REPORT ON OPERATIONS OF

“POLIMEX-MOSTOSTAL” S.A.

FOR THE YEAR ENDED 31 DECEMBER 2018

Warsaw, 11 April 2019

Contents

1. Background

“Polimex-Mostostal” Spółka Akcyjna (the “Company”') operates under the statutes resolved by the notarial deed of 18 May 1993 (Rep. A No 4056/93) as amended. The registered office of the Company is in Warsaw at Aleja Jana Pawła II 12, 00-124 Warsaw, Poland. The Company was registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register under the entry number KRS 0000022460. The Company obtained a statistical number REGON 710252031.

Broadly understood construction and assembly services, assembly of industrial equipment and installations provided in the general contracting system in Poland and abroad, and provision of administrative services to companies from the Polimex Mostostal Capital Group (the "Capital Group", the "Group") constitute the main scope of the Company's activity.

2. Market environment

2.1. General macroeconomic situation

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

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

Macroeconomic situation of Polish economy

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

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

According to preliminary estimates of the Central Statistical Authority, gross domestic product (GDP) in the fourth quarter of 2018 was by 4.9% higher compared to the fourth quarter of 2017, compared to 5.1% in the corresponding period of 2017 (in fixed average annual prices of the previous year).

According to preliminary data, in December 2018 prices of sold production of industry were higher by 2.2% as compared to December 2017. The price increase was also recorded in construction and assembly production by 3.7%. In January-December 2018, the prices of sold production of industry were by 2.1% higher than in the corresponding period of 2017 (when an increase by 2.9% was recorded), and prices of construction and assembly production by 2.76% (growth in last year by 0.6%).

The unemployment rate at the end of December 2018 was 5.8%. It means its drop by 0.8 p.p. compared to 2017. The decline in the unemployment rate partly is a seasonal phenomenon, but to a large extent it is the result of the observed economic recovery. The unemployment rate should systematically decline and support economic development.

2.2. Basic products and services

In 2018, the scope of the Company's operations did not change compared to the previous period, and in the basic assortments included:

- comprehensive support for the investment process, completion of equipment supplies and industrial installations;
- general contracting of power, industrial and public utilities facilities;
- assembly of specialist equipment, especially for the needs of the petrochemical and energy industries;
- maintenance services for the permanent and comprehensive service of industrial plants.

2.3. Market development prospects

Prospects for development in the sectors in which the Company operates are good, although each of them is characterised by its own specificity. The strategic goal of the Company is to build value through intensive development in three main areas listed below based on the projects implemented jointly with the companies of the Capital Group of the Company:

- Power engineering
- Oil, gas, chemicals
- Other operations.

The main factor supporting the achievement of the above-mentioned goals is the start of tender procedures co-financed from the European Union budget allocated to Poland under the new financial perspective 2014-2020 in conjunction with the investment needs of the power sector entities.
One of the main development challenges for Poland in the coming years is to ensure stable energy supplies. Prospects for the development of the construction market in the energy sector are on a predictable and stable level. The Company will strengthen its position on the conventional energy and heat generation market as well as plan to enter new areas, including the market for smaller generation capacities, hydrotechnical facilities. Unique references and qualifications allow the Company to participate in tenders both in terms of adapting units to BAT requirements, as well as involvement in the implementation of innovative technological solutions.

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

Energy security requires, inter alia, diversification of electricity sources. Implemented tasks related to the construction of 2 x 900 MWe power units in Opole, as well as gas and steam units at Żerań Heat and Power Plant and the planned ones in ZA Puławy establish the opportunity to win new contracts.

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

Guarantee of the electricity supply security in the medium term will require the construction of new generating units regardless of the approach to fulfilling the BAT conclusions for existing generation sources.

In the coming years, the Company assumes to rebuild its position in the gas sector, establish its position in the chemicals sector and strengthen its presence in the fuel sector. Moreover, it assumes to strengthen its position in the foreign markets in the above-mentioned industries.

In the perspective of the next couple of years, from the perspective of liquidity, effective contract winning is significant, the target scale of which should replace currently implemented strategic contracts.

Supplementing current portfolio of contracts along with the advancement of strategic contracts is one of the main priorities of the Company's Management Board. Although the impact of strategic contracts on the Company's result is currently dominant, the additional contracts currently acquired and planned to be acquired in the coming years should have a growing share in the results, providing additional cash flows for the Company.

3. Most significant events in the year 2018

3.1. Most significant contracts implemented by the Company

In 2018 roku, the Company was implementing two strategic contracts in the power sector:

- construction of two new power units in Opole Power Plant,
- construction of new power unit in Żerań Heat and Power Plant

Since January 2014, the Company has been implementing a contract in the consortium for the construction of two new power units at Opole Power Plant. For the execution of this contract, a special purpose vehicle was established: Polimex Opole Spółka z ograniczoną odpowiedzialnością spółka komandytowa and at the level of this company the substantial part of the margin is being implemented. This contract is a significant contract of the Company in the energy industry, which is strategic for the Company. This is historically the largest and most important investment in the Polish energy sector. Its value amounts to PLN 11.6 billion gross, of which about 42%, or PLN 4.84 billion, is attributable to the Company. Under the contract, turbine islands and built-in cooling towers with cooling water systems will be constructed. Electrical systems will also be implemented, including control and measurement equipment and automation. The Company will also participate in design works. The planned delivery of the unit No. 5 to operation will take place on May 31, 2019, and block No. 6 on September 30, 2019 that is confirmed by the Annex number 9 signed on 10 October 2018 between the Consortium (Polimex Mostostal, Mostostal Warszawa, Rafako and GE Power Sp. z o.o. which is the general designer and carries out the role of the consortium leader managing the Project's implementation).

From June 2017, the Company (in a consortium) also provides delivery and assembly of a gas and steam power plant with a capacity of 497 MW and thermal power of 326 MW together with installations and auxiliary facilities at the Żerań Heat and Power Plant in Warsaw. The total value of the contract is approximately PLN 982.28 million and EUR 111.93 million, of which 26% is attributable to the Company. In the financial year 2018, it was necessary to establish additional provision for the expenses amounting to PLN 57.6 million which influenced the decrease of the Company's EBITDA in the amount provided above. Creation of the provision results from the conducted analyses in the course of which the risks were identified causing the increase of the expenses for Żerań Project implementation.

In 2017 (signing PAC, December 2017), the Company completed the implementation, within the scope of the consortium, of the contract in Kozienice Power Plant for the new unit of the capacity of 1075 MW. The total value of the aforementioned works is approx. PLN 6.3 billion gross, of which the Company accounts for 42.8%. As a result of actions undertaken related to the construction of the power unit at Kozienice Power Plant, which partially limited the previously diagnosed technical risks, optimisation of procurement processes and improvement of verification and settlement processes with subcontractors and suppliers, and also in connection with the signing of the block takeover protocol on December 19, 2017, the Management Board of the Company, after conducting the analysis in the course of the process of closing the Company's accounting books for 2017, adopted a resolution to reduce the total costs of the Kozienice Project in the amount of PLN 42.3 million. The impact of the budget adjustment has been fully included in the financial result for 2017. In the financial year 2018, in the course of further verification and settlement processes with sub-contractors and suppliers and absence of the materialization of the sequence of previously estimated risks, the project budget expenses were decreased further in the total amount of PLN 56.3 mln. The impact of the budget adjustment was entirely taken into account in the profit and loss for 2018.

3.2. **Events significantly affecting the Company's operations in the year 2018**

- On 21 February, the Management Board of the Company informed that in the result of activities related to realization of the power unit construction in Kozienice Power Plant, within which previously diagnosed technical risks have been partially limited, purchase processes optimization and sub-contractors and suppliers' verification and settlement processes improvement and also due to signing the protocol of taking over the block for operations on 19

December 2017, the Management Board of the Company having analysed during the process of closing the accounting books of the Company for the year 2017, adopted a resolution on decreasing total Kozienice Project costs amounting to PLN 42.3 mln that was reflected in the improvement of the Company's net result for the year 2017 (regulatory announcement 7/2018).

- On 23 February 2018, the Management Board of the Company informed that due to the consultations held within the scope of the consortium of the Company, Mostostal Warszawa S.A., Rafako S.A. and GE Power, which is the general designer and acts as the consortium leader managing contract's implementation and analyses held, new dates for commissioning units 5 and 6 of Opole Power Plant were estimated. The declared amended commissioning dates are 31 May 2019 for the unit number 5 and 30 September 2019 for the unit number 6 (regulatory announcement 8/2018).

- On 22 June 2018, the Management Board of the Parent informed about the conclusion of the letter of intent with GE Power Sp. z o.o. referring to the co-operation at the implementation of the public procurement contract entitled Construction of Ostrołęka C Power Plant of the capacity of ca. 1000 MW, in which the Ordering Authority was Elektrownia Ostrołęka sp. z o.o. ("Ostrołęka Project") ("LOI").

  Under LOI, the Parties expressed the intention to conclude the sub-contracting contract in the scope of one or several of the following options: (i) construction works, delivery of steel structures and (iii) assembly of steel structures. Additionally, the Parties under separate settlement may undertake the co-operation in the scope of: (i) design works and deliveries required for the implementation of Ostrołęka Project.

  None of the parties has any grounds to raise claims against the other party in case the sub-contracting agreement has not been concluded or in case of withdrawal from the negotiations.

  LOI is governed by the Polish law. LOI is binding for the Parties: (i) until 30 September 2018 or (ii) until the moment the other party has been served the declaration on withdrawal from the negotiations.

- On 10 August 2018, the Management Board of the Company decided that establishment of an additional provision for the expenses amounting to PLN 57.6 mln was necessary regarding the implementation of gas and steam unit for Żerań Heat and Power Plant ("Żerań Project") which affected the decrease of the Company and the Capital Group's EBITDA for the first six months of 2018 in the above mentioned amount. Establishment of the provision results from the analyses held, in the course of which the risks causing the increase of Żerań Project implementation were identified. It was recognised in these financial statements.

  At the same time, the Management Board informed that in the result of mitigation of previously identified risks related to power unit 1075 MW construction implementation to supercritical parameters in Kozienice Power Plant ("Kozienice Project"), the provision was established for the expenses in the amount of ca. PLN 30.1 mln that consequently improved the Company and the Capital Group's EBITDA for the first six months of 2018 in the above stated amount.

- On 21 September 2018, the Management Board of the Company, announced the delayed confidential information dated 17 July 2018 on the resolution for the conditions of ending litigations between the Company and the remaining parties to the below listed infrastructural contracts: State Treasury – General Directorate of National Roads and Motorways ("GDDKiA"), Doprastav AS, MSF Engenharia S.A. and MSF Polska Sp. z o.o. (jointly the "Consortium Members"). Settlements referred to mutual claims pursued in litigations or other potential claims which may arise under the contracts, the subject matter of which were:

  (i) Design and construction of A1 motorway Stryków – "Tuszyn" node in the section from km 295 + 850 (from Stryków 1 node without a node up to km 335+937.65 ("A1 Contract"),

  (ii) A-4 motorway construction, Rzeszów section (Rzeszów Wschód node) - Jarosław (Wierzbna node) from km 581 + 250 to km 622 + 450 ("A4 Contract") and

  (iii) S-69 express road construction Bielsko-Biała – Żywiec – Zwardoń, "Mikuszowice" node section („Żywiecka/Bystrzańska") – Żywiec ("S69 Contract"), (jointly as the "Contracts").

Consequently, due to the settlements between the parties, which became final on 21 September 2018, *inter alia*:

(i) The Parties shall confirm the completion of Contracts' implementation on 14 January 2014 in reference to A1 Contract and A4 Contract and on 31 December 2013 in reference to S69 Contract,

(ii) The Parties shall not raise any claims referring to the implementation of the Contracts, thus litigations regarding the Contracts shall be discontinued and in particular the Company shall withdraw the statements of claims in the litigations pending before the courts in Slovakia, against Doprastav AS,

(iii) The Company has taken over liability for the potential claims of sub-contractors, service providers and suppliers and also other entities which were executing works, rendered services, provided supplies or fulfilled other benefits in relation to the Contracts' implementation. To protect these claims, the Company shall submit to GDDKiA bank guarantees of the total amount of PLN 20 million. Bank Guarantees shall be issued for the period of 6 years with the possibility to reduce them to the joint level of PLN 12.5 mln after 3 years from their issuance,

(iv) GDDKiA shall release the bank guarantee issued upon the commission of the Company as a collateral of claims under A1 Contract for the amount of PLN 29.21 mln and bank guarantee issued upon the commission of the Company as a collateral of the claims under A4 Contract for the amount of PLN 56 mln and withdraws the statement of claims for the payment of these guarantees,

(v) The Company shall take over the guarantee operations in the scope of specified works referring to Wierzbno node constructed under A4 Contract (until 2024) and guarantee operations in A4 Szarów – Brzesko contract (until January 2019) and settlements under the replacement workmanship within the scope of guarantee service of another infrastructural contract,

(vi) The Company shall contribute cash deposit amounting to PLN 6.58 mln for the period not longer than until 4 July 2019 for the collateral of the absence of payment of the funds from the re-guarantee issued by Doprastav AS for the benefit of the collateral for the removal of defects and failures during the period of guarantee of quality and warranty referring to A4 Contract,

(vii) Total liability of the Company under the concluded settlements and agreements according to the Company's estimates shall amount to not more than PLN 48.80 mln and this amount is included in the provisions for expenses established in the preceding year, therefore the settlements made between the parties should not adversely affect EBIDTA result of the Company (Regulatory Announcement 40/2018).

Due to the concluded settlement, the Group has recognised other operating revenues in the amount equal to PLN 8.5 mln. The provisions recognised until the present moment for the costs of contract settlement in the amount equal to PLN 110 225 ths have been used and the impairment write-offs of payables amounting to PLN 94.7 mln related to the ended litigations have also been used

Presentation of provisions within the scope of an additional explanatory note to the financial statements has also been subject to change. Reserves related to the implementation of contracts for GDDKiA prior to signing the settlement were presented as the provisions under the contract settlement. Within the scope of recognition of the accounting effects of the settlement signed, the provisions referring to pending litigations were presented in an additional explanatory note to the financial statements as provisions for litigations.

According to the Company's estimates, as at 31 December 2018, value of risks related to the implementation of the settlement amounts to PLN 36.9 mln.

- On 10 October 2018, the consortium of the Company, Mostostal Warszawa S.A. and Rafako S.A. (collectively the "General Contractor") concluded with PGE Górnictwo i Energetyka

Konwencjonalna S.A., Annex number 9 (the "Annex") to the contract dated 15 February 2012 (the "Contract") for the construction of number 5 and 6 power units in PGE GiEK S.A. Opole Power Plant Division (the "Project") implemented by the General Contractor and GE Power which is a general designer and acts as the consortium leader managing Project's implementation.

The Annex provides but is not limited to the following:

(i) Change of the unit number 5 commissioning date to 15 June 2019 and unit number 6 to 30 September 2019.

(ii) Settlement of Project technical issues.

(iii) The Parties confirmed the amount of remuneration due to the General Contractor provided the commissioning dates agreed the Annex are kept.

(iv) Under the Annex signed, General Contractor and GE Power Sp. z o.o. agreed internal agreement, which, including but not limited to, confirms the provisions of the Annex and resolves mutual claims issues (the "Agreement").

According to the Company, conclusion of the Annex and Agreement did not affect significantly the Project's budget and the Company's EBITDA result (Regulatory Announcement 48/2018).

Significant events which occurred after the balance sheet date 31 December 2018 until the date of approving the financial statements.

- On 30 January 2019, the Management Board of the Company announced that PGNiG TERMIKA S.A. with the registered office in Warsaw (the "Ordering Party") and Mitsubishi Hitachi Power Systems Europe GmbH with the registered office in Germany as the consortium leader, Mitsubishi Hitachi Power Systems Ltd. with the registered office in Japan, Mitsubishi Hitachi Power Systems Europe Ltd. with the registered office in London and the Company as the consortium members, (collectively the "Contractor") the annex was concluded to the agreement for the supply and assembly of gas and vapour unit in Żerań Heat and Power Plant in Warsaw (the "Contract").

  The Annex was concluded due to the extension of the subject matter of the Contract and consequently, inter alia, increased the Contract Price (in compliance with the definition included in the Regulatory Announcement number 61/2017 dated 29 June 2017) with the amount of PLN 29 715 200 and EUR 67 700, and the amount of PLN 5 426 300 falls to the Company. Additionally, the Annex extended the period to sign the protocol of taking over the unit for the operations. According to the Annex the Contract Price amounts to PLN 1 018 831 648.84 and EUR 112 022 030.89.

  The Contractor shall have the protocol signed for taking the unit for operations within 37 months from the conclusion of the Contract.

3.3. Risk factors

Description of significant risk factors and threats, including the extent to which the Company is exposed to them

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

The material external risks identified by the Company include:

Macroeconomic and political risks

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

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

Internal risks identified by the Company include but are not limited to:

• **strategic risks** including those resulting from mismatching strategies to changing market conditions and restructuring processes:

a) the risk of failure to implement economic and financial plans, including the risk related to the uncertainty of the success of operational and financial organisational restructuring,
b) the risk of building a new order portfolio and the risk of termination of contracts, in particular long-term ones,
c) the risk of competitive imbalance,
d) legal risks related to long-term and costly lawsuits.

• **operational risks**:

a) the risk of valuation of long-term construction contracts,
b) changes in the demand for specialised services,
c) price fluctuations on the main commodity markets and specialist services, d) the risk of losing resources,
d) the risk of losing qualified staff,
e) the risk of implementation, including the risk of obtaining partners with appropriate know-how and the risk of penalties for delays, e.g. due to weather conditions,
f) the risk related to provisions for the coverage of claims under historical contracts,
g) the risk of negative cash-flow on contracts.

• **financial risks:**

a) financial liquidity
b) the risk of contractual guarantees (including the risk of limited access to new guarantees and the risk of accumulation of payments from bank and insurance guarantees),
c) the risk of trade credit,\
d) interest rates,
e) currency risk.

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

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

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

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

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

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

Operational risks

In this respect, a significant risk is associated with the selection of potential orders and their valuation and implementation of construction contracts, as well as the contractual penalty risk associated with these contracts. Cumulative management at the level of the Company and the risk associated with the valuation and performance of contracts requires correctly functioning information flow channels, uniform rules for budget verification and cost discipline during project implementation. There are also residual risks related to historical contracts executed and currently in the warranty period. The Company also introduces uniform tools supporting the budgeting process and ongoing control of strategic costs of projects as well as planning work and preparing project implementation schedules. In connection with the implementation of long-term energy contracts, operational risk management is one of the most important tasks at every level and at each stage of implementation and supervision that is correct, consistent with the contract course of events ensuring timely and consistent with the assumed cost plan of these contracts.

Raw materials and materials prices risk

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

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

Risk of losing the Company's assets

The Company uses, on the market, both property insurance (including, above all, third-party liability insurance for business, professional civil liability [civil liability of the designer, architect and civil engineer], civil liability of management board members, property insurance against accidental and theft with burglary and electronic equipment, insurance of property in transport), as well as construction / assembly insurance arranged under general contracts and individual policies arranged for specific contracts. In all companies there were motor insurance in the scope of civil liability insurance, AC, KR (theft) and NNW (unfortunate accident), both under general (fleet) agreements and on the basis of individual insurance. The costs of transfer of insurance risks are analysed as well as detailed terms and conditions of contract insurance required by contractors. The risk in this respect is transferred to a large extent outside the Group's companies, and costs are included in the costs of contracts. However, there is a risk that insurance policies held will not protect the Company against losses that will have a negative impact on the business, financial condition and results of the Company's operations. An important factor increasing the risk of loss of assets could be the termination of the Agreement on the Principles of Debt Servicing and Terms and Conditions of Bonds Issuance by the Bondholders, as the assets of the Group's Companies are the collateral for the performance of the Company's obligations under these agreements.

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

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

Liquidity risk

In the Company's opinion, this is a risk which is at a moderate level. Maintaining financial liquidity in the medium and long-term perspectives requires involvement in projects and contracts ensuring neutral and positive financial flows. This risk is constantly monitored and analysed in both the short and long term.
In January 2017, the Company completed the recapitalisation process, under which its liquidity was provided with the amount of PLN 300 000 thousand in connection with the subscription of the newly issued series T shares by a group of investors from the energy sector. In the second quarter of 2017, as a result of the renegotiation process of debt financing agreements, including credit and bond agreements, the financial documentation linking the Company and its selected subsidiaries with financial institutions was adapted to the new ownership realities and strategic plans. As part of this process, the Issuer's Group also gained wider access to guarantee instruments, which are an indispensable element of investment processes implemented by the Group's project companies such as Naftoremont - Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o. and Polimex Budownictwo Sp. z o.o. Sp.k.

The current financial situation of the Issuer's Group is stable - the Group has significant cash resources and significant guarantee limits in both banking and insurance institutions. The structure, level and dates of repayment of the financial debt are adjusted to the current and forecasted capacity of their timely service. The Group conducts a series of activities aimed at further improvement of operating conditions and they include:

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

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

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

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

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

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

- limited ability of the Group's companies to obtain additional financing from financial institutions, including in particular bank and insurance guarantees;
- slower growth dynamics of the Group's companies' operations due to a significant reduction in the availability of trade credit and shortening payment dates or demanding prepayments by contractors;

- the need to allocate a certain portion of cash flows from the Group's operating activities for repayment of debt, which means that these flows may not always be used to finance the Group's operations or capital expenditures;
- limiting the flexibility of the Group when planning or responding to changes in its operations, in the competitive environment and in the markets in which it operates;
- less favourable market position of the Group in relation to its competitors with lower credit exposure.

The Company's order portfolio

The current order portfolio of the Company, reduced by sales attributable to consortium members, amounts approximately to PLN 620 million and relates in full to the contracts concluded. In individual years, it is as follows: 2019 PLN 471 million, 2020 and the subsequent years PLN 149 million.

Contract guarantee risk

At the stage of submitting bids, especially in procedures carried out in accordance with the provisions of the Public Procurement Law, it is necessary to submit a bid bond, which the Company has so far fulfilled by applying banking and insurance tender guarantees.

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

Risk of loss and insufficiency of qualified personnel

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

In order to keep key employees, the Company prepared a development training program. In 2018, the change of the structure of operating companies is planned to increase their efficiency, reduce the amount of support services. Activities were commenced to analyse the remuneration level of key staff and adjust its level to the market, at the same time increasing their responsibility for the results.

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

4. Financial situation

4.1. Basic financial data characteristics

Balance sheet

	As at 31 December 2018	As at 31 December 2017	Change ths PLN	Change %
Assets				
Fixed assets				
Tangible fixed assets	27 420	20 169	7 251	35.95%
Investment properties	37 825	50 637	(12 812)	(25.30%)
Intangible assets	560	903	(343)	(37.98%)
Financial assets	457 935	432 101	25 834	5.98%
Long-term receivables	19 632	172 501	(152 869)	(88.62%)
Deposits due to the construction contracts	91 836	103 275	(11 439)	(11.08%)
Deferred tax assets	135 129	135 877	(748)	(0.55)%
Total fixed assets	**770 337**	**915 463**	**(145 126)**	**(15.85%)**
Current assets				
Inventories	168	321	(153)	(47.66%)
Trade and other receivables	284 992	291 102	(6 110)	(2.10%)
Deposits due to construction contracts	41 968	33 620	8 348	24.83%
Construction contracts assets	10	6 065	(6 055)	(99.84%)
Financial assets	6 033	230 084	(224 051)	(97.38%)
Cash	183 623	162 763	20 860	12.82%
Other assets	816	1 165	(349)	(29.96%)
Assets held for sale	36 267	32 280	3 987	12.35%
Total current assets	**553 877**	**757 400**	**(203 523)**	**(26.87%)**
Total assets	**1 324 214**	**1 672 863**	**(348 649)**	**(20.84%)**

Total of the Company's assets as at 31 December 2018 amounted to PLN 1 324 214 thousand. Fixed assets as at 31 December 2018 amounted to PLN 770 337 thousand (decrease by 16% compared to data as at 31 December 2017), and current assets to PLN 553 877 thousand (a drop of 27% compared to data as at 31 December 2017).

Within the scope of fixed assets, the most valuable changes concern long-term receivables. Decrease of their value amounting to 152 869 thousand resulted mainly from the share in the profit sharing of Polimex Opole Sp. z o.o. Sp.k., which by the end of 2017 amounted to 144 029 thousand and was presented in the long-term receivables and by the end of 2018 amounts to PLN 103 574 thousand and is entirely in the remaining short-term payables as the expected implementation date of these payables falls on 30 September 2019.

The most significant changes which occurred in the scope of current assets concerned financial assets which decreased by 224 051 thousand, i.e. drop by 97%. This decrease results mainly from the release of deposit in Kozienice project.

Balance sheet (continued)

	As at 31 December 2018	As at 31 December 2017	Change PLN ths	Change %
Liabilities and Equity				
Equity				
Share capital	473 238	473 238	–	0,00%
Reserve capital	157 746	157 746	–	0,00%
Other capitals	(149 733)	(232 302)	82 569	(35,54%)
Reserve capital from surplus under bonds convertible into shares	31 552	31 552	–	0,00%
Accumulated other comprehensive income	36 880	36 891	(11)	(0,03%)
Retained earnings/ Uncovered losses	17 527	82 570	(65 043)	(78,77%)
Total equity	**567 211**	**549 695**	**17 516**	**3,19%**
Long-term liabilities				
Bank loans and borrowings	95 968	164 409	(68 441)	(41,63%)
Long-term bonds	163 630	169 034	(5 404)	(3,20%)
Provisions	37 335	170 998	(133 663)	(78,17%)
Liabilities due to employee benefits	475	967	(492)	(50,88%)
Other liabilities	14 260	80 022	(65 762)	(82,18%)
Deposits due to the construction contracts	18 345	22 496	(4 151)	(18,45%)
Total long-term liabilities	**330 013**	**607 926**	**(277 913)**	**(45,71%)**
Short-term liabilities				
Bank loans and borrowings	70 571	815	69 756	>100,0%
Short-term bonds	12 839	–	12 839	100,00%
Trade and other liabilities	141 627	405 790	(264 163)	(65,10%)
Deposits due to the construction contracts	16 001	29 330	(13 329)	(45,44%)
Construction contracts	83 019	2 008	81 011	>100,0%
Provisions	96 135	67 789	28 346	41,82%
Liabilities due to employee benefits	5 290	7 927	(2 637)	(33,27%)
Deferred income	1 508	1 583	(75)	(4,74%)
Total short-term liabilities	**426 990**	**515 242**	**(88 252)**	**(17,13%)**
Total liabilities	**757 003**	**1 123 168**	**(366 165)**	**(32,60%)**
Total liabilities and equity	**1 324 214**	**1 672 863**	**(348 649)**	**(20,84%)**

As at 31 December 2018, equity amounted to PLN 567 211 thousand (increase in the amount of 3.2% in relations to the data as at 31 December 2017) and total liabilities PLN 757 003 thousand (drop by 33% in relation to data by the end of 2017).

Decrease in retained earnings amounted to PLN 65 043 thousand. This change resulted mainly from division of profit for 2017, transfer of PLN 82,558 thousand to other capitals and PLN 23 781 thousand from profit for 2018 and also recognition of retained earnings as a decrease of the influence of applying IFRS 9 “Financial instruments” for the first time as at 1 January 2018 amounting to PLN 4 575 thousand.

The most significant change which occurred in short-term liabilities refers to trade and other liabilities and other liabilities the drop of which amounted to PLN 264 163 thousand (drop by 65% in relation to the end of 2017).

Profit and Loss Account

	Year ended 31 December 2018	Year ended 31 December 2017*	Change PLN ths	Change %
Sales revenues	515 205	1 341 765	(826 560)	(62%)
Cost of goods sold	(472 153)	(1 282 051)	809 898	(63%)
Gross profit / (loss) on sales	**43 052**	**59 714**	**(16 662)**	**(28%)**
Cost of sales	–	(1 080)	1 080	(100%)
General administration expenses	(32 955)	(26 357)	(6 598)	25%
Profit / (loss) on impairment of financial assets	9 913	(1 672)	11 585	-693%
Other operating revenues	39 027	40 240	(1 213)	-3%
Other operating costs	(4 055)	(5 513)	1 458	-26%
Profit / (loss) on operating activities	**54 982**	**65 332**	**(10 350)**	**-16%**
Financial income	35 772	79 740	(43 968)	-55%
Financial costs	(66 828)	(32 476)	(34 352)	106%
Gross profit / (loss)	**23 926**	**112 596**	**(88 670)**	**-79%**
Income tax	(1 824)	(30 038)	28 214	(94%)
Net profit / (loss)	**22 102**	**82 558**	**(60 456)**	**(73%)**

** Transformed data – changes described in the Financial Statements of the Company for the year ended 31 December 2018 in the note 3.3.*

In the period of 12 months of the year 2018, the Company generated sales revenues amounting to PLN 515 205 thousand (decrease of 62% in relation to the data for the period of 12 months of 2017). Implementation of the projects in the Power sector influenced the decreased the volume of Company's sales within the period of 12 months of 2018 in comparison to 12 months of 2017. In 2017, the implementation of Kozienice contract ended.

In the reporting period, the Company achieved profit on operating activities amounting to PLN 54 982 thousand (in comparison to the profit on operating activities in the period of 12 months of 2017 in the amount of PLN 65 332 thousand).

Financial revenues amounted to PLN 35 772 thousand in the current period and were lower in relation to the comparable period by the amount of PLN 43 968 thousand that constitutes the decrease by 55%. Then, the financial costs increased to PLN 66,828 thousand, i.e. by PLN 34 352 thousand. These changes result mainly from the fact that in 2017, the Company recognised PLN 59 215 thousand revenues from limited partnerships profit sharing and during 2018, the Company recognised PLN 11 329 thousand in revenues and PLN 40 454 thousand in expenses at this account.

Net profit amounted in the current period to PLN 22 102 thousand and was lower in relation to the comparable period by the amount of PLN 60 456 thousand.

During the reporting period, EBITDA (result of operations adjusted by depreciation and amortization) amounted to PLN 65 861 thousand and is lower by PLN 13 362 thousand in relation to the preceding year.

Cash flow statement

	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities		
Gross profit / (loss)	**23 926**	**112 596**
Adjustment items :	**4 354**	**(308 270)**
Depreciation	3 178	6 190
Net interest and dividends	16 530	13 085
Profit / (loss) on investing activities	(2 262)	(2 468)
Change in receivables	379 402	(125 006)
Change in inventories	153	(2 425)
Change in liabilities excluding bank loans and borrowings	(269 429)	(146 025)
Change in other assets and deferred income	275	202
Change in provisions	(105 317)	(44 951)
Other	(18 176)	(6 872)
Net cash from operating activities	**28 280**	**(195 674)**
Cash flows from investing activities		
Disposal of tangible fixed assets and intangible assets	10 891	1 678
Purchase of tangible fixed assets and intangible assets	(895)	(620)
Disposal of financial assets	1 040	–
Purchase of financial assets	(64)	(7 011)
ZCP contributions in-kind	–	(8 427)
Interest and dividends received	2 926	8 457
Repayment of granted loans	53 526	43 436
Loans granted	(64 015)	(107 130)
Net cash from investing activities	**3 409**	**(69 617)**
Cash flows from financing activities		
Proceeds from issue of shares	–	300 000
Interest paid	(10 829)	(12 529)
Net cash financing activities	**(10 829)**	**287 471**
Increase / (decrease) in net cash and cash equivalents	20 860	22 180
Net foreign exchange differences	95	(96)
Cash at the beginning of the period	**162 763**	**140 583**
Cash at the end of the period	**183 623**	**162 763**
Including restricted funds	*2 416*	*70 250*

In the reporting period, in accordance with the cash flow statement of the Company, there was net increase in cash and cash equivalents by PLN 20 860 thousand. Cash and cash equivalents as at 31 December 2017 amounted to PLN 183 623 thousand. Net cash flow from operating activities amounted to PLN 28 280 thousand, PLN 3 409 thousand from investment activities and PLN 10 829 thousand from financial activities.

4.2. Financial and economic indices characteristic for the Company's activities

	As at 31 December 2018	As at 31 December 2017
Current ratio	1.30	1.47
Quick ratio	1.29	1.47
Debt/assets ratio	57.17%	67.14%

	Year ended 31 December 2018	Year ended 31 December 2017
Net sale profitability	4.29%	6.15%
EBITDA margin	11.3%	5.33%*
Basic earnings per one ordinary share	0.093	0.349

** Transformed data – changes described in the Company's Financial Statements for the year ended 31 December 2018 roku in the note number 3.3.*

4.3. Information on contracted loans, borrowings and bonds issued

In 2018, the Company did not issue bonds or concluded new bank loans agreements. However, the mechanism of intra-group loans was actively used, the purpose of which was to optimise liquidity management process in the Capital Group's operational companies. Within the scope of the above activities, the Company in 2018 presented for disposal of selected companies from the Capital Group the funds amounting collectively to PLN 67 000 thousand in the form of open-end borrowings limit, including:

- on 28.05.2018, renewable loan limit in the amount not exceeding PLN 15 000 thousand was provided for disposal of Polimex Budownictwo Sp. z o.o. Sp.k. with access date on 31 December 2020, bearing interest according to WIBOR 3M + 1.25% margin. Loans granted balance as at 31 December 2018 amounted to PLN 5 000 thousand.
- On 31.12.2018 the renewable loan limit was provided for the disposal of Naftoremont – Naftobudowa Sp. z o.o. in the amount not exceeding PLN 7 000 thousand with the repayment date failing on 31 December 2020 roku, bearing interest according to WIBOR 3M + 1.25% margin. Within the scope of the borrowing support, the loan for Naftoremont – Naftobudowa Sp. z o.o. granted in 2017, was closed. As at 31.12.2018, the borrowing support balance in the new formula amounted to PLN 101 thousand.
- On 19.12.2018, the renewable loan limit was provided for disposal of Polimex Energetyka Sp. z o.o. in the amount not exceeding PLN 45 000 thousand with the repayment date falling on 31 December 2023, bearing interest according to WIBOR 3M + 1.25% of the margin. Within the scope of granting this loan support, the loan agreement for Polimex Energetyka Sp. z o.o. of 2017 was closed. As at 31.12.2018, the loan support balance of the new formula amounted to PLN 39 171 thousand.

On 2018, the Company prolonged the repayment of the loans granted to "Polimex – Mostostal Ukraina":

- Loan agreement number 1/U/2010 dated 29.04.2010 for the amount of USD 1 000 thousand – prolonging the loan repayment date of 31.12.2018 to 31.12.2019
- Loan agreement number 2/U/2010 dated 30.08.2010 for the amount of USD 1 750 thousand – prolonging the loan repayment date of 31.12.2018 to 31.12.2019.
- Loan agreement number 3/U/2010 dated 06.12.2010 for the amount of USD 300 ths – prolonging the loan repayment date of 31.12.2018 to 31.12.2019.
- Loan agreement number 4/U/2011 dated 27.01.2011 for the amount of PLN 7 050 thousand – prolonging .the loan repayment date of 31.12.2018 to 31.12.2019.

4.4. Contingent liabilities

	As at 31 December 2018	As at 31 December 2017
Contingent liabilities	**551 926**	**1 294 846**
- guarantees and warranties granted	506 019	868 753
- promissory notes	3 470	2 420
- litigations	42 437	423 673

In connection with concluded loan and guarantee agreements (both banking and insurance), as well as in respect of liabilities due to bonds (including series A and B bonds issued in 2014 in the amount of PLN 140 million and series C bonds issued in 2017 in PLN 14.5 million), and in particular, in connection with the Agreement of July 24, 2012 on abstaining from enforcement of liabilities under the Agreement of December 21, 2012 regarding the Principles of Debt Servicing as amended, the Contract of December 21, 2012, as amended regarding the New Guarantee Facility and related open-end loan as amended, Terms and Conditions for Issuing Ordinary and Convertible Bonds of September 12, 2014 as amended, Credit Agreement on guarantee lines and related open-end and non-open-end loans of May 31, 2017, as amended, C Series Convertible Bonds Terms and Conditions dated September 27, 2017, the Company and selected subsidiaries established mortgages, pledges, ownership assignments, assignments, issued promissory notes, accepted sureties of certain subsidiaries and granted sureties to selected subsidiaries to secure receivables under the subjective instruments. The total exposure of the Company to the credit instruments in question was PLN 832 million as at December 31, 2018 (as at 31 December 2017: 1 198 million).

Significant proceedings pending before the court referring to liabilities and receivables of the Company were disclosed in the note 36 of the individual Financial Statements for the year ended on 31 December 2018.

4.5. Information on the remuneration of the auditor and entity authorised to audit financial statements

On 22 March 2018, the Supervisory Board of "Polimex-Mostostal" S.A. adopted the resolution No. 220/XII regarding the selection of Ernst&Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp.k. to review the financial statements of "Polimex-Mostostal" S.A. for six-months and audit the annual financial statements of the Polimex-Mostostal S.A. and Polimex Mostostal Capital Group in the years 2018-2020. The contract for the review and audit of financial statements was concluded on 5 July 2018.

The auditor's fee for the review of financial statements amounted in 2018 to PLN 265 thousand. In 2017, the remuneration for carrying out the financial review amounted to PLN 310 thousand and for the remaining services, PLN 148 thousand.

4.6. Remuneration of the Board and Supervisory Board Members of the Company

	Year ended 31 December 2018	Year ended 31 December 2017
Management Board		
Short-term employee benefits (salaries and charges)	2 885	2 641
Supervisory Board		
Short-term employee benefits (salaries and surcharges)	625	599
Total	**3 510**	**3 240**

During the period of 12 months of the year 2018, remuneration was also paid to Mr. Przemysław Janiszewski within the scope of acting as the CEO (President of the Management Board) in the subsidiary Polimex Energetyka Sp. z o.o. in the amount of PLN 20 ths. This remuneration was paid by

Polimex Energetyka Sp. z o.o. under the employment contract, monthly until 10th calendar day of the subsequent month for the preceding month.

The Management Board

In 2018, Members of the Management Board of the Company provided services in the scope of managing the Company based on management contracts. The rules and amount of remuneration for members of the Management Board of the Company with whom a management contract is concluded, have been determined by the Supervisory Board of the Company.
The remuneration model for the Management Board members includes a two-component remuneration system, consisting of:

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

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

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

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

1) the right to remuneration for refraining from competitive activity (non-competition) for a period of up to 12 months from the date of termination of the contract,
2) life insurance policy for a Member of the Management Board,
3) liability insurance policy for management board members,
4) providing free medical care,
5) covering any legal assistance costs for a Member of the Management Board in all cases brought by third parties, both during the period of performing the function and after its completion.

Remuneration paid by the Issuer to the Management Board for the year 2018 amounted to PLN 2 885 thousand, and included:

First name and surname	Term of office	Remuneration	Benefit after the engagement period
Krzysztof Figat	from 11.05.2018 to 31.12.2018	499	–
Przemysław Janiszewski	from 01.01.2018 to 31.12.2018	719	–
Maciej Korniluk	from 08.01.2018 to 31.12.2018	646	–
Antoni Józwowicz	from 01.01.2018 to 03.04.2018	633	–
Andrzej Juszczyński	from 28.02.2017 to 02.01.2018	148	–
Tomasz Kucharczyk	from 01.01.2017 to 27.02.2017	–	112
Tomasz Rawecki	from 01.01.2017 to 31.03.2017	–	128
		2 645	**240**

Supervisory Board

Under the Resolution number 35 dated 28 June 2007 of the General Meeting of Shareholders of "Polimex-Mostostal" S.A. on: the principles of remuneration for the Supervisory Board Members, members of the Supervisory Board are entitled to monthly remuneration. Remuneration has been determined for the amount constituting the product of remuneration in the business sector without distributions from profit announced by the President of the Central Statistical Office in the last quarter of the preceding year depending on the function performed by the member in the supervisory body of the company. Members of the Supervisory Board are entitled to monthly remuneration due to frequency of sessions convened.

Remuneration of the Members of the Supervisory Board shall not be due for the month, in which Board Member was not present at any of the officially convened sessions for unjustified reasons which are assessed and qualified by the Supervisory Board. Remuneration of the Supervisory Board Members is calculated in proportion to the number of days in the term of office in case the appointment or recalling took place during the calendar month.

Remuneration paid to the Supervisory Board by the Issuer in 2018 amounted to PLN 625 thousand, and included:

First and last name	Term of office	Remuneration
Wojciech Kowalczyk	from 01.01.2018 to 31.12.2018	–
Andrzej Komarowski	from 01.01.2018 to 31.12.2018	97
Bartłomiej Kurkus	from 01.01.2018 to 31.12.2018	125
Paweł Mazurkiewicz	from 01.01.2018 to 31.12.2018	97
Konrad Milczarski	from 01.01.2018 to 31.12.2018	97
Andrzej Kania	from 01.01.2018 to 31.12.2018	100
Andrzej Sokolewicz	from 01.01.2018 to 03.10.2018	86
Katarzyna Dąbrowska	from 04.10.2018 to 31.12.2018	23
		625

5. Other information

5.1. Shareholding structure

The table below presents the list of shareholders holding at least 5% of the total number of votes in the Company as at 31 December 2018:

Shareholder	**Number of shares/votes**	**% held in the share capital /total number of votes in the GM**
ENEA Spółka Akcyjna with the registered office in Poznań, ENERGA Spółka Akcyjna with the registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with the registered office in Warszawa PGNiG Technologie Spółka Akcyjna with the registered office in Krosno - as Investors acting jointly and upon the agreement*	156 000 097	65,93%
Bank Polska Kasa Opieki SA	13 629 376	5,76%
Others – less than 5% of share capital	66 989 329	28,31%
Number of shares of all issues	**236 618 802**	**100,00%**

* each of the investors holds 16.48%

5.2. Composition of the Management Board

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

Krzysztof Figat	President of the Board
Przemysław Janiszewski	Vice President
Maciej Korniluk	Vice President

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

2018-01-08	The Supervisory Board appointed to the composition of the Management Board Mr. Maciej Korniluk to act as Vice President of the Board (Regulatory Announcement number 2/2018).
2018-04-03	The Company received the letter from Mr. Antoni Józwowicz, in which he submitted his resignation from acting as the President of the Management Board of the Company from 3 April 2018 (Regulatory Announcement number 18/2018)
2018-04-04	The Supervisory Board entrusted to Mr. Przemysław Janiszewski to act temporarily as the President of the Board of the Company until the moment of appointing the subsequent President of the Management Board (Regulatory Announcement number 19/2018)
2018-04-26	The Supervisory Board appointed to the composition of the Management Board Mr. Krzysztof Figat entrusting him the role of the President of the Management Board as at 11 May 2018. (Regulatory Announcement number 24/2018)
2018-10-12	The Supervisory Board appointed for the period of the 13th joint three-years' term of office, Mr. Krzysztof Figat, entrusting him the role of the President of the Management Board, Mr. Maciej Korniluk entrusting him the role of Vice President of the Board and Mr. Przemysław Janiszewski entrusting him the role of Vice President of the Management Board (Regulatory Announcement number 51/2018)

Tasks of the Management Board

The Management Board is the body of the Company which is fully authorised in the scope of management and acts in all matters not reserved to the exclusive competence of the General Meeting of Shareholders or the Supervisory Board.

Tasks of the Management Board include in particular:

- determination of the Company's operational objectives, first of all long and mid-term Company's development strategy and growth of its value for shareholders and assessment of these objectives' achievement;
- determination of the Company's financial objectives;
- acceptance of significant investment projects and methods of their financing;
- determination of the Company's human resources and remuneration policy;
- development and implementation of the Company's operational strategy;
- decision making referring to the incentive plans' assumptions within the Company;
- determination of the Company's organisational structure.

5.3. Composition of the Supervisory Board and its committees

As at 31 December 2018 and the date of publication of this report, the composition of the Supervisory Board was follows:

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

Within the reporting period and until the day of publishing this report, the following changes occurred in the composition of the Supervisory Board:

2018-10-03	The Company received the resignation of Mr Andrzej Sokolewicz from the role as the Secretary to the Supervisory Board from 4 October 2018 roku (Regulatory Announcement number 44/2018).
2018-10-04	Extraordinary General Meeting of Shareholders appointed Ms. Katarzyna Dąbrowska to the Supervisory Board (regulatory announcement number 47/2018).
2018-10-12	The Supervisory Board appointed the Supervisory Board Member, Mr. Andrzej Kania to act as the Secretary to the Supervisory Board.

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

According to par. 17 sec. 2 of the Regulations, the Supervisory Board may create committees from among its members. The Committee is an advisory and opinion forming body acting collectively within the structure of the Supervisory Board. As part of the Supervisory Board of "Polimex-Mostostal" S.A. three committees operate:

- Audit Committee,
- Remuneration Committee,
- Committee for Development Strategy.

As at December 31, 2018 and as at the date of publication of these financial statements, the composition of the Audit Committee was as follows:

Konrad Milczarski	Chairman of the Committee
Katarzyna Dąbrowska	Committee Member
Bartłomiej Kurkus	Committee Member
Andrzej Kania	Committee Member

During the reporting period and until the date of publication of this report, the following changes took place in the Audit Committee:

2018-01-08	The Supervisory Board appointed Andrzej Kania to the Audit Committee, Member of the Supervisory Board.
2018-10-03	The company received the resignation of Mr. Andrzej Sokolewicz, the Chairman of the Audit Committee from membership in the Supervisory Board of the Company on October 4, 2018 (Regulatory Announcement No. 44/2018).
2018-10-12	The Supervisory Board appointed Ms. Katarzyna Dąbrowska to the Audit Committee, Member of the Supervisory Board.
2018-10-12	The Supervisory Board entrusted Mr. Konrad Milczarski with the function of the Chairman of the Audit Committee.

Statutory criterion of independence during 2018 was met by Mr. Konrad Milczarski, Ms. Katarzyna Dąbrowska, Mr. Bartłomiej Kurkus and Mr. Andrzej Sokolewicz.

From among persons who during the reporting period belonged to the Audit Committee, those with the most experience, knowledge and skills in the scope of accounting or auditing of financial statements are:

- Mr. Konrad Milczarski - a graduate of the Faculty of Management at the University of Warsaw and the Economic Department of the Radom Polytechnic. He also completed post-graduate studies in corporate finance management at the Warsaw School of Economics. He is a graduate of the MBA program organized by the University of Warsaw and the University of Illinois (USA). He has been a member of ACCA (The Association of Chartered Certified Accountants) for 9 years. In addition, he was the Finance Director of LOT AMS sp. o.o. In 2007-2010, employed at Bank Gospodarstwa Krajowego as the Vice-President of the Management Board and the Bank's Director responsible for finance, controlling, financial risk, operations and IT. In the PZU SA group as the Director of the Accounting and Finance Department of PZU Życie SA and before that in the Pioneer Investments Group as the Internal Audit Director (2002-2005). In the years 1997-2002 in the Creditanstalt / Bank Austria / HVB group as Financial Controller / Risk Manager at CA IB Securities and before at Polskie Sieci Elektroenergetyczne SA as the Treasury area manager. He started his professional career as a securities broker and dealer in the Treasury department of Bank Energetyki in Radom.

- Ms. Katarzyna Dąbrowska - MA in economics, she received the title at the Faculty of Economics and Sociology at the University of Lodz. In addition, he has completed numerous legal and management trainings, e.g. "Financial analysis - practical workshops" organized by the Foundation for Accounting Development in Poland and Centrum Szkoleniowe FRR Sp. z o.o. Ms. Katarzyna Dąbrowska has many years of experience in the implementation of tasks resulting from the corporate governance supervision over companies in the steel sector, fuel and energy management; operators of the electricity and gas transmission systems and companies managing special economic zones. In addition, she has many years of experience in exercising functions in supervisory boards of capital companies. Her professional experience includes the assessment of the financial statements of entities and the preparation of decisions on the approval of reports by competent authorities.

- Mr Andrzej Sokolewicz - a graduate of the MBA program organized by the University of Warsaw and the University of Illinois (USA). In addition, in the years 2005-2010 he managed the implementation process at Bank Pekao S.A. International Financial Reporting Standards (IFRS), including primarily IAS 39 in the area of credit risk, and supervised adjustment work as a result of risk recommendations issued by the KNF Office. In the years 2011-2015 he was the Financial Director (CFO) of a commercial law company, whose duties included preparing financial statements and supervising co-operation with a certified auditor (BDO, PwC). The auditor's opinions on financial audits signed by Mr. A. Sokolewicz in that period did not contain any objections. In the capital group of the Company, he supervised the independence and credibility of Group’s financial statement’s audit (2015 - 2017).

From among persons who during the reporting period belonged to the Audit Committee, having the greatest experience, knowledge and skills in the field of the broadly understood construction industry are:

- Mr Konrad Milczarski - employed as the Director of the Department of Corporate Client Restructuring and Collection in PKO Bank Polski SA where he is devoted to financial restructuring of entities in the construction sector. He was also a member of the supervisory board of Fabryka Sprzętu i Narzędzi Górniczych Grupa Kapitałowa FASING SA,

- Mr Andrzej Kania - with many years of experience in assessing and managing investment projects with a high degree of complexity and risk. In addition, he was a Member of the Management Board for Operations and Investments at Operator Logistyczny Paliw Płynnych and the Director of the Center for Investment Completion at PKP PLK. Currently, he is a member of the Management Board for Technical Issues of PGNiG GAZOPROJEKT S.A., a company that is a leader in the gas and fuels and energy industry, a provider of infrastructural investment engineering services, and

- Mr Andrzej Sokolewicz - with 20 years of experience in the functioning of Polish and international construction groups. In the years 1997 - 2002, he served on behalf of BRE Bank, clients including SKANSKA, STRABAG AG, EXBUD in the scope of financial analysis of their financial statements and the possibility of crediting business ventures of these entities. In the years 2003

- 2004 on behalf of Pekao S.A. conducted financial and system restructuring of development companies, e.g. GANT and construction companies, e.g. ELEKTROMOTAŻ PN. In 2011-2014, he supervised the construction industry in Pekao S.A. for risk management - financial analysis and assigning risk weights in connection with the adaptation of the EU CRD II Directive by the Polish banking sector.

In 2018 Audit Committee met 10 times.

Tasks of the Audit Committee

Tasks of the Audit Committee include, in particular:

- advising the Supervisory Board on the issues of proper implementation and control of financial reporting processes in the Company, the effectiveness of internal control and risk management systems, and cooperation with statutory auditors;
- monitoring the financial reporting process;
- submitting recommendations to the Company's authorities to ensure the integrity of this process in the Company;
- monitoring the effectiveness and periodic review of the Company's internal control system and risk management and internal audit systems, including financial reporting and compliance with applicable regulations;
- monitoring the performance of financial auditing activities, in particular conducting an audit by the audit firm, including all applications and findings of the Audit Supervision Commission resulting from audits carried out in the auditing company;
- controlling and monitoring the independence of the statutory auditor and the audit firm, in particular, when services other than audit are provided to the Company by the auditing company;
- informing the Supervisory Board or other supervisory or control body of the Company about the results of the research and explaining how this research contributed to the reliability of financial reporting in the Company and what was the role of the Audit Committee in the audit process;
- assessing the independence of the auditor and consenting to the provision of permitted non-audit services to the Company;
- developing a policy and procedure for selecting an audit firm to conduct the audit, submitting recommendations to the Supervisory Board on the selection and remuneration of the Company's auditors;
- development of a policy by the audit firm conducting the audit, by entities related to this auditing company and by a member of the auditing company's network of permitted non-audit services;
- presenting to the Supervisory Board or other supervisory or control body or authority approving the financial report recommendations regarding the appointment of an audit firm in accordance with the policies referred to in para. l) and m);
- discussing with the auditing company of the nature and scope of the annual audit and reviews of periodic financial statements;
- review of audited periodic and annual financial statements of the Company with a focus on, in particular: (i) any changes in accounting standards, policies and practices; (ii) the main areas to be examined; (iii) significant adjustments resulting from the audit; (iv) statements on going concern; (v) compliance with applicable accounting and reporting rules; (vi) analysis of letters to the Management Board drawn up by the Company's auditors, independence and objectivity of the research performed by it, and the Management Board's replies;
- issuing opinions on the Company's internal audit plan and internal audit regulations, as well as changes in the position of the internal audit director;
- co-operation with organizational units of the Company responsible for audit and control and periodic evaluation of their work;
- analysis of reports of internal auditors of the Company and main observations of other internal analysts and the Management Board's response to these observations;
- periodic review of the monitoring system in the financial scope of companies from the Capital Group;

- informing the Supervisory Board about all important matters regarding the Committee's activities;
- other tasks commissioned by the Supervisory Board.

The main assumptions of the policy of selecting an audit firm

According to the statute "Polimex -Mostostal" S.A. the body authorized to choose an audit firm to review the interim separate financial statements and the entity authorized to audit and prepare the audit report on the annual separate financial statements is the Supervisory Board, acting on the recommendation of the Audit Committee.

The Audit Committee, preparing recommendations for the Supervisory Board, is guided, inter alia, by the following criteria:

- the audit company's approach to its operations (e.g. the profile of an audit firm and its supervisory system, correct internal procedures ensuring independence and observance of other significant principles) and approaches to the audit (e.g. description of methods to be used by the auditor, areas of particular importance and approach that the statutory auditor / audit firm will use to study these areas, presenting the research plan, knowledge and experience in the scope of activities conducted by the Issuer, principles ensuring constant contact with a key certified auditor if it is necessary to obtain various explanations (telephone) or organization of short meetings during the year,
- reputation and conduct compliant with ethics,
- the composition of the audit firm's team to conduct the audit (e.g. by assessing the qualifications and experience of the team members who would carry out the study, the activity of experts in specific fields, such as taxes, actuarial services, etc., who will provide higher quality of research, assessment of key availability statutory auditor),
- insurance of the statutory auditor / audit firm,
- the price offered by the auditor company.

The recommendation of the Audit Committee for the Supervisory Board regarding the selection of an audit firm to conduct the audit was issued in 2018 and met the applicable conditions. It was prepared following the procedure organized by "Polimex-Mostostal" S.A. for selecting an audit firm conducted in the second half of 2017 and at the beginning of 2018. The auditing firm's selection procedure was in line with the "Polimex-Mostostal" S.A.'s policy and procedure in the scope of choosing an audit firm to audit financial statements" binding at the Company.

As at 31 December 2018 and the date of publication of this report, the composition of the Committee for Remuneration was as follows:

Andrzej Komarowski	Chairman
Wojciech Kowalczyk	Member
Paweł Mazurkiewicz	Member

In 2018 the membership of the Committee for Remuneration was not subject to changes.

Tasks of the Remuneration Committee

The tasks of the above Committee in particular include:

- presenting to the Supervisory Board opinions on draft content of agreements related to the performance of the function of a member of the Management Board of the Company;
- giving opinions on the proposals of the remuneration and bonus system for Management Board members;
- other tasks commissioned by the Supervisory Board.

As at 31 December 2018 and the date of publication of this report, the Committee for Strategy Development consisted of the following members:

Andrzej Kania	Chairman
Katarzyna Dąbrowska	Member
Wojciech Kowalczyk	Member
Bartłomiej Kurkus	Member
Andrzej Komarowski	Member
Paweł Mazurkiewicz	Member
Konrad Milczarski	Member

During the reporting period until the date of publication of these financial statements, the following changes occurred in the membership of the Committee for Development Strategy:

2018-01-08	The Supervisory Board appointed Andrzej Kania to the composition of the Development Strategy Committee, a Member of the Supervisory Board.
2018-10-03	The resignation of a Member of the Development Strategy Committee, Mr. Andrzej Sokolewicz, from membership in the Supervisory Board of the Company on October 4, 2018, was received by the Company.
2018-10-12	The Supervisory Board appointed Ms. Katarzyna Dąbrowska to the Development Strategy Committee the Supervisory Board Member.

Tasks of the Committee for Development Strategy

The tasks of the above Committee in particular include:

- monitoring the implementation by the Management Board of the Company's strategy and giving opinions on the extent to which the applicable strategy meets the needs of the changing reality;
- monitoring the implementation by the Management Board of the annual and long-term plans of the Company's operations and assessment of whether they require modification;
- assessment of the coherence of the Company's annual and long-term plans of operation with the Company's strategy pursued by the Management Board and presentation of proposals for possible changes in all these Company documents;
- submitting to the Supervisory Board of the Company their opinions on the Company's strategy and its changes as well as the annual and long-term plans of the Company's operations presented by the Company's Management Board;
- other tasks commissioned by the Supervisory Board.

5.4. Information containing the description of the Company’s diversity policy in reference to the Company’s authorities and its key managers

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

5.5. Representation on compliance with corporate governance

In accordance with the WSE Rules, the Company, as an entity listed on the WSE main market, should follow the corporate governance rules set out in the Code of Best Practice for WSE Listed Companies. The Code of Best Practice for WSE Listed Companies is a set of recommendations and rules of conduct relating in particular to the bodies of listed companies and their shareholders. The WSE Rules and the resolutions of the WSE Management Board and Board determine the manner in which listed companies provide information on the application of corporate governance principles and the scope of information provided. If a given rule is not applied by a listed company on a permanent basis or has been infringed incidentally, a listed company is obliged to provide information on this fact in the relevant form. In addition, a listed company is required to attach to the annual report a report containing information on the scope of its application of the Code of Best Practice for WSE Listed Companies in a given financial year. The company strives to ensure the highest possible transparency of its activities, due quality of communication with investors and protection of shareholders' rights, also in matters not regulated by law. Therefore, the Company has taken the necessary actions to fully comply with the rules contained in the Code of Best Practice for WSE Listed Companies. In the period from 1 January 2018 to 31 December 2018, according to the information contained in the EBI regulatory announcement No. 2/2017 of 18 October 2017, the Issuer's Management Board declared compliance by the Issuer with all the corporate governance rules contained in the document "Good Practices of WSE Listed Companies 2016", subject to the following:

1. Detailed principle I.Z.1.15.

Contents: "information including a description of the diversity policy used by the company with respect to the company's governing bodies and its key managers; the description should include such elements of diversity policy as gender, field of education, age, professional experience, as well as indicate the objectives of the diversity policy being applied and the manner of its implementation in a given reporting period; if the company has not developed and does not implement the diversity policy, it publishes an explanation of such a decision on its website."

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

2. Detailed principle I.Z.1.16.

Contents: "Information on the planned broadcast of the General Meeting not later than within 7 days prior to the date of the General Meeting".

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

3. Detailed principle I.Z.1.20.

Contents: "record on the Company's website the course of the General Meeting in the form of audio or video."

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

4. Detailed principle IV.Z.2.

Contents: "If it is possible due to the shareholding structure of the Company, the Company ensures commonly available transmission of the session of the general meeting in real time."

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

5. Detailed principle IV.Z.3.

Contents: "Media representatives have the possibility to be present at the General Meetings".

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

6. Detailed principle VI.Z.4.

Contents: "In the report on operations, the Company presents a report on the remuneration policy, containing at least: 1) general information on the remuneration system adopted in the company, 2) information on the terms and amount of remuneration of each member of the management board, broken down into fixed and variable components of remuneration with an indication of the key parameters for determining variable remuneration components and payment rules for severance pay and other payments for termination of employment, commission or other legal relationship of a similar nature - separately for the company and each entity included in the capital group, 3) information on the individual members of the management board and key managers of non-financial components of remuneration, 4) indication of significant changes that occurred in the last financial year in the remuneration policy, or information about their absence, 5) assessment of the remuneration policy functioning e from the point of view of achieving its objectives, in particular long-term growth of shareholder value and stability of the company's operation.

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

Due to the absence of the Company's remuneration policy, it cannot present the report in this scope in the report on operations.

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

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

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

The preparation of annual reports is preceded by a meeting of the Audit Committee with independent auditors to determine the plan and scope of auditing financial statements and to discuss potential areas of risk that may affect the reliability and accuracy of financial statements. The preparation of financial statements is a planned process, taking into account the appropriate division of tasks between the employees of the Company, adequate to their competence and qualifications.

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

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

The Group has an Audit and Internal Control Office, whose aim is to conduct an independent and objective assessment of risk management and internal control systems as well as business process analysis.
The office performs tasks based on annual audit plans, which are approved by the Management Board after opinion expressed by the Audit Committee of the Supervisory Board.
The Audit and Internal Control Office may also carry out ad hoc audits commissioned by the Supervisory Board or the Management Board of the Company.
As part of its objectives and tasks, the Audit and Internal Control Office provides recommendations for the implementation of solutions and standards aimed at reducing the risk associated with the achievement of business objectives, improving the efficiency and effectiveness of internal control systems and increasing the efficiency of business processes.

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

In 2018, the Policy and Risk Management Procedure was updated, which comprehensively regulates the process of functioning of the risk management system in the Polimex Mostostal Capital Group.

The risk management system in the PxM Capital Group is planned at three organizational levels, i.e. at:

- level I - projects implemented by the Companies / organizational units of the PxM Capital Group
- level II - PxM Capital Group companies, indicated in the Risk Management Policy
- level III - processes in organizational units of the PxM Capital Group

The Risk Management Policy sets out the implementation schedule of the above-mentioned levels of risk management, which assumes implementation in the following dates:

- level I - until 31.12.2018.
- level II - PxM Capital Group Companies until 31.03.2019.
- level III - processes in organizational units of the PxM Capital Group companies until 31.12.2019.

From October 2018, the risk management process is supported by the e-Risk application, which was purchased and implemented in the Risk Management Procedures at PxM Capital Group.

Level I of the risk management system was implemented before the deadline, in October 2018, the full risk analysis was carried out for the first time in projects implemented by the PxM Capital Group using the new e-Risk application. Currently, the risk analysis in projects is carried out every month, and its results are presented to the PxM Management Board and the Audit Committee.

The e-Risk application also includes modules supporting the risk management process at the second and third level.

The implementation of software supporting the risk management system significantly improved this process, improved its effectiveness and contributed to increasing awareness of risk management in projects.

5.7. Description of the rules for amending the statute or articles of the Issuer's Company

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

6. Declaration on non-financial information

For the year 2018, did not make a statement about non-financial information. Non-financial information regarding the Company has been included in the consolidated report on non-financial information of the Polimex-Mostostal Capital Group.

Warsaw, 11 April 2019

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD		
First and last name	Position/Role	Signature
Krzysztof Figat	President of the Management Board	
Przemysław Janiszewski	Vice-President of the Management Board	
Maciej Korniluk	Vice-President of the Management Board	