreements was signed, in particular to the Agreement on the Principles of Debt Servicing and the New Guarantee Line Agreement, as a result of which the Parent Company and selected subsidiaries gained the possibility of wider access to guarantee instruments outside the current Creditors. In particular, on September 1, 2017, the Company, Polimex Energetyka Sp. z o.o. (as the "Principals") and Powszechny Zakład Ubezpieczeń S.A. with its registered office in Warsaw (as the "PZU") concluded the contract, the subject of which is to determine the rules for granting contract insurance guarantees by PZU within the set exposure limits ("PZU Agreement"). The total exposure limit for both Principals is set at PLN 98 970 thousand, with the reservation that for Polimex Energetyka Sp. z o.o. sub-limit cannot be higher than PLN 20 000 thousand. The commitment limit is valid for the period from September 1, 2017 to August 31, 2018 and is of an open-end nature.

Limiting the availability of bank and insurance guarantees in the light of the provisions of the Code on the obligation to submit a payment guarantee for construction works may constitute an important risk factor in particular phases of the construction contracts. Lack of timely implementation of the mandatory provisions of law in the subject matter may result in the suspension of work progress, up to the termination of contracts through the fault of the Company, inclusive. The systematically improving situation of the Company and the Capital creates circumstances enabling obtaining a new guarantee exposure in the Company and the Capital Group. Further talks are conducted with insurance companies interested in co-operation with the Company and the Capital Group in the field of insurance guarantees.

Risk of loss and insufficiency of qualified personnel

In the Capital Group, operating activities are carried out by Segment Companies. Under these market conditions, maintaining the best staff in the Group is an important determinant of the current personnel policy. It is also necessary to optimise the costs affecting the profitability of projects and increase work efficiency, as well as expanding co-operation with subcontractors.

In order to maintain key employees, the Parent Company prepared a development training program. Additionally, for the next year, the change of the structure of operating companies is planned to increase their efficiency, reduce the amount of support services. Thanks to this, it will be possible to analyse the remuneration level of the key staff and adjust its level to the market, at the same time increasing its responsibility for the results.

In the case of obtaining new projects, the Group may have difficulty acquiring new, qualified staff with appropriate knowledge, experience and qualifications. The supply of such staff is lower than the market's needs. Therefore, acquiring such staff may involve increased personnel costs.

3. Financial situation

3.1. Basic financial data of Polimex-Mostostal Group's characteristics Consolidated report on the financial situation of Polimex-Mostostal Group

	As at 31 December 2017	As at 31 December 2016	Change	
Assets				
Fixed assets				
Property, plant and equipment	384 064	321 814	62 250	19.3%
Investment real estate	4 376	3 867	509	13.2%
Goodwill from consolidation	91 220	282 694	(191 474)	(67.7%)
Intangible assets	1 212	1 672	(460)	(27.5%)
Investments in the affiliated entities valued with property rights method	5 813	15 705	(9 892)	(63.0%)
Financial assets	581	795	(214)	(26.9%)
Long-term receivables	10 162	3 300	6 862	207.9%
Deposits under the construction contracts	120 784	55 724	65 060	116.8%
Deferred tax assets	169 275	198 608	(29 333)	(14.8%)
Other fixed assets	296	1 479	(1 183)	(80.0%)
Total fixed assets	787 783	885 658	(97 875)	(11.1%)
Current assets				
Inventories	96 900	65 291	31 609	48.4%
Trade and other receivables	550 969	419 319	131 650	31.4%
Deposits under construction contracts	54 594	42 992	11 602	27.0%
Receivables under long-term contracts valuation	78 007	27 522	50 485	183.4%
Financial assets	220 084	218 699	1 385	0.6%
Cash	579 140	710 813	(131 673)	(18.5%)
Other assets	3 954	3 555	399	11.2%
Assets held for sale	30 487	123 788	(93 301)	(75.4%)
Total current assets	1 614 135	1 611 979	2 156	0.1%
Total assets	2 401 918	2 497 637	(95 719)	(3.8%)

The total of Polimex-Mostostal Capital Group's assets as at December 31, 2017 amounted to PLN 2 401 918 thousand. Non-current (fixed) assets as at December 31, 2017 amounted to PLN 787 783 thousand (an increase of 11.1% compared to data as at December 31, 2016), and current assets to PLN 1 614 135 thousand (a drop of 0.1% compared to data as at December 31, 2016).

The most important valuable changes that took place as part of non-current assets concerned property, plant and equipment, goodwill and deposits from construction contracts. Tangible fixed assets as at 31/12/2017 amounted to PLN 384 064 thousand and increased by PLN 62 250 thousand from the level of PLN 321 814 thousand PLN (mainly as a result of investments carried out by Mostostal Siedlce

Sp. z o.o. Sk). Decrease in goodwill by PLN 191 474 thousand PLN results from the recognition of a write-down. In the case of long-term deposits due to construction contracts, there was an increase from PLN 55 724 thousand to PLN 120 784 thousand as at 31/12/2017.

As part of current assets, the most valuable changes concern the item of trade receivables and other receivables, receivables from the valuation of long-term contracts and assets held for sale. In the case of receivables due to the valuation of long-term contracts, the balance increased from PLN 27 522 thousand to PLN 78 007 thousand, i.e. by PLN 50 485 thousand. The value of trade receivables and other receivables as at December 31, 2017 amounted to PLN 550 969 thousand and increased compared to December 31, 2016 by PLN 131 650 thousand. In the case of assets held for sale, there was a decrease from PLN 123 788 thousand to PLN 30 487 thousand. The reason for the decrease was mainly the contribution of 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.

	As at 31 December 2017	As at 31 December 2016	Change	
Liabilities and Equity				
Equity				
Share capital	473 238	173 238	300 000	173.2%
Reserve capital	157 746	309 710	(151 964)	(49.1%)
Other capital	127 368	(85 254)	212 622	(249.4%)
Reserve capital from surplus under bonds convertible into shares	31 552	29 734	1 818	6.1%
Accumulated other comprehensive income	94 465	77 288	17 177	22.2%
Revaluation capital	117 333	94 387	22 946	24.3%
Actuarial profits/(losses)	(1 397)	1 256	(2 653)	(211.2%)
Currency variations from foreign entity recalculation	(21 471)	(18 355)	(3 116)	17.0%
Retained earnings/Uncovered losses	(220 166)	(22 540)	(197 626)	876.8%
Non-controlling shares	382	20	362	1 810.0%
Total equity	664 585	482 196	182 389	37.8%
Long-term liabilities				
Credits and loans	226 118	140 272	85 846	61.2%
Long-term bonds	169 034	160 336	8 698	5.4%
Reserves	190 912	194 783	(3 871)	(2.0%)
Liabilities under employee benefits	17 985	12 706	5 279	41.5%
Other liabilities	80 177	60 784	19 393	31.9%
Deposits under the construction contracts	35 276	37 432	(2 156)	(5.8%)
Total long-term liabilities	719 502	606 313	113 189	18.7%
Short-term liabilities				
Credits and loans	24 383	129 577	(105 194)	(81.2%)
Trade and other liabilities	743 041	624 081	118 960	19.1%
Deposits under the construction contracts	40 932	47 731	(6 799)	(14.2%)
Liabilities under long-term contracts valuation	72 542	400 061	(327 519)	(81.9%)
Reserves	76 169	115 068	(38 899)	(33.8%)
Liabilities under employee benefits	57 717	52 707	5 010	9.5%
Deferred income	3 047	1 527	1 520	99.5%
Liabilities directly related to assets held for sale	-	38 376	(38 376)	(100.0%)
Total short-term liabilities	1 017 831	1 409 128	(391 297)	(27.8%)
Total liabilities	1 737 333	2 015 441	(278 108)	(13.8%)
Total liabilities and equity	2 401 918	2 497 637	(95 719)	(3.8%)

Equity as at 31/12/2017 amounted to PLN 664 585 thousand (increase by 37.8% compared to comparable data as at 31/12/2016), and liabilities: PLN 1 737 333 thousand (decrease by 13.8% compared to comparable data as at 31/12/2016). Increase in the value of the share capital is the result of the share issue carried out

with the value of PLN 300 000 thousand. The decrease in the supplementary capital (by PLN 151 964 thousand) and the increase in other capital (by PLN 212 622 thousand) results from the resolution of the distribution of the result and changes in capitals taken by the general meeting of shareholders at the level of the parent company.

The value of long-term liabilities as at December 31, 2017 amounted to PLN 719 502 thousand and increased compared to 31/12/2016 from PLN 606 313 thousand (increase by PLN 113 189 thousand, i.e. by 18.7%). The value of short-term liabilities decreased compared to the comparative period by PLN 391 297 thousand to PLN 1 017 831 thousand. The decrease in the value of short-term liabilities due to loans and advances (by PLN 105 194 thousand) results from the change in the terms of indebtedness and the acquisition of long-term financing by Mostostal Siedlce Sp. z o.o. Sk. These loans were reclassified to the long-term position. The decrease in liabilities due to the valuation of long-term contracts results mainly from the final settlement of the Kozenice Project.

Consolidated profit and loss account of Polimex-Mostostal Group

	Year ended 31 December 2017	Year ended 31 December 2016	Change	
Sales revenue	2 421 078	2 668 221	(247 143)	(9.3%)
Cost of sales	(2 260 144)	(2 635 671)	375 527	(14.2%)
Gross profit/ (loss) on sales	160 934	32 550	128 384	394.4%
Cost of sales	(25 537)	(22 347)	(3 190)	14.3%
General administration costs	(63 261)	(65 615)	2 354	(3.6%)
Other operating revenues	48 655	38 417	10 238	26.6%
Other operating costs	(7 147)	(10 947)	3 800	(34.7%)
Loss of goodwill	(191 474)	-	(191 474)	(100.0%)
Profit / (loss) on operating activities	(77 830)	(27 942)	(49 888)	178.5%
Financial revenues	18 419	13 906	4 513	32.5%
Financial cost	(37 915)	(30 687)	(7 228)	23.6%
Share in the affiliate's' profit	(9 892)	(3 628)	(6 264)	172.7%
Gross profit / (loss)	(107 218)	(48 351)	(58 867)	121.7%
Income tax	(29 826)	(12 355)	(17 471)	141.4%
Net profit / (loss)	(137 044)	(60 706)	(76 338)	125.8%

During the 12 months of 2017, the Polimex Mostostal Capital Group generated sales revenues in the amount of PLN 2 421 078 thousand (a drop of 9.3% compared to data for the 12 months of 2016).

In the reporting period, the Capital Group generated loss on the operating activities in the amount of PLN 77 830 thousand (compared to the loss from operating activities in the 12 months of 2016 in the amount of PLN 27 942 thousand). The deterioration of the result on operating activities amounted to PLN 49 888 thousand and was mainly caused by recognising the goodwill revaluation write-off amounting to PLN 191 474 thousand.

In the reporting period, the level of general administrative expenses amounted to PLN 63 261 thousand (in the comparative period PLN 65 615 thousand). The decrease of general administration expenses is the effects of Management's restructuring operations including simplification of the structure and significant decrease of the Group's operating expenses. Costs of sales in 2017 amounted to PLN 25 537 thousand and in the comparative period PLN 22 347 thousand.

Other operating expenses amounted in the ongoing period PLN 48 655 thousand and were higher in relation to the comparative period by the amount of PLN 10 238 thousand.

In the reporting period, EBITDA (operating result adjusted by depreciation and amortisation) amounted to PLN 142 240 thousand and was higher by PLN 137 630 thousand compared to the previous period. The improvement in EBITDA was mainly caused by the cost budget adjustment on the Kozenice Project. As a

result of undertaken activities related to the implementation of this project, which partially reduced the previously diagnosed technical risks, optimisation of procurement processes and improvement of verification and billing processes with subcontractors and suppliers, and in connection with the signing of the Block acquisition for operation on December 19, 2017, the Management Board of the parent company adopted on 21 February 2018 a resolution to update the Kozienice Project budget by reducing the total cost budget by PLN 42.3 million as part of the process of closing the accounting books of the Parent Company for 2017. During the comparative period, the Kozienice Project included total losses that were expected to be incurred by the end of the project implementation. The cost budget adjustment estimated at that time translated into an increase in the budget costs of the contract by PLN 137 158 thousand.

Cash flow statement

	Year ended 31 December 2017	Year ended 31 December 2016
Cash flow from operating activities		
Gross profit / (loss)	(107 218)	(48 351)
Adjustments by:	(278 273)	153 571
Share in the result of affiliates valued with the property rights method	9 892	3 627
Depreciation	28 596	32 552
Net interests and dividends	19 220	21 764
Profit/ (loss) on investment activities	(15 217)	(24 611)
Increase / (decrease) in receivables	(233 643)	215 355
Increase / (decrease) in inventories	(12 761)	(28 151)
Increase / (decrease) in liabilities except credits and loans	(223 413)	(72 178)
Change in other assets and deferred income	2 494	3 672
Change in reserves	(42 801)	10 390
Income tax paid	(3 839)	(24)
Loss of goodwill	191 474	-
Other	1 725	(8 825)
Net cash from operating activities	(385 490)	105 220
Cash flows from investment activities		
Sale of tangible fixed assets and intangible assets	7 152	5 860
Purchase of tangible fixed assets and intangible assets	(22 496)	(4 328)
Sale of financial assets after set off of obtained cash	-	3 897
Purchase of financial assets	-	(104)
Received interest and dividends	7 181	38
Granted loans repayment	-	8
Net cash from investment activities	(8 163)	5 371
Cash flows from financial activities		
Repayment of liabilities under the financial leasing	(315)	(359)
Revenues from shares issues	300 000	-
Revenues from contracting loans/credits	198	177
Repayment of loans/credits	(21 190)	(18 491)
Interest paid	(16 712)	(7 760)
Other	-	510
Net cash from financial activities	261 981	(25 923)
Net increase / (decrease) of cash and cash equivalents	(131 673)	84 668
Net currency differences	-	(16)
Cash at the beginning of the period	710 813	626 145
Cash at the end of the period	579 140	710 813
Cas indicated in the consolidated cash flow statement	579 140	710 813
- Including cash of limited disposal possibility	399 855	619 746

In the reporting period, in accordance with the cash flow statement of the Capital Group, there was a net decrease in cash and cash equivalents of PLN 131 673 thousand. The balance of cash and cash equivalents as at 31/12/2017 amounted to PLN 579 140 thousand. As part of these funds, PLN 399 855 thousand are funds with limited availability, mainly dedicated to financing strategic energy contracts in Kozienice and Opole.

Net cash flow from operating activities amounted to minus PLN 385 490 thousand. Net cash flows from investing activities amounted to minus PLN 8 163 thousand, and the net cash flows from financing activities amounted to PLN 261 981 thousand.

3.2. Financial and economic indices characteristic for Polimex-Mostostal Group's activities

	As at 31 December 2017	As at 31 December 2016
Current ratio	1.59	1.14
Quick ratio	1.49	1.10
Debt/assets ratio	72.3%	80.7%
	Year ended 31 December 2017	Year ended 31 December 2016
Net sale profitability	(5.7%)	(2.3%)
EBITDA margin*	5.9%	0.2%
Basic earnings per one ordinary share	(0.600)	(0.266)

*EBITDA margin = (Loss on operating activities + amortization + loss of goodwill/Sales revenues)

The liquidity ratios of the Capital Group, current and quick, were on December 31, 2017 at a higher level than on December 31, 2016 and amounted to 1.59 and 1.49, respectively (these ratios were at 1.14 and 1.10 on as at 31.12.2016).

The net profit margin on sales was minus 5.7%, and the EBITDA margin was 5.9%.

3.3 Information on contracted credits, loans and issued bonds

On May 31, 2017, the Company, Naftoremont - Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o., Polimex Budownictwo Spółka z ograniczoną odpowiedzialnością Sp.k. as obligors and Bank Gospodarstwa Krajowego as the issuer of the guarantee and the lender concluded a loan agreement regarding guarantee lines and related open-end and non-open-end loans.

Under the Agreement, the Bank granted the Obligors a guarantee line up to PLN 140 000 000. The guarantee limit is subject to reduction during the term of the Agreement, while the final expiry date of the guarantees issued under the Agreement has been fixed as at 31 December 2023.

Until the Bank's receivables are fully satisfied, each Obligor is required jointly and severally in such a way that the Bank may demand all or part of the benefits from all Obligors, from several of them or from each separately. The guarantee will be secured by deposits financed from loans granted under the loans Agreement.

The interest rate on the loan amount paid for each interest period is the interest rate on an annual basis, which is the sum of the applicable margin and the base rate (based on WIBOR). The final repayment date is December 31, 2023.

On September 27, 2017, "Polimex-Mostostal" S.A. sent to Bankowy Towarzystwo Kapitałowe S.A. with its registered office in Warsaw ("BTK") and Towarzystwo Finansowe Silesia sp. z o.o. with the registered office in Katowice (as "TFS") (BTK and TFS jointly referred to as the "Bondholders"), proposals for the purchase of series C bonds (as the "Bonds") convertible into series U bearer shares (as the "Shares"). The proposal to acquire the Bonds was accepted and the Bonds were issued and paid on September 27, 2017.

The Company proposed BTK to acquire 3 Bonds and TFS to acquire 26 Bonds. The subject of the issue was 29 Bonds with no form of a document with a total nominal value of up to PLN 14 500 000. The face value and issue price of one bond amounted to PLN 500 000.

Floating interest rate based on WIBOR 3M increased by a margin that may increase in the event that the Company does not make timely payments on account of the Bonds. The day of interest payment is the last day of March, June, September and December. The Bonds will be redeemed on July 31, 2022 or on the first business day after that day.

The funds obtained from the issue of the Bonds were entirely allocated for payment by the Company to TFS and BTK the commission for changing the terms of issue of series A convertible bearer bonds, amended on January 20, 2017 and unified on June 20, 2017.

3.4. Information on significant transactions concluded by the Issuer or its subsidiary with affiliates under the conditions other than market conditions

According to the information possessed by the Issuer, transactions concluded in 2017 by the Issuer and its subsidiaries with related entities were concluded on terms equivalent to those applicable to transactions concluded on market terms, and their nature and conditions resulted from their operating activities.

3.5. Contingent liabilities of Polimex-Mostostal Capital Group

	As at December 31, 2017	As at December 31, 2016
- guarantees and suretyship granted	832 027	1 116 185
- promissory notes	1 613	5 550
- litigations	425 917	452 892
- other	-	26 899
Total contingent liabilities	1 259 557	1 601 526

In connection with concluded loan and guarantee agreements (both banking and insurance), as well as in respect of liabilities due to bonds (including series A and B bonds issued in 2014 in the amount of PLN 140 million and series C bonds issued in 2017 in PLN 14.5 million), and in particular, in connection with the Agreement of July 24, 2012 on abstaining from enforcement of liabilities under the Agreement of December 21, 2012 regarding the Principles of Debt Servicing as amended, the Contract of December 21, 2012, as amended regarding the New Guarantee Facility and related open-end loan as amended, Terms and Conditions for Issuing Ordinary and Convertible Bonds of September 12, 2014 as amended, Credit Agreement on guarantee lines and related open-end and non-open-end loans of May 31, 2017, as amended, C Series Convertible Bonds Terms and Conditions dated September 27, 2017, the Company and selected subsidiaries established mortgages, pledges, ownership assignments, assignments, issued promissory notes, accepted sureties of certain subsidiaries and granted sureties to selected subsidiaries to secure receivables under the subjective instruments. The total exposure of the Company to the credit instruments in question was PLN 1.345 million as at December 31, 2017 (as at December 31, 2016: PLN 1.357 million). Total exposure of the Parent Company under the subjective instruments amounted to PLN 1 198 million as at December 31, 2017 (as at December 31, 2017: PLN 1 167 million).

4. Other information

4.1. Shareholding structure

The table below presents the list of shareholders holding at least 5% of the total number of votes in the unit "Polimex-Mostostal" S.A. as at December 31, 2017:

Shareholder	Number of shares/votes	% share in share capital/total number of votes at the GM
ENEA Spółka Akcyjna with registered office in Poznań, ENERGA Spółka Akcyjna with registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with registered office in Warsaw, PGNiG Technologie Spółka Akcyjna with registered office 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 share capital	65 542 568	27.70%
Number of shares of all issues	236 618 802	100.00%

* each investor holds 16.48%

4.2. Description of the Issuer's Capital Group

The structure of Issuer's Capital Group and description of changes in the structure of this Group were described in the consolidated financial statements in the note 1.1.

4.3. Composition of the Management Board and the Supervisory Board

As at December 31, 2017 the Management Board comprised the following persons:

Antoni Józowicz	President of the Board
Andrzej Juszczynski	Vice President
Przemysław Janiszewski	Vice President

During the reporting period and until the date of publishing this report the following changes occurred in the composition of the Management Board:

2017-02-27 The Group received the letter from Mr Tomasz Kucharczyk, in which he submitted his resignation from performing the role of the Board Member of the Group as at February 27, 2017u (regulatory announcement No 24/2017).

2017-02-28 The Supervisory Board appointed to the Management Board Mr Andrzej Juszczynski entrusting him the role of the Vice President (regulatory announcement No 26/2017).

2017-03-30 The Group received the letter from Mr Tomasz Rawecki, in which he submitted his resignation from performing the role of the Vice President as at March 31, 2017 (regulatory announcement No 32/2017).

2017-09-14 The Supervisory Board appointed Mr Przemysław Janiszewski to the Management Board entrusting him the role of Vice President (regulatory announcement No 73/2017).

2017-12-29 The Group received a letter from Mr Andrzej Juszczynski, in which he submitted his resignation from the position of the Vice-President of the Management Board of the Group on January 2, 2018 (regulatory announcement No. 104/2017).

2018-01-08 The Supervisory Board of the Group appointed Mr. Maciej Korniluk to the Management Board, entrusting him the function of the Vice President of the Management Board (regulatory announcement No. 2/2018).

2018-04-03 The Group received a letter from Mr Antoni Józowicz, in which he submitted his resignation from the position of the President of the Management Board of the Group on April 3, 2018 (regulatory announcement No. 18/2018).

2018-04-04 The Supervisory Board of the Group entrusted Mr. Przemysław Janiszewski temporarily with holding the duties of the President of the Management Board of the Group until the next President of the Management Board is appointed (regulatory announcement No. 19/2018).

As at April 12, 2018 the Management Board consists of the following persons:

Przemysław Janiszewski	Acting President of the Board
Maciej Korniluk	Vice President of the Board

As at

Wojciech Kowalczyk	Chairman
Bartłomiej Kurkus	Vice Chairman
Andrzej Sokolewicz	Secretary
Andrzej Komarowski	Member
Andrzej Kania	Member
Paweł Mazurkiewicz	Member
Konrad Milczarski	Member

December 31, 2017 and the date of publishing this report the composition of the Supervisory Board was as follows: was as follows:

During the reporting period and until the date of publishing this report the following changes were made to the composition of the Supervisory Board:

2017-01-20 Extraordinary General Meeting of Polimex-Mostostal S.A. changed the composition of the Supervisory Board. The following persons were recalled from the to date composition of the Supervisory Board: Ms Anna Młynarska- Sobaczewska, Mr Bartłomiej Kachniarz, Mr Adam Milewicz, Mr Przemysław Figarski, Mr Bartosz Ostachowski, and the following persons were appointed to the Supervisory Board: Mr Paweł Mazurkiewicz, Ms Marta Zygmunt, Mr Konrad Milczarski (regulatory announcement No. 12/2017).

2017-05-12 The Group received the statement from Ms Iwona Warsewicz, in which she submitted resignation from the performing the role of the Chairperson of the Supervisory Board (regulatory announcement No. 44/2017).

2017-05-12 The Extraordinary General Meeting appointed Mr Wojciech Kowalczyk to the composition of the Supervisory Board (regulatory announcement No. 47/2017).

2017-10-27 The Management Board of the Group learned about the resignation from the function of a member of the Group's Supervisory Board submitted by Ms. Marta Zygmunt (regulatory announcement No. 84/2017).

2017-11-30 Extraordinary General Meeting of the Group appointed a new Member to the Supervisory Board, Mr. Andrzej Józef Kania (regulatory announcement No. 96/2017).

The Company's body with all rights in the management of the Company is the Management Board, acting in all matters not restricted to the sole competence of the General Meeting or the Supervisory Board. The Supervisory Board has the right to appoint and dismiss members of the Management Board. A member of the Management Board may also be dismissed or suspended from office by resolution of the General Meeting. There are no powers of the Management Board or individual members to decide whether to issue or buy back shares.

4.4. Information on the entity performing the function of certified auditor

On May 12, 2017, the Supervisory Board of "Polimex-Mostostal" S.A. adopted the resolution No. 98/XII regarding the selection of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. to review the financial statements of "Polimex-Mostostal" S.A. for six-months and the consolidated financial statements of Polimex-Mostostal Group for the period of 6 months of 2017 and the review and audit of these financial statements for the year 2017. The contract for the review and audit of financial statements was concluded on May 23, 2017.

The table below presents auditor's fee.

	As at December 31, 2017	As at December 31, 2016
Financial revision activities	475	853
Tax advice services	-	10
Other services	148	67
Total	623	930

4.5. Remuneration of the members of the Management Board and the Supervisory Board of the Parent Company

	As at December 31, 2017	As at December 31, 2016
Management Board		
Short-term Employee benefits (remunerations and charges)	2 641	3 371
Supervisory Board		
Short-term Employee benefits (remunerations and charges)	599	818
Total	3 240	4 189

Management Board

In 2017, Members of the Management Board of "Polimex-Mostostal" S.A. provided services in the scope of managing the Company based on management contracts. The rules and amount of remuneration for members of the Management Board of the Company with whom a management contract is concluded is determined by the Supervisory Board of the Company.

The remuneration model for the Management Board members includes a two-component remuneration system, consisting of:

- 1) fixed part (basic monthly remuneration),
- 2) the part of the variable depending on the fulfilment of certain criteria (implementation of the EBITDA ratio) and tasks or goals of special importance for the Company).

The basic monthly remuneration of the Management Board Members includes all remuneration for performing functions in the supervisory bodies of the Companies of the Polimex-Mostostal Capital Group. Variable components of remuneration are set by the Supervisory Board of the Company, which may be granted to the Member of the Management Board:

- 1) annual bonus, granted after approval of the Company's financial report for the financial year to which the bonus applies, after the assessment of the degree of performance by the Company of the economic conditions and parameters adopted by the Supervisory Board,
- 2) special award, for extraordinary work results or achievements that will not be one-off events and will affect the permanent increase in the Company's financial stability or increase the Company's profit in relation to the financial plan for a given year.

Agreements concluded between the Company and the managing persons (management contract and non-competition agreement and the agreement on confidentiality after the termination of the management contract) provided for additional benefits for the Management Board Members:

- 1) the right to remuneration for refraining from competitive activity (non-competition) for a period of up to 12

months from the date of termination of the contract,

2) life insurance policy for a Member of the Management Board,

1) liability insurance policy for management board members,

2) providing free medical care,

3) covering any legal assistance costs for a Member of the Management Board in all cases brought by third parties, both during the period of performing the function and after its completion.

Remuneration paid by the Issuer to the Management Board for the year 2017 amounted to PLN 2 641 thousand, including:

First name and surname	Term of office in 2017	Remuneration	Benefit after the engagement period
Antoni Józwowicz	from 01.01.2017 until 31.12.2017	975	—
Tomasz Kucharczyk	from 01.01.2017 until 27.02.2017	250	158
Tomasz Rawecki	from 01.01.2017 until 31.03.2017	325	135
Andrzej Juszczynski	from 28.02.2017 until 02.01.2018	602	-
Przemysław Janiszewski	from 14.09.2017 until 31.12.2017	196	-
Total		2 348	293

The Supervisory Board

In accordance with the Statute, members of the Supervisory Board are entitled to monthly remuneration in the amount specified by the General Meeting. The remuneration is not due for the month in which a member of the Supervisory Board was not present at any of the formally convened meetings due to unjustified reasons.

Remuneration paid to the Supervisory Board by the Issuer in 2017 amounted to PLN 599 thousand, including:

First name and surname	Term of office in 2017	Remuneration
Przemysław Figarski	from 01.01. until 20.01.2017	5
Bartłomiej Kachniarz	from 01.01. until 20.01.2017	6
Marcin Milewicz	from 01.01. until 20.01.2017	5
Anna Młynarska-Sobaczewska	from 01.01. until 20.01.2017	7
Bartosz Ostachowski	from 01.01. until 20.01.2017	5
Iwona Warsewicz	from 01.01. until 12.05.2017	44
Andrzej Komarowski	from 01.01. until 31.12.2017	90
Bartłomiej Kurkus	from 01.01. until 31.12.2017	114
Andrzej Sokolewicz	from 01.01. until 31.12.2017	106
Marta Zygmunt	from 20.01. until 27.10.2017	40
Paweł Mazurkiewicz	from 20.01. until 31.12.2017	85
Konrad Milczarski	from 20.01. until 31.12.2017	85
Wojciech Kowalczyk	from 12.05. until 31.12.2017	0
Andrzej Kania	from 30.11. until 31.12.2017	7
Total		599

4.6 Information containing the description of the Company's diversity policy in reference to the Company's authorities and its key managers

The Company does not apply diversity policy to the Company's governing bodies and its key managers due to the specificity of the markets on which it operates, in particular due to the limited number of key managers that can be obtained from the market.

4.7 Representation on compliance with corporate governance

In accordance with the WSE Rules, the Company, as an entity listed on the WSE main market, should follow the corporate governance rules set out in the Code of Best Practice for WSE Listed Companies. The Code of Best Practice for WSE Listed Companies is a set of recommendations and rules of conduct relating in particular to the bodies of listed companies and their shareholders. The WSE Rules and the resolutions of the WSE Management Board and Board determine the manner in which listed companies provide information on the application of corporate governance principles and the scope of information provided. If a given rule is not applied by a listed Group on a permanent basis or has been infringed incidentally, a listed company is obliged to provide information on this fact in the form of a regulatory announcement. In addition, a listed company is required to attach to the annual report a report containing information on the scope of its application of the Code of Best Practice for WSE Listed Companies in a given financial year. The Company strives to ensure the highest possible transparency of its activities, due quality of communication with investors and protection of shareholders' rights, also in matters not regulated by law. Therefore, the Company has taken the necessary actions to fully comply with the rules contained in the Code of Best Practice for WSE Listed Companies.

In the period from January 1, 2017 to February 10, 2017, according to the information contained in the Issuer's regulatory announcement No. 10/2016 of February 24, 2016 (website www.polimex-mostostal.pl), the Issuer's Management Board declared compliance by the Issuer with all the corporate governance rules contained in the document "Good Practices of WSE Listed Companies 2016", subject to the following:

I. Part I – Information policy and communications with Investors

1. Part I par. I.Z.16 of the Corporate Governance Rules:

The content of the principle: "information on the planned broadcast of the general meeting - no later than 7 days before the date of the general meeting".

Justification: The Company does not implement this rule due to the fact that it does not transmit the general meeting. If the Company decides to apply the principle regarding the transmission of the general meeting, it will also consider the application of this rule.

2. Part I par. I.Z.19 of the Corporate Governance Rules:

The content of the principle: "shareholders' questions addressed to the management board in the mode of art. 428 § 1 or § 6 of the Code of Commercial Companies, together with the Management Board's replies to the questions asked, or detailed indication of the reasons for not replying, in accordance with the principle IV.Z.13".

Justification: The indicated principle is performed by the Company in part in the scope in which the Company runs a corporate website and publishes information required by law and shareholders' questions asked before the general meeting of the Company together with answers to such questions. This rule is not carried out in the scope, it puts the questions of shareholders on the issues covered by the agenda, asked during the general meeting, along with answers to such questions, because the Management Board does not register the course of the General Meeting. The Company publishes draft resolutions before the General Meeting on the Company's website and texts of resolutions adopted by the General Meeting.

3. Part I par. I.Z.20 of the Corporate Governance Rules:

The content of the principle: "record of the proceedings of the general meeting, in the form of audio or video".

Justification: The Company does not plan to publish on its website the course of the General Meeting, due to the related costs, as well as due to previous experience with the organisation and course of general meetings, which do not indicate the need for such a record.

II. Part IV – General Meeting and Relations with Shareholders

1. Part IV par. IV.R.2 of Corporate Governance Rules:

The content of the principle: "If it is justified due to the shareholder structure or expectations of the shareholders notified to the Company, if the Company is able to provide the technical infrastructure necessary for the smooth conduct of the general meeting using electronic means of communication, it should enable shareholders to participate in the general meeting using such measures, in particular through: 1) real-time transmission of the general meeting, 2) real-time two-way communication, whereby shareholders can speak during the general meeting, staying in a place other than the venue of the general meeting."

Justification: The Company does not plan to broadcast the general meeting in real time, because the shareholder structure and previous experience related to the organisation of general meetings do not indicate such a need. In the Company's opinion, the introduction of the possibility of exercising voting rights using electronic means of communication is not yet sufficiently disseminated, and thus carries organisational and technical risk - the possibility of challenging the adopted resolutions due to technical defects. As the use of the above-mentioned principle of corporate governance becomes common, the Management Board of the Company will consider putting it into effect.

2. Part IV par. IV.Z.2 of the Corporate Governance Rules:

The content of the principle: "If it is justified due to the Company's shareholder structure, the Company provides a universally available broadcast of the general meeting in real time."

Justification: Due to the previous experience regarding the organisation and course of general meetings, as well as the shareholding structure in the Company's opinion, do not indicate the need for this type of transmission. The Company does not exclude the possibility that this rule may be applied in the future, after creating appropriate technical capabilities and making appropriate expenditures for this purpose.

In connection with the resolution of the Issuer's Management Board, No. 56/17 of February 10, 2017 on the non-application of certain corporate governance principles, from the date of adoption of the abovementioned resolutions, in accordance with the information contained in the current report EIB No. 1/2017 of February 14, 2017, the Issuer's Management Board declared that the Issuer applies all the corporate governance principles contained in the "Best Practices of WSE Listed Companies 2016", subject to the following:

1. Detailed principle I.Z.1.15. - regarding the publication on the Company's website of information containing a description of the diversity policy being applied.

Justification: The final decision on the composition of the Supervisory Board is made by the shareholders at the General Meeting, while the Management Board is appointed by the Supervisory Board. This means that the Company has no influence on shaping the composition of the bodies and it does not have any instruments to oblige shareholders to respect the diversity policy functioning in the Company's structures. The criteria used to select the members of the Company's bodies and its key managers are knowledge, experience and skills. As a consequence of the fact that the decision on the composition of the bodies lies solely within the competence of specific authorities and entities, the Company does not plan to publish information on the website containing a description of the diversity policy being applied.

2. Detailed principle I.Z.1.16. - as regards information on the planned broadcast of the General Meeting.

Justification: The Company does not plan to broadcast the General Meeting, due to the related expenses necessary to create the appropriate technical facilities, as well as due to previous

experience with the organisation and course of General Meetings that do not indicate the need to provide transmission. The Company does not exclude the possibility that this rule is applicable in the future.

3. Detailed principle I.Z.1.20. - regarding the inclusion of a record on the Company's website the course of the General Meeting in the form of audio or video.

Justification: The Company does not plan to record the course of the General Shareholders Meeting in the form of a video, as a rule having regard to the same reasons for which it does not broadcast the course of the sessions. In the opinion of the Management Board, the application of this principle could expose the Company to claims of shareholders who do not wish to have their image publicised.

4. Recommendation IV.R.2. and detailed principle IV.Z.2. - within the scope of conducting the General Meeting by means of electronic communication.

Justification: The Company does not plan to conduct the General Meeting using electronic communication means by transmitting the General Meeting in real time, through two-way communication in real time or in a form enabling the exercise of voting rights during the General Meeting. The Company's experience regarding the organisation and course of general meetings shows that shareholders do not indicate the need to provide such solutions to them. In the opinion of the Management Board, ensuring the possibility of participation in the General Meeting using electronic communication means potential organisational and technical difficulties that could lead to legal uncertainty as to the correctness of the course of the general meeting and, as a consequence, resolutions. It should be borne in mind that this solution is also not widely used by public companies on the Polish market. In the opinion of the Management Board, non-application of the principle will not adversely affect ensuring active participation in the General Meeting for the shareholders. The Company does not exclude the possibility that this rule is applicable in the future.

5. Detailed principle IV.Z.3. - in the scope of enabling representatives of the media to be present at General Meetings.

Justification: In the Company's opinion, the openness and transparency of matters being the subject of the General Meeting are sufficiently regulated by generally applicable laws. The lack of media representatives secures the Company against potential claims of shareholders who might not wish to have their image and statements publicised.

6. Recommendation VI.R.1., recommendation VI.R.2 and detailed principle VI.Z.4. - in the scope of drawing up the remuneration policy and presenting in the report on the activity of the report on this policy.

Justification: The Company does not have a remuneration policy for members of the Group's bodies and key managers. The Company ensures that the level of remuneration set by the Supervisory Board in relation to members of the Management Board - both in relation to its permanent and variable components - depends on the scope of individual duties entrusted to individual members of the Management Board. In the same way, the Management Board sets the level of remuneration for key managers. In addition, the Remuneration Committee operates in the Group, whose primary task is to support the Supervisory Board in the performance of control and supervisory duties by providing opinions for draft content of contracts related to the performance of the duties of a Management Board member and issuing opinions on proposals for changing the remuneration and bonus system for Management Board members. In addition, in the Company's opinion, the applicable law, in particular regarding the preparation of financial statements, sufficiently regulate the performance of obligations imposed on the Company with respect to the

disclosure of remuneration levels. As a consequence of the absence of a remuneration policy, the Group may not submit a report about it in the report on operations.

On October 18, 2017, the Issuer's Management Board adopted Resolution No. 406/17 regarding changes to the non-application of certain corporate governance principles, pursuant to which, from October 18, 2017, according to information contained in the current report EIB No. 2/2017 dated October 18, 2017, the Issuer's Management Board declared that the Issuer would apply all the corporate governance rules contained in the "Best Practices of Companies Listed on the Warsaw Stock Exchange 2016" subject to the following:

1. Detailed principle I.Z.1.15. - regarding the publication on the Company's website of information containing a description of the diversity policy being applied.

Justification: The final decision on the composition of the Supervisory Board is made by the shareholders at the General Meeting, while the Management Board is appointed by the Supervisory Board. This means that the Company has no influence on shaping the composition of the bodies and it does not have any instruments to oblige shareholders to respect the diversity policy functioning in the Company's structures. The criteria used to select the members of the Company's bodies and its key managers are knowledge, experience and skills. As a consequence of the fact that the decision on the composition of the bodies lies solely within the competence of specific authorities and entities, the Company does not plan to publish information on the website containing a description of the diversity policy being applied.

2. Detailed principle I.Z.1.16. - as regards information on the planned broadcast of the General Meeting.

Justification: The Company does not plan to broadcast the General Meeting, due to the related expenses necessary to create the appropriate technical facilities, as well as due to previous experience with the organisation and course of General Meetings that do not indicate the need to provide transmission. The Company does not exclude the possibility that this principle is applicable in the future.

3. Detailed principle I.Z.1.20. - regarding the inclusion of a record on the Group's website of the course of the General Meeting in the form of audio or video.

Justification: Currently, the Company does not record the course of the General Meeting in the form of video, as a rule, taking into account the same reasons for which it does not undertake to broadcast the sessions. In the opinion of the Management Board, the application of this principle could expose the Company to claims of shareholders who do not wish to have their image publicised. At the same time, the Management Board declares that it will make reasonable efforts to enable recording of audio recording during the General Meeting and the publication of an audio record on the Company's website, if such a request is made by the shareholders of the Company, with the reservation that recording will be possible only if the consent has been given to recording by all shareholders present at the General Meeting.

4. Recommendation IV.R.2. and detailed principle IV.Z.2. - within the scope of conducting the General Meeting by means of electronic communication.

Justification: The Company does not plan to conduct the General Meeting using electronic communication means by transmitting the General Meeting in real time, through two-way communication in real time or in a form enabling the exercise of voting rights during the General Meeting. The Company's experience regarding the organisation and conduct of general meetings shows that shareholders do not indicate the need to provide such solutions to them. In the opinion of the Management Board, ensuring the possibility of participation in the General Meeting using electronic communication means potential organisational and technical difficulties that could lead to legal uncertainty as to the correctness of the course of the general meeting and, as a consequence, resolutions. It should be borne in mind that this solution is also not widely used by public companies

on the Polish market. In the opinion of the Management Board, non-application of the principle will adversely providing the shareholders with an active participation in the General Meeting. At the same time, the Company does not exclude the possibility that this rule may be applied in the future, if the shareholders present their interest in the general broadcast of the General Meeting.

5. Detailed principle IV.Z.3. - in the scope of enabling representatives of the media to be present at General Meetings.

Justification: In the Company's opinion, the openness and transparency of matters being the subject of the General Meeting are sufficiently regulated by generally applicable laws. The lack of media representatives secures the Company against potential claims of shareholders who might not wish to publicise their image and statements.

6. Recommendation VI.R.1., Recommendation VI.R.2 and detailed rule VI.Z.4. - in the area of drawing up a remuneration policy and presenting a report on its activity in the report on its activity.

Justification: The Company does not have a remuneration policy for members of the Group's bodies and key managers. The Company ensures that the level of remuneration set by the Supervisory Board in relation to members of the Management Board - both in relation to its permanent and variable components - depends on the scope of individual duties entrusted to individual members of the Management Board. In the same way, the Management Board sets the level of remuneration for key managers. In addition, the Remuneration Committee operates in the Group, whose primary task is to support the Supervisory Board in the performance of control and supervisory duties by providing opinions for draft content of contracts related to the performance of the duties of a Management Board member and issuing opinions on proposals for changing the remuneration and bonus system for Management Board members. In addition, in the Company's opinion, the applicable law, in particular regarding the preparation of financial statements, sufficiently regulate the performance of obligations imposed on the Company with respect to the disclosure of remuneration levels. As a consequence of the absence of a remuneration policy, the Company may not submit a report about it in the report on operations.

4.8 Description of the main features of the internal control and risk management systems applied in the Capital Group with regard to the process of preparing financial statements and consolidated financial statements

The internal control system of the Company and risk management in the process of preparing financial statements is carried out through:

- application of a uniform accounting policy by the Capital Group companies in terms of recognition, measurement and disclosures in accordance with International Financial Reporting Standards in the consolidated financial statements of the Capital Group,
- application of procedures for recording economic events in the financial and accounting system and checks on their observance,
- application of uniform unit standards and consolidated financial statements,
- audit of the annual financial statements of "Polimex-Mostostal" S.A. and the Capital Group by independent auditors,
- procedures for authorising, approving and reviewing financial statements prior to publication,
- making independent and objective assessments of risk management and internal control systems.

The preparation of annual reports is preceded by a meeting of the Audit Committee with independent auditors to determine the plan and scope of auditing financial statements and to discuss potential areas of risk that may affect the reliability and accuracy of financial statements.

The preparation of financial statements is a planned process, taking into account the appropriate division of tasks between the employees of the Group, adequate to their competence and qualifications.

In order to reduce the risk related to the process of preparing financial statements on an ongoing basis, they are verified by an external auditor every six months; in the case of the report for the first half-year, the auditor carries out a review, whereas in the case of the annual report it is audited. The results of reviews and examinations are presented by the auditor to the Management Board and the Audit Committee of the Supervisory Board.

The Company uses authorisation procedures, according to which periodic reports are submitted to the Management Board of the Company, and then to the Audit Committee of the Supervisory Board for opinion. After obtaining the opinion of the Audit Committee and after the verification by the auditor, the financial statements are approved by the Management Board of the Company for publication and then forwarded to relevant capital market institutions and made public. Until publication, financial statements are made available only to persons participating in the process of their preparation, verification and approval.

The Group has an Audit and Internal Control Office, whose aim is to conduct an independent and objective assessment of risk management and internal control systems as well as business process analysis.

The office performs tasks based on annual audit plans, which are approved by the Management Board after opinion expressed by the Audit Committee of the Supervisory Board.

The Audit and Internal Control Office may also carry out ad hoc audits commissioned by the Supervisory Board or the Management Board of the Company.

As part of its objectives and tasks, the Audit and Internal Control Office provides recommendations for the implementation of solutions and standards aimed at reducing the risk associated with the achievement of business objectives, improving the efficiency and effectiveness of internal control systems and increasing the efficiency of business processes.

Once a quarter, the Audit and Internal Control Office prepares reports on the monitoring of the implementation level of recommendations for the Management Board and the Audit Committee of the Supervisory Board.

Since May 2017, the risk management system has been introduced in the Polimex-Mostostal Capital Group. The risk management policy in the PxM Capital Group defines the scope, purpose, system organisation, responsibility, measurement and risk assessment, reaction to risk and categories of risks. The implemented risk management procedure in the PxM Capital Group sets out in detail the rules for dealing with the risk identification and assessment process as well as the development and implementation of the corrective action plans. It also contains a materiality map of risks in the PxM Capital Group.

After the stabilisation period of the risk management process, as a result of the collected observations, opinions and applications in November 2017, the system functioning was assessed and the risk quantification was updated. Currently, the risk management system operates at the first level, i.e. risk management in projects where risk information is reported on a weekly basis. In order to improve the reporting process, an IT tool is implemented to support the risk management process.

4.9 Description of the rules for amending the statute or contract of the Issuer's Group

The General Meeting has the power to make changes to the Statutes of the Company on its own initiative and at the request of the Supervisory Board or the Management Board. The Supervisory Board gives opinions on draft amendments to the Statutes of the Company and establishes a uniform text of the Company's Statutes. The document is available on the website

www.polimex-mostostal.pl.

5 Declaration on non-financial information

Separate report on non-financial information of Polimex-Mostostal Capital Group for the year 2017 prepared under the article 49b par. 9 of the Accounting Act was published with the Management Board's report on PxM Capital Group's operations for 2017 and published on "Polimex-Mostostal" S.A. website www.polimex-mostostal.pl.

SIGNATURES OF ALL BOARD MEMBERS			
Date	First and last name	Position/Role	Signature
12.04.2018	Przemysław Janiszewski	Acting President of the Management Board	
12.04.2018	Maciej Korniluk	Vice President of the Management Board	