POLIMEX-MOSTOSTAL S.A.

MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES FOR THE PERIOD OF 12 MONTHS ENDED 31 DECEMBER 2016

Warsaw, 24 March 2017

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1. Introduction

Polimex-Mostostal Spółka Akcyjna (the "Company") operates based on Articles of Association adopted by a notarized deed on 18 May 1993 (Rep. A No. 4056/93), with subsequent amendments. Its registered office is located at al. Jana Pawła II 22 in Warsaw (00-124). The Company was registered with the District Court for the capital city of Warsaw in Warsaw, 12th Business Division of the National Court Register, under number KRS 0000022460. The statistical (REGON) number assigned to it is 710252031.

The Company's core business includes broadly defined construction and assembly services as well as installation of industrial equipment and systems, performed in the capacity of a general contractor both in Poland and abroad.

2. Market environment

2.1. General macroeconomic conditions

According to the Management Board of the Company, the following factors and market trends had a considerable effect on the Company's performance in the reporting period or are expected to have such an effect in the future:

- the macroeconomic conditions in Poland;
- the level of capital expenditure on the Polish market and in other EU Member States;
- the regulatory environment;
- changes in foreign exchange rates;
- seasonality;
- involvement in major investment projects carried out in the Polish power industry;
- the value of the contract portfolio;
- operational restructuring; and
- divestments.

Macroeconomic conditions in Poland

The Company operates mainly in Poland, where the major part of its revenue is earned on construction contracts as well as activities carried out in the power engineering segment. As the activities in each sector of the Company's operations are correlated strongly with the economic cycle, the operations of the Company are considerably affected by the macroeconomic conditions in Poland, in particular:

- real GDP growth rate, which is the measure of the size of the economy that reflects the level of business activity and the cyclic nature of the economy;
- industrial production volume and changes, which reflect the economic condition of manufacturers;
- changes in consumption, reflecting the end-user demand in the economy;
- unemployment rate, which shows the condition of the labor market and directly affects trends in consumption demand;
- real income, which is the measure of the purchasing power of households;
- interest rates, which determine the cost of money as well as the level of and changes in the prices of products and services;
- condition of EU economies (major importers of the services offered by the Company) and the extent to which EU funds are absorbed;
- changes in market prices of raw materials and commodities.

According to preliminary estimates, the gross domestic product (GDP) in 2016 increased by 2.8% in real terms on the preceding year, when it reached the level of 3.9% (in fixed prior year prices).

As initially estimated, in December 2016, the prices of industrial production sold were 3.0% higher than a year before. Prices also went up by 0.2% in construction and assembly production. Between January and December 2016, the prices of industrial production sold dropped by 0.2% year on year (in 2015, a decrease of 2.2% was recorded), which coincided with a decline in construction and assembly production prices by 0.4% (versus 0.5% in the preceding year).

The unemployment rate was 8.3% as at the end of December 2016. This means a decrease of 1.4 p.p. on the preceding year. Being partly a seasonal phenomenon, the falling unemployment rate is mainly attributable to the economic revival. The unemployment rate should drop steadily and thus boost economic growth.

2.2. Market development prospects

The development prospects for the sectors in which the Company operates are good, although each of them is affected by different factors. It is a strategic objective of the Company to build value through strong growth in the following three major areas:

- power engineering;
- oil, gas, chemicals;
- industrial construction.

The Company is planning to become a leader on the Polish industrial construction market. The key factor driving the achievement of the aforesaid objectives is the commencement of tender processes with the support of funds allocated to Poland from the budget of the European Union in the new 2014-2020 financial perspective.

Ensuring stable supplies of energy is one of the major growth challenges facing Poland in the upcoming years. The construction market development prospects in the field of power engineering are both predictable and stable. The Company is planning to strengthen its position on the conventional power and heat market, in addition to expanding its business to new markets, such as the smaller capacity market or water engineering facilities. Drawing on its unique experience and qualifications, the Company is in a strong position to compete in tenders for ensuring compliance with BAT requirements and to develop innovative technology solutions (construction of dual units for the power industry).

As the generation units are worn out and their efficiency is low, the vast majority of power units in Poland is currently being or should be modernized or replaced by new generation sources in the nearest future.

Energy security requires the implementation of such measures as diversification of electric power sources. New capacity projects involving the construction of power units with the capacity of 2 x 900 MWe in Opole, a 1075 MWe unit in Kozienice and a 900 MW unit in Jaworzno, the planned construction of gas and steam units in the Żerań Power Plant and Zakłady Azotowe Puławy and the construction of a coal-based generation source in Ostrołęka open up the opportunity to win new contracts.

It should be emphasized that generation units with the capacity of ca. 200 MW or less will gradually be decommissioned or they will require costly adaptation to ensure compliance with stricter environmental requirements. The construction market in the power industry will be stimulated by the planned introduction of the capacity market. The launch of the planned government programs in the field of hydropower and water engineering will be a chance to expand the portfolio of contracts.

Ensuring security of electric power supplies in the medium term will require the construction of new generation units regardless of the approach to satisfaction of BAT requirements with respect to the existing generation sources.

In the upcoming years, the Company expects to regain its position in the gas sector, build a position in the chemical sector and strengthen its position in the petroleum industry. It is also planning massive expansion in these sectors abroad (ca. 30-40% of all contracts).

Within the next few years, effective bidding for contracts, the ultimate scale of which should replace the existing strategic contracts, will be critical for maintenance of the Company's liquidity. As the strategic contracts in progress are being completed, expansion of the existing portfolio will be one of the top priorities of the Management Board. Although strategic contracts are the major factor affecting the Company's performance at present, the share of additional contracts being secured currently and planned to be won in the upcoming years should gradually increase and guarantee additional cash flows for the Company.

3. Major events in 2016

3.1. Key contracts fulfilled by the Company

In 2016, the Company carried out two strategic contracts in the power engineering industry:

- a contract for the construction of new power units in the Opole Power Plant;
- a contract for the construction of a 1075 MW unit in the Kozienice Power Plant.

Since January 2014, as a consortium member, the Company has been delivering a contract for the construction of two new power units in the Opole Power Plant. A special purpose vehicle, Polimex Opole z ograniczoną odpowiedzialnością spółka komandytowa, has been established to fulfil that contract. The said contract is significant in the power engineering industry, which is of strategic importance to the Company. This is the largest investment in the Polish power industry on record and its importance to the industry is crucial. It is worth PLN 11.5 billion gross, out of which ca. 43%, i.e. PLN 4.84 billion, is attributable to the Company. The contract provides for the construction of turbine islands and a cooling tower with a cooling water system. The electrical system will also be installed along with the control and measurement apparatus and an automatic control system. The Company will also be involved in design works. Unit No. 5 is planned to be commissioned in the second half of 2018 and Unit No. 6 at the beginning of 2019.

As a consortium member, the Company is also constructing a new unit in the Kozienice Power Plant with the capacity of 1075 MW. The Company is primarily responsible for:

- construction works along with general construction systems for all the facilities;
- the cooling water system and the cooling tower, the water station and the raw water pumping station;
- the carburizing, ash removal, deslagging and oil management systems, along with a track layout;
- a 110 KV and a 400 KV power take off system, the low-voltage electrical part along with the control and measurement apparatus and an automatic control system for the facilities;
- installation of the boiler house and engine room technologies, except the turbine set.

The total value of the contracted works listed above is ca. PLN 6.3 billion gross, 42.8% of which is attributable to the Company.
In March 2016, an external audit of the construction of a new, supercritical 1075 MW power unit in the Kozienice Power Plant was audited at the request of the Company, which acts as a general contractor on the project, in order to identify and estimate the potential risks. The audit was performed by Tebodin and CWW. Its findings served as the basis for revision of the Kozienice contract budget for 2016 and 2017. A number of technical risks relating to the Kozienice project were identified and the related costs were estimated. The total costs related to the contract increased by PLN 137,158 thousand as compared to the budget planned in March 2016. This has had a direct impact on a drop in the margin, mainly as a result of higher contract fulfilment costs (to include the Hi-Fog system, the technology pipeline, the automatic control system and a provision for subcontractor claims).

On 22 August 2016, the consortium of the Company and Mitsubishi Hitachi Power Systems submitted a proposal to revise the construction schedule for Unit No. 11 to Enea Wytwarzanie Sp. z o.o. The changes in the schedule were introduced for technical and organizational reasons. The planned completion date proposed by the consortium is 19 December 2017. The relevant annex was executed on 23 December 2016.

3.2. Events having a significant effect on the Company's position in 2016

- On 12 February 2016, the Company entered into an agreement to make a contribution in kind in the form of an organized part of the enterprise of the Issuer (the "OPE", the "Agreement"), whereby the OPE was sold and transferred to Mostostal Siedlce Sp. z o.o. Sp. k. ("Mostostal Siedlce"), the Company's subsidiary, to increase the value of the Company's contribution to Mostostal Siedlce by PLN 182,952 thousand. The OPE is an organized part of the enterprise of the Company located in Siedlce, comprising an organized group of tangible and intangible assets to be used for purposes of carrying on business involving the production of support structures and casing for the industrial construction sector as well as grids, rack systems, formwork components and construction scaffolding as well as provision of anti-corrosion coating services.

- On 8 June 2016, the Company entered into a conditional real estate sales contract with Piwnice Win Importowanych VINFORT Sp. z o.o. The contract concerns the right of perpetual usufruct of real estate and the title to the buildings, structures and equipment located thereon at ul. Powstańców 66 in Kraków. The total net price for the real estate under the conditional contract is PLN 3,285 thousand. The entry into a contract transferring the title to the real estate was conditional on the satisfaction of a requirement to obtain documents issued by all mortgage creditors whose rights have been secured by mortgages, granting their consent for all mortgages to be released and the related liens to be cleared from the land and mortgage register by 31 August 2016. As the requirement to obtain the consent of all mortgage creditors for their liens to be cleared from the land and mortgage register had not been fulfilled, the transaction was not made and the contract of 8 June 2016 was automatically terminated as of 31 October 2016. In January 2017, the Company filed a motion with the District Court for Kraków-Podgórze to cancel the claim of Piwnice Win Importowanych VINFORT Sp. z. o.o. in relation to the execution of the aforesaid contract.

- On 22 June 2016, the Company entered into a contract (i) to sell its interest in a real estate comprising undeveloped and developed land located in Józefosław and (ii) to establish a separate title to a residential unit at ul. Wakacyjna 3 in Józefosław, with natural persons. The price for the real estate is PLN 481 thousand. The contract was concluded as part of the organizational restructuring process carried out by the Company.

- In its Resolution No. 30 of 24 June 2016, the Annual General Meeting of the Company granted its consent for disposal of an organized part of the enterprise located in Siedlce, along with the accompanying infrastructure ("OPE General Construction"). The disposal may take the form of a sale to a third party or a contribution in kind to another company from the Capital Group.

- In its Resolution No. 31 of 24 June 2016, the Annual General Meeting of the Company granted its consent for disposal of an organized part of the enterprise located in Warsaw, along with the accompanying infrastructure ("OPE Operator"). The disposal may take the form of a sale to a third party or a contribution in kind to another company from the Capital Group.

- On 27 July 2016, the Company sold its whole interest in Grande Meccanica S.p.A. to a third party. The selling price agreed with the buyer was EUR 900 thousand.

- In its judgment of 23 June 2016, the Court of Appeal in Warsaw dismissed the appeal filed by the plaintiff against the decision of the Regional Court in Warsaw which dismissed the claim filed by the Consortium of Polimex-Mostostal S.A., Metrostav a.s. and Doprastav a.s. with respect to a contract for the construction of the A4 motorway between Szarów and Brzesko, against the State Treasury – General Director for National Roads and Motorways, for the payment of PLN 114,604 thousand increased by statutory interest to increase the fee of the construction contractor as a result of the changes made by the investor to the scope of works in the context of a considerable change in the market prices of materials. The judgment of the Court of Appeal in Warsaw is final.

- On 28 December 2016, the Extraordinary General Meeting of the Company adopted a resolution to increase the share capital, with no rights issue offered, through the issue of T series shares, and to amend the Articles of Association. Under the said resolution, the Company's share capital will be increased by no less than PLN 2 and no more than PLN 300,000,000, through the issue of no less than 1 and no more than 150,000,000 ordinary shares with the par value of PLN 2 each. The T series shares will be taken up through a private placement, in the form of private offers addressed by the Company's Management Board to the potential subscribers, with no rights issue offered. The T series shares are to be fully covered with cash contributions before the share capital increase is registered.

3.3. Risk factors

Description of significant risk factors and threats, including the Company's exposure

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

Also, the terms of agreements signed in 2012 with the creditors, namely the Financial Debt Service Agreement of 21 December 2012, as amended (the "Agreement"), and, in particular, Annex No. 6 and Annex No. 7 thereto, whereby a portion of the Company's debt to the creditors was converted into shares, as well as the New Guarantee Facility Agreement of 21 December 2012, as amended, and the New Bond Issue on 1 October 2014, exerted a significant effect on the Company's business.

The key external risks identified by the Company include:

Macroeconomic and political risks:

- risks hindering development of the industries where the Company operates, both by delaying the investment process and preventing entities from achieving all their investment objectives, forcing them to discontinue or modify investment programs; funding provided by the majority of banks for investment projects in Poland conditional on assessment of the business risk of the country from the perspective of foreign decision-making centers, growth prospects of each industry and sector as well as individual business entities;
- risk related to changes in legal regulations. A relative instability of the legal system, with its frequent modifications as well as conflicting provisions or implementation of temporary solutions considering the general market conditions, the political situation and social pressure, remains one of the major factors increasing the business risk in Poland.

Internal risks identified by the Company include:

- **strategic risks**, including those resulting from a mismatch between the adopted strategy and the changing market conditions and restructuring processes:
  a) a risk that the economic and financial plans will not be achieved, including the risk related to the organizational, operational and financial restructuring process being unsuccessful;
  b) a risk involved in building a new contract portfolio and a risk of termination of contracts (especially, long-term ones);
  c) a risk of competitive imbalance;
  d) legal risks related to lengthy and costly court proceedings.
- **operational risks:**
  a) a risk of measurement of long-term construction contracts;
  b) a risk of changes in the demand for specialist services;
  c) a risk of price fluctuations on the key commodity markets;
  d) a risk of loss of resources;
  e) a risk of loss of qualified employees;
  f) a risk of a failure to fulfil contracts, including a risk of a failure to find business partners having the necessary know-how, and a risk of penalties for delays caused e.g. by atmospheric conditions;
  g) a risk relating to provisions for claims resulting from warranties under contracts which have already been fulfilled;
  h) a risk of negative cash flows on contracts.

• **financial risks:**

a) liquidity risk;
b) a risk of performance bonds (including a risk of limited access to new guarantees and a risk of accumulated payments under bank and insurance guarantees);
c) trade credit risk;
d) interest rate risk;
e) currency risk.

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

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

The Company fulfils long-term construction, including energy, contracts. A loss of even one contract may translate into a loss of significant sources of the Company's revenue, necessitate refund of advance payments or payment of liquidated damages, thus resulting in a loss of liquidity and hindering or preventing the Company from payment of its debt and other amounts due.

The restructuring process initiated several years ago, liquidity issues encountered by the Company and problems with timely contract fulfilment, including the inability to obtain bank or insurance guarantees, have led to a considerable limitation of confidence of the Company' business partners. Successful completion of the restructuring process and the Company's financial stability enable it to win back its key business partners gradually.

The Company's activities focus on the power and petrochemical industries. Considering a limited number of qualified subcontractors, there is a risk that the cooperation of the right entities will not be secured, which may have a considerable negative effect on proper contract fulfilment or necessitate engagement of subcontractors providing services at substantially higher prices, which may reduce the Company's competitive advantage, the tendering process efficiency and, consequently, have an adverse effect on the financial performance of the Company.

Preventing the occurrence of risks considered material from the perspective of the strategy is the key task of the Management Board of the Company, which holds negotiations with the clients, consortium partners and banks in addition to managing the changes introduced to the Group's processes and procedures. There is a risk that the measures employed by the Company with a view to achieving the economic and financial plans and ensuring compliance with the Financial Debt Service Agreement will not produce the desired effect. Implementation of and compliance with the procedures of proper contract fulfilment, tender and contract preparation, verification of the financial and technical/technological standing of the business partners, control and supervision as well as controlling form an important part of the risk monitoring process. Risks material for the strategy are managed by the Company's top executives.

Operational risks: Major risks in this respect are related to the selection of potential contracts and their measurement as well as fulfilment of long-term construction contracts and the liquidated damages thereunder. Management of risks related to contract measurement and fulfilment, accumulated at the Company level, requires effective information flow as well as uniform budget review and project cost discipline procedures. There are also residual risks related to contracts which have already been fulfilled and have now entered the warranty phase. Additionally, the Company introduces uniform tools supporting the budgeting and ongoing strategic project cost control. Due to fulfilment of long-term energy contracts, operational risk management is one of the key tasks at each level and phase of the process of contract delivery and monitoring whether the events ensuring timely fulfilment of such contracts in line with the assumptions underlying the related cost plans occur as planned.

Raw materials and commodity price risk: The economic efficiency of the Company's operations is highly dependent on fluctuations in the prices of raw materials, mainly steel, concrete and zinc composite. Rising prices of materials and commodities may trigger an increase in the operating expenses of the Company. Where fees under the contracts may not be revised/renegotiated, which would enable the Company to cover higher costs of contract delivery, the Company's performance may deteriorate. The Company has implemented a central materials procurement procedure (economies of scale, negotiating lower purchase prices). However, the procedures implemented by the Company did not prove sufficiently effective in offsetting the negative effect of rising prices of raw materials and commodities under long-term contracts.

To this end, both procedural changes in the approach of the major investors to price indexation in long-term contracts and the Company's definition of the acceptable risk at a level appropriate for covering price rises without losing the margin planned on the project are required.

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

Risk of loss of resources as a result of pledging the Company's assets as collateral for liabilities: Use of the collateral by the creditors poses a considerable risk from the perspective of the Company's ability to continue its operations in case of bottlenecks despite a noticeable improvement of the conditions in the construction industry observed since 2015, which may intensify the pressure to use the collateral even if such use is not justified by the terms of contracts. The aforementioned risk could considerably hinder timely and proper performance of agreements and contracts, which would escalate contractual sanctions, such as imposition of liquidated damages, engagement of substitute contractors at the expense of the Company or even contract termination through the fault of the Company.

Liquidity risk: By 2020, the key objective of the strategy adopted in July 2015 is to achieve the position of the leading Polish industrial construction company which uses fully the EPC potential (engineering, procurement, construction – in Poland, the term "turnkey project" best reflects the idea of the EPC model), balances the sources of its revenue and improves constantly the contract delivery process. This objective will be achieved through increasing the return on sales on the existing markets, regaining the Company's position on selected markets and in relationships with the key business partners, entering selected new market segments, returning to the Western European markets and maximizing the share of EPC contracts in the portfolio.

The Management Board anticipates that implementation of a holding structure will produce numerous benefits, such as improvement of the Company's ability to obtain guarantees against the risks related to contract fulfilment, secure funding or find business partners to deliver selected projects, separation of the new business risk related to the segment companies, simplification of the process of monitoring the financial efficiency of each operating segment, implementation of a tax settlement management procedure at the Company as well as a clear and transparent structure of the Company and the Capital Group which will focus on the key capabilities only.

The Company's focus on the four pillars defined in the strategy should drive considerable stabilization and predictability of its financial performance in the long-term, improve the Company's ability to win strategic contracts, increase the average operating margin and lead to a further, gradual reduction of the debt ratio.

In the fourth quarter of 2016, considering the day-to-day financial needs and difficulties in obtaining sufficient guarantees necessary to win and deliver construction contracts, the Management Board of the Company employed measures aimed at obtaining a capital injection for the Capital Group. On 24 November 2016, the Management Board adopted a specific resolution to employ measures aimed to increase the share capital of the Company through the issue of T series shares by way of a private placement with no rights issue offered. The Company was to receive a supply of capital through an increase in its share capital by no more than PLN 300 million through the issue of no more than 150,000,000 T series shares by way of a private placement with no rights issue offered, without the necessity to launch a public offering.

On 27 December 2016, the Company signed a letter of intent with ENEA Spółka Akcyjna with its registered office in Poznań, ENERGA Spółka Akcyjna with its registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with its registered office in Warsaw and PGNiG Technologie Spółka Akcyjna with its registered office in Warsaw (the "Investors"), whereby the Investors expressed their intent to consider a potential investment in the Company and entered into negotiations with the Company with a view to making arrangements as to the detailed transaction parameters. The Extraordinary General Meeting of 28 December 2016 adopted a resolution to issue T series shares to be offered to the Investors. On 19 January 2017, the Company, Polimex Energetyka Sp. z o.o., Naftoremont - Naftobudowa Sp. z o.o. and Mostostal Siedlce Spółka z ograniczoną odpowiedzialnością Sp. k. made an agreement with Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A., Bank Ochrony Środowiska S.A., PKO Parasolowy FIO, Unifundusze SFIO, Unifundusze FIO, Bank Millennium S.A., Agencja Rozwoju Przemysłu S.A. and Bankowe Towarzystwo Kapitałowe S.A. as the Creditors and with Towarzystwo Finansowe "Silesia" Sp. z o.o. to modify the terms of funding provided to the Polimex-Mostostal Capital Group. The agreement was made so that the Creditors could grant their consent to: (i) enable the Company to obtain a capital injection and agree on the scope of amendments to the agreements between the Company and the Creditors in relation to the capital injection; (ii) enable TFS to purchase 146 convertible bonds from Agencja Rozwoju Przemysłu S.A.; and (iii) to enable the Company to issue new convertible bonds.

The process whereby the Company was to receive a capital injection of PLN 300 million was closed on 20 January 2017 when, following the satisfaction of the Conditions Precedent set out in the Investment Agreement of 18 January 2017 and consequently, all the Investors' acceptance of the offers to acquire T series shares issued by the Company, made by the Company to each Investor, the Company and the Investors entered into a subscription agreement whereby the Investors took up all the shares they had been offered, i.e. the total of 150,000,000 shares totaling PLN 300 million.

Financial performance

The financial data for 2016 reflect the operational restructuring process carried out at the Company. The net profit generated by the Company amounted to PLN 1,018 million, while EBITDA totaled PLN -81 million. Sales revenue decreased by PLN 306 million on the preceding year. It saw a drop from PLN 2,300 million in 2015 to PLN 1,994 million in 2016 (13%). In 2016, the Company reported a loss on sales of PLN 85.1 million versus a profit on sales of PLN 51.5 million generated in 2015. General and administrative expenses went down from PLN 35.3 million in 2015 to PLN 24.5 million a year later (a 30% decrease). In 2016, the Company's equity increased and it now totals PLN 164.2 million.

The current portfolio of contracts less sales attributable to consortium members is worth ca. PLN 1.9 billion (and includes only concluded contracts). The current portfolio of contracts by year: 2017: PLN 1.2 billion, 2018: PLN 0.6 billion and 2019: PLN 0.1 billion.

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

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

Limited access to bank and insurance guarantees in light of the provisions imposing the obligation to provide a guarantee for payment for construction works represents an important risk factor at individual phases of construction contract fulfilment. A failure to comply with mandatory laws within the prescribed time limits may lead to suspension of works or even contract termination through the fault of the Company. As their situation has begun to stabilize, the Company and the Group should be able to obtain new guarantees. The Company has entered into negotiations with insurance companies interested in issuing insurance guarantees for the Company and the Capital Group.

Risk of loss and shortage of qualified employees: The Company introduced group dismissal procedures as part of the operational and financial restructuring process initiated in 2012 and, in particular, implementation of the cost cutting policy. As a result, the Company lost some qualified and experienced employees, who needed mainly a stable and long-term employment relationship. This was also due to the expectations of a considerable increase in pay, which the organization was unable to fulfil.

In 2015, the conditions in the construction sector improved, which coincided with expansion of the portfolio of contracts. This led to an increased competitive pressure on the job market (in particular in the power engineering and petrochemical sectors), which was accompanied by a short supply of skilled candidates to work.

In line with the terms of agreements with the Creditors, the operations of the Company are carried out by the Segment Companies. In such market conditions, the Company's ability to retain top talent is determined by the directions of the current HR policy. It is also necessary to cut the costs affecting the profitability of projects and improve productivity, in addition to extending the scope of cooperation with subcontractors. Additionally, should new contracts be signed, the Company may encounter problems in recruitment of new, qualified staff with the required expertise, experience and qualifications, as the supply is not sufficient to satisfy the needs of the market. Therefore, recruitment of such staff may require increased personnel costs.

4. Financial position

4.1. Key financial data

Balance sheet

	As at 31 December 2016	As at 31 December 2015	Change PLN '000	Change %
Assets				
Non-current assets				
Property, plant and equipment	54,091	324,518	-270,427	-83.33%
Investment property	34,347	29,470	4,877	16.55%
Intangible assets	1,510	4,302	-2,792	-64.90%
Financial assets	310,925	344,209	-33,284	-9.67%
Non-current receivables	111,080	24,979	86,101	344.69%
Performance bonds related to construction contracts	38,141	56,404	-18,263	-32.38%
Deferred tax asset	165,251	168,405	-3,154	-1.87%
Other non-current assets	–	497	-497	-100.00%
Total non-current assets	**715,345**	**952,784**	**-237,439**	**-24.92%**
Current assets				
Inventories	439	40,953	-40,514	-98.93%
Trade and other receivables	293,669	585,526	-291,857	-49.85%
Performance bonds related to construction contracts	37,748	39,576	-1,828	-4.62%
Receivables from measurement of long-term contracts	5,397	44,851	-39,454	-87.97%
Financial assets	218,698	1,155	217,543	18,834.89%
Cash	140,583	308,849	-168,266	-54.48%
Other assets	1,363	2,328	-965	-41.45%
Assets held for sale	74,012	54,804	19,208	35.05%
Total current assets	**771,909**	**1,078,042**	**-306,133**	**-28.40%**
Total assets	**1,487,254**	**2,030,826**	**-543,572**	**-26.77%**

As at 31 December 2016, the Company's total assets amounted to PLN 1,487,254 thousand. As at 31 December 2016, non-current assets totaled PLN 715,345 thousand (down by 25% as compared to 31 December 2015), and current assets amounted to PLN 771,909 thousand (a 28% drop versus 31 December 2015).

In terms of value, the key changes in non-current assets concerned non-current receivables and property, plant and equipment. An increase in non-current receivables was driven by receivables arising from a share in the profit of Polimex Opole Sp. z o.o. Sp.k. A decline in the value of property, plant and equipment resulted mainly from a contribution of an OPE to Mostostal Siedlce Sp. z o.o. Sp.k. The fixed assets which were transferred as a contribution in kind amounted to PLN 245,298 thousand.

The major changes in current assets affected financial assets and were driven by reclassification of a performance bond issued by a bank in the amount of PLN 216,308 thousand from long-term financial assets. A decline in the value of inventories resulted from a contribution of an OPE to Mostostal Siedlce Sp. z o.o. Sp.k. The inventories transferred as a contribution in kind amounted to PLN 38,232 thousand.

Liabilities and equity				
Equity				
Share capital	173,238	173,238	–	0.00%
Supplementary capital	309,710	306,762	2,948	0.96%
Other capitals	(444,924)	(444,924)	–	0.00%
Equity component of issued bonds convertible into shares	29,734	29,734	–	0.00%
Accumulated other comprehensive income	35,767	95,170	(59,403)	-62.42%
Retained earnings / Uncovered loss	60,658	2,948	57,710	1,957.60%
Total equity	**164,183**	**162,928**	**1,255**	**0.77%**
Non-current liabilities				
Credit facilities and loans	169,825	166,249	3,576	2.15%
Long-term bonds	160,336	147,352	12,984	8.81%
Provisions	180,197	249,185	-68,988	-27.69%
Liabilities due to employee benefits	1,245	5,596	-4,351	-77.75%
Other liabilities	60,747	122,511	-61,764	-50.42%
Performance bonds related to construction contracts	30,746	40,122	-9,376	-23.37%
Total non-current liabilities	**603,096**	**731,015**	**-127,919**	**-17.50%**
Current liabilities				
Credit facilities and loans	1,362	153,265	-151,903	-99.11%
Trade and other liabilities	331,038	628,520	-297,482	-47.33%
Performance bonds related to construction contracts	44,584	26,890	17,694	65.80%
Liabilities from measurement of long-term contracts	217,916	244,461	-26,545	-10.86%
Provisions	103,572	46,100	57,472	124.67%
Liabilities due to employee benefits	9,580	30,022	-20,442	-68.09%
Deferred income	1,297	743	554	74.56%
Liabilities directly related to assets held for sale	10,626	6,882	3,744	54.40%
Total current liabilities	**719,975**	**1,136,883**	**-416,908**	**-36.67%**
Total liabilities	**1,323,071**	**1,867,898**	**-544,827**	**-29.17%**
Total liabilities and equity	**1,487,254**	**2,030,826**	**-543,572**	**-26.77%**

As at 31 December 2016, equity totaled PLN 164,183 thousand (up by 0.8% versus 31 December 2015), while total liabilities amounted to PLN 1,323,071 thousand (a drop by 29.2%).

The key changes affecting current liabilities concerned credit facilities and loans, which declined by PLN 151,903 thousand, where PLN 150,000 thousand resulted from a contribution in kind (OPE) made to Mostostal Siedlce Sp. z o.o. Sp.k.

Income statement

	For 12 months from 01.01.2016 to 31.12.2016			For 12 months from 01.01.2015 to 31.12.2015		
	Continuing operations	**Discontinued operations**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
Sales revenue	1,939,133	54,763	1,993,896,	1,948,183	352,086	2,300,269
Cost of goods sold	(2,033,779)	(45,211)	(2,078,990)	(1,954,925)	(293,824)	(2,248,749)
Gross profit/(loss) on sales	**(94,646)**	**9,552**	**(85,094)**	**(6,742)**	**58,262**	**51,520**
Costs to sell	(2,656)	(1,994)	(4,650)	(883)	(15,077)	(15,960)
General and administrative expenses	(24,456)	–	(24,456)	(35,294)	–	(35,294)
Other operating revenue	21,973	84	22,057	56,667	(3,679)	52,988
Other operating expenses	(4,214)	(133)	(4,347)	(10,733)	(442)	(11,175)
Operating profit/(loss)	**(103,999)**	**7,509**	**(96,490)**	**3,015**	**39,064**	**42,079**
Financial revenue	126,370	707	127,077	35,324	(317)	35,007
Financial expenses	(26,160)	(10)	(26,170)	(63,594)	(26)	(63,620)
Gross profit/(loss)	**(3,789)**	**8,206**	**4,417**	**(25,255)**	**38,721**	**13,466**
Income tax	(9,012)	5,613	(3,399)	(11,074)	556	(10,518)
Net profit/(loss)	**(12,801)**	**13,819**	**1,018**	**(36,329)**	**39,277**	**2,948**

In 2016, the Company generated sales revenue of PLN 1,993,896 thousand (a decrease of 13% on the preceding year). The said decline was driven by a contribution made in the form of an OPE to Mostostal Siedlce Sp. z o.o. Sp.k.

In the reporting period, the Company incurred an operating loss of PLN 96,490 thousand (versus an operating profit of PLN 42,079 thousand generated a year before). The operating profit decreased by PLN 138,569 thousand.

In the reporting period, general and administrative expenses decreased (in 2016, they amounted to PLN 24,456 thousand versus PLN 35,294 thousand in the comparative period), which was accompanied by a drop in costs to sell (in 2016, they totaled PLN 4,650 thousand versus PLN 15,960 thousand in the comparative period). This is the effect of the measures employed by the Management Board as part of the operational restructuring process, including introduction of a simplified structure and a considerable reduction of the operating expenses incurred by the Company.

In the current period, financial expenses totaled PLN 26,170 thousand, down by PLN 37,450 thousand as compared to the prior period.

In the current period, the Company's net profit amounted to PLN 1,018 thousand and it decreased by PLN 1,930 thousand on the preceding year.

Statement of cash flows

	For the period from 01.01.2016 to 31.12.2016	For the period from 01.01.2015 to 31.12.2015
Cash flows from operating activities		
Gross profit/(loss)	**4,417**	**13,466**
Adjustment by:	**(200,190)**	**(225,895)**
Depreciation and amortization	15,673	28,944
Net interest and dividends	(4,484)	15,005
Profit/(loss) on investing activities	(15,522)	(2,026)
Increase/(Decrease) in receivables	172,887	(32,900)
Increase/(Decrease) in inventories	2,585	7,384
Increase/(Decrease) in liabilities, except for credit facilities and loans	(345,231)	(232,802)
Change in other assets and deferred income	2,540	(5,341)
Change in provisions	(11,196)	(38,847)
Other	(17,442)	34,688
Net cash from operating activities	**(195,773)**	**(212,429)**
Cash flows from investing activities		
Sale of property, plant and equipment and intangible assets	5,790	15,285
Acquisition of property, plant and equipment and intangible assets	(901)	(5,980)
Acquisition of financial assets	(98)	(50)
Sale of financial assets	3,897	–
Interest and dividends received	21,996	3,221
Repayment of originated loans	8	9
Originated loans	(1,918)	(500)
Net cash from investing activities	**28,774**	**11,985**
Cash flows from financing activities		
Payment of finance lease liabilities	(320)	(531)
Interest paid	(1,009)	(5,190)
Other	64	592
Net cash from financing activities	**(1,265)**	**(5,129)**
Net increase/(decrease) in cash and cash equivalents	(168,266)	(205,573)
Net exchange differences	(16)	(796)
Cash at the beginning of the period	**308,849**	**514,422**
Cash at the end of the period	**140,583**	**308,849**
**Restricted cash*	112,075	255,860

In the reporting period, the net balance of cash and cash equivalents presented in the Company's statement of cash flows decreased by PLN 168,266 thousand. Cash and cash equivalents totaled PLN 140,583 thousand as at 31 December 2016. Net cash flows from operating activities amounted to PLN 195,773 thousand, from investing activities: PLN 28,774 thousand and from financing activities: PLN -1,265 thousand.

4.2. Economic and financial ratios describing the operations of Polimex-Mostostal

Ratios	**31.12.2016**	**31.12.2015**
Current ratio	1.07	0.95
Quick ratio	1.07	0.91
Liabilities to assets ratio	89%	92%
	31.12.2016	**31.12.2015**
Net profit margin	0.1%	0.2%
EBITDA margin	4.1%	3.1%
Basic earnings per ordinary share	0.01	0.03

4.3. Contingent liabilities

	Balance as at 31 December 2016	**Balance as at 31 December 2015**
Contingent liabilities	**1,311,096**	**1,434,095**
guarantees and surety bonds	854,608	979,2814
promissory notes	3,596	4,4154
litigation	452,892	450,360

In relation to loan and guarantee agreements concluded, bond liabilities and, in particular, the Agreement on Debt Enforcement Suspension of 24 July 2012, the Debt Service Agreement of 21 December 2012, the Agreement on the New Guarantee Facility and the related revolving loan of 21 December 2012, the Company and the Group Companies set up mortgages, pledges and liens, made assignments and issued promissory notes to secure payment of liabilities under the aforesaid instruments. As at 31 December 2016, the Company's total exposure related to those instruments was PLN 1,167 million.

4.4. Fees of the statutory auditor or the entity authorized to audit financial statements

In 2016, the fee of the certified auditor for the audit of the statutory annual financial statements amounted to PLN 651 thousand versus PLN 632 thousand a year before.

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

	Year ended 31 December 2016	Year ended 31 December 2015
Management Board		
Short-term employee benefits (salaries and related charges)	3,371	3,224
Supervisory Board		
Short-term employee benefits (salaries and related charges)	818	735
Total	**4,189**	**3,959**

5. Other information

5.1. Shareholder structure

The table below presents shareholders with at least 5% of the total votes in Polimex-Mostostal SA as at 31 December 2016:

No.	Shareholder	Number of shares/ votes	Percentage interest: in the share capital/ in the total votes at the Annual General Meeting*
1.	Bank Polska Kasa Opieki S.A.	15,076,137	17.41%
2.	NEPTUN – FIZAN	12,143,833	14.02%
3.	PZU Fundusz Inwestycji Niepublicznych BIS 1	12,000,001	13.85%
4.	SPV Operator Sp. z o.o.	6,000,001	6.93%
5.	Other shareholders	41,398,830	47.79%
	Total number of shares (all issues)	**86,618,802**	**100.00%**

5.2. Composition of the Management Board

Composition of the Management Board as at 31 December 2016:

Antoni Józwowicz	Chairman of the Board
Tomasz Kucharczyk	Vice-Chairman of the Board
Tomasz Rawecki	Vice-Chairman of the Board

Changes in the composition of the Management Board of the Company in the reporting period:

2016-03-04 The Supervisory Board removed Ms. Joanna Makowiecka-Gaca from the Management Board (Resolution No. 145/XI of the Supervisory Board) and Mr. Krzysztof Cetnar (Resolution No. 146/XI of the Supervisory Board). At the same time, Mr. Antoni Józwowicz and Mr. Tomasz Kucharczyk were appointed as Members of the Management Board (Resolution No. 147/XI and Resolution No. 149/XI of the Supervisory Board, respectively) effective from 4 March 2016, while Mr. Tomasz Rawecki was appointed effective from 7 March 2016 (Resolution No. 148/XI of the Supervisory Board) (WSE Communiqué No. 15/2016) by the end of the current three-year term of office.

2016-06-07	The Supervisory Board adopted a resolution to remove Mr. Jacek Czerwonka from the Management Board effective from the date of the resolution (Resolution No. 164/XI of the Supervisory Board) (WSE Communiqué No. 33/2016).
2017-02-27	The Company received a statement of resignation from the position of Member of the Management Board effective from 27 February 2017 (WSE Communiqué No. 24/2017) from Mr. Tomasz Kucharczyk.
2017-02-28	The Supervisory Board appointed Mr. Andrzej Juszczyński as a Vice-Chairman of the Management Board (WSE Communiqué No. 26/2017).

Composition of the Management Board as at 24 March 2017:

Antoni Józwowicz	Chairman of the Board
Andrzej Juszczyński	Vice-Chairman of the Board
Tomasz Rawecki	Vice-Chairman of the Board

5.3. Composition of the Supervisory Board

Composition of the Supervisory Board as at 31 December 2016:

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

During the reporting period and by the date of publication of this report, the following changes occurred in the composition of the Supervisory Board:

2016-02-23	Mr. Wojciech Barański resigned from the position of Member of the Supervisory Board (WSE Communiqué No. 9/2016).
2016-02-25	The Extraordinary General Meeting of Polimex-Mostostal S.A. changed the composition of the Supervisory Board of the Company by removing: Mr. Marek Szczepański – Chairman of the Supervisory Board, Mr. Andrzej Zwara – Member of the Supervisory Board, Mr. Krzysztof Kaczmarczyk – Member of the Supervisory Board, Mr. Jarosław Kochaniak – Member of the Supervisory Board, Mr. Andrzej Kasperek – Member of the Supervisory Board, and by appointing Ms. Iwona Warsewicz, Mr. Bartłomiej Kachniarz, Ms. Anna Młynarska-Sobaczewska, Mr. Zbigniew Jędrzejewski, Mr. Bartłomiej Kurkus and Mr. Andrzej Komarowski by the end of the current term of office.

2016-04-15	Resignation of Mr. Zbigniew Jędrzejewski from the position of Member of the Company's Supervisory Board effective from 15 April 2016 following his election as a judge of the Constitutional Tribunal (WSE Communiqué No. 20/2016).
2016-05-16	The Extraordinary General Meeting of the Company appointed Mr. Przemysław Figarski as Member of the Supervisory Board (Resolution No. 4) (WSE Communiqués No. 27 and 28/2016).
2016-06-24	The Annual General Meeting of the Company appointed Mr. Bartosz Ostachowski as Member of the Supervisory Board (Resolution No. 26) (WSE Communiqué No. 38/2016).
2017-01-17	The Extraordinary General Meeting of Polimex-Mostostal S.A. changed the composition of the Supervisory Board of the Company by removing: Ms. Anna Młynarska-Sobaczewska, Mr. Bartłomiej Kachniarz, Mr. Adam Milewicz, Mr. Przemysław Figarski, Mr. Bartosz Ostachowski, and by appointing: Mr. Paweł Mazurkiewicz, Ms. Marta Zygmunt and Mr. Konrad Milczarski (WSE Communiqué No. 9/2017).

Composition of the Supervisory Board as at 24 March 2017:

Iwona Warsewicz	Chairperson of the Supervisory Board
Bartłomiej Kurkus	Vice-Chairman of the Supervisory Board
Andrzej Sokolewicz	Secretary of the Supervisory Board
Andrzej Komarowski	Member of the Supervisory Board
Marta Zygmunt	Member of the Supervisory Board
Paweł Mazurkiewicz	Member of the Supervisory Board
Konrad Milczarski	Member of the Supervisory Board

The Management Board is the Company's governing body on which all the management powers have been conferred and which acts in any matters which have not been assigned exclusively to the General Meeting or the Supervisory Board. The Supervisory Board has the right to appoint and remove members of the Management Board. A member of the Management Board may also be removed or suspended by way of a resolution adopted by the General Meeting. The Management Board and its members are not authorized to make decisions on the issue or redemption of shares.

5.4. A description of the Company's diversity policy with respect to the governing bodies and top managers

The Company has not adopted a diversity policy with respect to the governing bodies and top managers considering the markets where it operates, in particular a limited number of top managers that may be acquired on the market.

5.5. Statement of compliance with principles of corporate governance

In line with the Rules of the Warsaw Stock Exchange, the Company, whose shares are listed on the main market of WSE, should comply with the principles of corporate governance laid down in the Best Practice for WSE Listed Companies. The Best Practice is a set of recommendations and principles applicable specifically to governing bodies of listed companies and their shareholders. The Rules of the Warsaw Stock Exchange as well as the resolutions of WSE Management Board and Supervisory Board specify how listed companies should communicate information concerning their compliance with corporate governance principles, along with the scope of such information. If a principle has not been applied by a listed company on a permanent basis or has been violated incidentally, the listed company is obliged to communicate such information in the form of a current report. Furthermore, a listed company is obliged to supplement its annual report with a report containing information on the scope of its application of the Best Practice for WSE Listed Companies in the financial year.

It is the Company's objective to ensure the highest possible transparency of its operations, proper quality of communication with investors and protection of shareholder rights, also in those matters which are not governed by the applicable laws. Therefore, the Company has implemented measures necessary to ensure as strict as possible compliance with the principles laid down in the Best Practice for WSE Listed Companies.

As communicated in Report No. 10/2016 of 24 February 2016, the Issuer's Management Board decided not to apply some of the principles laid down in the Best Practice for WSE Listed Companies. The Management Board intends to comply with all the corporate governance principles established in the Best Practice for WSE Listed Companies, except for the following:

I. Part I – Disclosure Policy, Investor Communications

1. Section I.I.Z.16 of the Best Practice for WSE Listed Companies:

Principle:

"information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting"

Reason:

The Company does not comply with this principle as its general meetings are not transmitted. If the Company decides to apply the principle concerning transmission of general meetings, it will also consider application of the aforesaid principle.

2. Section I.I.Z.19 of the Best Practice for WSE Listed Companies:

Principle:

"shareholders' questions asked to the management board pursuant to Article 428 § 1 or § 6 of the Commercial Companies Code together with answers of the management board to those questions, or a detailed explanation of the reasons why no answer is provided, pursuant to principle IV.Z.13"

Reason:

The aforesaid principle is complied with to the extent that the Company operates a corporate website and publishes on it information required by legal regulations as well as shareholders' questions asked before the general meeting of the Company, together with answers to those questions. The principle is not complied with to the extent that the Company does not publish shareholders' questions on issues on the agenda, submitted during a general meeting, or answers to those questions, as the course of the general meeting is not recorded by the Management Board. On its website, the Company publishes draft resolutions before the general meeting date as well as resolutions adopted by the general meeting.

Section I.I.Z.20 of the Best Practice for WSE Listed Companies:

Principle:

"an audio or video recording of a general meeting"

Reason:

The Company does not anticipate publishing the recordings of the general meetings on its website considering the related costs and based on the past experience in organization of general meetings and their course, which does not indicate the need to make such recordings.

II. Part IV – General Meeting, Shareholder Relations

1. Section IV.IV.R.2 of the Best Practice for WSE Listed Companies:

Principle:

"If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

1) real-life broadcast of the general meeting;

2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting."

Reason:

The Company is not planning to broadcast its general meetings in real time as the shareholder structure and the past experience in organization of general meetings do not indicate such a need. According to the Company, exercising the right to vote with the use of electronic communication means has not become a common practice yet and as such, it involves organizational and technical risks, which may result in questioning resolutions adopted in this manner due to technical defects. As this practice becomes more common, the Management Board of the Company will consider the possible application of the underlying corporate governance principle.

2. Section IV.IV.Z.2 of the Best Practice for WSE Listed Companies:

Principle:

"If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings."

Reason:

The past experience in organization of general meetings and their course, and the shareholder structure do not indicate the need for such transmission. However, it may not be ruled out that the aforesaid principle will be applied in the future, once appropriate technical measures have been employed and expenditure incurred for that purpose by the Company.

5.6. Major characteristics of the internal control and risk management systems used by the Capital Group for purposes of preparation of separate and consolidated financial statements

The Company has internal controls and a risk management system in place in the financial reporting process, which are reflected in:

- the application of consistent accounting policies by the Group Companies with respect to recognition, measurement and disclosures in accordance with International Financial Reporting Standards in the consolidated financial statements of the Capital Group;
- the application of procedures for recognition of economic events in the finance and accounting system and monitoring compliance with such procedures;
- the application of consistent model separate and consolidated financial statements;
- the audit of the annual financial statements of Polimex-Mostostal S.A. and the Group Companies by independent auditors;
- procedures for authorization, approval and verification of financial statements prior to their publication;
- independent and unbiased assessment of the risk management and internal control systems.

Preparation of the annual financial statements is preceded by a meeting of the Audit Committee with independent auditors, held in order to agree on the plan and scope of the audit of the financial statements and to discuss the potential areas of risk that could have an impact on the correctness and fairness of the financial statements. The process of preparation of the financial statements is carefully planned and the roles and responsibilities are assigned to the Company's employees properly considering their competence and qualifications.

With a view to mitigating the risk related to the financial reporting process on an ongoing basis, the financial statements are examined by a third-party auditor on a semi-annual basis. The financial statements for the first half of the year are reviewed and the annual financial statements are audited. The results of such reviews and audits are presented by the auditor to the Management Board and the Audit Committee at the Supervisory Board.

The Company has authorization procedures in place, whereby periodic reports are submitted to the Management Board of the Company and then to the Audit Committee at the Supervisory Board for verification. Once the Audit Committee has expressed its conclusions and the financial statements have been examined by the auditor, they are approved for publication by the Management Board and submitted to the relevant capital market institutions and published. Until their publication, access to the financial statements is limited to those who participate in the process of their preparation, verification and approval.

The Group has an Internal Audit and Control Unit, which is responsible for an independent and unbiased assessment of the risk management and internal control systems, in addition to business process analysis.
The Unit follows the annual audit plans which are approved by the Management Board after they have been reviewed by the Audit Committee at the Supervisory Board.
The Internal Audit and Control Unit may also conduct ad hoc audits at the request of the Supervisory Board or the Management Board of the Company.

Its duties include formulation of recommendations as to the implementation of solutions and standards aimed to mitigate the risk relating to the achievement of business objectives, improve the efficiency and effectiveness of internal controls and streamline business processes.
On a quarterly basis, the Unit produces reports on the monitoring of the progress of implementation of recommendations for the Management Board and the Audit Committee at the Supervisory Board.

Additionally, it is responsible for coordination of the corporate risk management process in addition to providing methodological support to the organizational units of the Capital Group.

5.7. Amendments to the Issuer's Articles of Association

The General Meeting has the power to amend the Articles of Association at its own initiative and/or at the request of the Supervisory/Management Board. Proposed amendments to the Articles of Association are reviewed and their consolidated version drafted by the Supervisory Board of the Company.

Management Board of Polimex-Mostostal S.A.

Full name	Position/Function	Signature
Antoni Józwowicz	Chairman of the Board	
Andrzej Juszczyński	Vice-Chairman of the Board	
Tomasz Rawecki	Vice-Chairman of the Board	