POLIMEX-MOSTOSTAL GROUP

REPORT ON THE ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2014

Warsaw, 23 March 2015

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1. Business activity of the Polimex-Mostostal Group

Polimex-Mostostal S.A. ("Issuer", "Company") is an engineering construction company active on the market since 1945. In the reporting period, the scope of business carried out by the Issuer and the Group companies was the same as in the preceding years and included provision of engineering construction services for the power engineering, chemical, refinery and petrochemical, environmental protection as well as industrial, infrastructure and general construction sector in the capacity of a general contractor or as part of consortia. Owing to its production potential and state-of-the-art equipment, the Issuer's Group managed to maintain the position of a recognized manufacturer and exporter of steel structures and products, including grids.

Additionally, in the reporting period the Issuer offered anti-corrosion, especially hot-dip zinc coating services delivered using the latest technologies.

In addition to Poland, the Issuer's Group was active on foreign markets, mainly in the European Union, where a major part of its products and steel structures as well as construction and assembly services were sold.

The Polimex-Mostostal Group carried out its operations in the following segments: *Power Engineering, Petrochemistry, Production, Industry, Infrastructure Construction* and *Other*.

The services offered in the *Power Engineering* segment included comprehensive construction of facilities for the power, power engineering and municipal power industries in addition to the accompanying facilities, such as waste gas and water treatment or fuel supply and slag collection systems. The Group also provided repair and modernization services as well as technical service of electrical power equipment.

The scope of services offered by the Group in the *Petrochemistry* segment included general contractor services in relation to production facilities for chemical plants and refineries, biofuel plants as well as gas and liquid fuel transmission and storage infrastructure. The Group also supplied and installed specialist production facilities and delivered all types of tanks, pipelines, industrial furnaces and similar equipment. Furthermore, it offered overhauls of process lines, also without any downtime, which requires a special regime.
The *Petrochemistry* segment includes the Issuer and the Group companies' environmental protection activities involving construction or extension of complete sewage treatment plants as well as municipal and industrial waste management facilities, such as those used for purposes of neutralization of industrial emissions.

The Group's production is unique among other construction companies, as none of the competitors operating on the Polish market has production plants offering an equally broad range of steel products for clients in Poland and abroad. In the *Production* segment, the Group focused on manufacturing steel structures for the power engineering, petrochemical, steel and extractive industries, telecommunication and road construction sectors as well as for purposes of construction of rooms, shopping centers, sports facilities and public utility facilities. It offered a wide range of support structures and casing for the building construction and industrial construction sector, bridge, flyover and overpass components as well as noise barriers and soundwalls for the road construction sector, including grids, rack systems and shoring system components. Finally, the Group supplied high-pressure pipelines for transporting liquids.

In 2014, the Management Board of the Issuer decided to discontinue the *Production* operations and sell an organized part of the enterprise in Siedlce, i.e. the former Mostostal Siedlce. The said organized part of the enterprise is planned to be sold in Q1 or Q2 2015. Additionally, the following segment companies are planned to be sold: Stalfa Sp. z o.o., ZKM Ukraine, Zakład Usług Technicznych Sp. z o.o. and Polimex - Mostostal Ukraine. The Issuer's sale of an organized part of the enterprise and shares in the subsidiaries is required by the Financial Debt Service Agreement of 21 December 2012 ("FDSA"), including Annex No. 6 thereto, dated 30 July 2014.

The Group's activities in the *Industry* segment focused on erection of various types of buildings. The Group has implemented the latest technologies for purposes of manufacturing and installation of steel structures used in the construction of office buildings, retail space, storehouses and sports facilities. The Group also supplied and installed such structures for the industrial, power engineering and chemical sectors.

In the reporting period, the Group's infrastructure construction activities involved design and construction of roads and railways along with complete technical infrastructure, with roads and motorways constructed directly by Polimex-Mostostal and railway works carried out by its subsidiary, Torpol. Polimex-Mostostal suspended its road construction activities and decided not to tender for any new contracts in that sector. Additionally, the Company has been withdrawing steadily from the general construction of buildings. Such an action plan has been adopted to enable the entity to generate profit in the upcoming years.

The value of the Group's portfolio of contracts planned to be fulfilled in the upcoming years is high (PLN 5.9 billion).

Since January 2014, Polimex-Mostostal S.A., as a consortium member, has been delivering a contract involving construction of two new power units for the *Opole Power Plant*. The said contract is significant in the power engineering industry, which is of strategic importance for Polimex-Mostostal. This is the largest investment in the Polish power industry on record and its importance for the industry is crucial. It is worth PLN 11.5 billion gross, out of which ca. 42%, i.e. PLN 4.83 billion, is attributable to Polimex-Mostostal.

The contract provides for construction of turbine islands and a cooling tower with a cooling water system by Polimex-Mostostal S.A. The Company will also install the electrical system along with the control and measurement apparatus and automatic control system, and will be involved in design works. Unit no. 5 is planned to be commissioned in the second half of 2018 and unit no. 6 at the beginning of 2019.

As a consortium member, Polimex-Mostostal is also constructing a new unit in the *Kozienice Power Plant* with the capacity of 1075 MW. The scope of the contract includes construction and assembly works, the total value of which is ca. PLN 6.3 billion gross, out of which PLN 42.7% is attributable to Polimex-Mostostal S.A.

Additionally, Polimex-Mostostal S.A. is carrying out construction and assembly works under a flue-gas desulfurization system contract. The gross contract value is PLN 78.6 million. In April 2014, Enea Wytwarzanie accepted the tender submitted by Polimex-Mostostal for boiler modernization in unit no. 10 in the *Kozienice Power Plant* as the most competitive one. The contract worth PLN 15.7 million has already been fulfilled.

In January 2014, consortia with Polimex-Mostostal as a member, terminated (and thus ended the performance of) road construction contracts signed with the Directorate General for National Roads and Motorways (DGNRM) for construction of a part of S69 expressway and parts of A1 and A4 motorways.

On 6 May 2014, as a result of negotiations over the issue, the Company signed a letter of intent with DGNRM setting out the terms of cooperation and settlements. Thus, the parties declared the intention to cooperate with respect to contract settlement and conclusion of an amicable agreement on the amount of their counterclaims. The risks involved in road construction contract termination have been presented in detail in Note 14.1 to the consolidated financial statements.

In 2014, in parallel to the tasks specified in the contracts signed by the Company, Polimex-Mostostal continued the operational and asset restructuring program.

The operational restructuring initiative carried out in 2014 was aimed at further optimization of the Company's structure and scope of business in addition to enhancing its efficiency and competitive advantage. The procurement process has been centralized and a project aimed at establishment of a holding structure launched. Employment of such measures translated into a considerable reduction in operating expenses, specifically general and administrative ones.

Two segments, namely *Petrochemistry* and *Power Engineering*, were separated in the organizational structure of the Group and transferred to commercial companies: Naftoremont – Naftobudowa Sp. z o.o. and Polimex Energetyka Sp. z o.o. Naftoremont – Naftobudowa Sp. z o.o. will operate in the chemical, oil and gas industry. The scope of its business will include supplies, installation and commissioning of process equipment, refinery furnaces, steel structures, storage tanks, industrial pipelines as well as construction and assembly works, repairs and TPM at multiple-industry facilities. Transfer of the *Petrochemistry* segment to an entity established on the basis of a development company (Mostostal-Development Warszawa Sp. z o.o.) is aimed at building its position as a preferred engineering technology partner for strategic and prospective business projects carried out in the chemical, oil and gas industry.

The scope of business of Polimex-Energetyka Sp. z o.o. will include construction, repair, assembly and technical services provided to power companies. Two plants will be established within the structure of Polimex-Energetyka to continue the business activities of the segments, i.e.: (i) *Zakład Energetyki* (Power Engineering Facility) to implement major power engineering projects involving general contractor, assembly, modernization and repair services provided to power industry clients and (ii) *Zakład Serwis* (Technical Service Facility) to carry out smaller-scale projects consisting in installation, repair and technical service of boilers, pipelines and technical equipment for power industry clients. Transfer of the power engineering and technical service segment to Polimex-Energetyka is aimed at establishing an entity that will become a preferred engineering technology partner for strategic and prospective business projects carried out in the power industry.

Initially, the said companies will fulfil contracts signed by the Group and later secure their own contracts.

In 2014, assets which are not related to the core business of the Issuer were continued to be sold. The Group's structure was further simplified, which facilitated a reduction of its operating expenses. Furthermore, a manufacturing branch in Siedlce was established in the organizational structure of Polimex-Mostostal as a separate business entity. Since January 2014, it has been operating independently, which should facilitate its planned sale in the future. Divestments carried out thus far prove that the assets designated by the Issuer for sale are attractive, which should translate into satisfactory prices.

As part of the divestment process involving disposal of assets which are not related to the core business, i.e. engineering technology construction, 100% of shares in subsidiaries, Torpol S.A. and Energomontaż Północ Technika Spawalnicza i Laboratorium Sp. z o.o., were sold. Additionally, Polimex-Mostostal S.A. designated numerous items of real property for sale, also in package transactions.

As of the beginning of 2014, the Group continued a headcount reduction program. The said process was aimed at adjusting the employment potential to the contracts signed by the Group. The group dismissal program affected staff in different locations and on various positions, including non-production as well as higher- and lower-level management employees.

In June 2014, a new Collective Labor Agreement ("CLA") was signed by the Issuer and labor unions in addition to an agreement resolving finally a collective dispute. The new CLA sets out the terms of employment, specifically with respect to the employee compensation and bonus system, taking into account the financial and organizational position of the Company. The new CLA supports the restructuring process carried out by Polimex-Mostostal. The aforesaid regulations have been adopted with a view to clarifying the terms of employment, raising employees' confidence in the Company in addition to increasing staff efficiency and motivation through introduction of a transparent compensation and bonus system.
At the same time, the Company has been implementing initiatives aimed at bringing its internal regulations into line with the current economic situation and the newly-adopted organizational structure.

The measures employed consistently and the effects of the remedy program enabled the final close of the 3rd stage of the restructuring process in line with the procedure defined in the FDSA, on 24 September 2014. It included, among other things, an issue of bonds, conversion of the Company's debt of PLN 501 million into shares, arrangement of guarantee facilities and deferment of payment of other liabilities. Payment of liabilities to financial institutions and bond holders which have not been converted has been deferred until 2017-2019.

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 was made and the New Bonds issued on 1 October 2014. A portion of proceeds from the issue of bonds has been allocated to the new segment companies, i.e. Naftoremont–Naftobudowa Sp. z o.o. and Polimex Energetyka Sp. z o.o., for purposes of increasing their share capital.

At the same time, initiatives were implemented to reorganize the Capital Group of Polimex-Mostostal S.A. As a result, the organizational structure was simplified and operating expenses reduced.

On the whole, despite a tense situation as regards liquidity, in 2014 the Company continued its operating activities by fulfilling major contracts, e.g. in the demanding power engineering industry.

Improvement of liquidity, which should gradually rebuild the trust of investors, creditors, clients and subcontractors, remains one of the key priorities.

1.1. Revenue and its structure

In 2014, the Polimex-Mostostal S.A. Group generated sales revenue of PLN 2,102,197,000.00 (down by 11.0% year-on-year). The sales volume in 2014 was affected by: (i) deterioration of the general economic conditions in the construction sector; (ii) a lower volume of industrial technical service orders related to total productive maintenance, day-to-day repairs and maintenance, emergencies, repairs and modernization, installation of steam boilers, water heaters as well as condensing, heat and industrial turbines with accessories and industrial automatic control systems; (iii) worse financial standing of Polimex- Mostostal S.A., which resulted in a reduced processing capacity and contract termination both by clients and subcontractors.

The share of the **operating segments** of the Polimex-Mostostal S.A. Group in sales generated in 2014:

PLN '000

Segment	**Change 2014 / 2013**	**Year ended 31 December 2014**		**Year ended 31 December 2013**	
		value	share	value	share
Production	-24.1%	376 755	17.9%	496 273	21.0%
Industry	-41.8%	124 400	5.9%	213 575	9.0%
Power Engineering	62.3%	968 837	46.1%	596 795	25.3%
Infrastructure Construction	-41.1%	466 173	22.2%	791 382	33.5%
Petrochemistry	-24.9%	115 340	5.5%	153 668	6.5%
Other	-54.4%	50 692	2.4%	111 059	4.6%
Total sales revenue	-11.0%	2 102 197	100.0%	2 362 752	100.0%

The share of the *Power Engineering* segment in sales revenue was the highest (46.1%, which denotes a rise by 62.3% year-on-year), followed by *Infrastructure Construction* (22.2%, down by 41.1% as compared to 2013), *Production* (17.9%, which represents a drop by 24.1% year-on-year), *Industry* (5.9%, a 41.8% decrease vs. 2013) and *Petrochemistry* (5.5%, down by 24.9% as compared to 2013).

1.2. Key products and services

In 2014, following disposal of two subsidiaries, the scope of business of the Polimex-Mostostal Group was reduced as compared to the prior period and included the following key products and services:

- preparation of pre-feasibility studies and analyses and drafting working and as-built documentation;
- comprehensive investment process services as well as equipment and industrial facility order picking;
- general contractor services related to industrial and public utility facilities, roads and railroads;
- installation of specialist equipment, in particular for purposes of the petrochemical and power industries;
- day-to-day and comprehensive technical services provided to industrial plants;
- manufacturing steel structures for purposes of industrial construction, mainly the power and petrochemical industries;
- manufacturing, supplies and assembly of steel structures used for construction of shopping centers, storehouses, sports and public utility facilities, gas stations and storage terminals; the Group's contracts are fulfilled using proprietary, customized technical solutions or those tailored to specific needs of clients;
- manufacturing, supplies and assembly of bridges, flyovers and overpasses as well as safety barriers and soundwalls used in the road construction sector;
- manufacturing and supplies of welded and pressed MOSTOSTAL grids along with fasteners ensuring their fast and secure installation. The said grids are used by production plants as part of production line supporting platforms as well as passageways located next to pipelines and tanks. They are also used as footways on overpasses and bridges, manhole covers, lids and stairs;

- manufacturing and supplies of rack systems, pallets and containers for purposes of transporting various products and a wide range of construction accessories, including pillars used for ceiling construction;
- services involving anti-corrosion coating of steel structures using:
  – hot-dip zinc coating;
  – Duplex system (zinc coating + hydraulic painting);
  – hydraulic painting.

1.3. Markets and sources of supply

Value and geographical structure of sales of the Polimex-Mostostal S.A. Group in 2014:

PLN '000

Market	Change 2014 / 2013	2014		2013	
		value	share	value	share
Domestic	-3.2%	1 718 219	81.7%	1 774 271	75.1%
Foreign	-34.8%	383 978	18.3%	588 481	24.9%
Total sales revenue	-11.0%	2 102 197	100.0%	2 362 752	100.0%

Sales dropped both on the domestic market (by 3.2%) and on foreign markets (by 34.8%) as compared to 2013. The Polish market representing 81.7% of total sales revenue remained the Group's key market in 2014. Foreign sales dropped considerably as compared to 2013 (by 34.8%). The share of export sales in total sales went down from 24.9% in 2013 to 18.3% in 2014.

In 2014, the Group'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, Hitachi Zosen Inova AG, TOTAL RAFFINADERIJ ANTWERPEN and Molina Sp. z o.o. Sales revenue exceeded the threshold of 10% of the total sales revenue generated by the Polimex-Mostostal S.A. Group in transactions with ENEA Wytwarzanie S.A. and PGE Górnictwo i Energetyka. The aforesaid entities are not formally related to Polimex-Mostostal S.A.

In 2014, the Group's **key suppliers** were: HAMON POLSKA Sp. z o.o., Doprastav S.A. (Branch in Poland), Centrala Zaopatrzenia Hutnictwa S.A., BOBREK Sp. J., IDS-BUD S.A., Biuro Studiów, Projektów i Realizacji ENERGOPROJEKT - KATOWICE S.A., Mostostal Słupca Sp. z o.o. and INSTAL-WARSZAWA S.A.

1.4. Material related-party transactions entered into by the Issuer or its subsidiaries on non-arm's length terms

According to the information held by the Issuer, related-party transactions made in 2014 by the Issuer and its subsidiaries were in line with the arm's length principle and their nature and terms were determined by the operations of those entities.

1.5. Investments – property, plant and equipment and intangible assets

The capital expenditure incurred by the Polimex-Mostostal S.A. Group on property, plant and equipment and intangible assets reached the level of PLN 26,869,000.00 in 2014. In 2014, amortization and depreciation totaled PLN 52,067,000.00.

Structure of capital expenditure incurred by the Polimex-Mostostal S.A. Group on property, plant and equipment and intangible assets in 2014:

PLN '000

Investments in property, plant and equipment	Change 2014 / 2013	2014	2013
Land and buildings	-13.0%	3 978	4 575
Machines and equipment	6.0%	12 172	11 488
Vehicles	-25.5%	3 193	4 287
Other fixed assets	397.3%	7 842	1 577
Fixed assets under construction	-107.6%	-475	6 220
Total	**-5.1%**	**26 710**	**28 147**
Investments in intangible assets	**-88.5%**	**159**	**1 386**
Total property, plant and equipment and intangible assets	**-9.0%**	**26 869**	**29 533**

Investments in machines and equipment represented the major part of the capital expenditure incurred by the Polimex-Mostostal S.A. Group in 2014. Computer software was the key item of investments in intangible assets in 2014. On the whole, following a reduction in the scope of investment programs implemented by the Group, the total value of capital expenditure went down by 9.0% vs. 2013.

1.6. Equity investments

1.6.1. Investment portfolio changes

In 2014, as a result of performance of the agreements with creditors, the Issuer's Group was considerably transformed and the scope of such transformation included:

- transformation of the Group and a focus on key competences: in the new structure, the Segment Companies will fulfil contracts based on the key competences of the Group, i.e. delivery of projects in the *Power Engineering* segment (Polimex Energetyka Sp. z o.o. – formerly: Polimex-Development Kraków Sp. z o.o.) and the *Petrochemistry* segment (Naftoremont-Naftobudowa Sp. z o.o. – formerly: Polimex-Mostostal Development Sp. z o.o.). The Group is also present in the infrastructure segment through Przedsiębiorstwo Robót Inżynieryjnych PRInż-1 Sp. z o.o. and on the market of design services, which are offered through Polimex Engineering Sp. z o.o.;

  This denotes that the Group operates based on a holding structure, where the Issuer acts as the Shared Services Center for the Group companies (HR, bookkeeping, tax and similar services) in addition to fulfilling power engineering and petrochemical contracts secured by the segments until formal establishment of the Segment Companies, specifically works relating to the *Kozienice* project (the *Opole* project is implemented by Polimex Projekt Opole Sp. z o.o.). Some works required on the aforesaid projects are subcontracted to the segment companies, i.e. Polimex Energetyka Sp. z o.o. and Naftoremont- Naftobudowa Sp. z o.o., in line with the relevant contractual provisions;

- asset restructuring involving divestment of selected companies and assets which are not closely related to the core business of the Group.

In this context, the Issuer's investment portfolio changed in 2014 as follows:

- agreement on the sale of 4,861 shares in 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, dated 22 July 2014, signed by the Issuer and Inspecta Holding Polska Sp. z o.o. with its registered office in Warsaw;

- approval of the prospectus drafted by Torpol, a subsidiary, by the Polish Financial Supervision Authority on 13 June 2014. In accordance with the prospectus, the Issuer sold 15,570,000 A series shares with the par value of PLN 0.20 each in a public offering. Having obtained the consent of the required majority of the Issuer's creditors on 24 June 2014, in accordance with the Financial Debt Service Agreement, the Management Board sold all the shares held by the Issuer in Torpol at a price of PLN 8.00 per A series share, with the total selling price of PLN 124,560,000.00. The public offering was effected as at the date of share allocation by the Company's Management Board, i.e. on 1 July 2014;

- on 24 September 2014, the Issuer, 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 Issuer 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 Issuer 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.

2014 financial year	PLN '000
Cash payments (-) and proceeds (+) relating to purchase/sale of financial assets (shares)	Value
Sale of Energomontaż – Północ – Technika Spawalnicza Sp. z o.o.	+8.021.0
IPO of Torpol S.A.	+124.560.0
Capital injection for Naftoremont-Naftobudowa Sp. z o.o.	-15.000.0
Capital injection for Polimex Energetyka Sp. z o.o.	-65.000.0
Total cash payments for purchases of shares in 2014	**+52.581.0**

In addition to the aforesaid transactions, the Issuer entered into the following transactions concerning the sale of an organized part of the enterprise:

- preliminary agreement of 31 March 2014 signed by the Issuer and TMT TRADING Sp. z o.o. Sp. k. with its registered office in Rudnik on San, concerning the sale of an organized part of the enterprise, i.e. *Zakład Konstrukcji Stalowych* in Rudnik on San. The scope of the entity's business includes steel structure manufacturing. The selling price is PLN 7,450,000.00, subject to maintenance of the book value of the entity's inventories as at the date of the final sale agreement at such level as agreed by the parties, with a proviso that it may be adjusted as agreed by the parties where the value of the aforesaid inventories differs from the one agreed by the buyer and the Issuer. Conclusion of the final sale agreement is subject to satisfaction of conditions precedent.

1.6.2. Investment plans

The investment plans for 2015 have been reduced to the minimum and involve mainly necessary expenditure on modernization and replacement projects, the value of which is lower than the planned amortization/depreciation.

As regards equity investments, no new acquisitions are planned. The Issuer intends to continue the divestment of selected companies and assets which are not closely related to the core business of the Group.

1.6.3. Assessment of the ability to carry out planned investment projects, including equity investments, relative to funds held by the Issuer, taking into account possible changes in the funding structure

In line with the Financial Debt Service Agreement signed with the creditors, Polimex-Mostostal S.A. is carrying out a restructuring project at the level of the Company and the Capital Group. Divestment of designated entities the equity of which is held by the Company is one of the major objectives of the said project.
The restructuring program implemented by the Company and the Group does not provide for any new equity investments. Some of the existing subsidiaries have been transformed into segment companies with a capital injection received from a third party.

1.7. Major achievements in research and development

The scope of business of Polimex-Mostostal S.A. does not require any basic research and development to be carried out by the Company.

1.8. Contracts significant for the Group's business

Significant contracts signed in 2014:

- a contract of mandate of 19 November 2014, signed with the consortium of Famak S.A., Famur S.A. and Zamet Industry S.A. Its scope includes supply, installation and commissioning of turnkey carburizing technology equipment under the contract for construction of a supercritical, hard-coal power unit with the net electric capacity of 1075 MWe at ENEA Wytwarzanie S.A. The total net value of the contract is PLN 115,000,000,00. The contract will be fulfilled by 21 July 2017;
- a letter of intent signed between IDS-BUD S.A. with its registered office in Warsaw (client) and Naftoremont-Naftobudowa Sp. z o.o. with its registered office in Płock (subcontractor), the Issuer's subsidiary, on 24 November 2014 with respect to a project entitled "General Implementation of Investment relating to the *Gdańsk Oil Terminal. Stage 1*, which involves the design of an oil terminal and construction of an oil storage park along with accompanying infrastructure" with the total value of PLN 20,100,000.00.As a consortium member, the client entered into an agreement on implementation of the aforesaid investment project with the investor – Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Przyjaźń" S.A. with its registered office in Płock (investor). Conclusion of a contract for performance of the aforesaid works with the subcontractor is conditional on its approval as a subcontractor by the investor;
- on 11 December 2014, the tender submitted by the Issuer's subsidiary, Polimex Energetyka Sp. z o.o., was selected as the most competitive one in a procurement procedure carried out by EDF Polska S.A. with respect to a project entitled: "Major overhauls of capitalized boilers K-4 and K-6 at EDF Polska S.A. Branch in Rybnik, along with the accompanying system of lighters, dust ducts, air ducts, air fans, waste gas fans and slag traps" for performance of Task 1 involving an overhaul of boiler K4 at EDF Polska S.A. Branch in Rybnik through performance of disassembly and assembly works on pressure and non-pressure boiler components. The tender complied with the terms of reference and was awarded 100, i.e. the highest number of points, in the procedure. The contractor's fee is PLN 18,550,000.00 net;
- on 23 December 2014, the Issuer's subsidiary, Polimex Projekt Opole Sp. z o.o., accepted orders for supply and installation of SN 10 kV and 6kV switchgears along with their spare parts and specialist equipment and repair tools, including supervision over SN switchgear commissioning (participation in the start-up process). The lump-sum fee is PLN 21,500,000.00 plus VAT. The order was accepted as part of the contract of 15 February 2012 signed with PGE Elektrownia Opole S.A., the details of which were provided by the Issuer in Current Report No. 8/2012.

Significant agreements securing funding for the Company and the Capital Group in 2014:

- **Changes to the restructuring Financial Debt Service Agreement of 21 December 2012**

On 30 July 2014, Annex No. 6 to the Financial Debt Service Agreement of 21 December 2012 was executed, defining the objectives of the subsequent stage of the restructuring process at the Company and the Group. The Company committed to continue the operational and financial restructuring process through: (a) further reorganization of the Group and optimization of its operating expenses; in particular, two key subsidiaries of the Issuer will be established in the Group and they will operate in: (i) the *Power Engineering* and (ii) *Petrochemistry* segments (referred to as the "Segment Companies"); (b) continuation of disposal of assets (in particular real property owned by the Issuer, shares in subsidiaries and other assets) that are not necessary to carry out the core business operations of the Issuer. The Issuer is obliged to obtain the total of PLN 473 million from the disposal by 31 December 2015. Additionally, the Annex provides for a capital injection for the Company by way of issue of the New Bonds and debt conversion (by offsetting the creditors' receivables against the issue price of R series shares) into the share capital of the Company in the minimum amount of PLN 470 million ("Conversion") at the average issue price of PLN 0.175 per R Series Share issued for purposes of the Conversion. Additionally, the Annex modified the New Guarantee Facility

Agreement by introducing a limit of PLN 60 million, which may only be used by the Segment Companies.

Pursuant to the Financial Debt Service Agreement amended by Annex No. 6, the New Bonds were issued, Conversion effected, the Segment Companies provided with the New Guarantee Facility, collateral, among others, in the form of registered pledges on the shares in the Segment Companies provided in relation to the New Bonds and the Issuer's Articles of Association amended with respect to a conditional increase in the Issuer's share capital in the amount of the par value of R Series Shares.

Under Annex No. 6 to the Financial Debt Service Agreement: (i) the remaining amounts due to the Creditors being parties to the Financial Debt Service Agreement, which have not been Converted, should finally be repaid by 31 December 2019 or by the final New Bond redemption date (whichever earlier) ("Final Repayment Date"); (ii) 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; (iii) interest accrued as of 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; (iv) 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 Financial Debt Service Agreement (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 respect of 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; (v) 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; (vi) Naftoremont-Naftobudowa, Polimex Energetyka and BR DEVELOPMENT Sp. z o.o. (a subsidiary of Polimex Energetyka) 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. The close of the 3rd stage of the restructuring process has been presented in detail in Note 2 to the consolidated financial statements.

- **New Guarantee Facility Agreement of 21 December 2012**

On 11 September 2014, an annex to the New Guarantee Facility Agreement was executed by the Issuer, the Segment Companies and the Banks. 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 ("NGF Annex"), 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.

Provision of the New Guarantee Facility limit to the Segment Companies was subject to satisfaction of a number of conditions, specifically: (i) effecting the Conversion; (ii) provision of collateral; (iii) the entry into the creditors' agreement by the creditors and ARP (or other entities acquiring the New Bonds); (iv) the court's registration of amendments to the Issuer's Articles of Association with respect to the conditional increase in the share capital in relation to the issue of R Series Shares to enable the holders of A Series Bonds to exercise their rights; and (v) the entry into an escrow account agreement by the Issuer and PKO BP for purposes of the New Bond issue.

As the aforesaid conditions had been satisfied, the New Guarantee Facility limit was made available to the Segment Companies.

A and B Series Bonds

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 from the issue of the New Bonds were earmarked for payment of the issue price of the increased par value of the shares in Polimex Energetyka and Naftoremont-Naftobudowa (collectively: "Segment Companies") and to increase the working capital of the Company. A Series Bonds may be converted into S Series Shares, while B Series Bonds are ordinary corporate bonds.

The issue price of A Series Bonds and B Series Bonds was equal to their par value. The New Bonds will be redeemable five years after they were issued or, if earlier redemption is justified, within such time limits as specified in the terms of issue of the New Bonds.

The New Bonds will have floating rate interest. The interest rate is determined on the basis of the WIBOR rate for three-month deposits and a mark-up specified in the terms of issue of the New Bonds. Interest accrued over 3-month interest periods by 31 December 2016 (inclusive) will be payable at the New Bond redemption date. Interest accrued over 3-month interest periods from 1 January 2017 to the New Bond redemption date will be payable on the following terms: (i) a portion of the interest specified in the terms of issue will be payable at the interest payment dates specified in the terms of issue of the New Bonds and falling on the last day of the calendar quarter; (ii) a specified portion of the interest will be payable at the New Bond redemption date.

The New Bonds have been collateralized with ordinary and registered pledges set up by the Company on the shares in the Segment Companies, which are also used to collateralize the amounts due to the Company's creditors (with the same seniority). The aforesaid registered pledges have been set up up to the maximum value of the collateral, i.e. PLN 1,849,112,561.00. In accordance with the terms of issue of the New Bonds, the Company is also obliged to pledge, after the issue date, additional collateral for the receivables arising under the New Bonds on assets pledged as collateral for other creditors of the Company, including: (i) mortgages on real properties owned by the Issuer and its selected subsidiaries as well as the rights of perpetual usufruct of real properties, the seniority of which will be lower than that of the existing mortgages on those real properties or rights of perpetual usufruct; (ii) a registered pledge on assets and property rights of the Issuer; (iii) assignment of monetary receivables and transferable rights under specific insurance contracts, intra-group loans and commercial contracts; (iv) registered pledges on the shares in the Issuer's selected subsidiaries; (v) registered pledges on the bank accounts of the Issuer and the Segment Companies; (vi) registered pledges on assets and property rights of the Issuer's selected subsidiaries; (vii) assignment of rights under contracts signed by the Issuer and the Segment Companies.

A Series Bonds provide for the bond holder's possible receipt of a benefit in kind in the form of the right to purchase S series shares ("Shares") following conversion of A Series Bonds. The price of conversion of A Series Bonds into S Series Shares is PLN 0.04 per share. The A Series Bond holders have the right to submit a representation regarding conversion of bonds during a period beginning at the earlier of: (i) 9 January 2015 or (ii) the date of approval of the R Series Share prospectus by the Polish Financial Supervision Authority, and ending on the date preceding directly the date of identification of the entities entitled to receive the A Series Bond redemption amounts. Should the Shares referred to in the bond conversion representation not be handed over to the bond holder within thirty business days of the conversion representation date, at the written request of the bond holder: (a) within ten business days of the request, the Issuer will hand over the materialized Shares in accordance with the terms of issue of A Series Bonds to the bond holder; or (b) the benefit in kind, i.e. the right to receive the Shares, due to the A Series Bond holder, will be converted into a benefit in cash. The benefit in cash will be determined as a product of: (1) the number of Shares specified in the bond conversion representation, which have not been handed over within the aforesaid time limit and (2) the conversion price. The benefit will be paid to the bond holder at its written request submitted to the Issuer.

If all A Series Bonds issued were converted, 2,037,500,000 voting rights at the Issuer's General Meeting would be attached to the acquired S Series Shares.

As at the A Series Bond issue date, the total number of votes at the Issuer's General Meeting would be 6,368,440,142 if all A Series Bonds issued were converted.

An event of default on the terms of the New Bond issue, the occurrence of which enables earlier redemption of the New Bonds, is non-representation of the individuals designated by ARP in the Supervisory Board in the following proportions: (i) at least two members – if the Supervisory Board consists of five or six members; or (ii) at least three members – if the Supervisory Board consists of seven to nine members; or (iii) one-third of all Supervisory Board members (rounded up) – if the Supervisory Board consists of at least ten members.

Furthermore, the terms of issue of the New Bonds impose on the Company the obligation to satisfy a number of disclosure requirements towards the bond holders. The Company is obliged to provide the bond holders with: 1) updates on the Financial Gap, prepared by a Third-Party Adviser in line with the FDSA; 2) updates on the settlements with DGNRM, i.e. information on amounts due to/from DGNRM, the status of court proceedings, amicable settlement negotiations and other similar significant events; 3) information concerning work progress aimed at mitigation of selected contract risks; 3) updates on the sale of Mostostal Siedlce, possibly along with a plan for mitigation of liquidity risk related to any delays; 4) updates on the sale of real property to Merkury FIZAN, possibly along with a plan for mitigation of liquidity risk related to any delays; 5) updates on utilization of the NGF limit along with information concerning the status of efforts to arrange new guarantee facilities; 6) a revised Financial Model.

1.9. Effect of legal regulations on operations of the Group

<u>Amendments to the Civil Code (Journal of Laws of 2014, item 121)</u>

The major changes include an amendment to Article 568 of the Civil Code, which entered into force as from 25 December 2014 and consists in extension of the warranty period with respect to defects in real property to five years (as compared to a three-year warranty period before). The said amendment may be important due to a possible increase in the Company's costs resulting from defect warranty claims. As Article 638 of the Civil Code was amended at the same time, the extended warranty period will apply not only to real property sale agreements but also to defect warranty relating to construction contracts.

<u>Amendments to the Public Procurement Law (Journal of Laws of 2013, item 907, as amended)</u>

The major changes, which entered into force as from 19 October 2014, include revocation of Article 24.1 and 24.1a, whereby the following could not be admitted to public procurement procedures: (i) contractors that have inflicted damage by failing to fulfil a contract or by failing to fulfil it adequately, or have been obliged to pay liquidated damages, if the aforesaid damage or obligation to pay liquidated damages represented no less than 5% of the contract value and have been confirmed by a court decision becoming final within three years before institution of the public procurement procedure; and (ii) contractors being parties to a public procurement agreement terminated by the contracting authority or rescinded through the fault of the contractor, should such termination or rescission take place within three years before institution of the public procurement procedure and the value of the contract which has not been fulfilled represented at least 5% of the agreement value.

The revoked provisions have been superseded with Article 24.2a, whereby a contractor that has seriously breached its professional obligations within three years before institution of the public procurement procedure through its own fault cannot be admitted to public procurement procedures; in particular, where the contractor has, whether deliberately or through gross negligence, failed to fulfil a contract or fulfill it adequately, which may be proven by the contracting authority using any evidence, should the contract notice, the terms of reference or invitation to negotiate specify that the contractor may not be admitted to the procedure on that basis. Contractors that have proved that they employed specific technical, organizational and HR measures aimed at preventing a deliberate and serious breach of their professional obligations in the future and remedied or committed to remedy the damage resulting from a breach of their professional obligations may not be refused to be admitted to the public procurement procedure.

Considering the pending litigation between the Company and the Directorate General for National Roads and Motorways ("DGNRM"), as referred to in Section 5.9 above, and the DGNRM's opinion on its effective termination of the contracts signed with the Company, the aforesaid amendment may have an effect on the Company's not being refused to be admitted to public procurement procedures.

2. Overview of operations and the financial condition

2.1. Performance

In 2014, the Polimex-Mostostal S.A. Group generated sales revenue of PLN 2,102,197,000.00 (down by 11.0% year-on-year). Factors affecting the sales volume have been presented in Section 1.1 hereof.

The net loss in 2014 totaled PLN 153,226,000.00 (a drop in loss of 41.3% year-on-year). The operating loss amounted to PLN 395,752,000.00 (a rise in loss of 128.0% year-on-year).

In 2014, EBITDA was PLN -343,685,000.00 (vs. PLN -105,093,000.00 in 2013).
A reduction of general and administrative expenses (from ca. PLN 121 million to ca. PLN 90 million, i.e. by 25.8% year-on-year), which resulted from the operational restructuring initiatives undertaken by the Management Board, including simplification of the structure and a considerable reduction of the Group's operating expenses, had a positive effect on a decrease in net loss. In 2014, the Group's profit/loss was adversely affected by, among other things, the following events: recognition of provisions for warranty repairs, a provision for infrastructure contract settlement costs, a restructuring provision, impairment losses on receivables and measurement of assets held for sale. In 2014, the negative effect of those events on the operating profit/loss was ca. PLN 300 million.
The major factors affecting the financial performance and standing of the Company and the Group include: difficult relationships, often in the form of disputes or claims filed by/against the Company's key customers in the *Infrastructure Construction* segment, mainly the Directorate General for National Roads and Motorways. While fulfilling its road construction contracts the Company carried out extensive additional works for which it had not received satisfactory fees that would be commensurate with the scope of works by the end of the reporting period.

Performance of the Polimex-Mostostal S.A. Group in 2014:

PLN '000	**Year ended 31 December 2014**	**Year ended 31 December 2013**	**Change**
Sales revenue	**2 102 197**	**2 362 752**	**-11.0%**
Cost of goods sold	(2 303 820)	(2 338 079)	**-1.5%**
Gross profit/(loss) on sales	**(201 623)**	**24 673**	**-917.2%**
Costs to sell	(19 935)	(26 538)	-24.9%
General and administrative expenses	(89 694)	(120 916)	**-25.8%**
Other operating revenue	27 141	137 587	-80.3%
Other operating expenses	(111 641)	(188 413)	-40.7%
Operating profit/(loss)	**(395 752)**	**(173 607)**	-128.0%
Financial revenue	37 201	46 817	-20.5%
Financial revenue from conversion of debt into shares	272 039	–	
Financial expenses	(94 894)	(134 765)	-29.6%
Share in profit of associate	2 738	3 720	-26.4%
Gross profit/(loss)	**(178 668)**	**(257 835)**	30.7%
Income tax	25 442	(3 054)	-933.1%
Net profit/(loss)	**(153 226)**	**(260 889)**	**41.3%**
EBITDA	**(343 685)**	**(105 093)**	**-227.0%**

These figures show that the net loss incurred by the Polimex-Mostostal S.A. Group in 2014 was lower than in the comparative period. This was mainly attributable to:

- strong competition on the market of construction and assembly services, which translates into lower margins on contracts fulfilled;
- implementation of the divestment program involving sale of assets not related to the core business;
- implementation of a remedy program with a view to restoring financial stability of the Group, the economic situation of which is still considered problematic. Reduction of operating expenses is of key importance here;
- the operational restructuring program implemented with the objective to simplify the structure and reduce operating expenses as well as optimize the organizational structures and contract portfolio;
- conversion of debt into shares in September, as a result of which financial revenue of PLN 272,039,000.00 was recognized;
- headcount reduction to reflect the current economic position of the Group is also of key importance.

The portfolio of contracts of the Polimex-Mostostal Group, less sales attributable to other consortium members, is worth PLN 5.9 billion and includes only concluded contracts. The contract portfolio by years: 2015: PLN 2.3 billion, 2016: PLN 2.1 billion and PLN 1.5 billion in the following years. The contract portfolio has been estimated based on sales by 31 December 2014.

2.2. Asset value and structure

As at 31 December 2014, the total assets of the Polimex-Mostostal S.A. Group amounted to PLN 2,691,597,000.00 (down by 14.4% as compared to 31 December 2013). As at 31 December 2014, non-current assets totaled PLN 908,997,000.00 (down by 32.5% as compared to 31 December 2013), and current assets amounted to PLN 1,331,986,000.00 (a 21.6% drop vs. 31 December 2013). Assets held for sale (PLN 450,614,000.00), which include assets of the *Production* segment companies, were an important item of total assets as at 31 December 2014. Goodwill from consolidation is the key item of non-current assets, representing 10.5% of total assets, followed by deferred tax asset and financial assets, which account for 7.9% and 8.% of total assets, respectively. Current assets include mainly cash, which accounts for 25.2% of total assets, and trade and other receivables representing 20.8% of total assets.

Value and structure of assets held by the Polimex-Mostostal S.A. Group as at 31 December 2014:

PLN '000	Balance as at 31 December 2014	Share in assets (%)	Balance as at 31 December 2013	Share in assets (%)
Non-current assets	**908 997**	**33.8%**	**1 347 640**	**42.9%**
Property, plant and equipment	111 507	4.1%	575 772	18.3%
Investment property	57	0.0%	2 640	0.1%
Goodwill from consolidation	282 694	10.5%	282 694	9.0%
Intangible assets	6 394	0.2%	12 909	0.4%
Investments in associates measured using the equity method	20 886	0.8%	19 310	0.6%
Financial assets	215 501	8.0%	218 622	7.0%
Non-current receivables	57 954	2.2%	51 619	1.6%
Deferred tax asset	212 355	7.9%	182 634	5.8%
Other non-current assets	1 649	0.1%	1 440	0.0%
Current assets	**1 331 986**	**49.5%**	**1 698 060**	**54.0%**
Inventories	6 175	0.2%	106 318	3.4%
Trade and other receivables	558 529	20.8%	695 489	22.1%
Receivables from measurement of long-term contracts	79 636	3.0%	270 559	8.6%
Income tax receivables	32	0.0%	284	0.0%
Financial assets	6 688	0.2%	109 158	3.5%
Cash	677 033	25.2%	503 272	16.0%
Other assets	3 893	0.1%	12 980	0.4%
Assets held for sale	**450 614**	**16.7%**	**97 476**	**3.1%**
TOTAL ASSETS	**2 691 597**	**100.0%**	**3 143 176**	**100.0%**

2.3. Equity and liabilities value and structure

As at 31 December 2014, equity of the Polimex-Mostostal S.A. Group attributable to equity holders of the parent amounted to PLN 431,558,000.00 (a rise by 18.8% as compared to 31 December 2013, mainly due to the issue of R series shares and conversion of debt into shares), while liabilities totaled PLN 2,260,039,000.00 (a drop by 18.7% vs. 31 December 2013). A share premium representing 48.2% of total equity and liabilities, and supplementary capital accounting for 23.0% of total equity and liabilities were the major items of equity. Current liabilities were the major item of liabilities (41.6% of total equity and liabilities).

The structure of total liabilities changed in 2014. The share of current liabilities dropped from 78.6% in 2013 to 41.6% in 2014, mainly due to reclassification of bank and bond liabilities to non-current liabilities following remediation of the events of default under the FDSA that had occurred as at 31 December 2013. Additionally, the share of current liabilities in the structure of total liabilities dropped following separation, on the balance sheet, of items directly related to assets held for sale and conversion of debt into shares.

Asset financing structure of the Polimex-Mostostal S.A. Group as at 31 December 2014:

PLN '000	Balance as at 31 December 2014	Share in equity and liabilities (%)	Balance as at 31 December 2013	Share in equity and liabilities (%)
Equity attributable to equity holders of the parent	**431 558**	**16.0%**	**363 202**	**11.6%**
Share capital	173 238	6.4%	58 695	1.9%
Share premium	1 297 118	48.2%	1 184 044	37.7%
Treasury shares	–	0.0%	–	0.0%
Supplementary capital	618 552	23.0%	618 552	19.7%
Unregistered share issue	–	0.0%	–	0.0%
Other capitals	(85 254)	-3.2%	(85 254)	-2.7%
Reserve capital	–	0.0%	32 086	1.0%
Reserve capital – convertible bond premium	29 747	1.1%	–	0.0%
Exchange differences on translation of a foreign operation	(17 140)	-0.6%	(6 770)	-0.2%
Revaluation reserve	53 174	2.0%	77 458	2.5%
Actuarial gains/losses	(1 128)	0.0%	–	0.0%
Retained earnings/Losses brought forward	(1 636 749)	-60.8%	(1 515 609)	-48.2%
Non-controlling interest	**–**	**0.0%**	**–**	**0.0%**
Total equity	**431 558**	**16.0%**	**363 202**	**11.6%**
Liabilities	**2 260 039**	**84.0%**	**2 779 974**	**88.4%**
Non-current liabilities	873 115	32.4%	308 695	9.8%
Current liabilities	1 120 588	41.6%	2 471 279	78.6%
Liabilities related to assets held for sale	**266 336**	**9.9%**	**–**	**0.0%**
TOTAL EQUITY AND LIABILITIES	**2 691 597**	**100.0%**	**3 143 176**	**100.0%**

2.4. Liquidity

In 2014, the net balance of cash and cash equivalents of the Polimex-Mostostal S.A. Group increased by PLN 173,761,000.00. Cash and cash equivalents totaled PLN 677,033,000.00 as at 31 December 2014. The balance of cash includes advance payments received under the *Kozienice* and *Opole* contracts as performance bonds in the amount of PLN 503,448,000.00. The said amount will be used as the contract progresses.

Net cash generated on operating activities amounted to PLN -25,003,000.00. Net cash generated on investing activities totaled PLN 47,749,000.00 and net cash generated on financing activities amounted to PLN 151,015,000.00.

2.5. Ratio analysis

The current and the quick ratios of the Polimex-Mostostal S.A. Group were at a higher level than in the comparative period, i.e. 1.2 and 1.2, respectively. A drop in EBITDA margin and an increase in the net profit margin was due to a higher loss on continuing operations and a lower net loss than in the comparative period. At present, the Group's key priority is to improve liquidity by selling property development assets and carrying out the divestment process, which should finally translate into a considerable improvement of its condition and a drop in interest-bearing debt.

Ratios	31.12.2014	31.12.2013
Current ratio	1.2	0.7
Quick ratio	1.2	0.6
Liabilities to assets ratio	84.0%	88.4%
Net profit margin	-7.3%	-11.0%
EBITDA margin	-16.3%	-4.4%
Earnings per ordinary share	-0.06	-0.19

2.6. Credit facilities, loans and issued bonds

As at the end of December 2014, the total debt of the Group amounted to PLN 282.2 million, including PLN 135.4 million due to issued bonds. The parent's debt totaled PLN 301.8 million, including PLN 135.4 million due to issued bonds.

The key lending banks in 2014 were:

- for the parent: PKO BP S.A., PEKAO S.A., Bank Ochrony Środowiska S.A. and Bank Zachodni WBK S.A.;
- for the Group companies: Bank Ochrony Środowiska S.A., Alior Bank S.A. and Bank Zachodni WBK S.A.

As at 31 December 2014, out of the total loan liabilities, the following loans would mature at the earliest:

- a loan taken out by CZMK Ukraine (an overdraft facility of PLN 0.7 million, maturing on 13 March 2015, provided by Kredobank);
- a loan taken out by Stalfa Sp. z o.o. (an overdraft facility of PLN 3.7 million, maturing on 24 April 2015, provided by Alior Bank S.A. and an overdraft facility of PLN 5 million, maturing on 25 April 2015, provided by BZ WBK S.A.).

Repayment of loans taken out by the following entities has been accelerated:

- Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (PLN 2.4 million out of an overdraft facility of PLN 5.4 million, provided by Bank Millennium S.A. PLN 10.2 million out of an investment loan of PLN 14.0 million, provided by Orzesko-Knurowski Bank Spółdzielczy has been repaid since December 2014 as part of a recourse claim relating to a surety given for that entity by Polimex-Mostostal S.A.);
- Modułowe Systemy Specjalistyczne Sp. z o.o. (a non-revolving loan provided by Raiffeisen Bank Polska S.A. in the amount of PLN 0.14 million);
- SC Coifer Impex srl in bankruptcy (EUR 2.2 million out of an investment loan of EUR 3.3 million, provided by Intesa Sanpaolo);
- Elektra Sp. z o.o. in bankruptcy (PLN 2.0 million out of an overdraft facility provided by Bank Millennium S.A.);
- Grande Meccanica SpA due to credit instruments in the total amount of EUR 1.7 million, provided by Banca Nazionale del Lavoro SpA and BPS.

By the date of publication of this report, in 2014 Prinż-1 Sp. z o.o., a subsidiary, had repaid an investment loan of PLN 2.6 million provided by BOŚ S.A., maturing on 30 June 2014, an investment loan of PLN 0.09 million provided by Getin Bank S.A., maturing on 30 June 2014, an investment loan of PLN 0.07 million provided by Getin Bank S.A., maturing on 25 October 2014 and an overdraft facility of PLN 2.5 million provided by BOŚ S.A., maturing on 22 September 2017.

A subsidiary, Ekonomia Sp. z o.o., repaid its investment loan of PLN 0.04 million provided by Volkswagen Bank Polska S.A. and maturing on 11 December 2014.

A subsidiary, CZMK Ukraine, repaid overdraft facilities of EUR 0.2 million and UAH 1.8 million, provided by Ukrgazprombank and maturing on 18 September 2014. On 19 September 2014, CZMK

Ukraine entered into a loan agreement with Bank Lviv, providing for an overdraft facility of UAH 4 million and maturing on 16 September 2016.

As part of a recourse claim relating to a surety given by Polimex-Mostostal S.A., an overdraft facility of PLN 1.3 million, provided by Orzesko-Knurowski Bank Spółdzielczy to Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation and an overdraft facility of PLN 1 million provided to Modułowe Systemy Specjalistyczne Sp. z o.o. by ING Bank Śląski S.A. were repaid.

On 30 July 2014, Annex No. 6 and on 11 September 2014, Annex No. 7 to the Financial Debt Service Agreement of 21 December 2012 (“FDSA”) were signed by Polimex-Mostostal S.A., the following banks: PKO BP S.A., PEKAO S.A., Bank Millennium S.A., Bank Zachodni WBK S.A. and BOŚ S.A., guarantors: Polimex-Development Kraków Sp. z o.o., Polimex-Mostostal Development Sp. z o.o. and BR Development Sp. z o.o. as well as the bond holders. The original terms of the Agreement have been presented in Note 2 to the consolidated financial statements of the Capital Group for the year ended 31 December 2014.

Under the FDSA, Polimex - Mostostal S.A. has been using the following term, non-revolving loans maturing by 1 October 2019:

Amounts of the loans (principal, excluding accrued interest) provided by the following banks:

- PKO BP S.A.: PLN 125.08 million;
- PEKAO S.A.: PLN 80.89 million;
- Bank Ochrony Środowiska S.A.: PLN 12.86 million;
- Bank Zachodni WBK S.A.: PLN 15.1 million.

Apart from the situations described in detail in the FDSA, no payment to the Company or the Bank’s account (including those used for purposes of the said loans before) prior to the final repayment date (i.e. 1 October 2019) will reduce the Company’s debt under the aforesaid loan agreements. Interest on the said loans and bonds has been agreed at WIBOR 3M plus a mark-up.

Under Annex No. 6 to the FDSA, repayment of interest accrued by the date of conversion of a portion of the debt (see: Current Report No. 147/2014) has been deferred until the final repayment date.

Additionally, 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 81.5 million (“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 58.5 million (“B Series Bonds”, collectively with A Series Bonds referred to as the “New Bonds”), in the total amount of PLN 140 million, maturing on 1 October 2019. The Bonds were 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.

As at 31 December 2014, the total liabilities arising from the bonds (including the New Bonds) issued by Polimex-Mostostal S.A. amounted to PLN 162.4 million (principal, excluding accrued interest and measurement of share conversion options). The remaining terms of the Company’s funding have been presented in Note 22 to the financial statements of Polimex-Mostostal S.A. as at 31 December 2014 (*Interest-bearing bank loans and credit facilities*).

Under the Loan Agreement on the New Guarantee Facility and the related revolving loan, dated 21 December 2012, as amended (“NGF”) new guarantees were given in the amount of PLN 14.7 million and a working capital loan of PLN 14.9 million disbursed for purposes of deposits used as security for the financing banks (the banks’ share in the NGF: PKO BP S.A.: utilized amount of PLN 10.0 million, PEKAO S.A.: PLN 1.4 million, Bank Millennium S.A.: PLN 1.9 million, Bank Zachodni WBK S.A.: PLN 1.3 million and BOŚ S.A.: PLN 0.2 million).

Pursuant to Annex No. 6 to the FDSA, a loan for pre-financing receivables arising from a VAT refund due to the Company from the Tax Office (“VAT Loan”) in the maximum amount of PLN 36.0 million, provided by PEKAO S.A., was cancelled.

No new factoring agreements were signed in 2014. As at 31 December 2014, no factoring liabilities were presented.

Major changes in the terms of repayment and credit limits introduced to agreements after 1 January 2015 and before the publication hereof:

- Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation: Bank Millennium S.A. and Orzesko-Knurowski Bank Spółdzielczy accelerated the repayment dates of loans. PLN 10.2 million out of an investment loan of PLN 14.0 million provided by Orzesko-Knurowski Bank Spółdzielczy has been repaid since January 2015 as part of a recourse claim relating to a surety given for the aforesaid entity by Polimex-Mostostal S.A. As at 31 December 2014, an overdraft facility in the original amount of PLN 2 million provided by Orzesko-Knurowski Bank Spółdzielczy had been repaid as a recourse claim relating to a surety given by Polimex-Mostostal S.A. under an amicable agreement made with the Bank on such terms as set out in the FDSA;
- WBP Zabrze Sp. z o.o. executed an annex to the Overdraft Facility Agreement signed with Orzesko-Knurowski Bank Spółdzielczy, whereby the maturity date has been extended until 28 August 2019 and the available limit reduced from PLN 2.3 million to PLN 2.1 million as from 27 June 2014;
- Stalfa Sp. z o.o. executed an annex to an overdraft facility agreement (PLN 5.2 million) signed with Bank Zachodni WBK S.A., whereby the repayment date has been extended until 25 April 2015. Additionally, the Company executed annexes to loan agreements with Alior Bank S.A., whereby the repayment date for the overdraft facility of PLN 4.5 million (outstanding balance of PLN 3.68 million) has been extended until 24 April 2015 and the repayment date for the investment loan of PLN 3.1 million (outstanding balance of PLN 2.36 million) has been extended until 8 April 2017;
- Modułowe Systemy Specjalistyczne Sp. z o.o. (formerly: Moduł System Serwis Sp. z o.o.):Following a default on the agreements, the repayment of loans taken out by the company was accelerated. As at 31 December 2014, a loan provided by ING Bank Śląski S.A. had been repaid as a recourse claim by Polimex-Mostostal S.A. as a joint and several guarantor under the amicable agreement made with the Bank. The balance of the non-revolving working capital loan provided by Raiffeisen Bank Polska S.A., which became due and payable as of 31 December 2013 (PLN 14.700.00) was repaid through assignment of receivables. The said loan had been repaid as at the date of publication of this report.

The weighted average mark-up for the loans taken out by Polimex-Mostostal S.A. and the Polimex-Mostostal Group as at 31 December 2014 vs. the comparative period has been presented in the financial statements of Polimex-Mostostal S.A. for the financial year ended 31 December 2014 (Note 30 *Credit facilities and loans*) and the financial statements of the Polimex-Mostostal Group for the financial year ended 31 December 2014 (Note 30 *Credit facilities and loans*).

2.7. Sureties and loans provided by the Group

The loans granted by Polimex-Mostostal S.A. as at 31 December 2014 (excluding accrued interest which is not due and payable) totaled PLN 34.5 million

and included loans to:

- Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation in the amount of PLN 2.4 million – due and payable;
- SC Coifer Impex srl in bankruptcy in the amount of PLN 8.5 million – due and payable;
- Polimex-Mostostal Ukraine in the amount of PLN 17.75 million – on 15 December 2014, annexes to four loan agreements were signed, whereby the repayment dates have been extended until 31 December 2015;
- PRInż-1 Sp. z o.o. in the amount of 1.8 million – the repayment date has been extended until 31 December 2015 pursuant to an annex;
- Modułowe Systemy Specjalistyczne Sp. z o.o. in liquidation (formerly: Moduł System Serwis Sp. z o.o.) in the amount of PLN 1 million; the repayment date was subordinated to repayment

of the loan provided by Raiffeisen Bank Polska S.A., which was repaid after the end of the reporting period (i.e. on 10 February 2015) – due and payable;

- PPU Elektra Sp. z o.o. in bankruptcy in the amount of PLN 0.03 million – due and payable;
- Polimex Engineering Sp. z o.o. in the amount of PLN 3.5 million (PLN 3.0 million disbursed as at 31 December 2014) maturing on 31 December 2016.

As at 31 December 2014, a loan provided to Turbud Sp. z o.o. in liquidation in the amount of PLN 1.3 million had been written off due to the close of the liquidation proceedings. A loan to Naftoremont-Naftobudowa Sp. z o.o. (formerly: Polimex-Mostostal Development Sp. z o.o.) in the amount of PLN 1.25 million was repaid.

Under the FDSA, Polimex-Mostostal S.A. may extend the term of the loans granted prior to the said agreement date and provide new loans up to the limit of PLN 23.0 million.

Weighted average mark-ups for the loans granted by Polimex-Mostostal S.A. to the Group companies as at the end of December 2014:
- for PLN loans: WIBOR 1M + 1.94 p.p.;
- for PLN loans: WIBOR 3M + 1.67 p.p.;
- for currency loans: fixed interest rates or EURIBOR 1M + 3.00 p.p.

The loans granted by Polimex-Mostostal S.A. increase the balance of the Group companies' liabilities arising from credit facilities and loans, as presented in detail in Section 2.6.

As at 31 December 2014, sureties given by Polimex-Mostostal S.A. amounted to PLN 710.86 million, while the exposure arising from guaranteed credit instruments totaled PLN 479.05 million. Polimex Projekt Opole Sp. z o.o. was the key beneficiary of sureties. The surety was given under the surety agreement of 23 January 2014 concerning liabilities of Polimex Projekt Opole Sp. z o.o., a subsidiary, up to the limit of PLN 597.5 million, valid until 31 March 2024, as collateral in relation to the Agreement on bank guarantees under the contract for construction of unit no. 5 and unit no. 6 at PGE Elektrownia Opole S.A., entered into by Polimex Projekt Opole Sp. z o.o. (Current Report No. 10/2014 of 24 January 2014). As at the end of the reporting period, the related off-balance sheet liability was PLN 390 million.

The second largest value surety was given by Polimex-Mostostal S.A. to Grande Meccanica SpA in the total maximum amount of PLN 39.0 million, including EUR 2.1 million to Banca Nazionale del Lavoro in relation to credit instruments (as at 31 December 2014, the utilized amount of the said instrument was EUR 0.9 million) and EUR 7.0 million to Braskem Idesa Sapi as a performance bond for the subsidiary.

As at 31 December 2014, the third largest value surety was given by Polimex-Mostostal S.A. to Torpol S.A., which totaled PLN 22.07 million, including to BGŻ S.A. (up to PLN 8 million, where PLN 2.4 million was utilized) and to PEKAO S.A. (up to PLN 14.1 million with the same utilization) in relation to guarantee facilities.

In addition to the aforesaid companies, Polimex-Mostostal S.A. gave sureties in relation to repayment of loans and/or payment of liabilities arising from guarantees, promissory notes, payment liabilities taken on by: PRInż-1 Sp. z o.o. (up to the limit of PLN 17.4 million (PLN 14.7 million utilized), Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (up to PLN 6.9 million; loan balance: PLN 2.4 million), SC Coifer Impex srl in bankruptcy (up to PLN 14.2 million, i.e. EUR 3.3 million; PLN 9.4 million utilized), Stalfa Sp. z o.o. (up to PLN 7.9 million, PLN 7.1 million utilized), WBP Zabrze Sp. z o.o. (up to PLN 2.2 million; PLN 2.1 million utilized as at the end of the reporting period), PPU Elektra Sp. z o.o. in bankruptcy (up to PLN 2.5 million; PLN 2.1 million utilized), Grzegorz Wereszczyński PIU "Wereszczyński" (up to PLN 0.7 million with the same utilization), Polimex Engineering Sp. z o.o. (PxM Projekt Południe Sp. z o.o. (up to PLN 0.2 million, PLN 0.1 million utilized), Czerwonogradzki Zakład Konstrukcji Stalowych (up to PLN 0.2 million with the same utilization).

Under the FDSA, Polimex-Mostostal S.A. may extend the term of the sureties given for the Polimex-Mostostal Group companies without increasing the amount of its liability. The term of sureties given for the benefit of entities which are planned to be sold may be extended only until the date of the sale transaction.

2.8. Performance and bid bonds

As at 31 December 2014, the guarantees given at the request of the Company totaled PLN 746.33 million and included bank guarantees of PLN 683.09 million and insurance guarantees of PLN 63.24 million. In the same period, guarantees given at the request of the Group companies (including Polimex-Mostostal S.A.) amounted to PLN 1,154.97 million and included bank guarantees of PLN 1,090.02 million and insurance guarantees of PLN 64.95 million. Out of the Group companies (excluding Polimex-Mostostal S.A.), in 2014 the exposure resulting from bank guarantees was the highest in the case of Polimex Projekt Opole sp. z o.o. (PLN 398.3 million) and Prinż-1 Sp. z o.o. (PLN 4.7 million).

The major banks providing guarantee services to the Polimex-Mostostal Group include PKO BP S.A. (PLN 857.33 million) and PEKAO S.A. (PLN 99.99 million). As regards insurance guarantees, the exposure of TUiR WARTA S.A. (PLN 25.2 million) and STU Ergo Hestia S.A. (PLN 24.2 million) is the highest.

In the reporting period, the Company was informed of claims under bank guarantees given at its request, which has been communicated in the relevant current reports. In line with the FDSA, the banks committed to accept repayment of the disbursed amounts in 12 equal instalments, starting from the first day of the calendar month following the month when the guarantor bank notified the Company of a received claim. As at 31 December 2014, PLN 40.44 million remained to be repaid in relation to the following claims:

- to PKO BP S.A. in the amount of PLN 13.4 million in respect of a claim of PLN 13.4 million relating to a performance bond and a quality warranty given for the liabilities of a consortium composed of Polimex-Mostostal S.A. (Leader), Doprastav a.s. (Member), ZRM “MOSTMAR" Marcin i Grzegorz Marcinków Sp. j. (Member) for the benefit of the State Treasury – Director General for National Roads and Motorways (construction of S69 expressway Bielsko-Biała - Żywiec - Zwadroń, between the “Mikuszowice” interchange (“Żywiecka/Bystrzańska") and Żywiec). The bank made a payment under the said guarantee to the beneficiary in January 2014 (Current Report No. 2/2014 of 10 January 2014). The claim repayment date has been extended until 28 February 2019;
- to PEKAO S.A. in the amount of PLN 1.5 million in respect of a claim of PLN 1.6 million under guarantee no. GN071498/W relating to the Wielicka - Szarów contract fulfilled for the Directorate General for National Roads and Motorways (Current Report No. 183/2014 of 13 November 2014);
- to PEKAO S.A. in the amount of PLN 0.12 million in respect of a claim of PLN 0.13 million under guarantee no. DDF/6824/2011 to the Regional Road Management Authority of Podkarpacie in Rzeszów;
- to Bank Ochrony Środowiska S.A. in the amount of PLN 9.23 million in respect of a claim of EUR 2.6 million relating to a performance bond given for the benefit of Botlek Tank Terminal (Current Report No. 100/2013 of 23 July 2013). The claim repayment date has been extended until 28 February 2019;
- to RBS Bank (Polska) S.A. in the amount of PLN 0.01 million in respect of a claim of PLN 0.05 million under guarantee no. GWU/2008/67430 relating to the *Gostynin Beltway* contract fulfilled for the Directorate General for National Roads and Motorways;
- to Deutsche Bank Polska S.A. in the amount of PLN 1.88 million in respect of a claim totaling PLN 4.16 million relating to two performance bonds given for the benefit of the Poviat of Łańcut;
- to STU Ergo Hestia S.A. in the amount of PLN 0.64 million in respect of a claim totaling PLN 7.7 million relating to two guarantees given for the benefit of the University of Gdańsk with its seat in Gdańsk (Current Report No. 19/2014 of 4 February 2014);
- to mBank in the amount of PLN 2.16 million in respect of a claim of PLN 3.7 million relating to a performance bond given for the benefit of the Poviat of Przeworsk. The said performance bond was given at the request of the Company for the liabilities of a consortium composed of: Polimex-Mostostal S.A. and Doprastav a.s. (Bratislava) in relation to an agreement made with the Poviat of Przeworsk on 26 May 2011 on the use of roads for purposes of fulfilment of the contract entitled “Construction of A4 motorway between Rzeszów (*Rzeszów Wschód*

interchange) and Jarosław (*Wierzbna* interchange) (Current Report No. 96/2014 of 17 July 2014);

- to BGŻ S.A. in the amount of PLN 1.3 million in respect of a claim of PLN 1.3 million relating to a performance bond, including in connection with obligations under a defect warranty, given for the benefit of the Municipality of Świecie (Current Report No. 222/2014 of 29 December 2014);
- to Orzesko-Knurowski Bank Spółdzielczy in the amount of PLN 10.2 million in respect of repayment of recourse claims relating to a promissory note and civil surety for the loan liabilities of Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation (a subsidiary).

In addition, after the end of the reporting period, the Company was notified of the following claims:

- on 29 January 2015, a claim relating to guarantee no. 359/12/WAR in the amount of PLN 508,760.32 securing a guarantee given by BNP Paribas Romania for the benefit of S.C. RAJA S.A. Payment under the said guarantee was made on 30 January 2015. Repayment will be made in 12 equal monthly instalments, starting from 2 February 2015.

In the reporting period, the subsidiaries in the Polimex-Mostostal Group continued to use the guarantee limits made available by banks and insurance companies before 1 January 2014.

Presented below are the major changes to the guarantee limits available to the subsidiaries, as introduced in 2014:

Polimex Projekt Opole Sp. z o.o. entered into a new agreement with PKO BP S.A. concerning a guarantee for advance payment refund up to PLN 199,161,600.00, valid until 15 May 2019, and a performance bond up to PLN 199,161,600.00, valid until 30 August 2018, for the benefit of PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna.

PRInż 1 Sp. z o.o. executed an annex to the guarantee facility agreement with BOŚ S.A., which extended its term until 1 August 2015.

The terms of the guarantee facilities of WBP Zabrze Sp. z o.o., provided by Gothaer TU S.A. (PLN 2.5 million), and ZUT Sp. z o.o., provided by Uniqa TU S.A. (PLN 0.1 million), have not been extended and will expire as of the date of expiry of the last active guarantee given as part of the said facilities.

The following major banks and insurance companies have been providing guarantee services to the Group companies (excluding Polimex-Mostostal S.A.): PKO BP S.A. (Polimex Projekt Opole sp. z o.o.), PEKAO S.A. (Polimex Engineering Sp. z o.o. , formerly: PxM Projekt-Południe Sp. z o.o.), BOŚ S.A. (PRInż-1 Sp. z o.o.) and STU Ergo Hestia S.A. (Prinż 1 Sp. z o.o.), Gothaer TU S.A. (WBP Zabrze Sp. z o.o.).

2.9. The Company's use of proceeds from issues

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 from the issue of the New Bonds were earmarked for payment of the issue price of the increased par value of the shares in Polimex Energetyka and Naftoremont-Naftobudowa (collectively: "Segment Companies") and to increase the working capital of the Company.

a) the Company acquired the increased par value of 30,199 shares held in Polimex Energetyka 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, 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.

2.10. External and internal factors affecting the development of the Issuer's Capital Group, including growth prospects and market strategy objectives

According to the Management Board of the Company, the following factors and market trends had a considerable effect on the Group's performance in the reporting period or are expected to have such an effect in the future:
- the macroeconomic conditions in Poland;
- the level of capital expenditure on the Polish market and in other EU Member States;
- the regulatory environment;
- changes in foreign exchange rates;
- seasonality;
- involvement in major investment projects carried out in the Polish power industry;
- the value of the contract portfolio;
- operational restructuring; and
- divestments.

Macroeconomic conditions in Poland

The Group operates mainly in Poland, where the major part of revenue is earned on construction contracts as well as activities carried out in the power engineering and production segments (manufacturing steel structures and provision of hot-dip zinc coating services). As the activities in each sector of the Group's operations are correlated strongly with the economic cycle, the operations of the Group are considerably affected by the macroeconomic conditions in Poland, in particular:

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

According to the Central Statistical Office, the real GDP growth rate in Poland was 4.3% in 2011, 1.9% in 2012 and 1.7% in 2013. In 2014, the economic growth rate, as initially estimated by the Central Statistical Office, was 3.3%. This denotes the highest rate for the past three years. The positive effect of domestic demand on GDP growth has strengthened substantially with a simultaneous negative effect of foreign demand.

Furthermore, according to IBnGR, the GDP growth rate in Poland in 2015 is estimated at 3.5%, which denotes that it will be only slightly stronger than a year before. IBnGR forecasts that the economic growth rate will accelerate in the following quarters of 2015, though the differences between the quarters will not be significant. In Q1, GDP will grow by 3.3% and in Q4 by 3.8%. The economic growth is expected to accelerate further in 2016, even to 3.8%.

The labor market conditions will regularly improve, which will be the effect of continued stable economic growth at a rate 3-4%. The unemployment rate should systematically drop. As forecast by IBnGR, the unemployment rate in Poland at the end of 2015 will be at the level of 10.5%, going down to 9.8% a year later.

IBnGR estimates that the average inflation rate in 2015 will be 0.1% as compared to 1.6% forecast for 2016. A low inflation rate, in particular in 2015, will create appropriate conditions for central bank interest rate cuts. Improved labor market conditions and better sentiments in the economy will facilitate a further increase in consumption and investment demand. Investments will go up mainly as a result of increased expenditure on modernization of non-current assets in the enterprise sector as well as an inflow of new EU funds to support infrastructure projects.

The table below presents real GDP growth rate in Poland along with selected, additional macroeconomic data for the years ended 31 December 2011, 2012, 2013 and 2014:

	As at 31 December			
	2014	2013	2012	2011
Real GDP growth rate */	3.3%	1.7%	1.8%	4.8%
CPI growth rate	0.00%	0.9%	3.7%	4.3%
Unemployment rate	11.5%	13.4%	13.4%	12.5%
Total industrial production sold (YoY)	n/d	101.8	100.5	107.5
Construction and assembly production sold (YoY)	n/d	94.1	93.7	111.8

Source: Central Statistical Office (/2014, as initially estimated by CSO)*

As regards the market environment of the Company, the conditions in the construction and assembly industry have been improving. As initially estimated by the Central Statistical Office[1], in December 2014, industrial production sold was 8.4% higher than in December 2013. An upward trend has also been observed in construction and assembly production, which, in December 2014, rose by 5.0% year-on-year. Between January and December 2014, industrial production sold was 3.3% higher than a year before, when it rose by 2.2%, while construction and assembly production was 3.6% higher than a year before, when a drop of 12.0 was recorded. The Management Board expect that any negative trends in the construction sector will be offset by the effect of the Company's investments in the power engineering industry.
They are also of the opinion that the GDP growth in Poland forecast for 2015-2016 and the overall growth of the Polish economy will translate into a higher demand for construction and assembly services in Poland, which will in turn have a positive effect on the Group's operations and performance. In particular, investments in the power engineering industry, which will offset downward trends in other construction segments, are seen as a growth opportunity for the Company. However, a considerable slowdown in the GDP growth in Poland and the Polish economy in general could have a negative effect on the Group's operations and performance.

Regulatory environment

The Group's operations have and, according to the Management Board of the Company, will be affected by the provisions of the Construction Law of 7 July 1994 (Journal of Laws of 1994, No. 89, item 414), the Public Procurement Law of 29 January 2004 (Journal of Laws of 2004, No. 19, item 177), the Act on payment of certain outstanding receivables of entrepreneurs related to fulfilment of public procurement contracts of 28 June 2012 (Journal of Laws of 2012, item 891) as well as EU laws and international conventions. Furthermore, the Group's operations have and, according to the Management Board of the Company, will be affected by the provisions of tax laws as well as tax rulings and recommendations issued by the public administration, to include individual administrative decisions which have been, or will be issued by the said authorities in matters concerning the Group and its business.

Changes in foreign exchange rates

The Group's operating performance is affected considerably by the EUR/PLN exchange rate, mainly due to the fact that the Polish zloty is the reporting currency of the Company, whereas:

- a major portion of the Group's sales revenue (ca. 19%) is earned in foreign currencies (mainly EUR); appreciation of the Polish currency relative to foreign currencies has a negative effect on the Group's performance as the value of foreign currency revenue expressed in the reporting currency drops. On the other hand, the effects of depreciation of PLN are positive. Any changes in foreign exchange rates lead to remeasurement of receivables/liabilities arising from the aforesaid sales transactions, which is further reflected in the Group's financial expenses/revenue in the form of exchange differences;
- the Company holds shares in foreign entities; appreciation of the Polish currency relative to foreign currencies has a negative effect on the Company's performance as the value of such assets expressed in the reporting currency drops. On the other hand, the effects of depreciation of PLN are positive.

[1] *Changes in industrial construction and construction and assembly production in December 2014.* Report by the Central Statistical Office of 21 January 2015

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 basic method of currency risk hedging used by the Issuer's Group companies.

On 21 December 2012, the Financial Debt Service Agreement was concluded by the Company, whereby FX derivatives may not be used as the available credit products. Considering the limitations on the entry into currency risk hedging transactions imposed by the Financial Debt Service Agreement, should any significant liabilities or receivables arise in the future in currencies other than PLN, changes in foreign exchange rates may have an adverse effect on the operations and financial condition of the Group. As at the date of this report, the Group companies did not have any open hedging transactions in the form of derivative financial instruments.

Seasonality

One of the characteristics of the operations carried out by the Group companies (which is also the case for other construction and assembly sector entities) is seasonality of sales revenue resulting from: (i) adverse weather conditions in winter, which makes performance of some construction and assembly works impossible at that time; (ii) the majority of clients' focus on implementation of investment and modernization projects in spring, summer and fall; (iii) clients' planning investment cycles so that they may be closed by the end of the year; and (iv) performance of thermal electric power plant repairs and modernization works in summer months.

Consequently, the Group companies' sales are typically the lowest in Q1 to reach the highest level in Q4.
The Group companies employ measures aimed at reducing the effects of seasonality of sales, to include, mainly, performance of services in those industries which are not subject to seasonal changes at all or whose exposure to such changes is limited, as well as exporting construction services to countries located in other climate zones.

Involvement in major investment projects carried out in the Polish power industry

The Issuer is a member of two consortia established with a view to implementing currently the largest investment projects in the Polish power industry.

On 21 September 2012, a contract for construction of a 1075 MWe power unit in the *Kozienice Power Plant* was signed with ENEA. The contract is being fulfilled by a consortium composed of Hitachi Power Europe GmbH (consortium leader) and the Company. The net fee for contract delivery is PLN 5,098,347,090.26, out of which PLN 2,171,479,075.50 net (42.59%) is attributable to the Issuer.

On 15 February 2012, a consortium composed of Rafako S.A. (leader), Polimex-Mostostal S.A. and Mostostal Warszawa S.A. signed a contract for construction of power unit no. 5 and no. 6 at PGE Elektrownia Opole S.A., which is the largest project on record in the Polish power industry. The value of contracted works is PLN 11,558.3 million gross, 41.8% of which is attributable to the Company. Alstom Power Sp. z o.o is the general designer and coordinator of project work on the *Opole* project. The contract provides for construction of turbine islands and a cooling tower with a cooling water system by Polimex-Mostostal. Additionally, the Company will construct electrical systems, to include the control and measurement apparatus as well as an automatic control system.

On 31 January 2014, the consortium was ordered by the client to commence the *Opole* Project work. The related works are scheduled to be completed within 54 months (unit no. 5) and within 62 months (unit no. 6) of the aforesaid order.

The aforementioned projects are of crucial importance for the Company's financial performance within the upcoming few years.

Value of the contract portfolio

The current portfolio of the Group's contracts based on sales as at 31 December 2014 and less sales attributable to consortium members is worth PLN 5.9 billion (and includes only concluded contracts). The contract portfolio by years: 2015: PLN 2.3 billion, 2016: PLN 2.1 billion and PLN 1.5 billion in the following years. A reduction in the value of the contract portfolio results from sale of the whole block of shares in Torpol S.A., while the increased share of power engineering relative to construction contracts should translate into better operating performance. The value of the Company's contract portfolio includes major modernization projects in the Polish power industry in Opole and Kozienice.

Currently, the parent is carrying out the operational and asset restructuring process, the details of which have been presented in Section 1.8.

Divestments

With a view to improving its liquidity, by implementing the operational restructuring program and discharging the Company's obligations set out in the annex to the Financial Debt Service Agreement, the Group made divestments involving selected subsidiaries and a portion of the Company's assets which are not closely related to its core business. By the date of this report, the following material divestment transactions had been closed:

- on 19 February 2014, a conditional agreement on sale of the right of perpetual usufruct of the real property located at ul. Czackiego 15/17 in Warsaw, along with a building located at the same address, was signed with Molina Sp. z o.o. On 28 March 2014, an agreement was signed with Molina Sp. z o.o. 5 S.K.A., whereby the right of perpetual usufruct of real property and the title to a building separate from the land was transferred as part of the sale of the right of perpetual usufruct of land located at ul. Czackiego 15/17 in Warsaw and the title to a separate real property (office building) at a price of PLN 30,750,000.00;
- on 31 March 2014, a preliminary agreement was signed with TMT TRADING Sp. z o.o. spółka komandytowa with its registered office in Rudnik on San, concerning the sale of an organized part of the enterprise of Polimex-Mostostal S.A., i.e. *Zakład Konstrukcji Stalowych* in Rudnik on San. The scope of the entity's business includes steel structure manufacturing. The selling price is PLN 7,450,000.00;
- on 7 April 2014, an agreement was signed with two individuals acting on behalf of a civil partnership as the buyers, concerning the 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. The total selling price for the aforesaid rights is PLN 3,097,602.25;
- on 8 April 2014, an agreement was signed with Ghelamco GP 1 Spółka z o.o. Tilia Spółka komandytowo-akcyjna concerning the 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 total gross price of PLN 10,701,000.00, which includes (i) the price for the right of perpetual usufruct at PLN 5,104,500.00 gross; and (ii) the building price at PLN 5,596,500.00 gross;
- on 25 June 2014, an agreement was concluded whereby the title to real property was transferred under the conditional sale agreement signed with Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A., concerning the 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;
- on 15 July 2014, a conditional real property sale agreement was signed with Molina Sp. z o.o. 6 S.K.A., concerning the sale of land located at ul. Garbarska in Lublin, at a gross price of PLN 9,700,000.00. On 8 September 2014, an agreement transferring the right of perpetual usufruct of real property and the title to buildings separate from the land, located at ul. Garbarska in Lublin, was signed with Molina Sp. z o.o. 6 S.K.A.;
- on 22 July 2014, a share sale agreement was concluded with 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;
- on 28 July 2014, an agreement on 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 was signed

by Polimex Development Kraków Sp. z o.o. with its registered office in Kraków, the Company's subsidiary, and Warkrak Development Sp. z o. o. with its registered office in Kraków;

- on 25 August 2014, a conditional agreement was signed with Molina 4 S.K.A. on 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. The total gross price under the agreement is PLN 3,444,000.00. On 17 October 2014, an agreement transferring the right of perpetual usufruct of real property and the title to buildings separate from the land, located at the intersection of ul. Elektryczna and ul. Energetyczna in Ostrołęka, was signed with Molina Sp. z o.o. S.K.A. The transfer agreement was signed as a result of the Conditional Sale Agreement dated 10 September 2014, signed by the Company and the buyer following termination of the original conditional agreement of 25 August 2014. The total gross price under the conditional agreement and the transfer agreement is PLN 3,444,000.00;
- on 10 September 2014, a conditional real property sale agreement was signed with Molina Sp. z o.o. 5 S.K.A., concerning land located at ul. Pomorska 34 in Szczecin Dąbie, West Pomeranian Region, including an office building and a non-residential building constituting separate real properties, and land located at ul . Pomorska 34C and 35 in Szczecin Dąbie, West Pomeranian Region, along with an office and warehouse building constituting separate real properties. The total price under the agreement for Real Property 1 and Real Property 2 is PLN 3,813,000.00 gross;
- on 30 October 2014, a conditional real property sale agreement was signed with Molina Sp. z o.o. 1 S.K.A., concerning real property located in Bielkowo, the commune of Kobylanka, Stargard poviat in the West Pomeranian Region, including residential, detached buildings forming part of the real property, where the real property and the buildings are the subject matter of the agreement. On 23 January 2015, an agreement was signed with Molina Sp. z o.o. 1 S.K.A. transferring the title to the assets specified in the said agreement. Under the conditional and the transfer agreement, the total price is PLN 10,500,000.00 net, i.e. PLN 12,746,250.00 gross;
- on 19 November 2014, an agreement was signed with Margo Sp. z o.o. with its registered office in Stalowa Wola, whereby: (i) the right of perpetual usufruct of land located in Stalowa Wola and marked as plot no. 1390/57 was transferred; and (ii) the right of perpetual usufruct of land located in Stalowa Wola and marked as plot no. 1390/60, 1390/61, 1390/36, 1390/39 and 1390/59 was transferred along with the title to the buildings and structures located on the said real property and constituting separate real properties. The gross price for Real Property 1, as set in the agreement, is PLN 359,421.03 and for Real Property 2: PLN 3,884,078.97;
- on 5 December 2014, a conditional agreement on sale of the right of perpetual usufruct of real property was signed by Naftoremont - Naftobudowa Sp. z o.o., the Company's subsidiary, and Invest-Active Sp. z o.o., concerning undeveloped real property located in Warsaw Śródmieście. The net price for the real property under the conditional agreement is PLN 3,900,000.00;
- on 23 January 2015, a conditional agreement on sale of developed property in Siadło Dolne, the municipality of Kołbaskowo, Police poviat, West Pomeranian Region, was signed with Molina Sp. z o.o. 1 S.K.A. with its registered office in Warsaw. 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, i.e. PLN 9,059,625.00 gross;
- on 23 January 2015, a conditional agreement on sale of undeveloped property in Siadło Dolne, the municipality of Kołbaskowo, Police poviat, West Pomeranian Region, was signed with Molina Sp. z o.o. 1 S.K.A. with its registered office in Warsaw. The net price for the real property under the agreement is PLN 6,500,000.00, i.e. PLN 7,995,000.00 gross;

- on 28 January 2015, a conditional agreement on sale of the right of perpetual usufruct of developed property located in Stalowa Wola, the municipality of Stalowa Wola, Stalowa Wola poviat, Podkarpackie Region, was signed with Molina Sp. z o.o. 3 S.K.A. with its registered office in Warsaw. The total net price for the real property under the agreement is PLN 6,600,000.00, i.e. PLN 8,118,000.00 gross;
- on 2 February 2015, a conditional agreement on sale of developed property and an agreement on sale of the rights of perpetual usufruct of real property located in Jasło, the municipality of Jasło, Jasło poviat, Podkarpackie Region, was signed with Molina Sp. z o.o. 5 S.K.A. with its registered office in Warsaw. The total net price for the real property under the conditional agreement is PLN 3,300,000.00.

The aforesaid agreements formed part of the operational and asset restructuring process, as communicated by the Company in its Current Report No. 130/2012 concerning the FDSA with the creditors, and were concluded 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. the Company is obliged to sell its assets for no less than PLN 473 million.

2.12. Material financial issues affecting evaluation of the Company's ability to continue as a going concern

As the standing of the parent is of crucial importance for the Group's ability to continue as a going concern, the analysis below was conducted on the basis of the data of the parent.

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 the *Kozienice Power Plant* and the *Opole Power Plant*, 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 expects 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 unit in the Kozienice *Power Plant* and unit no. 5 and 6 in the Opole *Power Plant* 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);
- 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 proceeds 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 and the Capital Group companies will continue as a going concern in the foreseeable future.

2.13. Unusual factors affecting the Group's operations

Unusual factors affecting the Group's operations have been presented in Note 2 and Note 14.1 to the consolidated financial statements of the Polimex-Mostostal S.A. Group.

2.14. Differences between the profit/loss presented in the annual report and the forecasts published for the year

No forecasts concerning the performance of Polimex-Mostostal S.A. or the Polimex-Mostostal Group were published for 2014.

2.15. Principles of preparation of the annual financial statements

The principles applicable to preparation of the annual financial statements have been presented in the notes to the financial statements.

2.16. Dividends paid (or declared)

The Company did not declare or pay any dividends in 2013 and 2014.

Considering the restructuring process and the financial condition of the Company, if operating profit is generated in the future, the Management Board will recommend to the General Meeting that it should be used to reduce the Company's debt and develop its core business.

Furthermore, under the FDSA the Company committed not to pay any dividends or interim dividends or distribute any amounts to its shareholders and not to redeem or reduce its share capital, whether in whole or in part, through distribution of own funds without prior consent of (i) bond holders with receivables from bonds issued by the Company under the bond issue scheme arranged by mBank S.A. with its registered office in Warsaw, with the total par value of ca. PLN 394 million; and (ii) PKO Bank Polski with its registered office in Warsaw, Bank Polska Kasa Opieki S.A. with its registered office in Warsaw, Bank Ochrony Środowiska S.A. with its registered office in Warsaw, Kredyt Bank S.A. with its registered office in Warsaw and Bank Millennium S.A. with its registered office in Warsaw.

Therefore, no dividends are planned to be paid in the upcoming financial years, including for 2014.

3. Risk management at the Issuer's Group

3.1. Major risks and threats

The operations of the Company and the Group are exposed to numerous risks related both to the macroeconomic situation and internal phenomena. In 2014, the activities of the Company and the Group were substantially affected by events 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 in 2012, 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 implement the remedy program in addition to applying tender and contract risk review procedures. The key external risks identified by the parent and the Group companies include:

Macroeconomic and political risks

- risks hindering development of the industries where the Company operates, both by delaying the investment process and preventing entities from achieving all their investment objectives, forcing them to discontinue 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.

Internal risks identified by the Polimex-Mostostal Group companies include:

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

c) trade credit risk;
d) interest rate risk;
e) currency risk.

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

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

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

The ongoing restructuring process, liquidity issues encountered by the parent 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 the Group companies' business partners. If the restructuring process is completed successfully, the Group's financial stability should enable it to win back its key business partners.

The Group'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 Group companies' competitive advantage, the tendering process efficiency and, consequently, have a negative effect on the financial performance of the Group.

Preventing the occurrence of the risks considered material from the perspective of the strategy is the key task of the Management Board of the parent and the Segment Companies, which hold negotiations with the clients, consortium partners and banks in addition to managing the changes introduced to the Group's processes and procedures. 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. Risks material for the strategy are managed by the Group's senior executives.

Operational risks – in this respect, the major risks 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 this report, the Company and the Group companies, in particular the Segment Companies, i.e. Polimex Energetyka Sp. z o .o. and Naftoremont-Naftobudowa Sp. z o. o., had implemented procedures, including consistent principles of controlling the tendering process as well as long-term contract planning and settlement. Also, the parent and, in particular, the Segment Companies introduce uniform tools supporting the budgeting and ongoing strategic project cost control tools. Due to fulfilment of long-term energy contracts, operational risk management is one of the key tasks at each level and stage of the contract delivery and monitoring process. During the reporting period, the Company's ability to deliver contracts within the agreed time limits was further impaired due to a strong demand for funding, liquidity problems and the construction market conditions. As part of the restructuring plan, operations in the two major sectors, namely the power engineering and petrochemical/chemical ones, are carried out by the Segment Companies, which are now exposed to considerable operational risks.

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

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

Risk of loss of resources as a result of pledging the Company's assets as collateral for liabilities: Use of the collateral by the creditors poses a considerable risk from the perspective of the Company's ability to continue its operations in case of bottlenecks 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. In 2014, major risks related to imposition of liquidated damages under motorway contracts terminated by the Company through the fault of the client occurred.

Financial risk:

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

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

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

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

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

The high level of financial risk is negatively affected by the actions taken by some of the Company's creditors. In 2014, considering the Company's difficulties in payment of its trade liabilities, some of its creditors filed bankruptcy petitions for the Company with courts in order to enforce payment of their receivables. Such petitions were dismissed. However, submission of further petitions in the case of disputed claims or payment delinquencies may not be ruled out. Submission of the said petitions also involves a risk of delays in the divestment process, which has an adverse effect on liquidity and hinders the commercial debt restructuring process.

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

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

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.

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.

On 30 July 2014, the Company executed Annex No. 6 to the Financial Debt Service Agreement, modifying considerably the Agreement under which funding in the form of the New Guarantee Facility was provided to the Company (see Report No. 132/2012). Pursuant to the said annex, the New Guarantee Facility limit made available by the banks will be PLN 60 million. The new limit may only be used by the newly established power engineering, petrochemical and chemical Segment Companies.

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

- the materials and commodity suppliers' pressure to reduce the payment terms to the minimum, including the requirement to make advance payments or provide security in the form of expensive financial instruments (bank guarantees, letters of credit);
- bankruptcies in the construction sector and financial difficulties encountered by other consortium members, subcontractors and subsidiaries;
- 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;
- continued financial and operational restructuring process at the Capital Group.

Risk of loss of qualified employees: The crisis situation in the construction sector necessitates implementation of immediate cost-cutting initiatives, including those aimed at reducing personnel costs. The Company is currently carrying out 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.

3.2. Interest rate and currency risk hedging financial instruments. Financial risk management objectives and methods

Interest rate risk: The performance of the Company and the Polimex-Mostostal Group may be subject to fluctuations as a result of changes in market factors, in particular quoted prices of commodities, foreign exchange and interest rates. By managing the aforesaid risk, the Group aims to reduce changes in future cash flows and minimize the potential economic losses triggered by events which may have a negative effect on its performance.
Interest rate risk: Both the Company and the Group companies hold cash in their bank accounts and have loan liabilities to banks. Additionally, the Company's debt includes liabilities due to issued bonds. 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.

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

Natural hedges, i.e. hedging the currency risk through the entry into transactions that generate costs in the same currency as that in which revenue is earned, is the preferable method of currency risk hedging used by the Group companies.
Under the Financial Debt Service Agreement, FX derivatives may not be used by the Company as the available credit products. Therefore, the importance of natural hedges as the only tool for mitigation of the currency risk related to the business activities is growing, also for the Segment Companies.

3.3. Insurance contracts

In 2014, the Group used widely insurance products available on the market. These included both property insurance (most of all, business liability insurance, professional liability insurance [liability insurance of designers, architects and construction engineers, surveyor liability insurance], board member liability insurance [D&O policy] as well as property insurance covering fortuitous events, theft and burglary, electronic appliances, property transported [cargo insurance], insurance of machines and equipment) as well as construction and assembly insurance arranged under general contracts and individual policies assigned to specific contracts. Additionally, the Group companies use motor insurance covering liability, comprehensive, theft and accident insurance, both under general (fleet) and individual contracts.

In 2014, the following policies were taken out by Polimex-Mostostal SA:

- professional liability insurance of designers, architects and construction engineers with the sum insured of PLN 10 million, taken out from AXA TUiR S.A. for a term of one year and valid until 31 December 2014. On 1 January 2015, the Company took out a new, two-year policy from AXA TUiR SA, valid until 31 December 2016, which may be terminated on its first anniversary in the event that the agreed turnover on projects has been exceeded;
- property insurance in domestic and international transport (cargo) taken out from AIG Europe Limited Branch in Poland. The policy was valid until 31 December 2014 and extended on the same terms until 31 March 2015;
- basic-scope business liability and property insurance with the sum insured of PLN 10 million (basic policy taken out from the syndicate of AXA TUiR SA and AIG Europe Limited for a two-year term, valid between 1 October 2013 and 30 September 2015). In addition to the general policy, at the end of 2014, the Company had taken out individual (directional) policies arranged at the request of investors for specific contracts (including the *Połaniec Power Plant*, *Bełchatów Power Plant, Kozienice Power Plant and Peterborough Project*);
- extended-scope business liability and property insurance (extended-scope policy) with the sum insured of PLN 90 million per event (with no limits imposed as to the number of events), taken out from the syndicate of AIG Europe Limited Branch in Poland and AXA TUiR SA, valid until 30 September 2014. On 1 October 2014, a new policy was taken out from AIG Europe Limited, which is valid until 30 September 2015;
- liability insurance based on the laws of England, for contracts fulfilled in the United Kingdom, with the sum insured of GBP 5,000,000.00. The policy was taken out in May 2013 and extended for another 12-month term in May 2014;
- directors' and officers' liability insurance (D&O policy) with the sum insured of PLN 60 million, taken out from PZU S.A. The policy was valid until 30 September 2014 and in October 2014 its term was extended for the next 12 months with the sum insured increased to PLN 65 million for all claims;
- construction/erection all risks insurance (CAR/EAR) taken out from the syndicate of Warta/AXA/Hestia/Allianz – a two-year policy valid between 1 January 2014 and 31 December 2015. In accordance with the FDSA of 21 December 2012, including the subsequent annexes thereto, the rights under the general policy have been assigned to PKO BP SA.;
- property insurance covering fortuitous events, theft and burglary (including for cash in hand and in transit), all risks for electronic appliances and all risks for machines, valid until 30 September 2014. On 1 October 2014, a new policy was taken out from the syndicate of WARTA/Hestia under a two-year contract valid between 1 October 2014 and 30 September 2016. In accordance with the FDSA, the rights under the policy have been assigned to PKO BP SA. (with respect to fixed assets) and to PEKAO S.A. (with respect to current assets);
- mandatory insurance of employees delegated or seconded to work abroad, taken out from AIG Europe Limited Branch in Poland. The current policy is valid until 30 September 2015 and is extension of the previous policy, which was valid between 1 October 2013 and 30 September 2014;

- group accident insurance of domestic construction employees, taken out from AIG Europe Limited Branch in Poland. The said policy is valid until 30 September 2015 and is extension of the previous policy, which was valid between 1 October 2013 and 30 September 2014;
- mandatory liability insurance of entities authorized to keep the accounting records, taken out from PZU S.A. The policy was valid until 31 December 2014. On 1 January 2015, a new policy, which is valid until 31 December 2015, was taken out as continuation of the previous policy taken out from PZU SA;
- general motor insurance (fleet policy) – a two-year contract concluded for a term from 21 April 2014 to 20 April 2016. As part of the said contract a policy was issued for the first settlement period ending on 20 April 2015 in respect of liability, comprehensive car/theft and accident insurance. The said policy replaced the previous general policy taken out from Warta, which was valid until 20 April 2014.

In 2014, Polimex-Mostostal S.A. used insurance services offered by the following insurance companies: STU Ergo Hestia SA, AIG Europe Limited Branch in Poland, PZU SA, AXA TUiR SA and Allianz TUiR SA.

In 2014, the Polimex Mostostal Group companies were parties to business liability and property insurance contracts signed individually. The highest sum insured per one and all events during the term of the insurance was PLN 40 million for Torpol SA, which company has been outside the structure of the Polimex-Mostostal SA Group since mid-2014. The sum insured for the remaining companies did not exceed PLN 5 million (PRInż-1 sp. z o.o.), except for Grande Meccanica S.p.A., where the sum insured was EUR 5 million. As regards business liability insurance, the companies signed contracts with TUiR Warta SA and Compensa TU SA, and Grande Meccanica with Axa Spa Ins. Co.

Some Group companies were parties to professional liability insurance contracts (liability of designers, architects, construction engineers and surveyors). The said insurance was taken out by Torpol SA, Pracownia Wodno-Chemiczna EKONOMIA Sp. z o.o. (EKONOMIA) and Centrum Projektowe Polimex Mostostal Sp. z o.o. in bankruptcy (CPPM). The maximum sum insured of PLN 10 million was agreed in the policy taken out by Torpol SA and in the policy taken out jointly by WBP Zabrze sp. z o.o. and Polimex Engineering sp. z o.o. CPPM in bankruptcy took out individual professional liability insurance for purposes of the *Contract for Construction of a Supercritical Power Unit at ENEA Wytwarzanie SA* (*Kozienice Power Plant*). The share of CPPM in the sum insured of PLN 80 million is PLN 26 million. The said insurance was arranged by TUiR Warta SA, PZU SA (including *Kozienice*) and STU Ergo Hestia SA.

In 2014, the majority of the Group companies also took out property insurance against fortuitous events, theft and burglary as well as electronic appliances and motor insurance. Such policies were taken out from TUiR Warta SA, STU Ergo Hestia SA and Axa SpA Ins. Co. (by Grande Meccanica Ins. Co.). As regards motor insurance, the companies' fleet was insured under general (fleet) contracts or on individually negotiated terms. Services in this regard were provided primarily by: TUiR Warta SA, PZU SA, InterRisk Vienna Insurance Group and, in the case of Grande Meccanica by Axa SpA Ins.Co.

As for D&O insurance, the relevant policies were taken out by Polimex-Mostostal SA, Torpol (from AIG Europe Ltd Branch in Poland (AIG) with the sum insured of PLN 60 million [this company is no longer part of the Polimex-Mostostal Group]) and Stalfa sp. z o.o. from TUiR Warta with the sum insured of PLN 400,000.00.

In addition to the aforesaid policies, CAR/EAR insurance contracts were concluded by Polimex-Mostostal SA and Torpol SA. The latter negotiated the terms of insurance related to contracts individually with TUiR Warta SA, Generali TU SA, Allianz TUiR SA and InterRisk. Stalfa, a subsidiary, also took out cargo insurance from TUiR Warta SA.

In 2014, the most active participants in the insurance market offering their services and products to Polimex-Mostostal SA and the subsidiaries in the Group were: TUiR Warta SA, PZU SA, STU Ergo Hestia SA, InterRisk Vienna Insurance Group, AXA TUiR SA and AIG Europe Limited Branch in Poland. According to the Company, the scope of insurance is in line with the market practice of peer companies.

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

Polimex – Mostostal S.A. prepares its separate and consolidated financial statements in conformity with the applicable laws and internal regulations.

The reporting principles and scope have been defined on the basis of the International Financial Reporting Standards and other provisions of law. Additionally, numerous internal procedures have been adopted in relation to internal controls with a view to ensuring correctness and reliability of the accounting records kept by Polimex – Mostostal S.A. and the Group companies, and generating high-quality financial information on their basis.

The *Polimex – Mostostal S.A. Group Procedure of Financial and Management Information Consolidation for Reporting Purposes* has been developed and implemented.

The management system in place at Polimex-Mostostal S.A., including the internal control and risk management systems applicable to the financial reporting process, aimed at ensuring effective and efficient control, identification and elimination of potential risks, comprises the following two core elements:

- internal (functional) control exercised by managers of each organizational unit and other competent employees;
- internal audit performed by the Internal Audit and Security Office, aimed at ensuring an effective instrument supporting the Management Board of Polimex Mostostal S.A. in management processes, which would enable professional and unbiased assessment of internal control and risk management process effectiveness, efficiency of all operations and activities carried out by Polimex – Mostostal S.A., their correct and uniform processing, registration and reporting, and one that would add value by identifying threats, defects and weaknesses as well as potential and work quality and efficiency improvement methods;

and the related solutions applicable to the financial reporting process are in particular based on:

- the Organizational Rules of the Company;
- the documentation of the accounting policy;
- procedures and instructions adopted as part of the Integrated Management System;
- the rules and procedures applicable to satisfaction of disclosure requirements under laws that govern trading in the securities of Polimex – Mostostal S.A. on the regulated market as well as implementing provisions to the said laws, which define the reporting scope along with the rules of and responsibilities for preparation of the financial statements;
- employee scopes of duties and authorizations.

The CFO and the Management Board of Polimex – Mostostal S.A. assume responsibility for correctness of the adopted and used accounting policies.

Organization of work related to the financial reporting process is the responsibility of the Chief Accountant and the Reporting and Consolidation Department.

The entire process of preparation and publication of financial statements is carried out in accordance with a formalized schedule agreed with the CFO and the Chief Accountant.

Once reviewed by the CFO, financial statements are approved by the Management Board.

In accordance with Section 38.1 of the Articles of Association, the Supervisory Board evaluates the financial statements and appoints the Audit Committee, which serves advisory and opinion-making functions. The Audit Committee is appointed with a view to supporting the Supervisory Board in exercising financial supervision and providing its members with reliable information and opinions based on which appropriate decisions may be taken smoothly with respect to the financial reporting process as well as the internal control and risk management system, in addition to ensuring independence and objectivity of the entity authorized to audit the financial statements.

The said entity (certified auditor) is selected in a tender out of a group of recognized audit firms that guarantee high quality of services and the required independence.

The Audit Committee:

- issues opinions on the Annual Internal Audit Plan;
- issues opinions on the structure of the Internal Audit and Security Office, along with its possible changes;

- analyzes the results of internal audits and discusses them on an ongoing basis with the Management Board and the Internal Audit and Security Head, along with recommendations formulated by the auditors and monitors the status of their implementation.

Control exercised by the Internal Audit and Security Office is one of the elements of oversight of the financial reporting risk management process. The Audit Office at Polimex – Mostostal S.A. performs its activities based on the *Internal Audit and Security Procedure* approved by the Management Board of the Company and developed in accordance with the COSO International Standards for the Professional Practice of Internal Auditing. As a result of an audit conducted in 2013, the risks of the audited processes were identified and analyzed and appropriateness and effectiveness of controls assessed. Following the audit, the *Risk Management Procedure* was approved by the Management Board.

Risk management involves such activities as identification of potential threats, their evaluation, estimation and supervision, reporting and control. The process is carried out by the Company's all organizational units in compliance with the agreed procedures of the Integrated Management System.

Definition of risk, which should be construed as threats that may hinder the Company's activities carried out with a view to achieving specific objectives or implementing the strategy effectively, is the point of departure and the central part of the risk management system.

The following rules have been formulated by POLIMEX – MOSTOSTAL S.A. considering the aforesaid definition:

- a business success involves risk;
- no actions or decisions may involve risks posing a threat to the operations of POLIMEX – MOSTOSTAL S.A.;
- financial risks require appropriate rewards in the form of properly calculated and earned profits;
- risks should be steered using the management system instruments;
- risk management is aimed at early identification of future threats.

The central focus of the risk management process (in the order of relevance):

- prevention/protection against any risks to the entity's operations;
- reduction of any other threats;
- identification of opportunities; and
- ensuring that profits are commensurate with the risks.

The four major components of the risk management process at the Company are:

- risk identification;
- risk assessment;
- reaction to risk;
- risk control.

Risk identification is based on a structured and detailed identification of all material threats as well as potential operational losses (risk profile). The information contained in the risk profile is the point of departure for any subsequent measures employed by the Company. It should be understood as the current status as risks change as a result of changes in internal and external conditions.

Risk assessment involves a focused analysis and evaluation of internal and external risks. The probability of occurrence and expected results should be estimated at the same time. A focus is placed on risks that may pose a threat to the Company's existence or involve a considerable loss potential.

The risk steering process is aimed at proactively influencing the risk defined and analyzed as part of risk identification and assessment processes. It is the objective of the Company to employ steering measures to control material risks resulting from incurred and potential losses by type.

The following alternative strategies are available:

- avoid or eliminate;
- transfer or mitigate;
- accept;

- monitor.

The following central groups of risk have been identified for purposes of the risk management process at POLIMEX – MOSTOSTAL S.A.:

EXTERNAL RISKS
• economic conditions • construction market • competition • law • capital market • technology

INTERNAL RISKS		
CONTRACT SELECTION	CONTRACT DELIVERY	OTHER
• Quality/Quantity • Tender estimates • Internal estimates • Authorizations (roles and responsibilities) • Tender control • Tender approval	• Overall delivery • Preliminary estimates • Procurement management • Project reporting • Project Quality Assurance Plan • Project OHS Plan	• Performance bonds • Environmental protection

FINANCIAL AND ECONOMIC RISKS		
ACCOUNTING	FINANCE	SUSCEPTIBILITY TO MANIPULATION
• Compliance with applicable accounting policies • Planning/Forecasting • Reporting • Investments • Taxes	• Solvency • Receivables • Liabilities • Warranties • Insurance • Budgeting	• Control

ORGANIZATIONAL RISKS		
STAFF	INFORMATION PROCESSING	ORGANIZATION
• Competences • Involvement • Headcount • Turnover	• Information flow at the Company • Data communications systems	• Hierarchy and roles • Organizational changes • Strategic planning

At all hierarchy levels, detailed information on handling each risk group is available in the documents/procedures applicable to the Company's operations.

Based on a risk analysis, the Internal Audit and Security Office drafted the Process and Control Matrix, which is revised constantly and serves as the basis for planning audit engagements.

Additionally, Polimex – Mostostal S.A. employs measures aimed at extending the scope of its audit and internal control processes over the Group companies.

The Internal Audit and Security Office implemented the audit plan approved by the Management Board of the Company in addition to carrying out ad hoc audits, as required by the Chairperson of the Management Board.

As at 31 December 2014, the status of the engagements of the Internal Audit and Security Office was as follows:

- in 2014, 37 internal audit engagements were performed (28 planned and 9 ad hoc ones);
- 117 recommendations were formulated in the course of the said engagements (88 implemented and 29 being implemented at present);
- recommendations were developed for events with the following results of risk estimation:

- 19 events with unacceptable risk – corrective actions were implemented and preventive action plans developed (to be continued in 2015);
- 59 events with undesirable risk – preventive action plans developed (to be continued in 2015);
- 36 events with acceptable risk – improvement action plans developed (to be continued in 2015);
- 3 events with negligible risk – actions completed.

To sum up, the internal control and risk management system, extending over the Polimex – Mostostal Group's overall operations is aimed at supporting the decision-making processes that improve effectiveness and efficiency, reliability of the financial reporting process and compliance of operations with generally applicable laws and internal regulations.

4. Organization of the Issuer's Capital Group

4.1. Group structure

Presented below is the structure of the Issuer's Group as at the date of publication of this report, including subsidiaries and associates. Entities in liquidation and those that have discontinued their operations have not been presented.

Polimex-Mostostal S.A.	
Domestic companies	**Interest**
Przedsiębiorstwo Robót Inżynieryjnych "PRINŻ-1" Sp. z o.o.	95.46%
Polimex Energetyka Sp. z o.o.	100.00%
Naftoremont-Naftobudowa Sp. z o.o.	100.00%
Polimex Projekt Opole Sp. z o.o.	100.00%
Polimex Projekt Kozienice Sp. z o.o.	100.00%
Mostostal Siedlce Sp. z o.o.	100.00%
Polimex Venture Development Sp. z o.o.	100.00%
Polimex Engineering Sp. z o.o.	100.00%
WBP Zabrze Sp. z o.o.	99.97%
Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.	100.00%
Polimex-Mostostal ZUT Sp. z o.o.	100.00%
StalFa Sp. z o.o.	100.00%
Polimex-Hotele Sp. z o.o.	100.00%
Energomontaż-Północ Bełchatów Sp. z o.o.	32.82%
Foreign companies	**Interest**
Grande Meccanica SpA (Italy)	100.00%
Polimex-Mostostal Wschód (Russia)	100.00%
Polimex-Mostostal Ukraina (Ukraine)	100.00%
Czerwonogradzki ZKM (Ukraine)	99.61%

4.3. Key Group companies

The Group operates based on a holding structure, where the Issuer acts as the Shared Services Center for the Group companies (HR, bookkeeping, tax and similar services) in addition to fulfilling power engineering and petrochemical contracts secured by the segments until formal establishment of the Segment Companies, specifically works relating to the *Kozienice* project (the *Opole* project is implemented by Polimex Projekt Opole Sp. z o.o.). Some works required on the aforesaid projects are subcontracted to the segment companies, i.e. Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o., in line with the relevant contractual provisions.

The Segment Companies will fulfil contracts based on the key competences of the Group, i.e. delivery of projects in the *Power Engineering* segment (Polimex Energetyka Sp. z o.o. – formerly: Polimex-Development Kraków Sp. z o.o.) and the *Petrochemistry* segment (Naftoremont-Naftobudowa Sp. z o.o. – formerly: Polimex-Mostostal Development Sp. z o.o.).The Group is also present in the infrastructure segment through Przedsiębiorstwo Robót Inżynieryjnych PRInż-1 Sp. z o.o. and on the market of design services, which are offered through Polimex Engineering Sp. z o.o.

Key Group entities include:

- **Przedsiębiorstwo Robót Inżynieryjnych "PRINŻ-1" Sp. z o.o.** – the company constructs wheel roads and passageways of any type, along with lighting and accompanying infrastructure;
- **Polimex Energetyka Sp. z o.o.** (formerly: Polimex-Development Kraków Sp. z o.o.) – in the new strategy, the *Power Engineering* segment has been designated as the key area of the Group's operations. The activities in the *Power Engineering* segment include comprehensive construction of facilities for the power, power engineering and municipal power industries in addition to the accompanying facilities, such as waste gas and water treatment or fuel supply and slag collection systems. The entity also provides repair and modernization services as well as technical service of electrical power equipment;
- **Naftoremont-Naftobudowa Sp. z o.o.** (formerly Polimex-Mostostal Development Sp. z o.o.) – a segment company operating in the *Petrochemistry* segment, where the Group's operations include fulfilment of contracts for refineries and chemical plants, and involve supplies and installation of specialist production facilities, including tanks and pipelines. The Group also offers overhauls of process lines, also without any downtime, which requires a special regime. The *Petrochemistry* segment also includes environmental protection operations involving construction of systems used for purposes of neutralization of industrial emissions;
- **Polimex Projekt Opole Sp. z o.o.** – a special purpose vehicle established to carry out a strategic investment in Opole;
- Entities that may be used in the future as special purpose vehicles to implement construction projects (**Polimex Projekt Kozienice Sp. z o.o., Mostostal-Siedlce Sp. z o.o**. and **Polimex Venture Development Sp. z o.o.**);
- Project companies – project teams may either be located in the organizational structures of the Group companies or take the form of separate PMOs. Organizational and technical systems are being developed with a view to establishing an integrated project management center focused on the needs of the Group. The following PMOs operate as companies: **Polimex Engineering Sp. z o.o., WBP Zabrze Sp. z o.o. and Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.**;
- **Polimex-Mostostal ZUT Sp. z o.o.** – a company responsible for TPM at Mostostal Siedlce;
- **Sinopol Trade Center Sp. z o.o** – a company established to cooperate with entities in the Chinese market (no operations carried out at present);
- **StalFa Sp. z o.o.** – a company operating in the production industry as an independent manufacturer of steel and aluminum products used in the construction sector, including: infrastructure, telecommunication, power engineering, construction and other industries;
- **Energomontaż-Północ Bełchatów Sp. z o.o. –** the plant carries out investment and modernization projects in the power engineering, chemical and petrochemical, oil and gas, off-shore (drilling platforms), environmental protection as well as industrial and municipal construction industries. The services provided in the power engineering industry include modernization of power units to improve their efficiency, installation of supercritical high-capacity power units, construction of flue-gas desulfurization and denitriding systems, installation of state-of-the-art waste-heat boilers for gas and steam units as well as installation of oil boilers.

In addition to entities registered in Poland, the Group includes foreign operations offering own or the Issuer's Group's products and services in their countries of registration. Companies with own production potential include:

- **Grande Meccanica SpA (Italy)** – entity providing services in the refinery sector (100.00%);
- **Polimex-Mostostal Wschód (Russia)** – sale of other Group companies' products on the Russian market;
- **Polimex-Mostostal Ukraina (Ukraine)** –entity established to develop *Production* segment business in Ukraine;
- **Czerwonogradzki ZKM (Ukraine)** – entity manufacturing steel structures and metal products, mainly platform grids.

Group companies which have discontinued their operations and are planned to be liquidated (or sold) or for which bankruptcy proceedings have been instigated:

- Polimex-Hotele Sp. z o.o.;
- Sinopol Trade Center Sp. z o.o.;
- Centrum Projektowe Polimex-Mostostal Sp. z o.o. in liquidation;
- Modułowe Systemy Specjalistyczne Sp. z o.o. in liquidation;
- PPU Elektra Sp. z o.o. in liquidation bankruptcy;
- Coifer Impex srl in bankruptcy;
- Polimex GmbH (formerly: Depolma GmbH);
- NAF Industriemontage GmbH.

In 2014, the following subsidiaries were liquidated by the Issuer:

- Energomontaż-Magyarorszag – deregistered in August 2014 (finally);
- Zakład Budowlano-Instalacyjny Turbud Sp. z o.o. – deregistered on 19 October 2014 (finally);
- Polimex-Sices Sp. z o.o. – deregistered on 20 November 2014 (finally).

4.4. Organizational or equity links between the Group and other entities

Polimex-Mostostal S.A. is the parent in the Polimex-Mostostal Group. Additionally, in 2014, the Company fulfilled some contracts as a leader or member of contractors' consortia, with the major ones being:

- a consortium of: Rafako S.A. (leader), Polimex-Mostostal S.A. and Mostostal Warszawa S.A. established in order to win and deliver a contract with PGE Elektrownia Opole S.A. for *Construction of Power Unit No. 5 and No. 6 at PGE Elektrownia Opole S.A.;*
- a consortium of: Hitachi Power Europe GmbH (leader) and Polimex-Mostostal S.A. established in order to win and deliver a contract with Elektrownia Kozienice S.A. for *Construction of a Power Unit in Świerże Górne*;
- a consortium of: Polimex-Mostostal S.A. (leader) and Energop Sp. z o.o. established in order to win and deliver a contract for *Repair of the Main Steam and Water Line System Related to Units No. 7-12 in the Bełchatów Power Plant.*

4.5. Headcount

In 2014, following a reduction in the number of contracts fulfilled by the Group, implementation of the restructuring program as well as the voluntary and group dismissal programs, the headcount at the Polimex-Mostostal Group decreased by 34.3% year-on-year.
A drop in the number of employees was also a consequence of the sale of Torpol and TSiL.

The Group's headcount in 2014:

Item	Change	Headcount *)	
	2014/2013	2014	2013
Management Board of the parent	0.0%	4	4
Management Boards of related parties	-24.4%	16	34
Support function	-32.3%	383	1 207
Operations function	-34.6%	5 024	7 676
Total	-34.3%	5 427	8 921

*) average headcount in FTEs

4.6. Changes in the composition of management and supervisory bodies of the parent and their committees, executives' appointment and dismissal procedures and powers, in particular the right to make decisions on the issue or redemption of shares

Composition of the **Management Board of Polimex-Mostostal S.A.** as at 1 January 2014:

- Gregor Sobisch — Chairperson of the Board
- Joanna Makowiecka-Gaca — Vice-Chairperson of the Board
- Arkadiusz Kropidłowski — Vice-Chairperson of the Board

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

06.02.2014	The Supervisory Board appointed Maciej Stańczuk to the position of Vice-Chairperson of the Management Board effective from 7 February 2014 (Resolution No. 30/XI of the Supervisory Board, WSE Communiqué No. 22/2014)
12.02 2014	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)
09.05.2014	Gregor Sobisch resigned from the position of Chairperson of the Management Board effective from the date of the resignation (WSE Communiqué No. 53/2014)
09.05.2014	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)

09.05.2014	The Supervisory Board appointed Bogusław Piekarski to the position of Vice-Chairperson of the Management Board effective from the date of the resolution (Resolution No. 38/XI of the Supervisory Board, WSE Communiqué No. 55/2014)
05.06.2014	The Supervisory Board appointed Krzysztof Cetnar to the position of Vice-Chairperson of the Management Board effective from 6 June 2014 (Resolution No. 42/XI of the Supervisory Board, WSE Communiqué No. 68/2014)
17.10.2014	Bogusław Piekarski resigned from the position of Vice-Chairperson of the Management Board effective from 31 January 2015 (WSE Communiqué No. 157/2014)
29.10.2014	The Supervisory Board dismissed Bogusław Piekarski from the position of Vice-Chairperson of the Management Board effective from the date of the resolution (Resolution No. 76/XI of the Supervisory Board, WSE Communiqué No. 168/2014).

As a result of the aforesaid changes, the composition of the Management Board as at 31 December 2014 was as follows:

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

Between the end of the reporting period, i.e. 31 December 2014, and the date of approval of this report, the composition of the Management Board changed once. Jacek Czerwonka was appointed Vice-Chairperson of the Management Board, COO.

Pursuant to Section 41.1 of the Articles of Association and Section 1.2 of the Rules of the Management Board, the Management Board is the Company's governing body on which all the management powers have been conferred and which acts in any matters which have not been assigned exclusively to the General Meeting or the Supervisory Board.

The Board consists of one or more members, whose number is defined by the Supervisory Board.

The Management Board may be composed of Chairperson, Vice-Chairpersons and other members of the Board appointed by the Supervisory Board. Vice-Chairpersons and members of the Board are appointed in consultation with the Chairperson of the Management Board. If the Management Board consists of one person, the Supervisory Board appoints the Chairperson of the Board.

The Management Board may consist of individuals appointed from among the shareholders or other individuals.

Each member of the Board used to be appointed for an individual, three-year term of office. On 16 February 2015, the Extraordinary Shareholders' Meeting adopted a resolution whereby a common, three-year term of office has been introduced. Pursuant to the Rules of the Management Board, expiry of the term of office does not limit the possibility of being appointed again as a member of the Management Board.

The Supervisory Board is authorized to appoint, dismiss and suspend, for sound reasons, individual or all members of the Management Board prior to the expiry of the term of office and to delegate members of the Supervisory Board, for a maximum term of three months, to substitute temporarily members of the Management Board who may not perform their role.

Pursuant to the Rules of the Management Board, a member of the Management Board may be dismissed through resignation, a loss of his/her capacity to enter into legal transactions or following his/her death.

A member of the Management Board may also be dismissed or suspended by way of a resolution adopted by the General Meeting.

The Management Board and its members are not authorized to make decisions on the issue or redemption of shares.

In 2014, meetings of the Management Board of Polimex-Mostostal S.A. were held on: 2014-08-01, 2014-22-01, 2014-05-02, 2014-12-02, 2014-07-03, 2014-11-03,

2014-13-03, 2014-18-03, 2014-25-03, 2014-27-03, 2014-01-04, 2-14-02-04,

2014-09-04, 2014-14-04, 2014-17-04, 2014-24-04, 2014-06-05, 2014- 08-05,

2014-12-05, 2014-16-05, 2014-20-05, 2014-26-05, 2014-27-05, 2014-30-05,

2014-02-06, 2014-06-06, 2014-11-06, 2014-13-06, 2014-17-06, 2014-18-06,

2014-23-06, 2014-25-06, 2014-30-06, 2014-07-01, 2014-07-02, 2014-07-03,

2014-07-04, 2014-07-08, 2014-07-09, 2014-07-14, 2014-07-15, 2014-07-16,

2014-07-22, 2014-07-23, 2014-07-25, 2014-07-29, 2014-07-30, 2014-07-31,

2014-08-01, 2014-08-04, 2014-08-07, 2014-08-08, 2014-08-12, 2014-08-13,

2014-08-18, 2014-08-20, 2014-08-26, 2014-09-01, 2014-09-05, 2014-09-10,

2014-09-11, 2014-09-17, 2014-09-23, 2014-09-24, 2014-09-26, 2014-10-01,

2014-10-02, 2014-10-03, 2014-10-09, 2014-10-10, 2014-10-15, 2014-10-22,

2014-10-24, 2014-10-28, 2014-10-30, 2014-11-05, 2014-11-07, 2014-11-13,

2014-11-19, 2014-11-19, 2014-11-20, 2014-11-21, 2014-11-26, 2014-12-01,

2014-12-03, 2014-12-10, 2014-12-15, 2014-12-17, 2014-12-18.

At the said meetings, the Management Board adopted resolutions concerning the financial and organizational restructuring program at the Company and loan guarantees, revocation of powers of attorney, draft amendments to the Rules of the Company's Management Board, convening the General Meeting, approval of the financial statements, the group dismissal program, sale of real property and other assets, adoption of the organizational structure of the Company, liquidation of the representative office in Moscow, disposal of shares in companies, placing orders and execution of annexes thereto (procurement decisions), recommendation concerning adoption of the consolidated text of the Articles of Association to the Supervisory Board, acquisition of the increased value of shares in the subsidiaries of PxM, convening the Extraordinary Shareholders' Meeting, extension of the term of insurance (business liability, D&O, property and accident insurance for construction workers) for 2015, buy-back of the shares in Pracownia Wodno – Chemiczna Ekonomia sp. z o.o., issuing multiple-share certificates with respect to R series ordinary bearer shares and the budget for 2015.

Composition of the **Supervisory Board of Polimex-Mostostal S.A.** as at 1 January 2014:

- Jerzy Góra — Chairman of the Supervisory Board
- Ryszard Engel — Vice-Chairman of the Supervisory Board
- Artur Jędrzejewski — Secretary of the Supervisory Board
- Wojciech Barański — Member of the Supervisory Board
- Andrzej Kasperek — Member of the Supervisory Board
- Dariusz Krawczyk — Member of the Supervisory Board
- Marcin Milewicz — Member of the Supervisory Board.

Changes in the composition of the Supervisory Board in the reporting period:

30.05.2014	Ryszard Engel resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 63/2014)
24.06.2014	Jerzy Góra resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 76/2014)
24.06.2014	The General Meeting appointed Adam Ambrozik and Jarosław Kochaniak to the positions of members of the Supervisory Board (Resolution No. 28 and Resolution No. 29 of the General Meeting, respectively) (joint WSE Communiqué No. 79/2014)
12.09.2014	Artur Jędrzejewski resigned from the position of member of the Supervisory Board effective from the date of the resignation (WSE Communiqué No. 138/2014)
01.12.2014	Dariusz Krawczyk resigned from the position of member of the Supervisory Board effective from 4 December 2014 (WSE Communiqué No. 193/2014)
04.12.2014	The Extraordinary Shareholders' Meeting appointed Krzysztof Kaczmarczyk and Andrzej Zwara to the positions of members of the Supervisory Board (Resolution No. 4 and Resolution No. 5 of the General Meeting, respectively) (joint WSE Communiqué No. 202/2014).

In the reporting period, the following members of the Supervisory Board held executive positions:

Chairman of the Supervisory Board

- Jerzy Góra	until 24 June 2014;
- Adam Ambrozik	effective from 11 July 2014.

Vice-Chairman of the Supervisory Board

- Ryszard Engel	until 30 May 2014;
- Andrzej Kasperek	effective from 4 June 2014.

Secretary of the Supervisory Board

- Artur Jędrzejewski	until 12 September 2014;
- Jarosław Kochaniak	effective from 1 October 2014.

As a result of the aforesaid changes, the composition of the Supervisory Board as at 31 December 2014 was as follows:

- 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
- Krzysztof Kaczmarczyk — Member of the Supervisory Board
- Marcin Milewicz — Member of the Supervisory Board
- Andrzej Zwara — Member of the Supervisory Board.

Between the end of the reporting period, i.e. 31 December 2014, and the date of approval of this report, the composition of the Supervisory Board changed as a result of appointment of Andrzej Sokolewicz as its member.

Three committees have been appointed within the structure of the Supervisory Board, i.e. the Audit Committee, the Compensation Committee and the Strategy and Development Committee.

Composition of the **Audit Committee** as at 1 January 2014:

- Marcin Milewicz — Chairman
- Artur Jędrzejewski — Member
- Andrzej Kasperek — Member.

The composition of the Committee changed in the reporting period and was as follows as at 31 December 2014:

- Marcin Milewicz — Chairman
- Andrzej Kasperek — Member
- Andrzej Zwara — Member.

No further changes were introduced to the composition of the Committee by the date of publication of this report.

The Committee is primarily responsible for advising the Supervisory Board on proper implementation and control of the financial reporting processes at the Company, effectiveness of internal controls and risk management systems as well as liaison with certified auditors. Detailed roles and responsibilities of the Committee have been set out in the Rules of the Supervisory Board. The Committee's tasks are fulfilled by providing the Supervisory Board with findings, opinions and reports concerning the scope of its responsibilities. The Committee members act jointly.

Composition of the **Compensation Committee** as at 1 January 2014:

- Jerzy Góra — Chairman
- Wojciech Barański — Member
- Ryszard Engel — Member
- Dariusz Krawczyk — Member.

The composition of the Committee changed in the reporting period and was as follows as at 31 December 2014:

- Adam Ambrozik — Chairman
- Wojciech Barański — Member
- Jarosław Kochaniak — Member.

No further changes were introduced to the composition of the Committee by the date of publication of this report.

The Committee is primarily responsible for supporting the Supervisory Board in fulfilment of its control and oversight obligations by presenting opinions on draft agreements relating to performance of duties by members of the Management Board as well as opinions on proposed changes to the Management Board compensation and bonus system. Detailed roles and responsibilities of the Committee have been set out in the Rules of the Supervisory Board. The Committee's tasks are fulfilled by providing the Supervisory Board with findings, opinions and reports concerning the scope of its responsibilities. The Committee members act jointly.

On 4 December 2014, the Extraordinary Shareholders' Meeting approved the new Rules of the Supervisory Board, which provide for appointment of the **Strategy and Development Committee**. The following individuals were appointed members of the aforesaid Committee by the Supervisory Board on 5 December 2014:

- Jarosław Kochaniak Chairman
- Adam Ambrozik Member
- Krzysztof Kaczmarczyk Member
- Marcin Milewicz Member.

No further changes were introduced to the composition of the Committee by the date of publication of this report.

The Committee is primarily responsible for supporting the Supervisory Board in oversight of implementation of the growth strategy as well as annual and multi-annual business plans of the Company and the Group. Detailed roles and responsibilities of the Committee have been set out in the Rules of the Supervisory Board. The Committee's tasks are fulfilled by providing the Supervisory Board with findings, opinions and reports concerning the scope of its responsibilities. The Committee members act jointly.

The Articles of Association lay down the principles applicable to appointment of and fulfilment of duties by the Supervisory Board. As specified in Section 34 of the Articles of Association, the Supervisory Board consists of at least five members appointed by the General Meeting for a joint, three-year term of office. The number of Supervisory Board members during each subsequent term of office is determined by the General Meeting at the time of appointment. The Articles of Association stipulate that at least a half of the total number of members should be independent and define the criteria to be satisfied by independent members of the Supervisory Board.

The Supervisory Board of Polimex-Mostostal S.A. operates in accordance with the laws, specifically the provisions of the Code of Commercial Companies, Articles of Association, Rules of the Supervisory Board and the *Code of Best Practice for WSE Listed Companies.*

4.7. Compensation paid to members of management and supervisory bodies

Information concerning the compensation paid to members of management and supervisory bodies has been provided in the notes to the financial statements of the Polimex-Mostostal Group (Note 39).

4.8. Agreements between the parent and its management providing for compensation in the event of their resignation or wrongful dismissal or dismissal as a result of a business combination through acquisition of the Company

No agreements have been signed by the parent and its management providing for compensation in the event of their resignation or wrongful dismissal or dismissal as a result of a business combination through acquisition of the Company.

4.9 Amendments to the Issuer's Articles of Association

The General Meeting has the power to amend the Articles of Association at its own initiative and/or at the request of the Supervisory/Management Board.

The Supervisory Board drafts the consolidated text of the Articles of Association, considering the recommendation formulated by the Management Board.

4.10 Rules of the Issuer's General Meeting and its key powers. Shareholder rights and the way in which they are exercised

The General Meeting is the highest governing body of the Company.

The General Meeting is convened and prepared in conformity of the Code of Commercial Companies, the Articles of Association of Polimex-Mostostal S.A. (PXM) and the Rules of the General Meeting. Both the Articles of Association and the Rules of the General Meeting are available on the website of PXM.

General Meetings or Extraordinary Shareholders' Meetings may be convened.

They are held at the registered office of the Company.

The General Meeting is convened by the Management Board on an annual basis, by 30 June of the year following the close of the financial year. The Supervisory Board may convene the General Meeting if the Management Board failed to do so within the time limit specified above and the Extraordinary Shareholders' Meeting at its own discretion.

The Extraordinary Shareholders' Meeting is convened by the Management Board when needed, at its own initiative, or at the request of the Supervisory Board.

A shareholder or shareholders representing at least 1/20th of the share capital may request that the Extraordinary Shareholders' Meeting be convened and specific issues included in its agenda. Requests for convening the Extraordinary Shareholders' Meeting should be submitted to the Management Board in writing or in electronic form. Should the Extraordinary Shareholders' Meeting not be convened within two weeks of the aforesaid request being submitted to the Management Board, the court of registration may authorize the requesting shareholders to convene the Extraordinary Shareholders' Meeting. The chairman is then appointed by the court.

The Extraordinary Shareholders' Meeting may also be convened by shareholders representing at least half of the share capital or at least half of the total number of votes at the Company. The chairman is appointed by the shareholders.

A shareholder or shareholders representing at least 1/20th of the share capital may request that specific issues be included in the agenda of the nearest meeting. The said request should be submitted to the Management Board no later than 21 days before the announced date of the General Meeting and include a statement of reasons or a draft resolution concerning the proposed agenda item. The request may be filed in electronic form.

Subject to the provisions of the Code of Commercial Companies, the General Meeting is valid regardless of the number of represented shares.

Any matters raised at the General Meeting need to be presented to the Supervisory Board for examination in advance.

Resolutions of the General Meeting are adopted in an open vote by a simple majority of votes, unless the Code of Commercial Companies or Articles of Association impose stricter adoption requirements for specific matters. Secret ballot applies to elections as well as motions for dismissal of members of PXM's governing bodies or its liquidators, motions for making the above individuals liable and also in personnel issues. Additionally, secret ballot is required at the request of at least one shareholder present or represented at the General Meeting.

The General Meeting may not adopt resolutions on issues that are not included in the agenda unless the whole share capital is represented at the meeting and none of the attendees files an objection as to the adoption of a resolution.

Resolutions of the General Meeting are adopted by an absolute majority of votes, unless the Code of Commercial Companies or the Articles of Association provide otherwise.

A resolution on removing an issue from the agenda may only be adopted for sound reasons. The relevant motion should include a detailed statement of reasons. Removing an issue from the agenda or non-considering an issue included in the agenda at the motion of the shareholders requires a resolution of the General Meeting adopted at the consent of all present shareholders who have proposed the motion, supported by 75% of votes cast by shareholders present and authorized to vote at the General Meeting.

The General Meeting is opened by the Chairman or Vice-Chairman of the Supervisory Board, and in their absence, by the Chairperson of the Management Board or an individual designated by the Management Board, whereas the chairman of the General Meeting is elected out of its attendees.

Votes are cast using a computerized system of casting and calculating votes. A returning committee consisting of three members elected out of the candidates proposed by the Chairman of the General Meeting ensures that the voting process is carried out properly.

The Articles of Association and the Rules of the General Meeting do not allow the shareholders to exercise their right to vote by mail or using electronic communication means.

The Supervisory Board of PXM is appointed by the General Meeting in secret ballot. Before the election, the General Meeting determines the number of Supervisory Board members for the term of office, as authorized by the Articles of Association.

Key powers of the General Meeting

Apart from the matters specified in the Code of Commercial Companies, resolutions of the General Meeting are required for:

a) verification and approval of the financial statements and the Management Board's report on the activities of the Company for the prior financial year;
b) acknowledgment of the fulfilment of duties by members of the Supervisory Board and Management Board;
c) distribution of profit or coverage of losses;
d) appointment and dismissal of members of the Supervisory Board;
e) amendments to the Articles of Association;
f) increasing or reducing the share capital;
g) creation and liquidation of special funds;
h) approval of the Rules of the Supervisory Board;
i) adoption of the compensation policy for members of the Supervisory Board;
j) consent to issues of convertible bonds or bonds with the pre-emptive right;
k) consent to disposal and lease of the enterprise or its organized part and establishing a limited property right on it;
l) adoption of the rules of the General Meeting;
m) redemption of shares at the consent of the shareholder through their buyback by the Company as well as setting out the terms of such redemption;
n) business combinations, dissolution and liquidation of the Company as well as appointment of liquidators;
o) examination of matters put forward by the Supervisory Board, the Management Board and the shareholders.

Representatives of the media may be present at General Meetings.

SHAREHOLDERS – RIGHTS AND OBLIGATIONS

The shareholders have the right to a share in the profit disclosed in the financial statements audited by a certified auditor, which the General Meeting decided to allocate to payments to the shareholders.

Extraordinary Shareholders' Meeting may be convened by shareholders representing at least half of the share capital or at least half of the total number of votes at the Company, who then appoint the chairman. A shareholder or shareholders representing at least 1/20th of the share capital may request the Management Board to convene the Extraordinary Shareholders' Meeting and include specific issues in its agenda.

In order to participate in the General Meeting of Polimex-Mostostal S.A. (PXM), one has to be the Company's shareholder at least 16 days before the date of the General Meeting. A shareholder or shareholders of PXM representing at least 1/20th of the share capital may request that specific issues be included in the agenda of the General Meeting. The said request should be submitted to the Management Board of PXM no later than 21 days before the date of the General Meeting.

Any documents which are presented at the General Meeting (including draft resolutions) are published on PXM's website as from the date when the General Meeting was convened.

The shareholders may participate in the General Meeting and exercise their right to vote in person or through plenipotentiaries.

A shareholder has the right to:

- vote, put forward motions and file objections;
- provide a brief statement of reasons for his/her opinion;
- run for Chairman of the General Meeting and request that his/her candidacy for Chairman of the General Meeting be included in the minutes;
- speak and reply at the meeting;
- propose draft resolutions on matters included in the agenda;
- propose amendments and supplements to draft resolutions included in the agenda of the General Meeting – until the discussion on the item subject to the draft resolution is closed;
- propose motions on formal issues, i.e. those concerning the meeting procedure and voting;
- propose candidates to PXM's Supervisory Board, in writing to the Chairman of the General Meeting or verbally to be included in the minutes;
- review the records of the minutes and request copies of resolutions, certified by the Management Board;
- initiate court action aimed at revocation of a resolution adopted by the General Meeting if the shareholder voted against the resolution and demanded that his/her objection be included in the minutes following its adoption, if the shareholder was unreasonably prevented from participation in the General Meeting, if the shareholder was not present at the General Meeting because the meeting had not been convened in accordance with the applicable procedures or if the resolution concerned matters not included in the agenda;
- initiate court action against the Company to declare a resolution of the General Meeting invalid if it was adopted in contravention of the law.

At the shareholder's request, the Management Board is obliged to provide him/her with information concerning the Company, should it be reasonable from the point of view of assessment of an issue included in the agenda. The Management Board should refuse to provide such information if:

- such provision could be detrimental to the Company, its related party or subsidiary, in particular as a result of revealing technical, commercial or organizational secret of the enterprise;
- such provision could expose a member of the Management Board to criminal, civil or administrative liability.

If reasonable, the Management Board may provide information in writing, no later than within two weeks of the close of the General Meeting.

Ordinary bearer shares are not handed over to the shareholders but deposited with an entity specified by the Management Board of the Company, in conformity with the laws applicable to trading in financial instruments.
Certificates of deposit are the only evidence that a person may use the share and exercise any other rights attached thereto.
Bearer shares are not convertible into registered shares.
Shares may be inherited on general terms.

One vote at the General Meeting is attached to each share.

Only individuals entered into the stock ledger or holding bearer shares are considered the Company's shareholders.

The shareholders are required to keep confidential any information obtained in relation to the Company's operations.

Shares may be redeemed.
Shares may be redeemed at the consent of the shareholder through their buyback by the Company (voluntary redemption) or without such consent (forced redemption).
Detailed terms of and procedure applicable to share redemption are each time set out in a resolution of the General Meeting.
Priority of share acceptance for redemption is determined by the order in which the relevant motions are submitted to the Management Board by the end of the financial year.

5. Shareholding structure

5.1. Total number and par value of all shares in Polimex-Mostostal S.A. held by members of the Management Board and Supervisory Board

The Issuer's shares held by members of the Company's governing bodies as at 31 December 2014:

Function	**Current number of shares held**
Member of the Supervisory Board	5,700 bearer shares with the par value of PLN 0.04 each, to which the total of 5,700 voting rights that may be exercised at the General Meeting are attached
Total	5,700 bearer shares with the par value of PLN 0.04 each, to which the total of 5,700 voting rights that may be exercised at the General Meeting are attached

5.2. Shareholders holding directly or indirectly (through subsidiaries) at least 5% of the total number of voting rights that may be exercised at the General Meeting of Polimex-Mostostal S.A.

As the Company is a public company whose shares are traded on the main market of the Warsaw Stock Exchange, it does not have access to up-to-date information concerning the current shareholding structure.

The information below has been compiled on the basis of notices required under Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies, dated 29 July 2005, or published otherwise, as required by the applicable laws.

Shareholders holding at least 5% of the total number of voting rights that may be exercised at the General Meeting as at 31 December 2014:

No.	**Shareholders**	**Number** of shares/voting rights	**Percentage interest** in the share capital/ total number of votes at the General Meeting*****
1.	Powszechna Kasa Oszczędności S.A. and its subsidiaries	1 061 971 808	24.52%
2.	Bank Polska Kasa Opieki S.A.	753 806 838	17.41%
3.	SPV Operator Sp. z o.o.	300 000 001	6.92%
4.	Pionier Pekao Investment Management S.A.	254 494 744	5.88%
5.	Other shareholders	1 960 666 751	45.27%
	Total number of shares (all issues)	4 330 940 142	100.00%

***** *As the shares in Polimex-Mostostal S.A. carry no preference as to the number of voting rights, the interest in the share capital is the same as the share in the total number of votes at the General Meeting.*

Between the end of the reporting period, i.e. 31 December 2014, and the date of approval of this report, the Company was not notified of any changes in its shareholding structure.

5.3. Statement of compliance with corporate governance principles

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

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

On 22 December 2014, the Issuer's Management Board adopted a resolution concerning non-application of some of the principles laid down in the *Code of Best Practice for WSE Listed Companies.* Pursuant to the said resolution, the Management Board intends to comply with all the corporate governance principles established in the *Code of Best Practice for WSE Listed Companies*, except for the following:

I. Part I: Recommendations for Best Practice for Listed Companies

1. Section I.1 of the *Code of Best Practice for WSE Listed Companies:*

Principle:

A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. (…) – with respect to on-line broadcasts of General Meetings over the Internet, recording General Meetings, and publishing the recordings on the company website.

Statement of reasons:

Based on the past experience in organization of General Meetings and their course, which does not indicate the need for such transmission, the Company does not anticipate that General Meetings will be transmitted using the Internet. However, it may not be ruled out that the aforesaid principle will be applied in the future, once appropriate technical measures have been employed and expenditure incurred for that purpose by the Company.

2. Section I.12 of the *Code of Best Practice for WSE Listed Companies*:

Principle:

A company should enable its shareholders to exercise their right to vote during a General Meeting either in person or through a plenipotentiary, from a location other than the venue of the General Meeting, using electronic communication means.

Statement of reasons:

The Company does not enable its shareholders to exercise their right to vote during a General Meeting using electronic communication means as at present the Articles of Association do not set forth any provisions enabling the shareholders to participate in a General Meeting and exercise their voting rights with the use of such means. According to the Company, exercising the right to vote with the use of electronic communication means has not become a common practice yet and as such, it involves organizational and technical risks, which may result in questioning resolutions adopted in this manner due to technical defects. As this practice becomes more common, the Management Board of the Company will consider the possible application of the underlying corporate governance principle.

II. Part II: Best Practice for Management Boards of Listed Companies

1. Section II.1.7 of the *Code of Best Practice for WSE Listed Companies*:

Principle:

A company should operate a corporate website and publish on it, in addition to information required by legal regulations, shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions (…) – with respect to publication of shareholders' questions asked at the General Meeting of the Company, together with answers to those questions.

Statement of reasons:

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

2. Section II.1.9a of the *Code of Best Practice for WSE Listed Companies*:

Principle:

A company should operate a corporate website and publish on it, in addition to information required by legal regulations, audio or video recordings of the General Meetings (…)

Statement of reasons:

The Company does not anticipate publishing the recordings of the General Meetings on its website considering the related costs and based on the past experience in organization of General Meetings and their course, which does not indicate the need to make such recordings. However, it may not be ruled out that the aforesaid principle will be applied in the future, once appropriate technical measures have been employed and expenditure incurred by the Company for that purpose.

III. Part IV: Best Practices of Shareholders

Section IV.10 of the *Code of Best Practice for WSE Listed Companies:*

Principle:

A company should enable its shareholders to participate in a General Meeting using electronic communication means through: (i) real-life broadcast of General Meetings; (ii) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the venue of the General Meeting.

Statement of reasons:

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

5.4. Information on agreements known to the Issuer (including those entered into after the end of the reporting period), which may change the proportion of shares held by the existing share- and bond holders in the future

The Company is not aware of the existence of any agreements which may lead to changes in the proportion of shares held by the existing share- and bond holders.

5.5. Holders of any securities giving special control rights with respect to the parent and a description of such rights

There are no holders of securities that would give special control rights with respect to the Company.

5.6. Purchase of treasury shares, in particular the objective of such purchase, number and par value of shares, along with information on interest in the share capital as well purchase and selling price if such shares are disposed of

The Company is planning to purchase treasury shares for purposes of their redemption, as communicated in Current Report No. 116/2014 dated 6 August 2014.

5.7. Limitations on transferring the ownership title to securities and exercising the voting rights attached to the parent's shares

There are no limitations on transferring the ownership title to securities or exercising the voting rights attached to the Company's shares.

5.8. Supervision over the employee stock ownership plan

Pursuant to resolutions of the Extraordinary Shareholders' Meeting of Polimex-Mostostal S.A. dated 31 January 2006, in respect of an incentive scheme for 2006-2008 addressed to the Issuer's key executives, option agreements were entered into with the Chairperson and Members of the Management Board, the executives of Polimex-Mostostal S.A. as well as chairpersons of the management boards of the subsidiaries. A detailed description of the said incentive scheme is available in the Issuer's Current Report No. 9/2006 dated 31 January 2006.
On 4 July 2008, the General Meeting of Polimex-Mostostal S.A. adopted Resolution No. 26 concerning adoption of the incentive scheme for 2009-2011 and the related conditional increase in the share capital, amendments to the Articles of Association of Polimex-Mostostal S.A. and issue of subscription warrants. A detailed description of the said incentive scheme is available in the Issuer's Current Report No. 43/2008 dated 4 July 2008.
As at 31 December 2014, the provision recognized in the Issuer's reserve capital on the basis of both these schemes is PLN 0.00 (vs. PLN 32,086,000.00 as at 31 December 2013).

5.9. Proceedings before courts, arbitration or public administration bodies, the total value of which represents at least 10% of the Issuer's equity

The most important proceedings pending as at 31 December 2014, the total value of which represents at least 10% of the Issuer's equity:

Action brought against the Issuer:

- Action brought by NEM b.v.
  The litigation before a common court in Rotterdam is related to termination and settlement of a contract for subcontracting services of 14 November 2007 concerning the installation of a CHP facility in Mongstad, Norway. The value of the litigation is ca. EUR 7 million.

- Action brought by the State Treasury – Chair of the Regional Court in Warsaw
  The litigation has been initiated to enforce payment of liquidated damages for a delay in rectifying faults under the contract of 29 December 2003 signed by Mostostal Siedlce S.A.

(legal predecessor of the Issuer) for a turnkey project at ul. Owsiana in Warsaw. The value of the litigation is PLN 17,442,671.00.

- Action brought by the President of the Public Procurement Office
The litigation has been initiated to revoke the additional construction contract for the educational and sports facility in Kleszczów. It is conducted against a consortium with the Issuer as a member. The share of Polimex-Mostostal in the consortium is 97.47%. The value of the litigation is PLN 10,657,772.00.

- Action brought by the Fryderyk Chopin Institute
The litigation has been initiated to enforce payment of liquidated damages for a 50-day delay in contract delivery. The value of the litigation is PLN 6,176,600.00.

- Action brought by Helical Sośnica Sp. z o.o.
The litigation has been initiated to enforce payment of liquidated damages for a delay in completion of construction works and exceeding key deadlines under the contract of 10 November 2011 for construction works related to the *Europa Centralna* shopping center in Gliwice.
The value of the litigation is PLN 21,615,504.00.

Action brought by the Issuer:

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 114,604,497.20. The share of Polimex-Mostostal in the consortium is 51%. The litigation has been instituted to award additional fee for construction of A4 motorway between Szarów and Brzesko for the scope of services which proved necessary due to the fact that the geological and hydrological conditions in the subsoil turned out to be worse than those described in the soil engineering documentation. In its verdict of 13 January 2014 (as announced on 27 January 2015), the Regional Court in Warsaw (1st instance) dismissed the action brought by the consortium of Polimex-Mostostal S.A., Metrostav a.s. and Doprastav a.s., and awarded payment of attorney fees in the amount of PLN 7,200.00 to the State Treasury. In the statement of reasons provided verbally, the Court laconically pointed out that the parties had been bound by the contract and the rates specified therein should be applied to any additional/substitute works. On 27 January 2015, an application was filed for provision of a statement of reasons in written form and service of the verdict along with the said statement of reasons.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 36,961,661.00. The share of Polimex-Mostostal in the consortium is 49%. The litigation has been initiated to increase the fee for construction of A2 motorway between Stryków and Konotopa as a result of rising prices of liquid fuels and asphalt.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 26,846,101.64. The share of Polimex-Mostostal in the consortium is 49%. The litigation has been initiated to claim a refund of liquidated damages, including interest, offset by the client in relation to construction of A2 motorway between Stryków and Konotopa, and to invalidate the contractual provisions along with any requests. The trial is scheduled on 16 April 2015.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 219,592,408.00. The share of Polimex-Mostostal in the consortium is 49%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A4 motorway between Rzeszów and Jarosław through the fault of the client. On 13 May 2014, the Court issued a warrant for payment in the warrant-for-payment proceedings and ordered the respondent to make a payment of PLN 111,992,128.00 plus statutory interest accrued on the said amount between 4 February 2014 and the payment date to Polimex-Mostostal, refund the costs of the proceedings of PLN 32,217.00 to Polimex-Mostostal, pay PLN 107,600,280.00 plus statutory interest accrued on the said amount between 4 February 2014 and the payment date and refund the costs of the proceedings of PLN 32,217.00 to Doprastav. On 4 June 2014, the State Treasury – the Directorate General for National Roads and Motorways filed an effective objection against the aforesaid warrant for payment.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 176,954,030.25. The share of Polimex-Mostostal in the consortium is 25%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of A1 motorway between Stryków and Tuszyn through the fault of the client.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 78,810,044.69. The share of Polimex-Mostostal in the consortium is 34%. The litigation has been initiated to enforce payment of liquidated damages for termination of the contract for construction of S69 expressway between Mikuszowice and Żywiec through the fault of the client. On 18 May 2014, the Court issued a ruling on dismissal of the action as, according to the Court, the court fee should be PLN 200,000.00 instead of PLN 100,000.00, as paid by the claimants. On 29 July 2014, the Court of Appeals in Warsaw revoked the aforesaid ruling and a warrant for payment was issued in warrant-for-payment proceedings on 22 September 2014. The Court ordered the respondent to make a payment of PLN 39,799,072.00 plus statutory interest accrued on the said amount between 4 February 2014 and the payment date to Polimex-Mostostal, pay PLN 39,010,972.00 plus statutory interest accrued on the said amount between 4 February 2014 and the payment date to Doprastav and refund the costs of the proceedings of PLN 32,217.00 to the claimants.

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 59,866,305.00. The litigation has been initiated to enforce the respondent's payment of a VAT invoice raised correctly. Based on the quantities of works approved by the Contract Engineer, as presented by the contractor to obtain the Interim Payment Certificate, the contractor, in line with Article 106i.3.1 of the VAT Act dated 11 March 2004 (Journal of Laws of 2011, No. 177, item 1054, as amended), issued a valid VAT invoice in the amount of PLN 59,866,305.00, which had not been paid by the action date. On 15 January 2015, the action was cancelled as the case was referred by the court to be examined in ordinary proceedings (A4 Rzeszów-Jarosław).

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 39,570,039.72. The litigation has been initiated to enforce payment of amounts due under invoices relating to delivery of contract for construction works no. GDDKiA/R-1/S-69/M-Ż/2009 of 20 July 2010, concerning construction of S69 expressway Bielsko-Biała-Żywiec-Zwardoń between the Mikuszowice interchange (Żywiecka/Bystrzańska) and Żywiec, and contract for construction works no. GDDKiA/KA/48/R1/A-1/S-M/2008 concerning construction of A1 motorway from the Sośnica (A1/A4) interchange, along with A1 motorway between Sośnica and Maciejów (including the interchange) (km: 510+530.00 to km 518-734.34).

- Respondent: the State Treasury – the Directorate General for National Roads and Motorways. The value of the litigation is PLN 103,644,247.22. The share of Polimex-Mostostal in the consortium is 49%. The litigation has been initiated to enforce remedying a loss incurred by the contractor due to an incorrect description of the client's requirements related to a contact for construction of A2 motorway between Stryków and Konotopa.

On 21 October 2014, Report No. 237 on the meeting of the Polish Financial Supervision Authority was published. As communicated by the Polish Financial Supervision Authority, a penalty of PLN 800,000.00 had been imposed on the Company for a failure to adequately perform disclosure obligations relating to the divestment process commenced in 2011 and to the Company's financial reporting for 2011. In 2011, the financial statements were signed by Management Board composed of: Konrad Jaskóła, Aleksander Jonek, Grzegorz Szkopek and Zygmunt Artwik.

6. Environmental protection

The operations of Polimex-Mostostal S.A., involving construction, manufacturing, repairs or technical service in the power engineering industry, have an effect on all aspects of the natural environment through:
- air, water and soil contamination;
- emission of waste products;
- use of natural resources;
- transformation of the surface of earth.

The Company carries out its business based on legal provisions set forth in the Environmental Protection Law of 27 April 2001, the Water Law of 18 July 2001 and the Waste Management Law of 14 December 2012.
The systems used by Polimex-Mostostal S.A. have all the permits and environmental decisions as required by law, i.e.:

- permit to emit dust and gases to the atmosphere;
- permit to generate waste;
- permit under the Water Law to discharge sewage containing substances that are particularly dangerous for the water environment, to the sewage system;
- permit under the Water Law to use ground water,

including those required under EU laws, i.e. the Integrated Pollution Prevention and Control Directive:

- integrated permit for IPPC metal coating systems.

The IPPC systems used by Polimex-Mostostal S.A. are in line with BAT requirements set out in the reference documents of the European Commission.
As a result of the changes introduced at the Company in 2013, two IPPC systems were sold.
The administrative environmental decisions issued for the Company define the emission thresholds and set out the environmental and industrial process monitoring requirements. All the requirements set out in the said decisions have been satisfied and compliance is monitored by environmental protection services.
The Company's operations in 2014 did not involve any environmental or industrial accidents and no risks to the environment resulting from uncontrolled emission of pollutants were identified.
Polimex-Mostostal S.A. has implemented a certified environmental management system based on ISO 14001:2004 as part of the Integrated Management System. The Company formulated its environmental protection policy and objectives, whereby it committed to minimize its adverse effect on the environment and prevent damage to the environment when pursuing its business objectives.
A supervision audit was conducted by a certification company between 24 and 27 June 2013, which confirmed fulfilment of the requirements imposed by the law and compliance with environmental management standards. Construction and manufacturing operations are carried out in conformity with environmental protection standards and the principles of sustainable development.
Emission of air pollutants, discharge of industrial, municipal and storm sewage and waste as well as emission of noise are by-products of the business activities of Stalfa (manufacturing company), the Issuer's subsidiary. The Group companies have obtained all necessary permits and environmental decisions, as required of enterprises by the applicable Polish and Community laws:

- to generate non-hazardous waste;
- to discharge storm and industrial sewage;
- to emit gases and dust from emitters located in plants to the atmosphere;
- to use ground water from wells drilled for domestic and industrial purposes;
- to discharge treated industrial sewage and rain water and meltwater directly to surface water-courses;
- to generate hazardous waste.

The Issuer's subsidiaries which are construction companies have in place confined-area non-hazardous waste management programs, approved in line with the applicable regulations.
At each company, environmental protection activities are coordinated by specialized services, the structure of which is in line with their scope of business. The said services are primarily responsible for monitoring each waste emission on an ongoing basis, maintenance of waste management records, controlling the neutralization and recovery processes, sewage monitoring and monitoring the emission of air pollutants on a periodic basis. A central focus is placed on waste management in conformity with the Regulation of the Minister of Finance with respect to storing,

safeguarding and transferring waste to entities holding a neutralization permit for recovery purposes as well as maintenance of appropriate quality and quantity records.

7. Entity being a party to the agreement on the audit of financial statements with the Issuer

On 24 July 2014, an agreement was signed with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office at al. Jana Pawła II 19 in Warsaw to audit the financial statements of Polimex-Mostostal S.A. and the Polimex-Mostostal Group for 2014, and to review the financial statements of Polimex-Mostostal S.A. and the Polimex-Mostostal Group for the first half of 2014. The total fee due for the aforesaid services is PLN 796,000.00 net (apart from the audit of the financial statements of a Polish subsidiary of Polimex-Mostostal S.A.). In 2014, the entity authorized to audit the financial statements provided services in the form of written consultations concerning the accounting principles applicable to measurement of the New Bonds. The net fee for the aforesaid accounting advisory services totaled PLN 18,000.00. The entity authorized to audit the financial statements did not provide any tax advisory services to the Issuer in 2014.

8. Other significant events in the financial year which affect the operations of the Issuer's Group

General Meetings:

- On **16 January 2014**, the Company's Extraordinary Shareholders' Meeting adopted resolutions whereby:
  - the Company's share capital was increased conditionally by no more than PLN 17,200,000.00 through the issue of no more than 430,000,000 Q series ordinary bearer shares with the par value of PLN 0.04 each. The Company's share capital was increased conditionally for purposes of granting rights to acquire Q series shares to holders of series 1 subscription warrants. Series 1 subscription warrants (430,000,000) were addressed to the Company's creditors and were issued in order to enable conversion of the Company's debt to the creditors into the Company's share capital. No rights issue was offered in relation to Q series shares to the existing shareholders;
  - spin-off and sale of an organized part of the Company's enterprise (a segment located in Siedlce) were approved.

The full text of the resolutions adopted by the Extraordinary Shareholders' Meeting was published by the Issuer in Current Report No. 7/2014 of 16 January 2014.

- On **24 June 2014**, the Company's General Meeting adopted resolutions whereby:
  - the Management Board's reports on the activities in 2013 as well as the financial statements of the Company and the Polimex-Mostostal Group for the 2013 financial year were approved;
  - the Supervisory Board's report on its activities in 2013 was approved;
  - fulfilment of duties in 2013 was acknowledged for the following members of the Management Board: Robert Oppenheim, Dariusz Krawczyk, Gregor Sobisch, Joanna Makowiecka-Gaca, Arkadiusz Kropidłowski and Robert Bednarski;
  - no resolution was adopted to acknowledge the fulfilment of duties by Aleksander Jonek, Member of the Management Board;
  - fulfilment of duties was acknowledged for all members of the Supervisory Board in 2013;
  - a decision was taken to cover the loss incurred by the Company in 2013 with its future profits;
  - Adam Ambrozik and Jarosław Kochaniak were appointed members of the Supervisory Board;

- a decision was taken on the Company's further existence (in connection with Article 397 of the Code of Commercial Companies);
- Section 40 of the Articles of Association was amended as follows: "The Management Board shall be appointed for a joint, three-year term of office".

The full text of the resolutions adopted by the General Meeting was published by the Issuer in Current Report No. 78/2014 of 24 June 2014.

- On **31 July 2014**, the Company's Extraordinary Shareholders' Meeting adopted resolutions whereby:
  - the resolution of the Company's General Meeting of 16 January 2014 concerning the issue of series 1 subscription warrants and conditional increase in the share capital of the Company through the issue of Q series shares was revoked;
  - the Company's share capital was increased by no less than PLN 0.04 and no more than PLN 124,000,000.00 through the issue of no more than 3,100,000,000 R series ordinary bearer shares, with no rights issue offered;
  - a consent was granted for the Company's issue of collateralized bearer bonds convertible to S series shares of no more than PLN 85,000,000.00 and the share capital of the Company was increased conditionally by no more than PLN 85,000,000.00 through the issue of no more than 2,125,000,000 S series ordinary bearer shares with the par value of PLN 0.04 each, with no rights issue offered. The conditional increase in the Company's share capital is aimed at enabling the bond holders to exercise the right to convert the said instruments into the Company's shares.

The full text of the resolutions adopted by the Extraordinary Shareholders' Meeting was published by the Issuer in Current Report No. 111/2014 of 31 July 2014.

- On **4 December 2014**, the Company's Extraordinary Shareholders' Meeting adopted resolutions whereby:
  - Krzysztof Kaczmarczyk and Andrzej Zwara were appointed members of the Supervisory Board;
  - a consent was given to establish a registered pledge or pledges on the Company's enterprise to secure payment of the bond holders' receivables arising from the issue of 163 A series convertible bearer bonds and 585 B series ordinary bearer bonds;
  - a consent was given for spin-off and sale of organized parts of the Company's enterprise located in Siedlce, Grajewo, Ostrołęka and Wieruszów, along with the accompanying infrastructure;
  - a consent was given for the Company's purchase of 42 treasury shares for purposes of redemption;
  - amendments to the Rules of the Supervisory Board were approved;
  - Section 7 and Section 44 of the Articles of Association were amended;
  - a consent was given to file claims against former members of the Company's Management Board, i.e. Konrad Jaskóła, Aleksander Jonek, Grzegorz Szkopek and Zygmunt Artwik to remedy the damage inflicted when performing management functions.

The full text of the resolutions adopted by the Extraordinary Shareholders' Meeting was published by the Issuer in Current Report No. 200/2014 of 4 December 2014.

9. Events significant for the operations of the Polimex-Mostostal Group, which occurred after the end of the financial year and by the date of approval of the financial statements

The following real property sale transactions were entered into after 31 December 2014:

- on 23 January 2015, a real property sale agreement was signed by the Company, as the seller, and Molina Sp. z o.o. 1 S.K.A., as the buyer, concerning real property located in Bielkowo, the commune of Kobylanka, Stargard poviat in the West Pomeranian Region, for which the District Court in Stargard Szczeciński, Land and Mortgage Division, maintains land and mortgage register no. SZ1T/00091339/2, land and mortgage register no. SZ1T/00095743/5, land and mortgage register no. SZ1T/00113197/5 and land and mortgage register no. SZ1T/00115560/5, including residential, detached buildings forming part of the real property for which land and mortgage register no. SZ1T/00091339/2 is kept. The conditional sale agreement was signed on 30 October 2014. The total gross price under the agreement is PLN 12,746,250.00;
- on 23 January 2015, a conditional agreement on the sale of real property in Siadło Dolne, the municipality of Kołbaskowo, Police poviat, West Pomeranian Region, was signed by the Company, as the seller, and Molina Sp. z o.o. 1 S.K.A. with its registered office in Warsaw, as the buyer. 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 gross price under the agreement is PLN 9,059,625.00;
- on 23 January 2015, a conditional agreement on the sale of undeveloped property in Siadło Dolne, the municipality of Kołbaskowo, Police poviat, West Pomeranian Region, was signed by the Company, as the seller, and Molina Sp. z o.o. 1 S.K.A. with its registered office in Warsaw, as the buyer. The gross price under the agreement is PLN 7,995,000.00;
- on 28 January 2015, a conditional agreement on the sale of the right of perpetual usufruct of developed property located in Stalowa Wola was signed by the Company, as the seller, and Molina Sp. z o.o. 3 S.K.A. with its registered office in Warsaw, as the buyer. The gross price under the agreement is PLN 8,118,000.00;
- Additionally, other non-current assets were sold, as described in Section 2.10 (*Divestments*).

The following sale transactions involving movable property were entered into after 31 December 2014:

- on 29 January 2015, a sale agreement concerning selected assets of the Company located in industrial service centers was signed by the Company, as the seller, and ERBUD INDUSTRY CENTRUM Sp. z o.o. with its registered office in Łódź. The conditional sale agreement was signed on 1 December 2014. The total gross price under the agreement is PLN 2,952,000.00.

Contracts signed after 31 December 2014:

On 31 December 2014, KGHM Polska Miedź S.A. ordered the consortium of Polimex-Mostostal S.A. and Tulcon S.A. with its registered office in Ostrzeszów to implement a project entitled *Construction and installation of a gas duct from OPZ to FKS at the Głógów I Copper Mill, involving supply and installation of support structures for the pipeline system – FKS Electrofilter, the support structure for the dust extraction system and the start-up system for the fluidized-bed furnace, supply and installation of the KO-EF process gas pipeline and start-up gas pipeline, along with construction of the power supply, lightning protection and earthing systems under a contract for pyrometallurgy modernization program for the process line at the Głogów Copper Mill*, signed by the consortium and KGHM. The Issuer's share in the consortium is 55%. The net project value is PLN 32,500,000.00.

Other events 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 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.

General Meetings in 2015:

- On **16 February 2015**, the Company's Extraordinary Shareholders' Meeting adopted resolutions whereby:
  - the number of Supervisory Board members was set at 8;
  - Andrzej Sokolewicz was appointed member of the Supervisory Board;
  - Section 13 and Section 40 of the Articles of Association were amended.

The full text of the resolutions adopted by the Extraordinary Shareholders' Meeting was published by the Issuer in Current Report No. 32/2015 of 16 February 2015.

Status of bankruptcy petitions filed by the creditors of PxM (as at 12 March 2015):

In 2014, the following bankruptcy petitions involving liquidation of the assets of Polimex-Mostostal were filed and examined:
X GU 23/14 (cancelled) AGENCJA FINANSOWA ASSIST Zbigniew Dyllus, Marek Gwóźdź sp. j. with its registered office in Tychy;
X GU 25/14 (cancelled), Tadeusz Tracz carrying out business activity under the name of Triespol Firma Produkcyjno-Usługowa mgr. inż. Tadeusz Tracz with its registered office in Mrągowo;
X GU 47/14 (cancelled), Ergon Poland sp. z o.o. with its registered office in Badowo-Mściska;
X GU 52/14 (cancelled), MontinKorizola sp. z o.o. with its registered office in Kraków;
X GU 58/14 (cancelled), Przedsiębiorstwo Budowlane Kokoszki S.A. with its registered office in Gdańśk;
X GU 88/14 (cancelled), Firma Budowlano-Drogowa MTM S.A. with its registered office in Gdynia;
X GU 189/14 (cancelled), Techwind Jan Rutkowski with its registered office in Gdańsk;
X GU 282/14 (cancelled), Cogito sp. z o.o. with its registered office in Warsaw;
X GU 324/14 (cancelled), PHU Plast-Bud Zdzisław Sówka with its registered office in Olsztyn;
X GU 354/14 (cancelled), Fracht FWO Polska sp. z o.o. with its registered office in Warsaw;
X GU 365/14 (cancelled), Zbigniew Jóźwiak carrying out business activity under the name of Zbigniew Józef Jóźwiak with its registered office in Łódź;
X GU 392/14 (cancelled), INSTAL BEŁCHATÓW sp. z o.o. with its registered office in Rogowiec;
X GU 420/14 (cancelled), Lafarge Cement S.A. with its registered office in Małogoszcz;
X GU 429/14 (cancelled), Grzegorz Koczorek carrying out business activity under the name of Doradztwo Gospodarcze i Biznesowe A i D Grzegorz Koczorek with its registered office in Chorzów;
X GU 446/14 (cancelled), Renata Ceplin carrying out business activity under the name of SUFREMIX II Renata Ceplin with its registered office in Rumia;
X GU 457/14 (cancelled), Bilfinger Industrial Services Polska sp. z o.o. with its registered office in Warsaw;
X GU 464/14 (dismissed), Cogito sp. z o.o. with its registered office in Kraków;

X GU 467/14 (cancelled), Grzegorz Koczorek carrying out business activity under the name of Doradztwo Gospodarcze i Biznesowe A i D Grzegorz Koczorek with its registered office in Chorzów;
X GU 499/14 (dismissed), Zakłady Budowy Maszyn i Aparatury im. Ludwika Zieleniewskiego w Krakowie S.A. with its registered office in Kraków;
X GU 526/14 (cancelled), INTERBAU sp. z o.o. with its registered office in Kraków;
X GU 527/14 (cancelled), Hefal Serwis S.A. with its registered office in Wodzisław Śląski;
X GU 537/14 (cancelled), Laboratorium Inżynierii Lądowej “Labotest” sp. z o.o. with its registered office in Katowice;
X GU 541/14 (cancelled), Jacek Ochnio carrying out business activity under the name of Kształtowanie Terenów Zielonych “Ogrody” Jacek Ochnio with its registered office in Lublin;
X GU 564/14 (dismissed) Elektron-Inwestycje sp. z o.o. with its registered office in Świętochłowice.

In 2015, two bankruptcy petitions concerning Polimex-Mostostal were filed and examined. The proceedings were discontinued in both cases.

As at 23 March 2015, no bankruptcy proceedings concerning Polimex-Mostostal were pending.

Management Board of Polimex-Mostostal S.A.

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