

**POLIMEX-MOSTOSTAL CAPITAL GROUP**

**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
FOR THE YEAR ENDED 31 DECEMBER 2010**



Warsaw, 28th April 2011

This is a translation of a document originally issued in the Polish language

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## 1. Economic activities of Polimex-Mostostal Capital Group

In 2010 Polimex-Mostostal Capital Group basically operated in five segments – **construction, manufacturing, power engineering and chemical as well as road and railway construction sector.**

In the **construction sector** operating activity is conducted mainly by Polimex-Mostostal S.A. In 2010 the Issuer concentrated on the execution of large industrial and general construction facilities located mostly at home. The following contracts are worth mentioning:

- with the Capital City of Warsaw on reconstruction of the football stadium in Warsaw at ul. Łazienkowska 1/3,
- with the Municipality of Kraków on reconstruction of "Wisła Kraków" football stadium in Kraków,
- with Lubelski Węgiel Bogdanka S.A. on construction of a gantry – of gotten haulage from the 2.1. shaft in the Stefanów Field to the Division of Coal Mechanical Treatment in the Bogdanka Field in Lubelski Węgiel Bogdanka S.A.,
- with the City Council in Gorzów Wielkopolski on construction of the Center for Art Education in Gorzów Wielkopolski and on planning and execution of an underground car park and access roads.
- with Targi Kielce Sp. z o.o. on construction of a new exhibition hall,
- with the Investor represented by the State Treasury, which was represented by the Minister of Culture and National Heritage and the Capital City of Warsaw – the Warsaw Administration for the Development of the City for the construction of the Museum of the History of the Polish Jews together with associated infrastructure and the improvement of territory.

**As far as production is concerned,** operating activities are conducted mainly by Polimex-Mostostal S.A. and StalFa Sp. z o.o. Production is an activity differentiating Polimex-Mostostal Group from entities of the similar profile of operations. The wide range of products manufactured for the domestic and foreign customers includes, among other things: steel structures, gratings, shelve systems and corrosion protections (hot-dip galvanising, hydrodynamic painting), (*off-shore*) drilling vessels, pipelines, steel containers and chemical apparatus, air and combustion ducts and chimneys. Polimex-Mostostal Group benefits from synergy arising from internal co-operation and deliveries of steel structures manufactured in its production plants.

**In power engineering sector,** operating activities are conducted by Polimex-Mostostal S.A. and Sefako capital group. The European and global industry leaders are the partners of Polimex-Mostostal S.A.: Siemens, Alstom, Doosan Babcock, Hitachi, AEE, General Electric, Metso and Burmeister & Wein. The following contracts are prominent among performed by Polimex-Mostostal S.A. in 2010:

- with Hitachi Power Europe and Alstom Power Boiler on assembly of the pressure parts for two boilers in the Neurath Power Plant,
- with Elektrownia Kozienice S.A. on provision of Combustion Gas Desulphurisation System (IOS III) in Kozienice Power Plant,
- with Zakłady Azotowe Kędzierzyn Koźle S.A. on construction of a new Water Treatment Plant in Zakłady Azotowe in Kędzierzyn Koźle,
- with International Paper Kwidzyn Sp. z o.o. on design, supply, installation, assembly and commissioning of a turbine set for the paper plant in Kwidzyn,

- with Południowy Koncern Energetyczny S.A. on construction of the power unit with a fluidized-bed boiler, back-pressure turbine, two peak boilers and the heat accumulator in Bielsko-Biala Heat and Power Plant EC1.

Operations of Sefako capital group in 2010 focused on planning, production and sales of boilers, other industrial and power devices, as well as assembly and service works. The following projects are prominent among performed in 2010: Westfalen (Alstom Power Systems, Germany), Meath (BWV, Ireland), Trehorningen contract (BWV, Norway), Germany BP5 (MW Power, Finland), Cengiz (Aalborg Engineering, Turkey), Bio Cogelyo 10210 (Aalborg Energie Technik, France), Belchatów K5 (Steinmuller).

**In chemical sector** operations are performed mainly by Polimex-Mostostal S.A. The Issuer performs contracts in form of general contracting, in co-operation with companies of the European and global reach, such as Uhde GmbH, Technip, Babcock FISIA and Lurgi. The following contracts are prominent among concluded by Polimex-Mostostal S.A. in 2010:

- with PKN Orlen S.A. on general contracting related to construction and assembly works under investment task “Construction of Terephthalic Acid Production Plant (PTA)”,
- with Technip Polska Sp. z o.o. on MHC installation works (hydro cracking) under Programme 10+ implemented by LOTOS S.A. Group,
- with the Dutch company – Botlek Tank Terminal B.V. for the “turnkey” construction of the tank terminal for storing mineral oils, vegetable oils and liquid fuels with a capacity of 185,000 m<sup>3</sup> in the Rotterdam port.

Polimex-Mostostal S.A. operates in **road and railway sector** in co-operation with Torpol group. The following contracts are prominent among performed by Polimex-Mostostal S.A. in 2010:

- with the General Directorate for National Roads and Motorways on construction of the A-1 motorway section from the Sośnica junction to the Maciejów junction (with the junction) under the task: “Construction of the “Sośnica” junction at the crossroads of the A1 and A-4 motorways, including the section of the A-1 motorway – Sośnica – Maciejów (with the junction) – from 510+530 km to 518+734.34 km”,
- with the General Directorate for National Roads and Motorways - Branch in Kraków for the construction of A4 motorway in the section from the Szarów junction to the Brzesko junction from km 455+900 to 479+000,
- with the Municipality of Kraków represented by the Management of Municipal Infrastructure and Transport in Kraków for the extension of streets: ul. Surzyckiego – ul. Botewa and the construction of the street: ul. Śliwaka in Kraków,
- with the General Directorate for National Roads and Motorways Branch in Kraków on construction of the national route – the Trasa Nowohucka – in Kraków with target parameters of the express road in the section from the Bieżanów junction to the Christo Botewa (Rybitwy) junction.

In 2010 Torpol capital group performed significant projects mainly for railroad construction industry. The following contracts are prominent among the works executed by Torpol Sp. z o.o.:

- with PKP Polskie Linie Kolejowe S.A. to modernise the routes: Legionowo - Nowy Dwór Mazowiecki; Nowy Dwór Mazowiecki – Modlin, Modlin – Nasielsk, Nasielsk - Świercze under Project No. 2005/PL/16/C/PT/001 "Modernisation of E-65 railroad, section Warsaw – Gdynia, stage II",
- with PKP Polskie Linie Kolejowe S.A. on modernisation of E-65 rail road Warszawa – Gdynia in the section from km 287.700 (on Szymankowo – Lisewo line) to km 315.700 (on Pszczółki – Pruszcz Gdański line) covered by the area of Local Steering Centre in Tczew under Project FS No 2005/PL/16/C/PT/001 „Modernisation of E-65 railroad, section Warszawa – Gdynia, stage II”,

- with PKP Polskie Linie Kolejowe S.A on remodelling of the railroad infrastructure in No. 152 Paczyna – Lubliniec line, Toszek Północ – Czarków section.

It should be stressed that operations related to five sectors mentioned above give rise to competitive advantage of Polimex-Mostostal S.A. Group and lowering of operating risk.

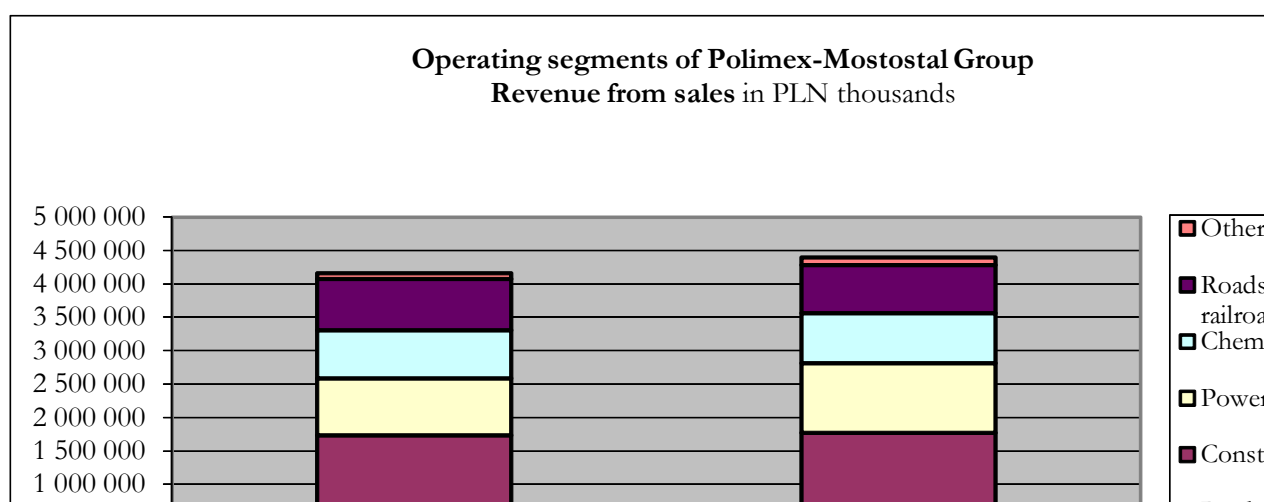
### 1.1. Revenues and their structure

In 2010 Polimex-Mostostal Capital Group raised revenue from sales in amount of PLN 4,160,901 thousand.

PLN thousands

Segment	Change 2010 / 2009	2010		2009	
		value	share	value	share
Production	12.0%	591 474	14.2%	528 080	12.0%
Construction	-7.9%	1 149 968	27.6%	1 249 047	28.4%
Power Engineering	-18.5%	847 399	20.4%	1 039 487	23.6%
Chemistry	-3.4%	718 189	17.3%	743 811	16.9%
Roads and railroads	5.5%	768 664	18.5%	728 280	16.6%
Other operations	-21.2%	85 207	2.0%	108 073	2.5%
<b>Total revenue from sales</b>	<b>-5.4%</b>	<b>4 160 901</b>	<b>100.0%</b>	<b>4 396 778</b>	<b>100.0%</b>

The highest share in sales was attributed to Construction – 27.6% (a decrease in sales by 7.9% as against comparative data for 2009) followed by Power engineering industry – 20.4% (a decrease in sales by 18.5% as against comparative data for 2009) - mostly due to the shift of the execution of modernisation projects in the Polish power engineering sector beyond the year 2010). An increase in the revenue of Production segment (an increase in sales of 12.0% as against comparative data for 2009) was the effect of fuller and fuller utilization of new production capacities in Tarnobrzeg Special Economic Zone, whereas in the case of Roads and railroads segments (an increase in sales of 5.5% as against comparative data for 2009) it was the result of a dynamic growth of works in the scope of road infrastructure.



## 1.2. Main products and services

The scope of Polimex-Mostostal Group's operations in 2010 in the main product groups was as follows:

- preparation of pre-planning case studies and reviews, planning concepts, completion of supplies of system components, as well as full-scale servicing of investment process, in particular for chemical and power engineering industry;
- general contracting of facilities in construction, power engineering, chemical, road and railroad industry.
- assembly of special equipment, in particular for chemical and power industry;
- design, production and sales of power boilers;
- continuous and full-scale servicing of power plants, heat and power plants, as well as industrial plants;
- production, supplies and assembly of steel structures – typical facilities – supermarkets, trade centres, warehouse halls, production plants, multilevel parking lots, garages, fuel stations, warehouse terminals, (*off-shore*) drilling rigs; the Group also deals with construction of untypical structures under individual plans prepared by customers;
- production and supplies of gratings – used as service ramps in industrial construction and power engineering industry, walks for overhead crane decks, routes at pipelines and containers, walks on footbridges and bridges, duct coverage, hatch protection and steps;
- production and supplies of shelf systems, palettes for gas cylinders and construction industry, road barriers – situated at roads and in places of higher risk for life, building accessories - including: construction supports (punches) for roof protection;
- services in scope of corrosion protection of steel structures by means of:
  - hot-dip galvanising according to PN-EN ISO 1461 standard,
  - Duplex system (galvanising + hydrodynamic painting),
  - hydrodynamic painting;
- hardware and transport services.

## 1.3. Trade areas and sources of supply

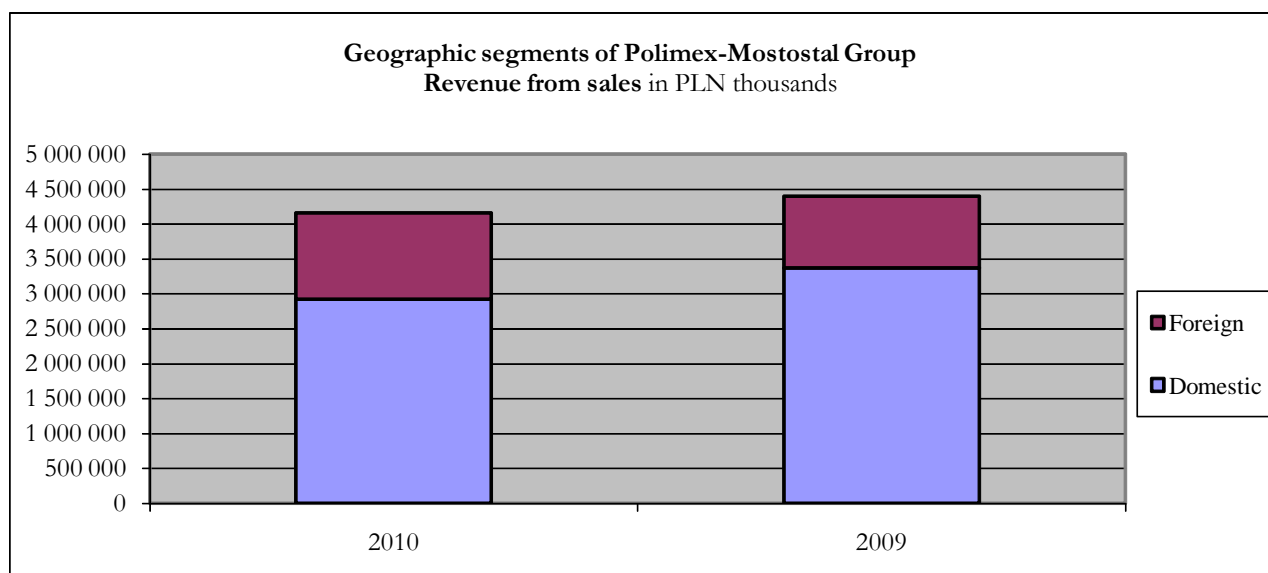
Value and geographic structure of Polimex-Mostostal S.A. Capital Group's sales in 2010 were as follows:

PLN thousands

Segment	Change 2010 / 2009	2010		2009	
		value	share	value	share
Domestic	-13.3%	2 919 304	70.2%	3 366 376	76.6%
Foreign	20.5%	1 241 597	29.8%	1 030 402	23.4%
<b>Total revenue from sales</b>	-5.4%	4 160 901	100.0%	4 396 778	100.0%

As compared to 2009 the value and structure growth in sales to foreign markets was reported. The domestic market, where 70.2% of total revenues from sales of Polimex-Mostostal Capital Group were generated, remained the principal market for the Group in 2010.





The key customers of the **parent entity** in 2010 were: PKN Orlen S.A., the General Directorate for National Roads and Motorways, the Municipality of Kraków, the Capital City of Warsaw, Alstom Power Systems GmbH – Germany, Technip Polska Sp. z o.o., Elektrownia Kozienice S.A., Botlek Tank Terminal – Holland, Lubelski Węgiel „Bogdanka” S.A., the City Council of Gorzów Wielkopolski, Vattenfall Heat Poland S.A., Południowy Koncern Energetyczny S.A. Only revenues from sales to PKN Orlen S.A. exceeded 10% of the revenues from sales of Polimex-Mostostal S.A. and equalled 11.3%. PKN Orlen S.A. is not formally related to Polimex-Mostostal S.A. Main suppliers of the parent company in 2010 were: Mostostal Warszawa S.A., Polimex-Sices Polska Sp. z o.o., Doprastav S.A. (Branch in Poland), Poldim-yMosty Sp. z o.o., Taiyo Europe GmbH – Germany, Qumak Sekom S.A., PPH Transsystem S.A., Polbud-Pomorze Sp. z o.o., ISD Trade Sp. z o.o. Sp. k., Thyssenkrupp Energostal S.A., Foster Wheeler Energia Polska Sp. z o.o., Dragados S.A. (Branch in Poland), Bouwbedrijf De Vries en Verburg B.V. – Holland, ArcelorMittal Distribution Poland Sp. z o.o. In 2010 purchases from individual suppliers did not exceed 10% of revenues from sales of Polimex-Mostostal S.A.

The key customers of **Torpol capital group** in 2010 were: PKP Polskie Linie Kolejowe S.A. (74% of total sales of the Group), Alusta S.A., Skanska S.A. and MPK Sp. z o.o. in Wrocław. None of the above mentioned suppliers is formally related to Torpol company. The key providers of Torpol capital group in 2010 were: Alusta S.A. (22% of purchases of the group), Arcelor Mittal Steel Poland S.A. (12% of purchases of the group), Krakowskie Zakłady Automatyki S.A., DB Fahrzeuginstandhaltung GmbH, Zakład Sieci i Zasilania Sp. z o.o. in Wrocław, Wytwórnia Podkładów Strunobetonowych S.A. in Goczałkowo, Wytwórnia Podkładów Strunobetonowych S.A. in Mirosław Ujski, Przedsiębiorstwo Handlowo-Usługowe ELEKTRO-TEL-BUD from Olsztyn, PKP Polskie Linie Kolejowe S.A., Wiktor Trybuś Projektowanie Nadzory Wykonawstwo in Komorniki and BUDNET Waldemar Illmann in Czerwonak. None of the above mentioned suppliers is formally related to Torpol company.

The key customers of **Sefako capital group** in 2010 were: BWV – Denmark, Alstom Power Systems – Germany, MW Power – Finland, Steinmuller – Germany, Aalborg Engineering – Denmark, Aalborg Energie Technik – Denmark. The 10% threshold of sales of Sefako group was exceeded for three customers – BWV (Denmark), Alstom Power Systems (Germany), MW Power (Finland). The entities are not formally related to Sefako S.A. The main providers of Sefako Capital Group in 2010 were: R - Line Lepiarczyk Sp.j., SPEC



Sędziszów, Ekoinstal Jan Klusko i Partnerzy Sp.j., Zeork S.A., Orbi - Trans Józef Rędziński, Panas Transport, AIR Liquide, Zakład Urządzeń Kotłowych „Stąporków”, ZRE Katowice S.A., Spaw-Serwis, Energomontaż Poznań, Zakład Urządzeń Ciepłowniczych TERMAX. In 2010 purchases from individual providers did not exceed 10% of total revenues from sales of Sefako capital group.

#### 1.4. Information on significant transactions concluded by the Issuer or its subsidiary with related party otherwise than under market conditions

According to information acknowledged by the Issuer, transactions concluded in 2010 by the Issuer or its subsidiaries with related entities were concluded under market conditions, and their nature and terms resulted from operating activity.

#### 1.5. Investments – fixed and intangible assets

Capital Group's expenditure on fixed assets and intangible assets in 2010 amounted to PLN 171,435 thousand. Amortisation and depreciation in 2010 was PLN 87,705 thousand.

Structure of capital expenditure on fixed and intangible assets of Polimex-Mostostal Group in 2010.

2010	PLN thousands	
Investment in property, plant and equipment	value	share
Land and buildings	94 087	54.9%
Plant and equipment	81 825	47.7%
Means of transportation	13 799	8.0%
Other fixed assets	5 968	3.5%
Fixed assets under construction incl. advance payments	-29 151	-17.0%
<b>Total</b>	<b>166 528</b>	<b>97.1%</b>
Investment in intangible assets	value	share
Patents and Licenses	487	0.3%
Software	4 407	2.6%
Other	13	0.0%
<b>Total</b>	<b>4 907</b>	<b>2.9%</b>
<b>Total property, plant and equipment and intangible assets</b>	<b>171 435</b>	<b>100.0%</b>

In 2010 the majority of investment spending of Polimex-Mostostal Group was investment of the parent company relating to the continuation of the construction of new manufacturing floor within Tarnobrzeg Special Economic Zone. In "Land and buildings" significant expenditure was also reported by Energomontaż-Północ Gdynia Sp. z o.o. – assets acquired from Gdynia Shipyard and by Centrum Projektowe Sp. z o.o. – completion of the construction of the company premises.

As regards investments in intangible assets, the main investments related to the implementation works in the scope of the SAP R/3 integrated system (Polimex-Mostostal S.A.).

## 1.6. Equity investments

### 1.6.1. Changes in investment portfolio

In the reporting period there was a deep restructuring of the Issuer's Capital Group, whose main elements were the incorporation of seven subsidiaries by Polimex-Mostostal S.A. and the construction of the design centre. The incorporation procedures were formally completed on 31.12.2010 when the entry of combination became visible in the National Court Register that meant that the legal existence of the companies being acquired ceased. The combination occurred in the form of general succession which means that the rights and obligations of the companies being acquired were transferred to Polimex-Mostostal S.A. The operations of the acquired companies are continued by separate organisational units called divisions. The changes relating to the above mentioned incorporation are as follows:

- Energomontaż-Północ S.A. operates as Energomontaż Północ Division,
- Naftobudowa S.A. operates as Naftobudowa Division,
- Naftoremont Sp. z o.o. operates as Naftoremont Division,
- Zakłady Remontowe Energetyki Kraków Sp. z o.o. operates as ZRE Kraków Division,
- Zakłady Remontowe Energetyki Lublin S.A. operates as ZRE Lublin Division,
- EPE-Rybnik Sp. z o.o. operates as EPE-Rybnik Division,
- ECeRemont Sp. z o.o. operates as EceRemont Division,

One of the consequences of the above changes was gaining by Polimex-Mostostal S.A. direct control over companies that up to that moment had been in the capital groups of the incorporated companies. The key ones are as follows:

- companies of the former Energomontaż-Północ Capital Group:
  - Energomontaż – Północ Gdynia Sp. z o.o.,
  - Energop Sp. z o.o.,
  - Energomontaż-Nieruchomości Sp. z o.o.,
  - Energomontaż Północ-Technika Spawalnicza i Laboratorium” Sp. z o.o.;
- companies of the former Naftobudowa Capital Group:
  - NAF Industriemontage GmbH;
- companies of the former Naftoremont Capital Group:
  - Modul System Service Sp. z o.o.,
  - Sinopol Trade Center Sp. z o.o.

Under the construction of the design centre Centralne Biuro Konstrukcji Kotłów S.A. was acquired and the share in capital of Centrum Projektowego Polimex-Mostostal Sp. z o.o. was increased.

The list of remaining changes in the investment portfolio of the Issuer which occurred from 01.01.2010 till the date of completion of this report was as follows:

- On 11.02.2010 an agreement was concluded under which the Issuer paid the last, the third, instalment on account of the purchase of the shares of Coifer Impex SRL with the registered office in Bucharest, Romania. As a result of the transaction, the Issuer's share in company's capital and votes increased from 75% to 100%. The Issuer spent EUR 2,500 thousand (equal to PLN 8,577 thousand) on this aim. Terms of shares transfer complied with the basic agreement of 14.02.2008. The first stage of the agreement was completed on

21.02.2008 by paying the first instalment in the amount of EUR 9,375 thousand. The second instalment in the same amount was paid in August 2008. Due to transaction structure and in accordance with the provisions of IAS / IFRS, the Issuer consolidated 100% of financial results of the Coifer group already in 2008 in the statement of the Polimex-Mostostal Capital Group. In October 2010 the share capital of the Coifer Company was increased by means of the conversion of debt into shares which were fully covered by Polimex-Mostostal S.A. allotting the amount equal to PLN 8,519 thousand.

- On 09.03.2010 Polibur Engineering Ltd (Great Britain) was deleted from the register. (Great Britain). The company did not conduct statutory business activity for quite a long time.
- On 27.05.2010 the General Meeting of Porty S.A adopted a resolution on putting the company in liquidation. The Issuer's share in capital and votes of the company amounts to 40%. Porty company was established for the purpose of the construction of port infrastructure in Libya. After the completion of contracted investments the decision was made to liquidate the company.
- On 23.06.2010 the General Meeting of Terminal LNG S.A adopted a resolution on putting the company in liquidation. The Issuer's share in capital and votes of the company amounts to 30.51%. The company was established to perform the construction of LNG Port in Zachodniopomorskie province. In connection with the fact that the statutory objective was not met the decision was made to dissolve the company.
- On 12.07.2010 a contract of sale by the Issuer of the 30% stake of shares in Valmont Polska Sp. z o.o. for the amount of PLN 12,500 thousand was performed. The transaction is in line with the Issuer's policy that assumes disposing of companies in which the Issuer holds minority stakes.
- On 30.07.2010 Polimex-Mostostal S.A. covered for the amount of PLN 96,498 thousand (conversion of debt into shares) the entirety of the issue of shares of Polimex-Development Kraków Sp. z o.o. As a result of the transaction the share of Polimex-Mostostal S.A. in company's equity did not change and amounts to 100%.
- In August 2010 Polimex-Mostostal S.A. concluded contracts under which it acquired the block of shares of Tchervonograd MSP for the amount equal to PLN 21 thousand, thus increasing its holding from 99.5% to 99.63%. The registration of shares was in January 2011.
- On 19.10.2010 Polimex-Mostostal S.A. covered for the amount of PLN 2,011 thousand (conversion of debt into shares) the entirety of the issue of shares of WBP Zabrze Sp. z o.o. After the transaction Polimex-Mostostal S.A. controls 99.97% of company's equity.
- On 24.11.2010 Naftoremont (at present Division of Polimex-Mostostal S.A.) acquired 100% of equity of Grande Meccanica SpA based in Italy. The total value of the transaction was EUR 4,300 thousand and was settled in cash (payment of PLN 1,767 thousand) and by netting mutual receivables and liabilities.
- On 02.12.2010 ZRE Kraków (at present Division of Polimex-Mostostal S.A.) repurchased 100% of equity of Przedsiębiorstwo Produkcyjno-Usługowe ELEKTRA Sp. z o.o. from its shareholders. Total expenditure was PLN 203 thousand.
- As a result of the series of separate transactions carried out from October 2010, Polimex-Mostostal S.A. acquired 98.5% of equity of Centralne Biuro Konstrukcji Kotłów S.A. for PLN 8,829 thousand.
- In the reporting period the Issuer continued the operation of acquiring shares of the PRInż-1 Company by means of the assignment of debt and by spending PLN 35,000. As a result the Issuer's share in the company equity increased from 86.78% to 88.62%.

- As a result of the acquisition of shares for the amount of PLN 25,000, the Issuer increased its holding in the capital of Centrum Projektowe Polimex-Mostostal Sp. z o.o. from 99.32% to 99.51%. Due to preference shares held by founding shareholders, the Issuer's share in votes at the General meeting amounts to 99.16%.
- On 02.02.2010 an application for the opening of liquidation of PUT Nafto-Tur Sp. z o.o. based in Kraków, a subsidiary of Naftobudowa S.A. (at present Division of Polimex-Mostostal S.A.), was filed with the District Court for Kraków-Śródmieście. The Company was deleted from the court register on 26.01.2011.
- On 16.02.2011 the GSM of Energomontaż-Północ Gdynia Sp. z o.o., a subsidiary, adopted a resolution on increasing the share capital by PLN 9,000 thousand. Existing shareholders have preemption right to cover the shares (procedure is pending).

Expenses for acquisition of financial assets (shares / equity interests) by Polimex-Mostostal Group in 2010 are given in the table below:

		PLN thousands	
<b>2010</b>			
<b>Expenditure on acquisition of financial assets</b> (shares / equity interest) (incurred by Polimex-Mostostal S.A.)		value	share
Centralne Biuro Konstrukcji Kotłów Sp. z o.o.		8 829	41.2%
Coifer Impex SRL		8 577	40.1%
Grande Meccanica SpA		1 767	8.2%
Przedsiębiorstwo Produkcyjno-Usługowe "Elektra" Sp. z o.o.		203	0.9%
PRInż -1 Sp. z o.o.		35	0.2%
Centrum Projektowe Sp. z o.o.		25	0.1%
Tchervonograd MSP		21	0.1%
Total expenditure for acquisition of shares / equity interests in 2010		<b>19 457</b>	<b>90.8%</b>
<b>Expenditure for contingent payments to prices of shares acquired before 2010</b> (incurred by Polimex-Mostostal S.A.)			
ZRE Kraków Sp. z o.o.		1 300	6.1%
EPE Rybnik Sp. z o.o.		666	3.1%
Total expenditure for contingent payments to prices of shares acquired before 2010		<b>1 966</b>	<b>9.2%</b>
<b>Total expenditure for acquisition of financial assets in 2010</b>		<b>21 423</b>	<b>100.0%</b>

#### 1.6.2. Investment plans

After the period of intense investments of the Issuer's Group, connected mainly with the construction of new production areas within the Tarnobrzeg Special Economic Zone (Polimex-Mostostal S.A.) and within Starachowice Special Economic Zone (Sefako S.A.), investment plans of Group companies for the year 2011 have been prepared on the level close to the depreciation/amortisation planned, with focus on the investments resulting from the needs of the current operating activities (exceptions are modernisations of office buildings of the parent company at ul.Czackiego 15/17 and at ul.Elektryczna 2A in Warsaw). Among planned investments one should emphasise the construction of production installation on the acquired quay of Gdynia Shipyard by Energomontaż-Północ Gdynia Sp. z o.o. The subject matter of the investments in 2011-2012 is the construction of a hall for production of large size components and acquisition of specialist production machinery.

Initiatives in the scope of new capital investments will be undertaken as they arise, depending on the acquisition opportunities perceived, their compliance with the strategic targets adopted and possibilities of financing.

*1.6.3. Assessment of feasibility of investment tasks, including equity investments as against internal assets, including changes in financing structure for these operations*

In the Issuer's opinion, financing of investment tasks scheduled for 2011 at the use of both internal and external sources of funding, including equity and debt, is totally feasible. Any potential acquisitions of control over new companies conducting operations complementing economic activities of the Issuer shall depend on the market situation and opportunities to raise finance.

**1.7. Information on contracts significant for operations of the Issuer's Capital Group**

The following are significant performance contracts concluded by Polimex –Mostostal S.A. in 2010:

- The contract concluded on 18.03.2010 with the Dutch company – Botlek Tank Terminal B.V., whose subject is the “turnkey” construction in the port of Rotterdam of the tank terminal for storing of mineral oils, vegetable oils and liquid fuels with a capacity of 185,000 m<sup>3</sup>. Naftobudowa S.A. from the Polimex-Mostostal Group is the Polimex-Mostostal S.A.'s subcontractor. The net value of the contract amounted to EUR 52.0 million.
- The contract executed on 20.07.2010 with the General Directorate for National Roads and Motorways – Branch in Katowice in the procedure for awarding a public contract conducted in the restricted tender procedure entitled: “Construction of an express road S-69 Bielsko Biala – Żywiec - Zawardoń, section "Mikuszowice" junction ("Żywiecka / Bystrzańska") – Żywiec”. The contract was executed by the consortium consisting of Polimex-Mostostal S.A., which acts as a Consortium Leader, and Doprastav a.s. Bratislava and Zakład Robót Mostowych "MOSTMAR" Marcin i Grzegorz Marcinków Sp.j. Polimex-Mostostal S.A.'s share in the works and remuneration constitutes 34 % of the whole. The net value of the contract amounts to PLN 646.0 million.
- Concluding on 26.07.2010 by the Consortium of companies: Hitachi Ltd with the registered office in Tokyo - Consortium Leader and Energomontaż-Północ SA with the registered office in Warsaw - Consortium Member the Issuer's subsidiary at the date of execution of the contract, after the combination on 31.12.2010 one of the Issuer's Divisions) of the Contract with Vattenfall Heat Poland S.A. with the registered office in Warsaw for complete and modern catalytic systems for denitrification of combustion gases for unit boilers type OP-430 No 10, 14 and 15 and OP-390 No 11 at Siekierki Heat and Power Plant in Warsaw as a turn-key project, reducing the emission of NO<sub>x</sub>. The lump remuneration for the execution of contract subject was specified at PLN 139.5 million net. The value of works performed by Energomontaż-Północ S.A. under the said contract was specified at PLN 75.0 million net.
- Conclusion on 23.09.2010 of the contract with the General Directorate for National Roads and Motorways, Branch in Rzeszów for the execution of the task entitled: “Construction of A-4 Motorway, section Rzeszow (the East Rzeszów junction) – Jarosław (the Wierzbna junction) from km 581+250 to km 622+450”. Net value of the contract amounted to PLN 1,799.9 million. The contract was concluded by the consortium:

Polimex-Mostostal S.A. (Consortium Leader) and Doprastav a.s. Bratislava. Polimex - Mostostal S.A.'s share in the execution of the Contract was 51%, and Doprastav a.s.'s share was 49%.

- Concluding on 27.09.2010 of the contract with Gdańskie Inwestycje Komunalne Euro 2012 Sp. z o.o. representing the Commune of Gdansk City for the construction of the European Solidarity Centre in Gdansk. Total net value of the contract amounted to PLN 128.4 million.
- Signing on 22.11.2010 of the contract with PGE S.A. for "Modernisation and overhaul of the system of main steam and water pipelines for blocks 7-12 at Belchatów Power Plant" by the Consortium consisting of Energomontaż-Północ S.A. – the Leader (at the date of signing the contract it was the Issuer's subsidiary, after the combination on 31.12.2010 it is one of Issuer's Divisions), Energop Sp. z o.o. (at the date of signing the contract it was the Energomontaż-Północ S.A.'s subsidiary, after the combination on 31.12.2010 it is one of Issuer's subsidiaries). The remuneration for the execution of the subject matter of the contract was specified at the total amount of PLN 288.6 million net, of which PLN 258.9 million net related to the works of Energomontaż-Północ S.A., and PLN 29.7 million net to the works executed by Energop Sp. z o.o.
- Signing on 22.12.2010 of the contract with the General Directorate for National Roads and Motorways – Branch in Łódź in the procedure for awarding a public contract conducted in the restricted tender procedure entitled: "Design and construction of A1 motorway Stryków – „Tuszyn” junction in the section from km 295 +850 (from "Stryków I" junction, without the junction) to km 335+937.65". The party to the contract is the Consortium comprising: Polimex - Mostostal S.A. – the Leader, MSF ENGENHARIA S.A., Lisbon (Portugal ), MSF Polska Sp. z o.o., DOPRASTAV a.s., Bratislava ( Slovakia ), Zakład Robót Mostowych "MOSTMAR" Marcin i Grzegorz Marcinków Spółka Jawna. Net value of the contract is PLN 949.7 million. Polimex-Mostostal S.A.'s share in the works and remuneration constituted 25% of the whole.

The key performance contracts concluded by the **Issuer's Group companies** in 2010 include:

- Torpol Sp. z o.o.:
  - Signing on 28.12.2010 the contract with PKP Polskie Linie Kolejowe S.A. for the design and performance of construction works in Kraków -Medyka – state border railroad in the Tarnów – Dębica section in km 80.200 – 111.500 under the Project „Modernisation of E30/C-E30 railroad, Kraków-Rzeszów section, stage 3”. The party to the contract is the Consortium comprising: Feroco S.A. – the Leader, Torpol Sp. z o.o., Zakład Robót Komunikacyjnych DOM, Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. The net value of the contract for the entire consortium was PLN 538.2 million. The value of works to be completed by TORPOL Sp. z o.o. amounted to PLN 94.9 million net.

Other, significant contracts concluded by entities of Polimex-Mostostal Capital Group in 2010 are given below in the Statement, in particular under the list of other important events that occurred in financial year, and having impact upon operations of the Group (section 8).



## 2. Current and expected financial position

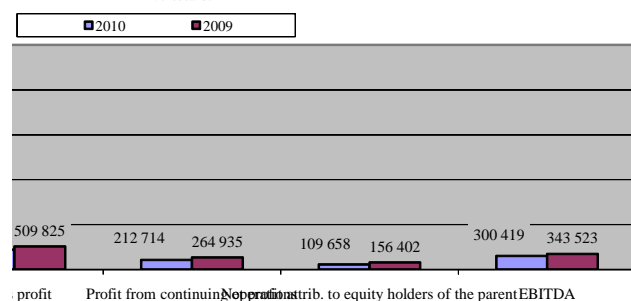
### 2.1. Profit

In 2010 Polimex-Mostostal Group reported sales revenue in the amount of PLN 4,160,901 thousand (a decrease of 5.4% as against comparative data for 2009). Taking into consideration sales attributable to consortium members, sales revenue in the reporting period amounted to PLN 4,753,948 thousand (a decrease of 1.7% as against comparative data for 2009). In 2010 net profit attributable to equity holders of the parent reached PLN 109,658 thousand (a decrease of 29.9% as against comparative data for 2009). Profit from continuing operations amounted to PLN 212,714 thousand (a decrease of 19.7% as against comparative data for 2009). EBITDA value amounted to PLN 300,419 thousand (a decrease of 12.5% as against comparative data for 2009).

The financial results of the Capital Group in 2010 are presented below:

PLN thousands	2010	2009	Change
<b>Revenue from sales</b>	<b>4 160 901</b>	<b>4 396 778</b>	<b>-5.4%</b>
Cost of sales	3 723 351	3 886 953	-4.2%
<b>Gross profit</b>	<b>437 550</b>	<b>509 825</b>	<b>-14.2%</b>
Other operating profit	26 251	18 405	42.6%
Selling costs	30 316	26 797	13.1%
Administrative expenses	210 438	213 153	-1.3%
Other operating expenses	10 333	23 345	-55.7%
<b>Profit from continuing operations</b>	<b>212 714</b>	<b>264 935</b>	<b>-19.7%</b>
Finance income	21 252	20 917	1.6%
Finance costs	78 088	76 466	2.1%
Profit from operations	-675	6 241	-110.8%
<b>Profit from operations attributable to equity holders of the parent</b>	<b>155 203</b>	<b>215 627</b>	<b>-28.0%</b>
Profit from discontinued operations	35 902	40 340	-11.0%
<b>Profit from discontinued operations attributable to equity holders of the parent</b>	<b>119 301</b>	<b>175 287</b>	<b>-31.9%</b>
<b>Net profit</b>	<b>109 658</b>	<b>156 402</b>	<b>-29.9%</b>
EBITDA	300 419	343 523	-12.5%

Financial results of Polimex Mostostal Group  
in PLN thousands





The following factors had an unfavourable effect on the results of Polimex-Mostostal Group companies in 2010:

- a smaller number of short-term orders and postponing commencement dates of new projects beyond 2010 by the clients (it refers in particular to modernization projects in Polish power engineering sector) that resulted in:
  - a 5.4% decrease in sales revenue obtained in 2010 as against comparative data for 2009,
  - fierce price competition that decreases the profitability of conducted operations,
- extremely unfavourable winter and floods resulting in the increase of costs of running construction projects with, at the same time, lower level of revenue; severe winter additionally decreased investor demand for steel structures and road barriers produced by the Group companies, and a longer heating season in power engineering sector limited the market for overhauls;
- decreasing the profitability in the scope of steel structure manufacturing (the Issuer's Plant) and worse results of operating activity of Group companies (Energomontaż Północ Gdynia Sp. z o.o. and Energop Sp. z o.o.).

In the Issuer's opinion, in 2011 the following factors will have a beneficial effect on Polimex-Mostostal Group's financial results:

- high value of the backlog held by the Group;
- large modernisation project in the Polish power engineering sector that may be acquired and performed;
- integration of support function, optimisation of purchase costs, integration of operating activity and ownership changes relating to the process of combination of Polimex-Mostostal S.A. (the acquiring company) with 7 Group companies (Energomontaż-Północ S.A., Naftobudowa S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o., ECeRemont Sp. z o.o.) that was completed on 31.12.2010;
- continued activities in the scope of cost discipline as well as activities aimed at increasing the use of new production facilities;
- an increased level of infrastructure investment heralded by the Romanian government that give an opportunity to boost local market and reverse a negative trend in construction industry; it is assumed in the Romanian budget for 2011 that the GDP will grow by 1.5%.

Current *backlog* is PLN 10.8 billion and it relates in its entirety to concluded contracts. The current backlog for individual years is as follows: 2011 – PLN 4.6 billion, 2012 – PLN 4.2 billion, 2013 – PLN 1.6 billion and in the following years - PLN 0.4 billion.

Current *backlog* less sales attributable to consortium members is PLN 8.0 billion and it relates in its entirety to concluded contracts. The current backlog for individual years is as follows: 2011 – PLN 3.7 billion, 2012 – PLN 2.7 billion, 2013 – PLN 1.2 billion and in the following years - PLN 0.4 billion.

## **2.2. Assets amount and structure**

As at 31.12.2010 the statement of financial position total of Polimex-Mostostal Capital Group amounted to PLN 3,923,518 thousand (an increase of 3.1% as against comparative data at 31.12.2009). As at 31.12.2010 fixed assets

amounted to PLN 1,712,197 thousand (an increase of 1.6% as against comparative data at 31.12.2009), and current assets amounted to PLN 2,211,321 thousand (an increase of 4.2% as against comparative data at 31.12.2009). Property, plant and equipment were the largest item in fixed assets structure constituting 26.2% of total assets. Trade and other receivables constituting 35.1% of total assets were the largest item of current assets.

Amount and structure of Capital Group assets as at 31.12.2010 were as follows:

PLN thousands	31.12.2010	% of assets	31.12.2009	% of assets
<b>Non-current assets</b>	<b>1 712 197</b>	<b>43.6%</b>	<b>1 685 293</b>	<b>44.3%</b>
Property, plant and equipment	1 027 948	26.2%	947 934	24.9%
Investment properties	42 316	1.1%	42 352	1.1%
Goodwill on consolidation	487 001	12.4%	486 919	12.8%
Intangible assets	25 234	0.6%	30 773	0.8%
Investments in associates measured using the equity method	14 659	0.4%	25 946	0.7%
Financial assets	4 196	0.1%	4 101	0.1%
Non-current receivables	46 184	1.2%	61 313	1.6%
Non-current prepaid expenses	949	0.0%	23	0.0%
Deferred tax assets	63 710	1.6%	85 932	2.3%
<b>Current assets</b>	<b>2 211 321</b>	<b>56.4%</b>	<b>2 122 049</b>	<b>55.7%</b>
Inventories	432 930	11.0%	350 916	9.2%
Trade and other receivables	1 376 087	35.1%	1 297 078	34.1%
Income tax receivables	6 808	0.2%	10 568	0.3%
Prepaid expenses	10 077	0.3%	9 937	0.2%
Cash and cash equivalents	373 814	9.5%	437 377	11.5%
Financial assets	11 605	0.3%	16 173	0.4%
<b>TOTAL ASSETS</b>	<b>3 923 518</b>	<b>100.0%</b>	<b>3 807 342</b>	<b>100.0%</b>

### 2.3. Equity amount and structure

Equity attributable to equity holders of the parent as at 31.12.2010 amounted to PLN 1,449,011 thousand (an increase of 18.5% as against comparative data at 31.12.2009), and liabilities amounted to PLN 2,464,820 thousand (an increase of 0.8% as against comparative data at 31.12.2009). The share premium, constituting 18.8% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 43.5% of total equity and liabilities and equity were the largest item of liabilities.

The structure of sources of finance of the Capital Group assets at 31.12.2010 is given below:

PLN thousands	31.12.2010	% of equity and liabilities	31.12.2009	% of equity and liabilities
<b>Equity attributable to shareholders of the parent</b>	<b>1 449 011</b>	<b>36.9%</b>	<b>1 222 296</b>	<b>32.1%</b>
Issued capital	20 837	0.5%	18 574	0.5%
Share premium	737 454	18.8%	513 466	13.5%
Treasury shares	-6 884	-0.2%	-6 884	-0.2%
Translation of a foreign operation	-9 516	-0.2%	-2 798	-0.1%
Supplementary capital	471 415	12.0%	381 566	10.0%
Other capitals	-85 254	-2.2%	0	0.0%
Reserve capital	33 221	0.9%	30 494	0.8%
Revaluation reserve	3 810	0.1%	5 697	0.2%
Retained earnings	283 928	7.2%	282 181	7.4%
<b>Non-controlling interest</b>	<b>9 687</b>	<b>0.3%</b>	<b>140 783</b>	<b>3.7%</b>
<b>Total equity</b>	<b>1 458 698</b>	<b>37.2%</b>	<b>1 363 079</b>	<b>35.8%</b>
<b>Liabilities</b>	<b>2 464 820</b>	<b>62.8%</b>	<b>2 444 263</b>	<b>64.2%</b>
Non-current liabilities	756 857	19.3%	817 737	21.5%
Current liabilities	1 707 963	43.5%	1 626 526	42.7%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 923 518</b>	<b>100.0%</b>	<b>3 807 342</b>	<b>100.0%</b>

## 2.4. Liquidity

In 2010 according to the Statement of Cash Flows of the Group there was a net decrease in cash and cash equivalents of PLN 63,563 thousand, which was mainly the result of increasing level of working capital. Cash and cash equivalents as at the end of 2010 amounted to PLN 373,814 thousand. Net cash from operating activities amounted to PLN 37,238 thousand. The main reason for a lower level of this item at the end of 2010 was a considerable drop in liabilities. Net cash from investing activities amounted to PLN -128,248 thousand, and net cash from financing activities amounted to PLN 27.447 thousand.

## 2.5. Assessment of financial resources management

Financial ratios for the Polimex-Mostostal Capital Group	31.12.2010	31.12.2009
Current liquidity ratio ( <i>current assets : current liabilities</i> )	1.29	1.30
Quick liquidity ratio( <i>(current assets less inventories) : current liabilities</i> )	1.04	1.09
General debt ratio ( <i>liabilities : assets</i> )	62.8%	64.2%
Net profit margin ( <i>net profit attributable to equity holders of the parent : revenue from sales</i> )	2.6%	3.6%
EBITDA margin ( <i>EBITDA : revenue from sales</i> )	7.2%	7.8%
Earnings per share ( <i>net profit attributable to equity holders of the parent: weighted average number of shares</i> )	0.21	0.34

The values of Capital Group's statement of financial position ratios as well as income statement ratios mentioned above should be considered as correct. At the statement of financial position date, Polimex-Mostostal Capital

Group had proper liquidity and promptly repaid borrowings. Current and quick liquidity ratios were at the safe level and were equal to 1.29 and 1.04 respectively, i.e. similar as on the comparative date. There was a decrease of the general debt ratio. A decrease of profitability ratios was the result of present economic slowdown and extremely unfavourable atmospheric conditions in construction sites (long winter, floods) that were still present in 2010.

Management of financial resources in the Group should be assessed as adequate giving rise to value added for shareholders.

## 2.6. Information on loans and borrowings drawn

Total debt of the Capital Group at the end of 2010 amounted to PLN 861.5 million, of which: loans and borrowings drawn PLN 461.5 million, issued debentures PLN 400.0 million (the value of principal amount). The debt of the parent company (together with the seven incorporated subsidiaries, excluding the Debenture Issue Plan) amounted to PLN 680.7 million, of which: PLN 280.7 million by virtue of loans and borrowing drawn and PLN 400 million by virtue of debentures issued (the value of principal amount). **The key crediting banks** in 2010 were:

- for the parent company: Pekao S.A., PKO BP S.A., BPH S.A. and Kredyt Bank S.A.,
- for Group companies: PKO BP S.A., Bank Millennium S.A., RBS Bank (Polska) S.A., Unicredit, Intensa Sanpaolo and Alior Bank S.A.

As at 31.12.2010, the following loans and borrowings were to be repaid at the earliest taken out by:

- ECeRemont Sp. z o.o. – incorporated by Polimex-Mostostal S.A. (PLN 1.2 million, repayment date – 31.12.2010, a loan drawn at PKO BP S.A.),
- Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o. (PLN 0.3 million, repayment date - 31.12.2010, a loan drawn at Pekao S.A.),
- ZUT Sp. z o.o. (PLN 1.0 million, repayment date - 31.01.2011, a loan drawn at Pekao S.A.),
- Stalfa Sp. z o.o. (PLN 4.0 million, repayment date – 28.01.2011, the bank overdraft at BNP Paribas Fortis S.A. and credit facility of PLN 7.0 million and PLN 3.0 million, repayment date - 28.01.2011, two bank overdrafts at Alior Bank S.A.),
- Tchervonograd Metal Structure Plant Open Incorporated Company (EUR 0.25 and UAH 0.6 million, repayment date – 01.02.2011, two bank overdrafts at the bank of Ukrgazprombank),
- Sefako S.A. (PLN 2.0 million, repayment date – 02.02.2011, the working capital facility at Nordea Bank Polska S.A.),
- SPEC Sp. z o.o. (PLN 0.2 million, repayment date - 10.02.2011, bank overdraft at PKO S.A.),
- Polimex-Mostostal S.A. (PLN 30,0 million multipurpose line, which may be utilised as a loan PLN 10.5 million, repayment date - 12.02.2011, granted by PKO BP S.A.),

Loans mentioned above were negotiated or repaid. At present, the date of repayment of continued loans and borrowings is: for Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o. – 31.12.2011; ZUT Sp. z o.o. – 31.01.2012; Stalfa Sp. z o.o. – loan at Alior Bank S.A. in the amount of PLN 7.0 million - 30.03.2012, loan at Alior Bank S.A. in the amount of PLN 2.0 million and loan at BNP Paribas Fortis S.A. were repaid; TMSP – 05.12.2011; Sefako S.A. – 02.02.2012; Polimex-Mostostal S.A. for multipurpose credit facility - 12.02.2013, for the loan (former ECeRemont Sp. z o.o.) 31.03.2011; SPEC Sp. z o.o. repaid the loan in due date.

Apart from the above, at present investment loans are of the longest repayment dates:

- the loan at Bank PKO BP S.A. for Polimex-Mostostal S.A. in amount of PLN 150.0 million – repayable on 31.08.2015,
- the loan at PKO BP S.A. for Sefako Sp. z o.o. in amount of PLN 48.1 million – repayable on 30.01.2016,
- loan at BOŚ S.A. for PRInż-1 Sp. z o.o. in amount of PLN 2.7 million – repayable on 30.06.2014,
- the loan at RBS Bank (Polska) S.A. for Energop Sp. z o.o. in amount of EUR 5.2 million – repayable on 15.12.2013,
- the loan at Orzesko-Knurowski BS for Centrum Projektowe Polimex-Mostostal Sp. z o.o. in amount of PLN 14.0 million – repayable on 18.12.2023,
- the loan at Raiffeisen Bank Polska S.A. for Modul System Serwis Sp. z o.o. in amount of PLN 1.7 million – repayable on 31.12.2013.

In majority, Polimex-Mostostal S.A. and the Group companies continued current loan contracts and guarantee facilities. Part of these contracts was negotiated or repaid, several new ones were also concluded.

- As at the end of 2010 the balance of loans and borrowings drawn by **Polimex-Mostostal S.A.** (including the seven incorporated subsidiaries and excluding Debenture Issue Scheme) amounted to PLN 280.7 million, where bank loans were PLN 278.2 million and loans drawn were PLN 2.5 million (excluding interest accrued but not payable). Polimex – Mostostal S.A. continued current loan contracts:
  - Working-capital non-revolving facility in convertible currency (EUR) granted by PKO BP S.A. up to EUR 3.4 million (as at the end of 2010 debt balance amounted to EUR 2.2 million) and repayable by 26.12.2012. Rate of interest - EURIBOR 1M plus margin.
  - Working-capital non-revolving facility in Polish zloty granted by PKO BP S.A. up to PLN 11.2 million and repayable on 26.12.2012, as at the end of 2010 debt amounted to PLN 7.2 million. The rate of interest was determined based on WIBOR 1M plus margin.
  - The bank loan within the limits of multi-currency credit facility in amount of PLN 30.0 million at PKO BP S.A. and repayable on 12.02.2010. Within this limit, Polimex-Mostostal S.A. may utilise a bank loan in Polish zloty up to 35% of the limit and issue national trade bank guarantees up to 100% of the limit. With the Annex of 12.02.2010 the repayment date was postponed until 12.02.2011, and the guarantees may be issued until 12.02.2013. As of the end of 2010, there was no debt. The rate of interest - WIBOR 3M plus margin. As of the date of preparation of this report, the loan was extended until 12.02.2013.
  - The overdraft facility in amount of PLN 30.0 million granted by Bank Ochrony Środowiska S.A. and repayable on 03.07.2010. The repayment was extended until 03.07.2011 under the annex of 01.07.2010. As at the end of 2010 the debt amounted to PLN 2.9 million. The rate of interest was determined based on WIBOR 1M plus margin.
  - Working-capital facility in a current account in the amount of PLN 40.0 million granted by Kredyt Bank S.A. and repayable on 31.10.2010. The repayment period was extended until 30.10.2011 under the annex of 10.11.2010. As at 31.12.2010 there was no debt. Rate of interest - WIBOR O/N plus margin.
  - The overdraft facility in amount of PLN 50.0 million granted by Bank Pekao S.A. and repayable on 31.07.2010. Under the annex of 06.07.2010 the loan was extended by a year, i.e. until 31.07.2011. As at 31.12.2010 debt amounted to PLN 13.8 million. The rate of interest was determined based on WIBOR 1M plus margin.
  - The multi-currency credit facility equivalent to PLN 70.0 million granted by Bank Pekao S.A. with validity until 31.07.2010. Under the annex of 06.07.2010 the loan was extended until 31.07.2011. As at

31.12.2010 debt amounted to PLN 12.6 million. The rate of interest was determined based on WIBOR 1M plus margin.

- The investment loan in amount of PLN 150.0 million granted by PKO BP S.A. and repayable on 31.08.2015. The loan is assigned to financing of capital expenditure on construction within Tarnobrzeg Special Economic Zone (TSEZ) Siedlce Sub-zone, a steel structure plant, galvanising plant and paint shop. As at 31.12.2010 debt amounted to PLN 138.8 million. The rate of interest was determined based on WIBOR 1M plus margin, and for debt in foreign currency - EURIBOR 1M plus margin.
- The bank loan relating to multi-purpose and multi-currency facility granted by BPH S.A. and repayable on 22.08.2010. Under the annex of 19.08.2010 the loan was extended until 31.08.2011 and the limit was increased up to PLN 42.0 million with the option to utilise a guarantee facility of PLN 5.0 million. As at 31.12.2010 debt amounted to PLN 16.1 million. The rate of interest was determined based on WIBOR 1M plus margin.
- Overdraft facility in amount of PLN 15.0 million granted by Bank Millennium S.A. and repayable on 20.03.2011. As of the date of preparation of this report, the loan was extended until 20.03.2012. As of the end of 2010 there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- Overdraft facility in amount of PLN 5.0 million granted by Bank Millennium S.A. and repayable on 20.03.2011. As of the date of preparation of this report, the loan was extended until 20.03.2012. As of the end of 2010 there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.

Moreover, in 2010 the Company concluded the following contracts:

- On 21.06.2010 with BGŻ S.A. a contract for a working capital facility in a current account for the amount of PLN 15.0 million and repayable on 31.05.2011. As at 31.12.2010 debt amounted to PLN 14.3 million. The rate of interest was determined based on WIBOR 1M plus margin. As at the date of preparation of this report the loan was increased to PLN 25.0 million (while the guarantee limit was decreased by PLN 10.0 million).
- On 28.06.2010 with Pekao S.A. a contract for a non-revolving working capital facility for the amount of PLN 50.0 million and repayable on 27.06.2011. Funds were shifted under a general contract with Pekao S.A. which specifies terms and conditions for co-operation in the scope of credit and guarantee facility (the facility amount was decreased from PLN 150.0 million to PLN 100.0 million). As at 31.12.2010, debt in connection with this facility amounted to PLN 50.0 million. The rate of interest was determined based on WIBOR 1M plus margin.

The investment loan to purchase a vehicle drawn with Toyota Bank Polska S.A. for the amount of PLN 0.1 million and repayable on 28.06.2010, bank overdraft up to PLN 20.0 million granted by Bank Handlowy w Warszawie S.A. and non-revolving credit facility in Polish zloty for the amount of PLN 20.0 million granted by PKO BP S.A. and repayable by 30.06.2010 for the financing of VAT tax on goods and services purchased for the execution of the investment project in Tarnobrzeg Special Economic Zone, Siedlce Subzone were repaid in accordance with their maturity dates.



The incorporation of seven subsidiaries owned by Polimex-Mostostal Group resulted in the acquisition of the following loans:

- Two loan contracts of the former Naftobudowa S.A.: the contract of the short-term revolving working capital facility concluded with DZ Bank Polska S.A. and the bank overdraft contract concluded with BPH S.A. In 2010 two annexes were concluded to the contract of working capital facility with DZ Bank Polska S.A. that changed the amount of the facility from PLN 10.0 million to EUR 2.0 million, and then to EUR 3.0 million, and extended repayment by 31.08.2011. The rate of interest for the facility equals EURIBOR RB plus margin. The repayment date of the other facility, bank overdraft for PLN 10.0 million, at BPH S.A. was extended by 31.08.2011.
- The contract of a multipurpose credit facility of former Naftoremont Sp. z o.o. concluded with PKO BP S.A., with the limit of PLN 10.0 million, which could be utilised for bank guarantees. The contract is valid until 24.06.2011. The rate of interest was based on WIBOR 3M plus margin. Four loan contracts of former EPE Rybnik Sp. z o.o.: two investment loans to purchase vehicles concluded with Getin Bank S.A. amounting in total to about PLN 0.18 million and two loan contracts concluded with DnB Nord Polska S.A. The investment loan of PLN 0.45 million is valid until 31.03.2013, whereas bank overdraft was extended under the annex by 29.06.2011. (rate of interest WIBOR 1M plus margin). As at the date of preparation of this report investment loans at Getin Bank S.A. were repaid.
- Three loan contracts of former ECeRemont Sp. z o.o. concluded with PKO BP S.A.: non-revolving working facility in the amount of PLN 0.6 million repayable by 04.10.2012, bank overdraft with the limit of PLN 1.0 million and a closed-end credit with the limit of PLN 1.2 million. In 2010 the repayment date of the overdraft facility with the limit of PLN 1.0 million was extended by 02.09.2010 and then by 02.09.2011. In the analysed period the Company concluded the contract of a new closed-end credit in the amount of PLN 1.2 million repayable by 31.12.2010, as at the date of preparation of this report it was postponed until 31.03.2011 and then repaid fully on due date. The rate of interest of all loans was based on WIBOR 3M plus margin.
- The contract of the overdraft facility of former ZRE Kraków Sp. z o.o. concluded with PEKAO S.A. in December 2009 with the limit of PLN 1.0 million repayable on 31.07.2010 with the rate of interest based on WIBOR 1M plus margin. The facility was open in January 2010, under annexes the repayment was extended by 31.12.2011 and the limit was increased up to PLN 2.0 million. As at the date of preparation of this report the limit was increased up to PLN 5.0 million.

In 2010 Polimex-Mostostal S.A. utilized loans raised with Depolma GmbH and Polimex Hotele Sp. z o.o.

- In December 2010, Polimex-Mostostal S.A. and Depolma GmbH signed Annex No. 6 to the Loan Contract of December 2004 extending repayment period until 10.12.2011. As of 31.12.2010, debt amounted to EUR 0.2 million (excluding interest). The rate of interest was determined based on EURIBOR 12M plus margin.
- In December 2010 the Company signed with Polimex Hotele Sp. z o.o. Annex No. 4 to the Loan Contract of December 2006 in amount of PLN 1.9 million extending the repayment period until 31.12.2011. The rate of interest was determined based on WIBOR 1M plus margin.



Under the Company's **Debenture Issue Scheme** till the date of completion of this report the following debentures were issued:

- coupon debentures:

- i) on 25.07.2007 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 100.0 million and with the maturity at 25.07.2012,
- ii) on 16.10.2007, a block of coupon debentures not admitted for listing, denominated in Polish zloty, in the amount of PLN 73.0 million and with maturity on 25.01.2013,

both of the above mentioned blocks of coupon debentures have been consolidated and to 25.07.2012 maturity of half-year interest coupons falls at the same dates.

- iii) on 16.10.2009 a block of long-term coupon debentures for the total amount of PLN 194.5 million with the maturity at 16.10.2012;

- discount debentures:

- i) on 28.06.2006, two blocks of current, discounted debentures not admitted to public trade and in total amount of PLN 32.5 million, which were consolidated on 07.01.2009 in one block and its present maturity is on 27.05.2011.

Total balance of debentures issued by Polimex-Mostostal S.A. amounts currently to PLN 400.0 million, of which coupon debentures are PLN 367.5 million, and discount debentures are PLN 32.5 million.

- **Polimex-Development Kraków Sp. o.o.** concluded Annexes to two Loan Contracts at the total amount of PLN 40.5 million, which were concluded with PKO BP S.A., extending repayment dates to 31.03.2011 for the loan in amount of PLN 10.03 million and to 30.06.2011 for the loan in amount of PLN 30.43 million. The rate of interest for amended loans is WIBOR 3M plus margin.
- In January this year **Moduł System Serwis Sp. z o.o.** signed the loan contract with PKO BP S.A. in the amount of PLN 1.0 million (the loan was repaid) and in April and September it signed annexes to the bank overdraft contract with ING Bank Śląski S.A. (the limit of PLN 1.0 million) postponing the repayment date by 18.09.2010, and then by 30.09.2011. Moreover, in September 2010 the Company concluded a revolving facility contract with Raiffeisen Bank Polska S.A. with the limit of PLN 1.7 million valid until 31.12.2013 (the interest rate for the loan is WIBOR 1M plus margin).
- In May 2010 **Sinopol Trade Center Sp. z o.o.** concluded a bank overdraft facility contract with Polski Bank Spółdzielczości w Ciechanowie with the repayment date on 07.05.2011. The granted limit of PLN 0.4 million was increased up to PLN 1.05 million.
- **Torpol Sp. z o.o.** concluded an annex to the contract of multipurpose credit facility with PKO BP S.A. in the amount of PLN 30.0 million which can be used as loan (PLN 15.0 million) and a guarantee limit (PLN 15.0 million), which decreased the limit to PLN 25.0 million (PLN 10.0 million for the loan and PLN 15.0 million for the guarantees) and postponed the repayment date by 08.10.2011. The loan at Alior Bank S.A. (the limit of PLN 5.0 million) and at Bank Millennium S.A. (the limit of PLN 15.0 million) were repaid in accordance with their maturity. Furthermore, in December 2010 the company concluded a new bank overdraft contract with BZ WBK S.A. for the amount of PLN 9.1 million repayable on 05.12.2011 (the rate of interest was determined based on WIBOR 1M + margin). Elmont-Kostrzyn Wlkp. Sp. z o.o. (the subsidiary of Torpol Sp. z o.o.) concluded annexes extending by one year i.e. by 27.08.2011 the period of utilisation of two loans (each amounting to PLN 1.5 million) under the contracts concluded with Alior Bank

S.A. Moreover, the Company concluded a new bank overdraft contract with Bank Millennium S.A. (the limit of PLN 3.0 million repayable on 22.08.2011, the rate of interest was based on WIBOR 1M plus margin). The bank overdraft of PLN 1.0 million at Pekao was repaid.

- By concluding appendixes **PRInż-1 Sp. z o.o.** extended for a year the repayment of two loans granted by BOŚ S.A. and changed the financing structure. The bank overdraft was decreased from PLN 3.0 million to PLN 2.5 million, and a revolving credit facility was increased from PLN 3.0 million to PLN 3.5 million, a new repayment date is on 12.07.2011, and the rate of interest amounts to WIBOR 1M plus margin. Moreover, in October 2010 the Company concluded three investment loan contracts to purchase vehicles with Volkswagen Bank Polska S.A. in the total amount of PLN 0.06 million repayable on 12.10.2011.
- **Fabryka Kotłów Sefako S.A.** as of 24.06.2010 repaid the bank overdraft (the limit of PLN 2.0 million; interest rate: WIBOR 1M plus margin) granted under the contract concluded with BRE Bank S.A. valid until 25.06.2010. In February this year the company increased the credit in multipurpose facility from PLN 12.0 million to PLN 14 million at PKO BP S.A. (the repayment date of 29.08.2010 was extended until 06.07.2013; the rate of interest: WIBOR 1M plus margin). Furthermore, in February 2010 it concluded two contracts: on revolving credit facility in a current account (the limit of PLN 2.0 million) and on revolving working capital facility (PLN 5.0 million) with Nordea Bank Polska S.A. The repayment dates fall on 02.02.2011 (as at the date of preparation of this report postponed until 02.02.2012) and 02.02.2012, respectively. The rate of interest for the facilities is WIBOR 1M plus margin. The bank overdraft with the limit of PLN 6.0 million at Pekao S.A. was extended by 31.10.2011. SPEC Sp. z o.o., a subsidiary, concluded with Bank Spółdzielczy w Sędziszowie (Co-operative Bank in Sędziszów) an annex increasing the amount of the loan from PLN 0.8 million to PLN 1.25 million and postponing the repayment by 16.08.2011, and with Bank Spółdzielczy w Wolbromie the new contract for working capital facility in the amount of PLN 0.7 million repayable by 30.04.2011. As at the date of preparation of this report the bank overdraft at PKO BP S.A. (the limit of PLN 0.2 million) was repaid on its due date i.e. 10.02.2011.
- **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** concluded with Voivodship Fund for Environmental Protection and Water Management the contract to subsidize the thermal upgrading of an office building in the amount of PLN 0.2 million (repayable by 15.10.2020), an annex to the multipurpose facility contract concluded with Pekao S.A. (PLN 0.3 million) extending the repayment by 31.03.2011. (the interest rate for the facility is WIBOR 1M plus margin), and in April and May 2010 it initialled annexes to the bank overdraft contract concluded with Bank Millennium S.A. extending the repayment until 27.05.2011 and increasing the amount of the facility from PLN 2.4 million to PLN 3.4 million. In 2010 the company repaid the bank overdraft at BRE Bank S.A. valid until 30.03.2010 and at Orzesko-Knurowski Bank Spółdzielczy valid until 29.09.2010. Apart from the repaid loan the company uses an investment loan at this bank with the limit of PLN 14.0 million and maturity on 18.12.2023.
- **Wielkopolskie Biuro Projektów Sp. z o.o.** has initialled an annex to the Contract on overdraft facility (the limit of PLN 2.4 million) extending the validity date until 28.08.2011 (the rate of interest based on WIBOR 3M plus margin).
- **ZUT Sp. z o.o.** initialled with PEKAOS.A. an annex to the contract for overdraft facility (PLN 1.0 million) extending the repayment period by one year i.e. until 31.01.2011. The rate of interest was determined based on WIBOR 1M plus margin. As of the date of preparation of this report, the loan was extended until 31.01.2012.

- **Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.** concluded with Pekao S.A. a contract on bank overdraft with the limit of PLN 0.3 million repayable by 31.12.2010. As at the date of preparation of this report the limit was increased to PLN 0.5 million and the repayment was postponed until 31.12.2011.
- **Stalfa Sp. z o.o.** initialled annexes to the contract on overdraft facility concluded with Pekao S.A. (the limit amount of PLN 1.0 million; rate of interest was based on WIBOR 1M plus margin) and as a result the repayment date was extended until 31.07.2011 and to the bank overdraft contract with BNP Paribas Fortis S.A. (the limit of PLN 4.0 million) extending the repayment period by 28.01.2011 (the rate of interest is based on WIBOR 1M plus margin).. Moreover, the company concluded with Alior Bank S.A. two new loan contracts: the limit of PLN 7.0 million and PLN 2.0 million both valid until 28.01.2011, the rate of interest based on WIBOR 1M plus margin. As at the date of preparation of this report the abovementioned loan in the amount of PLN 2.0 million was repaid and the loan of PLN 7.0 million was extended until 28.02.2011 and then until 30.03.2012.. At the same time the company repaid two loans drawn at BNP Paribas Fortis S.A. in the total amount of PLN 11.0 million, and in their place it concluded two new loan contracts with Kredyt Bank S.A. (the investment loan of PLN 2.3 million repayable on 24.05.2013 and the bank overdraft of PLN 5.7 million repayable on 31.12.2012).
- **Energomontaż-Północ Gdynia Sp. z o.o.** initialled an annex to the contract on overdraft facility with DnB Nord Polska S.A. (the limit of PLN 2.0 million) extending the repayment until 30.06.2011 (the rate of interest WIBOR 1M plus margin). Furthermore, the company concluded a bank overdraft contract with Bank Millennium S.A. with the limit of PLN 6.0 million and maturity on 12.12.2011.
- **Coifer Impex SRL** concluded a new bank overdraft contract with Unicredit Tiriac Bank with the limit of EUR 4.5 million repayable on 13.12.2011. The credit limit granted by Intensa Sanpaolo was decreased from EUR 4.0 million to EUR 3.34 million. Whereas the bank overdraft at BNP Paribas Fortis S.A./NV Bruxelles (EUR 4.5 million) was repaid.
- **PPU Elektra Sp. z o.o.** concluded an annex to two loan contracts with PKO BP S.A. The repayment of the revolving loan within the credit limit of PLN 0.5 million was extended by 24.02.2011, and the repayment of the revolving working capital facility of PLN 0.1 million was extended by 28.02.2011. (the rate of interest of both loans was based on WIBOR 3M plus margin). As of the day of preparation of this statement, the loans were repaid.
- As at the date of preparation of this report, **Turbud Sp. z o.o.** concluded with Pekao S.A. a bank overdraft contract of PLN 1.0 million repayable on 31.12.2011.

At the end of 2010, the weighted average margin for loans of Polimex-Mostostal Capital Group computed based on limits attributable to the Group was: for loans in Polish zloty: WIBOR + 1.8273 p.p., for bank loans in foreign currency: EURIBOR + 1.9782 p.p./LIBOR + 0.9500 p.p. In turn, the weighted average margin for loans granted to Polimex-Mostostal S.A. (including the seven incorporated subsidiaries and excluding the Debenture Issue Scheme) computed based on financing amount attributable to the Company at the end of 2010: for loans in Polish zloty WIBOR + 1.5800 p.p., and for loans in foreign currency EURIBOR + 2.2798 p.p. (for Polimex-Mostostal S.A. before incorporation: WIBOR +1.5619 p.p. and EURIBOR + 2.7000 p.p.).

## 2.7. Information on granted guarantees and borrowings

In 2010 Polimex-Mostostal S.A. granted new loans to Group Companies under contracts listed below:

- The contract of 23.03.2010, granting Polimex-Mostostal Development Sp. z o.o. a loan in amount of PLN 6.0 million for financing the investment at ul. Pustuleczki in Warsaw. As at 31.12.2010, PLN 5.7 million was paid out under the loan contract. The rate of interest - WIBOR 3M plus margin. The loan is repayable on 30.11.2011.
- The contract of 29.04.2010 granting Polimex-Mostostal Ukraine a loan in the amount of USD 1.0 million for partial financing of investment process in galvanising plant in Zhytomyr. The interest rate is fixed. The loan is repayable on 15.04.2012.
- The contract of 11.05.2010 granting ECeRemont Sp. z o.o. a loan in the amount of PLN 0.8 million for current operations. The rate of interest - WIBOR 3M plus margin. The loan is repayable on 31.12.2010 at the latest. As at 31.12.2010 the loan expired due to the incorporation.
- The contract of 16.08.2010 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.45 thousand for financing current activities and the implementation of investment tasks in the 2<sup>nd</sup> half of 2010. As at 31.12.2010, PLN 2.0 million was paid out under the loan contract. The rate of interest was determined based on WIBOR 1M plus margin. The loan is repayable on 30.06.2011.
- The contract of 30.08.2010 granting Polimex-Mostostal Ukraine a loan in the amount of USD 1.75 million for partial financing of investment process in galvanising plant in Zhytomyr. The interest rate is fixed. The loan is repayable on 30.08.2012.
- The contract of 06.12.2010 granting Polimex-Mostostal Ukraine a loan in the amount of USD 0.3 million for partial financing of investment process in galvanising plant in Zhytomyr. The interest rate is fixed. The loan is repayable on 30.08.2012.
- The contract of 06.12.2010 granting ZBI Turbud Sp. z o.o. a loan in amount of PLN 1.5 million for financing of the current activities and preparation works for the new investment at ul. Jachowicza and ul. 11 listopada in Plock. The rate of interest was determined based on WIBOR 1M plus margin. The loan is repayable on 31.03.2011. As at the date of preparation of this report the repayment of the loan was postponed: the first tranche amounting to PLN 0.75 million by 30.06.2011, the tranche amounting to PLN 0.75 million by 30.09.2011.
- The contract of 21.12.2010 granting Grande Meccanica SpA a loan in amount of EUR 0.4 thousand. to finance the liabilities for Civitavecchia project. As at 31.12.2010 the loan was not paid out (payment was made in January this year). The rate of interest was determined based on EURIBOR 6M increased by margin. The loan is repayable on 28.02.2013.

Moreover, in the analysed period a number of annexes were signed to previously concluded contracts with Coifer Impex SRL and Polimex-Development Kraków Sp. z o.o. The contracts according to latest data were netted with the amount of increased capital. On 28.09.2007 an annex was concluded to the contract of a loan for Polimex-Mostostal Development Sp. z o.o. in the amount of PLN 8.2 million (the outstanding balance - PLN 6.6 million) to purchase plots located at the corner of the streets: ul. Roentgena and ul. Lelka in Warsaw. The rate of interest - WIBOR 3M plus margin. The new loan repayment date is 31.12.2011.

In 2010 three loan contracts concluded with Porty S.A. in the total amount of PLN 0.6 million were repaid.

On 18.02.2010 four loans granted to Polimex-Development Kraków Sp. z o.o. were consolidated. The total amount of the loan after consolidation was PLN 3.5 million. The rate of interest was determined based on WIBOR 6M increased by margin. The loan was repayable on 31.12.2010. Then on 30.07.2010 the contract of set-off was concluded under which the parties agreed to set off their mutual liabilities and receivables arising from the loan granted to the Company by Polimex-Mostostal S.A. in the amount of PLN 96.5 million (including the above mentioned loans) against Company's debt arising from covering 30,000 of its shares by Polimex-Mostostal S.A.

On 20.05.2010 four loans granted to former Biprokwas Sp. z o.o. and Energotechnika-Projekt Sp. z o.o., currently operating under the business name of Centrum Projektowe Polimex-Mostostal Sp. z o.o., were restructured. The total amount of the loan after consolidation is PLN 3.5 million (as at 31.12.2010 the outstanding balance was PLN 2.99 million). The loan is repaid in monthly instalments and the final repayment date is on 30.06.2012. The rate of interest was determined based on WIBOR 1M plus margin.

On 15.10.2010 the decision was made by the shareholders of Coifer Impex SRL to increase the Company's capital by EUR 2.17 million. As a result, the loans granted to the Company in the total amount of EUR 2.11 million (including accrued interest) were set off against the liability of Polimex-Mostostal S.A. arising from the increase of capital. Then at the end of December 2010 the balance of loans to be repaid by Coifer Impex SRL, in the total amount of EUR 3.56 million, was set off against the liabilities of Polimex-Mostostal S.A. to the Company arising from the acquisition of shares in Grande Meccanica SpA (former subsidiary of Coifer Impex SRL) by former Naftoremont (a subsidiary incorporated by Polimex-Mostostal S.A.).

Moreover, Polimex-Mostostal S.A. acquired the contract of the loan granted by the incorporated company of Naftoremont Sp. z o.o. The loan contract of 06.10.2010 in the amount of PLN 1.0 million was concluded with Modul System Serwis Sp. z o.o. The repayment date is on 31.12.2011. The rate of interest was determined based on WIBOR 1M plus margin.

At the end of December 2010 the total amount of loans paid out was equal to PLN 31.4 million (excluding accrued undue interest), including PLN 16.8 million of developer loans (excluding accrued, undue interest).

As at 31.12.2010 the guarantees granted by Polimex-Mostostal S.A. (including guarantees granted by the incorporated companies and eliminating guarantees granted to the incorporated companies) amounted to PLN 228.9 million, of which guarantees for Group companies were PLN 226.4 million in total. Guarantees granted by Polimex-Mostostal S.A. not including the guarantees granted by the incorporated companies amounted to PLN 176.6 million, of which for PLN 176.3 million for the Group companies. Coifer Impex SRL became the key beneficiary of guarantees granted by Polimex-Mostostal S.A., which as at the end of 2010 gave backing in the total amount of PLN 60.8 million (EUR 15.3 million) for BNP Paribas Fortis S.A./NV Bruxelles, Intensa Sanpaolo Bank Romania and RBS Bank (Romania) S.A. for loan contracts and guarantee facilities contracts and for Arcelomittal Distribution Romania srl due to the Company's payment obligations. Torpol Sp. z o.o. is the second largest beneficiary of guarantees delivered, Polimex-Mostostal S.A. granted guarantees for Bank Millennium S.A., BGŻ S.A., BZ WBK S.A., PZU S.A. and PKO BP S.A. for credit and guarantee facilities, which amounted in total to PLN 50.1 million. Apart from the above mentioned subsidiaries, Polimex-Mostostal S.A. delivered guarantees for the repayment of loans and guarantee liabilities/ bill payables/ payment liabilities drawn by PRINŻ-1 Sp. z o.o. (PLN 14.4 million), Centrum Projektowe Polimex-Mostostal Sp. z o.o. (PLN 19.9



million), Sefako S.A. (PLN 12.7 million), Turbud Sp. z o.o. (PLN 0.9 million), WBP Zabrze Sp. z o.o. (PLN 3.7 million), PxM Projekt Południe Sp. z o.o. (PLN 3.0 million), Stalfa Sp. z o.o. (PLN 3.5 million), ZUT Sp. z o.o. (PLN 1.0 million), Grande Meccanica SpA (PLN 4.6 million i.e. EUR 1.2 million) and ZT Sp. z o.o. (PLN 1.7 million). At the end of 2010 Polimex-Mostostal S.A. acquired the rights and obligations of the guarantor for the liabilities of the subsidiaries of former Naftoremont Sp. z o.o.: Modul System Serwis Sp. z o.o. (PLN 4.6 million), Sinopol Trade Center Sp. z o.o. (PLN 1.1 million) and those of the subsidiaries of former Energomontaż-Północ S.A.: Energomontaż-Północ Gdynia Sp. z o.o. (PLN 18.0 million) and Energop Sp. z o.o. (PLN 26.5 million).

Among Polimex-Mostostal Group companies, the following delivered the largest number of guarantees (in amounts before consolidation): Sefako S.A. (PLN 4.1 million) and Torpol Sp. z o.o. (PLN 9.0 million). These guarantees were related mostly to companies within the group. Intra-group loans were granted by Polimex-Development Kraków Sp. z o.o. – the loan for BR Development (PLN 0.3 million).

At the end of 2010, weighted average margins for loans granted by Polimex-Mostostal S.A. and the Group company (i.e. Polimex-Development Kraków Sp. z o.o.) to other companies of the Group amounted to:

- for loans in Polish zloty: WIBOR 1M + 2.2691 p.p.;
- for loans in Polish zloty: WIBOR 3M + 1.9225 p.p.;
- for loans in foreign currency: EURIBOR 6M + 3.0000 p.p.

Loans granted by Polimex-Mostostal S.A. give rise to amount of debt of Capital Group companies for loans and borrowings mentioned in section 2.6.

## **2.8. Information on contract performance bonds and bid bonds**

In 2010 the parent and companies of the Capital Group to large extent utilised contract performance and bid bonds delivered by banks and insurance companies. At the end of 2010, the value of all bonds delivered upon request of Polimex-Mostostal S.A. (together with the seven incorporated subsidiaries) translated into Polish zloty amounted to PLN 1,191.7 million. At the same time, the value of guarantees delivered by banks and insurance companies upon request of the Group companies amounted to PLN 184.4 million. A significant increase in the parent's liabilities arising from issued bonds as compared to the end of 2009 was the result of, among others, the acquisition of bonds issued by the incorporated companies and of concluding new contracts and the necessity to hedge appropriately their execution both during the contract execution stage and in the guarantee and warranty period as well as to refund advance payments (including the construction of A-4 motorway, the section of Rzeszów (the East Rzeszów junction) – Jarosław (the Wierzbna junction); design and construction of A-1 motorway: Stryków – the „Tuszyn” junction (from the „Stryków I” junction without the junction)). A big number of tenders in which the Company takes part together with the need of submitting the bid security in the form of bank and insurance guarantees affect significantly the increase in value of the issued guarantees. Among Group companies, the largest number of guarantees and bonds was delivered upon request of: Torpol Sp. z o.o. (PLN 68.0 million), Sefako S.A. (PLN 62.6 million), Grande Meccanica SpA (PLN 21.0 million) and SC Coifer IMPEX SRL (PLN 16.4 million).

In 2010, **Polimex-Mostostal S.A.** concluded further contracts concerning opening of bank and insurance guarantees:

- On 31.03.2010 with ING Bank Śląski S.A. the contract for guarantee facility in the amount of PLN 36.0 million valid until 31.03.2011 (the contract replaced the previously binding facility in the amount of PLN 25.7 million valid until 21.11.2009). As at the date of preparation of this report a new contract was concluded to open a credit facility in the amount up to PLN 200.0 million replacing the above mentioned contract, which can be utilised in the form of bank guarantees by 30.11.2011. (the contract is automatically extended on the same terms and conditions for another 12 month periods of crediting until 30.11.2021.). The limit granted includes the current guarantees of Polimex-Mostostal S.A. those of the incorporated companies: Naftoremont Sp. z o.o. and Energomontaż-Północ S.A., whose limits expired in November 2009.
- On 29.03.2010 with Pekao S.A. the general contract to issue bank guarantees (bid bonds) in the amount of PLN 30.0 million valid until 31.07.2010 and extended with an annex by 31.07.2011.
- On 28.04.2010 with HSCB Bank Polska S.A. the contract for guarantee facility in the amount of PLN 30.0 million valid until 28.04.2011.
- On 14.04.2010 with HDI Asekuracja TU S.A. the contract for guarantee facility with the limit of PLN 1.5 million valid until 14.04.2010 (the contract replaced the previous facility in the amount of PLN 3.0 million valid until 08.04.2010). As at the date of preparation of this report the Company is planning to renegotiate the terms and conditions of the collaboration.
- On 21.06.2010 with BGŻ S.A. the contract to grant guarantees and sureties in the amount of PLN 85.0 million valid until 31.05.2011 (the contract replaced the facility in the amount of PLN 60.0 million valid until 31.12.2009). As at the date of preparation of this report an annex was concluded that decreased the limit to PLN 75.0 million. The balance of the limit in the amount of PLN 10.0 million was transferred to be utilised in the form of a bank overdraft.
- On 07.10.2010 with EFG Eurobank Ergasias S.A. Spółka Akcyjna Branch in Poland the contract of a multifunctional credit facility with the limit of PLN 100.0 million to be utilised in the form of bank guarantees by 06.10.2011.

Moreover, in 2010, the Company concluded the following annexes:

- to the contract for releasing guarantee facility at Deutsche Bank Polska S.A. increasing the limit from PLN 40.0 million to PLN 100.0 million and extending the validity until 31.03.2011, and then until 30.03.2012 as at the date of preparation of this report.
- to the framework contract for issuing bank guarantees, opening letters of credit and granting a credit facility at Credit Agricole CIB S.A. Branch in Poland (former Calyon S.A. Branch in Poland) decreasing the limit from PLN 190 million to PLN 165.0 million and further annexes extending the validity until 31.10.2011 and once again increasing the limit up to PLN 190 million,
- to the contract on setting of the concentration limit in the form of revolving credit facility for issuing of bank guarantees at BOŚ S.A. increasing the limit from PLN 90.0 million to PLN 120 million and extending the validity by another year, i.e. until 30.06.2011,
- to the contract for granting a guarantee facility at Bank DnB Nord Polska S.A., (the limit of EUR 11.5 million) extending the life of the contract until 30.06.2011,



- to the contract of the guarantee facility at Svenska Handelsbanken AB S.A. Branch in Poland extending the availability of the product until 31.08.2011 and increasing the limit from PLN 50.0 million to PLN 54.5 million,
- to the contract for a bank loan in the amount of PLN 30.0 million with PKO BP S.A. under which Polimex-Mostostal S.A. may use a credit facility in Polish zloty up to 35% of the limit and order bank guarantees in domestic trade up to 100% of the limit; under this annex the guarantee order period was extended until 12.02.2013.
- to the framework contract to issue bank guarantees at PKO BP S.A. (the limit of PLN 200.0 million) extending the contract validity by 17.02.2011r.; as at the date of preparation of this report the application date was postponed until 17.11.2011,
- to the contract for issuing of contract performance bonds within the revolving limit of 25.0 million at TU Euler Hermes S.A. extending the limit availability period until 28.04.2011,
- to the contract with TU Allianz Polska S.A. for granting contract bonds under a revolving limit increasing the limit up to PLN 25.0 million and extending the life of the contract until 31.07.2010, and then until 31.07.2011,
- to the general contract with Pekao S.A. specifying the terms and condition for co-operation in the scope of credit and guarantee facility decreasing the limit from PLN 150.0 million to PLN 100.0 million and extending the life of the contract until 31.07.2011; the limit was shifted within the financing of Polimex-Mostostal S.A.; the bank concluded with the Company a new contract for a non-revolving working capital facility in the amount of PLN 50.0 million,
- to the general contract with Pekao S.A. for issuing of bank guarantees in the amount of PLN 118.5 million extending the life of the contract until 31.07.2011,
- to the contract for debt limit with Raiffeisen Bank Polska S.A. increasing the limit from PLN 40.0 million to PLN 100.0 million and extending the validity of the limit until 31.07.2011,
- to the contract granting a guarantee facility with Kredyt Bank S.A. decreasing the limit from PLN 156.0 million to PLN 147.4 million and extending the validity of the limit until 31.10.2011, (the balance of the limit was utilised by one of Polimex-Mostostal's Group companies),
- to the contract of bank guarantees and documentary letters of credit with Bank Millennium S.A. breaking the limit of PLN 153.2 million into the guarantee facility in the amount of PLN 143.2 million and the letter of credit facility in the amount of PLN 10.0, and extending the availability of both products by 30.08.2011,
- to the general contract with InterRisk TU S.A. Vienna Insurance Group for granting insurance bid bonds increasing the limit from PLN 30.0 million to PLN 40.0 million and extending the validity until 16.07.2011.

The incorporation of seven subsidiaries owned by Polimex-Mostostal Group resulted in the acquisition of the following guarantee limits:

- The Contract of bank guarantees of former **Naftobudowa S.A.** concluded with Bank Millennium S.A, the Contract to grant a bank guarantee concluded with PKO BP S.A. and the Contract to grant an insurance guarantee concluded with HDI Gerling Polska TU S.A. The limit granted by Bank Millennium S.A. amounts to PLN 20.0 million, and the validity period until 22.10.2010 was extended with an annex by 22.10.2011. PKO BP S.A. granted the limit of PLN 10.0 million with the validity until 13.05.2010, which was increased

with annexes up to PLN 25.0 million, and the validity period was extended by 13.05.2011. Whereas the limit granted by HDI Gerling Polska TU S.A. amounts to PLN 15.0 million, and the validity date of 20.04.2010 was extended by 31.12.2010. The Company did not make any further extensions.

- The contract of a multipurpose credit facility of former **Naftoremont Sp. z o.o.** concluded with PKO BP S.A., with the limit of PLN 10.0 million, which could be utilised for bank guarantees. The contract is valid until 24.06.2011.
- The Contract of former **EPE Rybnik Sp. z o.o.** concluded with TUiR Allianz Polska S.A., with the limit of PLN 1.5 million valid until 25.04.2010, with the validity period extended by 25.04.2011.
- The contract to grant contractual bonds under the revolving limit of former **ECeRemont Sp. z o.o.** concluded with TUiR Allianz Polska S.A., with the limit of PLN 0.3 million and the option to order guarantees until 27.05.2011.
- The Contract of co-operation in the scope of granting insurance guarantees within the revolving limit of former **ZRE Kraków Sp. z o.o.** in the amount of PLN 3.0 million concluded with STU Ergo Hestia S.A. and the general contract to grant insurance guarantees concluded with TU InterRisk S.A. with the limit of PLN 2.0 million and validity until 26.07.2010, extended until 26.07.2011.
- The contracts of former **Energomontaż-Północ S.A.** concluded with DnB Nord Polska S.A., RBS Bank (Polska) S.A., Credit Agricole CIB S.A. Branch in Poland, R+V, HDI Gerling Polska TU S.A. and those of former **ZRE Lublin Sp. z o.o.** concluded with Uniqua TU S.A. and PZU S.A. Under the contract with DnB Nord Polska S.A. companies of the former Energomontaż-Północ Capital Group may use the guarantee facility in the amount of PLN 25.0 million and Energomontaż-Północ Gdynia S.A. may use a bank overdraft of PLN 2.0 million. The validity of 30.04.2010 was extended with annex until 30.06.2011. Under the contract with RBS Bank (Polska) S.A. companies of former Energomontaż-Północ Capital Group use perpetually the limit increased in 2010 from PLN 30,0 million to PLN 50.0 million. In May 2010 the Company extended until 26.05.2011 the availability of the limit under the contract with R+V (the limit of EUR 0.4 million) from 26.05.2010 to 26.05.2011 and signed with HDI-Gerling Polska TU S.A. the contract of guarantee facility in the amount of PLN 15.0 million under which contractual bonds will be issued to the companies of former Energomontaż-Północ Capital Group until 12.05.2011. After that, in November 2010 the Company signed with Credit Agricole CIB S.A. Branch in Poland the contract to issue contractual bonds by the Bank within the limit of PLN 41.0 million valid not longer than 31.12.2016. The contracts of former **ZRE Lublin S.A.** with Uniqua TU S.A. with the limit of PLN 1.5 million and valid until 12.05.2011, and with PZU S.A. with the limit of PLN 1.5 million valid until 05.03.2010 extended in July 2010 until 20.07.2011.

The key banks servicing Polimex-Mostostal S.A. (after the incorporation) in the scope of guarantees are: Bank Millennium S.A. (PLN 139.1 million), Kredyt Bank S.A. (PLN 134.3 million), Bank Ochrony Środowiska S.A. (PLN 72.4 million), Pekao S.A. (PLN 70.6 million) and PKO BP S.A. (PLN 219.9 million). Among issuers of insurance guarantees, the largest share was attributed to: TUiR Warta S.A. (PLN 46.3 million), STU Ergo Hestia S.A. (PLN 61.1 million) and TU Euler Hermes (PLN 25.3 million).

Companies of the Group concluded the following Contracts and Appendixes complementing currently valid contracts:

- In 2010 **Fabryka Kotłów Sefako S.A.** concluded a framework contract with Nordea Bank Polska S.A. for granting bank guarantees with the limit of EUR 3.0 million and validity until 02.02.2011. As of the date of

preparation of this report, the limit availability was extended until 02.02.2012. The Company signed with TU Generali S.A. the contract to grant contractual bonds within a revolving limit of PLN 2.0 million available by 28.10.2011. Moreover, the Company initialled annexes to the contract on guarantee facilities with PKO BP S.A. increasing the limit from EUR 8.0 million to EUR 16.0 million and extending the validity period until 22.06.2012, and it initialled the annex to the contract with Pekao S.A. extending the availability of the limit of PLN 20.0 million until 31.10.2011.

- **Moduł System Serwis Sp. z o.o.** concluded an annex to the contract for a guarantee facility with ING Bank Śląski S.A. decreasing the limit from PLN 1.5 million to PLN 1.0 million and extending the date of placing orders until 30.06.2016.
- **PRInż-1 Sp. z o.o.** concluded with Bank Ochrony Środowiska S.A. an annex to the contract of revolving guarantee facility with the limit of PLN 1.8 million extending its validity by 15.07.2011 and increasing the limit up to PLN 4.5 million, and a new contract to grant guarantees in the amount of PLN 1.2 million.
- In May 2010 **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** concluded an annex with Bank Millennium S.A. to the contract for bank guarantees increasing the limit from PLN 0.75 million to PLN 1.5 million extending validity of the facility until 27.05.2011. The company also concluded a new contract of the guarantee facility in the amount of PLN 0.3 million with PTU S.A. under which orders may be placed until 15.08.2011.
- In January 2010 **PxM Projekt Południe Sp. z o.o.** concluded a contract with Pekao S.A. for the opening of bank guarantee facility with the limit of PLN 1.5 million and validity until 31.07.2010, which was later extended until 31.07.2011. Furthermore, in September 2010 the Company concluded with Bank Millennium S.A. an annex to the contract of bank guarantees and letters of credit (PLN 1.5 million) extending the life of the contract by 30.08.2011.
- In **February** 2010 **Torpol Sp. z o.o.** concluded an annex to the contract to grant contractual bonds within the revolving limit at TU Euler Hermes S.A. increasing the limit from PLN 15 million to PLN 25 million, and next extending the possibility to place orders by 31.08.2011. In **March** 2010 Torpol Sp. z o.o. concluded with HDI-Gerling Polska S.A. a new framework contract of guarantee facility with the limit of PLN 15.0 million and validity by 08.03.2011, and in **May** 2010 it concluded with Raiffeisen Bank Polska S.A. a contract of debt limit of PLN 30 million (valid until 30.06.2011). In **June** this year the company concluded with TUiR Allianz Polska S.A. a contract for granting contractual bonds under a revolving limit of PLN 23.0 million and an annex with InterRisk TU S.A. Vienna Insurance Group to the contract for granting insurance bid bonds increasing the limit from PLN 5.0 million to PLN 20.0 million and extending its validity until 16.06.2011. In **October** 2010 the company signed the contract with BGŻ S.A. to grant guarantees with the limit of PLN 50.0 million valid until 25.08.2011, and then in **December** 2010 it signed the contract with BZ WBK S.A. to grant the guarantee facility with the limit of PLN 58.0 million valid until 05.12.2011. The contract to grant temporarily insurance contractual guarantees with PZU S.A. was extended with an annex until 28.12.2011, the limit was increased from PLN 48.0 million to PLN 57.7 million, and the contract with STU Ergo Hestia S.A. to collaborate in the scope of granting insurance guarantees (the limit of PLN 10.0 million) was not extended (validity by 28.02.2010) and it is valid until the last guarantee expires. Whereas in June 2010 **Elmont-Kostrzyn Wlkp. Sp. z o.o.** (the subsidiary of Torpol Sp. z o.o.) concluded a general contract with TU Generali S.A. with the insurance guarantees limit of PLN 2.0 million (validity by 21.06.2011), in July 2010 it signed a contract with TU Europa S.A. with the option to use the insurance

guarantee limit up to PLN 3.0 million (validity by 11.07.2011), and in August 2010 it signed a contract with PTU S.A. for the limit of PLN 1.0 million and PLN 5.5 million (validity by 03.08.2011). The contract for insurance guarantees concluded with TUW TUZ S.A. with the limit of PLN 2.8 million and validity by 17.06.2010 was extended until 17.06.2011. As at the date of preparation of this report the Company concluded a new contract with TUiR Warta S.A. with the limit of PLN 5.0 million and validity by 18.01.2012.

- In February this year **WBP Zabrze Sp. z o.o.** concluded an annex to the contract for guarantee facility at Orzesko-Knurowski Bank Spółdzielczy (the limit of PLN 1.15 million) extending its validity until 11.02.2012.
- In May 2010 **ZUT Sp. z o.o.** concluded with UNIQUA TU S.A. a contract for guarantee limit of PLN 0.5 million and validity until 23.05.2011.
- **Coifer Impex SRL** did not extend one of the contracts for guarantee facility with BNP Paribas Fortis/ NV Bruxelles. The contract for EUR 1.5 million expired in accordance with its expiry date i.e. on 15.05.2010. Whereas the limit at RBS Romania was decreased from EUR 5.0 million to EUR 3.0 million.

The main banks and insurance companies servicing the Group companies in the scope of guarantees are: PKO BP S.A. (Sefako S.A., Torpol Sp. z o.o.), Pekao S.A. (PxM Projekt Południe Sp. z o.o., ZT Grupa Kapitałowa Polimex Sp. z o.o., Sefako S.A., Turbud Sp. z o.o.), BGŻ S.A. (Torpol Sp. z o.o.), Grupa RBS Bank S.A. (companies of former Energomontaż-Północ Group, Coifer Impex SRL), BNP Paribas Fortis (Coifer Impex SRL) and HDI Gerling Polska TU S.A., PZU S.A., TU InterRisk S.A., TUiA Allianz Polska S.A., TU Euler Hermes.

## **2.9. Description of external and internal factors significant for development of the Issuer's Capital Group as well as business development perspectives, including elements of market strategy**

External factors, independent of the Group companies, as well as internal factors, tightly connected with their operations have an impact on the Capital Group's development perspectives until the end of this financial year.

### **External factors**

Economic activities of Polimex-Mostostal Capital Group are conducted mainly in Poland and EU countries as well as in Ukraine. Changes of the macroeconomic situation in these regions have an impact on the development of the Capital Group. GDP growth rate and changes of interest rates, inflation rate and the situation on the labour market are most important. The mentioned ratios have an impact on the economic situation of Capital Group companies' contractors. The economic situation of the EU member states affects directly investment expenditure for the implementation of investment programmes in industry that is the main trade area for the companies of the Capital Group. In turn the state of home finance affects the execution of government programmes in the scope of road and railroad construction and the level of expenditure for the development of infrastructure incurred by local governments.

In trade relations, macroeconomic situation has an effect on the terms and conditions of concluding contracts, whereas the deterioration of the position of trade partners may lead to payment gridlocks.

The situation on the labour market as well as the fluctuation of supply prices should be included in the list of significant factors that affect the prospects of the development of the Issuer's Capital Group. The increase of labour costs and prices of steel, zinc alloys and construction materials is not always fully compensated with an

adequate growth of prices paid for the services offered, which may have a negative effect on the economic results of performed activities. Lack of qualified employees is becoming a more and more serious problem, which forces the Group companies to cover the costs of trainings.

The Group's development prospects depend also on the degree of intensification of activities of domestic and foreign competitors. Growth of competition induces decrease of margins. In recent years, competition of the entities outside the EU has become very strong on the construction services market, in particular in road construction.

Additionally, changes in the Polish law resulting from the implementation of regulations that is in force in the European Union, in particular in the scope of construction and environment law and within labour law, also affect the costs of activity of Group companies.

### **Internal factors**

In order to take opportunities and to effectively prevent the threats arising from the changes in the market environment, from 2008 to 2010 the largest in the Group's history investment program was implemented and the manner it operates was thoroughly restructured. The investment programme included the construction of new production lines in Siedlce enabling to significantly increase the capacity in the scope of steel structure manufacturing and galvanising service and in Sedziszów, where the construction of a new production hall enabled the company to increase the production of power engineering boilers. In 2010 the process of incorporation of seven subsidiaries was completed. Divisions, which continue current activities, were established based on the acquired companies. The restructuring of back office operations (finance, human resources, purchasing, IT etc.) that accompanied the incorporation will additionally boost the increase of the efficiency of conducted activity.

The implemented investment programme, completed incorporation and restructuring of back office operations, as is the intention of the Management, is to enable the achievement of the following objectives:

- in increase of competitiveness mainly in the scope of the execution of large investment tasks for the benefit of industry as the Investment General Contractor (lower pressure on margins),
- an increase of the participation of own forces in the execution of works (a positive influence on the effectiveness of bidding),
- a decrease of a negative effect of seasonal and cyclical nature of operations by enabling a free flow of human resource and equipment between the Issuer's organisational units (improvement of economic effectiveness of conducted activity),
- extending the range of own deliveries to new products, in particular ones which are of key importance to the execution of the entirety of orders (lower risks),
- reduction of costs incurred on own operations (as a result of restructuring of the Issuer's back office).

Completion of tasks, which are specified in this manner, will allow to increase the competitive advantage on the Group's main markets and to maintain constant growth of earnings attributable to the shareholders of Polimex-Mostostal S.A.

### **2.10. Clarification of differences among financial performance given in annual report and previous forecasts of financial performance for a given year**

The forecasts regarding financial performance of Polimex-Mostostal S.A. or Polimex-Mostostal Group in 2010 were not published.



## 2.11. Basis of preparation of annual financial statements

Basis for preparation of annual financial statements are given in notes and explanations to the financial statements.

## 2.12. Information on dividend paid (or proposed)

The Management Board is going to apply for the payment of dividend for 2010 in amount of 0.04 PLN (say: four Polish Grosz) per one share of Polimex-Mostostal S.A.

## 3. Risk management in the Issuer's Capital Group

Dynamic development combined with a wide scope of economic activities, is the source of different risks and threats that may have potentially negative impact upon financial performance of Polimex-Mostostal Capital Group. Companies of the Capital Group continuously improve risk management methods, analyse external and internal factors that may have impact upon assumed objectives, improve procedures, and arrange training for improvement of qualifications of management and employees.

Risk Management Procedure currently applied by Polimex-Mostostal S.A. is based on international standards, but maintains and uses previous organisational and legal arrangements related to risk management adopted by the Group. Subsidiaries have also verified procedures binding risk management procedures, and now work over alignment of risk management methods to international standards, applying in this scope the experience of the parent company. Naftobudowa S.A. has in its organisational structure Risk Management Department, which main task is the implementation of a unified procedure. Energomontaż-Pólnoc S.A. appointed a person responsible for the implementation of risk management. And conducted activities are aimed at the implementation and constant improvement of this system. Due to the planned merger of seven subsidiaries with Polimex-Mostostal S.A. existing methods of risk management in the subsidiaries were streamlines and preparations were made to effective implementation of the risk management procedure in force at Polimex-Mostostal S.A, which was the acquiring company.

In the opinion of the Management of the parent, the system regarding internal regulations, official responsibility and decision taking by management boards of the Group companies, facilitate risk identification and assessment, as well as taking actions against identified risk, mitigating negative impact of events upon operations and value of the Group companies. Actions taken by the parent company, including analysis and training with attendance of internal and external experts, as well as decisions of the Management of the parent in the scope of implementation of uniform risk management procedure are compliant with recommendations and spirit of "Best Practices of WSE Listed Companies", and ensure that the parent and companies of the Capital Group achieve their objectives.

### 3.1. Description of significant risk factors and threats

**The parent** of the Capital Group takes system actions aimed at mitigation of probability of negative events that may have negative impact upon financial performance of the Capital Group, and limitation of costs – if such events occur. Depending on nature of particular risk and its value, these are managed centrally, or in internal organisation entity at place of occurrence. In parallel, uniform procedures of identification, assessment and manner of conduct regarding particular risk categories, facilitating control and assessment of impact of undesired events upon economic activities of the parent, function in key areas of activities.

**Strategic risk** is managed centrally or directly by the Management Board of the parent (e.g. risk of development plans non-performed), or by separated organisational unit (e.g. risk of inefficient acquisitions).

**Financial risk** (described in section 3.2) is managed centrally by the Finance Department of the parent. Definition of threats and methods for limiting the level of strategic and financial risk on Group companies' basis is one of issues discussed on regularly held conferences of presidents of companies and management of Polimex-Mostostal S.A.

**Operational risks** (related mainly to assessment and fulfilment of service contracts and production) are managed at the level of particular plants or branches under criteria defined and monitored centrally, and in manner adequate to specificity of conducted economic activities. Co-operation of the Capital Group companies, both at the stage of bid and performance, has impact upon lowering the level of operational risk. Other types of risk are related to threat to the continuation of activity of the parent in particular segments of operations. They may arise from necessity of applying provisions of the law (e.g. health and safety, environmental protection), excessive employee's fluctuation, or be related to loss of material resources (issue of third party liability and property insurance is discussed in greater detail in section 3.3). These risks are managed centrally, but belong to the managers of organisation units, where a given risk is directly identified. Preparing analysis of the current economic activities of the parent, one should point to lack of events significantly threatening the continuation of statutory activity.

These are the basic tools of risk management in the parent:

- Risk Management Procedure,
- Integrated Management System Procedures,
- Price Committee Operations,
- System of coordination meetings dealing with control of performance of construction projects,
- Uniform procedures for assessment of canvassing acquisitions by Business Combination and Acquisition Department,
- Strategy and policy of currency risk management.

Systematic mitigation of risk and threats related to economic activities is very important for the parent and other companies of Polimex-Mostostal Capital Group. The most important risk areas and potential threats that are concurrently monitored are:

- impact of macroeconomic environment upon development of the parent company and the Group,
- acquisition effectiveness,
- valuation of construction and assembly services,
- creation of order portfolio and performance of long standing investment contracts,
- amount of off-statement of financial position liabilities arising from hedges on construction contract performance,
- changes of the demand for specialist services of anticorrosive protection, including galvanizing and painting of steel structures,
- changes in commodity markets, mostly of steel and zinc prices,
- situation on skilled labour market.

The manner of management related to financial risk and negative consequences of the loss of material resources was discussed in sub-sections below (3.2 and 3.3).

Due to the fact that majority of the Capital Group revenue is generated on domestic market, development and financial performance of the Group **depends on macroeconomic position of Poland**, in particular volatility of Gross Domestic Product, drop in investment level, increase in inflation rate, budget deficit and unemployment.



In opinion of the Management of the parent, amendments made to legal provisions and tax law do not pose a threat to the further development of the Capital Group.

In turn, **political factors**, blocking pace of development of industries where the Capital Group operates by both, suspension of privatisation (chemical and power engineering industry) and lack of complete fulfilment of investment assumptions specified in governmental programmes (e.g. development of infrastructure) should be considered as risks that **may slow down development of the Capital Group**. Additionally, lengthy tender procedures and resignation upon the performance of investment programmes due to the financial crisis, as well as the reduction in procurement by public institutions due to the budget deficit, which may affect in particular infrastructure undertakings, are a significant impediment. In opinion of the Management Board of the parent company, other market participants suffer from impact of the above factors in a similar way, so the Group is not in position worse than its competitors. In 2010 the participation of the Group in performance of infrastructural enterprises financed from resources of the European Union was a hedge against negative impact of the worsening economic situation. Multibranch operations allow to allocate resources from crisis-stricken sectors to the ones that are still developing.

The parent company limits canvassing actions due to general crisis, but continuously analyse the market in terms of potential acquisitions of complementary companies. **Inefficient acquisition risk** in this area is mitigated by market and profitability analysis prepared by internal specialists and expertises of specialised advisory companies. In 2010 the company successfully conducted the merger with seven subsidiaries operating in power engineering, petrochemical and environment sectors, which will allow to manage the Group more effectively and to reduce the costs of operations.

The principal operations of the Capital Group focus on rendering of services. **The risk of inadequate valuation of construction and erection works** is mitigated by the Price Committee, advisory authority of the parent's Management Board dealing with control over observance of rules for preparation of tenders applied by Polimex-Mostostal S.A. for contracts of medium and large value. Other companies of the Capital Group implement and apply assessment procedures adopted by the Price Committee and obligating the parent.

**The risk of ineffective construction contract performance** is managed by continued contract monitoring, and regular coordination meetings held for contract performance, identification of potential threats and development of remedy actions.

**Contract performance bond risk.** Concluding a contract, companies of the Capital Group often acting as a key contractor, are obliged to deliver performance bonds, on average in amount of about 10% of contract value. First, the Group companies take this risk, but in the course of outsourcing of the remaining works to sub-contractors, they partially transfer this risk to sub-contractors, obligating them to deliver bonds covering the scope of their works. If sub-contractors are not able to deliver such security in form of bank guarantees or insurance guarantees, settlement is made by deduction of guarantee deposit. In this way, the Group companies transfers a portion of the performance bond to sub-contractors on pro rata basis.

**Raw materials price risk.** Economic effectiveness of production of the Capital Group depends to large extent on fluctuations in prices of raw materials, mainly steel and zinc composite. Employment of high class specialists on market analysis is the basic factor mitigating this type of risk. Moreover, the parent has implemented procedure for central acquisitions (scale economy, feasibility of negotiating lower purchase price). As far as zinc alloys supply is concerned, the parent is analysing efficacy of utilisation of different types of forward instruments available on financial market.

**Risk of change of demand for specialist services** of corrosion protection – galvanizing and painting of steel structures in the parent company. In the period of worsening of economic situation that was observed on the European market in 2009-2010, demand for high-quality, relatively expensive galvanizing services shifted

towards cheaper methods of anticorrosive protection, including painting of steel structures. To minimise the effect of the shift of demand on their revenue, the Group companies enrich their offer, conduct marketing activities promoting the high quality of provided services, adjust service prices to market prices.

Qualified labour acquisition risk. Polish labour market position significantly determines operations of the home market companies operating in construction and assembly industries. Earning emigration as observed a few years ago, which caused many obstacles in acquisition of properly qualified employees, was impeded due to global financial crisis.

Suspension of numerous investments or shift of commencement dates of new investments increase the supply of qualified staff and construction companies capable of prompt and proper performance of construction and erection works in form of sub-contracting. Nevertheless, the management of the Group is aware of the fact that the opening of German and Austrian labour markets may result in the necessity to modify employee remuneration systems. In order to retain valuable employees, the Parent Company has implemented incentive programmes motivating professionals to continuous improvement of qualifications. For example in 2010 the execution of the project of trainings co-funded by the EU, which was attended by 1,923 persons, was completed.

### **3.2. Information on financial instruments in the scope of: risk of changes of price, credit risk, significant disturbances in cash flows and loss of liquidity, as well as financial risk management objectives and methods assumed by the entity**

Financial performance of Polimex-Mostostal Group may fluctuate due to change in market factors, in particular quotations of resources prices, foreign currency exchange rates and interest rates. The group manages its risk, mitigates fluctuation of future cash flows and potential economic losses arising from events having negative impact upon the financial performance.

**Credit risk** related to trade receivables is mitigated by diversification of customers and individual approach to each customer in terms of assessment of its credibility (both legal and economic). Additionally, credit risk is mitigated by:

- for foreign customers:
  - trade receivables insurance,
  - obtaining hedging of receivables in form of letters of credit and bank guarantees, but also insurance bonds,
- for domestic customers:
  - obtaining hedging of receivables in form of bank guarantees and insurance bonds,
  - hedging of receivables in form of registered pledge or mortgage, bills of exchange.

Credit risk is also mitigated by conclusion of transactions with public sector units. A considerable share in revenues of the Capital Group relates to proceeds from contracts concluded with the State Treasury companies, and local government units, giving insignificant risk of impairment. All companies of the Group verify position and financial credibility of trade partners, and partners of the Group willing to utilise commercial bank loan are verified under additional procedure regarding payment habits (analysis of payment capacity index, own experience or other companies of the Group).

Interest rate risk. The Group companies, like the parent company, have cash in banks and liabilities for bank loans based on the floating interest rate. The companies monitor the situation on the financial market, analyse trends and prognoses in a scope of reference market rates in order to decide, in proper moment, to conclude contracts preventing them from the increase of debt interest costs which may be unbeneficial to the Group companies. On 12 March 2010 Energop Sp. z o.o., the subsidiary, entered into interest rate swap transaction in the form of an amortised swap. The interest rate risk relating to the investment loan in EUR drawn by the

Company is the subject of this hedging transaction. The output nominal value of the transaction was specified at EUR 4 million – the hedged amount of loan is reduced (amortised) on a quarterly basis in the period from 30 September 2010 (transaction initial date) to 16 December 2013 (transaction final date). Quarterly, in the dates given in the transaction terms and conditions, the company makes an interest payment to the other party based on the fixed interest rate of 2.20% p.a. in exchange for interest payments based on the floating interest rate equal to EUR-LIBOR 3M.

A preferred method of hedging against **foreign exchange risk** applied by Polimex-Mostostal Capital Group companies is natural hedging i.e. hedging foreign currency risk by entering into transactions which generate costs in the same currency as the revenue currency. If it is not possible to hedge foreign currency risk with natural hedging, the companies apply foreign exchange hedges based on using derivative instruments related to the foreign currency market. These are in particular the following instruments:

- forward currency contracts
- PUT/CALL currency options (acquired options),
- option structures constructed with PUT and CALL options, in particular the so called „zero-cost” symmetric currency corridors built with PUT and CALL options.

It is the Group's policy to negotiate the terms of hedging derivative instruments to match the specificity of the hedged item so as to maximise hedge effectiveness. The Group companies limit the volatility of future foreign currency cash flows in view of their exposure to foreign currency risk. In each case the hedged position is highly probable future cash flows from export contracts or domestic contracts denominated in a foreign currency.

As at 31 December 2010 the total maximum nominal value of open hedging transactions entered into by the Group companies (including Polimex-Mostostal S.A.) amounted to EUR 54,265 thousand, GBP 5,039 thousand, USD 1,350 thousand and NOK 2,932 thousand. Transactions for the EUR/PLN pair will have been settled in 98% by 31 December 2011. The time composition of hedging instruments for the foreign currency risk for EUR/PLN pair (according to the criterion of planned exercise date) is presented in the table below.

<b>Instrument settlement period</b>	<b>Maximum nominal amount of hedging instruments to be settled in EUR thousands*)</b>
1st quarter 2011	28 732
2nd quarter 2011	14 113
3rd quarter 2011	7 115
4th quarter 2011	3 105
<b>Total for 2011</b>	<b>53 065</b>
2012	1 200
<b>Total</b>	<b>54 265</b>

\*) *age structure of maturity of forward contracts in compliance with the forecast of hedged item occurrence*

Certain Group companies execute effectively implemented hedge accounting policies. In case of these entities (in particular Polimex-Mostostal S.A. and Torpol Sp. z o.o.) the fair value of hedging instruments and (and its changes) in part recognised as an effective hedge is transferred to revaluation reserve. The remaining portion (including the portion which is excluded from effectiveness measurement) is recognised directly in the profit and loss. In case of other entities using derivative instruments for foreign currency risk management, the fair value measurement is recognised in the profit and loss.

As at 31 December 2010 the total fair value of open instruments hedging foreign exchange risk in the Group was calculated at the amount of PLN 9,081.0 thousand. Practically, the entire valuation is attributable to companies applying hedge accounting. Movements in the derivative instrument revaluation reserve in the Group Companies (including Polimex-Mostostal S.A.) are presented in the table below (movements after taking into consideration the effect on deferred tax and a portion attributable to non-controlling interest) – in PLN thousands.

As at 31.12.2009	Change in 2010	As at 31.12.2010
5 258	- 1 363	3 895

It should be emphasized that the measurement presented above is only of computational nature and does not affect current liquidity or general financial situation of the Group.

Fluctuations of the average exchange rate of EUR have significant influence on the amount of income expressed in PLN resulting from contracts concluded in a foreign currency. Based on contracts which have been entered into and contracts which are highly probable to be concluded, the Capital Group assessed the foreign currency exposure in 2011 as follows:

Detailed list	2011
Projected foreign currency proceeds – in EUR thousands	325 622
Expected expenditure in foreign currency in EUR thousands	144 102
<b>Business exposure to foreign currency risk in EUR thousand</b>	<b>181 520</b>
Hedging transactions open as at 31.12.2010 to be exercised in 2011 in EUR thousands	53 065
<b>Open item in foreign currency (including hedging transactions) in thousands EUR</b>	<b>128 455</b>

Nominal value of hedging instruments open as of 31.12.2010 constitutes 29% of the total value of expected exposure to foreign exchange risk in 2011. Foreign currency cash flows for contracts concluded by the Group companies by the date of the completion of this list account for over 62% of business exposure computed as above. Consequently, 47% of the business exposure to foreign exchange risk on account of the flows contracted as of 31.12.2010 was covered by hedging transactions. Fluctuations of PLN/EUR exchange rate will have a neutral effect on the Capital Group financial results in the scope of cash flows from foreign currency contracts covered by hedging instruments. Current effect of this market parameter will only relate to the portion of foreign currency transactions (net proceeds), which will not be covered with hedging transactions.

In 2011 **Polimex-Mostostal S.A.** consequently applied implemented policies for exchange rate risk management. It resulted in concluding additional hedging transactions as characterized below:

- An option transaction in the form of a currency corridor entered into on 14.02.2011. The total nominal value of currency options to be exercised in 4 dates over the period between 21 April 2011 and 12 August 2011 amounts to EUR 2,170,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is

entitled to are 3.90 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.0150 PLN/EUR.

- The series of forward future contracts of 22.02.2011 on the sale of the total amount of EUR 1,097,000 for PLN to be exercised in 4 dates in the period between 29.04.2011 and 31.10.2011. The exchange rate for each date was specified at 4.0100 PLN/EUR.
- The series of forward future contracts of 22.02.2011 on the sale of the total amount of EUR 400,000 for PLN to be exercised in 4 dates in the period between 07.03.2011 and 07.06.2011. The exchange rate for each date was specified at 3.9750 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 23.02.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 3 March 2011 and 4 August 2011 amounts to EUR 3,000,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.90 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.1000 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 28.02.2011. The total nominal value of currency options to be exercised in 5 dates over the period between 28 June 2011 and 20 October 2011 amounts to EUR 1,471,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.95 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.0900 PLN/EUR.
- The forward future contract of 26 March 2011 to sell EUR 600,000 for PLN to be exercised on 30 September 2011. The exchange rate was specified at 4.03 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The forward future contract of 1 March 2011 to sell EUR 600,000 for PLN to be exercised on 31 October 2011. The exchange rate was specified at 4.034 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The forward future contract of 1 March 2011 to sell EUR 700,000 for PLN to be exercised on 30 May 2011. The exchange rate was specified at 4.00 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The series of forward future contract of 1 March 2011 to sell the total of EUR 2,300,000 for PLN to be exercised in two dates: 31 October 2011 and 31 March 2012. The exchange rate was specified at 4.04 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- An option transaction in the form of a currency corridor entered into on 07.03.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 1 April 2011 and 2 September 2011 amounts to EUR 1,200,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.90 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.1700 PLN/EUR.

- The forward future contract of 11 March 2011 to sell the total of EUR 1,600,000 for PLN to be exercised on 31 January 2012. The exchange rate was specified at 4.1045 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The series of forward future contract of 11 March 2011 to sell the total of EUR 2,100,000 for PLN to be exercised in two dates: 28 October 2011 and 30 March 2012. The exchange rate was specified at 4.0975 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- An option transaction in the form of a currency corridor entered into on 15.03.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 6 April 2011 and 5 September 2011 amounts to EUR 1,200,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.9500 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.2700 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 15.03.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 5 April 2011 and 2 September 2011 amounts to EUR 2,750,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.9000 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.3500 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 17.03.2011. The total nominal value of currency options to be exercised in 2 dates over the period between 26 April 2011 and 25 May 2011 amounts to EUR 234,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 4.0000 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.2050 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 17.03.2011. The total nominal value of currency options to be exercised in 3 dates over the period between 11 July 2011 and 9 September 2011 amounts to EUR 600,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 4.0000 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.3000 PLN/EUR.
- The series of forward future contracts of 31.03.2011 on the sale of the total amount of EUR 2,673,000 for PLN to be exercised in 4 dates in the period between 29 June 2011 and 29 September 2011. The exchange rate for each date was specified at 4.0500 PLN/EUR.



After 31 December 2010 the other Polimex-Mostostal Group Companies entered into the following hedging transactions:

- StalFa Sp. z o.o.:
  - a series of forward contracts of 24 February 2011 on the sale of the total amount of EUR 900,000 for PLN to be exercised in 18 dates in the period from 4 March 2011 and 11 July 2011, the forward rate for each maturity date was specified at 4.0001 PLN/EUR;
  - a series of forward contracts of 11 March 2011 on the sale of the total amount of EUR 250,000 for PLN to be exercised in 5 dates in the period from 18 July 2011 and 15 December 2011, the forward rate for each maturity date was specified at 4.0510 PLN/EUR;
  - a series of forward contracts of 14 March 2011 on the sale of the total amount of EUR 250,000 for PLN to be exercised in 5 dates in the period from 25 August 2011 and 27 December 2011, the forward rate for each maturity date was specified at 4.0630 PLN/EUR;
  - a series of forward contracts of 17 March 2011 on the sale of the total amount of EUR 250,000 for PLN to be exercised in 5 dates in the period from 5 August 2011 and 5 December 2011, the forward rate for each maturity date was specified at 4.1175 PLN/EUR;
- StalFa Sp. z o.o.:
  - 2 forward future contracts of 22 February 2011 to sell the total of EUR 500,000 for PLN to be exercised on 2 March 2011; the forward rates were specified at 3,9610 PLN/EUR;
- Torpol Sp. z o.o.:
  - a forward future contract of 17 March 2011 to sell EUR 1,500,000 for PLN to be exercised at 31 January 2012, the forward rate was specified at 4.1300 PLN/EUR;
  - a forward future contract of 18 March 2011 to sell EUR 1,500,000 for PLN to be exercised at 31 January 2012, the forward rate was specified at 4.1100 PLN/EUR;
  - on 25 March 2011 the company shifted the maturity of the option structure (synthetic forward) to be exercised on 31.03.2011. The shift in maturity referred to the amount of EUR 3,000 thousand. The new maturity was specified at 29.07.2011. The exercise rate was specified at 4.1980 PLN/EUR. The operations adjusted the parameters of the hedging instrument to the expected exercise date of the business item it covered.
  - on 29 March 2011 the company shifted the maturity of the forward future contract to be exercised on 31.03.2011. The shift in maturity referred to the amount of EUR 4,000 thousand. The new maturity was specified at 30.06.2011. The exchange rate was specified at 4.1800 PLN/EUR. The operations adjusted the parameters of the hedging instrument to the expected exercise date of the business item it covered.

In total in 2011 until at the date of preparation of this report the exposure of the nominal value of EUR 29,969.1 thousand was hedged.

### 3.3. Insurance contracts

In 2010 Polimex-Mostostal Group was to large extent utilising both property insurance (including mostly business operations insurance and professional indemnity insurance), as well as construction/erection works insurance and motor insurance. In case of the parent company, due to the expiry in September 2009 of most of

insurance contracts used at Polimex-Mostostal S.A. (except for fleet insurance contract), the following insurance contracts were executed:

- business operations insurance and property utilisation insurance in basic scope and with the guarantee sum of PLN 10 million (TUiR WARTA S.A./STU Ergo Hestia S.A.) as well as “oversized” policy with liability limit in amount of PLN 90 million per each event (Chartis Europe S.A. Branch in Poland). Additionally, in May 2010 an insurance policy under the English law was issued for contracts executed in the territory of Great Britain with the sum insured of GBP 5,000,000, The policy is valid for 12 months.
- liability insurance for appointed agents and members of the Management Board – D&O policy (Chartis Europe S.A. Branch in Poland) with the sum insured of PLN 20,000,000
- construction/assembly works insurance against all types of risk (consortium: Warta S.A. – STU Ergo Hestia S.A. – PZU S.A.)- the new two-year contract valid until 31.12.2011). Individual policies were issued for contracts exceeding the standards specified in the general contract (due to the execution of the constructs for the construction of A4 motorway Szarów-Brzesko, A1 motorway Stryków-Tuszyn and S69 Bielsko Biala-Żywiec-Zwardoń).
- property insurance (property against random events, property against burglary, including cash in hand and in transport, computer equipment insurance against all types of risks, profit loss insurance, insurance of machines against damages, property insurance in national transport) – TUiR WARTA S.A./STU Ergo Hestia S.A.,
- CARGO insurance in international transport (Chartis Europe S.A. Branch in Poland) – two-year contract concluded for the years 2010 and 2011,
- insurance of employees delegated or directed to work outside the borders of the Republic of Poland under accident insurance policy issued by AVIVA TUO S.A.,
- “Grono” accident insurance covering workers employed on the national construction sites – under the policy issued by AVIVA TUO S.A.
- liability insurance for the designer at Chartis Europe S.A. Branch in Poland with the liability limit of PLN 10,000,000 and an oversized policy with the liability limit of PLN 10,000,000 (consortium of TUiR Warta/STU Ergo Hestia S.A.),
- professional liability insurance/bookkeeping insurance – PZU S.A.,
- the general contract for motor insurance (two-year contract valid by 20.04.2012 – TUiR WARTA S.A.

Insurance contracts listed above (excluding insurance against construction/erection risks, cargo insurance in international transport as well as motor vehicle insurance) were concluded for 1 year and are valid until 30.09. 2011.

As a result of the combination of Polimex-Mostostal S.A. with seven Group companies the assets of the acquired companies were included in the assets of the parent company and were covered by the insurance under the property insurance policy of Polimex-Mostostal S.A. Since 01.01.2011 the new divisions established on the basis of the acquired companies have been covered with insurance protection under the policies held by Polimex-Mostostal S.A. (the liability insurance policy, the designer's professional liability insurance, cargo policy, motor insurance, insurance of medical expenses policy and accident insurance policy covering workers employed on construction sites at home and abroad).

In the same period, i.e. in 2010 the other companies of the Capital Group used the analogous types of insurance. All companies owned business liability insurance (Warta, Hestia, Allianz, PZU, Generali) with the sum insured starting at PLN 500 thousand, (WBP Zabrze, PPU Elektra Sp. z o.o., ZUT Sp. z o.o) up to EUR 20 million (Sefako S.A.) and designer's/architect's professional liability insurance (WBP Zabrze, PxM Projekt Południe). Part of the companies of Polimex-Mostostal Group has also purchased D&O insurance (liability insurance for the Management Board of the Company) at AIG Europe S.A. and Chartis Europe S.A. Branch in Poland; apart from Polimex-Mostostal S.A. the following companies have taken out such insurance policies: Sefako S.A., Torpol Sp. z o.o., Coifer Impex SRL and Grande Meccanica SpA. The companies have concluded insurance contracts for buildings and structures, machines and equipment, equipage, property of third parties, property against fire and other random events, against theft and robbery, computer equipment, national transport and motor vehicle insurance with Warta, PZU, Hestia, Generali, UNIQA, ASIBAN, AXXA Assicurazioni and AXA SpA Ins. Co. (in the case of Coifer Impex SRL and Grande Meccanica SpA). Some of the companies (Sefako S.A., Torpol Sp. z o.o., Coifer Impex SRL) has also purchased construction/erection insurance against all risk (the so-called CAR/EAR insurance) at Warta, Hestia, PZU, VIG InterRisk, Generali (in the case of Coifer Impex SRL). Due to the nature of conducted activities certain companies have also purchased additional insurance policies (insurance of goods in international railway transport – Sefako S.A. and professional liability insurance of a carrier in national and international transport as well as professional liability insurance of a forwarding agent – Zakład Transportu GK Polimex Sp. z o.o.; in both cases Generali is the insurer).

### **3.4. Description of basic features of internal audit and risk management system applied by the Issuer's business with regards to preparation of financial statements and consolidated financial statements**

Internal audit and risk management system applied by Polimex-Mostostal Capital Group constitutes management policy component and operate according to internal rules and regulations. The internal audit system comprises two, principal elements: functional control performed by management of particular organisation units as well as other employees within the scope of their duties, and institutional control performed by internal control units, aimed at examination of practical observance of binding procedures. The basic objective of internal functional control is to assure the correctness, fairness and timely execution of performed tasks. In practice, functional control is performed by each employee within the limits of defined procedures. Identification of initial risk present in a given organisation unit as well as taking measures aimed at keeping them at agreed level is made within functional control. Objective of institutional control is to examine correctness, legality and reliability of actions performed by particular organisation units of Polimex-Mostostal, conformity assessment of measures with internal procedures, and efficacy of functional control system.

With regards to preparation of financial statements, internal audit and risk management system is based on embedded reporting control mechanisms, internal regulations facilitating separation of duties, authorities and relations in scope of preparation of particular parts of statements, continuous assessment of conformity with accounting books and other documents being the basis of financial statements, as well as obligating provisions in the scope of accounting policies and preparation of financial statements.

To ensure the correctness and fairness of the books of account of Polimex-Mostostal S.A. and Group companies and to generate high quality financial data based on them, the scope was determined and the policies of financial

reporting were adopted based on International Financial Reporting Standards and other regulations, as well as the series of internal procedures was implemented in the system of internal control. The Accounting Policy adopted by Polimex-Mostostal S.A. is binding for the Group companies in the scope of presentation of information packages for the purpose of preparation of consolidated financial statements. The Financial Director and the Board of Management of Polimex-Mostostal S.A. are responsible for the correctness of the adopted and applied accounting policies.

The Chief Accountant and the Department of Reporting and Companies Service are responsible for the organisation of work relating to the preparation of financial statements. The entire process of preparation and publication of financial statements is conducted based on the formalised schedule of work drafted in agreement between the Finance Director and the Chief Accountant. The financial statements verified by the Finance Director are approved by the Management Board. The process of financial statement preparation includes statement verification by independent auditor selected by the Supervisory Board. The body supervising the financial reporting process and co-operating with an independent auditor is the Audit Committee appointed based on the competence of the Supervisory Board. The Audit Committee monitors in particular the process of financial reporting as far as the adopted Accounting Policies and legal requirements are concerned and the efficiency of the systems of internal control and of risk management. In accordance with § 38.1 of the Company's Articles of Association, the Supervisory Board makes an annual assessment of the financial statements of the Company in the scope of their compliance with the books and documents as well as with the facts, and it informs the shareholders of the results of this assessment in its Annual Statement.

A significant element of the internal control system with regard to the process of preparation of financial statements is the control exercised by the units of internal audit and of internal control. At Polimex-Mostostal S.A. there is internal auditing operating based on „Regulations of the internal auditing" approved by the Management Board of the Company and prepared in accordance with International Standards for the Professional Practice of Internal Auditing. The Internal Audit Department is fully independent in its auditing procedures and covers by them all processes in the company including the areas affecting directly and indirectly the correctness of financial statements. While performing their tasks, in 2010 internal auditors identified and analysed the risk of examined processes and assessed the relevance and efficiency of control mechanisms. Polimex-Mostostal S.A. also takes action to cover the Group companies with the internal auditing.

The Group Companies adopt their own internal procedures in the scope of control systems and the assessment of risks arising from their operations. Internal control in the entities of the Group operates based on the regulations approved by the Management Boards of the companies. In the majority of companies the internal control is of institutional nature i.e. it is performed by a separate organisational unit. The companies regulate the internal control systems on their own depending on the scope of their operations and the needs of the Board.

Summarising, internal control and risk management system cover the whole operations of Polimex-Mostostal Group and are aimed at support of decision making processes, in particular contributing towards: efficiency and efficacy of actions, reliability of accounting reporting and consistency of action with commonly obligating provisions of the law and internal regulations.

## 4. Organisation of the Issuer's Capital Group

### 4.1. Structure of the Capital Group

The chart below presents the organisational structure of Issuer's Capital Group, including subsidiaries and associates as at the date of publication of this report. The chart does not include companies in liquidation or not conducting business activity.

Polimex-Mostostal S.A.		
Domestic companies		Share
→ Centralne Biuro Konstrukcji Kotłów S.A.		98.50%
→ Centrum Projektowe Polimex-Mostostal Sp. z o.o.		99.51%
→ Technika Spawalnicza i Lab. Sp. z o.o. *)		99.30%
→ Energomontaż Północ Gdynia Sp. z o.o.		99.99%
→ Energomontaż-Nieruchomości Sp. z o.o.		100.00%
→ Energomontaż-Północ Bełchatów Sp. z o.o.		32.82%
→ Energop Sp. z o.o. *)		99.99%
→ Fabryka Kotłów Sefako S.A.		89.20%
→ Laboratorium Ochrony Środowiska Pracy Sp. z o.o.		27.50%
→ Modul System Serwis Sp. z o.o.		100.00%
→ Polimex-Cekop Development Sp. z o.o.		100.00%
→ Polimex-Development Kraków Sp. z o.o.		100.00%
→ Polimex-Hotele Sp. z o.o.		100.00%
→ Polimex-Mostostal Development Sp. z o.o.		100.00%
→ Polimex-Mostostal ZUT Sp. z o.o.		100.00%
→ Polimex-Sices Polska Sp. z o.o.		50.00%
→ Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.		75.00%
→ PRInż-1 Sp. z o.o.		88.62%
→ Przeds. Produkcyjno-Usługowe Elektra Sp. z o.o.		100.00%
→ PxM Projekt Południe Sp. z o.o.		100.00%
→ Sinopol Trade Center Sp. z o.o.		50.00%
→ Stalfa Sp. z o.o.		100.00%
→ Torpol Sp. z o.o.		100.00%
→ WBP Zabrze Sp. z o.o.		99.97%
→ Zakład Instalacyjno-Budowlany Turbud Sp. z o.o.		100.00%
→ Zakład Transportu - Grupa Kapitałowa Polimex Sp. z o.o.		100.00%
→ Zarząd Majątkiem Górczewska Sp. z o.o.		100.00%
*) Polimex-Mostostal S.A. indirectly holds 100% of equity.		
Foreign companies		
→ Coifer Impex SRL (Romania)		100.00%
→ Tchervonograd MSP (Ukraine)		99.63%
→ Depolma GmbH (Germany)		100.00%
→ Energomontaż Magyarország (Hungary)		100.00%
→ Grande Meccanica SpA (Italy)		100.00%
→ Naf Industriemontage GmbH (Germany)		100.00%
→ Polimex-Mostostal Ukraina (Ukraine)		100.00%
→ Polimex-Mostostal Wschód (Russia)		100.00%

#### 4.2. Information on key entities of the Capital Group

The key entities of the Capital Group are:

- **Torpol Sp. z o.o.**

Torpol Sp. z o.o. with the registered office in Poznań started its operations in 1991. The company offers full-scale execution of railway routes and stations, as well as tramways and traction. The company owns its capital group. The investment plan under execution shall broaden the scope of works executed by own means.

- **Fabryka Kotłów Sefako S.A. (Boiler Factory)**

The factory with the registered office in Sędziszów has been operating since 1974. The scope of operations of Sefako Boilers Factory S.A. is related to planning, manufacture and sale of water and steam boilers of medium capacity, and contracting of pressure and high-pressure components. As the domestic market is in demand of coal dust and biomass-fired boilers, the company develops and implements internal technical solutions. Export constitutes the most of company sale. The investment plan completed in 2010 increased company production capacities in the scope of production of energy boilers.

- **StalFa Sp. z o.o.**

The company was established in 1995 on the initiative of Mostostal Siedlce S.A. The principal scope of StalFa Sp. z o.o. operations is related to manufacturing of light steel structures, telecommunication towers, palettes, grid containers and casing components. The production covers also deliveries for agriculture and forestry.

- **Energop Sp. z o.o.**

The company was established in 2003 on the initiative of Energomontaż-Północ S.A. The main activity of the company is manufacturing of pressure pipelines for the transportation of liquids mostly fuels. The company's offer also included manufacturing of steel structures, containers, silos, chimneys and air and exhaust ducts. Together with Energomontaż Północ Technika Spawalnicza i Laboratorium, a subsidiary, the Issuer holds 100% of capitals in the company.

- **Energomontaż Północ Gdynia Sp. z o.o.**

The company was established in 2001 on the initiative of Energomontaż-Północ S.A. The main activity of the company is production of steel structures and various types of installations for mining, power engineering and chemical sectors. As far as new activities are concerned, the company has started of overhauls of ships and has taken „*offshore*” activity i.e. production of large technological components which are transported to the construction site by sea.

- **PRInż -1 Sp. z o.o.**

The present form of PRInż-1 company is the effect of acquisition of PRInż-9 in October 2008. The company offer covers construction of roads and all types of routes, including lighting and accessory



infrastructure. The company closely co-operates with Zakład Budownictwa Drogowego, operating in the structures of Polimex-Mostostal S.A.

- **ZIB Turbud Sp. z o.o.**

Zakład Instalacyjno-Budowlany Turbud Sp. z o.o. deals with the performance of general construction works.

- **S.C. Coifer Impex SRL**

The company has a registered office in Bucharest (Romania). The significant form of operations of **Coifer Impex SRL** is rendering of erection works, and performance of construction and assembly contracts in form of general contracting.

- **Grande Meccanica SpA**

The company has its registered office in Narni (Italy). It provides services for the benefit of refinery sector. At present the programme of the extension of the company's manufacturing capacities is under development.

- **Tchervonograd MSP -Ukraine**

The registered office of the company is in Tchervonograd (Ukraine). The company conducts business activity in the scope of manufacturing of metal structures and products, mostly platform gratings.

- **Zakład Transportu Grupa Kapitałowa Polimex-Mostostal Sp. z o.o.**

The company was established in March 1997 as part of transport department of Mostostal Siedlce S.A. Until 2008, it operated under the company Mostostal Siedlce Zakład Transportu Sp. z o.o. The company deals with rendering of services in the national and international transport by passenger vehicles, vans, TIR vehicles and busses, as well as servicing of vehicles.

- **Polimex-Mostostal ZUT Sp. z o.o.**

The company was established in 1998 as part of overhaul department of Mostostal Siedlce S.A. Until 2008, it operated under the name Mostostal Siedlce Zakład Usług Technicznych Sp. z o.o. The company deals with overhauls of machines, equipment, apparatus and power tools, and covers also production of spare parts, maintenance, reviews, keeping documentation, distribution of electricity, thermal energy, water, industrial gasses, rendering of technical advisory services, preparation of expertise, rental of machines, equipment and apparatus.

- **Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.**

The company was established in 1988. It deals with the construction of high and medium voltage overhead power lines, medium and low voltage buried power lines, supply of transformer stations, construction of overhead and buried power lines of road lightning and corrosion protection of steel structures.

- **Energomontaż Północ-Technika Spawalnicza i Laboratorium” Sp. z o.o.**

The history of the company dates back to 1953. The main activity of the company is conducting of all types of tests relating to electrical and gas welding technology. Together with Energop, a subsidiary, the Issuer holds 100 % of company's capital.

Apart from the laboratory mentioned above, the Issuer has equity links (27.5% of equity) with Laboratorium Ochrony Środowiska Pracy Sp. z o.o. (Laboratory of Protection of Work Environment) that provides services in the scope described in the business name of the company.

- **Polimex-Mostostal Ukraina SAZ**

The registered office of the company is in Zhytomyr, Ukraine. The company performs operation in the scope of construction and erection services. There is a plan to extend the scope of the company's operations with galvanisation services.

- **Moduł System Service Sp. z o.o.**

The company was established in 2001 on the initiative of Naftoremont. The company, which has its registered office in Plock, is one of the largest national companies dealing with modular construction and steel frame construction for the purpose of housing and public building (e.g. kindergartens). Additionally, the company sells and rents various types of containers.

- **Design companies**

Design teams operate both, within organisation structures of particular companies of the Capital Group, and as independent design offices. Organisation and technical systems facilitating creation of integrated design centre focusing on needs of the Capital Group is under development. The following design offices operate as companies:

- Centrum Projektowe Polimex Mostostal Sp. z o.o. with the registered office in Gliwice,
- PXM Projekt Południe Sp. z o.o. with the registered office in Kraków,
- WBP Zabrze Sp. z o.o. with the registered office in Zabrze,
- Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o. with the registered office in Bielsko-Biała,
- Centralne Biuro Konstrukcji Kotłów S.A. with the registered office in Tarnowskie Góry.

The above mentioned companies provide services for the following industries: power engineering, chemical, road construction and general construction.

- **Developer companies**

The developer companies that are within Polimex-Mostostal Capital Group deal with mounting of housing buildings and with real estate administration. One of the companies, Polimex-Cekop Development, holds a block of shares of Polimex-Mostostal S.A. (2.52% of equity).

- Polimex-Development Kraków Sp. z o.o.,
- Polimex-Hotele Sp. z o.o.,
- Polimex-Mostostal Development Sp. z o.o.,
- Zarząd Majątkiem Górczewska Sp. z o.o.,
- Energomontaż-Nieruchomości Sp. z o.o.,
- Polimex-Cekop Development Sp. z o.o.

Apart from the first in the list above, all other companies have their registered offices in Warsaw.

Apart from the foreign companies mentioned above, in the composition of the Capital Group there are companies which offer products or services produced by the Issuer's Group in the countries of their registration.

These are:

- Polimex-Mostostal Wschód (Russia)
- Depolma GmbH and Naf Industriemontage GmbH (Germany)
- Energomontaż Magyarország (Hungary)

The Issuer also holds 50% of shares in Sinopol Trade Center Sp. z o.o., the company registered under the Polish law, whose operations are oriented to the Chinese market.

Out of the companies in which the Issuer holds a share of less than 50% in equity, Energomontaż Północ Belchatów Sp. z o.o. should be mentioned, whose main activity is a mine and power plant located in the area of Belchatów.

### 4.3. Employment

The majority of companies in the Capital Group used the time of economic slowdown to optimise employment in the back office and to adjust the level of employment to the current backlog of orders. That is why in 2010 there was reported a slight decrease in employment of 2.4% as compared with the average employment in 2009. Canvassing of new orders in 2010 meant the necessity to actively acquire workforce and at the same time increase its efficiency. This process is to be continued in the incoming years.

Employment structure in 2010 in Polimex-Mostostal Capital Group is given below:

Detailed list	Change 2010 / 2009	Employment *)	
		2010	2009
Management Board of the parent company	0.0%	4	4
Management Boards of related companies	3.2%	65	63
Back office	-5.2%	2 132	2 248
Production	-1.9%	12 051	12 280
<b>Total</b>	<b>-2.4%</b>	<b>14 252</b>	<b>14 595</b>

\*) average employment in Full Time Equivalents (FTE)

### 4.4. Changes in composition of management and supervisory authorities of the parent and their committees, basis of appointment and dismissal of executives as well as rights of management, in particular to taking decision on issue or redemption of shares

In the period from 01.01.2010 until the statement publication day, composition of the **Management Board of Polimex-Mostostal S.A.** was as follows:

- Konrad Jaskóła - President of the Management Board,
- Aleksander Jonek - Vice President of the Management Board,
- Grzegorz Szkopek - Vice President of the Management Board,
- Zygmunt Artwik - Vice President of the Management Board.

In view of the expiry of the term of office of the Management Board of the Company in 2010, there were no changes in its composition. On 18.05.2010 the Supervisory Board appointed the members of the Management

Board of the expiring term of office for another three year term covering the financial years from 2010 to 2012. The term in office of the members of the Management Board expires on 18.05.2013, whereas the mandate expires not later than on the date of holding the General Meeting of Shareholders approving the financial statements for the last complete year of holding the position on the Board.

The rules for appointment and dismissal of executives are given in the Articles of Association. According to § 39 and § 42 of Articles of Association, the Supervisory Board is in charge of defining number of members of the Board of Directors, as well as appointment and dismissal of members of the Board of Directors. The Supervisory Board appoints other members of the Management Board – Vice Presidents upon the request of the President of the Board of Directors. Authorities of executives are given in Regulations of the Board of Directors. Internal division of the Board of Directors members work is conducted on the basis of the Organizational Regulations of the Company. On this basis, members of the Board of Directors are in charge of direct supervision of performance of dependent areas. Each member of the Management Board has the right and obligation to run Company affairs. Without previous resolution of the Management Board, he/she may run affairs not exceeding the scope of ordinary affairs of the Company assigned to a given member of the Management Board observing provisions of the law, Company's Articles of Association, resolutions and regulations of the Company authorities. While taking decisions on the Company affairs, members of the Management Board operate within the limits of justified economic risk, i.e. based on consideration of any information, analyses and opinions that in reasonable opinion of the Management Board should be taken into account for the benefit of the Company. Neither the Management Board, nor individual members of the Board of Directors may take decisions on issue or redemption of shares. In 2010 meetings of the Board of Directors of Polimex-Mostostal S.A. were held on: 11.01, 18.01, 20.01, 27.01, 09.02, 18.02, 12.03, 22.03, 09.04, 14.04, 22.04, 28.04, 10.05, 14.05, 20.05, 27.05, 10.06, 15.06, 29.06, 09.07, 22.07, 05.08, 24.08, 02.09, 21.09, 29.09, 19.10, 10.11, 23.11, 02.12, 14.12, 21.12. The subject matter of the resolutions adopted in the board meetings indicated above was, among other things, approval of the financial plan of the Capital Group, adoption and execution of the Combination Plan, granting guarantees to loans, granting loans, disposing of real property and making donations.

In the period from 01.01.2010 to 30.06.2010 the composition of **the Supervisory Board of the Company** was as follows:

- Kazimierz Klęk – Chairman of the Supervisory Board,
- Andrzej Szumański – Vice Chairman of the Supervisory Board,
- Elżbieta Niebisz – Secretary of the Supervisory Board,
- Janusz Lisowski – Member of the Supervisory Board,
- Wiesław Rozłucki – Member of the Supervisory Board,
- Artur Jędrzejewski – Member of the Supervisory Board.

On 30.06.2010 the Ordinary General Meeting of Polimex-Mostostal S.A. adopted resolutions no 15 – 19 under which the following persons were appointed to the composition of the Supervisory Board of the Company for the following term:

- Jacek Kseń
- Mieczysław Puławski,
- Jan Woźniak,
- Andrzej Szumański,
- Kazimierz Klęk.

The term in office of the members of the Supervisory Board expires on 30.06.2013, whereas the mandate expires not later than on the date of holding the General Meeting of Shareholders approving the financial statements for the last complete year of holding the position on the Supervisory Board.

In view of above mentioned facts, in the period from 30.06.2010 till the date of publication of this report the composition of the Supervisory Board was as follows:

- Kazimierz Klęk – Chairman of the Supervisory Board,
- Jacek Kseń – Vice Chairman of the Supervisory Board,
- Artur Jędrzejewski – Secretary of the Supervisory Board (appointed to the Supervisory Board with resolution No. 15 of the Ordinary General Meeting of Shareholders of 16.06.2009)
- Andrzej Szumański – Member of the Supervisory Board,
- Mieczysław Puławski – Member of the Supervisory Board,
- Jan Woźniak – Member of the Supervisory Board.

Within the structure of the Supervisory Board there are two committees - the Audit Committee, which is the advisory and opinion-forming body, and the Remuneration Committee, which is the advisory body. In the period from 01.01.2010 to 30.06.2010 the composition of the **Audit Committee** was as follows:

- Wiesław Rozłucki – Chairman of the Committee,
- Andrzej Szumański – Member of the Committee,
- Janusz Lisowski – Member of the Committee,
- Artur Jędrzejewski – Member of the Committee.

As a result of appointing on 30.06.2010 of the Supervisory Board of the new term in office, until the date of publication of this report the Audit Committee worked in the new composition as follows:

- Jacek Kseń – Chairman of the Committee,
- Mieczysław Puławski – Member of the Committee,
- Jan Woźniak – Member of the Committee.

Advising the Supervisory Board on issued regarding proper implementation and supervision over financial reporting processes applied by the Company, effectiveness of internal audit and risk management systems, as well as co-operation with qualified auditors, is the basic objective of the Committee's operation. Particular rights and obligations of the Committee are given in Regulations of the Supervisory Board. Tasks of the Committee are executed by submittal to the Supervisory Board requests, opinions and statements related to the scope of its tasks. The Committee operates collectively.

In period from 01.01.2010 to 30.06.2010 the composition of the **Remuneration Committee** was as follows:

- Kazimierz Klęk – Chairman of the Committee,
- Elżbieta Niebisz – Member of the Committee.

As a result of appointing on 30.06.2010 of the Supervisory Board of the new term in office, until the date of publication of this report the Remuneration Committee worked in the new composition as follows:

- Andrzej Szumański – Chairman of the Committee,
- Kazimierz Klęk – Member of the Committee,
- Artur Jędrzejewski – Member of the Committee.

Lending support to the Supervisory Board in terms of execution of its control and supervisory tasks is the basic objective of the Committee. Particular rights and obligations of the Committee are given in Regulations of the

Supervisory Board. Tasks of the Committee are executed by submittal to the Supervisory Board requests, opinions and statements related to the scope of its tasks. The Committee operates collectively.

The Supervisory Board of Polimex-Mostostal S.A. is operating under obligating provisions of law, in particular provisions of Commercial Companies Code, Company Articles of Association, internal Regulations and the rules given in "Best practices of WSE listed companies".

#### **4.5. Agreements concluded among the parent and its executives anticipating compensation for resignation or dismissal from function without any important reason, and if dismissal arises from business combination by acquisition**

In 2010 new contracts were concluded for the management for the next term in office of the Management Board, which did not amend (as compared to the contracts previously in force) the terms and conditions of compensation in case of resignation or dismissal from the position held.

#### **4.6. Value of remuneration for executives and senior employees**

The value of remuneration for executives and senior employees was given in notes and explanation to the financial statements of Polimex-Mostostal Capital Group.

#### **4.7 Description of basis for amending the Issuer's Company statute or articles of association**

Making amendments to the Company Statute lies within the responsibility of the General Meeting. The Supervisory Board shall give opinion on drafts of amendments to the Company Statute and preparation of its uniform contents.

#### **4.8 Mode of operation of the Issuer's general meeting and its principal rights, as well as description of rights of shareholders and manner of their execution**

General Meeting of Shareholders is the supreme authority of the Company adequate for adopting key resolutions on the Company system and operations. The General Meeting of Shareholders of Polimex-Mostostal S.A. operates under provisions of the Commercial Companies Code and the Articles of Association. A General Meeting may take form of ordinary or extraordinary meeting. Ordinary General Meeting is called upon by the Management Board annually, until 30 June of the year following the financial year. The Supervisory Board is authorised to call upon the Ordinary General Meeting, if the Management Board did not do that in the period specified above and the Extraordinary Meeting of Shareholders, if necessary, and the Management Board did not do that within 14 days from submission of a request by the Supervisory Board. The Extraordinary General Meeting is called upon by the Management Board, if necessary, on its own initiative or upon request of the Supervisory Board or shareholders representing at least 5% of the share capital, in 30 days from submittal of a written request. **Extraordinary General Meetings may also be called by shareholders representing at least a half of share capital or at least half of the total votes.** Shareholders representing at least 5% of the share capital may request entering particular issues to the agenda of the next General Meeting. An appropriate request should be submitted to the Management Board not later than 21 days prior to the specified date of the General Meeting. The request should contain a justification or a draft resolution relating to the suggested item of the agenda. The request may be submitted electronically. General Meeting is binding irrespective of the number of shares represented at the meeting.



Competences of the General Meeting include in particular:

- consideration and approval of the financial statements and statement of the Directors' report for previous financial year,
- granting discharge to members of the Supervisory Board and Management Board on fulfilment of duties,
- adopting resolutions on division of profits and loss coverage,
- appointment and dismissal of members of the Supervisory Board,
- making amendments to the Company's Articles of Association,
- increase and decrease in share capital,
- creation and annulment of special purpose funds,
- approval of the Regulations of the Supervisory Board,
- definition of rules for remuneration payable to members of the Supervisory Board,
- giving consent upon issue of convertible or preferential bonds,
- giving consent upon sale and lease of a company or its organised part, as well as establishment of limited property security right,
- preparation of regulations of the General Meeting,
- adopting resolutions on redemption of shares upon consent of a shareholder by their acquisition and definition of conditions for such redemption,
- adopting resolutions on integration, termination and liquidation of the Company as well as appointment of receivers,
- consideration of issues presented by the Supervisory Board and the Management Board, as well as shareholders.

## 5. Shareholding

### 5.1. Total number and nominal value of all shares of Polimex-Mostostal S.A. owned by executives and senior employees

At present, executives/senior employees hold the following number of shares of the Issuer:

Position held	Current number of shares held
Member of the Management Board	3,820,350 bearer shares of nominal value of 0.04 PLN each, 3,820,350 voting shares at the Company General Meeting.
Member of the Management Board	1,939,075 bearer shares of nominal value of 0.04 PLN each, 1,939,075 voting shares at the Company General Meeting.
Member of the Supervisory Board	96,548 bearer shares of nominal value of 0.04 PLN each, 96,548 voting shares at the Company General Meeting.
<b>Total</b>	5,855,973 bearer shares of nominal value of 0.04 PLN each, 5,855,973 voting shares at the Company General Meeting.

## 5.2. Shareholders having directly or indirectly by subsidiaries at least 5% of total voting shares at the General Meeting of Polimex-Mostostal S.A.

Shareholding structure of Polimex-Mostostal S.A. prepared under notifications arising from Article 69 item 1 and 4 of Act of 29.07.2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies is as follows:

Item number	Shareholder	No. of shares / votes	% interest in share capital/total votes at GSM*)
1.	Pioneer Pekao Investment Management S.A. – <b>all Customers</b>	52 490 792	10.07%
	of which:		
	Pioneer Fundusz Inwestycyjny Otwarty (Open Investment Fund)	52 139 059	10.005%
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (Open Pension Fund)	52 224 329	10.02%
3.	ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund)	40 406 650	7.75%
4.	Polimex-Cekop Development Sp. z o.o. **)	13 152 500	2.52%
5.	Other shareholders	362 879 805	69.63%
<b>Number of shares of all issues</b>		<b>521 154 076</b>	<b>100.00%</b>

\*) Polimex-Mostostal S.A. does not have any preferential assets in terms of voting rights, so interest in share capital is equal to interest in total voting shares at the General Meeting

\*\*) The Company is 100% subsidiary of Polimex-Mostostal S.A.

## 5.3. Representation on corporate governance

In 2010, the Issuer applied all rules for corporate governance defined under “Best Practice of WSE listed companies”. These rules are available on the Warsaw Stock Exchange website: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

## 5.4. Information on contracts acknowledged by the Issuer (including concluded after the statement of financial position date) and that may change future proportions in shares owned by the current shareholders and bondholders

The Company is not aware of any contracts that may change future proportions in shares owned by the current shareholders.

## 5.5. List of holders of all securities granting special controlling rights with regards to the parent with description

The parent does not have any securities granting special controlling rights over the Company.

## 5.6. Acquisition of treasury shares, in particular definition of acquisition purpose, number and nominal value, and part of represented share capital, acquisition prices as well as selling prices in case of disposal

In 2010 the parent did not acquire any treasury shares.

## **5.7. Limitation in transfer of ownership rights to securities and limitations in the scope of execution of voting rights arising from shares in the parent**

As far as the Issuer's shares are concerned, there are no limitations on transfer of ownership rights arising from securities of the Company, nor limitations in the scope of execution of voting rights arising from securities of the Company. There are no provisions separating equity rights from holding of securities.

## **5.8. Employees shares scheme controlling system**

Based on decisions of the Extraordinary General Meeting of Polimex-Mostostal S.A. of 31.01.2006, option contracts with the President and Members of the Management Board, members of management of Polimex-Mostostal S.A. and chairmen of the boards of subsidiaries were concluded under incentive scheme for the years 2006 – 2008 addressed to key members of the Issuer management. Detailed description of the above-mentioned incentive scheme is included in the current report of the Issuer no 9/2006 of 31.01.2006.

On 04.07.2008, the Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. adopted Resolution No 26 on adoption of the company incentive scheme for the years 2009 – 2011, and conditional increase in share capital connected with the scheme and amendments to the Polimex-Mostostal S.A. statute as well as issue of the Company subscription warrants. Detailed description of the above-mentioned incentive scheme is included in the current report of the Issuer no 43/2008 of 04.07.2008.

As of 31.12.2010 the balance of provision recognised in reserve capital of the Issuer for the above scheme amounts to PLN 33,221 thousand (as at 31.12.2009 – PLN 30,494 thousand).

## **6. Environment protection**

Emission of pollution to the air, emission of liquid waste (industrial, sanitary and residual), solid waste and noise are the by-products of Polimex-Mostostal S.A. activities. The company runs its operations under requirements on environmental protection binding in Poland. Polimex-Mostostal activity is regulated in particular by Act of 27 April 2001 Environmental protection law (Journal of Laws of 2008 No 25, item 150 as further amended) and Act of 27 April 2001 on wastes (Journal of Laws of 2007 No 39, item 251 as further amended). The Company has all necessary permits and environmental decisions required from enterprises by the Polish and Community law, including:

- integrated permit regarding metal coating systems with charge exceeding 2 tons of raw steel per hour,
- water-legal permit to dispose of wastes with substances particularly harmful for water environment,
- permit to emissions to the air generated from painting houses and steel structures welding plants, as well as grating production plants,
- permit to produce waste generated from painting houses, welding and grating production plants,
- water-legal permit to intake underground waters.

The issues of natural protection are of great importance for the Company (the Company runs the Integrated Management Systems, implemented ISO 14001 standard: Natural Environment Management System). Natural Environment Protection Department of Polimex-Mostostal S.A. is dealing with co-ordination of actions taken by the Company in scope of environmental protection. Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the basic tasks of this Department. From 12th to 15<sup>th</sup> July 2010 the supervisory audit was conducted in the Company in the scope of compliance with ISO

14001:2004 standard. The audit confirmed that the Company is managed in accordance with the highest environmental standards and the applied production process guarantees the protection of the natural environment by reducing the consumption of energy and materials, improvement of waste management and minimization of the emission of pollution. The system shapes the environmental awareness of the staff, guarantees that the environmental regulations are observed, reduces the risk of fines and improves its environmental credibility. In 2010 Polimex-Mostostal S.A. was not encumbered with any penalties for exceeding of standards defined in natural protection laws.

Emission to the air of pollution, emission of liquid waste (industrial, sanitary and residual), solid waste and noise is the by-product of **Sefako Boilers Factory S.A.** Sefako S.A. The Company has all necessary permits and environmental decisions required from enterprises by the Polish and Community law:

- for generation of waste, symbol: OŚRiL-VI-7647-w-6/04 of 16.08.2004, valid until 31.12.2013,
- for intake of underground water from drilled wells no 1 and 2, situated in the factory premises and utilisation of these intakes, symbol: OŚRiL.IV-6223-24/06 of 15.01.2007 valid until 31.01.2017.
- disposal of rain wastewaters and technological waste, symbol: OŚRiL.IV-6223/13/02 of 10.10.2002 valid until 31.12.2012,
- emission of gasses and industrial dusts from emitters situated in the factory to the air, symbol: OŚRiL-I-7648/4/08 of 12.09.2008 valid until 15.09.2015 and an amending permission: symbol OŚRiL-I-7648/4/08 of 02.02.2010.

Actions taken by Sefako S.A. in the area of environmental protection are co-ordinated in Sefako S.A. by Dział Utrzymania Ruchu (Facilities Maintenance Department). Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the basic tasks of this Department. In 2010 Fabryka Kotłów Sefako S.A. was not encumbered with any penalties for exceeding of standards defined in natural protection laws.

## 7. Information on entity with which the Issuer has concluded a contract for audit of financial statements

On 05.07.2010 the contract was executed with z Ernst & Young Audit Sp. z o.o. with the registered office in Warsaw at Rondo ONZ 1 on audit of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for 2010, and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2010. Remuneration due to Ernst & Young Audit Sp. z o.o. for the review of the mid-annual separate and consolidated financial statements for 6 months period ended on 30.06.2010 was specified at PLN 270,400 and for the audit of separate and consolidated financial statements for the financial year ended on 31 December 2010 was specified at PLN 405,600 (net). On 27.08.2010 Annex No.1 to the above contract was signed, which extended the scope of work of Ernst & Young Audit Sp. z o.o. with conducting an audit of consolidated financial statements of Polimex-Mostostal Capital Group for the financial years ended 31.12.2009 and 31.12.2008 prepared by the Management Board of the Company in connection with submitting the Information Memorandum by the Company. Additional remuneration for the above mentioned services was specified at PLN 55, 000 (net).

The following (net) amounts were paid to the auditor in 2010:

- audit of the financial statements for 2009..... PLN 412,803,

- review of the financial statements for the 1st half of 2010 ..... PLN 284,260,
- audit of the financial statements for 2010 ..... PLN 0,
- tax advisory ..... PLN 9,000,
- other services ..... PLN 227,377.

The following (net) amounts were paid to the auditor in 2009:

- audit of the financial statements for 2008 ..... PLN 458,480,
- review of the financial statements for the 1st half of 2009 ..... PLN 269,400,
- audit of the financial statements for 2009 ..... PLN 0,
- tax advisory ..... PLN 37,996,
- other services ..... PLN 126,211.

In 2011 until the report publication date, the following (net) amounts were paid to the auditor:

- audit of the financial statements for 2010 ..... PLN 0,
- other services ..... PLN 0.

## 8. Other significant events in 2010 having impact on operations of the Issuer's Capital Group

Other significant events having impact upon operations of the parent:

- Conclusion with Calyon S.A. Branch in Poland, on 06.01.2010, of Annex no 12 to the Framework Contract on Bank Guarantees and Opening of Letters of Credit no CRD/041117/06/113/G, decreasing the limit granted from 190.0 million PLN to 165.0 million PLN and extending the term for its utilization until 29.10.2010. The balance by which the limit was decreased, i.e. 25.0 million PLN, was retained in the Polimex-Mostostal Capital Group – it will be used by a Polimex-Mostostal S.A.'s subsidiary.  
Adoption and signing on 18.01.2010 of the Directors' Report justifying integration of Polimex-Mostostal S.A. and Energomontaż-Północ S.A., Naftobudowa S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o., ECeRemont Sp. z o.o. under restructuring of the Polimex-Mostostal S.A. Capital Group. Analogous actions were conducted by the Management Boards of Companies Being Acquired. The Issuer informed that the integration of the companies should lead to:
  - saving in costs,
  - improving the Group management system,
  - increasing of the capacity for complete realization of large modernisation and investment projects,
  - more effective utilization of human, intellectual and material resources,
  - improving of the Group transparency for investors and analysts.
- Receiving on 25.01.2010 of the information from Gloria S.a.r.l., Luxemburg on the sale on 22.01.2010 of 28,702,825 of the Polimex-Mostostal S.A. shares which constituted 6.18% of the shares of the Issuer share capital and 6.18% of the total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A. As a result of the above mentioned transaction Gloria S.a.r.l., Luxemburg is not any longer the shareholder of Polimex-Mostostal S.A.
- Receiving on 04.03.2010 of the Decision of the Minister of Economy of 26.02.2010 on change of Permit No 171/ARP S.A./2008 to conduct economic activities on the area of TSEZ granted to Polimex-Mostostal S.A. on 23.07.2008. According to the contents of the decision received, new conditions were specified for

conducting economic activities on the area of the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone:

- Increase in the current employment level of 2,399 employees in area of Siedlce Sub-zone by hiring until 31.03.2011 of not less than 350 new employees in area of EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone TSEZ, and retention until 31.03.2015 in Siedlce Sub-zone of at least 2,749 employees. - instead of until 31 March 2014.
- Incurring, by 31 March 2011 – instead of by 31 March 2010, the investment expenditure under § 6 item 1 of the Resolution of the Council of Ministers of 22.11.2006 on the Tarnobrzeg Special Economic Zone (Journal of Laws No 215 item 1581 as further amended) in the amount not less than PLN 210.3 million, -instead of until 31 March 2010.
- Completion of investment until 31.03.2011. -instead of until 31.03.2010.

The above mentioned requirements specified in the permit to conduct business activity in EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone were fulfilled by Polimex Mostostal S.A. In accordance with the letter to Agencja Rozwoju Przemysłu S.A. (the Agency for Development of Industry) in Warsaw, branch in Tarnobrzeg, by 31.03.2011 investment expenditure in excess of PLN 210,300,000 were incurred and more than 350 persons were employed.

- Receiving on 10.03.2010 of the information from Sices International B.V., seated in Amstelveen (the Netherlands), on the sale on 05.03.2010 of 28,617,900 of the Polimex-Mostostal S.A. shares which constituted 6.16% of the shares of the Issuer share capital and 6.16% of the total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A. As a result of the above mentioned transaction Sices International B.V. is not any longer the shareholder of Polimex-Mostostal S.A.
- Withdrawal of 12.03.2010 by the Polimex-Mostostal S.A. Extraordinary General Meeting of Shareholders from voting on the bills of resolutions on integration due to failure to obtain the necessary 2/3 of votes for approval of the share exchange parity defined for Naftobudowa S.A. As a result, the Management of Polimex-Mostostal S.A. intends to continue combination works based on separate combination documentation for Naftobudowa S.A. and 6 other companies i.e. Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE-Rybnik Sp. z o.o., ECeRemont Sp. z o.o.

As a result of the above mentioned facts, on 26.04.2010 the Combination Plan specifying the principles of combination of Polimex-Mostostal S.A. – Acquiring Company, and 6 Companies Being Acquired i.e. Energomontaż-Północ S.A., Naftoremont Sp. z o.o., Zakłady Remontowe Energetyki Kraków Sp. z o.o., Zakłady Remontowe Energetyki Lublin S.A., EPE-Rybnik Sp. z o.o. and ECeRemont Sp. z o.o. was signed. Analogous actions were conducted by the Management Boards of Companies Being Acquired. The Combination Plan defined among other things the method of combination and its legal grounds, Companies Being Acquired valuation methodology, parity for exchange of the shares of Energomontaż-Północ S.A., and Zakłady Remontowe Energetyki Lublin S.A. for the shares of the Combination Issue, parity for exchange of the shares of Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o. for the Combination Issue Shares and principles for assignment of the Acquiring Company shares. Polimex-Mostostal S.A. held, as the Acquiring Company, 100% of shares of ECeRemont Sp. z o.o. and EPE Rybnik Sp. z o.o., thus the combination with these companies was conducted on the basis of Article 515 § 1 of the Code of Commercial Companies, i.e. without the Acquiring Company share capital increase by the amount corresponding the value of the shares of ECeRemont sp. z o.o. and EPE Rybnik sp. z o.o. respectively. The Combination Plan constitutes an attachment to the Issuer's current report No 27/2010 of 27.04.2010.



In turn on 29.04.2010 the Combination Plan specifying the principles of combination of Polimex-Mostostal S.A., the Acquiring Company, and Naftobudowa S.A., the Company Being Acquired was signed. On the same date the Combination Plan was signed by Naftobudowa S.A. The Combination Plan defined among other things the method of combination and its legal basis, methodology of valuation of Naftobudowa S.A., exchange ratio of Naftobudowa S.A.'s shares for the combination issue and the principles of vesting the shares of the Acquiring Company. The Combination Plan constitutes an attachment to the Issuer's current report No 28/2010 of 30.04.2010.

- Receiving on 16.04.2010 of Appendix no 2 to the Contract on guarantee, signed by Deutsche Bank Polska AG and increasing the limit for guarantees up to PLN 100.0 million.
- Polimex-Mostostal S.A. Supervisory Board appointed Ernst & Young Audit Sp. z o.o. with registered office in Warsaw at 1 Rondo ONZ to be the entity authorized to audit financial statements with which a contract is to be concluded for audit of the financial statements for 2010 prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group, and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2010.
- Signing on 06.07.2010 of Appendixes to the package of Contracts under which the Company's co-operation with Bank PEKAO S.A. in the scope of credit facilities, guarantee facilities and credit and guarantee facilities was extended.
- Holding on 12.07.2010 of an Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. which gave its consent to:
  - the combination of Polimex-Mostostal S.A. with 6 companies: Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o. and ECeRemont Sp. z o.o. by transferring all assets of these companies to Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010;
  - the combination of Polimex-Mostostal S.A. with Naftobudowa S.A. by transferring all assets of this company to Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 29 April 2010; the resolution on combination with Naftobudowa S.A.

On 12.07.2010 the Extraordinary Meeting of Shareholders of EPE Rybnik Sp. z o.o. was held, which gave its consent to the combination of EPE Rybnik Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 12.07.2010 the Extraordinary Meeting of Shareholders of ECeRemont Sp. z o.o. was held, which gave its consent to the combination of ECeRemont Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 13.07.2010 the Extraordinary Meeting of Shareholders of Naftoremont Sp. z o.o. was held, which gave its consent to the combination of Naftoremont Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 16.07.2010 the Extraordinary Meeting of Shareholders of ZRE Kraków Sp. z o.o. was held, which gave its consent to the combination of ZRE Kraków Sp. z o.o. with Polimex-Mostostal S.A. on terms

specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 16.07.2010 the Extraordinary Meeting of Shareholders of Naftobudowa S.A. was held, which gave its consent to the combination of Naftobudowa S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 29 April 2010.

On 19.07.2010 the Extraordinary Meeting of Shareholders of Energomontaż-Północ S.A. was held, which gave its consent to the combination of Energomontaż-Północ S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 22.07.2010 the Extraordinary Meeting of Shareholders of ZRE Lublin S.A. was held, which gave its consent to the combination of ZRE Lublin S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

- Signing on 20.07.2010 with Raiffeisen Bank Polska S.A. Appendix to Debt Contract under which the limit for guarantees issued was increased to PLN 100.0 million. The guarantee facility is valid until 31 July 2011.
- Receiving on 04.10.2010 a factoring contract signed by Bank Millennium S.A., the subject of which is buying out of debt from the Municipality of Kraków in the maximum amount of PLN 83,300,000, in the maximum settlement cycle by 31.03.2013.
- Signing on 07.10.2010 with EFG Eurobank Ergasias S.A. Spółka Akcyjna Branch in Poland, conducting operations under the business name of Polbank EFG, the Contract for Multifunctional Credit Limit in the amount of PLN 100.0 million.
- Receiving on 19.11.2010 Annex No. 2 to Framework Agreement No 1/2009 to grant bank guarantees concluded with PKO BP S.A. Annex No 2 to Framework Agreement No 1/2009 to grant bank guarantees for the total amount of PLN 200 million was a technical annex extending the limit availability for 3 months i.e. by the time the Bank receives positive decisions extending the limit availability for another year. On 03.02.2011 the Issue received Annex No 3 to Framework Agreement No. 1/2009 to grant bank guarantees signed by Powszechna Kasa Oszczędności Bank Polski S.A. Annex No 3 to Framework Agreement No 1/2009 to grant bank guarantees for the total amount of PLN 200 million extended the limit availability until 17.11.2011.
- Receiving on 23.11.2010 Annex No 5 to Agreement to grant a guarantee facility No 2366865WS10100700 signed by Kredyt Bank S.A. Annex No 5 to the above mentioned Agreement decreased the amount of facility by PLN 8.6 million to PLN 147.4 million and extended its availability for a year i.e. until 31.10.2011. The balance by which the limit was decreased i.e. PLN 8.6 million remained in Polimex-Mostostal Capital Group. The limit will be used by a subsidiary of Polimex-Mostostal S.A.
- Receiving on 24.11.2010 a Factoring Agreement signed by Bank Millennium S.A. The subject matter of the concluded Agreement was purchasing receivables the Company is entitled to from the Municipality of Kraków in the maximum amount up to PLN 150 million in the maximum settlement period until 31.03.2013.
- Signing with Credit Agricole Corporate and Investment Bank S.A. Branch in Poland (former Calyon S.A., Branch in Poland) on 06.12.2010 of Annex no 14 to the Framework Agreement on Bank Guarantees and Opening of Letters of Credit No. CRD/041117/06/113/G, increasing the limit granted from 165 million PLN to 190 million PLN and extending the term for its utilization until 31.10.2011.

- Issuing on 31.12.2010 by the District Court for the capital city of Warsaw, 12<sup>th</sup> Economic Department of National Court Register (Krajowy Rejestr Sądowy) the following decisions:
  - on entering the combination of Polimex-Mostostal S.A. (the acquiring company) with the following companies: Energomontaż-Północ S.A. with the registered office in Warsaw, Naftoremont Sp. z o. o. with the registered office in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with the registered office in Lublin, EPE-Rybnik Sp. z o. o. with the registered office in Rybnik, ECeRemont Sp. z o.o. with the registered office in Zielona Góra (the acquired companies) conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of these companies to Polimex-Mostostal S.A., registration of an increase of share capital due to the combination with the above mentioned companies and of amendments to the Articles of Association of Polimex - Mostostal S.A. – in accordance with Resolution No 1 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.
  - on entering the combination of Polimex-Mostostal S.A. (the acquiring company) with Naftobudowa S.A. with the registered office in Kraków conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of Naftobudowa S.A. to Polimex - Mostostal S.A., registration of an increase of share capital due to the combination with Naftobudowa S.A. and of amendments to the Articles of Association of Polimex - Mostostal S.A. – in accordance with Resolution No 2 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.

As a result of conducted combinations the share capital of Polimex-Mostostal S.A. increased to PLN 20,836,728.12 (twenty million eight hundred thirty-six thousand seven hundred twenty-eight and 12/100) and it divides into 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) ordinary shares that entitle to 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) votes in a general meeting. The information memorandum was made public in an electronic form on 23.12.2010 by running it on the Issuer's website ([www.polimex-mostostal.pl](http://www.polimex-mostostal.pl)) and on the website of the investment company acting as an offering party ([www.dibre.pl](http://www.dibre.pl)).

The events listed below are complementary and relate to **companies of the Issuer's Capital Group**:

- Porty S.A.
  - Adopting on 27.05.2010 of the resolution by the Extraordinary Meeting of Shareholders of Porty S.A. on putting the company in liquidation and appointing Mr Janusz Wiszniewski the official receiver. Polimex-Mostostal S.A. holds 40% of Porty S.A.'s shares. Porty S.A. company was established for the purpose of constructing fishing ports in Libya. The decision on the liquidation of the company was made in connection with the completion of the investment.
- Terminal LNG S.A.
  - Adopting on 23.06.2010 of the resolution by the Ordinary Meeting of Shareholders of "Terminal LNG S.A." on putting the company in liquidation and appointing Mr Andrzej Dąbrowski the official receiver. Polimex-Mostostal S.A. holds 30.5% of all shares of "Terminal LNG S.A." "Terminal LNG S.A." company was established as a special purpose vehicle for the purpose of construction of LNG Port in port complex in Szczecin-Świnoujście. In connection with the fact that the statutory objective of the company was not met, shareholders decided to dissolve the company.

## 9. Events significant for operations of Polimex-Mostostal Capital Group that occurred after the end of financial year and to the approval of the financial statements

The following events having significant impact upon position of the parent, and that occurred after 31 December 2010:

- Receiving on 17.01.2011 the Agreement to provide eFinancing services signed by Pekao S.A. The subject matter of the Agreement is purchasing by Pekao S.A. receivables of the Consortium, on whose behalf Polimex-Mostostal S.A. is acting, from the General Directorate for National Roads and Motorways Branch in Katowice arising from Contract No. GDDKiA/R-1/S-69/M-Ż/2009 concluded between the General Directorate for National Roads and Motorways and the Consortium of companies comprising: Polimex-Mostostal S.A. – the Leader, Doprastav a.s., Zakład Robót Mostowych "MOSTMAR" Marcin i Grzegorz Marcinków Sp.j. currently MOSTMAR S.A in the maximum amount of PLN 120 million and in the maximum settlement cycle until 31.12.2012.
- Receiving on 03.03.2010 the Contract of credit facility signed by ING Bank Śląski S.A. Under the credit facility Polimex-Mostostal S.A. will issue bank guarantees up to PLN 200.0 million. The facility is valid until 30.11.2011 and is extended automatically on the same conditions for another 12 month crediting periods until 30.11.2021 unless the parties submit a termination notice before another 12 month period. The period of issued guarantees may not go beyond the maturity date i.e. 30.11.2021.

The events listed below and having significant impact upon position of the Issuer's Capital Group companies occurred after 31 December 2010:

- Torpol Sp. z o.o.:
  - Receiving on 11.02.2011 information on signing by Torpol Sp. z o.o. a contract to perform construction works of modernisation of railroad infrastructure of stations and lines in the area of LCS Ciechanów, Ciechanów - Mława section from km 99.450 to km 131.100. LOT A - stations: Konopki, Mława. LOT B - lines: Ciechanów - Konopki, Konopki – Mława under the Project „Modernisation of E 65/CE 65 railroad in Warszawa - Gdynia section- area of LCS Ciechanów”. The parties to the contract are PKP Polskie Linie Kolejowe S.A. with the registered office in Warsaw (Employer) and the Consortium of the following companies: Feroco S.A. (the Leader), Torpol Sp. z o.o., Zakład Robót Komunikacyjnych - DOM w Poznaniu Sp. z o.o. and Przedsiębiorstwo Usług Technicznych Intercor Sp. z o.o. The net value of the contract for the entire consortium was PLN 397.7 million. The estimated value of works to be completed by TORPOL Sp. z o.o. amounted to PLN 124.5 million net.
  - Signing on 02.03.2011 by Torpol Sp. z o.o., as the Consortium leader and partner, with PKP Polskie Linie Kolejowe S.A. of two contracts to perform construction works in the area of LCS Gdańsk: LOT A - stations, LOT B - lines and LCS Gdynia: LOT A - stations, LOT B - lines, under project No. 7.1-1.2 "Modernisation of E 65/C-E 65 railroad in the section Warszawa - Gdynia – area of LCS Gdańsk, LCS Gdynia", of the total amount of PLN 850.6 million net.

Net remuneration for the execution of construction works in the area of LCS Gdańsk: LOT A - stations, LOT B – lines was specified at PLN 479.1 million, and the estimated portion of works attributable to TORPOL Sp. z o.o. (the Consortium Leader) amounted to PLN 344.8 million net. Net remuneration for

the execution of construction works in the area of LCS Gdynia: LOT A - stations, LOT B – lines was specified at PLN 371.5 million, and the estimated portion of works attributable to TORPOL Sp. z o.o. (the Consortium Partner) amounted to PLN 55.6 million net.

## **The Management Board of Polimex-Mostostal S.A.**

**Konrad Jaskóła**

President of the Management Board

**Aleksander Jonek**

Vice President of the Board

**Grzegorz Szkopek**

Vice President of the Board

**Zygmunt Artwik**

Vice President of the Board