CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

Warsaw, August 2016

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(If not indicated otherwise, amounts in tables expressed in PLN'000)

INTERIM CONDENSED FINANCIAL STATEMENTS OF THE POLIMEX-MOSTOSTAL CAPITAL GROUP FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

Interim income statement

	For the period from 01.01.2016 to 30.06.2016			For the period from 01.01.2015 to 30.06.2015		
	Continuing operations	**Discontinued operations**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales revenue	906 977	54 763	961 740	855 415	163 496	1 018 911
Costs of sales	(1 012 960)	(45 211)	(1 058 171)	(847 007)	(138 312)	(985 319)
Gross profit / (loss) on sales	**(105 983)**	**9 552**	**(96 431)**	**8 408**	**25 184**	**33 592**
Cost to sell	(936)	(1 994)	(2 930)	(246)	(7 421)	(7 667)
General and administrative expenses	(12 633)	–	(12 633)	(18 714)	–	(18 714)
Other operating revenue	8 544	84	8 628	33 257	286	33 543
Other operating expenses	(1 251)	(133)	(1 384)	(3 972)	(392)	(4 364)
Operating profit / (loss)	**(112 259)**	**7 509**	**(104 750)**	**18 733**	**17 657**	**36 390**
Financial revenue	62 454	25	62 479	5 423	142	5 565
Financial expenses	(14 878)	672	(14 206)	(36 653)	(1 140)	(37 793)
Gross profit / (loss)	**(64 683)**	**8 206**	**(56 477)**	**(12 497)**	**16 659**	**4 162**
Income taxes	12 823	5 613	18 436	4 785	(27)	4 758
Net profit / (loss)	**(51 860)**	**13 819**	**(38 041)**	**(7 712)**	**16 632**	**8 920**
Earnings / (loss) per share (in PLN per share)*						
- basic	(0.60)	0.16	(0.44)	(0.09)	0.19	0.10
- diluted	(0.36)	0.11	(0.25)	(0.02)	0.13	0.11

* Comparative data after presentation amendments explained in Note 6.2.

The accounting principles (policies) and notes to the interim condensed consolidated financial statements on pages 8 to 39 constitute an integral part hereof

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Interim statement of comprehensive income

	For the period from 01.01.2016 to 30.06.2016			For the period from 01.01.2015 to 30.06.2015		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net profit / (loss)	**(51 860)**	**13 819**	**(38 041)**	**(7 712)**	**16 632**	**8 920**
Items not to be subsequently reclassified to profit or loss:						
Change due to revaluation of fixed assets	–	–	–	6 762	–	6 762
Actuarial gains/losses	251	–	251	1 250	–	1 250
Deferred tax	(48)	–	(48)	(1 521)	–	(1 521)
Other comprehensive income, net	**203**	**–**	**203**	**6 491**	**–**	**6 491**
Total comprehensive income	**(51 657)**	**13 819**	**(37 838)**	**(1 221)**	**16 632**	**15 411**

The accounting principles (policies) and notes to the interim condensed consolidated financial statements on pages 8 to 39 constitute an integral part hereof

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Interim balance sheet

	Note	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Assets			
Non-current assets			
Property, plant and equipment	11	71 373	324 518
Investment property		23 759	29 470
Intangible assets		2 675	4 302
Financial assets		527 449	344 209
Non-current receivables		67 891	24 979
Performance bonds related to construction contracts		47 507	56 404
Deferred tax asset		187 163	168 405
Other non-current assets		59	497
Total non-current assets		**927 876**	**952 784**
Current assets			
Inventory		1 111	40 953
Trade and other receivables		443 635	585 526
Performance bonds related to construction contracts		40 604	39 576
Receivables from measurement of long-term contracts		10 584	44 851
Financial assets		1 712	1 155
Cash	13	153 742	308 849
Other assets		2 423	2 328
		653 811	**1 023 238**
Assets held for sale	12	**64 874**	**54 804**
Total current assets		**718 685**	**1 078 042**
Total assets		**1 646 561**	**2 030 826**
Equity and liabilities			
Equity			
Share capital		173 238	173 238
Supplementary capital		309 709	306 762
Other capitals		(444 924)	(444 924)
Reserve capital from surplus generated on convertible bonds		29 734	29 734
Accumulated other comprehensive income		35 735	95 170
Retained earnings		21 598	2 948
Total equity		**125 090**	**162 928**
Non-current liabilities			
Credit facilities and loans		166 635	166 249
Long-term bonds		153 646	147 352
Provisions	10	238 138	249 185
Liabilities due to employee benefits		1 071	5 596
Other liabilities		98 871	122 511
Performance bonds related to construction contracts		38 674	40 122
Total non-current liabilities		**697 035**	**731 015**
Current liabilities			
Credit facilities and loans		4 626	153 265
Trade and other liabilities		457 085	628 520
Performance bonds related to construction contracts		31 419	26 890
Liabilities from measurement of long-term contracts		230 994	244 461
Provisions	10	78 915	46 100
Liabilities due to employee benefits		11 792	30 022
Deferred income		603	743
		815 434	**1 130 001**
Liabilities directly related to assets held for sale	12	**9 002**	**6 882**
Total current liabilities		**824 436**	**1 136 883**
Total liabilities		**1 521 471**	**1 867 898**
Total equity and liabilities		**1 646 561**	**2 030 826**

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Interim cash flow statement

	For the period from 01.01.2016 to 30.06.2016 (unaudited)	For the period from 01.01.2015 to 30.06.2015 (unaudited)
Cash flows from operating activities		
Gross profit / (loss)	**(56 477)**	**4 162**
Adjustment by:	**(107 505)**	**(136 017)**
Amortization and depreciation	9 163	17 361
Net interest and dividends	(577)	5 531
Profit / (loss) on investing activities	(1 303)	(3 667)
Increase / decrease in receivables	53 572	28 965
Increase /decrease in inventories	2 883	20 459
Increase / decrease in liabilities except for credit facilities and loans	(173 551)	(208 774)
Change in other assets and deferred income	726	(6 212)
Change in provisions	22 088	(14 165)
Other	(20 506)	24 485
Net cash generated on operating activities	**(163 982)**	**(131 855)**
Cash flows from investing activities		
Sales of property, plant and equipment and intangible assets	2 482	8 944
Acquisition of property, plant and equipment and intangible assets	(727)	(4 776)
Dividends received	7 852	–
Interest received	–	1
Repayment of originated loans	4	5
Originated loans	–	(500)
Net cash generated on investing activities	**9 611**	**3 674**
Cash flows from financing activities		
Repayment of finance lease liabilities	(198)	(354)
Interest paid	(849)	(161)
Other	311	240
Net cash generated on financing activities	**(736)**	**(275)**
Net increase / (decrease) in cash and cash equivalents	(155 107)	(128 456)
Net exchange differences	34	996
Opening balance of cash	**308 849**	**514 422**
Closing balance of cash	**153 742**	**385 966**
** Restricted cash*	125 589	338 917

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Interim statement of changes in equity

	Share capital	Share premium	Treasury shares	Supplementary capital	Other capitals	Reserve capital from surplus generated on convertible bonds	Accumulated other net comprehensive income arising from		Retained earnings/losses brought forward	Total equity
							Revaluation reserve	Actuarial gains/losses		
As at 1 January 2016	**173 238**	**–**	**–**	**306 762**	**(444 924)**	**29 734**	**94 387**	**783**	**2 948**	**162 928**
Profit/(loss) for the period	–	–	–	–	–	–	–	–	(38 041)	(38 041)
Actuarial profit / (loss)	–	–	–	–	–	–	–	909	(658)	251
Deferred tax	–	–	–	–	–	–	–	(173)	125	(48)
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	–	**736**	**(38 574)**	**(37 838)**
Distribution of profit/ absorption of loss	–	–	–	2 947	–	–	–	–	(2 947)	–
Change due to revaluation of fixed assets (contribution of OPE)	–	–	–	–	–	–	(74 287)*	–	74 287	–
Deferred tax	–	–	–	–	–	–	14 116*	–	(14 116)	–
As at 30 June 2016	**173 238**	**–**	**–**	**309 709**	**(444 924)**	**29 734**	**34 216**	**1 519**	**21 598**	**125 090**

* The item "Change arising from revaluation of fixed assets - entity's contribution" includes the change arising from contributing of the organised part of the enterprise to Mostostal Siedlce Sp. z o.o. Sp. k. In the interim condensed consolidated financial statements for the period from 1 January 2016 to 31 March 2016 in the section Interim condensed financial statements of Polimex-Mostostal S.A. for the 3-month period ended 31 March 2016; in the interim statement of changes in equity, under Total comprehensive income (26,781), which is incorrect. The change should be presented in the amount and item as above.

	Share capital	Share premium	Treasury shares*	Supplementary capital	Other capitals	Reserve capital from surplus generated on convertible bonds	Accumulated other net comprehensive income arising from		Retained earnings/losses brought forward	Total equity
							Revaluation reserve	Actuarial gains/losses		
As at 1 January 2015	**173 238**	**1 297 118**	**–**	**618 552**	**(444 924)**	**29 747**	**53 174**	**(805)**	**(1 608 908)**	**117 193**
Profit/(loss) for the period	–	–	–	–	–	–	–	–	8 920	8 920
Change due to revaluation of fixed assets	–	–	–	–	–	–	6 762	–	–	6 762
Actuarial gain / loss	–	–	–	–	–	–	–	1 250	–	1 250
Deferred tax	–	–	–	–	–	–	(1 284)	(237)	–	(1 521)
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**5 478**	**1 013**	**8 920**	**15 411**
Acquisition of treasury shares	–	–	(0)	–	–	–	–	–	–	(0)
Absorption of prior year loss	–	(1 040 696)	–	(311 790)	–	–	–	–	1 608 908	–
Other	–	–	–	–	–	(13)	–	–	–	(13)
As at 30 June 2015	**173 238**	**–**	**(0)**	**306 762**	**(444 924)**	**29 734**	**58 652**	**208**	**8 920**	**132 590**

* "Treasury shares" include cost of acquiring treasury shares; in H1 2015 the Company acquired 42 treasury shares for PLN 4.62. The costs of a notarial deed was PLN 160.

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Summary of significant accounting policies and additional notes

1. General information

Polimex-Mostostal Spółka Akcyjna ("Company") operates based on Articles of Association established by a notarized deed on 18 May 1993 (Notarial Register A No. 4056/93) with subsequent amendments. The Company's registered office is located in Warsaw at al. Jana Pawła II 12, 00-124 Warszawa. The Company has been registered by the District Court for the capital city of Warsaw in Warsaw, XII Business Division of the National Court Register under number KRS 0000022460. Polimex-Mostostal S.A. has been assigned a statistical number REGON 710252031.
The duration of the Company is unlimited. The Company's financial year is the calendar year.
The Company's core business includes broadly defined construction and assembly services, performed in the capacity of a general contractor both in Poland and abroad, as well as administration services provided to the companies in the Polimex-Mostostal Capital Group (the "Capital Group", "Group"). In H1 2016 Production OPE was contributed to Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Sp. k. (henceforth: "Mostostal Siedlce Sp. z o.o. Sp.k."). Therefore, the segment's profit/loss is presented under discontinued operations. The Company operates in the following segments: Manufacturing, Industry, Power Engineering, Petrochemical Industry (crude oil, natural gas, chemicals), Infrastructure Construction, Other Activities.
The interim condensed financial statements of the Company include data for the six-month period ended 30 June 2016 and as at that date, and comparative data for the six-month period ended 30 June 2015 and as at that date, as well as at 31 December 2015.

2. Composition of the Management Board and Supervisory Board

Composition of the Management Board as at 30 June 2016 and as at the date of publication of these interim condensed financial statements:

Antoni Józwowicz	President of the Management Board
Tomasz Rawecki	Vice-President of the Management Board
Tomasz Kucharczyk	Vice-President of the Management Board

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

2016-03-04	The Supervisory Board dismissed Joanna Makowiecka-Gaca (Resolution no. 145/XI) and Krzysztof Cetnar (Resolution no. 146/XI from their positions in the Management Board and appointed Antoni Józwowicz (Resolution no. 147/XI) and Tomasz Kucharczyk (Resolution no. 149/XI) effective immediately and Tomasz Rawecki (Resolution no. 148/XI) effective as of 7 March 2016 (WSE Communique no. 15/2016).
2016-06-07	The Supervisory Board resolved to dismiss Jacek Czerwonka from the Management Board as of the resolution date (Supervisory Board Resolution 164/XI) (WSE Communique no. 33/2016).

Composition of the Management Board as at 30 June 2016:

Anna Młynarska-Sobaczewska	Chairwoman of the Supervisory Board
Bartłomiej Kachniarz	Vice-Chairman of the Supervisory Board
Andrzej Sokolewicz	Secretary of the Supervisory Board
Marcin Milewicz	Member of the Supervisory Board
Iwona Warsewicz	Member of the Supervisory Board
Andrzej Komarowski	Member of the Supervisory Board
Bartłomiej Kurkus	Member of the Supervisory Board
Przemysław Figarski	Member of the Supervisory Board
Bartosz Ostachowski	Member of the Supervisory Board

(If not indicated otherwise, amounts in tables expressed in PLN'000)

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

2016-02-23	Wojciech Barański resigned from the position of member of the Supervisory Board (WSE Communiqué No. 9/2016).
2016-02-25	The Extraordinary Shareholders' Meeting of the Company changed the composition of the Supervisory Board. The following individuals were dismissed from the Supervisory Board: Marek Szczepański – Chairman; Andrzej Zwara - Member; Krzysztof Kaczmarczyk – Member; Jarosław Kochaniak - Member; Andrzej Kasperek - Member; and the following individuals were appointed for the period until the end of the current office term: Iwona Warsewicz, Bartłomiej Kachniarz, Anna Młynarska-Sobaczewska, Zbigniew Jędrzejewski, Bartłomiej Kurkus, Andrzej Komarowski (WSE Communique no. 13/2016).
2016-04-15	Zbigniew Jędrzejewski resigned from the position in the Supervisory Board as of 15 April 2016 as he was appointed a judge in the Constitutional Court (WSE Communique no. 20/2016).
2016-05-16	The Extraordinary Shareholders' Meeting appointed Przemysław Figarski a member of the Supervisory Board (Resolution no. 4) (WSE Communique no. 27 and 28/2016).
2016-06-24	The Extraordinary Shareholders' Meeting appointed Bartosz Ostachowski a member of the Supervisory Board (Resolution no. 26) (WSE Communique no. 38/2016).

3. Approval of the condensed interim financial statements

These interim condensed financial statements are not subject to an approval of a competent body pursuant to Article 53 of the Accounting Act of 29 September 1994. Interim condensed financial statements are signed by the manager of the entity, i.e. the Management Board of Polimex – Mostostal S.A. and the person in charge of preparing the interim condensed financial statements. These interim condensed consolidated financial statements were signed on 26 August 2016.

4. Shareholders of the Company

The table below presents shareholders with over 5% of the total number of votes as at 30 June 2016.

Shareholder	Number of shares/votes	Interest in share capital/total number of votes at GSM (%)
Bank Polska Kasa Opieki S.A.	15 076 137	17.41%
PKO Towarzystwo Funduszy Inwestycyjnych SA – all clients Including: NEPTUN Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	12 935 735 12 143 833	14.93% 14.02%
Towarzystwo Funduszy Inwestycyjnych PZU SA	12 534 822	14.47%
SPV Operator Sp. z o.o.	6 000 001	6.92%
Other - below 5% interest in the share capital	40 072 107	46.27%
Total number of shares issued	**86 618 802**	**100.00%**

Company's shares held by members of the Management and Supervisory Board as at 30 June 2016 and 31 December 2015:

Position	As at 30.06.2016	As at 31.12.2015
Member of the Supervisory Board	-	114
Total	**-**	**114**

From 30 June 2016 until the date of publishing this report, there were no changes in the number of shares or in the shareholding of the Parent or in titles to shares held by members of the supervisory and managing bodies.

5. Basis for preparation of the condensed interim financial statements

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 as endorsed by the European Union. As at the date of publishing these condensed interim financial statements, considering the process of adopting International Financial Reporting Standards ("IFRS") pending in the EU and the Company's business operations, there is no difference between the IFRS that have come into effect and those endorsed by the EU with regard to the accounting principles adopted by the Company.
The IFRS include standards and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

These interim condensed financial statements have been prepared on the assumption that the Company shall operate as a going concern in the foreseeable future.

6. Summary of the accounting policies adopted

6.1. International Financial Reporting Standards

The accounting principles (policies) used for preparation of these financial statements are consistent with those adopted for preparation of the financial statements of the Company for the year ended 31 December 2015, except for the following revised standards and new interpretations applicable to annual periods beginning on or after 1 January 2016:

- Revised IFRS 11 "Joint Arrangements" - Accounting for Acquisitions of Interests in Joint Operations – endorsed by the EU on 24 November 2015 (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 1 Presentation of Financial Statements – Disclosure Initiative, endorsed by the EU on 18 December 2015 (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization – endorsed by the EU on 2 December 2015 (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Agriculture: Bearer Plants – endorsed by the EU on 23 November 2015 (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions, endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015);
- Revised IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements – endorsed by the EU on 18 December 2015 (applicable to annual periods beginning on or after 1 January 2016);
- Revised standards "IFRS Improvements (2010-2012)" – amendments to standards resulting from the annual improvements process (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording – endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015);
- Revised standards "IFRS Improvements (2012-2014)" – amendments to standards resulting from the annual improvements process (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily with a view to removing inconsistencies and clarifying wording – endorsed by the EU on 15 December 2015 (applicable to annual periods beginning on or after 1 January 2016).

The above amendments to standards have not materially affected the existing accounting policy of the Company.

Standards and amendments to standards adopted by IASB, but not approved by the EU

IFRS as endorsed by the EU do not materially differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards and amendments to standards not adopted for use as at the date of publishing these interim condensed financial statements:

- IFRS 9 “Financial Instruments” (applicable to annual periods beginning on or after 1 January 2018);
- IFRS 14 “Regulatory Deferral Accounts” (applicable to annual periods beginning on or after 1 January 2016) the European Commission decided not to commence approval of this interim standard for application in the EU until the final version of IFRS 14 is published;
- IFRS 15 “Revenue from Contracts with Customers” and subsequent revisions (applicable to annual periods beginning on or after 1 January 2018);
- IFRS 16 Leases (applicable to annual periods beginning on or after 1 January 2019);
- Revised IFRS 2 Share-based Payments - Classification and Measurement of Share-based Payments (applicable to annual periods beginning on or after 1 January 2018);
- Revised IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (applicable to annual periods beginning on or after 1 January 2016);
- Revised IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the effective date of the revised standards has been postponed until completion of work on the equity method);
- Revised IAS 7 Statement of Cash Flows – Disclosure initiative (applicable to annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses (applicable to annual periods starting on or after 1 January 2017).

As at the date of these interim condensed financial statements, the Management Board of the Company had been evaluating the effect of the revised IFRS 9, IFRS 15 and IFRS 16 on the financial statements; the remaining standards and revised standards would not have had a significant effect on the financial statements if they had been adopted by the Company as at the end of the reporting period.
At the same time, hedge accounting of the portfolio of financial assets and liabilities remains beyond the scope of EU-approved regulations.
According to the entity’s estimates, application of hedge accounting principles with respect to the portfolio of financial assets or liabilities in line with IAS 39 Financial Instruments: Recognition and Measurement would not have had a material impact on the financial statements if they had been adopted for use as of the balance sheet date.

(If not indicated otherwise, amounts in tables expressed in PLN'000)

6.2. Retrospective amendments to comparative data

Earnings per share

Calculation of earnings per share for the period from 1 January 2015 to 30 June 2015 has been based on restated data regarding the number of shares and reflected their number after the reverse stock split described in Note 9 of the separate financial statements for 2015.

	For 6 months from 01.01.2015 to 30.06.2015 (approved)			Reverse stock split	For 6 months from 01.01.2015 to 30.06.2015 (restated)		
	Continuing operations	Discontinued operations	Total		Continuing operations	Discontinued operations	Total
Net profit / (loss)	**(7 712)**	**16 632**	**8 920**		**(7 712)**	**16 632**	**8 920**
Net profit / (loss) adjustment – interest expense on New Bonds	5 488	–	5 488		5 488	–	5 488
Net loss after adjustment, for purposes of calculation of diluted loss per share	(2 224)	16 632	14 408		(2 224)	16 632	14 408
Basic earnings / (loss) per share (PLN):							
number of shares registered as at the end of the reporting period	4 330 940 142	4 330 940 142	4 330 940 142	01:50	86 618 803	86 618 803	86 618 803
weighted average number of ordinary shares used for purposes of calculation of basic loss per share	2 037 500 000	2 037 500 000	2 037 500 000	01:50	40 750 000	40 750 000	40 750 000
basic earnings / (loss) per share	(0.002)	0.004	0.002		(0.09)	0.19	0.10
Diluted loss per share (PLN):							
weighted average number of ordinary and potential shares used for purposes of calculation of diluted loss per share	6 368 440 142	6 368 440 142	6 368 440 142	01:50	127 368 803	127 368 803	127 368 803
Diluted earnings/(loss) per share	(0.0003)	0.0026	0.0023		(0.02)	0.13	0.11

6.3. Uncertainty of estimates

Financial statements prepared in accordance with IFRS require estimates and assumptions which have an impact on the figures disclosed in the financial statements, including notes. Although the estimates are based on best knowledge of the Management Board regarding current activities and events, actual performance may differ from projections.

Impairment of assets

The Company carries out impairment tests of non-current assets if indications of their impairment occur. This requires estimating of the value in use of a CGU to which the non-current assets belong. The value in use is estimated by determining future cash flows generated by the cash generating unit, which also requires determination of the discount rate for calculation of the present value of such cash flows.

Deferred tax asset

The Company recognizes the deferred tax asset based on the assumption that it will generate taxable profit sufficient to realize the asset in the future. If the actual tax results were to deteriorate in the future, the above assumption might prove baseless.

As at 30 June 2016, the Company recognized deferred tax asset of PLN 201,584,000 and a deferred tax liability of PLN 14,421,000. The net deferred tax asset as presented in the balance sheet amounts to PLN 187,163,000.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined using appropriate measurement methods. While selecting appropriate methods and assumptions, the Company relies on its professional judgement.
The Company analysed the class of its investments and remeasured selected investments the fair value of which could be estimated reliably.
IFRS 13 *Fair Value Measurement* introduced three hierarchy levels for the input data used for fair value measurement:
- Level 1 input data – unadjusted prices quoted on active markets which the entity may access at the measurement date;
- Level 2 input data – prices other than those used at Level 1, which are observable directly or indirectly for specific assets or liabilities and thus may be adjusted depending on factors specific for particular items;
- Level 3 input data – unobservable input data which reflects the assumptions that would be made by market participants to determine the price (including those related to risks).

The table below presents the value of shares in PLN‘000 as at 30 June 2016, broken down by fair value measurement input data hierarchy levels:

As at 30.06.2016	Level 1	Level 2	Level 3
Shares in subsidiaries and associates	–	–	323 525

As at 31.12.2015	Level 1	Level 2	Level 3
Shares in subsidiaries and associates	–	–	138 956

An analysis of shares held, conducted by the Company in line with IFRS 13, indicated that in the absence of reliable data, the historical cost was used as the fair value, which is in conformity with IAS 39. The aforesaid investments were classified as Level 3.
When determining the fair value, the Company cannot use Level 1 since as at 30 June 2016 it did not held investments for which an active quotation market would exist.
Presentation of shares in subsidiaries on the balance sheet:

As at 30.06.2016	
Non-current financial assets	310 653
Assets held for sale	12 872

As at 31.12.2015	
Non-current financial assets	127 701
Assets held for sale	11 255

The following table presented the value of land, buildings and investment property (in PLN'000) as at 30 June 2016 broken into fair value hierarchy levels:

As at 30.06.2016	Level 1	Level 2	Level 3
Land and buildings	–	–	39 355
Investment property	–	–	23 759

(If not indicated otherwise, amounts in tables expressed in PLN'000)

As at 31.12.2015	Level 1	Level 2	Level 3
Land and buildings	–	–	203 283
Investment property	–	–	29 470

A cross-functional team, carrying out measurement of land and buildings required for financial reporting purposes, including Level 3 of the fair value hierarchy, has been operating in the Company. At least once a quarter, in accordance with the quarterly reporting dates adopted, discussions regarding the measurement process and its outcome are held between the Vice-President and the measurement team. At the end of 2015, the Company hired external independent qualified appraisers for the purpose of fair value determination. Based on an analysis and discussion held by the measurement team as at 30 June 2016, the Management Board confirms that the assumptions adopted for the purpose of valuation reports, local real property market conditions and the technical condition of the property, its purpose and functionality determined as at 31 December 2015 were valid as at 30 June 2016. The valuation performed as at 31 December 2015 correctly reflects the fair value of the property as at 30 June 2016.

If land, buildings and investment property are classified as assets held for sale, their fair value is determined based on the selling price included in the offer.

Revenue recognition

The Company applies the percentage stage-of-completion method while accounting for long-term contracts. Application of the method requires estimating the proportion of works completed to all the services to be provided. Based on revised contract budgets and the stage of completion of construction contracts, the Company recognizes the effects of changes in estimates in the next period profit or loss. Had the so defined stage of completion increased by 1 p.p., the revenue would increase by PLN 69,404,000 and expenses by PLN 68,964,000.

Amortization/depreciation rates

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

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

The provision for the present value of liabilities related to retirement and disability benefits is calculated based on an actuarial valuation in accordance with the projected unit credit method. The provision is updated twice a year (on 30 June and 31 December).

Provision for warranty repairs

Provisions for warranty repairs are recognized in the course of contract fulfilment, in proportion to sales revenue. The amount of such provisions depends on the type of construction services provided and it represents a specific percentage of sales revenue under the contract. However, the value of provisions for warranty repairs may be subject to a case-by-case analysis (also considering the opinion of the project manager) and it may be increased or reduced if appropriate. Provisions are used within the first 3-5 years following investment project completion, in proportion to the actual costs of repairs. Information on recognition, increase, use and derecognition of the provision is presented in Note 10.

Restructuring provision

The Company recognizes a restructuring provision if it has a detailed, formal plan specifying the affected activities or their part, basic locations subject to restructuring, number of employees to receive compensation in return for termination of employment contracts as well as the plan implementation date. Additionally, it is necessary that the plan has been announced or its implementation has already begun. Information on recognition, increase, use and derecognition of the provision is presented in Note 10.

Provisions for court cases

Provisions for the effects of pending court proceedings are recognized when a lawsuit has been brought against the Company and the probability that the verdict will be adverse for the entity is higher than the probability that it will be favourable. The probability is estimated considering the course of the court proceedings and legal opinions. The provisions are charged to other operating expenses. Information on recognition, increase, use and derecognition of the provision is presented in Note 10.

Provision for liquidated damages

The amounts of liquidated damages are estimated by the technical staff responsible for construction contract fulfilment, along with the legal department interpreting the provisions of the contracts. Provisions for liquidated damages are recognized when the probability of such damages being imposed by the client for a failure to adequately perform contractual obligations is high. Information on recognition, increase, use and derecognition of the provision is presented in Note 10.

Provision for contract settlement costs

Provisions for contract costs are related to the final settlement of road construction contracts. Information on recognition, increase, use and derecognition of the provision is presented in Note 10.

Provision for expected losses on construction contracts

At the end of each reporting period, the Company verifies its estimates of total revenue and expenses under construction contracts in progress. The total expected loss on a contract is expensed in the period when it is recognized, in accordance with IAS 11. Information on recognition, increase, use and derecognition of the provision is presented in Note 10.

Provision for sureties

Granted sureties are recognized as provisions if the probability that the debtor will be unable to pay the debt is high as at the end of the reporting period. Information on recognition, increase, use and derecognition of the provision is presented in Note 10.

Impairment loss on redundant materials and receivables

As at each balance sheet date the Company analyses impairment indications for trade receivables to include disputable receivables, amounts claimed at court, receivables from entities in bankruptcy or liquidation, etc. On this basis, impairment losses are recognized for each amount receivable, while remaining ones are included in a statistically calculated impairment loss pursuant to aging analysis.

As at the end of each reporting period, the Company remeasures the impairment loss on redundant materials considering the number of days in stock.

In H1 2016, the Company recognized impairment losses on inventory of PLN 53,000. During the same period, derecognised impairment losses amounted to PLN 150,000.

In H1 2016, the Company recognized impairment losses on receivables of PLN 27,619,000. In the same period, the amount of impairment losses on receivables decreased by PLN 7,607,000 as a result of application, derecognition and repayment of amounts receivable.

6.4. Measurement and presentation currency

The condensed interim financial statements are presented in PLN, and all figures are presented in PLN'000, unless stated otherwise.

7. Operating segments and geography

The tables below present revenue of each operating segment and geographical data of the Company for the six-month period ended 30 June 2016 (in PLN’000).

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Operating segments

In H1 2016, Production OPE was contributed to Mostostal Siedlce Sp. z o.o. Sp.k. Therefore, the performance of the segment is presented under discontinued operations. In the financial statements for H1 2015 it had been presented under continuing operations.

For the period from 01.01.2016 to 30.06.2016	Production (discontinued operations)	Industry	Power engineering	Petrochemistry	Infrastructure construction	Other activities	Excluded	Total operations
Revenue								
Sales to external clients	54 763	10 386	851 955	2 332	–	42 304	–	961 740
Intersegment sales	1 346	9 136	–	–	–	2 355	(12 837)	–
Total segment revenue	56 109	19 522	851 955	2 332	–	44 659	(12 837)	961 740
Profit/ (loss)								
Operating profit (loss) per segment	7 509	(54)	(107 015)	176	(2 319)	(3 047)	–	(104 750)
Balance of financial revenue and expenses	697	(221)	118	7	(34)	47 706	–	48 273
Segment gross profit (loss)	8 206	(275)	(106 897)	183	(2 353)	44 659	–	(56 477)

Revenue from intersegment transactions is eliminated.

(If not indicated otherwise, amounts in tables expressed in PLN'000)

For the period from 01.01.2015 to 30.06.2015	Production (discontinued operations)	Industry	Power engineering	Petrochemistry	Infrastructure construction	Other activities	Excluded	Total operations
Revenue								
Sales to external clients	163 496	35 257	720 073	20 620	20 506	58 959	–	1 018 911
Intersegment sales	18 881	53	–	3 330	–	5 463	(27 727)	–
Total segment revenue	182 377	35 310	720 073	23 950	20 506	64 422	(27 727)	1 018 911
Profit/ (loss)								
Operating profit / (loss) per segment	17 657	2 847	8 396	(7 800)	(1 164)	16 454	–	36 390
Balance of financial revenue and expenses	(998)	208	(277)	(112)	289	(31 338)	–	(32 228)
Segment gross profit / loss	16 659	3 055	8 119	(7 912)	(875)	(14 884)	–	4 162

Revenue from intersegment transactions is eliminated.

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Geography

For the period from 01.01.2016 to 30.06.2016	Domestic	Export sales	Total
Revenue			
Sales to external clients	915 686	46 054	961 740

For the period from 01.01.2015 to 30.06.2015	Domestic	Export sales	Total
Revenue			
Sales to external clients	889 365	129 546	1 018 911

8. Information on change in contingent liabilities that occurred after the last financial year end

	As at 30 June 2016	As at 31.12.2015
Contingent liabilities	**1 408 113**	**1 434 095**
To other entities (due to)		
- granted guarantees and sureties	953 145	979 281
- promissory notes	3 688	4 454
- court cases	451 280	450 360

In relation to loan and guarantee agreements concluded, bond liabilities and, in particular, the Agreement on Debt Enforcement Suspension of 24 July 2012, the Financial Debt Service Agreement of 21 December 2012 as amended, the Agreement on the New Guarantee Facility of 21 December 2012 as amended and the related revolving loan and Terms of Issue of Ordinary and Convertible Bonds of 12 September 2014. The Company has established mortgages, ownership transfers, assignments, issued promissory notes and accepted sureties of certain subsidiaries in order to secure liabilities arising from these instruments. As at 30 June 2016, the Company’s total exposure related to those instruments was ca. PLN 1,188 M (PLN 1,451 M as at 31 December 2015).

(If not indicated otherwise, amounts in tables expressed in PLN'000)

9. Related-party transactions

Aggregate values of related-party transactions for the six months ended 30 June 2016 and as at that date and for the period of the six months ended 30 June 2015 and as at 31 December 2015.

	For the period from 01.01. do 30.06.	For the period from 01.01. do 30.06.	As at 30.06.2016 / 31.12.2015	As at 30.06.2016 / 31.12.2015
	Sales to related parties	**Purchases from related parties**	**Receivables from related parties**	**Liabilities to related parties**
2016				
Subsidiaries	51 062	764 326	211 030	190 148
Associates	29	1 955	1	558
Total	**51 091**	**766 281**	**211 031**	**190 706**
2015				
Subsidiaries	26 378	514 858	213 172	239 377
Associates	3 224	4 572	3	3 509
Total	**29 602**	**519 430**	**213 175**	**242 886**

As at 30 June 2016 and 31 December 2015, receivables from subsidiaries include the amount of PLN 619,000 of dividend due from Czerwonograd ZKM, a Ukrainian subsidiary. The amount cannot be paid at present due to restrictions imposed by the National Bank of Ukraine.

According to information held by the Company, in the reporting period transactions were concluded on arm’s length term, their terms arising from ongoing operations.

(If not indicated otherwise, amounts in tables expressed in PLN'000)

10. Change in provisions

	Provisions for warranty repairs	Restructuring provision	Provision for court cases	Provision for liquidated damages	Provision for contract settlement costs	Provision for losses	Provision for sureties	Total
As at 01.01.2016	**62 749**	**2 745**	**19 906**	**40 913**	**164 146**	**4 331**	**495**	**295 285**
Recognized in the financial year	9 095	119	654	–	–	38 195	–	**48 063**
Used	–	(653)	(496)	(9 722)	–	(5 531)	(334)	**(16 736)**
Derecognized	(4 524)	–	(95)	(4 246)	–	–	–	**(8 865)**
Other - OPE contribution	–	–	–	(320)	–	(374)	–	**(694)**
As at 30.06.2016	**67 320**	**2 211**	**19 969**	**26 625**	**164 146**	**36 621**	**161**	**317 053**
Short-term as at 30.06.2016	18 817	2 211	4 411	16 829	–	36 621	26	**78 915**
Long-term as at 30.06.2016	48 503	–	15 558	9 796	164 146	–	135	**238 138**
As at 01.01.2015 (*)	**70 922**	**12 312**	**33 487**	**33 364**	**144 720**	**22 905**	**16 422**	**334 132**
Recognized in the financial year	7 360	–	–	3 748	50 428 (**)	–	–	**61 536**
Used	(2 334)	(1 864)	(8 555)	(1 625)	(26 890)	(10 781)	(11 017)	**(63 066)**
Derecognized	(3 851)	(5 515)	(3 117)	(100)	–	–	(52)	**(12 635)**
As at 30.06.2015	**72 097**	**4 933**	**21 815**	**35 387**	**168 258**	**12 124**	**5 353**	**319 967**
Short-term as at 30.06.2015	14 195	4 933	3 589	8 715	–	12 124	4 477	**48 033**
Long-term as at 30.06.2015	57 902	–	18 226	26 672	168 258	–	876	**271 934**

* As at 1 January 2015 the amount of PLN 26,672,000 was reclassified from provisions for guarantee repairs to provisions for liquidated damages.

** In relation to a contract performed for DGNRM in a consortium, in the consolidated interim financial statements, the Company has presented on a separate basis receivables from DGNRM of PLN 49.4 M invoiced in February 2015 and provisions for liabilities to subcontractors arising from performed works in the amount of PLN 50.4 M. Effects of the above amounts on profit/loss is immaterial; the contract has generated a loss and according to IAS 11 the negative margin was fully recognized in previous years.

(If not indicated otherwise, amounts in tables expressed in PLN'000)

11. Purchase, sale and impairment losses on property, plant and equipment

	Land and buildings	Equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
Net value as at 01.01. 2016	**203 283**	**97 795**	**14 373**	**8 006**	**1 061**	**324 518**
Acquisition	8	22	–	45	86	**161**
Decrease	(361)	(450)	(33)	(1)	–	**(845)**
Other decreases - OPE contribution	(162 186)	(79 558)	(2 664)	(657)	(232)	**(245 297)**
Reclassification to assets held for sale	–	(8)	(9)	–	–	**(17)**
Reclassification from assets held for sale	–	563	20	–	–	**583**
Depreciation for the period	(1 389)	(3 537)	(942)	(1 862)	–	**(7 730)**
Net value as at 30.06.2016	**39 355**	**14 827**	**10 745**	**5 531**	**915**	**71 373**
As at 01.01.2016						
Gross value	295 084	280 788	47 039	38 159	2 451	**663 521**
Depreciation and impairment loss	(91 801)	(182 993)	(32 666)	(30 153)	(1 390)	**(339 003)**
Net value as at 01.01. 2016	**203 283**	**97 795**	**14 373**	**8 006**	**1 061**	**324 518**
As at 30.06.2016						
Gross value	76 949	95 621	37 314	30 934	2 305	**243 123**
Depreciation and impairment loss	(37 594)	(80 794)	(26 569)	(25 403)	(1 390)	**(171 750)**
Net value as at 30.06.2016	**39 355**	**14 827**	**10 745**	**5 531**	**915**	**71 373**

(If not indicated otherwise, amounts in tables expressed in PLN'000)

Purchase, sale and impairment losses on property, plant and equipment (continued)

	Land and buildings	Equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
Net value as at 01.01. 2015	**50 644**	**22 593**	**14 147**	**10 800**	**914**	**99 098**
Impairment	(1 819)	–	–	–	–	**(1 819)**
Acquisition	69	143	–	318	58	**588**
Decrease	–	(629)	(620)	(7)	(134)	**(1 390)**
Reclassification from assets held for sale	132 777	94 707	3 437	545	77	**231 543**
Reclassification to assets held for sale	–	(103)	78	(122)	–	**(147)**
Depreciation for the period	(4 645)	(7 905)	(1 508)	(1 895)	–	**(15 953)**
Net value as at 30.06.2015	**177 026**	**108 806**	**15 534**	**9 639**	**915**	**311 920**
As at 01.01.2015						
Gross value	94 507	103 914	41 546	32 892	2 942	**275 801**
Depreciation and impairment loss	(43 863)	(81 321)	(27 399)	(22 092)	(2 028)	**(176 703)**
Net value as at 01.01. 2015	**50 644**	**22 593**	**14 147**	**10 800**	**914**	**99 098**
As at 30.06.2015						
Gross value	279 954	288 552	48 226	39 098	1 465	**657 295**
Depreciation and impairment loss	(102 928)	(179 746)	(32 692)	(29 459)	(550)	**(345 375)**
						–
Net value as at 30.06.2015	**177 026**	**108 806**	**15 534**	**9 639**	**915**	**311 920**

(If not indicated otherwise, amounts in tables expressed in PLN'000)

12. Assets held for sale and liabilities directly associated with assets held for sale

Under the Financial Debt Service Agreement of 21 December 2012, the Company committed to sell specific assets. The assets for disposal include redundant property, plant and equipment, organised parts of the enterprise and real property. The table above presents financial information on assets whose disposal is planned within a year of the end of the reporting period.

	As at 30.06.2016	**As at 31.12.2015**
Property, plant and equipment	17 537	18 437(*)
Investment property	17 888	15 618(*)
Financial assets	12 872	11 255
Inventory	1 020	2 293
Receivables	15 544	7 183
Cash	13	18
Assets held for sale	**64 874**	**54 804**
Liabilities	9 002	6 882
Liabilities directly related to assets held for sale	**9 002**	**6 882**

* Note 19 of the financial statements of the Company for the year ended 31 December 2015 presents the amount of PLN 31,688,000 under property, plant and equipment. Following an analysis of the items included, the Company has decided that the amount of PLN 13,251,000 should be presented as investment property. The above table presents the adjusted figures.

13. Cash and cash equivalents

	As at 30.06.2016	**As at 31.12.2015**
Cash at bank and in hand	140 063	270 270
Short-term deposits	13 679	38 579
Total	**153 742**	**308 849**
Restricted cash	125 589	255 860

14. Cash flow statement regarding discontinued operations

In H1 2016 Production OPE was contributed to Mostostal Siedlce Sp. z o.o. Sp. k. (as described in Note 16). Therefore, the net cash flows are presented as cash flows from discontinued operations.

	For the period from 01.01.2016 to 30.06.2016	**For the period from 01.01.2015 to 30.06.2015**
Net cash flows from operating activities	421	4 025
Net cash flows from investing activities	(104)	(421)
Net cash flows from financing activities	19	9
Net cash flows	**336**	**3 613**

15. Factors and events exerting material effect on the Company's standing in H1 2016

In H1 2016 the Company generated sales revenue of PLN 961,740,000 (a decrease of 6% vs. H1 2015).
In H1 2016 the Company generated an operating loss of PLN -104,750,000 (vs. operating profit of PLN 36,390,000 generated in H1 2015).
The net loss in H1 2016 amounted to PLN -38,041,000 (vs. net profit of PLN 8,920,000 generated in H1 2015).
As at 30 June 2016 the total assets of the Company amounted to PLN 1,646,561,000 (a 19% decrease compared to 31 December 2015). As at 30 June 2016, the non-current assets amounted to PLN 927,876,000 (a 3% decrease compared to 31 December 2015), and the current assets, including assets held for sale, amounted to PLN 718,685,000 (a 33% decrease compared to 31 December 2015).
As at 30 June 2016, equity amounted to PLN 125,090,000 (a 23% decrease compared to 31 December 2015) and liabilities amounted to PLN 1,521,471,000 (an 18% decrease compared to 31 December 2015).
According to the cash flow statement prepared by the Company, in H1 2016, cash and cash equivalents decreased by the net amount of PLN 155,107,000. As at 30 June 2016, cash and cash equivalents amounted to PLN 153,742,000.
Net cash flows from operating activities amounted to PLN -163,982,000. Net cash flows from investing activities amounted to PLN 9,611,000, while net cash flows from financing activities were PLN -736,000. The balance of cash includes an advance payment of PLN 96,983,000, which the Company received under the “Kozienice” contract, and an advance payment of PLN 28,606,000 received as a performance bond under the "Opole" contract.

The current order portfolio of the Company reduced by sales attributed to the consortium members approximates PLN 3 bn and includes only concluded contracts. The current portfolio of orders per year: PLN 1.2 bn in 2016; PLN 1.3 bn 2017; PLN 0.4 bn in 2018 and PLN 0.1 bn in the subsequent years.

As at 30 June 2016, Company's current and quick liquidity ratios were lower than as at 31 December 2015 and amounted to 0.87 each (vs. 0.95 and 0.91 as at 31 December 2015).

16. Key events in the reporting period and material events after 30 June 2016

Material achievements of the Company in H1 2016:

- On 29 January 2016, the Company and its creditors being a party to the Financial Debt Service Agreement (FDSA) of 21 December 2012 (“FDSA”), parties to the Creditors’ Agreement of 12 September 2014 (including Agencja Rozwoju Przemysłu S.A. as the holder of New Bonds) (jointly: “Creditors”) signed documentation implementing decisions included in the Initial Agreement on the New Strategy for the Polimex-Mostostal Capital Group (“Initial Agreement”).

  In the process of implementing the Initial Agreement, the Company and its Creditors concluded an annex to FDSA, pursuant to which the organized part of the enterprise called Mostostal Siedlce would remain within the Polimex-Mostostal Capital Group. Pursuant to the amended FDSA, Mostostal Siedlce plant is to be spun off by the Company and contributed to Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (“Mostostal Siedlce”). Along with the assets, Mostostal Siedlce shall assume the Company’s debt arising from loans originated by PKO BP S.A. (in the amount of PLN 100 M) and Pekao S.A. (in the amount of PLN 50 M), secured on the assets of Mostostal Siedlce ("Existing Loans"). At the same time, Mostostal Siedlce, PKO BP S.A. and Pekao S.A. concluded a term loan agreement to be used to refinance the Existing Loans ("Mostostal Loan Agreement") and an agreement determining terms, deadlines and financial conditions on which Mostostal Siedlce is to repay the debt arising from the Existing Loans until the time of their refinancing (“Financing Agreement”). Further, the amended FDSA, Financing Agreement and Mostostal Loan Agreement determine the principles of transferring possible cash surplus from Mostostal Siedlce to the Company.

  Following the conclusion of the Annex to FDSA, Financing Agreement and Mostostal Loan Agreement, the existing collateral structure will change; assets contributed by the Company under the organized part of the enterprise to Mostostal Siedlce shall be released from the encumbrance arising from FDSA to the extent not related to the Existing Loans. The loans included in the FDSA shall be secured with registered and financial pledges on all shares in Mostostal Siedlce Sp. z o.o. (i.e. the general partner of Mostostal Siedlce) and on all shares in Polimex SPV1 (i.e. the limited partner of Mostostal Siedlce) and with a registered pledge on the titles the Company holds as a limited partner of Mostostal Siedlce. These pledges shall be established in favour of Agencja Rozwoju Przemysłu S.A. acting as the security agent representing creditors whose assets are included in the FDSA and shall collateralize FDSA receivables.

On 12 February 2016, an agreement was concluded to contribute an organized part of the Company's enterprise ("OPE", "Agreement") pursuant to which OPE was disposed of and transferred to Mostostal Siedlce Sp. z o.o. Sp. k. ("Mostostal Siedlce"), a subsidiary of the Company, as a form of increasing the partner's In-Kind Contribution in Mostostal Siedlce by PLN 182,951,763.57.

OPE is the organized part of the Company's enterprise located in Siedlce and includes an organized group of property, plant and equipment and intangible assets intended to be used for business purposes including production of support structures and casing for industrial construction, grids, rack systems and shoring system components, as well as works preventing corrosion. OPE includes functions, departments and units performing tasks necessary to carry out the above business activities (including in particular Steel Structures Acquisition Department, Pallet Section, Grid Export Section, Domestic Grid Section, Galvanizing Service Acquisition Department, Offering and Calculation Section, Purchase Department, Preparation and Material Management Section, Inventory Warehouse Section, Railway Siding, Forwarding Department, Finished Products Warehouse Section, Production Function, Steel Structure Production Department, Operational Planning Department, Cooperation Section, Technology Department, Steel Structure Production Department, Grid Production Department, Operational Planning Department, Construction Department, Grid Production Unit, Anti-Corrosion Department, Operational Planning Department, Engineering Department, Galvanizing Department, Painting Department, Maintenance and Investment Department) organizationally, financially and functionally separated from the internal organizational structure, a group of tangible and intangible assets, liabilities, titles and obligations arising from concluded contracts, as well as employees of the Production and Service Function, including:

a) fixed and intangible assets;
b) goods and materials;
c) tools;
d) office equipment;
e) receivables and liabilities arising from OPE;
f) intangible assets not recognized in intangible asset records;
g) contracts related to business operations carried out;
h) contractual liabilities;
i) cash.

Further, OPE includes machinery and equipment, inventories, receivables, cash, trade liabilities and employees.

As at the date of the Agreement, the amount increasing the share capital of Mostostal Siedlce as a result of contributing OPE was PLN 165,057,742.93. Following revaluation of individual elements of OPE and the assumed liabilities, the value of the contribution was PLN 182,951,763.57 ("contribution value").

(If not indicated otherwise, amounts in tables expressed in PLN'000)

The value of contributed assets, equity and liabilities:

Property, plant and equipment	245 298
Intangible assets	196
Investment property	3 441
Inventory	38 232
Receivables	79 720
Cash	18 439
Other assets	226
Total assets	**385 552**
Credit facilities	150 000
Provisions	320
Liabilities	52 280
Total equity and liabilities	**202 600**

In the income statement, cash constituting a portion of OPE contributed to Mostostal Siedlce has been presented under net cash flows from operating activities.

On 12 February 2016:
(a) Following the In-Kind Contribution made by the Company, Mostostal Siedlce and Bank Polska Kasa Opieki S.A. (“**Bank Pekao S.A.**”), acting as a mortgage administrator, concluded a blanket mortgage agreement to secure receivables of Bank Pekao S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. (“**Bank PKO BP**”) arising from a term loan of PLN 150,000,000 originated to Mostostal Siedlce based on a loan agreement concluded on 29 January 2016 (see Current Report no. 6/2016) (“**Term Loan**”) to be used for refinancing of the Existing Loans (as defined below). Pursuant to the Agreement, Mostostal Siedlce established a blanket mortgage up to PLN 225,000,000 on ownership titles to the developed plot of land, other plots of land, perpetual usufruct of land (including the title to buildings, structures and devices located thereon) and shares in these titles located in Siedlce and acquired by Mostostal Siedlce in the form of In-Kind Contribution (“**Real Property of Mostostal Siedlce**”). The total principal amount owed to the banks and secured with the mortgage is PLN 150 M;

(b) Once the In-Kind Contribution is made to Mostostal Siedlce, a registered pledge on assets and rights of Mostostal Siedlce arising from a registered pledge agreement of 11 February 2016, concluded by Mostostal Siedlce as a pledgor and Bank Pekao S.A. as the pledge administrator, shall be extended to include movables and titles included in the In-Kind Contribution as a collateral of receivables of Bank Pekao S.A. and Bank PKO BP from Mostostal Siedlce resulting from the Term Loan.

The total principal amount owed to the banks and secured with the pledge is PLN 150 M.

(c) After making the In-Kind Contribution, Mostostal Siedlce assumed the following credit liabilities of the Company:
(i) a portion of receivables of Bank Pekao S.A. amounting to PLN 50,000,000.00 arising from a loan originated to the Company pursuant to a Loan Agreement of 26 July 2011 (as amended) (“**Pekao Loan**”);
(ii) a portion of receivables of Bank Pekao S.A. amounting to PLN 6,557,746.06 arising from a loan originated to the Company pursuant to a Loan Agreement of 16 December 2011 (as amended) (“**PKO BP 1 Loan**”);
(iii) a portion of receivables of Bank Pekao S.A. amounting to PLN 93,442,253.94 arising from a loan originated to the Company pursuant to a Loan Agreement of 26 September 2008 (as amended) (“**PKO BP 2 Loan**” and jointly with the Pekao Loan and PKO BP Loan referred to as the "**Existing Loans**").

(d) Following the assumption of liabilities arising from the Existing Loans by Mostostal Siedlce and the Company making In-Kind Contribution, Mostostal Siedlce concluded relevant agreements with Bank Pekao SA and Bank PKO BP, amending the mortgages established on

Real Property of Mostostal Siedlce so that the mortgages secure only receivables of Bank Pekao SA and Bank PKO BP arising from the Existing Loans assumed by Mostostal. Further, on 12 February 2016 Mostostal Siedlce and Bank Pekao SA concluded a blanket mortgage agreement regarding a portion of Real Property of Mostostal Siedlce, formerly unencumbered in favour of Pekao SA, in order to secure the amounts receivable by Bank Pekao from Mostostal Siedlce due to the Pekao Loan. The mortgage was established as an equal one to the existing one securing the amount receivable by PKO BP under PKO BP 1 Loan and PKO BP 2 Loan. The total principal amount owed to the banks and secured with the mortgage is PLN 150 M.

(e) Following the assumption of liabilities arising from the Existing Loans by Mostostal Siedlce as at the date of making In-Kind Contribution, a registered pledge on assets and rights of Mostostal Siedlce arising from a registered pledge agreement of 11 February 2016 concluded by Mostostal Siedlce as a pledgor and Bank Pekao S.A. as the pledge administrator, shall be extended to include movables and titles included in the In-Kind Contribution as a collateral of receivables of Bank Pekao S.A. and Bank PKO BP from Mostostal Siedlce resulting from the Existing Loans, liabilities related to which were assumed by Mostostal Siedlce as at the date of making In-Kind Contribution. The total principal amount owed to the banks and secured with the pledge is PLN 150 M.

(f) Further, following the In-Kind Contribution, Mostostal Siedlce has established other collateral forms commonly used to secure financial debt, such as assignment of contractual receivables, authorization to debit bank account, registered pledge and financial pledge on bank accounts as collateral of amounts receivable by the banks arising from Mostostal Loan Agreement and the Existing Loans.
The total book value of thus encumbered assets of Mostostal Siedlce is PLN 309 M.

- On 8 June 2016 the Company concluded a conditional real property sale agreement with Piwnice Win Importowanych VINFORT Sp. z o.o. The agreement regards perpetual usufruct of the plot of land situated in Kraków at ul. Powstańców 66 (Land and Mortgage Register no. KR1P/00212731/7) and ownership title to buildings, structures and installations located thereon. The total net price for the real property under the conditional agreement is PLN 3,285,000. Conclusion of an agreement transferring the title to the property depends on fulfilment of a condition that involves obtaining consents to release mortgages and delete them from the land and mortgage register by 31 August 2016 issued by all creditors granted security in the form of a mortgage. Conclusion of the conditional agreement is an element of the operational restructuring programme (Current Report No. 34/2016 of 9 June 2016).

- On 22 June 2016 the Company concluded an agreement with individuals concerning (i) sale of shares in real property including developed and undeveloped plots of land located in Józefosław (Land and Mortgage Register no. WA5M/00357038/4, WA5M/00355691/5, WA5M/00355690/8, WA5M/00357026/7) and (ii) establishing a separate ownership title to a residential facility located at Wakacyjna 3 in Józefosław. The price of the property is PLN 481,372.07. Conclusion of the agreement is an element of the operational restructuring programme (Current Report No. 36/2016 of 24 June 2016).

- In a Resolution no. 30 of 24 June 2016, General Meeting of the Company agreed to dispose of an organised part of its enterprise located in Siedlce, named General Construction OPE, along with the accompanying infrastructure . The disposal of General Construction OPE may involve sale to another entity or contribution in kind to another Capital Group company.

- In a Resolution no. 31 of 24 June 2016, General Meeting of the Company agreed to dispose of an organised part of its enterprise located in Warsaw, named Operator OPE, along with the accompanying infrastructure. The disposal of Operator OPE may involve sale to another entity or contribution in kind to another Capital Group company.

- Progressing development of segment companies through independent contract acquisition

- The work on key strategic contracts regarding construction of power units in Opole and Kozienice is progressing.

- Implementation of a new strategy for the Group is pending.
- Disinvestment process is underway.

Material events that occurred after the end of the reporting period, i.e. 30 June 2016 and until the date of approving the financial statements

- On 27 July 2016 the Company sold the entire block of shares in Grande Meccanica S.p.A. to an unrelated party. The selling price as agreed with the buyer was EUR 900,000.
- On 22 August 2016 a consortium consisting of the Company and Mitsubishi Hitachi Power Systems (the "Consortium") submitted a proposal to update the Unit 11 construction schedule to Enea Wytwarzanie Sp. z o.o. (the "Client"). The update has been necessitated by technical and organizational issues. The construction completion deadline as planned by the Consortium is 19 December 2017 (Current Report no. 48 of 22 August 2016). A description is provided in Note 18.
- In a decision of 23 August 2016 the Appellate Court in Warsaw dismissed the appeal of the claimant against the decision of the Regional Court in Warsaw that had dismissed the claim of the Consortium consisting of Polimex-Mostostal S.A., Metrostav a.s. and Doprastav a.s. related to the contract for construction of A4 motorway, section from Szarów to Brzesko, against the State Treasury - General Director for National Roads and Motorways, for the amount of PLN 114,604,497.20 with statutory interest as an increase of the Contractor's fee due to changes in the scope of work introduced by the Investor, accompanied with a significant change in market prices of materials. The decision of the Appellate Court in Warsaw is binding. The Company shall decide on further steps once it receives the written rationale of the decision and analyses it. A description is provided in Note 26.

17. Seasonality and cyclicality of Company's operations in the presented period

The operations of the Company including construction and assembly, overhaul and road construction works are of seasonal nature. In winter works performed at outdoors construction sites are minimized. Additionally, in certain industries, overhaul works can be performed in specific seasons of the year (e.g. in power plants, heat and power plants most of these works are performed in summer). Improvement works are performed in cycles of several years (e.g. in power plants, refineries or chemical plants). Investment performance timelines include climate conditions, while budgets include also the effects of procedures adopted when granting and settling contracts.

18. Revenue and expenses under contracts

In 2013, the portfolio of contracts fulfilled by Polimex-Mostostal SA included contracts for the Directorate General of National Roads and Motorways (DGNRM) concluded in conformity with the Public Procurement Law. Due to the client's (DGNRM) material default on the contracts, including dismissal of legitimate claims filed by the consortia of contractors as well as delinquencies in payment of the fees due to the contractors for works performed in and before 2013, and mainly due to a failure to provide security for payment of the fees for construction works totalling over PLN 2 bn, as required by law, within the prescribed time limit of 45 days, the consortia with Polimex-Mostostal S.A. as a member terminated the contracts. Considering that the value of the works falling within the scope of the contracts was significant (more than PLN 2 bn), there was a considerable risk of a gradual increase in the value of such claims and of no security for payment being provided to the consortia. Additionally, the financial claims filed with DGNRM and its prolonged approval of additional costs incurred by the consortia did not guarantee that the aforesaid amounts would be received without lengthy litigation. As the measures taken to ensure receipt of security for payment of their receivables appeared to be ineffective, on 14 January 2014 the consortia submitted, in line with Article 649^3 of the Civil Code, representations on termination of the contracts concluded with DGNRM for construction of A1 motorway between Stryków and Tuszyn, A4 motorway between Rzeszów and Jarosław and S-69 expressway between Bielsko-Biała and Żywiec. With a view to resolving the issue amicably, the consortia frequently requested DGNRM to remedy the breach so that the construction works could be continued. The frequent proposals to resolve the issue amicably were discussed thoroughly in the correspondence between the contractors and the client.

At present, the total amount claimed by the Consortium at court from DGNRM is PLN 791.8 M. All court actions brought by the Company against DGNRM and by the latter against the Company are presented in Note 26 hereof.

At present, Polimex-Mostostal S.A. is holding negotiations concerning the amounts due from/to DGNRM and the consortium members as well as final settlements under road construction contracts completed at the request of DGNRM. According to the Management Board, the financial settlements may not be closed due to the pending disputes with DGNRM and the bankruptcy proceedings of the consortium members. Consequently, the assumptions made for purposes of measurement, hence the final profit/loss on contracts performed at the request of DGNRM, may be subject to changes.

In the interim condensed financial statements prepared as at 30 June 2016, the Company did not include revenue from the amounts claimed at court with regard to the terminated infrastructural contracts. At the same time, the interim condensed financial statements prepared as at 30 June 2016 include the full amount of costs and provisions for potential costs arising from the performance of unsettled works under the infrastructural contracts until the date of terminating them by Polimex-Mostostal S.A. These items affect the performance of the Company, but not the performance for the six months ended 30 June 2016 as they have been recognized in previous periods.

In March 2016, per Company's order, an external audit of construction of the new 1075 MW power unit for supercritical parameters was carried out at Kozienice Power Plant (the "Kozienice Project") carried out by the Company as the general contractor in order to identify and estimate possible risks. The audit was performed by Tebodin and CWW. Based on its outcome, an updated budget was prepared for the Kozienice Project for the years 2016 and 2017. Technical risks related to the Project were identified and their costs estimated. An increase in the total costs related to this procedure was PLN 137,158,000 compared to the budged developed in March 2016. This translated directly into a margin drop, mainly due to increased project expenses (among others, Hi-Fog installation, technological piping, automation, provisions for subcontractor claims). Had the margin estimated as at 31 December 2015 not been changed, the performance on the Kozienice contract in H1 2016 would amount to PLN 4,180,000. After update of the estimated margin, the performance for H1 2016 was PLN -119,508,000 (including the recognized provision for loss, which amounted to PLN 35,385,000 as at 30 June 2016).

On 22 August 2016 a consortium consisting of the Company and Mitsubishi Hitachi Power Systems (the "Consortium") submitted a proposal to update the Unit 11 construction schedule to Enea Wytwarzanie Sp. z o.o. (the "Client"). The update has been necessitated by technical and organizational issues. The construction completion deadline as planned by the Consortium is 19 December 2017 (Current Report no. 48 of 22 August 2016).

19. Other information the Management Board of the Company considers essential for assessing human resources, assets, financial position and performance as well as their changes and the Group's ability to meet its liabilities

The operations of the Company are exposed to numerous risks related both to the macroeconomic situation and negative internal phenomena.

Terms of agreements signed with the creditors in 2012, namely the Debt Service Agreement of 21 December 2012, as amended (“Agreement”), and, in particular, Annex No. 6 and Annex No. 7 thereto, whereby a portion of the Company's debt to the creditors was converted into shares, as well as the New Guarantee Facility Agreement of 21 December 2012, as amended, and the New Bond issue on 1 October 2014, considerably affected the business of the Company and Capital Group. On 29 January 2016, the Parent and its creditors being a party to the Financial Debt Service Agreement of 21 December 2012, parties to the Creditors’ Agreement of 12 September 2014 (including Agencja Rozwoju Przemysłu S.A. as the holder of New Bonds) signed documentation implementing decisions included in the Initial Agreement on the New Strategy for the Polimex-Mostostal Capital Group of 16 November 2015. In the process of implementing the Initial Agreement, the Company and its Creditors concluded an annex to FDSA, pursuant to which the organized part of the enterprise called Mostostal Siedlce would remain within the Polimex-Mostostal Capital Group.

On 12 February 2016, an agreement was concluded to contribute an organized part of the Company’s enterprise (“OPE”, “Agreement”) pursuant to which OPE was disposed of and transferred to Mostostal Siedlce Sp. z o.o. Sp. k. (“Mostostal Siedlce”), a subsidiary of the Company, as a form of increasing the partner’s In-Kind Contribution in Mostostal Siedlce by PLN 182,952,000. OPE is the organized part of the Company's enterprise located in Siedlce and includes an organized group of property, plant and equipment and intangible assets intended to be used for business purposes including production of support structures and casing for industrial construction, grids, rack systems and shoring system components, as well as works preventing corrosion.

The Capital Group, in particular segment companies: Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o. (the "Segment Companies") implemented and applied procedures allowing verification of offer-related risks and risks embedded in the performed projects.
The key external risks identified by the Company include:

Macroeconomic and political risks

- Risks hindering the growth of industries where the Group and the Company operate, both by slowing down the investment process and failure to fulfil all investment assumptions, resigning from implementation or modification of investment projects; most banks operating in Poland make their financing of domestic investments conditional on the country business risk as assessed by foreign decision-makers, growth prospects of individual industries, sectors and business entities;
- Risk related to changes in legal regulations: a relative instability of the legal system, with its frequent modifications as well as conflicting provisions or implementation of temporary solutions considering the general market conditions, political conditions and social pressure, remains one of the major factors increasing the business risk in Poland.

Internal risks identified by the Company include:

- strategic risks, including those resulting from a mismatch between the adopted strategy and the changing market conditions and restructuring processes:
  - risk that the economic and financial plans will not be achieved, including the risk related to the organizational, operational and financial restructuring process being unsuccessful;
  - risk involved in building a new contract portfolio and a risk of termination of contracts (especially, long-term ones);
  - risk of competitive imbalance;
  - legal risks related to time-consuming and costly litigation.
- Operational risks:
  - risk of measurement of long-term construction contracts;
  - risk of changes in the demand for specialist services;
  - risk of price fluctuations on the key commodity markets;
  - risk of losing resources;
  - risk of loss of qualified employees;
  - risk of performance, to include the risk of obtaining partners with appropriate know-how and the risk of liquidated damages for delay, e.g. due to weather conditions;
  - risk related to provisions to finance surety claims regarding past contracts;
  - risk of negative contractual cash flows.
- Financial risks:
  - liquidity risk (credit risk);
  - risk of performance bonds (including a risk of a lack limited access to new performance bonds and a risk of accumulated payments under bank and insurance guarantees);
  - trade credit risk;
  - interest rate risk;
  - currency risk.

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

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

The Company fulfils long-term construction, including energy, contracts. A loss of even a single contract may result in a loss of material revenue sources for the Company and necessitate refund of advance payments received, raise a threat of liquidated damages and consequently a loss of liquidity, which will make the repayment of debt and receivables difficult or even impossible.
The restructuring process carried out in previous years, liquidity issues encountered by the Company and problems with timely contract fulfilment, including the inability to obtain bank or insurance guarantees, resulted in a considerable decrease in business partners' confidence in the Company and its subsidiaries. If the restructuring process is completed successfully, the financial stability of

the Company and Capital Group should enable them to gradually win back their key business partners.
The Company's activities focus on the power engineering and petrochemical industries. Considering a limited number of qualified subcontractors, there is a risk that the cooperation with the right entities will not be secured, which may have a considerable negative effect on contract fulfilment or necessitate engagement of subcontractors providing services at substantially higher prices, which may reduce the Company’s and its subsidiaries’ competitive advantage, the tendering process efficiency and, consequently, have a negative effect on the financial performance of the Company and the Group.
Preventing the occurrence of the risks considered material from the perspective of the strategy is the key task of the Management Board of the Company and the Segment Companies, which hold negotiations with the clients, consortium partners and banks in addition to managing the changes introduced to the Group’s processes and procedures. There is a risk that the measures employed by the Company with a view to achieving the economic and financial plans and ensuring compliance with the Financial Debt Service Agreement will not produce the desired effect. Implementation of and compliance with the procedures of proper contract fulfilment, tender and contract preparation, verification of the financial and technical/technological standing of the business partners, control and supervision as well as controlling form an important part of the risk level monitoring process. Risks material for the strategy are managed by the Group’s senior executives.

Operational risks: Major risks in this respect are related to selection of potential contract, their measurement and fulfilment of long-term construction contracts and the liquidated damages thereunder. Management of risks related to contract measurement and fulfilment, accumulated at the Group level, requires effective information channels as well as uniform budget review and project cost discipline procedures. There are also residual risks related to contracts completed in the past with the warranty pending. As at the date of this report, the Company, the Capital Group and its companies, in particular the Segment Companies, i.e. Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o. o., had implemented procedures, including consistent principles of controlling the tendering process, long-term contract planning and settlement as well as supervision of contracts with warranty pending. Also, the Company and, in particular, the Segment Companies introduce uniform tools supporting the budgeting and ongoing strategic project cost control tools. Due to fulfilment of long-term energy contracts, operational risk management is one of the key tasks at each level and stage of the contract delivery process and monitoring of correct sequence of events, compliant with contract terms and ensuring timely performance within the planned budget. As part of the restructuring plan, operations in the two major sectors, namely the power engineering and petrochemical/chemical ones, are carried out by the Segment Companies, which are now exposed to considerable operational risks.

Raw materials and commodity price risk: The economic efficiency of the Company's operations is highly dependent on fluctuations in the prices of raw materials, mainly steel, concrete and zinc composite. Rising prices of materials and commodities may trigger an increase in the operating expenses of the Company. Where fees under the contracts may not be revised/renegotiated, which would enable the Company to cover higher costs of contract delivery, the performance may deteriorate. The Company has implemented a central materials procurement procedure (economies of scale, negotiating lower purchase prices). However, the procedures implemented by the Company did not prove sufficiently effective in offsetting the negative effect of rising prices of raw materials and commodities used under long-term contracts.
To this end, procedural changes are needed in key investors' approach to price indexation under long-term contracts, as well as determining a risk limit acceptable for the Company and Capital Group on a level sufficient to cover the price increase without losing the margin planned for a given project.

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

Risk of loss of resources as a result of pledging the Group's assets as collateral for liabilities: Use of the collateral by the creditors poses a considerable risk from the perspective of the Company's ability to continue its operations in case of bottlenecks despite a visible recovery of the construction industry, which may cause the pressure to use the collateral even if such use is not justified by the terms of contracts. The aforementioned risk could considerably hinder timely and proper performance of agreements and contracts, which would escalate contractual sanctions, such as imposition of liquidated damages, engagement of substitute contractors at the expense of the Company or even contract termination through its fault.

Financial risk

Liquidity risk: According to the Company's Management Board, its exposure to liquidity risk is relatively high. In order to maintain liquidity in the nearest future, the Company needs to engage in projects and contracts ensuring neutral and positive cash flows. The aforementioned risk is monitored on an ongoing basis and analysed both in the short and long term. In 2014, having signed Annex No. 6 and Annex No. 7 to the Financial Debt Service Agreement and issued the New Bonds, the Company and the Group improved its liquidity. However, the Financial Debt Service Agreement and the Terms of Issue of the Bonds impose a number of obligations on the Company and the Segment Companies, in particular the obligation to:

- make timely payments to the creditors and the bond holders;
- obtain specific proceeds from sales of the Company's assets under the disinvestment process;
- reduce operating expenses;
- restructure past due trade liabilities;
- refrain from a number of activities without prior consent of the creditors and the bond holders.

The Company's default on the obligations under the Debt Service Agreement and the Terms of Issue may result in acceleration of the Company's total financial debt to the financing banks and the bond holders.

The elevated level of the Company's and Group's debt may have an adverse effect, in particular on:

- the Group companies' limited ability or inability to secure additional funding from financial institutions, including in particular bank guarantees;
- a slowdown in the Company and the Group's operations due to a considerable limitation of the availability of trade credit, shorter payment terms or the business partners requesting advance payments to be made;
- the necessity to allocate a considerable portion of cash flows from the Group's operating activities to debt repayment, which denotes that the aforesaid cash flows will not always be used to finance the Group's operations or as capital expenditure;
- reduced flexibility of the Group in planning or responding to changes in its business and competitive environment, and on the markets where it operates; and deterioration in the market position of the Group as compared to its competitors with a lower credit exposure.

The high level of financial risk is negatively affected by the actions taken by some of the Company's creditors. Although the pressure has diminished considerably, submission of bankruptcy petitions in the case of disputed claims or payment delinquencies may not be ruled out. Submission of the said petitions also involves a risk of delays in the divestment process, which has an adverse effect on liquidity and hinders the commercial debt restructuring process.

Conclusion of a set of agreements (3rd stage of the restructuring process) with the creditors and New Bond holders in 2014 is a mechanism minimizing the financial risks, including the liquidity risk. The Company enters into negotiations with its creditors with the objective to restructure its commercial debt and manage liquidity risk.

The Company's Management Board has monitored the liquidity of both the Company and the Group on a continuous basis. Sales of real property and financial assets (disinvestment) is a short-term source of funding the Company's operations. In a longer term perspective, an intercompany funding and cash flow system will be established to include loans, profit distribution and dividends. Demand for cash in the amount arising from the cash flow budget is met by divestment processes initiated by the Management Board and allocation of free cash flows in the Capital Group.

Disinvestment

Real property and financial assets

The Company has undertaken measures minimizing the liquidity risk. Sales of assets that do not qualify to core business operations of the Company and the Group (i.e. not used in the power engineering, Petrochemistry or manufacturing) due to their relatively low contribution to the achievement of strategic objectives and Management Board's focus on key business areas, are the key measure.

The sales of assets are continued under the disposal plan agreed with creditors in the Financial Debt Service Agreement.

Along with sales of assets included in the disposal plan, the Company identifies additional non-current and financial assets considered redundant by the Company and Capital Group as a result of the adopted strategy. Implementation of the plan to sell these assets under a revised disposal plan contributes to improvement of the current liquidity of the Company and reduction of future liquidity risk.

New development strategy and contract portfolio

In the near future, in order to ensure financial liquidity, it is important that the Group win new contracts, which should ultimately replace the strategic ones performed currently. Replenishing the existing contract portfolio along with progressing completion of the strategic contracts is a key priority for the Management Board of the Company and of segment companies. Although the strategic contracts have a dominant effect on the performance of the Company and Capital Group, additional contracts obtained now and planned for the nearest years should increasingly contribute to the Group's performance ensuring positive cash flows in the Company and Segment Companies.

The key objective of the strategy adopted in July 2015 is to become a leader on the Polish industrial construction market, using full potential of the EPC (*engineering, procurement, construction*) contractor, balancing the revenue sources and improving the contract performance process by the year 2020. . The objective shall be achieved through improved sales efficiency on the existing markets, rebuilding the position on selected markets and with key business partners, entering selected new market segments, returning to foreign Western European markets and maximizing the portfolio share of contracts performed under the EPC model.

Further, the Group shall grow the support activities, to be performed by SPV's providing administrative support (accounting, tax, HR), offering equipment for lease and design services.

According to the Management Board, implementation of the holding structure shall bring a number of benefits, to include: improved ability to obtain guarantees to secure contract performance risk, ability to obtain funding or partners to carry out selected projects, separating risks related to the development of new operations of the segment companies, simplified monitoring of profitability of each business area, implementing tax management structure in the Capital Group, fair and transparent structure of the Group, focused on core competencies only.

Focusing the business of the Polimex-Mostostal Capital Group on the four pillars as defined in the strategy should bring substantial long-term stability and predictability of financial performance, ability to win strategic contracts, improvement of the average operating margin and further gradual reduction of the debt ratio.

Risk of contract guarantees: At the time of submission of tenders, in particular as regards procedures carried out in accordance with the Public Procurement Law, it is necessary to provide tender bonds, which requirement has been satisfied by the Company and the Group companies using bank and insurance tender guarantees. On 30 July 2014, the Company executed Annex No. 6 to the Financial Debt Service Agreement, modifying considerably the Agreement under which funding in the form of the New Guarantee Facility was provided to the Company (see Report No. 132/2012). Pursuant to the said annex, the New Guarantee Facility limit made available by the banks is PLN 60 M. The new limit may only be used by the power engineering, petrochemical and chemical Segment Companies.

Under the New Guarantee Facility Agreement of 21 December 2012, as amended, the Segment Companies may request new guarantees up to the agreed limit. Guarantees may be given under the New Guarantee Facility provided that the procedures in force, both internal, with respect to the tendering and contracting process, and those agreed with the banks granting guarantees, including, but not limited to, contract partners' consent for assignment of receivables under contracts onto banks, are complied with.

Limited access to bank and insurance guarantees in light of the provisions imposing the obligation to provide a guarantee for payment for construction works represents a substantial risk factor at individual stages of construction contracts. A failure to comply with mandatory laws within the prescribed time limits may lead to suspension of works or even contract termination through the fault of the Company. The stabilizing standing of the Company and Capital Group allows for obtaining new guarantees. Following obtaining creditors' consent, in April 2016, the Segment Companies concluded agreements on contractual insurance guarantees with the total limit of PLN 25 M. Further negotiations are held with insurance companies interested in cooperation with the Group with regard to insurance guarantees.

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

- the materials and commodity suppliers' pressure to reduce the payment terms to the minimum, including the requirement to make advance payments or provide security in the form of expensive financial instruments (bank guarantees, letters of credit);
- bankruptcies in the construction sector and financial difficulties encountered by other consortium members, subcontractors and subsidiaries;
- too low limits of credit risk insurance and limited access to bank guarantees, as well as absence of insurance guarantee limits;
- lack of agreements on settlement of additional works and a rise in the prices of materials in relation to major infrastructure contracts;
- banks not willing to fund new projects and contracts performed by the Group companies due to the pending restructuring procedures.

Risk of loss or shortage of qualified employees: The Company has introduced group dismissal procedures as part of the operational restructuring process and implementation of the cost-cutting policy pursued since 2012. The process contributed to a loss of some qualified and experienced employees, interested mainly in stable, long-term employment. Further, they expected a substantial increase in compensation, which could not be provided by the organization.
The construction sector saw a recovery, which included the order portfolio. This resulted in increasing competition on the labour market (in particular with regard to power engineering and petrochemical construction), which was accompanied by a limited supply of appropriately qualified human resources.
Pursuant to the terms of agreements concluded with Creditors, operating activities in the Capital Group are performed by the Segment Companies, by Projekt strategiczny Kozienice i Projekt Opole Sp. z o.o. Sp. k., as well as Mostostal Siedlce. In light of the present market conditions, retaining the key resources in the Capital Group is a major HR policy issue. Further, optimization of costs that affect project profitability and productivity of work is necessary, as well as broadening cooperation with subcontractors. Should new contracts be signed, the Capital Group may encounter problems in recruitment of new, qualified staff with the required expertise, experience and qualifications. Supply of such staff is lower than market demand. Therefore, recruitment of such employees may involve higher personnel costs.

Interest rate and currency risk inherent in financial instruments. Financial risk management objectives and methods
The performance of the Company and the Polimex-Mostostal Capital Group may be subject to fluctuations as a result of changes in market factors, in particular quoted prices of commodities, foreign exchange and interest rates. By managing the aforesaid risk, the Company and the Group aim to reduce changes in future cash flows and minimize the potential economic losses triggered by events which may have a negative effect on their performance.

Interest rate risk: Both the Company and the Group companies hold cash in their bank accounts and have loan liabilities to banks. Additionally, a debt arising from issued bonds occurs in the Company. These are floating-rate liabilities.
Companies keep monitoring the standing of the financial market and analysing trends and projections regarding reference market rates.

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

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

Under the Financial Debt Service Agreement, FX derivatives may not be used by the Company as the available credit products. Therefore, natural hedges are important as the only tool for mitigation of the currency risk related to the business activities is growing, also for the Segment Companies.

20. Factors that, in the opinion of the Company, will affect its performance for at least the subsequent quarter

Key factors that may affect the Company's performance in the coming quarter include: macroeconomic conditions in Poland and abroad affecting demand for construction services, as well as standing of financial markets, consortium members and subcontractors, prices of raw materials, consumables and construction services, as well as the outcome of pending litigation (see Note 26).

21. Issues, redemption and repayment of debt and equity securities

In H1 2016 no issue, redemption or repayment of equity and debt securities occurred.

22. Converting debt to shares

In H1 2016, no debt was converted to shares.

23. Financial instruments measured at fair value

The Company is a party to an Investment Certificate Call Option Agreement made with PKO BP S.A. on 7 November 2013, as amended, which will specify the future purchase/settlement amount depending on the prices in the real property market. If the minimum rate of return on the investment is not achieved by the investor, the Company will be obliged to offset a specified portion of the loss. Should the value of the real estate portfolio increase, the Company has guaranteed participation in a portion of profit above the rate of return guaranteed for the investor.
In the reporting period, no change occurred in measurement of this instrument, involving discounting of projected speed of real property portfolio value increase in the transaction horizon. As at 30 June 2016, the value of the instrument was PLN 0 (PLN 0 as at 31 December 2015). Measurement of fair value of the instrument was classified as Level 3 of the fair value hierarchy.

24. Dividend paid or declared, in total and per share, divided into ordinary and preference shares

In H1 2016, no dividend was declared or paid.

25. Position of the Company’s Management Board on projections published

No projections of 2016 performance were published.

26. Proceedings regarding receivables and liabilities held before courts, competent arbitration or public administration bodies

Below please find key court proceedings pending as at 30 June 2016 with the total value of at least 2 percent of the consolidated sales revenue of the Polimex-Mostostal Capital Group for the last four quarters, i.e. PLN 54 M, as well as action against or brought by DGNRM.

Action brought by the Company:

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways (ST – DGNRM). The value of the litigation is PLN 114,604,497. The share of Polimex-Mostostal S.A. in the consortium is 51%. The litigation has been instituted to award additional fee for construction of A4 motorway between Szarów and Brzesko for the scope of services which proved necessary due to the fact that the geological and hydrological conditions in the subsoil turned out to be worse than those described in the soil engineering documentation. In its verdict of 13 January 2014 (as announced on 27 January 2015), the Regional Court in Warsaw (1st instance) dismissed the action brought by the consortium of Polimex-Mostostal

S.A., Metrostav a.s. and Doprastav a.s., and awarded payment of attorney fees in the amount of PLN 7,200 to the State Treasury. In the statement of reasons provided verbally, the Court laconically pointed out that the parties had been bound by the contract and the rates specified therein should be applied to any additional/substitute works. On 27 January 2015, an application was filed for provision of a statement of reasons in written form and service of the verdict along with the said statement of reasons for the purpose of an appeal. On 18 March 2015, an appeal was filed against the decision. On 23 August 2016 the Appellate Court dismissed the claimant's appeal against the decision of the Regional Court in Warsaw, which had dismissed the claim lodged by the Consortium of Polimex-Mostostal S.A., Metrostav a.s. and Doprastav a.s.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 36,961,661. The share of Polimex-Mostostal S.A. in the consortium is 49%. The litigation has been initiated to increase the fee for construction of A2 motorway between Stryków and Konotopa as a result of rising prices of liquid fuels and asphalt. The next hearing was scheduled for 20 August 2015. On 30 September 2015 a decision was issued dismissing the Consortium's claim in whole. The appeal was lodged on 8 October 2015. The appellate hearing date has not been determined.
- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 29,121,768. The share of Polimex-Mostostal S.A. in the consortium is 49%. The litigation has been initiated to claim a refund of liquidated damages, including interest, offset by the client in relation to construction of A2 motorway between Stryków and Konotopa, and to invalidate the contractual provisions along with any requests.
- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 219,592,408. The share of Polimex-Mostostal S.A. in the consortium is 51%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A4 motorway between Rzeszów and Jarosław through the fault of the client. On 13 May 2014, the Court issued a warrant for payment in the warrant-for-payment proceedings and ordered the respondent to make a payment of PLN 111,992,128 plus statutory interest accrued on the said amount between 4 February 2014 and the payment date to Polimex-Mostostal and refund the costs of the proceedings of PLN 32,217 to Doprastav. On 4 June 2014, the State Treasury – the Directorate General for National Roads and Motorways filed an effective objection against the aforesaid warrant for payment. The case was proceeded in the ordinary course and on 10 June 2015 DGNRM brought a counteraction against the Consortium claiming the amount of PLN 249,476,370 (described under Actions brought against the Company). On 1 December 2015 the Court dismissed the counteraction against Doprastav. On 21 December 2015 DGNRM filed a complaint against the Court decision to dismiss the counterclaim against Doprastav. The case shall be analysed by the Appellate Court in Warsaw. On 27 January 2016 Doprastav filed a response to the complaint of DGNRM against the Court decision to dismiss the counterclaim against Doprastav. In a decision of 23 June 2016 the Appellate Court in Warsaw suspended the complaint proceedings until the cassation appeal of the State Treasury - General Directorate for National Roads and Motorways filed by a decision of the Appellate Court in Warsaw of 29 September 2015 (file no. VI ACz 1234/15) is analysed.
- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 176,954,030. The share of Polimex-Mostostal S.A. in the consortium is 37%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A1 motorway between Stryków and Tuszyn through the fault of the client. In a decision of 5 May 2015 the Court dismissed the counteraction against Doprastav a.s. On 29 May 2015 DGNRM filed a complaint against the Court decision to dismiss the counterclaim against Doprastav a.s. On 5 June 2015 Doprastav a.s. served a letter responding to those filed by claimants, MSF Engenharia and MSF Polska of 2 April 2015 and on 8 June 2015 replied to the above complaint of DGNRM. On 29 September 2015 the Appellate Court in Warsaw dismissed the complaint by DGNRM. On 8 April 2016 ST - DGNRM filed a cassation appeal against the decision of the Appellate Court. On 17 June 2016 Doprastav filed a response to the cassation appeal.
- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 78,810,045. The share of Polimex-Mostostal S.A. in the consortium is 50.5%. The litigation has been initiated to enforce payment of liquidated

damages for termination of the contract for construction of S-69 expressway between Mikuszowice and Żywiec through the fault of the client.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 32,170,164. The Company's share in the Consortium is 50.5%. The claim regards the payment of invoiced receivables arising from the construction contract no. GDDKiA/R-1/S-69/M-Ż/2009 of 20 July 2010 concerning construction of expressway Bielsko-Biała-Żywiec-Zwardoń, the section from Mikuszowice interchange (Żywiecka/Bystrzańska) to Żywiec and the construction contract no. GDDKiA/KA/48/R1/A-1/S-M/2008 concerning construction of A1 motorway from the Sośnica (A1/A4) interchange, along with A1 motorway between Sośnica and Maciejów (including the interchange) km: 510+530.00 to km 518-734.34.
- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 103,644,247. The share of Polimex-Mostostal S.A. in the consortium is 21%. The litigation has been initiated to enforce remedying a loss incurred by the contractor due to an incorrect description of the client's requirements related to a contact for construction of A2 motorway between Stryków and Konotopa.
- Respondent: Europa Centralna Sp. z o.o. (formerly: Helical Sośnica Sp. z o.o.) The value of the litigation is PLN 79,325,935. The case regarded determining Helical Sośnica to have no title to claim damages and claiming PLN 52,109,916 of contractual fee for additional works and as reimbursement of costs incurred by the Company when performing the contract after 15 October 2012. On 29 December 2015 the claim was extended again: instead of claiming Helical Sośnica to have no title to claim damages and the payment of PLN 52,109,916.06 (extension of the claim of 21 August 2014) the Company claimed PLN 25,938,604 from Europa Centralna Sp. z o.o. as an equivalent of the bank guarantee paid to the respondent and additionally PLN 1,277,414 of the fee for working at the construction site after 18 October 2012.

Action brought against the Company:

- Action brought by the State Treasury - General Directorate for National Roads and Motorways The claim regards the payment of a portion of damages for Client's withdrawal from the construction contract no. GDDKiA/R-1/S-69/M-Ż/2009 of 20 July 2010 concerning construction of expressway Bielsko-Biała-Żywiec-Zwardoń, the section from Mikuszowice interchange (Żywiecka/Bystrzańska) to Żywiec and the construction contract no. GDDKiA/KA/48/R1/A-1/S-M/2008 concerning construction of A1 motorway from the Sośnica (A1/A4) interchange, along with A1 motorway between Sośnica and Maciejów (including the interchange) (km: 510+530.00 to km 518-734.34) with liquidated damages for not keeping the Completion Deadline. This is a counterclaim. The value of the litigation is PLN 61,792,041.
- Action brought by the State Treasury - General Directorate for National Roads and Motorways The claim regards the payment of a portion of damages for Client's withdrawal from the construction contract no. 2811/45/2010 of 23 September 2010 regarding the construction of A-4 motorway, the section from Rzeszów (Rzeszów Wschód interchange) to Jarosław (Wierzbna interchange) from km 581+250 to km 622+450 due to the Contractor's fault. This is a counterclaim. The value of the litigation is PLN 249,476,370.
- Action brought by the State Treasury - General Directorate for National Roads and Motorways The claim regards the payment of a portion of damages for Client's withdrawal from the construction contract no. 4/12/R/2010 of 22 December 2010 regarding the design and construction of A-1 motorway from Stryków to Tuszyn interchange, the section from km 295+850 (from Stryków I interchange, excluding the interchange itself) to km 335+937.65 due to the Contractor's fault. This is a counterclaim. The value of the litigation is PLN 192,611,294.

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS			
Date	Full name	Position/Role	Signature
26 August 2016	Antoni Józwowicz	President of the Management Board	
26 August 2016	Tomasz Kucharczyk	Vice-President of the Management Board	
26 August 2016	Tomasz Rawecki	Vice-President of the Management Board	

SIGNATURE OF THE PERSON RESPONSIBLE FOR PREPARATION OF THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2016			
Date	Full name	Position/Role	Signature
26 August 2016	Sławomir Czech	Chief Financial Officer Chief Accountant Polimex Centrum Usług Wspólnych Sp. z o.o.	