POLIMEX – MOSTOSTAL S.A.

SEPARATE FINANCIAL STATEMENTS FOR 2014

Warsaw, 23 March 2015

TABLE OF CONTENTS

(unless stated otherwise, figures in tables are in PLN '000)

Income Statement

	Note	For the period from 01.01.2014 to 31.12.2014 Continuing operations	Discontinued operations	Total	For the period from 01.01.2013 to 31.12.2013 Continuing operations	Discontinued operations	Total
Net revenue from sales of products and services as well as goods and materials	12.1	1 396 896	306 063	1 702 959	1 304 109	378 342	1 682 451
Cost of goods sold		(1 705 006)	(269 227)	(1 974 233)	(1 301 385)	(374 343)	(1 675 728)
Gross profit/(loss) on sales		**(308 110)**	**36 836**	**(271 274)**	**2 724**	**3 999**	**6 723**
Costs to sell		(50)	(15 009)	(15 059)	(1 934)	(16 844)	(18 778)
General and administrative expenses		(42 315)	(11 368)	(53 683)	(70 479)	(12 441)	(82 920)
Other operating revenue	12.2	21 560	1 504	23 064	64 482	–	64 482
Other operating expenses	12.3	(56 454)	(42 640)	(99 094)	(120 196)	(1 805)	(122 001)
Operating profit/(loss)		**(385 369)**	**(30 677)**	**(416 046)**	**(125 403)**	**(27 091)**	**(152 494)**
Financial revenue	12.4	109 330	8 135	117 465	103 947	7 198	111 145
Financial revenue from conversion of debt into shares	12.5	272 039	–	272 039	–	–	–
Financial expenses	12.6	(95 141)	(13 825)	(108 966)	(98 121)	(21 297)	(119 418)
Gross profit/(loss)		**(99 141)**	**(36 367)**	**(135 508)**	**(119 577)**	**(41 190)**	**(160 767)**
Income tax	14	19 387	113	19 500	(833)	–	(833)
Net profit/(loss)		**(79 754)**	**(36 254)**	**(116 008)**	**(120 410)**	**(41 190)**	**(161 600)**
Earnings per share (in PLN per share)							
– basic	18	(0.03)	(0.01)	(0.04)	(0.09)	(0.03)	(0.12)
– diluted	18	(0.02)	(0.01)	(0.03)	(0.07)	(0.03)	(0.10)

(unless stated otherwise, figures in tables are in PLN '000)

Statement of Comprehensive Income

	Note	For the period from 01.01.2014 to 31.12.2014			For the period from 01.01.2013 to 31.12.2013		
		Continuing operations	**Discontinued operations**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
Net loss		**(79 754)**	**(36 254)**	**(116 008)**	**(120 410)**	**(41 190)**	**(161 600)**
Change due to revaluation of fixed assets		**(29 980)**	-	**(29 980)**	**95 593**	-	**95 593**
Actuarial gains/losses		(992)	-	**(992)**	-	-	**–**
Deferred tax	16	5 884		**5 884**	(18 162)		**(18 162)**
Other net comprehensive income for the period		**(25 088)**	**–**	**(25 088)**	**77 431**	**–**	**77 431**
Total comprehensive income		**(104 842)**	**(36 254)**	**(141 097)**	**(42 979)**	**(41 190)**	**(84 169)**

(unless stated otherwise, figures in tables are in PLN '000)

Balance Sheet

	Note	As at 31 December 2014	As at 31 December 2013 restated*	As at 1 January 2013 restated*
Assets				
Non-current assets				
Property, plant and equipment	19	99 098	430 522	475 885
Investment property		–	2 513	14 833
Intangible assets	20	6 362	10 660	13 175
Financial assets	21.1	368 344	361 637	457 467
Non-current receivables	22	56 974	45 220	25 124
Deferred tax asset	16	188 841	163 161	173 277
Other non-current assets		1 649	–	–
Total non-current assets		**721 268**	**1 013 713**	**1 159 761**
Current assets				
Inventories	23	3 306	58 337	161 169
Trade and other receivables	24	567 939	539 452	631 623
Receivables from measurement of long-term contracts		55 111	139 790	222 825
Financial assets	21.2	6 688	131 909	157 253
Cash	26	514 422	319 430	162 235
Other assets	27	3 696	8 068	7 643
Total current assets		**1 151 162**	**1 196 986**	**1 342 748**
Assets held for sale	28	**381 747**	**80 942**	**154 467**
Total assets		**2 254 177**	**2 291 641**	**2 656 976**
Equity and liabilities				
Equity				
Share capital	29.1	173 238	58 695	20 846
Share premium		1 297 118	1 184 044	738 237
Unregistered share issue		–	–	412 500
Supplementary capital	29.2	618 552	618 552	618 552
Other capitals		(444 924)	(444 924)	(444 924)
Reserve capital	29.5	–	32 086	32 086
Reserve capital – convertible bond premium	29.4	29 747	–	–
Accumulated other comprehensive income	29.3	52 370	77 458	27
Losses brought forward		(1 608 908)	(1 524 985)	(1 363 385)
Total equity		**117 193**	**926**	**13 939**
Non-current liabilities				
Credit facilities and loans	30	166 213	8 975	466 912
Long-term bonds	32	135 388	–	143 874
Provisions	34	264 042	35 715	170 569
Liabilities due to employee benefits	36	5 033	5 675	–
Other liabilities	33	310 484	220 186	317 265
Total non-current liabilities		**881 160**	**270 551**	**1 098 620**
Current liabilities				
Credit facilities and loans	30	225	644 315	30 981
Short-term bonds	32	–	126 890	–
Trade and other liabilities	35	549 193	595 030	1 150 139
Liabilities from measurement of long-term contracts		394 183	454 139	101 625
Provisions	34	70 090	129 200	170 580
Liabilities due to employee benefits	36	29 942	67 752	51 044
Deferred income		7 538	2 838	40 048
Total current liabilities		**1 051 171**	**2 020 164**	**1 544 417**
Liabilities directly related to assets held for sale	38	**204 653**	**–**	**–**
Total liabilities		**2 136 984**	**2 290 715**	**2 643 037**
Total equity and liabilities		**2 254 177**	**2 291 641**	**2 656 976**

* **explained in Note 6.4**

(unless stated otherwise, figures in tables are in PLN '000)

Cash Flow Statement

	Note	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2013 to 31.12.2013
Cash flows from operating activities			
Gross profit/(loss)		**(135 508)**	**(160 767)**
Adjustment by:		**25 096**	**(48 826)**
Amortization/depreciation	12.8	40 293	48 935
Net interest and dividends		11 167	29 322
Profit/loss on investing activities		(84 505)	(92 086)
Change in receivables	26	100 243	206 826
Change in inventories	26	26 767	78 316
Change in liabilities, except for credit facilities and loans	26	23 244	(161 799)
Change in prepayments/accruals	26	8 566	(21 520)
Change in provisions		159 103	(217 164)
Financial revenue from conversion of debt into shares		(272 039)	–
Other		12 257	80 344
Net cash generated on operating activities		**(110 412)**	**(209 593)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		62 661	35 923
Acquisition of property, plant and equipment and intangible assets		(8 233)	(7 263)
Sale of an organized part of the enterprise		–	65 622
Acquisition of financial assets		–	(2)
Sale of financial assets		132 183	79 453
Dividends and interest received		504	1 963
Interest received		14 578	2 923
Repayment of originated loans		8 390	14 379
Originated loans		(3 000)	–
Other		1 062	–
Net cash generated on investing activities		**208 145**	**192 998**
Cash flows from financing activities			
Proceeds from issue of bonds		60 000	50 000
Payments on redemption of bonds		-	(1 000)
Payment of finance lease liabilities		(1 648)	(3 458)
Proceeds from credit facilities/loans taken out		23 892	338 438
Repayment of credit facilities/loans		–	(208 160)
Interest paid		(1 112)	(8 898)
Other (including interest on deposits)		16 127	6 868
Net cash generated on financing activities		**97 259**	**173 790**
Net (increase)/decrease in cash and cash equivalents		194 992	157 195
Net exchange differences		474	1 808
Opening balance of cash	26	**319 430**	**162 235**
Closing balance of cash	26	**514 422**	**319 430**
Including restricted cash		427 174	271 396

(unless stated otherwise, figures in tables are in PLN '000)

Statement of Changes in Equity

	Share capital	Share premium	Unregistered share issue	Other capitals	Reserve capital	Reserve capital – convertible bond premium	Supplementary capital	Accumulated other comprehensive income (due to)		Retained earnings/losses brought forward	Total equity
								Revaluation reserve	Actuarial gains/losses		
As at 1 January 2014	**58 695**	**1 184 044**	**–**	**(444 924)**	**32 086**	**–**	**618 552**	**77 458**	**–**	**(1 524 985)**	**926**
Profit/(loss) for the period	–	–	–	–	–	–	–	–	–	(116 008)	(116 008)
Change due to revaluation of fixed assets	–	–	–	–	–	–	–	(29 980)	–	–	(29 980)
Deferred tax	–	–	–	–	–	–	–	5 696	187	–	5 883
Gain/loss on measurement of available-for-sale financial assets	–	–	–	–	–	–	–	–	–	–	–
Other comprehensive income (actuarial provisions)	–	–	–	–	–	–	–	–	(992)		(992)
Comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24 284)**	**(805)**	**(116 008)**	**(141 097)**
Conversion of debt into shares	114 543	113 074	–	–	–	–	–	–	–	–	227 617
Equity component of a convertible instrument – measurement of bonds	–	–	–	–	–	29 747	–	–	–		29 747
Reclassification of measurement of executive share options	–	–	–	–	(32 086)	–	–	–	–	32 086	–
	–										–
As at 31 December 2014	**173 238**	**1 297 118**	**–**	**(444 924)**	**–**	**29 747**	**618 552**	**53 174**	**(805)**	**(1 608 908)**	**117 193**

The accounting principles (policy) and notes to the financial statements on pages 10-104 form an integral part hereof

(unless stated otherwise, figures in tables are in PLN ‘000)

Statement of Changes in Equity (continued)

	Share capital	Share premium	Unregistered share issue	Other capitals	Reserve capital	Convertible bond premium	Supplementary capital	Accumulated other comprehensive income (due to)		Retained earnings/losses brought forward	Total equity
								Revaluation reserve	Actuarial gains/losses		
As at 1 January 2013	**20 846**	**738 237**	**412 500**	**(444 924)**	**32 086**	**–**	**618 552**	**27**	**–**	**(1 363 385)**	**13 939**
Profit/(loss) for the period						–			–	(161 600)	(161 600)
Change due to revaluation of fixed assets	–	–	–	–	–	–	–	–	–	–	–
Deferred tax	–	–	–	–	–	–	–	–	–	–	–
Gain/loss on measurement of available-for-sale financial assets	–	–	–	–	–	–	–	–	–	–	–
Other comprehensive income (actuarial provisions)	–	–	–	–	–	–	–	77 431	–	–	77 431
Comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**77 431**	**–**	**(161 600)**	**(84 169)**
Share issue registration	37 849	445 807	(412 500)	–	–	–	–	–	–	–	71 156
Equity component of a convertible instrument – measurement of bonds	–	–	–	–	–		–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–	–	– –
As at 31 December 2013	**58 695**	**1 184 044**	**–**	**(444 924)**	**32 086**	**–**	**618 552**	**77 458**	**–**	**(1 524 985)**	**926**

The accounting principles (policy) and notes to the financial statements on pages 10-104 form an integral part hereof

Summary of significant accounting policies and additional notes

1. General information

Name, registered office and scope of business

Polimex - Mostostal S.A. (the "Company") with its registered office at ul. Młynarska 42 in Warsaw is a joint-stock company registered with the District Court for the capital city of Warsaw, 12th Business Division of the National Court Register, under number KRS 0000022460, within the territory of the Republic of Poland.

Polimex-Mostostal S.A. operates based on Articles of Association adopted by a notarized deed on 18 May 1993 (Rep. A No. 4056/93), with subsequent amendments.

It has tax identification number (NIP): 8210014509 and statistical number (REGON): 710252031.

The duration of the Company is unlimited.

The scope of its core business includes construction and assembly works, installation of industrial equipment and facilities as well as manufacturing.

Polimex-Mostostal S.A. operates in the following segments: Production, Industry, Power Engineering, Petrochemistry, Infrastructure Construction and Other.

The Company is the parent in the Polimex- Mostostal Group.

The shares of Polimex - Mostostal S.A. are listed on the Warsaw Stock Exchange in the single-price system with two auctions.

2. Going concern

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

Financial standing of the Company; going concern assumption
Debt restructuring

On 21 December 2012, the Company and its subsidiaries, Polimex-Development Kraków (now: Polimex Energetyka Sp. z o.o.), Polimex-Mostostal Development Sp. z o.o. (now: Naftoremont-Naftobudowa Sp. z o.o.) and BR Development Sp. z o.o. (a company from the Polimex Energetyka Capital Group) concluded a Financial Debt Service Agreement ("FDSA") with their Financing Banks and the Bond Holders (the Banks and the Bond Holders collectively referred to as the "Creditors"), which laid down the principles for servicing the Company's debt to the Creditors. In the reporting period, in the course of negotiations, the Company and the Creditors drafted a set of agreements setting out the terms on which the restructuring process at the Company and the Capital Group, including debt restructuring, would be continued.

On 23 June 2014, the Company signed a preliminary agreement with the Creditors, which set out the terms and conditions and defined the stages of the financial restructuring process. It was agreed that the Company would carry out an organizational restructuring process with a view to establishing a holding structure. The parties committed to execute an annex to the FDSA of 21 December 2012, which would reflect the terms and conditions set out in the preliminary agreement. Annex No. 6 to the FDSA was signed on 30 July 2014, and subsequently amended by Annex No. 7 to the FDSA of 11 September 2014. The key conditions set out in the amendments to the FDSA introduced by Annex No. 6 in relation to the 3rd stage of the restructuring process are as follows:

Operational and asset restructuring process:

The Company will continue the operational and financial restructuring process through:

a) further reorganization of the Capital Group and the Company and optimization of operating expenses; in particular, two key subsidiaries of the Company will be established in the Group and they will operate in: (i) the Power Engineering and (ii) Petrochemistry segments (collectively referred to as the "Segment Companies");

b) continuation of disposal of assets (in particular real property owned by the Company, shares in subsidiaries and other assets) that are not necessary to carry out the core business operations. The Company is obliged to obtain the total of PLN 473 million from the disposal by 31 December 2015.

Capital injection:
a) No later than by 31 August 2014, the Company will issue bonds in the total amount of PLN 140 million ("Bonds") addressed to Agencja Rozwoju Przemysłu S.A. ("ARP") or other entities. A portion of bonds issued will be convertible into the Company's shares so that ARP may reach the threshold of 33% of votes at the General Meeting of the Company, taking into account dilution resulting from the Conversion (see the "Debt Conversion" section below). The convertible bonds will be converted into the Company's shares at the issue price of PLN 0.04 per share.
b) The Bonds will mature within five years and they will be collateralized on the same terms and with the same seniority as amounts due to other Creditors under the New Guarantee Facility provided to the Company. In particular, the Bonds and the New Guarantee Facility will be collateralized with pledges on the shares in the Segment Companies.
c) Payment of interest on the Bonds will be deferred until 31 March 2017, whereas a portion of interest accrued on the Bonds will be payable at their maturity date.
d) The Bonds will be issued to secure funds for payment for the capital of the Segment Companies to fund their initial working capital and to increase the working capital of the Company.

Debt Conversion:
a) The Creditors committed to convert their receivables from the Company totaling at least PLN 470 million into its share capital ("Conversion").
b) For purposes of the Conversion, the Company will issue new shares at the average issue price of PLN 0.175 per share issued under the Conversion program.

New Guarantee Facility:
The agreement whereby funding has been provided to the Company by the Banks under the New Guarantee Facility (see Report No. 132/2012) will be amended so that the New Guarantee Facility limit offered by the Banks is PLN 60 million, with a proviso that the new limit will not be funded by Bank Millennium S.A.. The Segment Companies will be the only entities entitled to use the new limit.

Annex No. 2 to the Loan Agreement on the New Guarantee Facility and the related Revolving Loan was executed on 11 September 2014. Pursuant to the Annex, the Banks (except for Bank Millennium S.A.) will provide a limit of PLN 60 million under the New Guarantee Facility to the Segment Companies. Under the New Guarantee Facility (NGF) Agreement amended by Annex No. 2, the Company and the Segment Companies granted a cross-guarantee to the Banks for the liabilities arising therefrom. The limit under the New Guarantee Facility will be made available to the Segment Companies once the Conversion has been effected (Current Report No. 139/2014 of 12 September 2014).

Transaction Close:
a) The Bonds will be issued, the Conversion effected and the New Guarantee Facility provided to the Segment Companies on the terms referred to in the section "Other significant provisions of Annex No. 6" at the same date, provided that:
a. the Creditors and ARP (or other entities acquiring the Bonds) enter into the creditors' agreement;
b. the parties to the FDSA sign documents whereby registered pledges are set up on the shares in the Segment Companies;
c. the Company, ARP (or other entities acquiring the Bonds) sign the documents whereby collateral is pledged for the Bonds;
d. the Company files valid applications (with the required fees paid) for registration of the collateral referred to in b. and c. with the competent registers;
e. ARP (or other entities acquiring the Bonds) submit a binding, irrevocable and unconditional offer to the Company (except for the requirement to effect the Conversion and provide the New Guarantee Facility in accordance with the "New Guarantee Facility" section above) to acquire the Bonds in the full amount;
f. the competent court registers the change in the Company's Articles of Association with regard to a conditional increase in its share capital equal to the value of issued Bonds which are convertible into the Company's shares (see Draft Resolution No. 6 of the General Meeting – Current Report No. 89/2014 of 3 July 2014);
g. the Company's General Meeting adopts a resolution on the issue of the Company's shares for Conversion purposes (see Draft Resolution No. 5 of the General Meeting – Current Report No. 89/2014 of 3 July 2014);

h. the collateral provided in the form of registered pledges on the shares in the Segment Companies is entered into the register of pledges;
i. the Company and PKO BP enter into an escrow account agreement for purposes of the Bond issue.
b) Should the Company fail to issue the Bonds by 31 August 2014, (i) interest on the loans falling within the scope of the FDSA; (ii) interest on the Bond Holders' receivables falling within the scope of the FDSA and (iii) interest on recourse claims related to payments under guarantees given by the banks being parties to the FDSA and, if applicable, on recourse claims related to sureties given to those banks:
a. accrued until 31 August 2014, will be payable as of 1 September 2014;
b. accrued from 1 September 2014 to the Bond issue date, will be payable on the 30th day of each calendar month.

Other significant provisions of Annex No. 6:
a) The remaining amounts due to the Creditors being parties to the FDSA, which have not been Converted, will finally be repaid by 31 December 2019 or by the final Bond redemption date (whichever earlier) ("Final Repayment Date") in accordance with the schedule agreed with the Creditors in the FDSA.
b) Payment of interest on amounts due which have not been Converted will be deferred until 31 March 2017, with the portion of interest accrued on the aforesaid amounts being payable at the Final Repayment Date.
c) Interest accrued by the Conversion date and recourse claims related to guarantees given by the Banks, occurring by the Conversion date, has been deferred until the Final Repayment Date.
d) Recourse claims related to guarantees given by the Banks at the request of the Company (other than those given under the New Guarantee Facility) will be paid on the previous terms, as set out in the FDSA (i.e. in 12 monthly installments), with a proviso that any recourse claims filed by the Banks in relation to guarantees given at the Company's request in relation to contracts for construction of A1 and A4 motorways and S69 expressway will be paid at the Final Repayment Date in accordance with the schedule agreed with the Creditors.
e) By signing the Annex, the Creditors have waived, unconditionally and for an indefinite period, any rights arising from a default on the FDSA that occurred by 23 June 2014.
f) As of the date of the Annex, Polimex-Mostostal Development Sp. z o.o. (now: Naftoremont-Naftobudowa Sp. z o. o.), Polimex-Development Kraków Sp. z o.o. (now: Polimex Energetyka Sp. z o.o.) and BR Development Sp. z o.o. (a company from the Polimex Energetyka Capital Group), the Company's subsidiaries, have been released from their obligations under the sureties given by them to the Creditors in relation to the Company's liabilities to the Creditors.
On 11 September 2014, Annex No. 7 to the FDSA was signed. According to the Annex and representations of the creditors regarding, among other things, extension of the time limit for the close of the 3rd stage of the restructuring process, as defined in the Annex, the time limit for the close of the 3rd stage of the restructuring process (including the Conversion) was extended until 17 September 2014 (Current Report No. 139/2014 of 12 September 2014).
In accordance with the procedure defined in the FDSA, the final date for the close of the 3rd stage of the restructuring process was set at 24 September 2014.

Conclusion of the Creditors' Agreement

On 12 September 2014, an agreement was made by the Creditors and the entities acquiring the New Bonds (including ARP) ("Creditors' Agreement"). The main objective of the Creditors' Agreement was to define the relations among the Creditors and the New Bond holders, including formulation of the rules applicable to possible satisfaction of their claims with the use of the collateral provided to secure payment of their receivables and the rules applicable to distribution of funds obtained through the use of the collateral and enforcement of other payments to satisfy their claims.

New Bond purchase offers and their acceptance
On 12 September 2014, the Company submitted offers concerning the purchase of the New Bonds, i.e. convertible bonds with the total par value of PLN 81.5 million and ordinary bonds with the total par value of PLN 58.5 million, totaling PLN 140 million, to investors (including Agencja Rozwoju Przemysłu S.A.), which were accepted by the investors with a proviso that the payment will be made and the Bonds will be issued within five business days of the Conversion date. In accordance with the New Bond issue documents, the Company will be obliged to pay the underwriting commission to the investors in the amount specified in the New Bond issue documents after the New Bond issue date.

Security instruments setting up pledges on the shares in the Segment Companies
On 12 September 2014, the Company entered into a registered pledge agreement concerning the shares in the Segment Companies with ARP as the pledge administrator for the benefit of the New Bond holders and the Creditors, whereby registered pledges will be set up on the shares in the Segment Companies as of the registration date to secure payment of the receivables of the Creditors and the New Bond holders.
Additionally, the Company signed ordinary and financial pledge agreements with the Creditors and the future New Bond holders, whereby ordinary and financial pledges have been set up (or will be set up as of the dates of the agreements with the respective Creditors) on the shares in the Segment Companies to secure payment of the receivables of the Creditors and the New Bond holders.

Satisfaction of conditions precedent for the close of the 3rd stage of the restructuring process
Considering the events presented above and the Company's being informed of registration of the conditional increase in the Company's share capital by the competent court of registration in accordance with section g. "Transaction Close" above, the following conditions for the payment for and issue of the New Bonds, Conversion and provision of the New Guarantee Facility to the Segment Companies remained to be fulfilled:
(a) pledging appropriate collateral for the New Guarantee Facility by the Segment Companies and the Company's change of the existing collateral for the New Guarantee Facility, as appropriate;
(b) the Company's filing of applications for collateral registration in the form of registered pledges;
(c) entering the collateral in the form of registered pledges on the shares in the Segment Companies in the register of pledges; and
(d) the Company's signing of an escrow account agreement with PKO BP for purposes of the New Bond issue.
The conditions precedent necessary to close the 3rd stage of the restructuring process, as specified in (b) and (c) above, were fulfilled on 16 September 2014 (Current Report No. 140/2014 of 17 September 2014).
The remaining conditions precedent, as specified in (a) and (d) above, were fulfilled on 23 September 2014. Therefore, the close of the 3rd stage of the restructuring process was planned for 24 September 2014 (Current Report No. 146/2014 of 23 September 2014).

Close of the 3rd stage of the restructuring process
On 24 September 2014, the following activities were performed as part of the close of the 3rd stage of the financial debt restructuring process:
1) Conversion of debt into the Company's share capital
The Company's creditors being parties to the Financial Debt Service Agreement of 21 December 2012 ("FDSA") entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,074.10. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.
2) Provision of the New Guarantee Facility to the Segment Companies
The banks being parties to the agreement on the new guarantee facility provided Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o., the Company's subsidiaries operating in the power engineering and petrochemistry sectors (hereinafter collectively referred to as the "Segment Companies") with access to the New Guarantee Facility limit of PLN 60 million.
3) Satisfaction of conditions necessary for payment for the New Bonds and their issue
As e.g. the creditors' receivables were converted into the Company's share capital, all the conditions necessary for the investors' payment for the new bonds with the total par value of PLN 140 million

("New Bonds") were fulfilled. The payment will be made and the New Bonds issued within five business days.
4) The Company's acquisition of the increased value of the shares in the Segment Companies
On 24 September 2014, the Company, as the sole shareholder of the Segment Companies, adopted resolutions on increasing the capital of the Segment Companies and made declarations concerning its acquisition of the following shares in the Segment Companies:
a) the Company acquired the increased par value of 30,199 shares held in Polimex Energetyka Sp. z o.o. before, where the par value of each share was increased from PLN 500.00 to PLN 716.00 in exchange for a cash contribution of PLN 65,000,000.00; and
b) the Company acquired the increased par value of 3,672 shares held in Naftoremont-Naftobudowa Sp. z o.o. before, where the par value of each share was increased from PLN 2,723.00 to PLN 3,132.00 in exchange for a cash contribution of PLN 15,000,000.00.
Under the FDSA, the increased value of the shares in the Segment Companies acquired by the Company was paid for using the funds obtained through the New Bond issue on 1 October 2014.
What is important, as at 31 December 2014, no Events of Default related to the FDSA had occurred.

Conversion
On 31 July 2014, the Company's General Meeting adopted Resolution No. 5 increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 124,000,000.00, with no rights issue offered, through the issue of no less than 1 and no more than 3,100,000,000 R series ordinary bearer shares with the par value of PLN 0.04 each ("R Series Shares") through a private placement.
The Company's creditors being parties to the FDSA entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,000.00. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.
Debt was converted into the Company's shares under agreements made with the Company's creditors and bond holders on a case-by-case basis. On 24 September 2014, R Series Share Purchase agreements were concluded with the bond holders and creditors of the Company. As at 23 September 2014, the receivables to be offset totaled PLN 501,125,000.00 and included, apart from loans, bonds and accrued interest, recourse claims related to guarantees. The total number of R Series Shares issued was 2,863,571,852.The increase in the Company's share capital was registered with the National Court Register on 22 October 2014.
In compliance with IFRIC 19, R series shares issued have been measured at fair value, i.e. PLN 0.08 each, and recognized as equity. The difference between the value of financial liabilities derecognized from the balance sheet and the fair value of the equity item has been recognized in profit or loss at PLN 272,039,000.00.

New Bond issue
As the new bonds had been paid for by the investors, on 1 October 2014 the Company issued 163 A series, convertible, dematerialized bearer bonds with the par value of PLN 500,000.00 each and the total par value of PLN 81,500,000.00 ("A Series Bonds") as well as 585 B series, ordinary, dematerialized bearer bonds with the par value of PLN 100,000.00 each and the total par value of PLN 58,500,000.00 ("B Series Bonds", collectively with A Series Bonds referred to as the New Bonds"). The proceeds of the issue of A Series Bonds were earmarked for payment of the issue price of the increased par value of the shares in Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o. The proceeds of the issue of B Series Bonds were used to increase the working capital of the Company. The aforesaid funds were transferred to the Company's bank account on 1 October 2014.

Sale of real property

The following agreements had been concluded by 31 December 2014 as part of the asset restructuring process:

1. sale of the right of perpetual usufruct of the land located at ul. Czackiego 15/17 in Warsaw and the title to a separate real property (office building) at a gross price of PLN 30,750,000.00;
2. sale of (i) the right of perpetual usufruct of land located at ul. Inżynierska 8R and Inżynierska 8 in Lublin, with the total area of 6,318 m2, including the buildings and equipment located there, to which a separate title had been held; (ii) the share in the right of perpetual usufruct representing 6318/22850 of the land located in Lublin and marked as plot no. 65/16 with the area of 1,281 m2, at the total gross selling price of PLN 3,097,602.25;
3. sale of (i) the right of perpetual usufruct of land registered as record parcel no. 24/5, located at ul. Elektryczna 2A in Warsaw, with the area of 999.00 m2 and (ii) the title to the building located there, which is a separate real property marked with the number 2A at ul. Elektryczna in Warsaw, at a gross price of PLN 10,701,000.00;
4. sale of land with the area of 0.0595 ha, located at ul. Wita Stwosza 3 in Katowice, Bogucice-Zawodzie, at a gross price of PLN 7,380,000.00;
5. sale of land located at ul. Piłsudskiego in Kraków, marked as plot no. 129/2, with the area of 0.0286 ha, at a net price of PLN 2,900,000.00 by Polimex Development Kraków Sp. z o.o., the Company's subsidiary, as the seller;
6. sale of the right of perpetual usufruct of real property, including the related rights, located at ul. Generała Jankego Zygmunta Waltera in Katowice, at a net price of PLN 13,500,000.00 by Polimex Development Kraków Sp. z o.o. (now: Polimex Energetyka Sp. z o.o.), the Company's subsidiary, as the seller;
7. sale of land located at ul. Garbarska in Lublin, at a net price of PLN 9,700,000.00;
8. sale of real property with buildings being separate real properties, including any structures and equipment located there and constituting separate real properties, located in Ostrołęka, the Masovian Region, at a total gross price of PLN 3,444,000.00;
9. conditional sale of land located at ul. Pomorska 34, 34c and 35 in Szczecin, including office buildings, a non-residential building and a warehouse building constituting separate real properties, at a total gross price of PLN 3,813,000.00;
10. conditional sale of land located in Bielkowo, the commune of Kobylanka, Stargard poviat in the West Pomeranian Region, including residential buildings, at a total net price of PLN 10,500,000.00;
11. sale of the right of perpetual usufruct of land in Stalowa Wola, including the title to the buildings and structures located there, at a total gross price of PLN 4,243,500.00;
12. conditional sale of the right of perpetual usufruct of undeveloped land located in Warsaw, by Naftoremont – Naftobudowa Sp. z o.o., the Company's subsidiary, as the seller, at a net price of PLN 3,900,000.00.

The following agreements were signed between the end of the reporting period and the date of the separate financial statements:

1. a transfer agreement related to the sale of real property in Bielkowo (see 10 above);
2. agreement on conditional sale of the right of perpetual usufruct of developed land located in Stalowa Wola, at a net price of PLN 6,600,000.00;
3. agreement on conditional sale of real property and the right of perpetual usufruct of real property located in Jasło.

Under all of the real property or premises sale agreements, the seller's liability for warranty, as set out in Articles 556-576 of the Civil Code, has been modified in accordance with Article 558.1 so that irrespective of any rights resulting from the warranty set out in Articles 556-576 of the Civil Code, the seller assumes liability for losses (insofar as they are actual) suffered by the buyer due to false, incomplete, inaccurate or erroneous representations and warranties given by the seller. The liability for damages is a warranty for risk, regardless of the seller's fault and the actual knowledge possessed by the parties to the agreement. The warranty liability of the seller is limited to the gross selling price set in the agreement and any claims on that basis may be filed within three years of the date of the agreement whereby the title to the real property or premises is transferred.

Additionally, in 2014 the Company completed an IPO of Torpol, its subsidiary. The whole block of shares in Torpol (15,570,000) was sold at PLN 8.00 per share. The sale transaction was completed in July 2014 with the transaction value of PLN 124,560,000.00.

Additionally, the Company sold 4,861 shares in the capital of Energomontaż-Północ – Technika Spawalnicza i Laboratorium Sp. z o.o. (Warsaw), representing 100% of the share capital, at a price of PLN 8,021,000.00.

At the beginning of December 2014, the Extraordinary Shareholders' Meeting of Polimex-Mostostal approved the sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce, as well as Polimex-Mostostal ZUT located in Siedlce. The scope of activities carried out by Polimex in Siedlce in the *Production* segment includes manufacturing anti-corrosion and hot-dip zinc coating, grids as well as steel products, such as steel structures, silos, tanks, chimneys or gas passes. The entity employs ca. 1,500 people. Polimex-Mostostal ZUT is an engineering and manufacturing company established in 1998. It is a wholly-owned subsidiary of Polimex and employs more than 100 people. The scope of its activities includes manufacturing anchors, processing metals and providing design and general construction services.

The aforesaid divestments formed part of the operational and asset restructuring process related to the FDSA with the creditors, and were carried out to fulfil the Company's obligations under the Annexes to the FDSA. The Company is planning to continue the activities aimed at selling those assets which are not key for its operations. In addition to real property, the assets sold will include shares in subsidiaries, redundant property or organized parts of the enterprise in accordance with Annex No. 6 to the FDSA by 31 December 2015.

Going concern and risks

In the period of 12 months of 2014, the Company's operating loss totaled PLN 416,046,000.00, including an operating loss attributable to discontinued operations of PLN 30,677,000.00. As at 31 December 2014, equity totaled PLN 117,193,000.00 and the net working capital (including assets held for sale and the related liabilities) was positive and amounted to PLN 277,085,000.00. Equity is positive as in September 2014 debt was converted into shares (an increase in equity of PLN 227,617,000.00), the New Bonds were measured (an increase in equity of PLN 29,747,000.00) and the shares in Torpol, a subsidiary, were sold. The increased value of the net working capital as compared to 31 December 2013, when it was negative and amounted to PLN 742,236,000.00, is attributable to reclassification of loan and bond liabilities to non-current liabilities following cancellation of the events of default related to the FDSA as at 31 December 2014 and implementation of an effective liquidity policy.

Other potential risks identified by the Company:

- liquidity conditional on meeting the divestment schedule, in particular disposal of the former Mostostal Siedlce and Polimex-Mostostal ZUT located in Siedlce (the sales process is carried out by Polimex-Mostostal and Towarzystwo Finansowe Silesia, controlled by the State Treasury);
- ongoing negotiations concerning the amounts due from/to the Directorate General for National Roads and Motorways (DGNRM) and the consortium members as well as final settlements under road construction contracts fulfilled at the request of DGNRM, where, according to the Management Board, the financial settlements may not be closed due to the pending disputes with DGNRM and the bankruptcy proceedings of the consortium members. Consequently, the assumptions made for purposes of measurement, hence the final profit/loss on contracts performed for DGNRM, may be subject to changes;
- the industry risk related to fulfilment of material contracts, including scenarios where it may not be ruled out that the Company will not be able to earn the anticipated revenue and margins from contracts in progress and planned.

The aforesaid factors may hinder generation of operating profit sufficient for the Company to service the debt falling within the scope of the FDSA, thus indicating a risk to the Company's ability to continue as a going concern.

In response to identified risks, the organizational structure has been redesigned, duplicate functions eliminated and the Company's operating model changed into a contract-based one. This enabled a substantial improvement of operational efficiency and a considerable reduction of fixed costs, in particular general and administrative expenses (a drop by more than 30% in 2014), which is already reflected in the performance delivered in 2014 and will be shown in the performance in 2015. Polimex-Mostostal focuses on fulfilment of power engineering contracts, including extension of *Elektrownia Kozienice* and *Elektrownia Opole*, as well as petrochemical and technical service contracts. The holding will focus on specialist engineering and design in the power engineering and petrochemistry sectors, with a considerable share of its own contractor services, and technical service.

Although the Company has terminated the motorway contracts, it is planning to use its subsidiary, PRINŻ-1, to carry out minor road construction orders where it will act as a general contractor on national and regional roads as well as a subcontractor under motorway and expressway construction contracts.

Under the operational restructuring program adopted by Polimex-Mostostal, those assets which are not key for its operations will continue to be sold. The aforesaid assets will include shares in subsidiaries, redundant property or organized parts of the enterprise. As part of the abovementioned process, Polimex-Mostostal has entered into negotiations with Towarzystwo Finansowe Silesia, controlled by the State Treasury, over disposal of the former Mostostal Siedlce and Polimex-Mostostal ZUT located in Siedlce (in accordance with the applicable legal regulations, Polimex notified the Polish Financial Supervision Authority of the confidential negotiations in advance). At the beginning of December 2014, the Extraordinary Shareholders' Meeting of Polimex-Mostostal approved the sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce. On 5 March 2015, the Company announced that the Office of Competition and Consumer Protection granted its consent for Towarzystwo Finansowe Silesia to assume control of two assets of Polimex-Mostostal. The process is planned to be closed within the next quarter.

Considering the potential risk of delays in the schedule of disposal of the aforementioned assets, the Management Board has undertaken a number of initiatives to considerably reduce the liquidity risk so that the said factors do not affect timely repayment of the debt of falling within the scope of the FDSA:

- a capital injection ensuring efficient working capital management. The Company's liquidity was considerably improved, which resulted in a drop in past due liabilities almost by a half, i.e. from PLN 184 million as at 31 December 2013 to PLN 100 million a year later. The current balance of past due liabilities is considerably below PLN 80 million. Additionally, initiatives were undertaken with a view to centralizing finance management at the Group level as well as optimizing interest income and expense through efficient structure management;

- operational restructuring in order to cut operating expenses through a reduction in general and administrative expenses, organizational structure and contract portfolio optimization as well as realization of savings on the aforesaid basis, which should affect profitability of the Company's day-to-day business and profit on contracts;

- divestment program involving the Company's sale of assets not related to its core business, specifically real property as part of the 2nd stage of the package sale. What is important, real property is being sold on the basis of offers already received by the Company, while the preliminary agreements are being finalized and final ones concluded. Within the next year, the Company expect additional proceeds of PLN 73 million only from sales of real property;

- the creditors' commitment to release collateral so that the disposal, i.e. divestment program may be implemented. The proceeds from disposal of assets which are not related to the core business will primarily be used for funding the Company's day-to-day operations;

- implementation of key projects for the Polish power industry – construction of a new block in *Elektrownia Kozienice* and block 5 and 6 in *Elektrownia Opole* based on the introduced project finance structures that ensure fully secure funding for the projects through advance and ongoing payments from the client (at present, the total balance of free cash from the projects exceeds PLN 0.5 billion);

(unless stated otherwise, figures in tables are in PLN '000)

- approval of the prospectus drafted by Polimex-Mostostal SA, upon authorization of the Polish Financial Supervision Authority (PFSA), on 11 March 2015, which denotes the Company's satisfaction of the condition set out in the FDSA. A high level of the Company and the Group's debt (more than PLN 0.5 billion) was reduced, which is of crucial importance, in particular, for the Company and the Group's ability to secure funding from financial institutions, in particular, in the form of bank guarantees, extend the due dates or require prepayments from the contracting parties as well as the ability to use some of the cash flows as capital expenditure;

- the creditors' possible conversion of bonds, including the issue of 163 A series, convertible, floating-rate, dematerialized, collateralized bearer bonds with the total par value of up to PLN 81.5 million;

- the provisions set forth in agreements with banks, which reduce the Company's risk related to the beneficiaries' use of bank guarantees. If bank guarantees are used, the banks committed, in accordance with the Financial Debt Service Agreement and individual representations of banks which have given guarantees at the request of the Company but are not parties to the Financial Debt Service Agreement, to accept the Company's payment of the resulting liabilities in 12 equal monthly installments;

- deferment of repayment of the Company's debt for 2017-2019, the same as in the case of debt servicing, which gives the Company sufficient time to complete the organizational restructuring process aimed at establishment of a holding structure in addition to enabling the Company to rebuild and strengthen its market position as a reliable business partner. Debt servicing is conditional on successful completion of the operational restructuring process, as specified in the FDSA, including disposal of redundant assets.

The Management Board of the Company is of the opinion that the aforesaid initiatives are a sufficient basis for concluding that the situation of the Company will gradually improve despite the existence of circumstances indicating a risk to its ability to continue as a going concern. Therefore, the financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

3. Composition of the Management Board and the Supervisory Board

Composition of the Company's Management Board as at 31 December 2014:

Maciej Stańczuk	Acting Chairperson of the Board
Joanna Makowiecka-Gaca	Vice-Chairperson of the Board
Krzysztof Cetnar	Vice-Chairperson of the Board

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

2014-02-06	The Supervisory Board appointed Maciej Stańczuk to the position of Vice-Chairperson of the Management Board effective from 7 February 2014 for a three-year individual term of office (Resolution No. 30/XI of the Supervisory Board, WSE Communiqué No. 22/2014).
2014-02-12	The Supervisory Board dismissed Arkadiusz Kropidłowski from the position of Vice-Chairperson of the Management Board effective from the date of the resolution (Resolution No. 31/XI of the Supervisory Board, WSE Communiqué No. 28/2014).
2014-05-09	Gregor Sobisch resigned from the position of Chairperson of the Management Board effective from the date of the resignation (WSE Communiqué No. 53/2014).
2014-05-09	The Supervisory Board appointed Maciej Stańczuk to the position of Acting Chairperson of the Management Board effective from the date of the resolution (Resolution No. 37/XI of the Supervisory Board, WSE Communiqué No. 54/2014).
2014-05-09	The Supervisory Board appointed Bogusław Piekarski to the position of Vice-Chairperson of the Management Board effective from the date

(unless stated otherwise, figures in tables are in PLN ‘000)

	of the resolution for a three-year individual term of office (Resolution No. 38/XI of the Supervisory Board, WSE Communiqué No. 55/2014).
2014-06-05	The Supervisory Board appointed Krzysztof Cetnar to the position of Vice-Chairperson of the Management Board effective from 6 June 2014 for a three-year individual term of office (Resolution No. 42/XI of the Supervisory Board, WSE Communiqué No. 68/2014).
2014-10-17	Bogusław Piekarski resigned from the position of Vice-Chairperson of the Management Board effective from 31 January 2015 (WSE Communiqué No. 157/2014).
2014-10-29	The Supervisory Board dismissed Bogusław Piekarski from the position of Vice-Chairperson of the Management Board, COO, and delegated his responsibilities to Maciej Stańczuk, Acting Chairperson of the Management Board (WSE Communiqué No. 169/2014). At the same time, the Management Board adopted a resolution on appointment of Jacek Czerwonka, Power Engineering Segment Head, to the position of Management Board’s plenipotentiary for operations.
2015-02-13	The Supervisory Board appointed Jacek Czerwonka to the position of Vice-Chairperson of the Management Board effective from 13 February 2015, for a three-year individual term of office (Resolution No. 92/XI of 13 February 2015).

Composition of the Supervisory Board as at 31 December 2014:

Adam Ambrozik	Chairman of the Supervisory Board
Andrzej Kasperek	Vice-Chairman of the Supervisory Board
Jarosław Kochaniak	Secretary of the Supervisory Board
Wojciech Barański	Member of the Supervisory Board
Marcin Milewicz	Member of the Supervisory Board
Krzysztof Kaczmarczyk	Member of the Supervisory Board
Andrzej Zwara	Member of the Supervisory Board

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

2014-05-30	Ryszard Engel resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 63/2014).
2014-06-24	Jerzy Góra resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 76/2014).
2014-06-24	The General Meeting of Polimex-Mostostal S.A. appointed Jarosław Kochaniak (Resolution No. 28 of the General Meeting) and Adam Ambrozik (Resolution No. 29 of the General Meeting) to the positions of members of the Supervisory Board (joint WSE Communiqué No. 79/2014).
2014-09-12	Artur Jędrzejewski resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 138/2014).
2014-12-02	Dariusz Krawczyk resigned from the position of member of the Supervisory Board effective from the date of the nearest General Meeting, i.e. 4 December 2014 (WSE Communiqué No. 193/2014).
2014-12-04	The Extraordinary Shareholders’ Meeting of Polimex-Mostostal S.A. appointed Krzysztof Kaczmarczyk (Resolution No. 4 of the General Meeting) and Andrzej Zwara (Resolution No. 5 of the General Meeting) to the positions of members of the Supervisory Board (WSE Communiqué No. 200/2014).

(unless stated otherwise, figures in tables are in PLN '000)

2015-02-16	The Extraordinary Shareholders' Meeting of Polimex-Mostostal S.A. appointed Andrzej Sokolewicz (Resolution No. 5 of the General Meeting) to the position of member of the Supervisory Board.

On 4 June 2014, the Supervisory Board appointed Andrzej Kasperek to the position of Vice-Chairman of the Supervisory Board and on 11 July 2014 Adam Ambrozik was appointed its Chairman. Jerzy Góra acted as Chairman of the Supervisory Board until 24 June 2014.

4. Approval of the financial statements

The financial statements were approved for publication and signed by the Management Board of the Company on 23 March 2015.

5. Identification of the consolidated financial statements

The Company prepared the consolidated financial statements for the year ended 31 December 2014, which were approved for publication on 23 March 2015.

6. Summary of significant accounting policies

6.1. Basis for preparation of the financial statements

These financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS), as endorsed by the European Union, on the historical cost basis, except available-for-sale financial assets, investment property and derivatives, which are measured at fair value.

The carrying amount of hedged financial assets and liabilities is adjusted by changes in the fair value which are attributable to the risk against which such assets and liabilities are hedged.

As at the date of approval of these financial statements for publication, taking into account the IFRS implementation process in the EU and the Company's operations, as regards the accounting principles applied by the Company, the implemented IFRS do not differ from those endorsed by the EU.

The IFRS include standards and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

The accounting principles described in Note 6.2 have been applied consistently in all presented periods, except the presentation changes described in Note 6.4 (changes in the accounting principles used by the Company and the scope of disclosures).

6.1.1 Standards and interpretations used for the first time in 2014

The following standards, revised standards and interpretations published by the International Accounting Standards Board (IASB) and endorsed by the EU entered into force in 2014:

- IFRS 10 *Consolidated Financial Statements*, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014);
- IFRS 11 *Joint Arrangements*, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014);
- IFRS 12 *Disclosure of Interests in Other Entities*, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014);
- IAS 27 (2011) *Separate Financial Statements*, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014);
- IAS 28 (2011) *Investments in Associates and Joint Ventures*, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014);
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities – transition guidance*, endorsed by the EU on 4 April 2013 (applicable to annual periods beginning on or after 1 January 2014);
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements – Investment Entities*, endorsed by the EU on 20 November 2013 (applicable to annual periods beginning on or after 1 January 2014);

- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, endorsed by the EU on 13 December 2012 (applicable to annual periods beginning on or after 1 January 2014);
- Revised IAS 36 *Impairment of Assets – Disclosure of Recoverable Amount of Non-financial Assets*, endorsed by the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014);
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*, endorsed by the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014).

The aforesaid standards, interpretations and revised standards have not had a considerable effect on the accounting policy of the entity.

6.1.2 Standards and interpretations which have been published and endorsed by the EU but which have not entered into force yet

While approving these financial statements, the Company did not apply the following standards, revised standards and interpretations that had been published by IASB and endorsed for use in the EU, but which had not yet entered into force:

- Revised standards "IFRS Improvements (2010-2012)" – amendments to standards resulting from the annual improvements process (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015);
- Revised standards "IFRS Improvements (2011-2013)" – amendments to standards resulting from the annual improvements process (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 18 December 2014 (applicable to annual periods beginning on or after 1 January 2015);
- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*, endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015);
- IFRIC 21 *Levies*, endorsed by the EU on 13 June 2014 (applicable to annual periods beginning on or after 17 June 2014).

6.1.3 Standards and interpretations adopted by IASB but not yet endorsed by the EU

At present, IFRS in the form endorsed by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards as well as revised standards and interpretations which had not been adopted for use in the EU as at 23 March 2015 (the effective dates are for full version standards):

- IFRS 9 *Financial Instruments* (applicable to annual periods beginning on or after 1 January 2018);
- IFRS 14 *Regulatory Deferral Accounts* (applicable to annual periods beginning on or after 1 January 2016);
- IFRS 15 *Revenue from Contracts with Customers* (applicable to annual periods beginning on or after 1 January 2017);
- Revised IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative* (applicable to annual periods beginning on or after 1 January 2016);

- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture – Agriculture: Bearer Plants* (applicable to annual periods beginning on or after 1 January 2016);
- Revised IAS 27 *Separate Financial Statements – Equity Method in Separate Financial Statements* (applicable to annual periods beginning on or after 1 January 2016);
- Revised standards "IFRS Improvements (2012-2014)" – amendments to standards resulting from the annual improvements process (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily with a view to removing inconsistencies and clarifying wording (applicable to annual periods beginning on or after 1 January 2016).

As at the date of these financial statements, the Management Board of the Company had been evaluating the effect of the revised IFRS 9 and IFRS 15 on the financial statements. The remaining standards and revised standards would not have had a significant effect on the financial statements if they had been adopted by the Company as at the end of the reporting period.

6.2. Accounting policies

The accounting principles (policies) used for preparation of these financial statements are consistent with those adopted for preparation of the financial statements of the Company for the year ended 31 December 2013, except for the following revised standards and new interpretations applicable to annual periods beginning on or after 1 January 2014:

- IFRS 10 *Consolidated Financial Statements*, endorsed by the EU on 11 December 2012;
- IFRS 11 *Joint Arrangements*, endorsed by the EU on 11 December 2012;
- IFRS 12 *Disclosure of Interests in Other Entities*, endorsed by the EU on 11 December 2012;
- IAS 27 (2011) *Separate Financial Statements*, endorsed by the EU on 11 December 2012;
- IAS 28 (2011) *Investments in Associates and Joint Ventures*, endorsed by the EU on 11 December 2012;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities – transition guidance*, endorsed by the EU on 4 April 2013;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements – Investment Entities*, endorsed by the EU on 20 November 2013;
- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, endorsed by the EU on 13 December 2012;
- Revised IAS 36 *Impairment of Assets – Disclosure of Recoverable Amount of Non-financial Assets*, endorsed by the EU on 19 December 2013;
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*, endorsed by the EU on 19 December 2013.

Adoption of the above regulations did not result in any significant changes in the Company's accounting policies or presentation of data in the financial statements.

Functional and presentation currency

The financial statements are presented in the Polish zloty (PLN), which is the functional and presentation currency of the Company.

6.2.1 Property, plant and equipment

Property, plant and equipment are presented at cost less depreciation and impairment losses, except real property and structures permanently attached to land, i.e. office buildings, production and repair plants. The aforesaid asset class has been measured at fair value since October 2013 (see Note 19).

The initial value of fixed assets includes their cost increased by all expenses directly related to the purchase and bringing the asset to a usable condition. The cost also includes the cost of replacing parts of machines and equipment at the time when it is incurred, provided that the recognition criteria

are met. Costs incurred after the date of commissioning a fixed asset, such as costs of maintenance and repair, are charged to profit or loss when incurred.
Upon acquisition, fixed assets are divided into components of material value, to which separate useful lives may be assigned. Costs of overhauls are also a component.

Depreciation is calculated using the straight-line method over the estimated useful life of an asset:

Type	Period
Buildings and structures	20-40 years
Technical equipment and machines	5-20 years
Office equipment	3-5 years
Vehicles	3-10 years
Computers	3-8 years
Leasehold improvements	10 years

The residual value, useful life and depreciation method of assets are reviewed on an annual basis and, if necessary, adjusted as of the beginning of the most recently ended financial year.
An item of property, plant and equipment may be derecognized from the balance sheet upon disposal or if no economic benefits are expected from further use of the asset. Any gains or losses (calculated as the difference between possible net proceeds from sale and the carrying amount of the item) resulting from derecognition of the asset from the balance sheet are charged to profit or loss for the period of the derecognition.

Investments in progress are related to fixed assets under construction or assembly and are recognized at cost less impairment losses, if any. Fixed assets under construction are not depreciated until their construction is completed and until they are commissioned.

6.2.2 Investment property

Initially, investment property is recognized at cost, including transaction costs. The carrying amount of an asset includes the cost of replacement of a part of investment property when incurred, provided that the recognition criteria are met, and does not include costs of the day-to-day maintenance of the real property.
Following initial recognition, investment property is recognized at fair value. Gains or losses resulting from changes in the fair value of investment property are charged to profit or loss in the period when they arise.
Investment property is derecognized from the balance sheet when it is sold or when such property is decommissioned and no future benefits are expected from its sale. All gains and losses resulting from derecognition of investment property from the balance sheet are charged to profit or loss in the period of such derecognition.
Assets are transferred to investment property only when they change their designation – the owner of the assets confirms that the assets are no longer used or an operating lease agreement is concluded. If an asset used by the owner – the Company becomes investment property, the Company applies the principles described in the *Property, plant and equipment* section until the day when the real property changes its designation.

6.2.3 Intangible assets

Intangible assets acquired in a separate transaction or developed (if they meet the recognition criteria for the cost of research and development) are initially recognized at cost. The cost of intangible assets acquired in a business combination is equal to their fair value as at the date of the combination. Following initial recognition, intangible assets are recognized at cost less amortization and impairment losses. Expenditure on internally developed intangible assets, except for capitalized R&D expenditure, is not capitalized but expensed in the period in which it is incurred.
The Company determines whether the useful life of intangible assets is limited or unlimited. Intangible assets with a limited useful life are amortized over their useful life and tested for impairment each time when there is any indication that the assets may be impaired. The period and method of amortization of intangible assets with a limited useful life are reviewed at least at the end of each financial year.

Changes in the estimated useful life or the manner of consuming economic benefits arising from a given asset are recognized through a change in the amortization period or method, respectively, and treated as estimated value changes. Amortization of intangible assets with a limited useful life is charged to profit or loss under the category which corresponds to the function of the asset.
Intangible assets with an unlimited useful life and intangible assets which are not used are tested for impairment once a year, at the level of individual assets or cash generating units.
The useful lives are reviewed on an annual basis and, if necessary, adjusted with effect as of the beginning of the financial year just ended.

6.2.4 R&D expenses

R&D expenses are charged to profit or loss when incurred. Expenses related to R&D carried out in a given project are carried forward to the following period if they are considered recoverable in the future. Following initial recognition of R&D expenses, the historical cost model is used. It requires that assets be recognized at cost less accumulated amortization and accumulated impairment losses. Any expenses carried forward are amortized over the period when sales revenue is expected to be generated under the project.
R&D expenses are tested for impairment annually (if an asset has not been commissioned yet) or more frequently (if indications that the carrying amount may not be recoverable occur during the reporting year).
Summary of principles applied to intangible assets in the Company:

	Patents and licenses	**R&D expenses**	**Computer software**
Useful lives	Unlimited. For patents and licenses used based on a fixed-term contract, the period includes an additional period over which they may be used	5 years	From 2 to 10 years
Amortization method	Assets with unlimited useful life are not amortized or revalued. Other items are amortized using the straight-line method	Straight-line method	Straight-line method
Developed internally or acquired	Acquired	Developed internally	Acquired
Impairment test	Unlimited useful life – on an annual basis and if indications of impairment exist. Other – annual impairment test	Annually (for assets which have not been commissioned yet) and when indications of impairment exist	Annual assessment whether indications of impairment exist

Gains or losses arising from derecognition of intangible assets from the balance sheet are measured at the difference between the net proceeds from sale and the carrying amount of the asset, and they are recognized in profit or loss upon derecognition.

6.2.5 Goodwill

Goodwill arising from acquisition of an entity is initially recognized at cost, being the surplus of

- the total of:
  - (i) consideration paid;
  - (ii) the amount of any non-controlling interest in the acquiree and
  - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Goodwill is tested for impairment once a year, or more often, if there is any indication of impairment. Goodwill is not amortized.

As at the date of the business combination, goodwill is allocated to each cash generating unit which may benefit from the synergy. Each unit or group of units to which goodwill has been allocated:

- corresponds to the lowest level in the Group at which goodwill is monitored for internal management purposes; and
- is not bigger that one operating segment specified in line with IFRS 8 *Operating Segments*.

An impairment loss is determined based on estimation of the recoverable amount of a cash generating unit which to which goodwill has been allocated. If the recoverable amount of the cash generating unit is lower than the carrying amount, an impairment loss in recognized. If goodwill forms part of a cash generating unit and a part of the unit operations is sold, goodwill related to the sold operations is included in its carrying amount at the time of determining gains or losses on the sale of such part. The sold goodwill is then determined based on the relative value of operations sold and the value of the retained part of the cash generating unit. A cash generating unit may not be bigger than one operating segment before aggregation.

6.2.6 Leases

The Company as the lessee

Finance leases transferring substantially all the risks and rewards of ownership of the leased asset onto the Company are recognized on the balance sheet as at the lease inception date at the lower of: the fair value of the leased fixed asset or the present value of the minimum lease payments. Lease payments are split into financial expenses and a decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Financial expenses are charged to profit or loss, unless the capitalization requirements are met.

Fixed assets used under finance lease agreements are depreciated over the shorter of: the estimated useful life of the fixed asset or the lease term.

Leases whereby the lessor retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Operating lease payments and the subsequent rent are charged to operating expenses in profit or loss using the straight-line method over the lease term.

Contingent lease payments are expensed in the period when they become due.

The Company as the lessor

Leases whereby the Company retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Initial direct expenses incurred in the course of negotiating operating leases are added to the carrying amount of the leased asset and are recognized over the lease term on the same basis as rental income. Contingent lease payments are recognized as revenue in the period when they become due.

6.2.7 Impairment of non-financial non-current assets

As at the end of each reporting period, the Company verifies whether there is any indication that its non-financial non-current assets may be impaired. If there is any indication of impairment or if an annual impairment test is necessary, the Company estimates the recoverable amount of a given asset or a cash generating unit which the asset belongs to.

The recoverable amount of an asset or a cash generating unit corresponds to the fair value less costs to sell relating to the asset or a cash generating unit, or its value in use, whichever higher. The recoverable amount is determined for individual assets, unless a given asset does not generate cash flows which are largely independent of those generated by other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognized up to a specified recoverable amount. At the time of estimation of the value in use, projected cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on assets used for purposes of continuing operations are charged to expenses which correspond to the function of the asset which has been impaired.

At the end of each reporting period, the Company verifies whether there is any indication that an impairment loss recognized for a given asset in the prior periods is redundant or whether it should be reduced. If there is such indication, the Company estimates the recoverable amount of the asset. The prior impairment loss is reversed only when the estimations used to determine the recoverable amount of the asset have changed since the recognition of the last impairment loss. Then, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount of the asset which would have been determined (less depreciation), had the Company not recognized an impairment loss on the asset before. The reversal of an impairment loss on the asset is immediately recognized as revenue in profit or loss. Upon reversal of an impairment loss, in subsequent periods depreciation of a given asset is adjusted so that during the remaining useful life of the asset its verified carrying amount reduced by the residual value can be systematically written down.

6.2.8 Borrowing costs

Borrowing costs are capitalized as part of the cost of fixed assets. Borrowing costs include interest determined using the effective interest method, financial charges under finance lease agreements as well as exchange differences relating to borrowings up to the interest expense adjustment.

6.2.9 Financial assets

Categories of financial assets:
- held-to-maturity financial assets;
- financial assets measured at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets.

Held-to-maturity financial assets are financial assets which are not derivatives, with determined or determinable payments and defined maturity, which the Company intends to and is able to hold to maturity, other than:
- designated upon initial recognition as measured at fair value through profit or loss;
- designated as available-for-sale;
- meeting the definition of loans and receivables.

Held-to-maturity financial assets are quoted instruments.
Held-to-maturity financial assets are measured at amortized cost using the effective interest method. Held-to-maturity financial assets are classified as non-current assets if their maturity exceeds 12 months of the end of the reporting period.
A financial asset measured at fair value through profit or loss has to satisfy one of the following criteria:
a) be classified as held-for-trading. Financial assets are classified as held for trading if they are:
- acquired mainly for purposes of being sold in the short term;
- part of a portfolio of identified financial instruments that are managed together and it is probable that they will generate profit in the short term;
- derivative instruments (except those forming part of hedge accounting or financial guarantee agreements);

b) be classified as such upon initial recognition in line with IAS 39.

Financial assets measured at fair value through profit or loss are measured at fair value, taking into account their market value as at the end of the reporting period, less sale transaction costs. Changes in the value of the aforesaid financial instruments are charged to profit or loss and recognized as financial revenue or expenses. For contracts with one or more embedded derivatives, the entire contract may be classified as a financial asset measured at fair value through profit or loss. This does not apply to cases where an embedded derivative does not materially affect cash flows from the contract or separation of embedded derivatives is clearly not allowed. Upon initial recognition, financial assets may be classified as measured at fair value through profit or loss if the following criteria are met: (i) such classification eliminates or significantly reduces inconsistency of treatment when both measurement and principles of recognizing gains or losses are subject to separate regulations; (ii) or when these assets belong to a group of financial assets managed and evaluated based on their fair value in line with a documented risk management strategy; (iii) or when the financial assets include embedded derivatives that should be recognized separately.
Loans and receivables are financial assets not classified as derivatives, with determined or determinable payments, not quoted on an active market. They are classified as current assets if their maturity does not exceed 12 months of the end of the reporting period. Loans and receivables whose maturity exceeds 12 months of the end of the reporting period are classified as non-current assets.
If no stock market prices are available on an active market and the fair value may not be estimated reliably using alternative methods, available-for-sale financial assets are measured at cost adjusted by impairment losses. Positive and negative differences between the fair value of available-for-sale assets (if a market price set on an active market is available or the fair value may be estimated reliably otherwise) and cost, less deferred tax, are recognized in other comprehensive income. Any reductions in the value of available-for-sale assets resulting from impairment are charged to financial expenses.

Acquisition and sale of financial assets are recognized as at the transaction date. Upon initial recognition, a financial asset is measured at fair value increased, for assets not classified as measured at fair value through profit or loss, by transaction costs directly attributable to the acquisition.
A financial asset is derecognized when the Company loses control over the contractual rights contained in the instrument; usually when the instrument is sold or when all cash flows attributable to the instrument are transferred onto an independent third party.

6.2.10 Impairment of financial assets

As at the end of each reporting period, the Company verifies whether there is any objective indication that financial assets or a group of financial assets may be impaired.

6.2.11 Assets measured at amortized cost

If there is any objective indication that a loss has been incurred due to impairment of loans and receivables measured at amortized cost, the impairment loss is equal to the difference between the carrying amount of the financial asset and the present value of projected future cash flows (excluding future losses due to bad debts, which have not been incurred yet), discounted using the original (i.e. determined upon initial recognition) effective interest rate. The carrying amount of an asset is reduced through recognition of an impairment loss. The loss is charged to profit or loss.
The Company first verifies whether there is any objective indication of impairment of individual financial assets which individually are material as well as those which individually are not material. If the verification shows that there is no objective indication that an individually reviewed financial asset may be impaired, whether it is material or not, the Company includes the asset in a group of financial assets with a similar credit risk and jointly determines their impairment. Assets which are individually tested for impairment and for which an impairment loss has been recognized or it has been determined that the previous one will not change, are not included in the general test of a group of assets for impairment.
If the impairment loss decreased in the subsequent period and the decrease can be objectively related to an event taking place after the loss has been recognized, the prior impairment loss is reversed. The subsequent reversal of an impairment loss is charged to profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost as at the date of reversal.

6.2.12 Financial assets measured at cost

If there is any objective indication of impairment of an unquoted equity instrument which is not measured at fair value as its fair value cannot be estimated reliably, or of a derivative instrument which is linked with and has to be settled by delivery of such an unquoted equity instrument, the impairment loss is determined as the difference between the carrying amount of a financial asset and the present value of projected future cash flows discounted using the current market rate of return for similar financial assets.

6.2.13 Available-for-sale financial assets

If there is any objective indication that an available-for-sale financial asset may be impaired, the difference between the cost of the asset (less any repayment of the principal and amortization) and its present fair value, less any impairment losses previously charged to profit or loss, is derecognized from equity and reclassified to profit or loss. Reversal of impairment losses on equity instruments classified as available for sale cannot be charged to profit or loss. If, in the subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively linked to an event occurring after the impairment loss was charged to profit or loss, the amount of the reversed impairment loss is charged to profit or loss.

6.2.14 Embedded derivative instruments

Embedded derivative instruments are separated from the contracts and treated as derivatives if all of the following conditions are satisfied:

– the economic characteristics and risk of the embedded derivative are not closely related to the economic characteristics and risk of the host contract; and
– a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
– a hybrid (combined) instrument is not measured at fair value, with changes in fair value not recognized in profit or loss.

Embedded derivatives are presented in a similar manner to separate derivatives which are not designated as hedging instruments.
The extent to which, in accordance with IAS 39, the economic characteristics and risk of an embedded foreign currency derivative are closely related to the economic characteristics and risk of the host contract also comprises situations where the currency of the host contract is a currency typical of purchase or sales contracts involving non-financial items on a specific transaction market.
The Company verifies whether a given embedded derivative should be separated or not upon its initial recognition.

6.2.15 Derivative financial instruments and hedges

Derivatives used by the Company for purposes of hedging risks related to changes in interest rates and foreign exchange rates are mainly FX forwards and interest rate swaps. Such derivatives are measured at fair value. Derivatives are presented as assets if their value is positive or as liabilities if their value if negative.
Any gains and losses resulting from changes in the fair value of derivatives which do not qualify for hedge accounting are directly charged to net profit or loss for the financial year.
The fair value of FX forwards is measured by reference to the current forward rates applied to contracts with similar maturity. The fair value of interest rate swaps is determined by reference to the market value of similar instruments.
In hedge accounting, hedges are classified as:

– fair value hedges, hedging the exposure to changes in the fair value of an asset or liability; or
– cash flow hedges, hedging the exposure to changes in cash flows that are attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or
– hedges of the net investment in a foreign operation.

Foreign currency hedges related to a firm commitment are accounted for as cash flow hedges.
At the inception of the hedge, the Company formally designates and documents the hedging relationship, the risk management objective and the hedging strategy. That said documentation should include identification of the hedging instrument, the hedged item or transaction, the nature of risk hedged and the method of assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item or cash flows related to the hedged risk. The hedge is expected to be highly effective in offsetting changes in the fair value or cash flows. The effectiveness of the hedge is assessed on an ongoing basis to determine if the hedge has been highly effective in all reporting periods for which it had been established.

6.2.16 Fair value hedges

Fair value hedges are hedges of the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment, or their identified portion that are attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted by gains and/or losses due to changes in the fair value resulting from the hedged risk. The hedging instrument is measured at fair value and any gains and losses related to the hedging instrument and the hedged item are charged to profit or loss.
When an unrecognized firm commitment is designated as the hedged item, the subsequent cumulative changes in the fair value of the firm commitment resulting from the hedged risk are recognized as an asset or liability, while the resulting gains or losses are recognized in profit or loss. Changes in the fair value of the hedging instrument are also recognized in profit or loss.
The Company no longer applies hedge accounting if the hedging instrument expires, is sold, terminated or exercised, if the hedging relationship no longer meets the criteria of hedge accounting or if the hedging relationship is cancelled. Any adjustment to the carrying amount of the hedged financial instrument for which the effective interest method is used is amortized and the resulting charges are recognized in profit or loss. Amortization may be recognized as soon as the adjustment is made, but no later than when the hedged item ceases to be adjusted by changes in its fair value resulting from the hedged risk.

6.2.17 Cash flow hedges

Cash flow hedges are hedges of the exposure to changes in cash flows that are attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. A portion of gains or losses related to the hedging instrument that

is an effective hedge is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.
If a hedged forecast transaction subsequently results in recognition of a financial asset or liability, the related gains or losses that were recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the same period or in periods during which the asset acquired or liability assumed affects profit or loss.
If a hedged forecast transaction subsequently results in recognition of a non-financial asset or liability, or a forecast transaction involving a non-financial asset or liability becomes a firm commitment for which a fair value hedge is planned to be used, the gains or losses recognized previously in other comprehensive income are reclassified from equity to profit or loss in the same period or in periods during which the non-financial asset acquired or liability assumed affects profit or loss.
Gains or losses resulting from changes in the fair value of derivatives which do not qualify for hedge accounting are charged directly to net profit or loss for the current period.
The Company no longer applies hedge accounting if the hedging instrument expires, is sold, terminated or exercised, or if it no longer meets the criteria for application of special hedge accounting principles. In such a case, the total gain or loss on a hedging instrument, which was initially recognized in other comprehensive income and accumulated in equity, is still recognized in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the total net gain or loss accumulated in equity is charged to net profit or loss for the period.

6.2.18 Hedges of shares in the net assets of foreign operations

Hedges of shares in the net assets of foreign operations, including those of monetary items treated as a share in the net assets, are recognized in accordance with the same principles as cash flow hedges. Any gains or losses on a hedging instrument related to the effective portion of the hedge are recognized in comprehensive income, while those related to the ineffective portion of the hedge are recognized in profit or loss. Upon disposal of a foreign operation, the gains or losses recognized before in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

6.2.19 Inventories

Inventories are measured at the lower of: cost and the net realizable value.
The costs incurred to bring inventory items to their present location and condition – both with respect to the current and prior year – are recognized as follows:

Materials	at cost, using the FIFO method;
Finished products and work in progress	at the cost of direct materials and labor plus a mark-up of indirect production costs determined based on a standard use of the production capacity, less borrowing costs;
Goods	at cost, using the FIFO method.

The net realizable value is the estimated realizable selling price in the ordinary course of business less the costs of completion and the estimated costs necessary to make the sale.

6.2.20 Trade and other receivables

Trade receivables are recognized at the initially billed amounts, less impairment losses on doubtful debts. An impairment loss on receivables is estimated when collection of the full amount due becomes unlikely.
Where the effect of the time value of money is material, the amount due is determined by discounting projected future cash flows to their present value using a rate that reflects current market assessments of the time value of money. If the discounting method has been applied, increases in the value of receivables due to the passage of time are recognized as financial revenue.
Other receivables include in particular advance payments related to future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented considering the nature of assets they concern, as current or non-current assets, respectively. As non-monetary assets, advance payments are not discounted.
Receivables from the state treasury are presented as other non-financial assets, except for CIT receivables, which are a separate item on the balance sheet.

6.2.21 Cash and cash equivalents

Cash and short-term deposits recognized on the balance sheet include cash at bank and in hand and short-term deposits with original maturity of up to three months.
The balance of cash and cash equivalents recognized in the separate cash flow statement consists of the aforesaid cash and cash equivalent items.

6.2.22 Credit facilities, loans and debt securities

Upon initial recognition, all bank loans, credit facilities and debt securities are recognized at fair value less costs incurred to obtain the loan or credit facility.
Following initial recognition, interest-bearing loans, credit facilities and debt securities are measured at amortized cost using the effective interest method.
When determining the amortized cost, costs incurred to obtain the loan or credit facility as well as discounts or premiums related to the liability are taken into consideration.
Revenue and expenses are charged to profit or loss at the time of derecognition of the liability from the balance sheet as well as following settlement using the effective interest method.

6.2.23 Other assets

Other assets include mainly prepaid expenses, which are presented at the amount of costs already incurred and relating to the following years. They are measured at nominal value, provided that in the future they will result in an inflow of benefits to the entity. Specifically, prepayments include:
- insurance;
- subscriptions;
- prepaid rental fees.

6.2.24 Trade and other liabilities

Current trade liabilities are recognized at the amount due.
Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities and those initially classified as measured at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for purposes of being sold in the near future. Derivatives, including separated embedded instruments, are also classified as held for trading, unless they are designated as effective hedging instruments. Upon initial recognition, financial liabilities may be classified as measured at fair value through profit or loss if the following criteria are met: (i) such classification eliminates or significantly reduces a treatment inconsistency where both measurement and recognition of gains or losses are subject to different regulations; or (ii) the liabilities form part of a group of financial liabilities that are managed and evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities contain embedded derivatives which should be recognized separately. As at 31 December 2013, no financial liabilities had been classified as measured at fair value through profit or loss (as compared to none as at 31 December 2012).
Financial liabilities measured at fair value through profit or loss are measured at fair value, considering their market value as at the end of the reporting period, less transaction costs. Any changes in the fair value of such instruments are charged to profit or loss as financial expenses or revenue.
Other financial liabilities, not classified as financial instruments measured at fair value through profit or loss, are measured at amortized cost using the effective interest method.
The Company derecognizes a financial liability from its balance sheet upon its expiry, i.e. when the obligation set out in the contract has been fulfilled, cancelled or has expired. Replacement of an existing debt instrument with an instrument with substantially different terms by the same entities is recognized as expiry of the original financial liability and recognition of the new one. Similarly, significant modification of the contractual terms of an existing financial liability is recognized as expiry of the original liability and recognition of the new one. Differences in the carrying amounts resulting from the replacement are recognized in profit or loss.
Other non-financial liabilities include in particular VAT liabilities to the tax office and liabilities arising from advance payments received to be settled through delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount due.

6.2.25 Liabilities due to employee benefits

Employee benefits are any forms of benefits offered by the Company in exchange for work performed by its employees or in relation to termination of employment contracts. Short-term employee benefits (other than those related to employment contract termination) are settled in whole within 12 months of the end of the annual reporting period during which the employees performed the related work. Post-employment benefits (other than those related to employment contract termination and short-term employee benefits) are due upon termination of employment.

Short-term employee benefits provided by the Company include:

– salaries and wages, including social security contributions;
– short-term paid leave if the absence is expected within 12 months of the end of the period when the employees performed the related work;
– profit-sharing and bonus payments due within 12 months of the end of the period when the employees performed the related work;
– non-cash benefits for current employees.

Short-term employee benefits, including payments to defined contribution plans, are recognized in the period during which the employee performed work for the entity, and for profit-sharing and bonus payments, when the following conditions were satisfied:

– the entity has a present legal or constructive obligation to make such payments as a result of past events; and
– the liability may be estimated reliably.

The Company recognizes anticipated costs of short-term employee benefits in the form of paid leave in case of accumulated paid leave (the entitlement to which is transferred to subsequent periods and which may be used in the future if they have not been fully used in the current period) and in case of non-accumulated paid leave (which involve the Company’s liability when they occur).

Post-employment benefits in the form of defined benefit plans (retirement benefits) and other long-term employee benefits (such as jubilee benefits and long-term disability benefits) are measured using the projected unit credit method from actuarial valuation performed at the end of the reporting period.

Actuarial gains and losses related to post-employment benefits are presented in other comprehensive income. Gains and losses related to other benefits paid during the term of the employment contract are charged to profit or loss of the current period.

6.2.26 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Company expects a refund of the costs for which the provision has been recognized (for example, under insurance contracts), the refund is recognized as a separate asset but only when it is virtually certain that refund will be received. Costs related to the provision are recognized in profit or loss, less any refunds.

Where the effect of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to the present value, using a rate that reflects current market assessments of the time value of money and any risk related to the liability. If a discounting method is used, an increase in the provision related to the passage of time is recognized as financial expenses.

6.2.27 Retirement and jubilee benefits

In line with the corporate compensation schemes, the Company's employees are entitled to jubilee and retirement benefits. Jubilee benefits are paid to employees after a specified number of years of service. Retirement benefits are paid once, when the employee retires. The amount of retirement and jubilee benefits depends on the number of years of service and an employee's average salary. The Company recognizes a provision for future liabilities due to retirement and jubilee benefits to allocate expenses to the periods they are related to. Pursuant to IAS 19, jubilee benefits are other long-term employee benefits, whereas retirement benefits are post-employment defined benefit plans. The present value of such liabilities is measured by an independent actuary at the end of each reporting period. Accrued liabilities are equal to discounted future payments, taking into account employee turnover, and pertain to the time until the end of the reporting period. Demographic and employee turnover data is based on historical information. Actuarial gains and losses are recognized in profit or loss.

Additionally, in line with the rules of the social benefits fund, upon retirement, the Company's employees are entitled to extra, non-obligatory benefits from the said fund. The Company recognizes a provision for future liabilities on that basis in order to allocate costs to appropriate periods.

6.2.28 Share-based payments

Executive share options are measured by the Company as at the grant date, i.e. the date when the agreed terms of the executive share option plan are accepted by the entity and the eligible employees.

The Company recognizes the costs of such payments, estimated on the basis of the fair value of executive share options during the term when employees are being vested with the related rights (when all the vesting conditions set out in the executive share option plan are satisfied). At the same time, the Company recognizes the corresponding increase in reserve capitals created for purposes of the plan.

Following satisfaction of the vesting conditions and recognition of the cost of services along with the corresponding increase in equity, the Company does not make any subsequent adjustments to total equity. This also applies to situations where executive share options the vesting conditions for which have been satisfied are not exercised. However, the Company reclassifies the amounts recognized in reserve capital to supplementary capital when the shares purchased by the eligible individuals under the Incentive Scheme are acquired and paid for.

6.2.29 Equity-settled transactions

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as at the grant date. The fair value is determined by an independent appraiser based on the binominal model. For purposes of measurement of transactions settled in equity instruments, the Company does not take into account any efficiency/performance conditions, except those related to the Company's share price ("market conditions").

The cost of equity-settled transactions is recognized along with the corresponding increase in equity over the period in which the conditions related to efficiency/performance are satisfied and which ends on the day when specified employees acquire all rights to the benefits (the "vesting date"). The accumulated cost of equity-settled transactions as at the end of each reporting period by the vesting date reflects the passage of time of acquiring the rights and the number of awards which – in the opinion of the Management Board of the Company as at that date based on the best estimates of the number of equity instruments – will be granted.

The Company does not recognize any costs related to awards the rights to which have not finally been granted, save for those where rights vesting depends on market conditions, which are treated as vested whether the market conditions have been satisfied or not, provided that all other efficiency/performance and service conditions have been met.

If the terms of granting the equity-settled awards are modified, to meet the minimum requirement the costs are recognized as if the conditions did not change. Moreover, costs related to each increase in the value of the transaction following modification, measured as at the change date, are recognized.

If the equity-settled award is cancelled, it is treated as if the rights to the award were acquired on the cancellation date, and all costs of the award which have not been accounted for are immediately recognized. However, if the cancelled award is replaced with a new award – regarded as a substitute

award on the day when it is granted, the cancelled award and the new award are treated as if they were a modification of the initial award, i.e. as described above.
The dilutive effect of options issued is considered at the time of determining earnings per share as additional dilution (see Note 19).

6.2.30 Allocation of profit to employee benefits and special funds
In line with the Polish business practice, shareholders may allocate profit for purposes of employee benefits by increasing the social fund and to other special funds. In financial statements prepared in conformity with the IFRS, profit distributed for the aforesaid purposes is classified as operating expenses of the related period.

6.2.31 Revenue
Revenue is recognized to the extent that it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of such revenue can be measured reliably. Revenue is recognized less VAT, excise duty and rebates. Other revenue recognition criteria:
The gross margin on contracts fulfilled by the Company is determined on the basis of a formalized Project Review process as the difference between the selling price and estimated total contract costs (total costs incurred and estimated by the contract completion date). Costs estimated by the contract completion date are verified during the Project Review process carried out on a monthly, quarterly, semi-annual or other basis, depending on the contract type. Costs by the contract completion date are estimated by competent teams responsible for a given area, based on expertise and experience.

6.2.32 Sales of goods and products
Revenue is recognized when substantial risks and rewards of ownership of goods and products are transferred onto the buyer and the amount of revenue can be estimated reliably.

6.2.33 Provision of services
Revenue from provision of a service in progress, as specified in the contract, delivered to a considerable degree as at the end of the reporting period (assessed by the Management Board separately for each contract) is determined at the end of the reporting period using the stage-of-completion method if the amount of revenue can be estimated reliably. The stage of completion is measured by the share of costs incurred from the contract date to the revenue measurement date in the estimated total costs of service provision or the share of work performed in the total work to be performed.
If the stage of completion of a service in progress may not be measured reliably at the end of the reporting period, revenue is measured at the amount of costs incurred in the reporting period, which may not exceed the costs that will probably be covered by the client in the future.
If the total costs related to contract fulfilment are likely to exceed the total revenue under the contract, the expected loss is recognized as an expense in the period when it was identified.
The costs of a service in progress comprise the costs incurred from the relevant contract date to the end of the reporting period. Any costs incurred before the contract date and related to the subject matter thereof are classified as assets if it is probable that they will be offset in the future with revenue received from the client. Next, they are recognized as costs of a construction service in progress.
If the costs incurred by the Company (in percentage terms) less expected losses and increased by gains recognized in profit or loss exceed the billed sales (in percentage terms), the resulting unbilled sales amount is presented on the balance sheet as receivables from measurement of long-term contracts in correspondence with revenue from sales of services.
If the billed sales (in percentage terms) exceed the costs incurred by the Company (in percentage terms) less expected losses and increased by gains recognized in profit or loss, the resulting future revenue is presented as liabilities due to measurement of long-term contracts in correspondence with revenue from sales of services.

6.2.34 Interest
Interest income is recognized as it accrues (using the effective interest method, i.e. the rate discounting future cash inflows over the estimated useful life of financial instruments) relative to the net carrying amount of the financial asset.

6.2.35 Dividends
Dividends are recognized as at the record date.

6.2.36 Rental income (operating leases)

Income from rental of investment property is recognized using the straight-line method over the rent period of active contracts.

6.2.37 Government grants

Government grants are recognized at fair value if it is reasonably certain that the grant will be obtained and all related requirements will be satisfied.
If the grant is related to a cost item, it is recognized as revenue in proportion to the costs to be offset. If the grant is related to an asset, its fair value is recognized as deferred income and then gradually transferred to profit or loss in equal annual portions over the estimated useful life of the related asset.

6.2.38 Current tax

Current tax liabilities and receivables for the current and prior periods are measured at anticipated amounts due from (refundable to) the tax authorities, using tax rates and based on tax regulations in force as at the end of the reporting period.

6.2.39 Deferred tax

For financial reporting purposes, the deferred tax is recognized in line with the balance sheet liability method with respect to temporary differences between the tax value of assets and liabilities plus equity and their carrying amount presented in the financial statements as at the end of the reporting period.
The deferred tax liability is recognized in relation to all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the gross accounting profit or loss, nor the taxable profit or loss; and
- for taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, save for situations where the dates of reversal of temporary differences are controlled by the investor and it is probable that the temporary differences will not be reversed in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences, carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the above differences, assets and losses can be utilized:

- except where the deferred tax asset relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the gross accounting profit or loss nor the taxable profit or loss; and
- for deductible temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, the deferred tax asset is recognized on the balance sheet only to the extent that it is probable that the aforesaid temporary differences will be reversed in the future and it is probable that future taxable profit will be available against which the above temporary differences can be utilized.

The carrying amount of the deferred tax asset is reviewed as at the end of each reporting period and reduced to the extent that it is no longer probable that future taxable profit will be available against which the deferred tax asset can be utilized in whole or in part. An unrecognized deferred tax asset is again reviewed as at the end of each reporting period and recognized up to the amount reflecting the probability that future taxable profit will be available to recover that asset.
The deferred tax asset and liability are measured by reference to the tax rates expected to be applicable in the period when the asset is realized or the liability derecognized, assuming tax rates (and tax regulations) effective as at the end of the reporting period or those certain to be effective as at the aforementioned date as the basis.
Income tax on items which are not recognized in profit or loss is not recognized in profit or loss, either, but in other comprehensive income in relation to items recognized in other comprehensive income or directly in equity in relation to items recognized directly in equity.
The Company offsets its deferred tax asset against the deferred tax liability only if it has an enforceable legal title to offset its current tax receivables with liabilities, whereas the deferred income tax concerns the same taxpayer and the same tax authority.

(unless stated otherwise, figures in tables are in PLN '000)

6.2.40 Value Added Tax

Revenue, expenses, assets and liabilities are recognized less VAT, except for:

- situations where VAT paid at the time of purchase of assets or services is not recoverable from the tax authorities – it is recognized as a portion of the cost of the asset or as a portion of a cost item; and
- receivables and liabilities which are recognized together with VAT.

The net VAT amount recoverable from or due to the tax authorities is recognized on the balance sheet as a portion of receivables or liabilities.

6.2.41 Net earnings per share

The basic net earnings per share for each period are calculated by dividing the net profit attributable to equity holders for the period by the weighted average number of shares in the period. The diluted net earnings per share for each period are calculated by dividing the net profit attributable to equity holders for the period by the total weighted average number of ordinary shares in the period and all potential new issue shares.

6.3. Translation of foreign currency items

Foreign currency transactions are translated into the Polish zloty by reference to the exchange rate effective as at the date of the transaction.

As at the end of the reporting period, monetary assets and liabilities denominated in currencies other than the Polish zloty are translated into PLN by reference to the average exchange rate effective as at the end of the reporting period and determined for the currency by the National Bank of Poland. Exchange differences are recognized as financial revenue (expenses) or, if so required by the accounting principles (policy), capitalized in the value of assets. Non-monetary assets and liabilities recognized at historical cost in a foreign currency are recognized at the historical exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities recognized at fair value in a foreign currency are translated at the exchange rate effective as at the fair value measurement date.

The following exchange rates have been applied for the purpose of balance sheet measurement:

	31 December 2014	31 December 2013
EUR	4.2623	4.1472
UAH	0.2246	0.3706
RUB	0.0602	0.0914

6.4. Accounting policy changes

These separate financial statements have been prepared using the same principles for the current and comparative period, by adjusting the comparative period data to reflect presentation changes introduced in the financial statements for the current period.

Presentation changes concerned:

- presentation of liabilities due to employee benefits. Liabilities due to employee benefits include: salaries and wages, social security, bonuses and awards, unused annual leave, retirement and disability benefits as well as jubilee benefits. The aforesaid presentation change is aimed at separating all liabilities related to employee benefits defined under IAS 19 as one item in the financial statements;
- the balance sheet as at 31 December 2013 and 31 December 2014 presents separately receivables and liabilities due to measurement of long-term contracts. The said change was introduced with a view to facilitating identification of receivables and liabilities arising from IAS 11 measurement;
- on the balance sheet, *Prepayments* (2013) have been changed into *Other assets* (2014);
- on the balance sheet, *Non-current liabilities* (2013) have been changed into *Other liabilities* (2014);
- on the balance sheet, *Accruals* (2013) have been changed into *Deferred income* (2014).

(unless stated otherwise, figures in tables are in PLN '000)

Effect of the aforementioned changes on the balance sheet as at 31 December 2013:

	Balance as at 31 December 2013 (approved)	**Change in presentation of receivables and liabilities due to long-term contracts**	**Change in presentation of receivables and liabilities due to employee benefits**	**Reclassification of accruals**	**Balance as at 31 December 2013 (restated)**	**Balance as at 1 January 2013 (approved)**	**Change in presentation of receivables and liabilities due to long-term contracts**	**Change in presentation of receivables and liabilities due to employee benefits**	**Change in presentation of accruals**	**Balance as at 1 January 2013 (restated)**
Current assets	**1 138 649**	**–**	**–**	**–**	**1 138 649**	**854 448**	**–**	**–**	**–**	**854 448**
Trade and other receivables	679 242	(139 790)	–	–	539 452	854 448	(222 825)	–	–	631 623
Receivables from measurement of long-term contracts	–	139 790	–	–	139 790	–	222 825	–	–	222 825
Financial assets	131 909	–			131 909	–	–	–	–	–
Cash	319 430	–	–	–	319 430	–	–	–	–	–
Other assets	8 068	–			8 068	–	–	–	–	–
Non-current liabilities	**–**	**–**	**5 675**	**–**	**5 675**	**317 265**	**–**	**–**	**–**	**317 265**
Non-current liabilities due to employee benefits	–	–	5 675	–	5 675	–	–	–	–	–
Other liabilities	–	–	–	–		315 509	–	–	1 756	317 265
Accruals	–	–	–	–		1 756	–	–	(1 756)	–
Provisions	41 390	–	(5 675)	–	35 715	–	–	–	–	–
Current liabilities	**1 375 849**	**–**	**–**	**–**	**1 375 849**	**1 473 388**	**–**	**–**	**–**	**1 473 388**
Liabilities due to employee benefits	–	–	67 752	–	67 752	–	–	51 044	–	51 044
Short-term bonds	126 890	–	–	–	126 890	–	–	–	–	–
Trade and other liabilities	1 094 611	(454 139)	(67 752)	22 310	595 030	1 251 764	(101 625)	–	–	1 150 139
Liabilities from measurement of long-term contracts	–	454 139	–	–	454 139	–	101 625	–	–	101 625
Provisions	133 639	–	–	(4 439)	129 200	221 624	–	(51 044)	–	170 580
Deferred income	20 709	–	–	(17 871)	2 838	–	–	–	–	–

In 2014, the Management Board of the Company decided to change the accounting principles (policy) applicable to measurement of its investments in subsidiaries (shares), which used to be presented at historical cost, taking into account impairment losses in line with IAS 27. Effective from 1 January 2014, the aforementioned asset group has been measured at fair value in conformity with IAS 39. The aforesaid change in the accounting principles (policy) resulted from ongoing reorganization of the Group, which will involve sales of shares in subsidiaries. The Management Board of the Company is of the opinion that the new measurement model enables it to reflect the present measurement of investments in subsidiaries more accurately and reliably.

Following modification of its accounting policy, the Company analyzed the class of its investments and remeasured selected investments the fair value of which could be estimated reliably as at 31 December 2014.

IFRS 13 *Fair Value Measurement* introduced three hierarchy levels for the input data used for fair value measurement:

– Level 1 input data – unadjusted prices quoted on active markets which the entity may access at the measurement date;
– Level 2 input data – prices other than those used at Level 1, which are observable directly or indirectly for specific assets or liabilities and thus may be adjusted depending on factors specific for particular items;
– Level 3 input data – unobservable input data which reflects the assumptions that would be made by market participants to determine the price (including those related to risks).

The table below presents the value of shares in PLN '000 as at 31 December 2014, broken down by fair value measurement input data hierarchy levels:

	Level 1	Level 2	Level 3
Shares in subsidiaries	-	-	166 009

An analysis of shares held, conducted by the Company in line with IFRS 13, indicated that in the absence of reliable data, the historical cost was used as the fair value, which is in conformity with IAS 39. The aforesaid investments were classified as Level 3.
While measuring the fair value, the Company may not use Level 1 as it held no investments with an active market as at 31 December 2014.
During the year, the effects of the changes in the accounting policy and the related revaluation were charged to the revaluation reserve (measurement and sale of Torpol and ETSiL).
Under IAS 8, changes in the accounting policy should be introduced retrospectively. However, as the Company is unable to measure the fair value reliably as at the comparative dates, i.e. 1 January 2013, 31 December 2013 and 31 December 2014, the changes were not introduced to prior years and the retrospective approach was not adopted in line with IAS 8.25.

The table below presents a comparison of the book value and the fair value and the effect of the change in the measurement principles applicable to a selected group of financial assets:

value in PLN '000

Balance as at 1 January 2014 Book value of investments in subsidiaries	145 617
Impairment losses recognized in profit or loss (derecognition)	(15 730)
Purchase of shares (Polimex Energetyka Sp. z o.o., Naftoremont- Naftobudowa Sp. z o.o.)	80 000
Sale of shares (Torpol, ETSiL)	(132 581)
Investments sold recognized as financial revenue	93 024
Derecognition of surety cost capitalized in the value of shares due to a change in the share measurement model	(4 321)
Balance as at 31 December 2014. Fair value of investments in subsidiaries	**166 009**

Presentation of shares in subsidiaries on the balance sheet:

Non-current financial assets	153 347
Assets held for sale	12 662

7. Material values based on assumptions and estimates

7.1. Professional judgment

The following issues were largely influenced by the professional judgment of the management in addition to accounting estimates in application of the accounting policy:

Classification of leases

The Company is a party to lease agreements classified either as operating or finance leases. For purposes of classification, the Company determined whether the agreement transferred substantially all the risks and rewards of ownership of the asset onto the lessee.

Identification of embedded derivative instruments

As at the date of the contract, the Management Board of the Company verifies whether the economic characteristics and risks of the host contract and the embedded derivative in a foreign currency are not closely related.

Classification of financial assets

At the end of each reporting period, the Company verifies whether its financial assets are held-to-maturity investments.

7.2. Uncertainty of estimates

Presented below are the key assumptions concerning the future as well as other major sources of uncertainty identified at the end of the reporting period, which involve a substantial risk of considerable adjustment to the carrying amounts of assets, equity and liabilities in the following financial year.

Impairment of assets

The Company tests its fixed assets for impairment if any indications of impairment of such assets exist. It requires estimating the value in use of a cash generating unit which the fixed assets form part of. The value in use is estimated by determining future cash flows generated by the cash generating unit, which also requires determination of the discount rate for calculation of the present value of such cash flows.

Measurement of provisions for employee benefits – Note 36

Provisions for employee benefits are estimated using actuarial methods.

Deferred tax asset – Note 16

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

Fair value of financial instruments
The fair value of financial instruments for which no active market exists is determined using appropriate measurement methods. While selecting appropriate methods and assumptions, the Company relies on its professional judgment.

Recognition of revenue – Note 12.1
The Company applies the percentage stage-of-completion method while accounting for long-term contracts. Its application requires estimating the proportion of works completed to all the services to be provided. Based on revised contract budgets and the stage of completion of construction contracts, the Company recognizes the effects of changes in estimates in the next period profit or loss. Should the stage of completion determined in this manner be 1% higher, the revenue would increase by PLN 71,353,000.00 and expenses by PLN 82,239,000.00.

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

Provision for expected losses on construction contracts
At the end of each reporting period, the Company verifies its estimates of total revenue and expenses under contracts in progress. The total expected loss on a contract is expensed in the period when it is recognized, in accordance with IAS 11.

Provisions for court cases – Note 34
Provisions for the effects of pending court proceedings are recognized when action has been brought against the entity and the probability that the verdict will be adverse for the entity is higher than the probability that it will be favorable. The probability is estimated considering the course of the court proceedings and legal opinions. The provisions are charged to other operating expenses.
Provision for warranty repairs
Provisions for warranty repairs are recognized in the course of contract fulfilment, in proportion to sales revenue. The amount of such provisions depends on the type of construction services provided and it represents a specific percentage of sales revenue under the contract. However, the value of provisions for warranty repairs may be subject to a case-by-case analysis (also considering the opinion of the project manager) and it may be increased or reduced if appropriate. Provisions are derecognized within the first 3-5 years following investment project completion, in proportion to the actual costs of repairs.

Impairment loss on redundant materials – Note 23
Impairment loss on receivables – Note 24
At the end of each reporting period, the Company reviews the impairment loss on redundant materials considering the number of days on stock and their potential use in the future and the impairment loss on receivables considering the past due period.

8. Adjustment of error

No errors were adjusted in the reporting period.

(unless stated otherwise, figures in tables are in PLN '000)

9. Investments of the Company

The Group consists of Polimex-Mostostal S.A. and the following subsidiaries:

No.	Entity	Registered office	Scope of business	Company's percentage interest in capital 31 December 2014 (%)	31 December 2013 (%)
	Subsidiaries				
1	Polimex GmbH (*)	Ratingen - Germany	Technical services and supplies provided in the capacity of an agent	100.00	100.00
2	Polimex Projekt Opole Sp. z o.o. (*)	Warsaw	Construction works, sales, consulting and advisory services	100.00	100.00
3	Naf Industriemontage GmbH (***)	Berlin	Construction and assembly services	100.00	100.00
4	Polimex Energetyka Sp. z o.o. (*)	Warsaw	Construction works	100.00	100.00
5	Sinopol Trade Center Sp. z o.o. (***)	Płock	Wholesale trade	50.00	50.00
6	Modułowe Systemy Specjalistyczne in liquidation Sp. z o.o. (***)	Płock	Metal structure manufacturing	100.00	100.00
7	Stalfa Sp. z o.o.(*)	Sokołów Podlaski	Metal product manufacturing	100.00	100.00
8	Polimex-Mostostal ZUT Sp. z o.o. (*)	Siedlce	Technical services	100.00	100.00
9	Polimex-Mostostal Ukraine SAZ (*)	Kiev	Housing construction	100.00	100.00
10	Czerwonograd ZKM (*)	Chervonohrad, Ukraine	Metal structure manufacturing	99.61	99.61
11	Polimex-Hotele Sp. z o.o. (*)	Warsaw	Housing construction	100.00	100.00
12	Naftoremont – Naftobudowa Sp. z o.o. (*)	Warsaw	Construction works	100.00	100.00
13	Torpol SA.(Capital Group) (***)	Poznań	Comprehensive development of transport infrastructure	0.00	100.00
14	Polimex Venture Development Sp. z o.o. (*)	Warsaw	Property sales, administration and management	100.00	100.00
15	Energomontaż-Magyarorszag Sp. z o.o. in liquidation (***)	Budapest	Construction and assembly works, services, sales	100.00	100.00
16	Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o.(***)	Warsaw	R&D	-	99.96
17	Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (***)	Gliwice	Construction, urban and technological design	99.57	99.57
18	Zakład Budowlano – Instalacyjny Turbud Sp. z o.o. in liquidation (***)	Płock	Housing and industrial construction, repairs	-	100.00
19	Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.(***) in liquidation bankruptcy	Zielona Góra	Construction and design of overhead power lines and transformer stations	100.00	100.00

(unless stated otherwise, figures in tables are in PLN '000)

20	Polimex Engineering Sp. z o.o. (*)	Kraków	Construction design	100.00	100.00
21	S.C. Coifer Impex SRL in liquidation (***)	Romania	Steel structure manufacturing	100.00	100.00
22	WBP Zabrze Sp. z o.o.(*)	Zabrze	Design	99.97	99.97
23	PRInż – 1 Sp. z o.o.(*)	Sosnowiec	Road construction	95.46	91.06
24	Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.(*)	Bielsko Biała	Services including water and sewage treatment, technical and economic analyses concerning improvement of existing or construction of new facilities	100.00	100.00
25	Polimex-Mostostal Wschód Sp. z o.o. (*)	Moscow, Russia	Specialized and general construction	100.00	100.00
26	Grande Meccanica SpA (*)	Narni, Italy	Manufacturing, construction	100.00	100.00
27	Mostostal Siedlce Sp. z o.o. (***)	Siedlce	Production	100.00	100.00
28	Polimex Projekt Kozienice Sp. z o.o. (***)	Warsaw	Construction works, sales, consulting and advisory services	100.00	100.00
	Associates				
29	Polimex - Sices Polska Sp. z o.o. (**) in liquidation	Warsaw	Assembly works	-	50.00
30	Energomontaż – Północ Bełchatów Sp. z o.o.(**) (Capital Group)	Bełchatów	Specialized construction and assembly services	32.82	32.82

* consolidated using the full method

** recognized using the equity method

*** not consolidated (sale, liquidation, bankruptcy proceedings, loss of control, immaterial)

As at 31 December 2014, the Company's share in the total number of votes in its subsidiaries equaled to its interest in the equity of those entities. The Company controls the subsidiaries consolidated using the full method. Such control results from the fact that the Company holds more than 99% of shares in its subsidiaries and may manage their operations.

The Company exercises significant influence on its associate, Energomontaż – Północ Bełchatów Sp. z o.o., where it holds more than 30% of shares and may appoint one member of the Supervisory Board.

Changes in the composition of the Group in 2014:

- sale of all shares held in Torpol S.A. On 1 July 2014, the Management Board of the Company adopted Resolution No. 73/14 regarding public subscription for shares in Torpol S.A., its subsidiary. Pursuant to the Resolution, the total of 15,570,000 (fifteen million five hundred and seventy thousand) A series shares were allocated in accordance with the A series share allocation principles laid down in the prospectus of Torpol S.A. approved by the Polish Financial Supervision Authority on 13 June 2014. The transaction was settled in July 2014;
- sale of all shares held in Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o. On 22 July 2014, a share sale agreement was concluded by the Company and Inspecta Holding Polska Sp. z o.o. with its registered office in Warsaw, whereby 4,861 shares in the share capital of Energomontaż – Północ – Technika Spawalnicza i Laboratorium Sp. z o.o. with its registered office in Warsaw, accounting for 100% of its share capital, were sold. The selling price was PLN 8,021,000.00;
- liquidation of Zakład Budowlano – Instalacyjny Turbud Sp. z o.o. in liquidation on 30 June 2014 and Polimex - Sices Polska Sp. z o.o. in liquidation on 30 October 2014 (dates of liquidation reports).

10. Operating segments

For management purposes, the Company’s operations have been divided into segments based on the products manufactured and services delivered. Operating segments for reporting purposes:

Production	Production and supplies of steel structures, grids, cabinet systems, pallets and road barriers. Services involving anti-corrosion and hot-dip zinc coating of steel structures, Duplex system, hydraulic painting.
Industry	Construction and assembly services. General contractor services related to facilities in the construction sector (including property development services). Large industrial and general construction facilities. Installation of steel structures, specialist equipment, rooms and special-purpose structures.
Power engineering	Services related to the power industry. General contractor services related to facilities in the power industry; design, manufacture and sale of power boilers; ongoing comprehensive technical services provided to power stations, heat and power stations and industrial plants.
Petrochemistry	General contractor services related to facilities in the chemical sector. Installation of process equipment in the chemical and petrochemical sector, prefabrication and installation of steel structures, technology pipelines, storage tanks and other pipelines; prefabrication and installation of furnaces for the refinery sector. Green projects. Clients include chemical plants, refineries, petrochemical and gas industry entities.
Infrastructure construction	General contractor services related to facilities in the road construction sector. The key client is the Directorate General for National Roads and Motorways.
Other	Equipment, transport, lease and rental services, laboratory tests, equipment technical service and other services which are not provided in the aforesaid segments.

The operating performance of each segment is monitored by the Management Board for purposes of allocating resources, evaluating the effects of such allocation and performance. The Company’s funding (including financial revenue and expenses) and income tax are monitored at the Company level and not allocated to the segments.

The prices used in intersegment transactions are set on arm’s length basis, similarly to those used in transactions with third parties.

The tables below present revenue and profit of each operating segment for the year ended 31 December 2014 and 31 December 2013. The Management Board of the Company monitors each segment’s performance on an ongoing basis. Since 1 January 2014, due to a change in the organizational structure of the entity, segment assets and liabilities have not been evaluated on an ongoing basis. Therefore, in line with IFRS 8.23, the tables below do not present assets and liabilities by segments.

The Company allocates general and administrative expenses to the segments based on a revenue ratio.

(unless stated otherwise, figures in tables are in PLN '000)

For the period from 01.01.2014 to 31.12.2014	Production (discontinued operations)	Industry	Power engineering	Petrochemistry	Infrastructure construction	Other	Eliminations	Total operations
Revenue								
Sales to external customers	306 063	124 461	937 667	106 979	221 333	6 456		1 702 959
Intersegment sales	103 146	419	141	10 942	–	20	(114 668)	–
Total segment revenue	409 209	124 880	937 808	117 921	221 333	6 476	(114 668)	1 702 959
Performance								
Amortization/depreciation, including:	22 418	907	3 531	3 181	475	9 781	–	40 293
- depreciation of property, plant and equipment	21 280	665	2 984	2 857	386	9 029	–	37 201
- amortization of intangible assets	1 138	242	547	324	89	752	–	3 092
Segment profit/loss	(30 677)	(49 206)	(92 215)	(59 751)	(182 645)	(1 552)	280 538	(135 508)

Eliminations of PLN 114,668,000.00 concern revenue from intersegment transactions, which is eliminated at the time of data consolidation.

Operating profit does not include financial revenue of PLN 389,504,000.00 and financial expenses of PLN 108,966,000.00 (net balance of financial transactions: PLN 280,538,000.00). Capital expenditure corresponds to the increase in property, plant and equipment, intangible assets as well as investment property.

For the period from 01.01.2014 to 31.12.2014	Production (discontinued operations)	Industry	Power engineering	Petrochemistry	Infrastructure construction	Other	Total operations
Other segment information							
Capital expenditure	4 408	–	5 423	–	–	226	10 057
- on property, plant and equipment	4 408	–	5 400	–	–	199	10 007
- on intangible assets	–	–	23	–	–	27	50

(unless stated otherwise, figures in tables are in PLN '000)

For the period from 01.01.2013 to 31.12.2013	Production (discontinued operations)	Industry	Power engineering	Petrochemistry	Infrastructure construction	Other	Eliminations	Total operations
Revenue								
Sales to external customers	378 342	213 610	553 389	151 269	357 934	27 907	–	1 682 451
Intersegment sales	51 907	3 872	14 472	16 321	–	708	(87 280)	–
Total segment revenue	430 249	217 482	567 861	167 590	357 934	28 615	(87 280)	1 682 451
Performance								
Amortization/depreciation, including:	20 222	2 894	5 976	6 996	4 187	8 660	–	48 935
- depreciation of property, plant and equipment	19 242	2 564	5 316	6 593	3 939	7 865	–	45 519
- amortization of intangible assets	980	330	660	403	248	795	–	3 416
Segment profit/loss	(27 092)	(50 026)	(61 768)	(37 193)	18 621	4 964	(8 273)	(160 767)

Revenue from intersegment transactions is eliminated upon consolidation. Operating profit does not include financial revenue of PLN 111,145,000.00 and financial expenses of PLN 119,418,000.00. Capital expenditure corresponds to the increase in property, plant and equipment, intangible assets as well as investment property.

For the period from 01.01.2013 to 31.12.2013	Production (discontinued operations)	Industry	Power engineering	Petrochemistry	Infrastructure construction	Other	Total operations
Other segment information							
Capital expenditure	3 605	–	3 050	317	4	304	7 280
- on property, plant and equipment	2 834	–	2 935	309	–	238	6 316
- on intangible assets	771	–	115	8	4	66	964

(unless stated otherwise, figures in tables are in PLN '000)

In 2014, the Company's key suppliers were: Polimex Projekt Opole Sp. z o.o., Przedsiębiorstwo Robót Inżynieryjnych PRInż - 1 Sp. z o.o., HAMON POLSKA Sp. z o.o., Doprastav S.A. (Branch in Poland), BOBREK Sp. J., Centrala Zaopatrzenia Hutnictwa S.A., IDS-BUD S.A., Biuro Studiów, Projektów i Realizacji ENERGOPROJEKT - KATOWICE S.A., Mostostal Słupca Sp. z o.o. and INSTAL-WARSZAWA S.A. The value of purchases exceeded the threshold of 10% of the Company's total sales revenue only in transactions with Polimex Projekt Opole Sp. z o.o.
In 2014, the Company's key clients were: ENEA Wytwarzanie S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., PKN Orlen S.A., the Directorate General for National Roads and Motorways, the City of Tychy, the City of Gdańsk, the Road and Railway Service of Lower Silesia in Wrocław, Molina Sp. z o.o., Hitachi Zosen Inova AG and TOTAL RAFFINADERIJ ANTWERPEN. Sales revenue exceeded the threshold of 10% of the total sales revenue generated by Polimex-Mostostal S.A. in transactions with ENEA Wytwarzanie S.A. and PGE Górnictwo i Energetyka.

11.Geographic information

The tables below present revenue, expenditure and some assets relating to each geographic area of the Company's operations for the period from 1 January 2014 to 31 December 2014 and for the period from 1 January 2013 to 31 December 2013 or as at 31 December 2014 or 31 December 2013.

For the period from 01.01.2014 to 31.12.2014	**Domestic**	**Foreign**	**TOTAL**
Revenue			
Sales to external customers	1 422 847	280 112	1 702 959
Revenue from continuing operations	1 290 918	105 978	1 396 896
Revenue from discontinued operations	131 929	174 134	306 063
For the period from 01.01.2013 to 31.12.2013	**Domestic**	**Foreign**	**TOTAL**
Revenue			
Sales to external customers	1 249 492	432 959	1 682 451
Revenue from continuing operations	1 097 672	206 437	1 304 109
Revenue from discontinued operations	151 820	226 522	378 342

12. Revenue and expenses

12.1. Revenue from sales of goods, services and products, including rental income

	For the period from 01.01.2014 to 31.12.2014	**For the period from 01.01.2013 to 31.12.2013**
Revenue from sales of goods and products	251 750	337 600
Revenue from sales of services	1 444 478	1 335 929
Rental income	6 731	8 922
Total	**1 702 959**	**1 682 451**
including discontinued operations	306 063	378 342

Revenue and expenses under contracts

In conformity with the requirements of IAS 11, the Management Board conducts ongoing analyses and reviews of the budgets as regards contracts delivered by the Company, updating the estimates of revenue and expenses as the works progress. Budgets are updated both for contracts in progress as at 31 December 2014 and those at the warranty stage, where additional costs may be required to be incurred.

Polimex-Mostostal S.A. has been developing its business, in particular in the power engineering and petrochemistry segment, consistently and in accordance with the plan. The Company is among contractors engaged on the major projects for the conventional power industry. It joined forces with Hitachi Power Europe to extend the power plant in Kozienice (the contract value for Polimex-Mostostal is PLN 2.18 billion net) and is a member of a consortium responsible for construction of new power units for the power plant in Opole (the contract value for Polimex-Mostostal is PLN 3.92 billion net).

Material contract-related risks

In 2013, the portfolio of contracts fulfilled by Polimex-Mostostal SA included contracts for the Directorate General for National Roads and Motorways (DGNRM), concluded in conformity with the Public Procurement Law. Due to the client's (DGNRM) material default on the contracts, including dismissal of legitimate claims filed by the consortia of contractors as well as delinquencies in payment of the fees due to the contractors for works performed in and before 2013, and mainly due to a failure to provide security for payment of the fees for construction works totaling more than PLN 2 billion, as required by law, within the prescribed time limit of 45 days, the consortia with Polimex-Mostostal S.A. as a member terminated the contracts. Considering that the value of the works falling within the scope of the contracts was significant (more than PLN 2 billion), there was a considerable risk of a gradual increase in the value of such claims and of no security for payment being provided to the consortia. Additionally, the financial claims filed with DGNRM and its prolonged approval of additional costs incurred by the consortia did not guarantee that the aforesaid amounts would be received without lengthy litigation. As the measures taken to ensure receipt of security for payment of their receivables appeared to be ineffective, on 14 January 2014 the consortia submitted, in line with Article 649^3 of the Civil Code, representations on termination of the contracts concluded with DGNRM for construction of A1 motorway between Stryków and Tuszyn, A4 motorway between Rzeszów and Jarosław and S69 expressway between Bielsko-Biała and Żywiec. With a view to resolving the issue amicably, the consortia frequently requested DGNRM to remedy the breach so that the construction works could be continued. The frequent proposals to resolve the issue amicably were discussed thoroughly in the correspondence between the contractors and the client.

Pursuant to Article 649^3.1 of the Civil Code, whereby the Contractor (general contractor) of construction works may request, at any time, that the investor provides a guarantee for payment up to the potential claim related to the fees agreed in the contract as well as additional works or works necessary to fulfil the contract, approved by the investor in writing, on 29 November 2013 the consortia requested such guarantees and DGNRM had 45 days to respond to the aforesaid request. The client failed to provide the security that, according to the Management Board and legal opinions obtained, would secure the interests of the consortium (the guarantees given by DGNRM were conditional and could be revoked at any time) within the time limit prescribed by the law, i.e. 13 January 2014 (inclusive). Therefore, the consortia were forced to terminate the contracts. Once the contracts had been terminated by the consortia, DGNRM did the same and submitted representations concerning its termination of the contracts through the fault of the contractor to the contractors. Consequently, DGNRM imposed liquidated damages on each consortium for delays in performance of the aforesaid contracts, totaling ca. PLN 45 million and for contract termination through the fault of the contractor, equal to PLN 475 million.

At the same time, Polimex-Mostostal S.A. and the consortium members filed a claim against DGNRM for payment of liquidated damages totaling over PLN 475 million, exercising the right to impose liquidated damages for contract termination through the fault of the client. Having requested DGNRM to pay the amount of VAT invoices raised in relation to contract termination under Article 649^3 of the Civil Code, Polimex-Mostostal S.A. as the consortium leader filed lawsuits for payment of the aforesaid invoices with the competent business courts, in warrant-for-payment proceedings. Consequently, on 13 May 2014, the District Court of Warsaw issued a warrant for payment under the A4 Rzeszów – Jarosław contract for the benefit of Polimex-Mostostal S.A., totaling PLN 112 million, including statutory interest accrued between 4 February 2014 and the payment date, and decided on a refund of the costs of the proceedings, including attorney fees, to the Company, as well as issuing a warrant for payment under the S69 Bielsko Biała – Żywiec contract, against which DGNRM appealed within the prescribed time limit. Another warrant for payment was issued for the benefit of Polimex-Mostostal S.A. in a decision of the District Court of Warsaw of 22 September 2014 in relation to the S69 Bielsko Biała – Żywiec contract, totaling PLN 40 million, including statutory interest and the costs of the proceedings, against which DGNRM also appealed within the prescribed time limit.

Currently, as a result of the appeals filed against the aforesaid warrants for payment, the court proceedings are being conducted in line with the normal procedure.

Next, the Directorate General for National Roads and Motorways requested the banks that had issued performance bonds for the contracts for construction of A1 motorway between Stryków and Tuszyn (a claim for payment of PLN 29 million filed with Pekao SA), A4 motorway between Rzeszów and Jarosław (a claim for payment of PLN 56 million filed with Pekao SA) and S69 expressway between Bielsko-Biała and Żywiec (a claim for payment of PLN 13 million filed with PKO Bank Polski SA) to make payments under the bank guarantees. Considering legal opinions, the Management Board of Polimex – Mostostal S.A. concluded that DGNRM abused its right resulting from the performance bonds received. Additionally, DGNRM was notified that the consortia had filed applications with the court to secure their claims regarding acknowledgement of the non-existence of the rights of DGNRM to demand payments under the aforesaid guarantees in line with Article 730^1.1 of the Code of Civil Procedure. The said applications were refused by the court.

The Management Board of Polimex-Mostostal S.A. was informed by PKO Bank Polski SA that payment had been made to DGNRM under the aforesaid guarantees, while Pekao SA refused to make a payment under the aforementioned bank guarantees given as a performance bond. The reasons for the refusal have not been communicated to the Company.

On 6 May 2014, Polimex-Mostostal S.A. signed a letter of intent with DGNRM setting out the terms of settlements. The letter of intent is related to the disputes over the settlements between the Company and DGNRM resulting from the aforementioned projects, i.e.: (i) construction of A1 motorway between Stryków and Tuszyn; (ii) construction of S69 expressway between Bielsko-Biała and Żywiec; (iii) construction of A4 motorway between Rzeszów and Jarosław; and (iv) construction of A4 motorway between Szarów and Brzesko. In particular, Polimex-Mostostal and DGNRM declared: (i) the intention to cooperate with respect to settlements with the subcontractors, suppliers and service providers engaged on the aforesaid projects; (ii) the intention to enter into negotiations over amicable agreement on the amount of their counterclaims.

On 5 November 2014, Polimex-Mostostal S.A. filed a suit for payment in warrant-for-payment proceedings against DGNRM with the District Court of Warsaw. The suit concerns DGNRM's default on payment of the fees for construction works performed under a contract for construction of A4 motorway between Rzeszów and Jarosław to the consortium. The disputed value is PLN 60 million, including statutory interest accrued between 30 October 2014 and the payment date.

On 3 December 2014, the Company was served a statement of counter-claim filed by DGNRM against the consortium of Polimex-Mostostal S.A., Doprastav a.s., MSF Engenharia S.A. and MSF Polska Sp. z o.o., concerning the contract for construction of A1 motorway between Stryków and Tuszyn. The disputed value is PLN 192 million, including statutory default interest accrued between 1 November 2014 and the payment date. The counter-claim filed by DGNRM concerns payment of liquidated damages due to DGNRM's termination of the contract, including interest accrued on the aforesaid amount, liquidated damages for a failure to perform specific construction works within the agreed schedule as well as amounts due as recourse claims of DGNRM due to DGNRM's direct payment of the fees to the consortium subcontractors in line with Article 647^1.5 of the Civil Code.

The Company has questioned the reasons for filing the counter-claim in whole.

According to the Company, DGNRM's request for payment of the aforesaid amount is baseless as it was the consortium including Polimex-Mostostal S.A. and Doprastav a.s., MSF Engenharia S.A. and MSF Polska Sp. z o.o. that had terminated the contract effectively. Contract termination by DGNRM at a later date than the date of the representation submitted by the consortium was ineffective. Hence, a demand for payment under the counter-claim should be considered baseless.

(unless stated otherwise, figures in tables are in PLN '000)

As at 31 December 2014, the Management Board of Polimex-Mostostal S.A. had analyzed the risks related to termination of the contracts concluded with DGNRM and estimated the profit/loss relative to the contract objectives, taking into account the financial risk resulting from joint and several liability under the consortium contracts. The related costs recognized in Q4 2014 totaled PLN 79 million.

Additionally, on 27 January 2015, the District Court of Warsaw issued a verdict in a suit filed by the consortium composed of Polimex-Mostostal S.A., Doprastav a.s. and Metrostav a.s. on 7 May 2012 against DGNRM, refusing the consortium's claim for payment of PLN 114 million, including statutory interest, on the basis of increased fees of the contractor under the contract for construction of A4 motorway between Szarów and Brzesko due to changes made by the investor in the scope of works in the context of significant changes in the market prices of materials.

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

12.2. Other operating revenue

	For the period from 01.01.2014 to 31.12.2014	**For the period from 01.01.2013 to 31.12.2013**
Gain on disposal of property, plant and equipment	–	24 234
Gain on revaluation of investment property	3 279	–
Liabilities written off	–	657
Derecognition of provision for warranty repairs	–	6 090
Derecognition of provision for costs	7 143	–
Derecognition of provision for restructuring costs	–	16 753
Derecognition of provision for court cases	3 150	–
Accrued liquidated damages	–	12 240
Damages and penalties received	2 136	1 012
Liquidated damages received	1 115	–
Cancelled trade liabilities	3 713	–
Profit/loss on sale of an organized part of the enterprise	–	489
Grants	17	53
Tax refund from Germany	1 457	–
Refunded court fees	75	–
Other	979	2 954
Total	**23 064**	**64 482**
including discontinued operations	1 504	–

(unless stated otherwise, figures in tables are in PLN '000)

12.3. Other operating expenses

	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2013 to 31.12.2013
Recognition of provision for disputes	14 172	–
Recognition of provision for costs of liquidated damages	17 301	27 735
Recognition of provision for court cases	1 028	–
Recognition of provision for employee court cases	1 330	–
Recognition of provision for recourse claims and sureties	–	14 844
Loss on disposal of property, plant and equipment	8 568	–
Damages and penalties paid	6 439	20 903
Court fees	5 844	2 506
Donations	18	101
Value of liquidated fixed assets	136	–
Costs of amicable settlement	4 767	–
Revaluation of non-financial non-current assets	–	47 625
Liquidation of current assets	19 641	–
Inventory shortages	9	–
Impairment losses on property, plant and equipment	13 374	–
Other	6 467	8 287
Total	**99 094**	**122 001**
including discontinued operations	42 640	1 805

12.4. Financial revenue

	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2013 to 31.12.2013
Revenue from measurement of derivative instruments	–	6 601
Revenue from interest on bank deposits, loans and default interest on receivables	17 599	9 755
Default interest on receivables	435	–
Gain on disposal of financial assets	93 210	76 500
Dividend income	504	5 364
Surplus of exchange gains over exchange losses	4 917	–
Discount of sureties	–	3 266
Other	800	9 659
Total	**117 465**	**111 145**
including discontinued operations	8 135	7 198

12.5. Financial revenue from conversion of debt into shares

	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2013 to 31.12.2013
Revenue from conversion	272 039	–
Total:	**272 039**	–

On 31 July 2014, the Company's General Meeting adopted Resolution No. 5 increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 124,000,000.00, with no rights issue offered, through the issue of no less than 1 and no more than 3,100,000,000 R series ordinary bearer shares with the par value of PLN 0.04 each ("R Series Shares") through a private placement.

The Company's creditors being parties to the FDSA entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,000.00. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.

Debt was converted into the Company's shares under agreements made with the Company's creditors

(unless stated otherwise, figures in tables are in PLN ‘000)

and bond holders on a case-by-case basis. On 24 September 2014, R Series Share Purchase agreements were concluded with the bond holders and creditors of the Company. As at 23 September 2014, the receivables to be offset totaled PLN 501,125,000.00 and included, apart from loans, bonds and accrued interest, recourse claims related to guarantees. The total number of R Series Shares issued was 2,863,571,852.The increase in the Company’s share capital was registered with the National Court Register on 22 October 2014.
In compliance with IFRIC 19, R series shares issued have been measured at fair value, i.e. PLN 0.08 each, and recognized as equity. The difference between the value of financial liabilities derecognized from the balance sheet and the fair value of the equity item has been recognized in profit or loss at PLN 272,039,000.00.

12.6. Financial expenses

	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2013 to 31.12.2013
Interest on bank loans and credit facilities	22 457	33 194
Interest and fees on bonds	5 554	7 837
Interest on other liabilities	11 928	12 042
Revaluation of financial assets	21 493	61 652
Financial expenses under lease agreements	97	–
Surplus of exchange losses over exchange gains	–	188
Bank fees on guarantees and loans	184	1 899
Sureties	2 278	–
Provisions and expenses	38 348	–
Current assets written off	1 797	–
Other	4 830	2 606
Total	**108 966**	**119 418**
including discontinued operations	**13 825**	**21 297**

The major part of provisions and financial expenses concern provisions recognized for the risk related to payments under bank guarantees.

(unless stated otherwise, figures in tables are in PLN '000)

12.7. Expenses by type

	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2013 to 31.12.2013
Amortization/depreciation	40 293	48 935
Consumption of materials and energy	359 573	520 324
External services	1 084 754	1 064 351
Taxes and charges	15 524	18 176
Costs of employee benefits	341 631	497 899
Other expenses by type	193 488	28 745
- business travel	2 073	5 354
- property, personal as well as construction and assembly risk insurance	5 380	9 788
- impairment losses on receivables	173 265	6 046
- receivables measurement discount	2 691	–
- business entertainment and advertising	265	788
- penalties and damages	3 946	6 769
- other	5 868	–
Total	**2 035 263**	**2 178 430**
Items recognized as costs to sell	(15 059)	(18 778)
Items recognized as general and administrative expenses	(53 683)	(82 920)
Value of goods and materials sold	15 705	7 784
Change in products	(7 993)	(408 275)
Provisions	–	–
Cost of supplies for internal purposes	–	(513)
Cost of goods sold	**1 974 233**	**1 675 728**
including discontinued operations	269 227	374 343

12.8. Amortization/depreciation expense charged to profit or loss

	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2013 to 31.12.2013
Items recognized as cost of goods sold	**37 671**	**45 806**
Depreciation of fixed assets	35 313	43 268
Amortization of intangible assets	2 358	2 538
Items recognized as costs to sell	**1 096**	**1 039**
Depreciation of fixed assets	992	962
Amortization of intangible assets	104	77
Items recognized as general and administrative expenses	**1 526**	**2 090**
Depreciation of fixed assets	897	1 289
Amortization of intangible assets	629	801
Total depreciation of fixed assets	37 201	45 519
Total amortization of intangible assets	3 092	3 416
Total amortization/depreciation	**40 293**	**48 935**

(unless stated otherwise, figures in tables are in PLN '000)

13. Costs of employee benefits

	For the period from 01.01.2014 to 31.12.2014	**For the period from 01.01.2013 to 31.12.2013**
Salaries and wages	245 675	401 287
Costs of social security	46 790	69 729
Costs of retirement benefits	624	1 767
Jubilee benefits	10 031	1 225
Termination benefits	8 467	7 835
Compensation for reduced notice period	518	–
Appropriations to the Social Benefits Fund	4 801	7 337
Protective and work clothes	5 333	–
Employee meals, as required by the applicable regulations	4 911	7493
Healthcare services	981	–
Employee training	805	855
Restructuring provision	12 312	–
Cleaning detergents	239	–
Other expenses by type	144	371
Total	**341 631**	**497 899**
including discontinued operations	90 105	114 100

14. Income tax

Key items of the tax charge for the period of 12 months ended 31 December 2014 and 31 December 2013:

Tax charge	**For the period from 01.01.2014 to 31.12.2014**	**For the period from 01.01.2013 to 31.12.2013**
Income statement		
Current income tax	(408)	(8 879)
Current income tax charge	(408)	(8 879)
Prior year tax adjustments	0	-
Deferred income tax	19 908	8 046
Related to recognition and reversal of temporary differences	19 908	8 046
Tax charge presented in the separate income statement	19 500	(833)
Statement of comprehensive income		
Deferred income tax	5 884	(18 162)
Related to recognition and reversal of temporary differences	5 884	(18 162)
Tax charge/benefit recognized in other comprehensive income	**5 884**	**(18 162)**

(unless stated otherwise, figures in tables are in PLN '000)

15. Effective tax rate

Reconciliation of the Company's income tax on gross profit/loss before tax at the statutory tax rate with income tax determined by reference to the effective tax rate for the year ended 31 December 2014 and 31 December 2013:

Effective tax rate	**For the period from 01.01.2014 to 31.12.2014**	**For the period from 01.01.2013 to 31.12.2013**
Gross profit/(loss) before tax on continuing operations	(99 141)	(119 577)
Profit/(loss) before tax on discontinued operations	(36 367)	(41 190)
Gross profit/(loss) before tax	**(135 508)**	**(160 767)**
Tax at the statutory tax rate in Poland, i.e. 19% in 2014 (2013: 19%)	**(25 747)**	**(30 545)**
Prior year current income tax adjustments	408	0
Unrecognized tax losses	4 502	205
Use of previously unrecognized tax losses		
Tax investment credits	5 476	5 476
Non-deductible expenses*	42 283	29 100
Revenue not included in the tax base	(54 433)	(2 614)
Other	8 011	(789)
Tax at the effective rate of 14.69% for the year ended 31 December 2014 and 0.52% for the year ended 31 December 2013	(19 500)	833
Income tax (charge) recognized in profit or loss	(19 500)	833

(unless stated otherwise, figures in tables are in PLN '000)

16. Deferred income tax

	Continuing operations				Discontinued operations			
	Balance sheet		Income statement		Balance sheet		Income statement	
Deferred tax liability	**Balance as at 31.12.2014**	**Balance as at 31.12.2013**	**For the period from 01.01.2014 to 31.12.2014**	**For the period from 01.01.2013 to 31.12.2013**	**Balance as at 31.12.2014**	**Balance as at 31.12.2013**	**For the period from 01.01.2014 to 31.12.2014**	**For the period from 01.01.2013 to 31.12.2013**
Accelerated tax amortization/depreciation	11 241	5 946	5 295	(1 718)	1 380	1 518	(138)	–
Fair value measurement of fixed assets	–	19 215	(19 215)	–	–	–	–	–
Fair value measurement of investment property	–	1 459	(1 459)	319	667	31	636	–
Right of perpetual usufruct of land	–	633	(633)	322	(169)	196	(365)	–
Exchange differences	1 668	568	1 100	87	87		87	–
Measurement of long-term contracts	10 471	–	10 471	1 254	1 353	1 869	(516)	–
Leases	303	322	(19)	(208)	–	–	–	–
Other – measurement of options, discount, interest, SEZ	8 743	6 030	2 713	(10 778)	20	–	20	–
Deferred tax liability	32 426	34 173	(1 747)	(10 722)	3 338	3 614	(276)	–

(unless stated otherwise, figures in tables are in PLN '000)

Deferred tax asset								
Provision for jubilee and disability benefits	1 053	554	499	7 031	296	–	296	–
Exchange losses	–	–	–	189	–	–	–	–
Other employee benefits	505	4 850	-4 345	2 633	559	–	559	–
Impairment losses on inventories	626	3 208	-2 582	1 297	413	1 516	-1 103	–
Measurement of long-term contracts	94 545	103 671	-9 126	12 520	1 147	1 914	-767	–
Salaries, wages and social security paid in subsequent periods	1 479	4 021	-2 542	920	743	–	743	–
Impairment losses on receivables	21 616	12 983	8 633	-168	65	–	65	–
Provisions for costs	2 586	3 871	-1 285	-1 976	–	3	-3	–
Past-due liabilities	10 317	21 879	-11 562	-21 879	–	–	–	–
Differences between carrying amount and tax value of fixed assets	–	9 444	-9 444	-8 093	–	–	–	–
Fair value measurement of investments	–	4 232	-4 232	-2 611	–	–	–	–
Tax losses deductible from future taxable income	38 838	19 608	19 230	17 420	–	–	–	–
Restructuring provision	2 339	–	2 339	3 183	–	–	–	–
Other provisions	35 642	–	35 642		–	–	–	–
Other (provision for loss, unused annual leave)	11 721	9 194	2 527	-7 790	3	–	3	–
Deferred tax asset	221 267	197 515	23 752	2 676	3 226	3 433	-207	–
Impairment								
Including deferred tax recognized in other comprehensive income	5 884	-18 162						
Total deferred tax asset and liability	188 841	163 161						

Deferred tax on items directly affecting equity amounted to PLN 5,883,000.00 (vs. PLN -18,162,000.00 in 2013). As at 31 December 2014, the Company had recognized impairment losses on receivables of PLN 111,156,000.00, for which no deferred tax asset had been recognized as the probability of classification of the said impairment losses as tax-deductible expense was low.
Despite a tax loss incurred by the Company in the prior and current financial years, totaling PLN 229,928,000.00, according to the Management Board, the deferred tax asset on the balance sheet will be used almost in whole thanks to the taxable profit that will be generated in the future and effective tax planning at the Company.

Investment in the Special Economic Zone of Tarnobrzeg

On 23 July 2008, the Company obtained permit no. 171/ARP S.A./2008 to operate in the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN). On 26 February 2010, the Minister of Economy issued decision no. NR 45/IW/10 amending the terms of the aforesaid permit. The state aid available in the future may be used in whole between 1 April 2011 and 15 November 2017 provided that the terms and conditions of the said permit are satisfied and the profitability of SEZ operations reaches a specified level.
On 27 June 2011, the Company received the Issuer audit report approved on 22 June 2011 and relating to an audit conducted between 24 and 25 May 2011 by the Manager of the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN). According to the report, the terms and conditions of permit no. 171/ARP S.A./2008 of 23 July 2008, as amended, to operate in the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN), are complied with by Polimex-Mostostal S.A.
The discounted value of the tax credit to be used by Polimex-Mostostal S.A. as a result of its satisfaction of the investment condition was PLN 72 million, and the maximum (nominal) value of the credit to be used was estimated at PLN 103 million on 31 March 2011.
As the terms and conditions of the permit had formally been satisfied, the Company began to use the credit allowed as from Q2 2011. By 30 June 2013, the accrued tax credit was PLN 5.5 million (nominal value). Considering the economic slowdown, which posed a risk that the financial projections for 2013-2017 would not be realized, the organizational and financial restructuring process at the Company resulting in headcount reduction, which is one of the key terms of the permit, in line with the prudence principle, the Company decided to write down the tax asset recognized before in the amount of PLN 38.3 million as at 31 December 2012.
In August 2014, the Company received a notice of instigation of proceedings concerning revocation of permit no. 171/ARP S.A./2008 to operate in the Special Economic Zone of Tarnobrzeg (EURO-PARK WISŁOSAN).
Considering the aforesaid administrative proceedings aimed at revocation of the SEZ permit granted to the Company, the risk that a decision on permit revocation as a result of the Company's failure to satisfy its terms and conditions will be issued is considered high.
No administrative decision concerning the aforesaid proceedings had been issued by the date of these financial statements.

17. Dividends paid and proposed

In 2014 and 2013, the Company incurred a loss and did not pay any dividends.
No dividends are planned to be paid in 2015 for the financial year ended 31 December 2014.

(unless stated otherwise, figures in tables are in PLN '000)

18. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Company for the period by the weighted average number of ordinary shares in the period.
Diluted earnings per share are calculated by dividing the net profit attributable to equity holders (less interest on redeemable preference shares convertible into ordinary shares) for the period by the weighted average number of ordinary shares in the period (adjusted by the effect of dilutive options and dilutive preference shares convertible into ordinary shares).
Presented below is information on earnings and shares used as the basis for calculation of basic and diluted earnings per share (before retrospective adjustment related to R series share and New Bond issue):

	Year ended 31 December 2014		**Year ended 31 December 2013**	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Net profit/(loss)	**-79 754**	**-36 254**	**-120 410**	**-41 190**
Net loss adjustment – interest expense on New Bonds for purposes of calculation of diluted earnings	2 762	-	-	-
Net profit/(loss) after adjustment	-76 992	-36 254	-120 410	-41 190
Basic earnings/(loss) per share (PLN):				
number of shares registered as at the end of the reporting period	4 330 940 142	4 330 940 142	1 467 368 290	1 467 368 290
weighted average number of ordinary shares	2 667 714 847	2 667 714 847	1 346 765 765	1 346 765 765
basic earnings/(loss) per share	-0.03	-0.01	-0.09	-0.03
Diluted earnings/(loss) per share (PLN):				
number of shares registered as at the end of the reporting period	4 330 940 142	4 330 940 142	1 467 368 290	1 467 368 290
dilutive potential ordinary shares	2 294 130 422	2 294 130 422	273 165 435	273 165 435
weighted average number of ordinary shares	2 667 714 847	2 667 714 847	1 346 765 765	1 346 765 765
weighted average number of ordinary shares used for purposes of calculation of diluted earnings/(loss) per share	3 432 324 721	3 432 324 721	1 619 931 200	1 619 931 200
diluted earnings/(loss) per share	-0.02	-0.01	-0.07	-0.03

Potential ordinary shares include O and S series shares.

(unless stated otherwise, figures in tables are in PLN '000)

19. Property, plant and equipment

	Land and buildings	Equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
Net value as at 1 January 2014	**254 108**	**142 324**	**23 065**	**8 173**	**2 852**	**430 522**
Increase	210	6 768	–	6 759	4 263	18 000
Decrease	(14 054)	(1 380)	(714)	(494)	(6 064)	(22 706)
Revaluation	(45 141)	–	–	–	–	(45 141)
Reclassification to assets held for sale – real property	(24 739)	(11 865)	(1 025)	(122)	(60)	(37 811)
Reclassification to assets held for sale – Rudnik	(4 039)	(1 580)	(19)	(37)	–	(5 675)
Reclassification to assets held for sale – Production	(100 713)	(96 118)	(3 437)	(545)	(77)	(200 890)
Depreciation for the period	(14 988)	(15 556)	(3 723)	(2 934)	–	(37 201)
Net value as at 31 December 2014	**50 644**	**22 593**	**14 147**	**10 800**	**914**	**99 098**
As at 1 January 2014						
Gross value	326 886	322 977	61 801	38 039	3 402	753 106
Depreciation and impairment loss	(72 778)	(180 653)	(38 736)	(29 866)	(550)	(322 584)
Net value as at 1 January 2014	**254 108**	**142 324**	**23 065**	**8 173**	**2 852**	**430 522**
As at 31 December 2014						
Gross value	254 318	149 092	23 065	14 932	7 115	448 522
Reclassification to assets held for sale	(129 491)	(109 563)	(4 481)	(704)	(137)	(244 376)
Depreciation and impairment loss	(74 183)	(16 936)	(4 437)	(3 428)	(6 064)	(105 048)
Net value as at 31 December 2014	**50 644**	**22 593**	**14 147**	**10 800**	**914**	**99 098**

(unless stated otherwise, figures in tables are in PLN '000)

19. Property, plant and equipment (continued)

	Land and buildings	Equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
Net value as at 1 January 2013	**260 762**	**172 460**	**29 643**	**11 860**	**1 160**	**475 885**
Increase	552	3 210	264	598	4 302	8 926
Decrease	(7 645)	(9 660)	(1 799)	(960)	(2 610)	(22 674)
Revaluation	54 473	–	–	–	–	54 473
Reclassification	(40 541)	(28)	–	(1)	–	(40 570)
Depreciation for the period	(13 493)	(23 658)	(5 043)	(3 324)	–	(45 518)
Net value as at 31 December 2013	**254 108**	**142 324**	**23 065**	**8 173**	**2 852**	**430 522**
As at 1 January 2013						
Gross value	336 688	349 460	69 689	40 758	1 710	798 305
Depreciation and impairment loss	(75 926)	(177 000)	(40 046)	(28 898)	(550)	(322 420)
Net value as at 1 January 2013	**260 762**	**172 460**	**29 643**	**11 860**	**1 160**	**475 885**
As at 31 December 2013						
Gross value	326 886	322 977	61 801	38 039	3 402	753 105
Depreciation and impairment loss	(72 778)	(180 653)	(38 736)	(29 866)	(550)	(322 583)
Net value as at 31 December 2013	**254 108**	**142 324**	**23 065**	**8 173**	**2 852**	**430 522**

(unless stated otherwise, figures in tables are in PLN '000)

In 2014, impairment losses on property, plant and equipment were recognized following their reclassification to assets held for sale.

As at 31 December 2014, impairment losses totaled PLN 45,141,000.00 (vs. PLN 54,473,000.00 in 2013). The amount recognized in profit or loss in 2014 was PLN 27,287,000.00 and the amount recognized in the statement of comprehensive income was PLN 29,980,000.00. Impairment losses on property, plant and equipment totaling PLN 22,346,000.00 were recognized in *Other*, while impairment losses of PLN 34,922,000.00 in the *Production* segment.

As of 1 October 2013, the accounting policy was modified in the context of changes to the valuation model for a specific group of fixed assets, in accordance with IAS 16 *Property, Plant and Equipment*. In conformity with the said standard, the accounting policy was modified prospectively.

The change consists in replacement of the cost model with the revaluation model. It was introduced for the class of fixed assets designated as real property. The abovementioned class includes all real property and structures permanently attached to land (office buildings, production and repair plants). The valuation model change does not affect other fixed assets, such as machines and equipment, which are not permanently attached to the real property. The Company has obtained independent valuations performed by recognized appraisers for each real property affected by the aforesaid changes as at 23 October and 31 October 2013.

The value of the said fixed assets determined using the cost model would be PLN 187,846,000.00 as at 31 December 2014.

19.1 Liabilities under finance and buy-back lease agreements

As at 31 December 2014 and 31 December 2013, the future minimum lease payments under the said agreements and the present value of the net minimum lease payments were as follows:

	31 December 2014		**31 December 2013**	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Up to 1 year	898	872	2 174	2 093
From 1 year to 5 years	–	–	437	429
Over 5 years	–	–	–	–
Total minimum lease payments	**898**	**872**	**2 611**	**2 522**
Less financial expenses	(26)	–	(89)	–
Present value of minimum lease payments, including:	**872**	**872**	**2 522**	**2 522**
- current	872	–	2 093	–
- non-current	-	–	429	–

19.2 Investment property

	Balance as at 31 December 2014	**Balance as at 31 December 2013**
Opening balance	2 513	14 833
Gain/loss on investment property	3 279	–
Intangible assets	9	–
Reclassification to assets held for sale	(5 801)	(9 506)
Sale of investment property		(2 814)
Closing balance	–	**2 513**

(unless stated otherwise, figures in tables are in PLN '000)

20. Intangible assets

	Computer software	Goodwill	Other	Total
Net value as at 1 January 2014	**9 608**	–	**1 052**	**10 660**
Increase	50	–	–	50
Decrease	–	–	–	–
Reclassification to available-for-sale assets – *Production*	(396)	–	(860)	(1 256)
Amortization for the period	(2 775)	–	(50)	(2 825)
Production – amortization for the period	(182)	–	(85)	(267)
Net value as at 31 December 2014	**6 305**	**–**	**57**	**6 362**
As at 1 January 2014				
Gross value	33 407	–	1 419	34 826
Amortization and impairment loss	(23 799)	–	(367)	(24 166)
Net value as at 1 January 2014	**9 608**	**–**	**1 052**	**10 660**
As at 31 December 2014				
Gross value	33 152	–	1 418	34 570
Reclassification to available-for-sale assets – *Production* – gross value	(3 926)	–	(1 108)	(5 034)
Amortization and impairment loss	(26 451)	–	(501)	(26 952)
Reclassification to available-for-sale assets – *Production* – amortization	3 530	–	248	3 778
Net value as at 31 December 2014	**6 305**	**–**	**57**	**6 362**

	Computer software	Goodwill	Other	Total
Net value as at 1 January 2013	**12 902**	**–**	**273**	**13 175**
Increase	45	–	919	964
Decrease	(63)	–	–	(63)
Revaluation	–	–	–	–
Reclassification	–	–	–	–
Amortization for the period	(3 276)	–	(140)	(3 416)
Net value as at 31 December 2013	**9 608**	**–**	**1 052**	**10 660**
As at 1 January 2013				
Gross value	34 113	2 923	498	37 534
Amortization and impairment loss	(21 211)	(2 923)	(225)	(24 359)
Net value as at 1 January 2013	**12 902**	**–**	**273**	**13 175**
As at 31 December 2013				
Gross value	33 407	–	1 419	34 826
Amortization and impairment loss	(23 799)	–	(367)	(24 166)
Net value as at 31 December 2013	**9 608**	**–**	**1 052**	**10 660**

(unless stated otherwise, figures in tables are in PLN '000)

21. Financial assets

21.1. Non-current financial assets

	Balance as at 31 December 2014	Balance as at 31 December 2013
Shares	153 347	145 617
Other financial assets*	214 997	216 020
Total	**368 344**	**361 637**

* including performance bonds issued by banks in relation to contracts in progress, totaling PLN 214,969,000.00 (vs. PLN 215,746,000.00 in 2013).

In line with IAS 36, the Management Board of Polimex-Mostostal S.A. tested all the Company's investments for impairment.

The tests revealed that as at the date of these financial statements there were indications of impairment of the Company's investment in Polimex Engineering in the amount of PLN 660,000.00 and Przedsiębiorstwo Robót Inżynieryjnych PRInż – 1 Sp. z o.o. in the amount of PLN 9,316,000.00.

21.2. Current financial assets

	Balance as at 31 December 2014	Balance as at 31 December 2013
Originated loans	87	22 607
Performance bonds issued by banks in relation to contracts	–	102 701
Other (real estate option)	6 601	6 601
Total	**6 688**	**131 909**

21.3. Shares in related parties

21.3.1 Change in investments in related parties

Opening balance	**145 617**	**183 030**
increase	173 024	28 018
- share purchase	-	6
- capital increase	80 000	23 677
- fair value measurement	93 024	-
- derecognition of impairment loss		4 335
decrease	-152 632	-65 431
- impairment loss on shares	-15 730	-35 398
- measurement of sureties	-4 321	-591
- sale	-132 581	-29 442
Closing balance	**166 009**	**145 617**

The total value of investments in related parties of PLN 166,009,000.00 includes shares presented as assets held for sale in the amount of PLN 12,662,000.00.

21.3.2 Change in impairment losses on shares in related parties

Opening balance	**282 128**
recognition	-20 051
use	-
Closing balance	**302 179**

(unless stated otherwise, figures in tables are in PLN ‘000)

21.3.3 Shares in related parties

No.	Entity	Registered office	Scope of business	Cost of shares	Value adjustments (total)	Carrying amount of shares	Percentage interest in capital	Share in the total number of votes at the general meeting
	Subsidiaries							
1	Polimex GmbH (*)	Ratingen - Germany	Technical services and supplies provided in the capacity of an agent	479	-479	0	100%	100%
2	Polimex Projekt Opole Sp. z o.o. (*)	Warsaw	Construction works, sales, consulting and advisory services	8 052	0	8 052	100%	100%
3	Naf Industriemontage GmbH (***)	Berlin	Construction and assembly services	1 827	-1 827	0	100%	100%
4	Polimex Energetyka Sp. z o.o. (*)	Warsaw	Construction works	183 274	-85 309	97 965	100%	100%
7	Stalfa Sp. z o.o.(*)	Sokołów Podlaski	Metal product manufacturing	5 293	-3 862	1 431	100%	100%
8	Polimex-Mostostal ZUT Sp. z o.o. (*)	Siedlce	Technical services	1 006	-1 006	0	100%	100%
9	Polimex-Mostostal Ukraine SAZ (*)	Kiev	Housing construction	17 422	-17 421	1	100%	100%
10	Czerwonograd ZKM (*)	Chervonohrad, Ukraine	Metal structure manufacturing	8 968	-1 446	7 522	100%	100%
11	Polimex-Hotele Sp. z o.o. (*)	Warsaw	Housing construction	4 180	-3 162	1 019	100%	100%
12	Naftoremont – Naftobudowa Sp. z o.o. (*)	Warsaw	Construction works	53 518	-34 587	18 931	100%	100%
14	Polimex Venture Development Sp. z o.o. (*)	Warsaw	Property sales, administration and management	11 242	-11 090	152	100%	100%
17	Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (***)	Gliwice	Construction, urban and technological design	10 000	-10 000	0	100%	100%
19	Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.(***) in liquidation bankruptcy	Zielona Góra	Construction and design of overhead power lines and transformer stations	422	-422	0	100%	100%
20	Polimex Engineering Sp. z o.o. (*)	Kraków	Construction design	4 881	-4 147	734	100%	100%
21	S.C. Coifer Impex SRL in liquidation (***)	Romania	Steel structure manufacturing	85 448	-85 448	0	100%	100%
22	WBP Zabrze Sp. z o.o.(*)	Zabrze	Design	3 331	-3 331	0	99.97%	99.97%
23	PRInż – 1 Sp. z o.o.(*)	Sosnowiec	Road construction	34 479	-9 315	25 164	95%	91%
24	Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.(*)	Bielsko Biała	Services including water and sewage treatment, technical and economic analyses concerning improvement of existing or construction of new facilities	922	-461	461	100%	100%
25	Polimex-Mostostal Wschód Sp. z o.o. (*)	Moscow, Russia	Specialized and general construction	20	0	20	100%	100%
26	Grande Meccanica SpA (*)	Narni, Italy	Manufacturing, construction	30 892	-27 185	3 707	100%	100%
27	Mostostal Siedlce Sp. z o.o. (***)	Siedlce	Production	5	0	5	100%	100%
28	Polimex Projekt Kozienice Sp. z o.o. (***)	Warsaw	Construction works, sales, consulting and advisory services	70	-4	66	100%	100%
	Associates							
1	Energomontaż – Północ Bełchatów Sp. z o.o.(**) (Capital Group)	Bełchatów	Specialized construction and assembly services	503		503	32.82%	32.82%

(unless stated otherwise, figures in tables are in PLN ‘000)

2	Other			1 953	-1 677	275
			Total	**468 188**	**-302 179**	**166 009**

* consolidated using the full method

** recognized using the equity method

*** not consolidated (sale, liquidation, bankruptcy proceedings, loss of control, immaterial)

The total value of investments in related parties of PLN 166,009,000.00 includes shares presented as assets held of sale in the amount of PLN 12,662,000.00.

(unless stated otherwise, figures in tables are in PLN '000)

22. Non-current receivables

	Balance as at 31 December 2014	Balance as at 31 December 2013
Receivables due to performance bonds and guarantee payments	56 406	45 220
Other	568	-
Total	**56 974**	**45 220**

23. Inventories

	Balance as at 31 December 2014	Balance as at 31 December 2013
Materials	1 279	38 625
Work in progress (at cost)	–	8 904
Semi-finished products and work in progress:	–	10 782
at cost	–	10 782
Advance payments	2 027	–
Goods and finished goods	–	26
Total	**3 306**	**58 337**

The value of inventories expensed in the reporting period was PLN 285,513,000.00, while the value of impairment losses on inventories was PLN 2,163,000.00. As at the end of 2014, inventories of PLN 47,323,000.00 were reclassified to assets held for sale.

24. Trade and other receivables

	Balance as at 31 December 2014	Balance as at 31 December 2013
Trade receivables, including:	542 256	509 091
- from related parties	11 460	3 131
- from other entities	530 796	505 960
Receivables from the state treasury, including:	19 901	–
- due to VAT	19 901	–
Other receivables from third parties	3 745	30 274
Other receivables from related parties	7	87
Performance bonds given by banks	1 107	–
Receivables from employees	923	–
Total receivables (net)	**567 939**	**539 452**
Impairment losses on receivables	235 587	103 756
Total receivables (gross)	**803 526**	**643 208**

The terms of related-party transactions have been presented in Note 37. Trade receivables bear no interest and the due date is typically from 30 to 180 days.
The Company has a policy in place whereby sales transactions are made only with verified clients. According to the management, there is no credit risk other than that reflected in impairment losses on bad debts related to the Company's trade receivables.

(unless stated otherwise, figures in tables are in PLN '000)

24.1. Trade receivables (gross) with due date after the end of the reporting period

	Balance as at 31 December 2014	Balance as at 31 December 2013
Up to 1 month	360 874	312 113
Over 1 month and up to 3 months	84 615	71 478
Over 3 months and up to 6 months	18 016	18 156
Over 6 months and up to 1 year	24 165	54 449
Past due receivables	281 681	296 259
Total receivables (gross)	**769 351**	**752 455**
Impairment losses on receivables	227 096	103 574
Net receivables	**542 255**	**648 881**

24.2. Trade receivables by delinquency period

	Balance as at 31 December 2014	Balance as at 31 December 2013
Past due up to 1 month	40 370	35 276
Past due over 1 month and up to 3 months	11 856	44 057
Past due over 3 months and up to 6 months	22 408	38 939
Past due over 6 months and up to 1 year	74 929	79 248
Past due over 1 year	132 118	98 739
Total receivables (gross)	**281 681**	**296 259**
Impairment losses on receivables	219 243	89 036
Net receivables	**62 438**	**207 223**

24.3. Impairment losses on trade receivables

	Balance as at 31 December 2014	Balance as at 31 December 2013
Opening balance	103 574	97 710
Increases, due to:	155 170	70 810
- recognition of impairment losses	155 170	70 810
Decreases, due to:	31 648	64 946
- use	17 733	16 052
- payment of receivables	13 915	48 894
Closing balance of impairment losses	**227 096**	**103 574**

25. Long-term construction contracts

Contracts in progress at the end of the reporting period	Balance as at 31 December 2014	Balance as at 31 December 2013
Costs incurred plus recognized gains less losses incurred by the end of the reporting period	3 146 093	5 213 282
Less: invoices raised considering the stage of completion	(3 485 165)	(5 527 631)
	(339 072)	**(314 349)**
Recognized in the financial statements as amounts due:		
From clients under construction contracts (receivables)	55 111	139 790
To clients under construction contracts (liabilities)	(394 183)	(454 139)
	(339 072)	**(314 349)**

As at 31 December 2014, amounts retained by clients in relation to construction works totaled PLN 89.9 million (vs. PLN 70 million in 2013). Advance payments received from clients in relation to construction works amounted to PLN 435.8 million (as compared to PLN 265.5 million in 2013).

(unless stated otherwise, figures in tables are in PLN '000)

26. Cash and cash equivalents

Cash at bank bears floating-rate interest, which depends on the interest rate for o/n bank deposits. Short-term deposits may mature from one day to one month, depending on the Company's current demand for cash, and they bear interest at specified rates. The fair value of cash and cash equivalents as at 31 December 2014 was PLN 514,422.00 as compared to PLN 319,430.00 as at 31 December 2013.

	Balance as at 31 December 2014	**Balance as at 31 December 2013**
Cash in hand and at bank	509 943	314 951
Short-term deposits	4 479	4 479
Total	**514 422**	**319 430**
Restricted cash	427 174	271 396

Reconciliation of changes in balance sheet items in the reporting period with changes in the cash flow statement:

	Year ended 31 December 2014
Change in inventories as per balance sheet	**55 031**
Adjustment due to sale of an organized part of the enterprise	-
Adjustment due to reclassification of inventories to assets held for sale	-28 264
Change in inventories as per cash flow statement	**26 767**

	Year ended 31 December 2014
Change in receivables as per balance sheet	**44 438**
Adjustment due to reclassification of receivables to assets held for sale	-48 056
Adjustment by advance payments relating to long-term contracts	103 861
Change in receivables as per cash flow statement	**100 243**

	Year ended 31 December 2014
Change in other assets as per balance sheet	**7 433**
Adjustment due to reclassification of other assets to assets held for sale	1 133
Change in other assets as per cash flow statement	**8 566**

	Year ended 31 December 2014
Change in liabilities as per balance sheet	**-43 843**
Adjustment by liabilities due to investment purchases	-1 825
Adjustment by lease liabilities	1 648
Adjustment by conversion of guarantee liabilities into shares	12 804
Adjustment by reclassification of liabilities to liabilities held for sale	54 460
Change in liabilities as per cash flow statement	**23 244**

	Year ended 31 December 2014
Change in loan liabilities as per balance sheet	**-486 852**
Adjustment by accrued interest liabilities	-21 315
Adjustment of loan liabilities by debt conversion	382 059
Adjustment by reclassification of loans to liabilities held for sale	150 000
Change in loan liabilities as per cash flow statement	**23 892**

Other in operating activities of the cash flow statement for the year ended 31 December 2014 includes in particular:

(unless stated otherwise, figures in tables are in PLN '000)

- impairment losses on shares and loans or their derecognition 19,641.00;
- derecognition of impairment losses on non-current assets or their measurement 13,321.00;
- reclassification of cash to assets held for sale (15,000.00);
- other (5 705).

Change in receivables	Year ended 31 December 2013
Change in receivables as per balance sheet	155 110
Adjustment to receivables due to receivables – loan offset	-
Receivables – shares offset	90
Adjustment to receivables due to revaluation of loans	189
Adjustment to receivables due to sale of fixed assets	-
Performance bonds	48 907
Adjustment to receivables due to sale of an organized part of the enterprise	-
Adjustment to receivables due to sale of Energop (subsidiary)	2 530
Change in receivables as per cash flow statement	206 826

Change in inventories	Year ended 31 December 2013
Change in inventories as per balance sheet	102 832
Adjustment by inventories of an organized part of the enterprise	(5 500)
Inventories reclassified to assets held for sale	(19 016)
Change in inventories as per cash flow statement	78 316

Change in liabilities	Year ended 31 December 2013
Change in liabilities as per balance sheet	(252 476)
Change in lease liabilities	3 458
Adjustment by liabilities due to acquisition of fixed assets	670
Other – sureties given to subsidiaries	4 835
Advance payments relating to disposal of assets	86 960
Liabilities due to subsidiary's capital increase	(6 327)
Liabilities due to redemption of bonds	1 000
Loan interest – liabilities offset	81
Change in liabilities as per cash flow statement	(161 799)

(unless stated otherwise, figures in tables are in PLN '000)

Sale of an organized part of the enterprise

	Year ended 31 December 2013
Value of non-current assets sold	60 211
Receivables/liabilities	617
Inventories	5 500
Total cash proceeds	65 622

Other in operating activities of the cash flow statement for the year ended 31 December 2013 includes in particular:

- impairment losses on financial assets 52 957;
- measurement of property, plant and equipment 47 625;
- measurement of financial instruments 6 601;
- other (13 638)

27. Other assets

	Balance as at 31 December 2014	Balance as at 31 December 2013
Insurance	2 323	5 290
IT support costs	339	768
Subscriptions	2	20
Rental services	241	111
License fees	408	336
Acquisition costs	329	1 069
Other	54	474
Total	**3 696**	**8 068**

28. Assets held for sale

	Balance as at 31 December 2014	Balance as at 31 December 2013
Intangible assets	280	–
Property, plant and equipment	252 375	52 420
Investment property	5 801	9 506
Cash and cash equivalents	15 000	–
Inventories	47 323	19 016
Shares	12 662	–
Receivables	48 056	–
Deferred tax asset	113	–
Other assets	137	–
Assets held for sale	**381 747**	**80 942**
Credit facilities and loans	150 000	–
Other liabilities	54 653	–
Liabilities directly related to assets classified as held for sale	**204 653**	**–**

Under the Financial Debt Service Agreement of 21 December 2012, the Issuer committed to sell specific assets to obtain proceeds of not less than PLN 600 million by 31 December 2015. The assets sold include shares in subsidiaries, redundant property, organized parts of the enterprise as well as development and investment property, including selected property used for operating purposes. The table above presents financial information on sale transactions involving assets held for sale, entered into after the end of the reporting period, and planned to be sold within one year of the end of the reporting period.

As at 31 December 2014, the *Production* segment assets were presented as assets held for sale due to the planned sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce, and Rudnik. The Company's sale of an organized part of the enterprise and shares in the subsidiaries

is in conformity with the provisions of the Issuer's Financial Debt Service Agreement of 21 December 2012, including Annex No. 6 thereto, dated 30 July 2014.
The total impairment loss upon initial recognition of assets held for sale at fair value was PLN 34,922,000.00, including PLN 23,253,000.00 recognized as other expenses.

29. Equity

29.1. Share capital

Share capital (in '000 shares)	31 December 2014	31 December 2013
Ordinary A series shares	55 386	55 386
Ordinary B series shares	36 532	36 532
Ordinary C series shares	8 580	8 580
Ordinary D series shares	13 499	13 499
Ordinary E series shares	43 499	43 499
Ordinary F series shares	223 716	223 716
Ordinary G series shares	236	236
Ordinary H series shares	25 823	25 823
Ordinary I series shares	57 321	57 321
Ordinary K series shares	38 733	38 733
Ordinary L series shares	17 829	17 829
Ordinary M series shares	416 667	416 667
Ordinary N1 series shares	396 154	396 154
Ordinary P series shares	133 393	133 393
Ordinary R series shares	2 863 572	-
Total	**4 330 940**	**1 467 368**

As at 31 December 2014 and 31 December 2013, all issued shares had the par value of PLN 0.04. They had been fully paid up.

On 12 November 2013, the Extraordinary Shareholders' Meeting adopted a resolution increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 5,335,748.08, through the issue of no less than 1 and no more than 133,393,702 P series ordinary bearer shares with the par value of PLN 0.04 each ("P Series Shares"). The increase in the Company's share capital through the issue of P Series Shares was registered in the Register of Entrepreneurs of the National Court Register on 19 December 2013.

On 31 July 2014, the Company's General Meeting adopted Resolution No. 5 increasing the Company's share capital by no less than PLN 0.04 and no more than PLN 124,000,000.00, with no rights issue offered, through the issue of no less than 1 and no more than 3,100,000,000 R series ordinary bearer shares with the par value of PLN 0.04 each, through a private placement.

The Company's creditors being parties to the FDSA entered into agreements with the Company whereby the total of 2,863,571,852 R series shares issued by the Company would be purchased at the total issue price of PLN 501,125,000.00. The issue price of R series shares was paid by the creditors through a setoff of the creditors' receivables from the Company against the amounts due to the Company on the basis of payment of the issue price for R series shares.
Debt was converted into the Company's shares under agreements made with the Company's creditors and bond holders on a case-by-case basis. On 24 September 2014, R Series Share Purchase agreements were concluded with the bond holders and creditors of the Company. As at 23 September 2014, the receivables to be offset totaled PLN 501,125,000.00 and included, apart from loans, bonds and accrued interest, recourse claims related to guarantees. The total number of R Series Shares issued was 2,863,571,852.
The costs of issue of R Series Shares, totaling PLN 1,469,000.00, were recognized as a decrease in the share premium.

Following registration of the share capital increase, as at the date of the current report, the Company's share capital amounted to PLN **173,237,605.68** and was divided into 4,330,940,142 shares with the par value of PLN 0.04 each, with 4,330,940,142 voting rights to be exercised at the Company's General

Meeting attached. The increase in the share capital through the issue of R Series Shares was registered in the Register of Entrepreneurs of the National Court Register on 22 October 2014.

On 17 March 2015, the Management Board of the Warsaw Stock Exchange adopted a resolution on admission of R series ordinary bearer shares and their introduction to trading on the main market of the Warsaw Stock Exchange. At the Company's request, 2,863,571,852 R series ordinary bearer shares with the par value of PLN 0.04 each were admitted to trading on the main market.

The Management Board of the Warsaw Stock Exchange decided to introduce the shares to trading on the main market as of 20 March 2015 in line with the ordinary procedure, subject to their registration by the National Depository for Securities on 20 March 2015.

On 18 March 2015, the National Depository for Securities announced that the aforesaid shares would be registered in the depository.

The shares were registered by the National Depository for Securities on 20 March 2015.

29.1.1 Shareholders' rights

One voting right that may be exercised at the General Meeting is attached to each share. Each series have the same preference as to dividends and return on equity. According to information published as stock market communiques, the structure of shareholders holding directly or indirectly (through subsidiaries) at least 5% of the total number of votes is as follows:

29.1.2 Significant shareholders as at 31 December 2014

On 29 August 2014, Agencja Rozwoju Przemysłu S.A. sold all shares held in the Company to its subsidiary, SPV Operator Sp. z o.o.

On 24 September 2014, loan and bond liabilities as well as recourse claims were converted into shares and the newly issued R series shares were allocated. The total of 2,863,571,852 shares were issued and acquired by the existing creditors and bond holders of the Company.

On 22 October 2014, the Business Court at the National Court Register registered a change in the amount of the share capital of Polimex-Mostostal S.A.

(unless stated otherwise, figures in tables are in PLN '000)

Following the aforesaid conversion, the registered share capital amounted to PLN 173,237,605.68 and was divided into 4,330,940,142 shares with the par value of PLN 0.04 each. As at the date of these financial statements being signed, the Company's equity holders included:

Equity holder	**Number of shares/votes**	**Percentage interest in the share capital/ total number of votes at the General Meeting***
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna	1 061 971 808	24.52%
Bank Polska Kasa Opieki S.A.	753 806 838	17.41%
SPV Operator Sp. z o.o.	300 000 001	6.92%
Pioneer Pekao Investment Management SA	254 494 744	5.88%
Other – less than 5% of the share capital	1 960 666 751	45.27%
Total number of shares (all issues)	**4 330 940 142**	**100.00%**

29.2. Supplementary capital

Under Article 396.1 of the Code of Commercial Companies, supplementary capital has to be recognized for purposes of covering losses, with at least 8% of profit for the financial year allocated until the capital represents at least one-third of the share capital. The supplementary capital is not distributable. As at 31 December 2014, the supplementary capital totaled PLN 618,552,000.00

29.3. Revaluation reserve

The revaluation reserve was established as a result of the Company's application of hedge accounting and changes introduced to the measurement of a selected class of fixed assets (revaluation model).

As of 1 October 2013, the accounting policy was modified in the context of changes to the valuation model for a specific group of fixed assets, in accordance with IAS 16 *Property, Plant and Equipment*. In conformity with the said standard, the accounting policy was modified prospectively.

The change consists in replacement of the cost model with the revaluation model. It was introduced for the class of fixed assets designated as real property. The abovementioned class includes all real property and structures permanently attached to land. The valuation model change does not affect other fixed assets, such as machines and equipment, which are not permanently attached to the real property. The Company has obtained independent valuations performed by recognized appraisers for each real property affected by the aforesaid changes as at 23 October and 31 October 2013.

All items of real property were measured using the income method (simple capitalization and income stream discounting). The fair value of fixed assets was determined based on the best and most efficient use of real property (which is the case at present). Estimated monthly rent rates of PLN 2-35/m2 were used for purposes of the measurement and the adopted capitalization rate was 10%. The adopted fair value hierarchy level was 3. No adjustment ratios were used considering location of real property. Such a change reflects the value of fixed assets most accurately.

(unless stated otherwise, figures in tables are in PLN '000)

The table below presents a comparison of the book value, fair value and the effect of the change in the measurement of a selected class of fixed assets on other comprehensive income and the gross profit/loss of the Company as at 1 October 2013 (in PLN):

Book value of real property as at	Fair value of real property as at	Effect of changes in real property measurement principles	Effect of changes in real property measurement principles
1 October 2013	1 October 2013	on other comprehensive income	on gross profit/loss
198 152	252 625	95 593	(41 120)

Changes in revaluation reserve in 2014:

	1.01.2014	Sale of real property	Impairment loss	31.12.2014
Revaluation of real property	95 593	(3 279)	(26 701)	65 613
Deferred tax	(18 136)	623	5 073	(12 440)
Total	77 457	(2 656)	(21 628)	53 174

In 2014, impairment losses on property, plant and equipment totaled PLN 29,980,000.00.

Reconciliation of the closing balance of real property measured at fair value:

Balance as at 1 October 2013	252 625
Depreciation between 1 October 2013 and 31 December 2013	(4 273)
Balance as at 31 December 2013	248 352
Depreciation between 1 January 2014 and 31 December 2014	(11 533)
Revaluation	
- recognized in other operating expenses	-
- recognized in other comprehensive income	(6 762)
Sale	-
Transfer to Level 1 and 2 of the fair value hierarchy	-
Balance as at 31 December 2014	230 057

Property, plant and equipment classified as assets held for sale were measured based on the offer received by the Company for the purchase of an organized part of the enterprise (Siedlce and Rudnik). Property, plant and equipment not classified as held for sale are measured every 3 to 5 years, or more frequently if there are any indications of impairment. No such indications were identified as at 31 December 2014.
The revaluation reserve also includes the effect of the net measurement of cash flow hedges adjusted by deferred tax. As at 31 December 2014 and 31 December 2013, the revaluation reserve relating to measurement of financial instruments amounted to PLN 27,000.00.

29.4. Reserve capital – convertible bond premium

As at 31 December 2014, the convertible bond premium was PLN 29,747,000.00.

As the new bonds had been paid for by the investors, on 1 October 2014 the Company issued 163 A series, convertible, dematerialized bearer bonds with the par value of PLN 500,000.00 each and the total par value of PLN 81,500,000.00 ("A Series Bonds") as well as 585 B series, ordinary, dematerialized bearer bonds with the par value of PLN 100,000.00 each and the total par value of PLN 58,500,000.00 ("B Series Bonds", collectively with A Series Bonds referred to as the "New Bonds"). As at 31 December 2014, the liabilities relating to the New Bonds totaled PLN 110,643,000.00. The New Bonds were measured at amortized cost, using the effective interest method. The costs of the bond issue of PLN 1,960,000.00 are accounted for using the effective interest method by the bond maturity date. The value of convertible options was charged to the reserve capital in the amount of PLN 29,747,000.00 as at 31 December 2014.

Conversion may be effected at any time by the bond redemption date (30 September 2019). Otherwise, the bonds will be redeemed on 30 September 2019 at the unit price of PLN 0.04. Interest calculated as WIBOR 3M plus 3 p.p. p.a. will be payable on a quarterly basis until the conversion or bond redemption date.

Convertible bonds consist of the liability and equity component. The equity component is presented under equity as "convertible bond premium". Upon initial recognition, the effective interest rate applicable to the liability is 10.7% p.a.
The bond issue costs reducing the premium totaled PLN 400,000.00.

29.5. Reserve capital

Warrants – J series shares

Pursuant to Resolution No. 26 of 4 July 2008, the Company's share capital may be increased conditionally by no more than PLN 928,687.32 through the issue of no more than 23,217,183 J series bearer shares with the value of PLN 0.04 each. The aforesaid conditional increase in capital is aimed at granting the rights to purchase the Company's shares to holders of the subscription warrants issued in performance of the Incentive Scheme for the executives of the Company and major subsidiaries. The term of the Incentive Scheme is three years and the warrants will be allocated upon satisfaction of predefined growth ratios for each reporting period, i.e. 2009, 2010 and 2011:

- Criterion 1: A predefined increase in the consolidated EBITDA/share ratio;
- Criterion 2: A predefined increase in the consolidated net earnings/share ratio;
- Criterion 3: A predefined difference between the change in the arithmetic mean of the closing price of the Company's shares (calculated for the last three months of the calendar year) and the change in the arithmetic mean of the WIG stock market index (calculated for the last three months of the calendar year).

The employment criterion, whereby an individual has to be employed by the Company for at least 9 months of the financial year, is an additional allocation criterion. If the aforesaid allocation criteria are not satisfied, the related warrants are redeemed. The warrants may be exercised within the following time limits:

- warrants allocated for 2009 – between 1 October 2013 and 31 December 2016;
- warrants allocated for 2010 – between 1 October 2014 and 31 December 2016;
- warrants allocated for 2011 – between 1 October 2015 and 31 December 2016.

The warrants were exercised in 2009 and 2010, when the growth criteria had been satisfied. However, considering the unfavorable price of the Company's shares by 31 December 2014 (the share price higher by PLN 0.05 than the option strike price as at 31 December 2014) and the fact that most individuals who the warrants were allocated to are no longer employees of the Company, the warrants had not been exercised by 31 December 2014. Therefore, the total reserve capital was reclassified to retained earnings/losses brought forward as the warrant exercise conditions had not been met.

As at 31 December 2014, the provision recognized in the Company's reserve capital for the aforesaid Incentive Schemes amounted to PLN 0.00 (vs. PLN 32,086,000.00 as at 31 December 2013).

(unless stated otherwise, figures in tables are in PLN '000)

30. Credit facilities and loans

Bank/Lender	Maturity	Balance as at 31 December 2014	Balance as at 31 December 2013
Current			
BOŚ S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	49 720
Bank PEKAO S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	159 591
Bank PEKAO S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	50 000
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	199 997
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	93 442
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	7 286
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	5 783
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	50
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	36 387
Bank Zachodni WBK S.A. (formerly: Kredyt Bank S.A.) – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	–	42 059
		–	644 315

*) the total loans under the Financial Debt Service Agreement (FDSA) of 21 December 2012, as amended, will be repaid in accordance with the repayment schedule. In accordance with Annex No. 6 of 30 July 2014 to the Financial Debt Service Agreement of 21 December 2012, debt of PLN 150 million will be repaid or transferred onto Mostostal Siedlce by 31 December 2014 (selected receivables of PKO BP S.A. and Bank PEKAO S.A.). The remaining portion of debt will be repaid between 31 December 2017 and 31 December 2019.

Bank/Lender	Maturity	Balance as at 31 December 2014	Balance as at 31 December 2013
Long-term credit facilities			
BOŚ S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	16 662	–
Bank PEKAO S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	47 562	–
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	25 082	–
PKO BP S.A. – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	25 386	–
Bank Zachodni WBK S.A. (formerly: Kredyt Bank S.A.) – a term, non-revolving loan in PLN (under the Financial Debt Service Agreement of 21 December 2012, as amended)*)	01.10.2019	18 461	–
		133 153	–

*) the total loans under the Financial Debt Service Agreement (FDSA) of 21 December 2012, as amended, will be repaid in accordance with the repayment schedule. In accordance with Annex No. 6 of 30 July 2014 to the Financial Debt Service Agreement of 21 December 2012, debt of PLN 150 million will be repaid or transferred onto Mostostal Siedlce by 31 December 2014 (selected receivables of PKO BP S.A. and Bank PEKAO S.A.). The remaining portion of debt will be repaid between 31 December 2017 and 31 December 2019.

Short-term loans			–
Polimex Venture Development Sp. z o.o. – loan in PLN	31.12.2014	132	–
Polimex Venture Development Sp. z o.o. – loan in PLN	31.12.2014	93	–
		225	

(unless stated otherwise, figures in tables are in PLN '000)

Long-term loans			
Depolma GmbH – loan in EUR	10.12.2016	1 114	809
Polimex – Hotele Sp. z o.o. – loan in PLN	31.12.2016	2 060	2 072
Polimex Projekt Opole Sp. z o.o. (formerly: Polimex-Cekop Development Sp. z o.o) – loan in PLN (settled in part under the Receivables Offset Agreement of 20 December 2013)	31.12.2019	1 411	1 344
Polimex Venture Development Sp. z o.o. – loan in PLN	31.12.2020	3 509	3 510
Polimex Venture Development Sp. z o.o. – loan in PLN	01.01.2017	1 200	1 240
Polimex Venture Development Sp. z o.o. – loan in PLN	31.03.2020	2 284	–
Polimex -Development Kraków Sp. z o.o. – loan in PLN	31.03.2020	6 962	–
Polimex Energetyka Sp. z o.o. (formerly: Polimex - Development Kraków Sp. z o.o.) – loan in PLN	31.03.2020	2 888	–
Polimex Energetyka Sp. z o.o. – loan in PLN	31.03.2020	202	–
PxM Development Inwestycje Sp. z o.o Apartamenty Tatarska – loan in PLN	31.03.2020	3 641	–
BR Development Sp. z o.o. – loan in PLN	31.03.2020	6 105	–
NAF Industriemontage GmbH – loan in EUR	31.03.2020	1 684	–
		33 060	**8 975**
Interest-bearing bank loans and credit facilities			
Credit facilities		-	644 315
Loans		225	-
Short-term, including:		**225**	**644 315**
Long-term, including:			
Credit facilities		133 153	–
Loans		33 060	8 975
Total		**166 213**	**8 975**

31. Assets pledged as collateral

	Balance as at 31 December 2014	Balance as at 31 December 2013
Property, plant and equipment	99 098	391 994
Financial non-current assets	161 845	110 364
Intangible assets	6 362	10 660
Inventories	3 306	58 337
Assets held for sale	305 779	79 625
Total	**576 390**	**650 980**

32. Bonds

	Balance as at 31 December 2014	Balance as at 31 December 2013
Long-term bonds	135 388	–
Short-term bonds	–	126 890
Total	**135 388**	**126 890**

In 2014, the New Bonds were issued by the Company. Detailed information on the accounting recognition is presented below:

	31 December 2014
Proceeds from the issue	138 040
Liability component at the issue date	108 293
Equity component	29 747
Liability component at the issue date	108 293
Interest accrued at the effective interest rate of 10.7%	2 762
Interest paid	-
Liability component as at 31 December 2014	111 055

As the new bonds had been paid for by the investors, on 1 October 2014 the Company issued 163 A series, convertible, dematerialized bearer bonds with the par value of PLN 500,000.00 each and the total par value of PLN 81,500,000.00 ("A Series Bonds") as well as 585 B series, ordinary, dematerialized bearer bonds with the par value of PLN 100,000.00 each and the total par value of PLN 58,500,000.00 ("B Series Bonds", collectively with A Series Bonds referred to as the "New Bonds"). As at 31 December 2014, the liabilities relating to the New Bonds totaled PLN 110,643,000.00. The New Bonds were measured at amortized cost, using the effective interest method. The costs of the bond issue of PLN 1,960,000.00 are accounted for using the effective interest method by the bond maturity date. The value of convertible options was charged to the reserve capital in the amount of PLN 29,747,000.00 as at 31 December 2014.

(unless stated otherwise, figures in tables are in PLN '000)

Conversion may be effected at any time by the bond redemption date (30 September 2019). Otherwise, the bonds will be redeemed on 31 December 2019 at the unit price of PLN 0.04. Interest calculated as WIBOR 3M plus 3 p.p. p.a. will be payable on a quarterly basis until the conversion or bond redemption date.

Convertible bonds consist of the liability and equity component. The equity component is presented under equity as "Reserve capital – convertible bond premium". Upon initial recognition, the effective interest rate applicable to the liability is 10.7% p.a.

33. Other non-current liabilities

	Balance as at 31 December 2014	**Balance as at 31 December 2013**
Finance leases	–	429
Non-current liabilities due to guarantee payments	1 125	52 928
Advance payments received under the *Opole* and *Kozienice* contracts	255 729	166 829
Performance bonds	53 153	–
Acquisition of non-financial non-current assets	477	–
Total	**310 484**	**220 186**

(unless stated otherwise, figures in tables are in PLN '000)

34. Change in provisions

	Provisions for warranty repairs and returns	Restructuring provision	Provision for court cases	Provision for liquidated damages	Provision for contract costs	Provision for expected losses on construction contracts	Provision for sureties	Other provisions	Total
As at 1 January 2014, after presentation change	**25 857**	**–**	**20 136**	**–**	**17 786**	**68 249**	**28 889**	**3 998**	**164 915**
Recognized in the financial year	88 894	12 312	16 487	12 753	126 934	–	2 235	–	**259 615**
Used	(5 577)	–	(2 886)	(1 500)	–	–	(14 702)	(3 740)	(28 405)
Derecognized	(11 580)	–	(250)	(4 561)	–	(45 344)	–	(258)	(61 993)
As at 31 December 2014	**97 594**	**12 312**	**33 487**	**6 692**	**144 720**	**22 905**	**16 422**	–	334 132
Short-term as at 31 December 2014	19 843	12 312	3 848	6 692	–	22 905	4 490	–	**70 090**
Long-term as at 31 December 2014	77 751	–	29 639	–	144 720	–	11 932	–	**264 042**

(unless stated otherwise, figures in tables are in PLN '000)

Change in provisions (continued)

	Provisions for warranty repairs and returns	Restructuring provision	Provision for court cases	Provision for liquidated damages	Provision for contract costs	Provision for expected losses on construction contracts	Provision for sureties	Other provisions	Total
As at 1 January 2013, after presentation change	**29 736**	**16 753**	**16 594**	**26 718**	**–**	**201 559**	**43 405**	**6 843**	**341 608**
Recognized in the financial year	22 485	2 494	4 131	–	17 786	–	–	28 189	**75 085**
Reclassification to other items							-	(2 592)	**(2 592)**
Used	(15 770)	–	(589)	–	–	–	–	(9 562)	**(25 921)**
Derecognized	(10 594)	(19 247)	–	(26 718)	–	(133 310)	(14 516)	(18 880)	**(223 264)**
As at 31 December 2013	**25 857**	–	**20 136**	–	**17 786**	**68 249**	**28 889**	3 998	164 915
Short-term as at 31 December 2013	13 974	–	14 090	–	–	68 249	28 889	3 998	**129 200**
Long-term as at 31 December 2013	11 883	–	6 046	–	17 786	–	–	–	**35 715**

(unless stated otherwise, figures in tables are in PLN '000)

35. Trade and other liabilities (current)

	Balance as at 31 December 2014	Balance as at 31 December 2013
Trade liabilities		
To related parties	90 919	19 168
To other entities	381 009	482 532
	471 928	**501 700**
Taxes, customs duties, social security and other liabilities		
VAT	–	11 404
Lump-sum withholding tax	3	12
Personal income tax	1 800	7 455
Impairment loss on personal income tax	1 034	–
PFRON (National Fund for Rehabilitation of the Disabled)	265	200
CIT (overseas)	1 053	–
Other	38	6 615
	4 193	**25 686**
Financial liabilities		
Lease liabilities	872	2 093
Measurement of sureties	–	10 006
Cost of financial guarantees	39 275	–
	40 147	**12 099**
Other liabilities		
Advance payments for deliveries	–	–
Liabilities due to purchases of fixed assets	4 236	3 206
Provision for audit of the financial statements	393	–
Social fund	2 898	3 496
Other	25 398	48 843
	32 925	**55 545**
Total current liabilities	**549 193**	**595 030**

(unless stated otherwise, figures in tables are in PLN '000)

35.1. Trade liabilities with due date after the end of the reporting period

	Balance as at 31 December 2014	Balance as at 31 December 2013
Up to 1 month	324 730	210 859
Over 1 month and up to 3 months	36 185	33 776
Over 3 months and up to 6 months	2 597	3 047
Over 6 months and up to 1 year	8 410	69 535
Past due liabilities	100 006	184 483
Total trade liabilities	**471 928**	**501 700**

35.2. Past due trade liabilities

	Balance as at 31 December 2014	Balance as at 31 December 2013
Past due up to 1 month	19 864	6 074
Past due over 1 month and up to 3 months	14 406	76 052
Past due over 3 months and up to 6 months	7 779	49 941
Past due over 6 months and up to 1 year	22 986	36 135
Past due over 1 year	34 971	16 281
Total past due liabilities	**100 006**	**184 483**

Trade liabilities bear no interest and the due date is typically from 30 to 180 days. Other liabilities bear no interest and the average due date is one month. The difference between VAT liabilities and receivables is paid to the competent tax authorities in such periods as specified in the tax regulations. Interest liabilities are typically paid based on approved interest notes.

36. Employee benefits

Current liabilities due to employee benefits	Balance as at 31 December 2014	Balance as at 31 December 2013
To employees: Salaries and wages	9 147	27 694
Unused annual leave	8 944	13 445
Bonuses and awards	2 657	4 426
Jubilee benefits	1 217	–
Retirement and disability benefits	283	10 572
Social security	7 694	11 615
	29 942	**67 752**

Non-current liabilities due to employee benefits	Balance as at 31 December 2014	Balance as at 31 December 2013
Retirement and disability benefits	5 033	5 675
	5 033	**5 675**

(unless stated otherwise, figures in tables are in PLN '000)

36.1. Employee and other post-employment benefits

Upon retirement, employees receive retirement benefits from the Company in such amounts as specified in the Collective Labor Agreement. Therefore, based on a professional actuarial valuation, the Company recognizes a provision for the present value of the liability due to retirement, jubilee and other post-employment benefits.

On 23 June 2014, the Issuer and representatives of labor unions at the Company signed a new Collective Labor Agreement (CLA), which entered into force as of 1 July 2014 and superseded the Collective Labor Agreement dated 30 November 2012.

Provision for employee benefits and changes in its balance in the financial year have been presented in Note 36.

36.2. Key actuarial assumptions

	31 December 2014	31 December 2013
Discount rate (%)	2.3	4.5
Anticipated inflation rate (%)	2.5	2.5
Anticipated pay growth rate (%)	3.0	1.0

Actuarial gains and losses on retirement and disability benefits:

	Year ended 31 December 2014	Year ended 31 December 2013
Costs of benefits:		
Current service cost	447	1 619
Past service cost and (gain)/loss on settlement	5 431	(18 403)
Net interest expense	163	953
Defined-benefit plan cost items recognized in profit or loss	**6 041**	**(15 831)**
Revaluation of the net defined-benefit liabilities:		
Actuarial gains and losses resulting from changes in demographic assumptions	1 649	-
Actuarial gains and losses resulting from changes in financial assumptions	-658	-
Defined-benefit plan cost items recognized in other comprehensive income	**991**	**-**
Total	**7 032**	**(15 831)**

(unless stated otherwise, figures in tables are in PLN '000)

36.3. Sensitivity analysis

Sensitivity of liabilities to changes in the discount rate and pay growth assumptions (-/+ 0.5 p.p.) in line with IAS 19. The methods and assumptions used for purposes of the sensitivity analysis have not changed as compared to the preceding reporting year.

Rate: 1.8%

	Liabilities due to		
	retirement benefits	disability benefits	Total
current	350	-	350
non-current	9 783	432	10 215
total	**10 133**	**432**	**10 565**

Rate: 2.8%

	Liabilities due to		
	retirement benefits	disability benefits	Total
current	350	-	350
non-current	8 777	412	9 189
total	**9 127**	**412**	**9 539**

Pay growth rate: 3.0%

	Liabilities due to		
	retirement benefits	disability benefits	Total
current	349	-	349
non-current	8 765	402	9 167
total	**9 115**	**402**	**9 516**

Pay growth rate: 4.0%

	Liabilities due to		
	retirement benefits	disability benefits	Total
current	351	-	351
non-current	9 790	443	10 233
total	**10 141**	**443**	**10 584**

The Company has a strategy in place whereby assets and liabilities used for purposes of the retirement and disability benefit plan are matched as part of the short- and long-term liquidity management process.

(unless stated otherwise, figures in tables are in PLN '000)

37. Contingent liabilities, court cases and other off-balance sheet items

	Balance as at 31 December 2014	Balance as at 31 December 2013
Contingent liabilities (due to):	**1 492 456**	**1 445 387**
- guarantees and sureties	1 225 382	1 173 709
- promissory notes	26 609	42 297
- court cases	240 465	223 372
- other	–	6 009
Other off-balance sheet items	**–**	114 623
Total	**1 492 456**	**1 560 010**

38. Liabilities directly related to assets held for sale

	Balance as at 31 December 2014	Balance as at 31 December 2013
Non-current liabilities	4 649	–
Interest-bearing credit facilities and loans	–	–
Liabilities due to employee benefits	4 649	–
Provisions	–	–
Current liabilities	200 004	–
Trade and other liabilities	44 132	–
Liabilities from measurement of long-term contracts	366	–
Liabilities due to employee benefits	4 373	–
Current portion of interest-bearing credit facilities and loans	150 000	–
Accruals	1 133	–
Total liabilities directly related to assets held for sale	204 653	–

As at 31 December 2014, the liabilities related to the *Production* segment assets were presented as liabilities directly related to assets held for sale due to the planned sale of an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce.

(unless stated otherwise, figures in tables are in PLN '000)

Disposal of production operations

On 4 December 2014, the Extraordinary Shareholders' Meeting of the Company approved the sale of an organized part of the enterprise in Siedlce. Therefore, the *Production* segment was reclassified to discontinued operations in the 2014 financial year (comparative data for 2013 has been presented).

The Company's sale of an organized part of the enterprise and shares in the subsidiaries is in conformity with the provisions of the Issuer's Financial Debt Service Agreement of 21 December 2012, including Annex No. 6 thereto, dated 30 July 2014. Assets assigned to the aforesaid segment are presented as assets held for sale as at 31 December 2014.

38.1. Analysis of profit from discontinued operations for the financial year

The total profit (loss) on discontinued operations (*Production* segment) recognized in profit or loss has been presented in the income statement. The comparative income statement and cash flows from discontinued operations have been presented retrospectively so that operations discontinued in the current period could be shown.

The total impairment loss upon initial recognition of assets held for sale at fair value was PLN 32,879,000.00, including PLN 26,117,000.00 recognized as other operating expenses and PLN 6,762,000.00 as other comprehensive income.

38.2. Cash flow statement – discontinued operations

	Year ended 31 December 2014	Year ended 31 December 2013
Net cash flows from operating activities	22 961	6 975
Net cash flows from investing activities	(10 146)	(3 549)
Net cash flows from financing activities	(2 842)	-
Net cash flows	**9 973**	**3 426**

(unless stated otherwise, figures in tables are in PLN '000)

39. Financial instruments

Year ended 31 December 2014

	Interest income/(expense)	***Fees***	***Exchange gains/(losses)***	***Derecognition/(recognition) of impairment losses***	***Sales adjustment by hedging transactions***	*Valuation gains/(losses), derecognition/recognition of impairment losses*	***Gains/(losses) on sale of financial instruments***	***Other***	***Total***
Financial assets	**18 034**	**–**	**6 297**	**-123 522**	**–**	**-27 432**	**93 210**	**504**	**-32 909**
Shares	–	–	–	–	–	-23 650	93 210	504	**70 064**
Available-for-sale financial assets	–	–	–	–	–	–	–	–	–
Held-to-maturity financial assets	–	–	–	–	–	–	–	–	–
Financial assets measured at fair value	–	–	–	–	–	–	–	–	–
Other financial assets	1 472	–	2 001	–	–	-1 985	–	–	**1 488**
Trade and other receivables	435	–	3 822	-123 522	–	–	–	–	**-119 265**
Derivative financial instruments (option)	–	–	–	–	–	-	–	–	**-**
Cash and cash equivalents	16 127	–	474	–	–	-1 797	–	–	**14 804**

	Interest income/(expense)		***Exchange gains/(losses)***	***Derecognition/(recognition) of impairment losses***	***Sales adjustment by hedging transactions***	*Valuation gains/(losses), derecognition/recognition of impairment losses*	***Gains/(losses) on sale of financial instruments***	***Other***	***Total***
Financial liabilities	**-40 039**	**–**	**-1 194**	**-2 278**	–	–	–	**272 039**	**228 528**
Overdraft facilities	–	–	–	–	–	–	–	–	**–**
Bank loans and credit facilities	-22 457	–	52	–	–	–	–	–	**-22 405**
Bonds	-6 634	–	–	–	–	–	–	272 039	**265 406**
Other non-current liabilities	–	–	–	–	–	–	–	–	**–**
- leases	–	–	–	–	–	–	–	–	**–**
Trade and other liabilities, including:	-10 948	–	-1 246	–	–	–	–	–	**-12 194**
- leases	-97	–	–	–	–	–	–	–	**-97**
Sureties	–	–	–	-2 278	–	–	–	–	**-2 278**
Derivative financial instruments	–	–	–	–	–	–	–	–	**–**
Total	**-22 004**	**–**	**5 102**	**-125 800**	**–**	**-27 432**	**93 210**	**272 544**	**195 619**

(unless stated otherwise, figures in tables are in PLN '000)

Year ended 31 December 2013

	Interest income/(expense)	*Fees*	*Exchange gains/(losses)*	*Derecognition/(recognition) of impairment losses*	*Sales adjustment by hedging transactions*	*Valuation gains/(losses)*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial assets	**9 755**	**–**	**1 667**	**-5 864**	**–**	**-47 354**	**68 662**	**5 364**	**32 230**
Shares	–	–	–	–	–	-23 717	68 662	5 364	**50 309**
Available-for-sale financial assets	–	–	–	–	–	–	–	–	–
Held-to-maturity financial assets	–	–	–	–	–	–	–	–	–
Financial assets measured at fair value	–	–	–	–	–	–	–	–	–
Other financial assets	1 538	–	-190	–	–	-28 984	–	–	**-27 636**
Trade and other receivables	1 052	–	-146	-5 864	–	–	–	–	**-4 958**
Derivative financial instruments	–	–	–	–	–	5 347	–	–	**5 347**
Cash and cash equivalents	7 165	–	2 003	–	–	–	–	–	**9 168**

	Interest income/(expense)	*Fees*	*Exchange gains/(losses)*	*Derecognition/(recognition) of impairment losses*	*Sales adjustment by hedging transactions*	*Valuation gains/(losses)*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities	**-51 608**	**-1 899**	**-51**	**7 562**	–	–	–	–	**-45 996**
Overdraft facilities	–	–	–	–	–	–	–	–	**–**
Bank loans and credit facilities	-33 194	-1 899	17	–	–	–	–	–	**-35 076**
Bonds	-7 837	–	–	–	–	–	–	–	**-7 837**
Other non-current liabilities	–	–	–	–	–	–	–	–	**–**
- leases	–	–	–	–	–	–	–	–	**–**
Trade and other liabilities, including:	-10 577	–	-68	–	–	–	–	–	**-10 645**
- leases	-221	–	–	–	–	–	–	–	**-221**
Sureties	–	–	–	7 562	–	–	–	–	**7 562**
Derivative financial instruments	–	–	–	–	–	–	–	–	**–**
Total	**-41 853**	**-1 899**	**1 616**	**1 698**	**–**	**-47 354**	**68 662**	**5 364**	**-13 766**

(unless stated otherwise, figures in tables are in PLN '000)

40. Terms of related-party transactions

Related-party transactions were entered into on arm's length terms.

	For the period from 01.01.2014 to 31.12.2014	For the period from 01.01.2014 to 31.12.2014	Balance as at 31 December 2014	Balance as at 31 December 2014
Related party	**Sales to related parties**	**Purchases from related parties**	**Receivables from related parties**	**Liabilities to related parties, loans**
Stalfa Sp. z o.o.	5 822	4 038	1 745	1 522
Polimex-Mostostal ZUT Sp. z o.o.	1 030	11 374	52	3 252
Czerwonograd ZKM Ukraine	357	349	–	2
Polimex-Mostostal Ukraine	922	–	–	–
Polimex-Mostostal Wschód Sp. z o.o.	2 599	–	488	–
Polimex-Hotele Sp. z o.o.	12	(12)	1	2 060
PRInż-1 Sp. z o.o.	2 790	97 356	469	1 115
Polimex GmbH (formerly: Depolma GmbH)	28	–	–	1 114
Polimex Projekt Opole Sp. z o.o. (formerly: Polimex-Cekop Development)	1 479	254 593	791	61 483
Naftoremont Naftobudowa (formerly: Polimex-Mostostal Development Sp. z o.o.)	401	762	602	351
Polimex Energetyka	210	54	1 505	20 958
WBP Zabrze Sp. z o.o.	72	1 085	1 432	–
Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o.	–	–	–	–
Polimex Venture Development Sp. z o.o. (formerly: Energomontaż-Nieruchomości Sp. z o.o.)	10	218	1 000	7 218
Polimex Engineering Sp. z o.o.(formerly: Polimex-Projekt Południe)	11	1 901	861	819
Grande Meccanica SpA	–	–	2 521	–
Pracownia Wodno-Chemiczna Ekonomia Sp z o.o.	–	8	–	–
Total subsidiaries	**15 743**	**371 726**	**11 467**	**99 894**
Energomontaż-Północ Bełchatów Sp. z o.o.	32	–	–	–
Polimex-Sices Sp. z o.o.	9	–	–	–
Total associates	**41**	**–**	**–**	**–**
Total	**15 784**	**371 726**	**11 467**	**99 894**

(unless stated otherwise, figures in tables are in PLN '000)

Balance as at 31 December 2013

Related party	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Subsidiaries				
Energomontaż Północ Gdynia Sp. z o.o.	885	31	-	-
Energop Sp. z o.o.	47	11 283	-	-
Energomontaż-Północ Technika Spawalnicza i Laboratorium Sp.z o.o.	556	2 483	20	1 485
Polimex Venture Development Sp. z o.o.	13	50	1	4 750
NAF Industriemontage GmbH	-	-	5	-
Torpol Sp. z o.o.	-	-	10	135
PRInż-1 Sp. z o.o.	15 776	65 342	2 845	9 410
Centrum Projektowe PxM Sp. z o.o.	121	1 194	-	-
PxM – Projekt-Południe Sp. z o.o.	-	88	1	-813
Modułowe Systemy Specjalistyczne Sp. z o.o.	116	1 374	-	-
Zarząd Majatkiem Górczewska Sp. z o.o.	284	-	-	-
WBP Zabrze Sp. z o.o.	144	3 927	15	2 661
Stalfa Sp. z o.o.	4 370	4 800	-	357
Polimex-Mostostal ZUT Sp. z o.o.	730	6 722	72	2 406
Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.	47	1 349	-	-
Czerwonograd ZTM	558	266	41	-
Polimex-Mostostal Ukraine	916	-	-	-
Polimex-Development Kraków Capital Group	292	4 963	22 090	2 533
Polimex Projekt Opole Sp. z o.o.	3 405	244	-	1 344
Polimex-Mostostal Development Sp. z o.o.	-328	1 901	513	-
Polimex Hotele Sp. z o.o.	12	-115	1	2 072
Mostostal Siedlce Wschód Sp. z o.o.	3 810	-	-	-
Pracownia Wod-Chem. "Ekonomia" Sp. z o.o.	-	338	-	82
S.C. Coifer Impex SRL	354	68	-	-
Grande Meccanica SpA	-	-	26	-
Sinopol Trade Centre Sp. z o.o.	4	-	-	-
Depolma GmbH	-	10	35	808
Elektra Sp. z o.o.	85	-	-	-
Total	**32 197**	**106 318**	**25 675**	**27 230**

41. Social assets and liabilities of the Social Benefits Fund

Pursuant to the Act on the Social Benefits Fund of 4 March 1994, as amended, the Social Benefits Fund is established by employees of more than 20 FTEs. Such a fund is established and periodic appropriations are made to it in such amounts as agreed with the Company's labor unions. The Fund is aimed at subsidizing the Company's social activity, loans granted to its employees as well as other social benefit costs.

The Fund's assets have been offset against the Company's liabilities to the Fund as such assets have not been designated as separate assets of the Company. Therefore, as at 31 December 2014, the net balance was PLN -2,899,000.00 as compared to PLN -3,496,000.00 as at 31 December 2013.

(unless stated otherwise, figures in tables are in PLN '000)

An analysis of assets, liabilities and costs of the Fund is presented below:

	Balance as at 31 December 2014	**Balance as at 31 December 2013**
Loans granted to employees	1 534	3 962
Cash	698	424
Fund-related liabilities	5 131	7 882
Net balance	**(2 899)**	**(3 496)**
	31 December 2014	31 December 2013
Appropriations to the Fund in the financial year	4 801	7 337

42. Loans granted to members of the Management Board

Not applicable

43. Other transactions with members of the Management Board

Not applicable

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

	Year ended 31 December 2014	**Year ended 31 December 2013**
Management Board		
Short-term employee benefits (salaries and related charges)	4 699	3 552
Supervisory Board	-	-
Short-term employee benefits (salaries and related charges)	622	619
Total	**5 321**	**4 171**

The remuneration of the Issuer's Management Board paid in 2014 amounted to PLN 4,699,000.00 as compared to PLN 3,552,000.00 in 2013, and included:

		Year ended 31 December 2014	**Year ended 31 December 2013**
Gregor Sobisch	Chairperson of the Board	947	475
Acting Chairperson of the Board	Maciej Stańczuk	802	-
Acting Chairperson of the Board	Robert Oppenheim	90	664
Acting Chairperson of the Board	Dariusz Krawczyk	-	114
Vice-Chairperson of the Board	Joanna Makowiecka	720	356
Vice-Chairperson of the Board	Robert Bednarski	508	746
Vice-Chairperson of the Board	Krzysztof Cetnar	410	-
Vice-Chairperson of the Board	Bogusław Piekarski	542	-
Vice-Chairperson of the Board	Arkadiusz Kropidłowski*	559	300
Vice-Chairperson of the Board	Aleksander Jonek*	121	897
Total		**4 699**	**3 552**

* Remuneration paid in 2014 under the non-competition agreement

(unless stated otherwise, figures in tables are in PLN '000)

The remuneration of the Issuer's Supervisory Board paid in 2014 amounted to PLN 622,000.00 as compared to PLN 619,000.00 in 2013, and included:

		Year ended 31 December 2014	Year ended 31 December 2013
Chairman of the Supervisory Board	Adam Ambrozik	60	-
Chairman of the Supervisory Board until 24 June 2014	Jerzy Góra	58	91
Chairman of the Supervisory Board until 15 February 2013	Jan Woźniak	-	24
Vice-Chairman of the Supervisory Board	Ryszard Engel	44	81
Vice-Chairman of the Supervisory Board	Dariusz Krawczyk	76	71
Vice-Chairman of the Supervisory Board	Artur P. Jędrzejewski	67	95
Vice-Chairman of the Supervisory Board until 3 June 2014, Member of the Supervisory Board	Andrzej Kasperek	95	63
Secretary of the Supervisory Board until 15 February 2013	Sebastian Bogusławski	-	20
Member of the Supervisory Board	Krzysztof Kaczmarczyk	6	-
Member of the Supervisory Board	Marek Wierzbowski	-	40
Member of the Supervisory Board	Tadeusz Kuczborski	-	59
Member of the Supervisory Board	Wojciech Barański	82	39
Member of the Supervisory Board	Marcin Milewicz	82	4
Member of the Supervisory Board until 15 February 2013	Dariusz Formela	-	16
Member of the Supervisory Board until 15 February 2013	Andrzej Bartos	-	16
Member of the Supervisory Board	Jarosław Kochaniak	46	-
Member of the Supervisory Board	Andrzej Zwara	6	-
Total		**622**	**619**

Information on the Company's shares held by the Management Board and Supervisory Board members as at 31 December 2014 and 31 December 2013

As at 31 December 2014 and 31 December 2013

Function	Current number of shares held
Member of the Supervisory Board	5,700
Total	**5,700**

Remuneration of Management Boards of subsidiaries, including:

		Year ended 31 December 2014	Year ended 31 December 2013
Acting Chairperson of the Board	Robert Oppenheim	-	33
Total		**-**	**33**

(unless stated otherwise, figures in tables are in PLN '000)

45. Fees of the certified auditor or entity authorized to audit financial statements

	Balance as at 31 December 2014	Balance as at 31 December 2013
Statutory audit of the financial statements	643	674
Advisory services	18	61
Other services	5	–
Total	**666**	**735**

46. Risk management objectives and policy

The key external and internal risks identified by the Company include:

The operations of the Company are exposed to numerous risks related both to the macroeconomic situation and negative internal phenomena. In 2014, the activities of the Company were affected by external factors related to the prolonged crisis in the construction sector as well as the still considerably limited funding available to the sector entities, including a material limitation of bank loans and performance bonds offered by banks. Also, the terms of significant agreements signed with the creditors, namely the Financial Debt Service Agreement of 21 December 2012, as amended, and, in particular, Annex No. 6 and Annex No. 7 thereto, whereby a portion of the Company's debt to the creditors was converted into shares, as well as the New Guarantee Facility Agreement of 21 December 2012, as amended, and the New Bond issue affected the Company's business considerably. The Company continued to conduct analyses in cooperation with third-party advisors, implement the remedy program as well as new tender and contract risk review procedures.

Macroeconomic and political risks

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

- strategic risks, including those resulting from a mismatch between the adopted strategy and the changing market conditions and restructuring processes:
  a) a risk that the economic and financial plans will not be achieved;
  b) a risk involved in building a new contract portfolio and a risk of termination of contracts (especially, long-term ones);
  c) a risk of competitive imbalance;
  d) legal risks related to lengthy and costly court proceedings;
- operational risks:
  e) a risk of measurement of long-term construction contracts;
  f) a risk of changes in the demand for specialist services;
  g) a risk of price fluctuations on the key commodity markets;
  h) a risk of loss of resources;
  i) a risk of loss of qualified employees;

- financial risks:
  - j) liquidity (credit) risk;
  - k) a risk of performance bonds (including a risk of a lack of new performance bonds and a risk of accumulated payments under bank and insurance guarantees);
  - l) trade credit risk;
  - m) interest rate risk;
  - n) currency risk.

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

- long-term contracts material for development of the Company and the Capital Group;
- the ability to fulfil public procurement contracts or its limitation;
- confidence of the key business partners.

Preventing the occurrence of the said risks is the key objective of the Management Board of the Company, which holds negotiations with the clients, consortium partners and banks. Those risks are managed by the Company's senior executives.

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

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

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

The ongoing restructuring process, liquidity issues encountered by the Company and problems with timely contract fulfilment, including the inability to obtain bank or insurance guarantees, have led to a considerable limitation of confidence of the Company and Group Companies' business partners. If the restructuring process is completed successfully, the Company's financial stability should enable it to win back its key business partners.

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

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

Operational risks

Major risks in this respect are related to measurement and fulfilment of long-term construction contracts and the liquidated damages thereunder. Management of risks related to contract measurement and fulfilment, accumulated at the Group level, requires effective information channels as well as uniform budget review and project cost discipline procedures. As at the date of these financial statements, the Company had implemented procedures, including consistent principles of controlling the tendering process as well as long-term contract planning and settlement in each segment. Also, the Company has been introducing additional, uniform tools supporting the budgeting and ongoing cost control process (independent verification of compliance with the work schedule). Due to fulfilment of long-term energy contracts, operational risk management is one of the key tasks at each level and stage of the contract delivery and monitoring process. During the reporting period, the Company's ability to deliver contracts within the agreed time limits was considerably impaired due to a strong demand for funding, liquidity problems and the construction market conditions.

Risk of changing demand for specialist anti-corrosion coating services – hot-dip zinc coating and painting metal structures at Polimex-Mostostal S.A. The trends observed in the construction industry indicate a growing interest in hot-dip zinc coating services. This is supported by a regular, several percent growth of sales year-on-year. Therefore, the risk of changing demand may be considered medium. The prices of such services depend on zinc prices quoted on the London Exchange. The said commodity is the major cost-generating factor for such operations. Contracts signed with clients for 2014 provide for modification of prices depending on changes in the market prices of zinc.

Risk of loss of resources: The Company uses widely insurance products available in the market. These include both property insurance (most of all, business liability insurance, professional liability insurance [liability insurance of designers, architects and construction engineers], board member liability insurance as well as property insurance covering fortuitous events, theft and burglary, electronic appliances, property transported) as well as construction and assembly insurance arranged under general contracts and individual policies arranged for specific contracts. All the companies used motor insurance covering liability, comprehensive, theft and accident insurance, both under general (fleet) and individual contracts. The costs of insurable risk transfer as well as detailed terms and conditions of contract insurance required by business partners are subject to analysis. The majority of such risks are transferred onto third parties and the related costs are included in the contract delivery costs. The aforesaid risk level is considered low.

Risk of loss of resources as a result of pledging the Company's assets as collateral for liabilities: Use of the collateral by the creditors poses a considerable risk from the perspective of the Company's ability to continue its operations in case of bottlenecks and a crisis in the construction sector, which intensifies the pressure to use the collateral even if such use is not justified by the terms of contracts. The aforementioned risk could considerably hinder timely and proper performance of agreements and contracts, which would escalate contractual sanctions, such as imposition of liquidated damages, engagement of substitute contractors at the expense of the Company or even contract termination through the fault of the Company. As at the date of these financial statements, major risks related to the Company's imposition of penalties under contracts and termination of the motorway contracts through the fault of the client had occurred.

Risk of contract guarantees: At the time of submission of tenders, in particular as regards procedures carried out in accordance with the Public Procurement Law, it is necessary to provide tender bonds, which requirement has been satisfied by the Company using bank and insurance tender guarantees. Upon contract conclusion, the Company, as the major contractor, is obliged to provide performance bonds, the average value of which represents ca. 10% of the contract value. Recently, due to the crisis in the Polish construction sector, banks/insurance companies have not been willing to increase their guarantee exposure to construction companies.

Under the New Guarantee Facility Agreement of 21 December 2012, as amended, the Company may request banks to give guarantees up to the agreed limit. Guarantees may be given under the New Guarantee Facility provided that the project has been approved by experts, including a third-party advisor and the Financing Banks, and the contract partners' consent for assignment of receivables under contracts onto the banks has been obtained. In the majority of projects, the ability to use the facility is considerably hindered if the consent for assignment of receivables, in particular on construction works projects, is not granted.

In 2014, the Company was exposed to a risk of claims and payments under bank guarantees, in particular, due to difficulties in timely fulfilment of long-term contracts and the inability to obtain bank guarantees or modify the terms of such guarantees under the annexes to contracts, including extension of the validity period of guarantees related to contracts signed before 21 December 2012.

(unless stated otherwise, figures in tables are in PLN '000)

The ability to obtain guarantees used as tender bonds or performance bonds and to modify the terms of guarantees which have already been obtained was one of the major risk factors in 2014, determining the ability to secure new contract and fulfil those concluded before without any disruptions. If a bond in the form of a bank guarantee may not be provided, the Company uses guarantee deposits. However, this trend has had a negative effect on its liquidity.

Limited access to bank and insurance guarantees in light of the provisions imposing the obligation to provide a guarantee for payment for construction works represents another risk factor at individual stages of construction contracts. A failure to comply with mandatory laws within the prescribed time limits may lead to suspension of works or even contract termination through the fault of the Company.

Risk of loss of qualified employees: The crisis situation in the construction sector also necessitates implementation of immediate cost-cutting initiatives, including those aimed at reducing personnel costs. The Company introduced group dismissal procedures as part of the operational restructuring process and implementation of the cost-cutting policy. It is exposed to the risk of losing highly-qualified and experienced employees, who may leave in the context of instability of employment, and look for a job offering a higher salary. Should new contracts be signed, the Company may encounter problems in recruitment of new, qualified staff with the required expertise, experience and qualifications, or recruitment of such employees may involve higher personnel costs. Therefore, optimization initiatives are needed in addition to increasing efficiency of staff and extending the scope of cooperation with subcontractors. The Collective Labor Agreement has been terminated by the Company. At present, negotiations are being conducted over a new collective labor agreement and further group dismissal.

Interest rate risk: The Company holds cash in its bank accounts and has loan liabilities to banks. Additionally, the Company's debt includes liabilities due to bonds issued. The aforesaid liabilities are based on floating interest rates. The entities monitor the situation in the financial market, analyze trends and forecasts concerning reference market rates of interest so as to be able to take decisions, when appropriate, on conclusion of contracts as part of the available limits to hedge themselves against the unfavorable rises in interest expense related to borrowings.

Interest rate risk – sensitivity analysis

The table below presents sensitivity of the gross profit/loss to reasonably possible changes in interest rates with all other factors held constant (in relation to floating-rate liabilities).

47. Sensitivity analysis – interest rate changes

		Increase/decrease by	
	Value at risk	+0.50%	-0.50%
Year ended 31 December 2014			
Cash at bank	514 422	2 581	(2581)
Bank loans and credit facilities (principal)	265 827	(1 329)	1 329
Performance bonds issued by banks	220 570	1 103	(1 103)
Finance lease liabilities	947	(5)	5
Bonds	162 419	(812)	812
Effect on gross profit/loss	-	**1 538**	**(1 538)**
Deferred tax	-	(292)	292
Total		**1 246**	**(1 246)**

		Increase/decrease by	
	Value at risk	+0.50%	-0.50%
Year ended 31 December 2013			
Cash at bank	319 430	1 597	(1 597)
Originated loans	22 643	113	(113)
Bank loans and credit facilities	653 290	(3 267)	3 267
Finance lease liabilities	2 522	(13)	13
Bonds	126 890	(634)	634
Effect on gross profit/loss	-	**(2 204)**	**2 204**
Deferred tax	-	418	(418)
Total		**(1 786)**	**1 786**

(unless stated otherwise, figures in tables are in PLN '000)

48. Currency risk

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

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

On 21 December 2012, the Financial Debt Service Agreement was concluded, whereby FX derivatives may not be used as the available credit products. Therefore, the importance of natural hedges as the key tool for mitigation of the currency risk related to the business activities is expected to grow. The Company is planning to continue negotiations over treasury limits with banks in order to be able to manage the currency risk it is exposed to more efficiently.

Currency risk exposure*

	31 December 2014			**31 December 2013**		
	EUR	*USD*	*GBP*	*EUR*	*USD*	*GBP*
Trade receivables	23 742	846	2 065	41 022	4 264	362
Collateralized bank loans	553	-	-	195	-	-
Trade liabilities	5 439	87	211	10 937	78	(208)
Gross carrying amount	**17 750**	**759**	**1 854**	**29 890**	**4 186**	**570**
Estimated sales	13 978	-	5 619	61 063	-	951
Estimated costs	3 398	1 493	1 378	24 961	8 724	158
Gross exposure	**10 580**	**(1 493)**	**4 241**	**36 102**	**(8 724)**	**793**
FX forwards	-	-	-	-	-	-
FX options	-	-	-	-	-	-
Net exposure	**28 330**	**(734)**	**6 095**	**65 992**	**(4 538)**	**1 363**

* amounts presented in the respective currencies

(unless stated otherwise, figures in tables are in PLN '000)

Currency risk sensitivity analysis as at 31 December 2014

	Carrying amount	EUR/PLN		USD/PLN		GBP/PLN	
		exchange rate (change +10%)	exchange rate (change - 10%)	exchange rate (change +10%)	exchange rate (change - 10%)	exchange rate (change +10%)	exchange rate (change - 10%)
Cash and cash equivalents	21 808	1 331	(1 331)	4	(4)	846	(846)
Trade receivables	115 444	10 119	(10 119)	297	(297)	1 128	(1 128)
Trade and other liabilities	(21 724)	(2 318)	2 318	(31)	31	(115)	115
Credit facilities, loans and other sources of funding	(2 357)	(236)	236	-	-	-	-
Effect on gross profit/loss	**113 171**	**8 896**	**(8 896)**	**270**	**(270)**	**1 859**	**(1 859)**
Derivative financial instruments		-	-	-	-	-	-
Effect on other gross comprehensive income		**-**	**-**	-	-	**-**	**-**

Currency risk sensitivity analysis as at 31 December 2013

	Carrying amount	EUR/PLN		USD/PLN		GBP/PLN	
		exchange rate (change +10%)	exchange rate (change - 10%)	exchange rate (change +10%)	exchange rate (change - 10%)	exchange rate (change +10%)	exchange rate (change - 10%)
Cash and cash equivalents	11 691	1 161	(1 161)	2	(2)	59	(59)
Trade receivables	184 775	17 013	(17 013)	1 284	(1 284)	181	(181)
Trade and other liabilities	(44 559)	(4 536)	4 536	(23)	23	103	(103)
Credit facilities, loans and other sources of funding	(809)	(81)	81	-	-	-	-
Effect on gross profit/loss	**151 098**	**13 557**	**(13 557)**	**1 263**	**(1 263)**	**343**	**(343)**
Derivative financial instruments		-	-	-	-	-	-
Effect on other gross comprehensive income		**-**	**-**	-	-	**-**	**-**

48.1. Commodity price risk

The economic efficiency of the Company's manufacturing operations is highly dependent on fluctuations in the prices of raw materials, mainly steel, aggregates and asphalt. The Company has implemented a central materials procurement procedure (economies of scale, negotiating lower purchase prices). However, the procedures implemented by the Company did not prove sufficiently effective in offsetting the negative effect of rising prices of raw materials and commodities used under long-term contracts. The terms of contracts for supplies were renegotiated successfully.

To this end, both procedural changes in the approach of the major investors to price indexation in long-term contracts and the Company's definition of the acceptable risk at a level appropriate for covering the price rises and the loss of the total mark-up planned on the project are required.

48.2. Trade credit risk

The trade credit risk related to trade receivables is mitigated through diversification of customers and a case-by-case approach to the analysis of each business partner's credibility (in both legal and economic terms). The credit risk is further minimized by:

- for foreign customers:
- insuring trade receivables;
- obtaining security for payment of receivables in the form of documentary letters of credit, guarantees and sureties;
- for domestic customers:
- obtaining security for payment of receivables in the form of bank and insurance guarantees;
- securing payment of receivables through sureties, liens, registered pledges or mortgages as well as promissory notes due to limited access to bank guarantees.

Although the aforementioned risk is monitored and negotiations conducted with business partners over extension of the payment terms, the high level of the risk could not be reduced due to:

- the pressure of suppliers of materials strategic for infrastructure projects to reduce the payment terms to the minimum, including the requirement to make advance payments or provide security in the form of expensive financial instruments (bank guarantees, letters of credit);
- bankruptcies in the construction sector and financial difficulties encountered by other consortium members, subcontractors and subsidiaries;
- lack of access to credit risk insurance limits and guarantee limits provided by insurers;
- lack of agreements on settlement of additional works and a rise in the prices of materials in relation to major infrastructure contracts;
- banks' unwillingness to finance projects in the construction sector.

48.3. Liquidity risk

Capital management is aimed at ensuring liquidity on an ongoing basis, in each period. The Company's liquidity risk is managed pro-actively. The Company uses financial ratios for liquidity management purposes, which additionally support the process. In order to maintain liquidity in the nearest future, the Company needs to engage in projects and contracts ensuring neutral and positive cash flows. The aforementioned risk is monitored on an ongoing basis and analyzed both in the short and long term.

A high level of the Company and the Group's debt was reduced, which is important, in particular, for the Company and the Group's ability to secure funding from financial institutions, in particular, in the form of bank guarantees, extend the due dates or require advance payments from the contracting parties as well as the ability to use some of the cash flows as capital expenditure. Improvement of the Company's flexibility in planning or responding to changes in its business, competitive environment and markets where it operates enhances the Company's market image and relationships with the key contracting parties, which was reflected in the last quarter of 2014 in the power engineering and petrochemistry contracts signed by the Company.

The Financial Debt Service Agreement imposed a number of obligations on the Company, in particular the obligation to: (i) make timely payments to the Creditors; (ii) obtain specific proceeds from disposal of the Company's assets as part of the divestment process; (iii) reduce operating expenses to the level defined in the Agreement; (iv) restructure past due trade liabilities or keep the financial ratios at a specified level. The majority of these objectives have already been accomplished.

Conclusion of the Financial Debt Service Agreement with the Creditors is a mechanism minimizing the financial risks, including the liquidity risk. Owing to the capital injection, which enabled efficient working capital management, the Company's liquidity was considerably improved, which resulted in a drop in past due liabilities almost by a half, i.e. from PLN 184 million as at 31 December 2013 to PLN 100 million a year later. The current balance of past due liabilities is now (mid-March) considerably below PLN 80 million. Additionally, initiatives were undertaken with a view to centralizing finance management at the Group level as well as optimizing interest income and expense through efficient structure management, which produced the aforesaid effects in a relatively short time.

(unless stated otherwise, figures in tables are in PLN '000)

The Company's financial liabilities as at 31 December 2014 and 31 December 2013 by maturity based on contractual, non-discounted payments:

31 December 2014	On demand	Less than 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
Interest-bearing credit facilities and loans	-	150 000	-	133 153	-	283 153
Bonds	-	-	-	135 388	-	135 388
Other non-current liabilities, including:	-	-	-	310 484	-	310 484
- leases	-	-	-	34	-	34
Trade and other liabilities, including:	100 006	360 915	11 007	-	-	471 928
- leases	-	-	897	-	-	897
	100 006	**510 915**	**11 007**	**579 025**	**-**	**1 200 953**

31 December 2013	On demand	Less than 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
Interest-bearing credit facilities and loans	651 946	-	-	-	1 344	653 290
Bonds	126 890	-	-	-	-	126 890
Other non-current liabilities, including:	-	-	-	220 186	-	220 186
- leases	-	-	-	429	-	429
Trade and other liabilities, including:	183 235	378 241	533 135	-	-	1 094 611
- leases	-	524	1 569	-	-	2 093
	962 071	**378 241**	**533 135**	**220 186**	**1 344**	**2 094 977**

(unless stated otherwise, figures in tables are in PLN '000)

49. Interest rate risk

Carrying amount of the Company's financial instruments exposed to the interest rate risk by maturity:

Year ended 31 December 2014

Fixed interest rate

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Liabilities under finance and buy-back lease agreements	-	-	-	-	-	-	-
Liabilities under finance and buy-back lease agreements presented as long-term credit facilities and loans on the balance sheet	-	-	-	-	-	-	-
Bank loan	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Floating interest rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	514 422	-	-	-	-	-	514 422
Overdraft facilities	-	-	-	-	-	-	-
Working capital and investment loan	150 000	-	-	-	133 153	-	283 153
Leases	897	34	-	-	-	-	931
Bonds	-	-	-	-	135 388	-	135 388
Loans	225	3174	1200	-	1411	27 275	33 285
Total	**665 544**	**3 208**	**1 200**	**0**	**269 952**	**27 275**	**967 179**

Year ended 31 December 2013

Fixed interest rate

	<1rok	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Liabilities under finance and buy-back lease agreements	-	-	-	-	-	-	-
Liabilities under finance and buy-back lease agreements presented as long-term credit facilities and loans on the balance sheet	-	-	-	-	-	-	-
Bank loan	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Floating interest rate

	<1rok	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Cash assets	319 430	-	-	-	-	-	319 430
Originated loans	22 607	10	10	10	6	-	22 643
Working capital and investment loan	644 315		-	-	-	-	644 315
Leases	2 093	390	39	-	-	-	2 522
Bonds	126 890	-	-	-	-	-	126 890
Originated loans	50	-	2881	1200	4844	-	8 975
Total	**1 115 385**	**400**	**2 930**	**1 210**	**4 850**	**-**	**1 124 775**

(unless stated otherwise, figures in tables are in PLN '000)

50. Fair values of financial instruments by categories

According to the Management Board, the carrying amounts of financial assets and liabilities recognized in the separate financial statements are similar to their fair values.

Some financial assets and liabilities of the Company are measured at fair value at the end of each reporting period. Information on the method of fair value measurement of the aforesaid financial assets and liabilities (specifically, measurement techniques and input data):

		31 December 2014	
	Level 1	Level 2	Level 3
Shares			166 009
Financial assets measured at fair value through profit or loss – derivative instruments	-	-	6 601

		31 December 2013	
	Level 1	Level 2	Level 3
Shares	-	-	145 617
Financial assets measured at fair value through profit or loss – derivative instruments	-	-	6 601

Measurement of a derivative financial instrument

The Company is a party to an Investment Certificate Call Option Agreement made with PKO BP S.A. on 7 November 2013, as amended, which will specify the future purchase/settlement amount depending on the prices in the real estate market. If the minimum rate of return on the investment is not achieved by the investor, the Company will be obliged to offset a specified portion of the loss. Should the value of the real estate portfolio increase, the Company has guaranteed participation in a portion of profit above the rate of return guaranteed for the investor.

The aforesaid instrument was measured as at 31 December 2014 and 31 December 2013 based on the forecast growth of the real estate portfolio within the horizon of the transaction. As a result, an appropriate share in the profit, discounted as at the end of the reporting period, was recognized by the Company in profit or loss.
The option was measured at fair value using a discount rate of 2.74% and an average forecast real estate portfolio growth rate of 40% in the five-year horizon. Such measurement of fair value was classified as Level 3 of the fair value hierarchy. Should the real estate portfolio growth rate increase, the measurement of the derivative would be higher. Should the discount rate increase, the measurement of the derivative would be lower.

51. Reconciliation of Level 3 fair value with measurement of financial assets

	31 December 2014
Opening balance	145 617
Total profit or loss:	
- profit or loss	-59 608
Purchases	80 000
Closing balance	**166 009**

(unless stated otherwise, figures in tables are in PLN '000)

52. Headcount structure

The Company's average headcount in 2014 and 2013:

	As at 31 December 2014	**As at 31 December 2013**
Management Board	4	4
Support function	256	502
Operations function	4155	6 201
Total	4 415	6 707

53. Events after the end of the reporting period

The following events, which are considered important for the business of Polimex Mostostal S.A., occurred after 31 December 2014:

On 21 January 2015, the liquidation procedure was opened by the District Court in Dusseldorf for Polimex GmbH with its registered office in Ratingen, Germany (a subsidiary).

On 23 January 2015, a conditional agreement on the sale of developed property in Siadło Dolne, the municipality of Kołbaskowo, was signed. In addition to the aforesaid property, the agreement provides for the sale of and establishment of a separate title to the facilities located on the said real property. The net price for the real property under the conditional agreement is PLN 8,250,000.00.

On 28 January 2015, a conditional agreement on the sale of the right of perpetual usufruct of developed property was signed in relation to properties located in Stalowa Wola, the municipality of Stalowa Wola. The total net price for the real property under the conditional agreement is PLN 6,600,000.00.

On 2 February 2015, a conditional agreement on the sale of developed property and an agreement on the sale of the right of perpetual usufruct of real property located in Jasło, the municipality of Jasło, were signed. The total net price for the real property under the conditional agreement is PLN 3,300,000.00.

The aforesaid conditional sales agreements form part of the operational restructuring process, as communicated by the Company in its Current Report No. 130/2012 concerning the Financial Debt Service Agreement signed with the creditors, and were concluded to fulfil the Company's obligations under the Annex to the FDSA, the details of which were provided in Current Report No. 150/2013 of 25 October 2013.

On 11 March 2015, the Polish Financial Supervision Authority issued a decision on approval of the Company's prospectus prepared for purposes of the application for admission of 2,863,571,852 R series ordinary bearer shares and their introduction to trading on the regulated market of the Warsaw Stock Exchange. On 17 March 2015, the Management Board of the Warsaw Stock Exchange adopted Resolution No. 248/2015 on admission of R series ordinary bearer shares of Polimex-Mostostal S.A. and their introduction to trading on the main market of the Warsaw Stock Exchange.

At the Company's request, 2,863,571,852 (two billion eight hundred and sixty-three million five hundred and seventy-one thousand eight hundred and fifty-two) R series ordinary bearer shares with the par value of PLN 0.04 each ("Shares") were admitted to trading on the main market.

On 18 March 2015, the National Depository for Securities announced that 2,863,571,852 R series ordinary bearer shares with the par value of PLN 0.04 each would be registered by the National Depository for Securities under code PLMSTSD00019. The shares were registered by the National Depository for Securities on 20 March 2015.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	Full name	Position/Function	Signature
23.03.2015	Maciej Stańczuk	Acting Chairperson of the Board	
23.03.2015	Joanna Makowiecka-Gaca	Vice-Chairperson of the Board	
23.03.2015	Krzysztof Cetnar	Vice-Chairperson of the Board	
23.03.2015	Jacek Czerwonka	Vice-Chairperson of the Board	

SIGNATURE OF THE PERSON RESPONSIBLE FOR KEEPING THE ACCOUNTING RECORDS			
Date	Full name	Position/Function	Signature
23.03.2015	Magdalena Kluziak	Chief Accountant	