REPORT ON OPERATIONS FOR THE PERIOD OF 12 MONTHS ENDED ON 31 DECEMBER 2018

Warsaw, 11 April 2019 roku

Contents

1. Market environment

1.1. General macroeconomic situation

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

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

Macroeconomic situation of Polish economy

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

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

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

According to preliminary data, in December 2018 prices of sold production of industry were higher by 2.2% as compared to December 2017. The price increase was also recorded in construction and assembly production by 3.7%. In January-December 2018, the prices of sold production of industry were by 2.1% higher than in the corresponding period of 2017 (when an increase of 2.9% was recorded), and prices of construction and assembly production by 2.7% (increase in last year by 0.6%).

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

1.2. Basic products and services

In 2018, the scope of Polimex-Mostostal Capital Group's operations did not change compared to the previous period, and in the basic assortments included:

- comprehensive support for the investment process, completion of equipment supplies and industrial installations;
- general contracting of industrial and public utilities facilities, roads and railway routes;
- assembly of specialist equipment, especially for the needs of the petrochemical and energy industries;
- maintenance services for the permanent and comprehensive service of industrial plants;
- steel structures manufacturing for the purposes of industrial construction, mainly power and petrochemical sectors;
- production, delivery and assembly of steel structures used in the construction of shopping centres, warehouses, sports and public facilities, petrol stations and storage terminals; The Group performs orders using its own, tested technical solutions or according to individual clients' projects;
- production, delivery and assembly of bridges, viaducts, footbridges, trestles, and protective barriers and sound absorbing screens used in road construction;
- production and delivery of welded and pressed MOSTOSTAL type gratings together with fastening elements ensuring quick and safe assembly; Grates are used in production plants as an element of bridges for the service of production lines and passageways for pipelines and reservoirs; They are also used as walkways on footbridges and bridges, channel covers, manhole protection and stair steps;
- production and delivery of shelving systems, pallets and containers for transporting various types of products and a wide range of construction accessories, including construction supports used for roof construction;
- services in the field of anti-corrosive protection of steel structures by:
  - hot dip galvanising (immersion),
  - hydrodynamic painting.
  - Duplex system (galvanising + hydrodynamic painting),

1.3. Revenues and their structure

In 2018 and 2017 operational segments of Polimex-Mostostal Capital Group participated in the sales in the following way:

Segment	**Year ended 31 December 2018**		**Year ended 31 December 2017**		**Change 2018 / 2017**
	value	share	value	share	
Manufacturing	678 883	41,5%	657 304	27,1%	3,3%
Industrial construction	65 748	4,0%	23 470	1,0%	180,1%
Power sector	639 675	39,1%	1 517 222	62,7%	(57,8%)
Oil, gas, chemicals	246 669	15,0%	205 905	8,5%	19,8%
Infrastructural construction	21	0,0%	8	0,0%	162,5%
Other operations	5 873	0,4%	17 169	0,7%	(65,8%)
Total sales revenues	1 636 869	100,0%	2 421 078	100,0%	(32,4%)

1.4. Sales markets and sources of procurement

Value and geographical structure of Polimex-Mostostal Capital Group's sales in 2018 and 2017 was as follows:

Market	Year ended 31 December 2018		Year ended 31 December 2017		Change 2018 / 2017
	value	share	value	share	
Poland	1 121 709	68,5%	1 874 945	77,4%	(40,2%)
Abroad	515 160	31,5%	546 133	22,6%	(5,7%)
Total sales revenues	1 636 869	100,0%	2 421 078	100,0%	(32,4%)

Compared to 2017 the decrease of the sales value was noticed in the local market and in the foreign markets. Basic market of the Capital Group remained the local market in which 68.5% of sales revenues was obtained.

1.5. Market development prospects

Prospects for development in the sectors in which the Polimex-Mostostal Capital Group operates are good, although each of them is characterised by its own specificity. The strategic goal of PxM CG is to build Group's value through intensive development in five main areas: Power engineering, Oil, chemistry, gas, Industrial Construction and Manufacturing as well as gradual reconstruction of competence within Industrial Construction. The Group intends to achieve the position of the leading Polish industrial engineering company. The main factor supporting the achievement of the above-mentioned goals is the start of tender procedures co-financed from the European Union budget allocated to Poland under the new financial perspective 2014-2020 and the investment needs of the most important entities operating in the power and fuel and gas sectors.

One of the main development challenges for Poland in the coming years is to ensure stable energy supplies. Prospects for the development of the construction market in the energy sector are at a predictable and stable level, although the nature of the planned investments should be taken into account - besides the construction of the 1.000 MW block in Ostrołęka, no large new coal blocks will be created, and the market of smaller power generation capacity, including blocks based on gaseous fuel, will become more significant.The Polimex Mostostal Group will strengthen its position on the conventional energy, heat generation, cogeneration and fuel-chemical market as well as plan to enter new areas, including the market of smaller generation capacities, as well as gas projects.The Polimex Mostostal Group intends to acquire projects as part of investments, renovation and modernization as well as assembly of steel structures, with particular emphasis on the development of potential on foreign markets. It plans to implement further projects for the construction of gas-steam blocks (in the context of the plans of leading energy groups in Poland) and increase the activity in the field of service work.Unique references and qualifications allow Polimex-Mostostal Group to participate in tenders both in terms of adapting units to BAT requirements, as well as involvement in the implementation of innovative technological solutions (construction of duo blocks in the power industry). These credentials are based on experience gained in implementing strategic investments in the national power sector, including, but not limited to the construction of modern power block No. 11 in Kozienice Power Plant.

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

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

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

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

In the coming years, Polimex-Mostostal Group assumes building strong position in the gas and chemical sectors and strengthening the role in the fuel sector as well as maintaining significant position abroad in the fuel and chemistry sector. The strength of Naftoremont-Naftobudowa, executing in the Group contracts in the Nafta, chemistry and gas segments are own production capacities, among others: pipelines, refinery and industrial furnaces of various types as well as storage tanks for liquid and solid fuels which allows to respond to customers' needs as well as strategy in the field of EPC projects. The company's competences allow to respond to significant market potential. The strategy adopted by GazSystem provides for significant investment expenditures for the development of transmission networks, it is planned to build around 2000 km of network with nodes. Similarly, PGNiG and co-operating companies that have a gas license. In accordance with PERN's strategy for 2018-2022, it will be the leading entity in oil and fuel storage, dealing with the balancing of the entire storage system for oil and fuels, including the expansion of storage capacity.

By 2022, the PERN Group's capital expenditures will total PLN 2.7 billion. Naftoremont-Naftobudowa is currently finalizing a project for the construction of storage tanks for liquid fuels for PERN with a total capacity of 128 thousand m3 in Koluszki and Nowa Wieś Wielka, worth PLN 67.6 million, is implementing a contract for the construction of 5 tanks at the Oil Terminal in Gdańsk with a total capacity of 363 thousand m3 and the value of PLN 220.88 million (the company's scope) and plans to acquire new designs for the construction of tanks in Poland. The fuel market is still dominant for the company, the company's presence in this segment is supported by many years of experience. Naftoremont-Naftobudowa is still developing its activity to meet the expectations of customers and providing service at the highest level. Investments for entities such as PKN Orlen or Lotos will constitute the foundation of revenues. The company also intends to maintain long-term cooperation with international fuel companies such as Shell, BP, TOTAL, MOL, NESTE, BASF, Gunvor. Naftoremont-Naftobudowa is one of the most well-known and valued companies, in particular in the repair industry, where it has a strong qualitative and competitive price advantage. One of the ways to achieve the intended goals is to obtain multi-annual framework contracts, in particular for large clients with a significant position on the national and European scale.

The Polimex-Mostostal Group is one of the largest steel structures' manufacturers and as a producer of bridge gratings, it has an established position both in Poland and abroad. The strategic goal of the production segment is to increase efficiency, increase foreign sales, and diversify the portfolio with high-margin products. The main recipients of steel structures as well as gratings are the energy, industry and construction industries.

The Polimex Mostostal Group plans a gradual increase in the portfolio of foreign projects. At the moment the group is implementing projects including in Belgium, the Netherlands, Germany, the Czech Republic, Hungary and Finland. The planned increase in the portfolio of foreign projects will take place in particular on the basis of existing cooperation with international fuel concerns and chemical in the framework of implemented projects and assembly of steel structures.

In the perspective of the next years, it is important from the point of view of liquidity to effectively win contracts whose target scale should replace currently implemented strategic contracts. Supplementing the current portfolio of contracts along with the advancement of strategic contracts is one of the main priorities of the Group's Management Board. Although the impact of strategic contracts on the Company and Group's results is currently dominant, the additional contracts currently acquired and planned to be acquired in the coming years should have a growing share in the Group's results, providing additional cash flows for the Company and Segment Companies.

1.6. Organisational changes in Polimex Mostostal Capital Group

In order to improve operations, a number of initiatives have been undertaken to improve the management skills of implementing projects and acquiring new ones as part of the bidding process.

An in-depth analysis of improvements in the planning and scheduling process was carried out, which served to implement a detailed work planning system, preceded by a training program and resulting in regular monitoring and control of project work. Organizational structures in segment companies have been simplified, at the same time assigning responsibility for the effective implementation of budgets and projects to appropriate managers. The role of financial and operational control has been increased by introducing control mechanisms for the main implementation parameters as well as risk and opportunities on projects.

The new offering procedure has transferred the decision-making and responsibility for the process to the Business Line, with the key role of the Project Director who will run the project in the future. It regulated the rhythm of the work of offer teams, it ensured the involvement of the right specialists and key for the process of the people at the right moments of preparing the offer from the early stage of its creation. The key principles in the bidding process are:

- standardization, i.e. a unified process diagram depending on the value of the offer,
- involvement of representatives of implementation teams and support functions,
- interaction of entities involved in the process,
- transparency, i.e. unambiguous assignment of responsibility and clear communication paths between entities.

The offer procedure strengthened the mechanisms of business and substantive verification of submitted offers and regulated the rhythm of the team's work offering significantly increasing the control of the Management Board of "Polimex-Mostostal" S.A. over the process.

2. Most significant events in the year 2018

2.1. Events significantly influencing the situation of Polimex Mostostal Capital Group in 2018

- On 21 February 2018, the Management Board of the Parent Company informed that as a result of actions taken related to the construction of the power unit at Kozienice Power Plant, which partially limited the previously diagnosed technical risks, optimization of procurement processes and improvement of verification and billing processes with subcontractors and suppliers, as well as in relation with the signing of the block acquisition protocol for operation on 19 December 2017, the Management Board, after conducting the analysis in the course of the process of closing the Company's accounting books for 2017, adopted a resolution to reduce the total costs of the Kozienice Project in the amount of PLN 42.3 million, which translated into to improve the Company's net result for 2017 (current report 7/2018).

- On 23 February 2018, the Management Board of the Parent Company informed that as a result of consultations conducted within the consortium of the Company and Mostostal Warszawa S.A. and Rafako S.A. and GE Power, which is the general designer and the leader of the Consortium managing the implementation of the contract and carried out analyzes, has been estimated new terms of commissioning units No. 5 and 6 in Opole Power Plant. Declared changed dates of commissioning for use are 31 May 2019 for block 5 and 30 September 2019 for block 6 (current report 8/2018).

- On 12 March 2018, the Management Board of the Parent Company informed about the conclusion of the contract between AGAT S.A. consortium with its registered office in Koluszki and Naftoremont-Naftobudowa Sp. z o.o. based in Płock, as the general contractor of the investment and PERN S.A. based in Płock, as the ordering party. The subject of the Agreement is: "Construction of 2 x 32000 m³ storage tanks with infrastructure in Fuel Depot No. 2 in Nowa Wieś Wielka" and "Construction of 2 x 32000 m³ storage tanks with infrastructure in Fuel Depot No. 1 in Koluszki" ("Task") . The remuneration for performing the Task is PLN 130,000,000, while the remuneration for the Task implementation attributable to Naftoremont-Naftobudowa Sp. z o.o. will amount to PLN 65,000,000. Salary is a lump sum remuneration. Payment of remuneration takes place after execution of the Task stages specified in the Agreement (current report No. 10/2018).

- On 22 June 2018, the Management Board of the Parent Company informed about the conclusion of GE Power Sp. z o.o. letter of intent regarding cooperation in the implementation of the public procurement under the name Construction of Ostrołęka C Power Plant with a capacity of approx. 1000 MW, where the Ordering Party is Elektrownia Ostrołęka sp. o.o. ("Project Ostrołęka") ("LOI").

  Based on LOI, the Parties have expressed their intention to conclude a subcontract for one or more of the following options: (i) construction work, (ii) delivery of steel structures and (iii) assembly of steel structures. In addition, the Parties, by way of a separate arrangement, may initiate co-operation in the scope of: (i) project work and (ii) other services and deliveries required for the implementation of the Ostrołęka Project.

  Neither party has grounds for claims against the other party in the event that a subcontracting contract is not concluded or in the event of withdrawal from negotiations.

  LOI is subject to the jurisdiction of Polish law. LOI is binding for the Parties: (i) until 30 September 2018 or (ii) until the other party has delivered a statement regarding the withdrawal from negotiations.

- On 3 August 2018, the Management Board of the Parent Company S.A. with its registered office in Warsaw (the "Issuer") informed that in a subsidiary of the Issuer Polimex Opole spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, concluded with PKO BP S.A. an annex to the Guarantee Agreement for the contract for the construction of power units No. 5 and 6 at PGE Elektrownia Opole S.A. The validity period of the performance guarantee has been extended until 31.10.2018.

- On 3 August 2018, the Management Board of the Parent Company with its registered office in Warsaw (the "Company") informed that the terms of the agreement between the company's subsidiary - Polimex Energetyka Sp. z o.o. for the "Modernization of CFB-670 boilers on units 1-3 in PGE GiEK S.A. Branch Turów Power Plant "(" Contract "). Due to the necessity to increase the scope of works in relation to the scope which originally covered the Contract, changes were made in the scope of the Price and deadline for implementation.

  The net price of the Contract is currently PLN 369,281,000.
  The date of finalization of the Contract was set for 16 May 2020.
  The remaining conditions of the Contract indicated in the current report No. 116/2015 of 25 November 2015 have not changed.

- On 10 August 2018, the Management Board of the Parent Company decided to create an additional provision for costs in the amount of PLN 57.6 million related to the construction of a gas and steam unit for Żerań Heat and Power Plant ("Żerań Project"), which reduced EBITDA Company and Capital Group of the Company for the first half of 2018 in the amount specified above. The creation of the provision results from the analyzes carried out, during which risks have been identified that increase the costs of the Żerań Project implementation. This has been included in these financial statements.

  At the same time, the Management Board informed that as a result of the mitigation of previously identified risks related to the construction of a 1075 MW power unit for supercritical parameters in the Kozienice Power Plant ("Kozienice Project"), a provision for costs in the amount of PLN 30.1 million was released, which in turn resulted in improved EBITDA of the Company and the Capital Group of the Company for the first half of 2018 in the amount specified.

- On 21 August 2018, the Management Board of the Parent Company informed that the terms of the Agreement were changed ("Agreement") for the execution, delivery and assembly of the supporting steel structure of the channels and reactor as well as the construction of channels and reactor for the SCR installation block No. 9 and 10 in ENEA Wytwarzanie Sp. z o.o. ("ENEA Wytwarzanie"), concluded between Polimex Energetyka Sp. z o.o. (a subsidiary of the Company) ("Contractor") and Rafako S.A. based in Raciborz ("Ordering Party") ("Annex").

On the basis of the Annex, the Contractor and the Employer have waived all claims against the other party as they claim according to claims of the claimant on the basis or in connection with events occurring under the Agreement up to the date of the Annex, taking into account that the above applies both claims known at the date of conclusion of the Annex, and claims unknown at this date and duly reported or not reported until the Annex date, with the exception of contractual penalties that ENEA Wytwarzanie shall impose on the Employer for reasons attributable to the Contractor, with the Contractor's liability limited to PLN 3,200,000.00.

According to the Annex, unit rates have been changed. The Contractor's estimated remuneration for performance of the subject of the Contract is currently PLN 60,010,992.06 net and will be paid in accordance with the amended schedule.

Pursuant to the provisions of the Annex, the Contractor undertook to perform the subject of the Contract: (i) within the scope of delivery by 30.09.2018 and (ii) within the scope of assembly on time until 12.02.2019. As a consequence, the schedule of deliveries and assembly was changed, constituting an annex to the Agreement. The deadline for deliveries on the side of the Ordering Party was also established, and it was stipulated that in the event of delayed delivery dates on the part of the Ordering Party, the terms of the Contract will be extended accordingly by the number of days of delivery delays in relation to the dates indicated in the delivery and assembly schedule.
The Contractor is obliged, no later than 30 days after signing the Annex to submit to the Employer an annex to the performance guarantee of the Contract, taking into account changes resulting from the Annex.
In addition, the Annex contains arrangements for the current financial settlements of the Contractor and the Employer. The Ordering Party undertook to pay the Contractor, due as at the date of the Annex, the amounts due for the works completed by the Contractor in the total gross amount of PLN 4,922,650.15, within 14 days from the date of signing the Annex.

Other conditions of the Agreement indicated in the current report No. 20/2017 of 23 February 2017 have not changed.

- On 23 August 2018, the Management Board of the Parent Company announced that the terms of the Contract for the construction of a Flue Gas Desulphurisation System installed at blocks A and B in the Pomorzany Power Plant between Polimex Energetyka Sp. z o.o. (a subsidiary of the Company) and Doosan Lentjes GmbH with headquarters in Ratingen, Germany (jointly as the "Contractor") and the company PGE Górnictwo i Energetyka Konwencjonalna S.A. based in Bełchatów ("Ordering Party"). Due to the necessity to increase the scope of works in relation to the scope originally covered by the Contract, changes were made to the Price (as defined in the current report No. 47/2016), the payment schedule for Polimex Energetyka Sp. z o.o. and the date of implementation.

  The net price of the Contract is currently PLN 99,824,344.37.

  The deadline for completing the Contract has been set for August 21, 2019.

  The agreed payment schedule increases the number of milestones from which the dependent payments are part of the Price, which will improve liquidity.

- On 21 September 2018, the Management Board of the Parent Company disclosed delayed confidential information dated 17 July 2018 on the arrangements for the termination of disputes between the Company and other parties to the following infrastructural contracts: State Treasury - General Directorate of National Roads and Motorways ("GDDKiA "), Doprastav AS, MSF Engenharia SA and MSF Polska Sp. z o.o. (jointly "Consortium Members"). The arrangements related to mutual claims pursued in court proceedings or other possible claims that may arise under contracts whose subject matter were:

  (i) Design and construction of the A1 motorway Stryków - "Tuszyn" node on the section from km 295 + 850 (from the Stryków 1 node without a node to km 335 + 937.65 ("A1 contract"),

(ii) Construction of the A-4 motorway, Rzeszów section (Rzeszów Wschód node) - Jarosław (Wierzbna node) from km 581 + 250 to km 622 + 450 ("A4 Contract") and
(iii) Construction of the S-69 expressway Bielsko-Biała - Żywiec - Zwardoń, section "Mikuszowice" node ("Żywiecka / Bystrzańska") - Żywiec ("Agreement S69"), (together as "Agreements").

Due to the settlements between the Parties, which became final on 21 September 2018, the following, including but not limited to, occurred:

(i) The Parties shall confirm that the Contracts execution ended on 14 January 2014 in reference to A1 Contract and A4 Contract and 31 December 2013 in reference to S69 Contract,

(ii) The Parties shall not raise any claims ageist each other regarding the Contracts' execution, therefore the litigations regarding the contracts shall be discontinued and in particular the Company shall withdraw claims in the scope litigations pending before the Slovakian courts against Doprastav AS,

(iii) The Company has taken over liability for potential claims of sub-contractors, service providers and suppliers, and also other entities, which were executing works, rendered services, supplied deliveries or fulfilled other benefits due to the Contracts' implementation. As a collateral of these claims, the Company shall submit bank guarantees to GDDKiA for the total amount of PLN 20 million. Bank guarantees shall be issued for the period of 6 years with the possibility to reduce them to the total level of PLN 12.5 million after the period of 3 years from being issued,

(iv) GDDKiA shall release bank guarantee issued upon the commission of the Company as a collateral of the claims under A1 Contract for the amount of PLN 29.21 million and bank guarantee issued upon the order of the Company to protect the claims under A4 Contract for the amount of PLN 56 million and shall withdraw statements of claims for the payment of these guarantees,

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

(vi) The Company shall pay the pecuniary deposit amounting to PLN 6.58 million for the period not longer than until 4 July 2019 for the protection of the absence of cash payment from guarantee issued by Doprastav AS for the account of the protection of defects and failures removal in the period of quality guarantee and warranty referring to A4 Contract,

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

Due to the concluded settlements, the Group recognised other operating revenues in the amount equal to PLN 8.5 million. Previously recognised provisions for expenses related to contracts settlements have been used in the amount equal to PLN 110 225 thousand and receivables were written off related to the litigations ended.

Presentation of the provisions within additional explanatory note to the financial statements has been subject to change. Provisions related to implementation of the contracts for GDDKiA prior to the conclusion of the settlement were presented as provisions due to the contracts' settlement. Within the recognition of accounting effects of the concluded settlement, provisions referring to the pending litigations were presented in the additional explanatory note to the financial statements as provisions for litigations.

According to the estimates of the Group, as at 31 December 2018, value of risks related to settlement implementation amounts to PLN 36.9 million.

- On 25 September 2018 an agreement was concluded between the consortium SBB ENERGY Spółka Akcyjna with its registered office in Opole (consortium leader), the company and Polimex Energetyka Sp. z o.o. with its registered office in Warsaw (a subsidiary of the Issuer) ("PxE") ("Contractor") and PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna with its registered office in Bełchatów ("the Contracting Party") ("Agreement"). The subject of the Agreement is: "Delivery and assembly of a catalytic denitrification installation for OP-650 boilers No. 5, 6, 7, 8 at Dolna Odra Power Plant" at PGE GiEK S.A. Branch Dolna Odra Power Plant Complex ("Task").

  The remuneration for completing the Task is PLN 199.3 million net. The remuneration for the implementation of the Task falling on PxE and PxM will total not less than PLN 41 million and not more than PLN 75 million net and will be agreed between the Contractors after the final confirmation of the scope of work within the consortium. Salary is a lump sum remuneration. Payment of remuneration takes place after performance of the Task stages specified in the Agreement.

  On the basis of the Contract, the Contractor undertook to perform the Task by 17 September 2021.

  In connection with the Agreement between SBB ENERGY Spółka Akcyjna with its registered office in Opole as the leader of the consortium, the Issuer and PxE, a consortium agreement was concluded, which regulates, among others, (i) the manner of representation of the consortium, (ii) the manner of concluding the required insurance contracts, (iii) the principle of the liability of the parties, (iv) the manner of performing the Contract. The consortium agreement is typical for contracts of this type (current report no. 42/2018).

- On 10 October 2018, the consortium of the "Polimex-Mostostal" S.A. and Mostostal Warszawa S.A. and Rafako S.A. (jointly the "General Contractor") concluded with PGE Górnictwo and Conventional Energetyka S.A. annex no. 9 ("Annex") to the contract of 15 February 2012 ("Agreement") for the construction of power units no. 5 and 6 in PGE GiEK S.A. Branch Power Plant Opole ("Project") implemented by the General Contractor and GE Power Sp. z o.o., which is a general designer and acts as the leader of the consortium managing the implementation of the Project.

  Annex provides the following, including but not limited to:

  (i) Change of the date of transfer of unit No. 5 to operation on June 15, 2019 and block No. 6 on September 30, 2019,
  (ii) Arrangement on technical issues related to the implementation of the Project.
  (iii) The parties have confirmed the amount of remuneration due to the General Contractor, provided that the deadlines for transferring the blocks for use agreed in the Annex are met.
  (iv) In the light of the Annex signed, the General Contractor together with GE Power Sp. z o.o. agreed on an internal agreement that confirms the provisions of the Annex and regulates the issues of mutual claims ("Agreement").

In the Company's opinion, the conclusion of the Annex and the Agreement had no material impact on the Project's budget and the Company's EBITDA (current report 48/2018).

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

- On 16 January 2019, an agreement was concluded between PERN S.A. based in Płock (Ordering Party) and Naftoremont-Naftobudowa Sp. z o.o. based in Płock as the leader of the consortium ("NN") and Przedsiębiorstwo Agat S.A. based in Koluszki (jointly as the Contractor). The subject of the contract is the implementation of the task called "Oil terminal in Gdansk, II stage for PERN S.A. based in Płock.

  The Contract price for the performance of all obligations under the Contract is a lump sum amounting to PLN 326,890,000 net ("Contract Price"). The remuneration will be payable after the Ordering party has completed the stages of the Contract. The Contractor may apply for a one-off advance on the Contract Price in the amount of up to 20% of the Contract Gross Contract Price. NN is authorised to 69.3% of the Contract Price.

The Contractor shall complete the implementation of the subject of the Contract within 21 months from the date of conclusion of the Contract.

At the same time, between Naftoremont and Naftobudowa sp. O.o. based in Płock and Przedsiębiorstwo Agat S.A. based in Koluszki, a consortium agreement was concluded which regulates the rules of cooperation between the parties in the implementation of the Contract.

2.2. The most significant contracts implemented by Polimex-Mostostal Group.

From January 2014, the company "Polimex-Mostostal" S.A. is implementing a contract in the consortium for the construction of two new power units at Opole Power Plant. For the implementation of this contract, a special purpose vehicle was established: Polimex Opole with a limited liability limited partnership, at the level of this company a substantial part of the margin is realized. This contract is a significant contract of the Company in a strategic for the energy industry company. It's historically the largest and an investment in the Polish energy sector of key importance for the Polish energy sector. Its value is PLN 11.6 billion gross, of which approximately 42%, or PLN 4.8 billion, is attributable to the Company. Under the contract, turbine islands and built-in cooling towers with cooling water systems will be constructed. Electrical installations will also be implemented with control and measurement apparatus and automation. The Company will also participate in design work. The planned delivery of the unit No. 5 to operation will take place on 31 May 2019, and block No. 6 on 30 September 2019, as confirmed by the Consortium signed on 10 October 2018 (Polimex Mostostal, Mostostal Warszawa, Rafako and GE Power Sp. oo, which is a general designer and acts as the leader of the consortium managing the implementation of the Project) Annex no. 9.

From June 2017, the company "Polimex-Mostostal" S.A. (in a consortium) also performs delivery and assembly of a gas-steam block with an electrical power of 497 MW and thermal power at 326 MW with installations and auxiliary facilities at Żerań Heat and Power Plant in Warsaw. The total value of the contract is approximately PLN 982.28 million and EUR 111.93 million of which the Company is entitled to about 26%. During the financial year 2018, it was necessary to create an additional provision for costs in the amount of approximately PLN 57.6 million, which affected the reduction of the company's EBITDA in the amount specified above. The creation of the provision results from the analyzes carried out, during which risks have been identified that increase the costs of the Żerań Project implementation.

The Polimex Mostostal Group in 2017 (signing the PAC, December 2017) completed the implementation in the consortium contract in Kozienice Power Plant for a new block with a capacity of 1075 MW. As a result of actions taken related to the implementation of the construction of the power unit at Kozienice Power Plant, which partially reduced the previously diagnosed technical risks, optimization of purchasing processes and improvement of verification and billing processes with subcontractors and suppliers, as well as in connection with the signing of the block takeover protocol for operation on December 19, 2017, the Management Board of the Company, after conducting the analysis in the course of the process of closing the Company's accounting books for 2017, adopted a resolution to reduce the total costs of the Kozienice Project in the amount of PLN 42.3 million. This impact was fully recognized in 2017. During the financial year 2018 during further verification and billing processes with subcontractors and suppliers, and the lack of materialization of a number of previously estimated risks, there were further reductions in the budget costs of the project in the total amount of PLN 56.3 million PLN. The impact of the budget adjustment has been fully included in the financial result for 2018.

The table presents new contracts, the signing of which covered the period from 1 January 2018 to the date of approval of the financial statements.

No.	Name	Description	Gross contract value in PLN ths (scope of the Capital Group)
1	PERN zbiorniki Gdańsk	The contract consisting in the construction of 5 tanks at the PERN Fuel Base in Gdańsk.	220 890

2	PERN zbiorniki Koluszki | Nowa Wieś Wielka	The contract consisting in the construction of tanks in the Fuel Base n 1 Koluszki and in the Fuel Depot No. 2 in the new Rural Great.	67 592
3	Dolna Odra	Supply and installation of a catalytic denitrogenation system for the OP-650 Blocks No. 5-8 in the DOLNA ODRA Power Plant in Nowe Czarnów	41 510
4	Hamon Duisburg	A contract involving the prefabrication and construction of a dust collection system in Duisburg	41 462

Current portfolio of orders of the Capital Group decreased by sales falling for consortium members, it amounts to approx. PLN 1,540 million and applies in its entirety to contracts concluded. The current order portfolio in individual years is as follows: 2019 PLN 1,170 million, 2020 PLN 350 million, 2021 and subsequent years PLN 20 million.

2.3. Risk factors

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

The management of risks relevant to the strategy is carried out at the level of the Group's highest authorities.

Macroeconomic and political risks:

- risks delaying the development of industries in which the Group operates, both by stopping the investment process and the lack of full implementation of investment assumptions, resignation from implementation or change of investment programs, the dependence of financing investment projects in the country by the majority of banks operating on the domestic market from the assessment of foreign decision centres of the country's economic risk, perspectives for the development of individual industries and sectors, and individual business entities,
- the risk related to the change of legal regulations. One of the important factors increasing the risk of running a business in Poland is the relative lack of stability of the legal system - frequent changes in it, as well as conflicting legal provisions or implementing ad hoc solutions resulting from the general market, political and social pressure.

Internal risks, identified by entities of Polimex Mostostal Capital Group, include but are not limited to:

- strategic risks, including those resulting from strategy mismatches to changing market conditions and restructuring processes:
  - failure to implement economic and financial plans, including the risk related to the uncertainty of the success of organizational and financial restructuring,
  - building a new order portfolio and the risk of termination of contracts, in particular long-term contracts,
  - the lack of competitive balance,
  - legal, related to long-lasting and costly litigations.
- operational risks:
  - the risk of valuation of long-term construction contracts,
  - changes in the demand for specialised services,
  - price fluctuations on the main commodity markets and specialist services,
  - the risk of losing resources,
  - the risk of losing qualified staff,
  - the risk of implementation, including the risk of obtaining partners with appropriate know-how and the risk of penalties for delays, e.g. due to weather conditions,
  - the risk related to provisions for the coverage of claims under historical contracts,
  - the risk of negative cash-flow on contracts.
- financial risks:
  - financial liquidity (credit)
  - the risk of contractual guarantees (including the risk of limited access to new guarantees and the risk of accumulation of payments from bank and insurance guarantees),
  - the risk of trade credit,
  - interest rates,
  - currency risk.

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

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

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

The restructuring process carried out in previous years, liquidity problems of the Company and problems with the timely implementation of projects, including the inability to obtain bank or insurance guarantees caused a significant limitation of trade partners' trust in relation to the Company and companies of the Group. Successful implementation of the restructuring process, financial stability of the Capital Group enables the systematic reestablishment of co-operation with key trading partners.The Group focuses its activities in the energy and petrochemical industries. Due to the limited number of subcontractors with appropriate competencies, there is a risk of not finding suitable subcontractors, which may considerably impede the due performance of contracts or cause the necessity to engage subcontractors offering services at significantly higher remuneration, which in turn may result in a deterioration of the Group's companies offer and bidding effectiveness, and consequently, negatively affect the results of the Group's operations.

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

Operational risks In this respect, a significant risk is associated with the selection of potential orders and their valuation and implementation of construction contracts, as well as the contractual penalty risk associated with these contracts. Cumulative management at the level of the Capital Group and the risk associated with the valuation and performance of contracts requires correctly functioning information flow channels, uniform rules for budget verification and cost discipline during project implementation. There are also residual risks related to historical contracts executed and currently in the warranty period. As at the date of preparing this report the Company and the Capital Group’s companies and in particular the Segment Companies: Polimex Energetyka Sp. z o.o. and Naftoremont-Naftobudowa Sp. z o.o. also introduce uniform tools supporting the offering activities and planning and settling long-term contracts and also supervising the contracts during the warranty. Parent Company and in particular the Segment Companies implement also uniform tools supporting the budgeting process and ongoing control of strategic costs of projects and planning and preparing project implementation schedules. In connection with the implementation of long-term energy contracts, operational risk management is one of the most important tasks at every level and at each stage of implementation and supervision that is correct, consistent with the contract course of events ensuring timely and consistent with the assumed cost plan of these contracts. As a result of the restructuring plan, the operational activity in the two basic industries - energy, petrochemical and chemical - was transferred to Segment Companies, which are currently exposed to significant operational risks.

Raw materials and materials prices risk

The economic effectiveness of the Capital Group's Companies operations depends to a large extent on fluctuations in the prices of raw materials, mainly steel, cement and zinc composite. An increase in the prices of raw materials and materials may increase the operating costs of the Group’s activities. If the concluded contracts do not allow revision/renegotiation of remuneration, which would enable covering higher costs of their implementation, it may cause deterioration of the Company's results.

The Company has implemented a central material procurement procedure (economy of scale, the ability to negotiate lower purchase prices). The implemented procedures did not offset the negative impact of the increase in raw material and material prices in long-term contracts to the desired degree.

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

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

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

Liquidity risk. In the Group's opinion, this is a risk which is at a moderate level. Maintaining financial liquidity in the medium and long-term perspectives requires involvement in projects and contracts ensuring neutral and positive financial flows. This risk is constantly monitored and analysed in both the short and long term.

In January 2017, the Group completed the recapitalisation process, under which its liquidity was provided with the amount of PLN 300 000 in connection with the subscription of the newly issued series T shares by a group of investors from the energy sector. In the second quarter of 2017, as a result of the renegotiation process of debt financing agreements, including credit and bond agreements, the financial documentation linking the Parent Company and its selected subsidiaries with financial institutions was adapted to the new ownership realities and strategic plans. As part of this process, the Issuer's Group also gained wider access to guarantee instruments, which are an indispensable element of investment processes implemented by the Group's project companies such as Naftoremont - Naftobudowa Sp. z o.o., Polimex Energetyka Sp. z o.o. and Polimex Budownictwo Sp. z o.o. Sp.k.

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

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

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

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

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

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

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

- limited ability of the Group's companies to obtain additional financing from financial institutions, including in particular bank and insurance guarantees;
- slower growth dynamics of the Group's companies' operations due to a significant reduction in the availability of trade credit and shortening payment dates or demanding prepayments by contractors;
- the need to allocate a certain portion of cash flows from the Group's operating activities for repayment of debt, which means that these flows may not always be used to finance the Group's operations or capital expenditures;
- limiting the flexibility of the Group when planning or responding to changes in its operations, in the competitive environment and in the markets in which it operates;
- a less favourable market position of the Group in relation to its competitors with lower credit exposure.

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

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

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

In order to maintain key employees, the Parent Company prepared a development training program. Additionally, for the next year, the change of the structure of operating companies is planned to increase their efficiency, reduce the amount of support services. Thanks to this, it will be possible to analyse the remuneration level of the key staff and adjust its level to the market, at the same time increasing its responsibility for the results.

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

3. Financial situation

3.1. Basic financial data characteristics for Polimex Mostostal Group

Consolidated report on Polimex Mostostal Group's financial standing

	As at 31 December 2018	As at 31 December 2017	Change	
Assets				
Fixed assets				
Tangible fixed assets	384 196	384 064	132	0,0%
Investment property	14 576	4 376	10 200	>100,0%
Goodwill from consolidation	91 220	91 220	–	–
Intangible assets	2 017	1 212	805	66,4%
Investments in affiliates measured with equity method	5 954	5 813	141	2,4%
Financial assets	2 423	581	1 842	>100,0%
Long-term receivables	1 714	10 162	(8 448)	(83,1%)
Deposits due to the construction contracts	111 094	120 784	(9 690)	(8,0%)
Deferred tax assets	175 973	169 275	6 698	4,0%
Other fixed assets	–	296	(296)	(100,0%)
Total fixed assets	**789 167**	**787 783**	**1 384**	**0,2%**
Current assets				
Inventories	98 496	96 900	1 596	1,6%
Trade and other receivables	400 637	550 969	(150 332)	(27,3%)
Deposits due to the construction contracts	64 853	54 594	10 259	18,8%
Construction contracts assets	60 058	78 007	(17 949)	(23,0%)
Financial assets	750	220 084	(219 334)	(99,7%)
Cash	417 808	579 140	(161 332)	(27,9%)
Other assets	2 869	3 954	(1 085)	(27,4%)
Assets held for sales	36 225	30 487	5 738	18,8%
Total current assets	**1 081 696**	**1 614 135**	**(532 439)**	(33,0%)
Total assets	**1 870 863**	**2 401 918**	**(531 055)**	**(22,1%)**

The total assets of the Polimex Mostostal Capital Group amounted to PLN 1,827,863 thousand as at December 31, 2018. Fixed assets as at 31 December 2018 amounted to PLN 789,167 thousand PLN (an increase of 0.2% compared to comparable data as at 31.12.2017), and current assets of PLN 1,081,696 thousand PLN (a drop of 33% compared to comparable data as at 31.12.2017).

The most important valuable changes that took place as part of fixed assets concerned investment properties and deposits under construction contracts. The value of investment properties

as at 31.12.2018 amounted to PLN 14,576 thousand and increased by PLN 10,200 thousand from the level of PLN 4,376 thousand (mainly as a result of reclassification to investment properties of a new production and warehouse hall in Mostostal Siedlce Sp. z o.o. Sk). In the case of long-term deposits due to construction contracts, there was a decrease from PLN 120,784 thousand to 111.094 thousand as at 31.12.2018.

As part of current assets, the most valuable changes concern items of financial assets, trade receivables and other receivables as well as cash. Decrease in the balance of financial assets from PLN 220,084 thousand to PLN 750,000 results mainly from the settlement of the bank guarantee deposit from the completed Kozienice project. The value of trade receivables and other receivables as at 31.12.2018 amounted to PLN 400.637 thousand and decreased in relation to 31.12.2017 by PLN 150,332 thousand. The balance of cash and cash equivalents as at 31.12.2018 amounted to PLN 417,808 thousand.

	As at 31 December 2018	As at 31 December 2017	Change	
Liabilities and equity				
Equity				
Share capital	473 238	473 238	–	–
Reserve capital	157 746	157 746	–	–
Other capitals	209 938	127 368	82 570	64,8%
Reserve capital from surplus of bonds convertible into shares	31 552	31 552	–	–
Accumulated other comprehensive income	94 625	94 465	160	0,2%
Revaluation capital	117 235	117 333	(98)	(0,1%)
Actuarial profits / (losses)	(2 148)	(1 397)	(751)	53,8%
FX differences from translation of foreign unit	(20 462)	(21 471)	1 009	(4,7%)
Retained earnings / Uncovered losses	(289 780)	(220 166)	(69 614)	31,6%
Non-controlling interests	354	382	(28)	(7,3%)
Total equity	**677 673**	**664 585**	**13 088**	**2,0%**
Long-term liabilities				
Bank loans and borrowings	139 582	226 118	(86 536)	(38,3%)
Long-term bonds	163 630	169 034	(5 404)	(3,2%)
Provisions	59 199	190 912	(131 713)	(69,0%)
Liabilities due to employee benefits	17 487	17 985	(498)	(2,8%)
Other liabilities	15 988	80 177	(64 189)	(80,1%)
Deposits due to the construction contracts	29 354	35 276	(5 922)	(16,8%)
Deferred tax liabilities	1 367	–	1 367	100,0%
Total long-term liabilities	**426 607**	**719 502**	**(292 895)**	**(40,7%)**
Short-term liabilities				
Bank loans and borrowings	93 852	24 383	69 469	>100,0%
Short-term bonds	12 839	–	12 839	100,0%
Trade and other liabilities	399 394	743 041	(343 647)	(46,2%)
Deposits due to construction contracts	29 661	40 932	(11 271)	(27,5%)
Construction contracts liabilities	63 939	72 542	(8 603)	(11,9%)
Income tax liabilities	170	–	170	100,0%
Provisions	107 846	76 169	31 677	41,6%
Liabilities due to employee benefits	55 951	57 717	(1 766)	(3,1%)
Deferred income	2 931	3 047	(116)	(3,8%)
Total short-term liabilities	**766 583**	**1 017 831**	**(251 248)**	**(24,7%)**
Total liabilities	**1 193 190**	**1 737 333**	**(544 143)**	**(31,3%)**
Total liabilities and equity	**1 870 863**	**2 401 918**	**(531 055)**	**(22,1%)**

Equity as at 31.12.2018 amounted to PLN 677,673 thousand (increase by 2.0% in relation to the comparable data as at 31.12.2017), and liabilities: PLN 1,193,190 thousand (a decrease of 31.3% compared to comparable data as at 31.12.2017). Increase in the value of other capitals by PLN 82,570 thousand results from the distribution of the parent company's financial results for 2017.

This change corresponds to a decrease in the value of retained earnings by PLN 69,614 thousand, which includes additionally achieved in 2018 financial result in the amount of PLN 16,168,000.

The value of long-term liabilities as at 31.12.2018 amounted to PLN 426,607 thousand and decreased compared to 31 December 2017 from PLN 719,502 thousand (decrease by PLN 292,895 thousand, i.e. by 40.7%). The decrease was mainly due to a change in the balance of loans and advances (decrease by PLN 86,536 thousand) and bonds (decrease by PLN 5,440 thousand) which were reclassified to short-term liabilities due to upcoming payment terms. In 2018, the value of long-term provisions decreased significantly (down by PLN 131,713 thousand), which is mainly the result of signing a settlement with GDDKiA, ending disputes regarding road contracts executed in previous years.

The value of short-term liabilities decreased in relation to the comparative period by PLN 251,248 thousand to PLN 766,583 thousand. The decrease in the value of short-term liabilities due to supplies and services and other liabilities (by PLN 343,647 thousand) results mainly from the completion of the Kozienice contract and the final settlements with subcontractors on this contract.

Consolidated profit and loss account of Polimex Mostostal Group

	Year ended 31 December 2018	Year ended 31 December 2017 *	Change	
Sales revenues	1 636 869	2 421 078	(784 209)	(47,9)%
Cost of goods sold	(1 555 626)	(2 254 046)	698 420	(44,9)%
Gross profit / (loss) on sales	**81 243**	**167 032**	**(85 789)**	**(105,6)%**
Cost of sales	(25 281)	(25 537)	256	(1,0)%
General administration expenses	(66 725)	(63 261)	(3 464)	5,2%
Profit / (loss) on impairment of financial assets	4 226	(2 724)		
Other operating revenue	50 778	48 523	2 255	4,4%
Other operating costs	(8 777)	(6 729)	(2 048)	23,3%
Goodwill impairment	–	(191 474)		
Profit /(loss) on operating activities	**35 464**	**(74 170)**	**109 634**	**>100,0%**
Financial income	13 734	18 545	(4 811)	(35,0)%
Financial costs	(34 103)	(41 701)	7 598	(22,3)%
Share in the profit of an associated entity	141	(9 892)	10 033	>100,0%
Gross profit / (loss)	**15 236**	**(107 218)**	**122 454**	**>100,0%**
Income tax	932	(29 826)	32 437	>100,0%
Net profit / (loss)	**16 168**	**(137 044)**	**153 212**	**>100,0%**

Transformed data – changes described in the note number 3.4 to the Consolidated Financial Statements

In the period of 12 months of 2018, the Polimex Mostostal Capital Group realized sales revenues in the amount of PLN 1,636,869 thousand (a decrease of 47.9% compared to comparable data for the 12 months of 2017). The decrease results from the completion of the Kozienice contract, which took place in December 2017.

In the reporting period, the Capital Group generated operating profit in the amount of PLN 35.464 thousand (compared to the loss from operating activities in 2017 in the amount of PLN 74.170 thousand). The better result on operating activities in relation to the previous period results from the recognition in 2017 of a one-off cost for goodwill in the amount of PLN 191,474 thousand.

In the reporting period, the level of general administrative expenses amounted to PLN 66,725 thousand (in the comparative period: PLN 63,261 thousand). Selling costs in 2018 amounted to PLN 25,281 thousand in the comparative period PLN 25,537 thousand.

Other operating income in the current period amounted to PLN 50,778 thousand and was higher in relation to the comparable period by PLN 2,055 thousand.

In the reporting period, consolidated EBITDA (operating result adjusted by depreciation and impairment write-downs) amounted to PLN 62,147,000. PLN and was lower by 83,753 thousand compared to the previous period. Deterioration of EBITDA was mainly caused by the cost budget adjustment on the Żerań project and the Opole project. The Group reported on significant changes in margins on a regular basis, more described in note 2.1.

Cash flow statements

	Year ended 31.12.2018	Year ended 31.12.2017
Cash flows from operating activities		
Gross profit / (loss)	**15 236**	**(107 218)**
Adjustment items:	**(116 699)**	**(278 273)**
Share in the results of associates measured with the equity method	(141)	9 892
Depreciation	26 684	28 596
Net interests and dividends	25 614	19 220
Profit/ (loss) on investing activities	(18 424)	(15 217)
Change in receivables	387 681	(233 643)
Change in inventories	(1 596)	(12 761)
Change in liabilities except bank loans and borrowings	(434 776)	(223 413)
Change in other assets and deferred income	1 265	2 494
Changes in provisions	(100 036)	(42 801)
Income tax paid	(4 523)	(3 839)
Impairment losses on goodwill	-	191 474
Others	1 552	1 725
Net cash from operating activities	**(101 464)**	**(385 491)**
Net cash flows from investing activities		
Disposal of tangible and intangible fixed assets	10 021	7 152
Purchase of tangible and intangible fixed assets	(35 001)	(22 496)
Disposal of financial assets	1 040	-
Interests received	-	7 181
Net cash from investing activities	**(23 940)**	**(8 163)**
Cash flows from financing activities		
Lease payments	(784)	(315)
Proceeds from issuance of shares	-	300 000
Proceeds from borrowings / loans	2 627	198
Repayment of borrowings/loans	(22 057)	(21 190)
Interests paid	(15 714)	(16 712)
Net cash from financing activities	**(35 928)**	**261 981**
Increase / (decrease) in net cash and cash equivalents	(161 332)	(131 673)
Cash at the beginnig of the period	**579 140**	**710 813**
Cash at the end of the period	**417 808**	**579 140**
Cash recognized in consolidated cash flow statements	**417 808**	**579 140**
Including restricted funds	180 219	399 855

In the reporting period, in accordance with the cash flow statement of the Capital Group, there was a net decrease in cash and cash equivalents by PLN 161.332 thousand. Cash and cash equivalents as at 31 December 2018 amounted to PLN 417,808 thousand. As part of these funds, the amount of PLN 180.219 thousand are funds with limited disposal, dedicated to financing a strategic energy contract in Opole.

Net cash flow from operating activities amounted to minus PLN 101,464 thousand. Net cash flows from investing activities amounted to minus PLN 23,940 thousand, and net cash flows from financing activities amounted to minus PLN 35,928 thousand.

3.2. Economic and financial ratios characterising Polimex Mostostal Group's operations

	As at 31.12.2018	As at 31.12.2017
Current ratio	1,41	1,59
Quick ratio	1,28	1,49
Debt/assets ratio	63,8%	72,3%

	Year ended 31.12.2018	Year ended 31.12.2017
Net sale profitability	1,0%	(5,7%)
EBITDA margin*	3,8%	6,0%
Basic earnings per one ordinary share	0,068	(0,579)

*EBITDA margin = (Loss on operating activities + amortization + loss of goodwill/Sales revenues)

The liquidity ratios of the Capital Group, current and quick, were on 31.12.2018 at a lower level than on 31.12.2017 and amounted to 1.41 and 1.28, respectively (these ratios were at 1.59 and 1.49 respectively as at 31 December 2017).

The net profit margin of sales amounted to 1.0%, while the EBITDA margin was 3.8%.

3.3. Information on contracted bank loans, borrowings and issued bonds

In 2018, companies from the Capital Group did not issue bonds or enter into new loan agreements with banks. The companies have focused their activities on the effective use of credit agreements concluded in previous periods, in particular on the utilization of the Credit Agreement regarding the new guarantee facility and related revolving credit of 21 December 2012, as amended. d. Under the said agreement, the companies Polimex Energetyka sp. o.o. and Naftoremont-Naftobudowa sp. o.o. they are entitled to obtain bank guarantees for the purposes of securing the execution of their contracts up to the total amount of PLN 60.000,000. The utilization rate of the contract in question increased from 12,639.8 thousand as at 31 December 2017 to PLN 33,581,2 thousand as at 31.12.2018.

Additionally, in 2018, the intra-group loans mechanism was actively used to optimize the liquidity management process in the operating companies of the Capital Group. As part of the above activities, in 2018 the Company made available to selected companies from the Capital Group in the form of revolving loan limits funds for the total amount of PLN 67,000 thousand, including:

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

of 2017 was closed. As at 31.12.2018, the loan support balance of the new formula amounted to PLN 39 171 thousand.

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

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

3.4. Information on significant transactions concluded by the Issuer of its subsidiary with affiliated entities on conditions other than arm's length

According to the information possessed by the Issuer, transactions concluded in 2018 by the Issuer and its subsidiaries with related entities were concluded on terms equivalent to those applicable in transactions concluded on market terms, and their nature and conditions resulted from their operating activities.

3.5. Contingent liabilities of Polimex Mostostal Group

	As at 31 December 2018	As at 31 December 2017
Contingent liabilities	**509 327**	**1 259 557**
- guarantees and warranties granted	461 098	832 027
- promissory notes	5 340	1 613
- litigation	42 889	425 917

In connection with the contracts of loans and guarantees (both banking and insurance), as well as in terms of bond obligations (including the A and B series bonds issued in the year 2014 of EUR 140 million and bonds (C) issued in 2017 of PLN 14.5 million) and, in particular, in connection with the agreement of July 24, 2012 prohibiting the enforcement of liabilities, the agreement of December 21, 2012 on debt service policy as amended, the agreement of December 21, 2012 as amended on a new Line of the guarantee and the related open-end credit as amended, the terms of the ordinary and convertible bonds issue of September 12, 2014 as amended, the loan agreement on the warranty line and related open-end and non-open-end credits of May 31, 2017 as amended, the conditions of convertible series C bonds issue of September 27, 2017, the Company and its selected subsidiaries have established mortgages, pledges, chattel mortgages, assignments, notes, adopted the sureties of certain subsidiaries and provided guarantees the selected subsidiaries to secure claims arising from these instruments. Group's total exposure due to the credit instruments concerned amounted to PLN 930 million as at 31 December 2018 (and PLN 1 345 million as at 31 December 2017).

Total exposure of the Parent due to the credit instruments concerned amounted to PLN 832 million as at 31 December 2018 (and PLN 1 198 million as at 31 December 2017).

Significant proceedings pending before court regarding liabilities and receivables of the Parent Company and its subsidiaries were disclosed in note 39 of the Consolidated Financial Statements for the year ended 31 December 2018.

4. Other information

4.1. Shareholding structure

The table below presents the list of shareholders holding at least 5% of the total number of votes in "Polimex-Mostostal" S.A. entity as at 31 December 2018:

Shareholder	Number of shares/votes	% held in the share capital /total number of votes in the GM
ENEA Spółka Akcyjna with the registered office in Poznań, ENERGA Spółka Akcyjna with the registered office in Gdańsk, PGE Polska Grupa Energetyczna Spółka Akcyjna with the registered office in Warszawa PGNiG Technologie Spółka Akcyjna with the registered office in Krosno - as Investors acting jointly and upon the agreement*	156 000 097	65.93%
Bank Polska Kasa Opieki SA	13 629 376	5.76%
Others – less than 5% of share capital	66 989 329	28.31%
Number of shares of all issues	**236 618 802**	**100.00%**

* each of the investors holds 16.48%

4.2. Description of the Issuer's Capital Group's organisation

The structure of the Issuer's Capital Group and description of changes in the structure of this Group are described in the consolidated financial statements in note 1.1.

4.3. Composition and description of activities of the Management Board, Supervisory Board and its committees

As at 31 December 2018 and the date of announcement of this report, the Management Board comprised the following persons:

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

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

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

Tasks of the Management Board

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

Tasks of the Management Board include in particular:

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

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

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

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

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

The Supervisory Board has the right to appoint and dismiss members of the Management Board. A member of the Management Board may also be dismissed or suspended from office by resolution of the General Meeting. There are no powers of the Management Board or individual members to decide whether to issue or buy back shares.

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

- Audit Committee,

- Remuneration Committee,

- Committee for Development Strategy.

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

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

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

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

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

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

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

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

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

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

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

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

- Mr. Andrzej Sokolewicz - with 20 years of experience in the functioning of Polish and international construction groups. In the years 1997 - 2002, he served on behalf of BRE Bank, clients including SKANSKA, STRABAG AG, EXBUD in the scope of financial analysis of their financial statements and the possibility of crediting business ventures of these entities. In the years 2003 - 2004 on behalf of Pekao S.A. conducted financial and system restructuring of development companies, e.g. GANT and construction companies, e.g. ELEKTROMOTAŻ PN. In 2011-2014, he supervised the construction industry in Pekao S.A. for risk management - financial analysis and assigning risk weights in connection with the adaptation of the EU CRD II Directive by the Polish banking sector.

In 2018 Audit Committee met 10 times.

Tasks of the Audit Committee

Tasks of the Audit Committee include, in particular:

- advising the Supervisory Board on the issues of proper implementation and control of financial reporting processes in the Company, the effectiveness of internal control and risk management systems, and cooperation with statutory auditors;
- monitoring the financial reporting process;
- submitting recommendations to the Company's authorities to ensure the integrity of this process in the Company;
- monitoring the effectiveness and periodic review of the Company's internal control system and risk management and internal audit systems, including financial reporting and compliance with applicable regulations;
- monitoring the performance of financial auditing activities, in particular conducting an audit by the audit firm, including all applications and findings of the Audit Supervision Commission resulting from audits carried out in the auditing company;
- controlling and monitoring the independence of the statutory auditor and the audit firm, in particular, when services other than audit are provided to the Company by the auditing company;

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

The main assumptions of the policy of selecting an audit firm

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

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

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

quality of research, assessment of key availability statutory auditor),
- insurance of the statutory auditor / audit firm,
- the price offered by the auditor company.

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

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

Andrzej Komarowski	Chairman
Wojciech Kowalczyk	Member
Paweł Mazurkiewicz	Member

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

Tasks of the Remuneration Committee

The tasks of the above Committee in particular include:

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

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

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

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

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

Tasks of the Committee for Development Strategy

The tasks of the above Committee in particular include:

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

4.4. Information on the entity acting as an auditor

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

The table below presents the statutory auditor's remuneration for audit activities performed for the parent company and for subsidiaries in the Capital Group as well as the remuneration of other certified auditors who audit other subsidiaries in the Capital Group.

	As at 31 December 2018	**As at 31 December 2017**
Financial review activities	515	475
Other services	-	148
Total	**515**	**623**

4.5. Remuneration of the Board and Supervisory Board Members of the Parent Company

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

During the period of 12 months of the year 2018, remuneration was also paid to Mr. Przemysław Janiszewski within the scope of acting as the CEO (President of the Management Board) in the subsidiary Polimex Energetyka Sp. z o.o. in the amount of PLN 20 ths. This remuneration was paid by Polimex Energetyka Sp. z o.o. under the employment contract, monthly until 10th calendar day of the subsequent month for the preceding month.

The Management Board

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

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

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

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

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

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

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

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

Supervisory Board

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

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

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

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

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

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

4.7. Representation on compliance with corporate governance

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

1. Detailed principle I.Z.1.15.

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

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

2. Detailed principle I.Z.1.16.

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

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

3. Detailed principle I.Z.1.20.

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

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

4. Detailed principle IV.Z.2.

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

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

5. Detailed principle IV.Z.3.

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

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

6. Detailed principle VI.Z.4.

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

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

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

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

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

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

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

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

The Group has an Audit and Internal Control Office, whose aim is to conduct an independent and objective assessment of risk management and internal control systems as well as business process analysis.
The office performs tasks based on annual audit plans, which are approved by the Management Board after opinion expressed by the Audit Committee of the Supervisory Board.
The Audit and Internal Control Office may also carry out ad hoc audits commissioned by the Supervisory Board or the Management Board of the Company.

As part of its objectives and tasks, the Audit and Internal Control Office provides recommendations for the implementation of solutions and standards aimed at reducing the risk associated with the achievement of business objectives, improving the efficiency and effectiveness of internal control systems and increasing the efficiency of business processes.

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

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

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

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

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

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

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

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

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

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

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

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

5. Declaration on non-financial information

Separate report on non-financial information of the Polimex Mostostal Capital Group for 2018, prepared in accordance with Article 49b (9) of the Act on Accounting, was published together with the Report of the Management Board on the activities of the PxM Capital Group for 2018 and posted on the website of the "Polimex-Mostostal" S.A. www.Polimex-Mostostal.pl .

Management Board of Polimex Mostostal S.A.

Warsaw, 11 April 2019

First and last name	Position/Role	Signature
Krzysztof Figat	President (CEO)	
Przemysław Janiszewski	Vice President	
Maciej Korniluk	Vice President	