

**POLIMEX-MOSTOSTAL CAPITAL GROUP**

**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
FOR THE SIX MONTHS ENDED 30 JUNE 2010**



## Table of Contents

<b>1. Economic activities of Polimex-Mostostal Capital Group.....</b>	<b>4</b>
1.1. Revenues and their structure.....	6
1.2. Principal products and services .....	8
1.3. Trade areas and sources of supply.....	8
1.4. Information on the Issuer's or its subsidiary entering into one or multiple transactions with related parties, if separately or jointly they are significant and have been entered into on terms and conditions other than market ones .....	10
1.5. Investments – plant, property and equipment and intangible assets .....	11
1.6. Equity investments .....	11
1.6.1. <i>Changes in investment portfolio</i> .....	11
1.6.2. <i>Investment plans</i> .....	13
1.6.3. <i>Assessment of feasibility of investment tasks, including equity investments as against internal assets, including changes in financing structure for these operations</i> .....	13
1.7. Information on concluded performance contracts significant for the Issuer's Capital Group .....	13
<b>2. Current and expected financial position .....</b>	<b>14</b>
2.1. Profit.....	14
2.2. Assets amount and structure.....	17
2.3. Equity amount and structure .....	18
2.4. Liquidity .....	19
2.5. Assessment of financial resources management .....	19
2.6. Information on loans and borrowings drawn.....	21
2.7. Information on guarantees and borrowings .....	26
2.8. Information on contract performance bonds and bid bonds.....	28
2.9. Description of external and internal factors significant for the Issuer's Capital Group as well as business development perspectives, including elements of market strategy.....	31
2.9.1. <i>Description of external factors significant for the performance of the Issuer's Capital Group</i> .....	31
2.9.2. <i>Description of internal factors significant for the performance of the Issuer's Capital Group</i> .....	33
2.9.3. <i>Growth prospects for the Issuer's Capital Group</i> .....	34
2.10. Clarification of differences among financial performance given in annual report and previous forecasts of financial performance for a given year .....	35
2.11. Basis of preparation of interim financial statements .....	35
2.12. Information on dividend paid (or proposed).....	35
<b>3. Risk management in the Issuer's Capital Group .....</b>	<b>35</b>
3.1. Description of significant risk factors and threats .....	36

3.2. Information on financial instruments in the scope of: risk of changes of price, credit risk, significant disturbances in cash flows and loss of liquidity, as well as financial risk management objectives and methods assumed by the entity .....	39
3.3. Insurance contracts.....	45
3.4. Description of basic features of internal audit and risk management system applied by the Issuer's business with regards to preparation of financial statements and consolidated financial statements .....	46
<b>4. Organisation of the Issuer's Capital Group .....</b>	<b>47</b>
4.1. Structure of the Capital Group .....	47
4.2. Information on key entities of the Capital Group .....	48
4.3. Employment.....	50
4.4. Changes in composition of management and supervisory authorities of the parent and their committees, basis of appointment and dismissal of executives as well as rights of management, in particular to taking decision on issue or redemption of shares .....	51
4.5. Value of remuneration for executives and senior employees .....	53
<b>5. Shareholding.....</b>	<b>53</b>
5.1. Total number and nominal value of all shares of the parent owned by executives and senior employees..	53
5.2. Shareholders having directly or indirectly by subsidiaries at least 5% of total voting shares at the General Meeting of Polimex-Mostostal S.A. ....	53
5.3. Representation on corporate governance .....	54
5.4. Information on contracts acknowledged by the Issuer (including concluded after the statement of financial position date) and that may change future proportions in shares owned by the current shareholders and bondholders.....	54
5.5. List of holders of all securities granting special controlling rights with regards to the parent with description .....	54
5.6. Acquisition of treasury shares, in particular definition of acquisition purpose, number and nominal value, and part of represented share capital, acquisition prices as well as selling prices in case of disposal.....	54
5.7. Limitation in transfer of ownership rights to securities and limitations in the scope of execution of voting rights arising from shares in the parent.....	54
5.8. Indication of proceedings pending before court, arbitration procedure authority or public administration authority, which total amount constitutes at least 10% of Issuer's equity .....	55
<b>6. Environmental protection .....</b>	<b>55</b>
<b>7. Information on entity with which the Issuer has concluded a contract for audit of financial statements.....</b>	<b>56</b>
<b>8. Other significant events in the 1<sup>st</sup> half of of 2010 having impact on operations of the Issuer's Capital Group .....</b>	<b>56</b>
<b>9. Events significant for operations of Polimex-Mostostal Capital Group that occurred after 30 June 2010 and to the approval of the financial statements.....</b>	<b>61</b>

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

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

As far as **construction industry** is concerned, operating activities are conducted by Polimex-Mostostal S.A., Energomontaż-Północ capital group and Coifer capital group. In the first half of 2010 Polimex-Mostostal S.A. focused on large industrial and general construction structures, situated mainly within the country. The following contracts are worth mentioning:

- with the Capital City of Warsaw on reconstruction of football stadium in Warsaw at ul. Łazienkowska 1/3,
- with the Municipality of Kraków on reconstruction of "Wisła Kraków" football stadium at ul Reymonta 22 in Kraków,
- with Targi Kielce Sp. z o.o. on construction of a new exhibition hall,
- with Lubelski Węgiel Bogdanka S.A. on construction of a gantry – of gotten haulage from the 2.1. shaft in the Stefanów Field to Zakład Przeróbki Mechanicznej Węgla in the Bogdanka Field in Lubelski Węgiel Bogdanka S.A.,
- with the City Council in Gorzów Wielkopolski on construction of the Centre for Art Education in Gorzów Wielkopolski and on planning and execution of an underground car park and access roads.

In the first half of 2010 Coifer Group continued to perform the contract concluded with SC NUSCO TOWER srl on construction of 18-storey office building in Bucharest city centre.

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

**In power engineering industry,** operating activities are conducted by Polimex-Mostostal S.A., Energomontaż-Północ capital group and Sefako capital group. The European and global industry leaders are the partners of Polimex-Mostostal S.A.: Siemens, Alstom, Doosan Babcock, Hitachi, AEE, General Electric, Metso and Burmeister & Wein. The following contracts are prominent among performed by Polimex-Mostostal S.A. in the 1<sup>st</sup> half of 2010:

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

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

Significant part of Energomontaż-Północ Capital Group operations are related to power engineering segment. In the first half of 2010 Energomontaż-Północ Group executed a significant contract concluded with Elektrownia Kozienice S.A. on provision of Combustion Gas Desulphurisation System (IOS III) in Kozienice Power Plant.

Operations of Sefako capital group in the first half of 2010 were focused on planning, production and sales of boilers, other industrial and power devices, as well as assembly and service works. The following projects are prominent among performed in the first six months of 2010: Belchatów K5 (Steinmueller), contract for Opole Heat and Power Plant, contract Trehorningen (BWV, Norway), Meath (BWV, Ireland), Cengiz (Aalborg Engineering, Turkey), Westfalen (Alstom Power Systems, Germany), Bio Cogelyo 10210 (Aalborg Energie Technik, France).

**In chemical industry**, operations are conducted mainly by Polimex-Mostostal S.A., Naftobudowa capital group, Naftoremont capital group and Energomontaż-Północ capital group. Polimex-Mostostal S.A. performs contracts in form of general contracting, in co-operation with companies of the European and global reach, such as Uhde GmbH, Technip, Babcock FISIA and Lurgi. The following contracts are prominent among concluded by Polimex-Mostostal S.A. in the first half of 2010:

- with PKN Orlen S.A. on general contracting related to construction and assembly works under investment task "Construction of Terephthalic Acid Production Plant (PTA)",
- with Technip Polska Sp. z o.o. on MHC installation works (hydro cracking) under Programme 10+ implemented by LOTOS S.A. Group.

In the first half of 2010, Naftobudowa capital group rendered full-scale services covering all principal domains of construction and assembly operations, including: assembly of equipment for processing systems in chemical and petrochemical industry, prefabrication and assembly of furnaces for refineries, prefabrication, supplies and assembly of steel structures, storage containers and pipelines, industrial construction and assembly works, overhauls and start-up of industrial plants, as well as construction of environment-friendly facilities. The key customers of the group were: Geldof Metaalconstructie N.V. (Belgium), LURGI GmbH (Germany), Polimex-Mostostal S.A. and JPM GmbH (Germany).

Naftoremont capital group executed contracts within the group capacities and in the form of general contracting performed overhauls in industrial systems and conducted manufacturing and service activities in the scope of prefabrication and erection of steel structures and processing pipelines. It operated for the benefit of petrochemical, refinery and chemical industry at home and abroad. Among works performed in the first half of 2010 by Naftoremont Sp. z o.o. one should mention contracts that have been continued since 2008 with PKN Orlen S.A. on construction of paraxylene generation system, development of storage and expeditionary capacity for fragrances. Furthermore, in the 2nd half of 2009 the execution of the contract on construction of PTA system in Wloclawek for PKN Orlen S.A began. The contract has been continued in 2010. At the same time, a series of repair orders was performed for PKN Orlen. In the 1st half of 2010 the execution of contracts on construction of PERN transmission pipe line on order of ZRUG company was completed and the contract with TOTAL company on rehabilitation of ST-1 system in refinery in Dunkirk.

As far as chemical industry is concerned, the following contracts concluded by Energomontaż-Północ capital group in the first half of 2010 should be named:

- with Polimex-Mostostal S.A. on erection works connected with the development of the (PTA) System,
- with PKN Orlen S.A. on assembly works related to HON VII system,
- with Polimex-Sices Polska Sp. z o.o. on assembly of piping for MHC system in Rafineria Gdańska belonging to Lotos Group.

Polimex-Mostostal S.A. operates in **road and railway industry** in co-operation with Torpol group. The following contracts are prominent among performed by Polimex-Mostostal S.A. in the 1<sup>st</sup> half of 2010:

- with General Directorate for National Roads and Motorways on execution of task "Construction of the A-1 motorway section from the "Sośnica" junction to the "Maciejów" junction (including the junction) under the contract: The construction of the "Sośnica" junction at the crossroads of the A-1 and A-4 motorways, including the section of the A-1 motorway – "Sośnica – Maciejów" (with the junction) from 510+530 km to 518+734.34 km",
- with the General Directorate for National Roads and Motorways in Krakow on "Construction of the national route – the Trasa Nowohucka – in Krakow with target parameters of the express road on the section from the Bieżanów junction to the Christo Botewa (Rybitwy) junction".

In the first half of 2010 Polimex-Mostostal S.A. commenced the execution of the contract concluded with the General Directorate for National Roads and Motorways – Branch in Krakow, in the procedure for awarding a public contract conducted in the restricted tender procedure entitled: "Construction of the A4 motorway on the section from the Szarów junction to the Brzesko junction in km 455+900 – 479+000." The amount of the contract for the contractors' consortium amounts to PLN 640 million net.

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

- with PKP Polskie Linie Kolejowe S.A. to modernise the routes: Legionowo - Nowy Dwór Mazowiecki; Nowy Dwór Mazowiecki – Modlin, Modlin – Nasielsk, Nasielsk - Świercze under Project No 2005/PL/16/C/PT/001 "Modernisation of E-65 railroad, section Warsaw – Gdynia, stage II",
- with PKP Polskie Linie Kolejowe S.A. on modernisation of E-65 rail road Warszawa – Gdynia in the section from km 287.700 (on Szymankowo – Lisewo line) to km 315.700 (on Pszczółki – Pruszcz Gdański line) covered by the area of Local Steering Centre in Tczew under Project FS No 2005/PL/16/C/PT/001 „Modernisation of E-65 railroad, section Warszawa – Gdynia, stage II”,
- with PKP Polskie Linie Kolejowe S.A. on reconstruction and modernisation of E-30 railroad in the section Opole - Wrocław – Legnica, Brzeg station”.

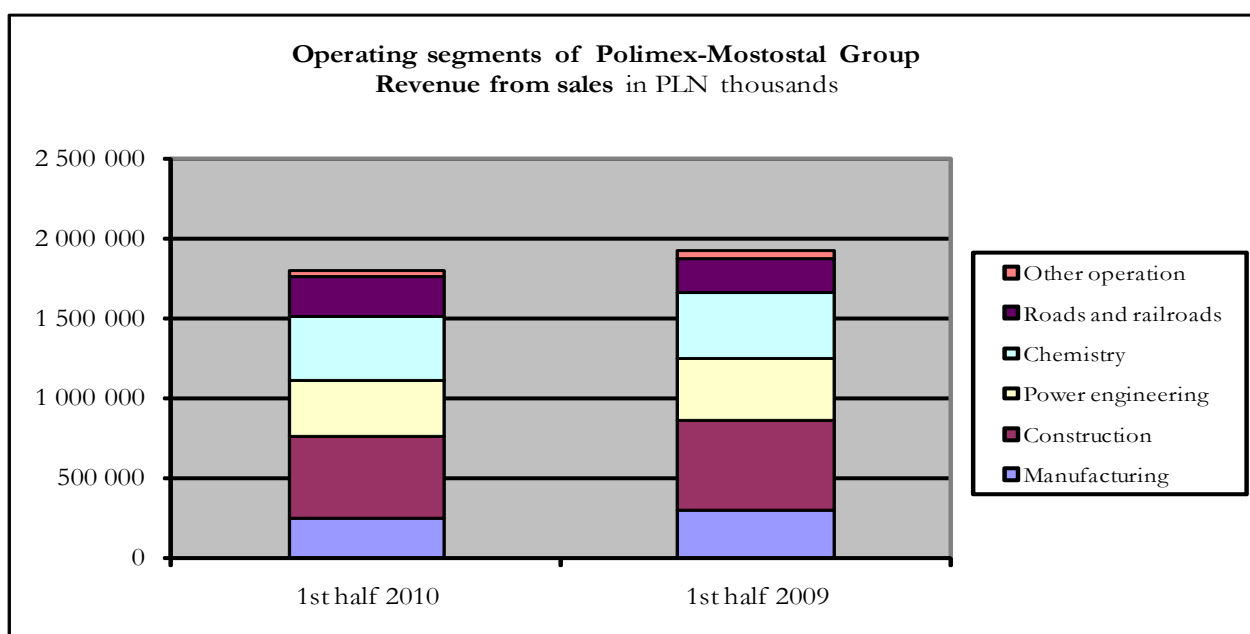
It should be stressed that operations related to five industries mentioned above give rise to competitive advantage of Polimex-Mostostal S.A. Group and lowering of operating risk.

### 1.1. Revenues and their structure

In the first half of 2010 Polimex-Mostostal Capital Group raised revenue from sale in amount of PLN 1,806,152 thousand.

Segment	Change 1st half 2010 / 1st half 2009	1st half 2010		1st half 2009	
		value	share	value	share
Manufacturing	-15.2%	256 292	14.2%	302 118	15.7%
Construction	-9.1%	511 980	28.3%	563 220	29.3%
Power engineering	-12.3%	344 109	19.1%	392 586	20.4%
Chemistry	1.2%	408 013	22.6%	403 015	20.9%
Roads and railroads	11.6%	249 816	13.8%	223 809	11.6%
Other operations	-11.2%	35 942	2.0%	40 471	2.1%
<b>Total revenue from sale</b>	<b>-6.2%</b>	<b>1 806 152</b>	<b>100.0%</b>	<b>1 925 219</b>	<b>100.0%</b>

The largest share in sales was attributable to Construction – 28.3%, and then to Chemistry – 22.6% (mostly as a result of executing Polimex-Mostostal S.A.'s contract on general contracting related to construction and assembly works under investment task "Construction of Terephthalic Acid Production Plant (PTA)"). A decrease in revenues in Production was connected, to a large extent, with the growth of the internal sales level, performed for the benefit of other Group segments. Except for Roads and railroads (dynamic growth of works performed for the General Directorate of Roads and Motorways in the scope of road construction) and Chemistry, the segments reported a decrease in sales as compared against the 1st half of 2009. To a large extent, it resulted from extremely difficult this year weather conditions (severe winter, floods) which did not favour the performance of works in construction sites or the commencement of new investment tasks by clients.





## 1.2. Principal products and services

In the first half of 2010 the scope of activity of Polimex-Mostostal Capital Group in basic assortments included:

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

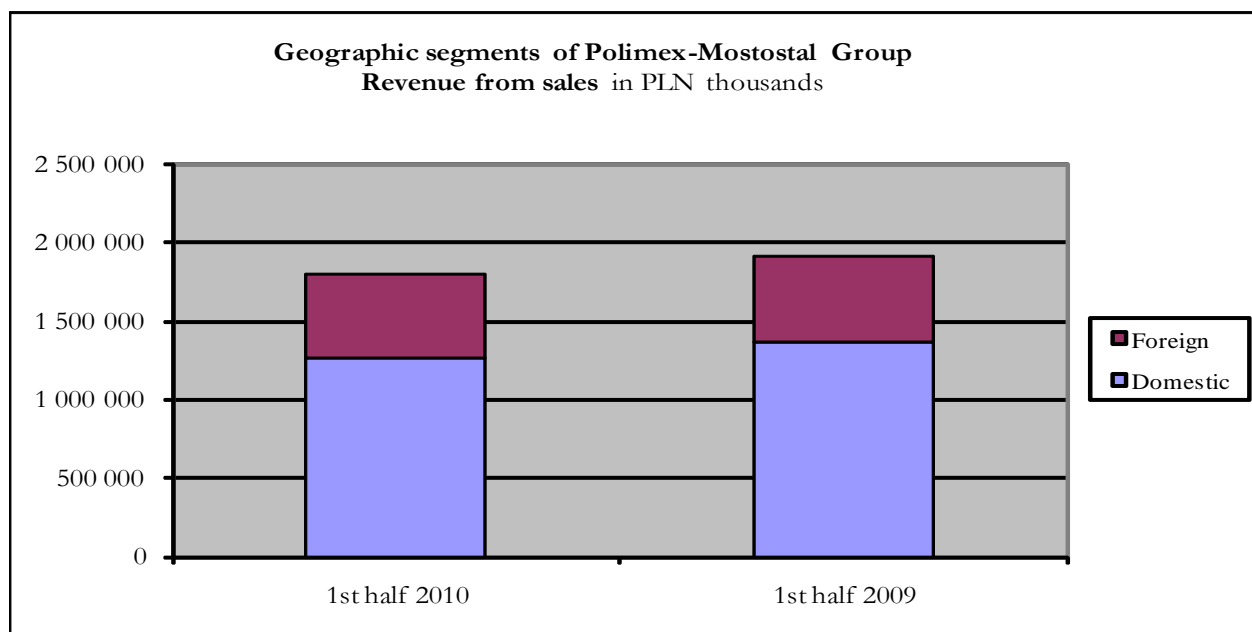
## 1.3. Trade areas and sources of supply

The value and geographic structure of Polimex-Mostostal S.A. Capital Group's sales in the first half of 2010 was as follows:

Market	Change 1st half 2010 / 1st half 2009	PLN thousands			
		1st half 2010		1st half 2009	
		value	share	value	share
Domestic	-7.4%	1 276 631	70.7%	1 378 715	71.6%
Foreign	-3.1%	529 521	29.3%	546 504	28.4%
<b>Total revenue from sale</b>	<b>-6.2%</b>	<b>1 806 152</b>	<b>100.0%</b>	<b>1 925 219</b>	<b>100.0%</b>

As compared against the 1st half of 2009 no significant changes have been observed in the sales structure. In the first half of 2010, the domestic market, where 70.7% of total revenues from sales of Polimex-Mostostal Capital Group were generated, was the principal market for the Group.





The key customers of **the parent entity** in the first half of 2010 were: PKN Orlen S.A., the General Directorate of National Roads and Motorways, the Capital City of Warsaw, Administration of Municipal Infrastructure and Transport in Kraków, Technip Polska Sp. z o.o., Poczta Polska S.A. (the Polish Post) Centre of Infrastructure, Regional Branch in Lublin, the City Council of Gorzów Wielkopolski, Targi Kielce S.A., ZAK S.A., Alstom Power Systems GmbH – Germany, Vattenfall Heat Poland S.A., Botlek Tank Terminal - Holland, Sandvik Mining Construction Sp. z o.o. The 10% threshold of revenue from sales was exceeded for PKN Orlen S.A. (11% of Group's total sales). The entity is not formally related to Polimex-Mostostal S.A.

The key suppliers of **the parent entity** in the first half of 2010 were: Doprastav S.A. Branch in Poland, Polimex-Sices Polska Sp. z o.o., Mostostal Warszawa S.A., Dragados S.A. (Branch in Poland), Naftobudowa S.A., Taiyo Europe GmbH - Germany, Energomontaż-Północ S.A., Qumak-Sekom S.A., Przedsiębiorstwo Robót Drogowych i Mostowych S.A., Thyssenkrupp Energostal S.A. In the first half of 2010 purchases from individual suppliers did not exceed 10% of Polimex-Mostostal Group's total revenue from sales.

The key customers of **Energomontaż-Północ capital group** in the first half of 2010 were: Elektrownia Kozienice S.A., Polimex-Mostostal S.A., PKN Orlen, Fortum Power and Heat Oy - Finland, LOTOS Serwis Sp. z o.o., Polimex-Sices Polska Sp. z o.o., Renevis Sp. z o.o., STF SpA - Italy, Michelin Polska S.A., National Oilwell Varco Norway AS - Norway, Alstom Power Sp. z o.o., Grupa Ożarów S.A., Ponticelli Freres - France, Rafako S.A. The threshold of 10% of sales of Energomontaż-Północ Capital Group was exceeded for Elektrownia Kozienice S.A. (23% of total sales of the Group), Polimex-Mostostal S.A. and Polimex Sices Polska Sp. z o.o. Except for Polimex-Mostostal S.A., the customers are not formally related to Energomontaż-Północ S.A.

The key suppliers of **Energomontaż-Północ capital group** in the first half of 2010 were: KAEFER S.A., RAMIRENT S.A., PRB Termochem Sp. z o.o., Terbud, Stocznia Gdynia S.A., GS-HYDRO Sp. z o.o., NOVAR Sp. z o.o., HW Pietrzak Holding Sp. z o.o., Dan-Spaw Sp. z o.o. Plock. In the first half of 2010 purchases from individual suppliers did not exceed 10% of Energomontaż-Północ group's total revenue from sales.

In the first half of 2010, the key customers of **Naftobudowa capital group** were: Geldof Metaalconstructie N.V. - Belgium (27% of group's total revenue from sales), LURGI GmbH – Germany (25% of group's total revenue from sales), Polimex-Mostostal S.A. (21% of group's total revenue from sales) and JPM GmbH -

Germany (8% of group's total revenue from sales). Except for Polimex-Mostostal S.A. the above mentioned customers are not formally related to Naftobudowa S.A.

In the scope of supply of materials for production and services, Naftobudowa capital group used both related parties and external companies. Naftobudowa S.A. is not dependent on any of sub-suppliers (neither of cost items exceeds 10% of total revenues of the group).

In the first half 2010 the key customers of **Naftoremont capital group** were: PKN Orlen S.A. (69.5% of group's total sales), TOTAL Sp. z o.o. (12.7% of group's total sales). These contracting parties are not formally related to Naftoremont Sp. z o.o.

The key suppliers of Naftoremont capital group are: Modul System Serwis Sp. z o.o., GFM Rusztowania Sp.j., SPEC-KOP Dobrzyków, Przedsiębiorstwo Usługowe Agis Sp. z o.o. None of the suppliers exceed the 10% threshold of group's total sales.

The key customers of **Torpol capital group** in the first half of 2010 were: PKP Polskie Linie Kolejowe S.A. (75% of total sales of the group), Alusta S.A. (11% of the total sales of the group) and the Directorate for Municipal Roads in Poznań (14% of total sales of the group). None of the above mentioned customers is formally related to Torpol company.

The key suppliers of Torpol capital group in the first half of 2010 were: Alusta S.A. (28% of total purchases of the group), Krakowskie Zakłady Automatyki S.A. (15% of total purchases of the group), Przedsiębiorstwo Handlowo-Usługowe ELEKTRO-TEL-BUD from Olsztyn (5% of total purchases of the group), PHU „GEMARK” Sp. z o.o. (3% of total purchases of the group), BUDNET Waldemar Illmann in Czerwonak (3% of total purchases of the group), VAE Polska Sp. z o.o. (3% of total purchases of the group), Wytwórnia Podkładów Strunobetonowych S.A. in Mirosław Ujski (2% of total purchases of the group), Zakład Sieci i Zasilania Sp. z o.o. in Wrocław (2% of total purchases of the group), Wiktor Trybuś Projektowanie Nadzory Wykonawstwo in Komorniki (2% of total purchases of the group) and Koltram Sp. z o.o. (2% of total purchases of the group). None of the above mentioned suppliers is formally related to Torpol company.

The key customers of **Sefako capital group** in the first half of 2010 were: BWV – Denmark, Steinmuller – Germany, Alstom Power Systems – Germany, Aalborg Engineering – Denmark, Aalborg Energie Technik – Denmark, Steinmuller – Germany, MW Power - Finland. The 10% threshold of sales of Sefako group was exceeded for three customers – BWV (Denmark), Steinmuller (Germany) and Alstom Power Systems (Germany). These entities are not formally related to Sefako S.A.

The key suppliers of Sefako capital group in the first half of 2010 were: R - Line Lepiarczyk Sp.j., Spec Sędziszów, Ekoinstal Jan Klusko i Partnerzy Sp.j., Zeork S.A., Orbi - Trans Józef Rędziński, Panas Transport, LMS, Termal, Energostal S.A., AIR Liquide, Mobotec Europe - Sweden, Algor Sp. z o.o. Purchases from individual suppliers did not exceed 10% of Sefako group's total revenue from sales in the first half of 2010.

#### **1.4. Information on the Issuer's or its subsidiary entering into one or multiple transactions with related parties, if separately or jointly they are significant and have been entered into on terms and conditions other than market ones**

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

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

In the first half of 2010, capital expenditure of the Capital Group for plant, property and equipment and intangible assets reached the level of PLN 71,815 thousand. The majority was outlay on fixed assets under construction (50.4%), plant and machinery (18.3%) and buildings and structures (15.8%) arising mostly from the strategic investment plan of the construction of new production floor in the area of Tarnobrzeg Special Economic Zone (Polimex-Mostostal S.A.) which is being finalised. Works on the consolidation of planning offices around Centrum Projektowe Sp. z o.o are well under way. Investment in intangible assets related mostly to computer systems and software. The main purpose of the realized investments is to enhance the competitiveness of Polimex-Mostostal S.A. Capital Group due to the possibility to offer higher quality and more technically advanced products.

The structure of the Group's capital expenditure for plant, property and equipment and intangible assets in the first half of 2010.

1st half 2010	PLN thousands	
Investment in plant, property and equipment and intangible assets	PLN thousands	share
Plant and machinery	13 133	18.3%
Buildings and structures	11 352	15.8%
Land	124	0.2%
Means of transport	4 120	5.7%
Other fixed assets	2 970	4.1%
Fixed assets under construction	36 180	50.4%
<b>Total plant, property and equipment</b>	<b>67 879</b>	<b>94.5%</b>
Intangible assets	3 936	5.5%
<b>Total plant, property and equipment and intangible assets</b>	<b>71 815</b>	<b>100.0%</b>

## 1.6. Equity investments

### 1.6.1. Changes in investment portfolio

In the reporting period the most important were works on the restructuring of the Capital Group that consisted in the integration of seven subsidiaries by the Issuer. The procedure is pending and was described in detail in item 2.9 of this report titled „Prospects for growth of the Issuer's Capital Group”.

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

- In the reporting period the Issuer continued to acquire the shares in PRInż-1 Sp. z o.o. by spending PLN 3.6 thousand and by the assignment of debt. As a result, the Issuer's share in the company capital increased from 86.78% to 88.08%.
- As a result of the acquisition of shares for the amount of PLN 14.7 thousand, the Issuer increased its holding in the capital of Centrum Projektowe Polimex-Mostostal Sp. z o.o. from 99.32% to 99.42%. Due to preference shares held by founding shareholders, the Issuer's share in votes at the General meeting amounts to 98.99%.

- On 11.02.2010 an agreement was concluded under which the Issuer paid the last – third – instalment on account of the purchase of the shares of Coifer Impex SRL with the registered office in Bucharest, Romania. As a result of the transaction, the Issuer's share in company's capital and votes increased from 75% to 100%. For this purpose the Issuer spend the amount of EUR 2,500.0 thousand. The terms and conditions of the transfer of shares were in line with the host agreement concluded on 14.02.2008. The first stage of the agreement was fulfilled on 21.02.2008 by paying the first instalment in the amount of EUR 9,375.0 thousand. The second instalment in the same amount was paid in August 2008. Due to transaction structure and in accordance with the provisions of IAS / IFRS, the Issuer consolidated 100% of financial results of the Coifer group already in 2008 in the statement of the Polimex-Mostostal Capital Group.
- On 27.05.2010 the General Meeting of Porty S.A adopted a resolution on putting the company in liquidation. The Issuer's share in capital and votes of the company amounts to 40%. Porty company was established for the purpose of the construction of port infrastructure in Libya. After the completion of contracted investments the decision was made to liquidate the company.
- On 23.06.2010 the General Meeting of Terminal LNG S.A adopted a resolution on putting the company in liquidation. The Issuer's share in capital and votes of the company amounts to 30.51%. The company was established to perform the construction of LNG Port in Zachodniopomorskie province. In connection with the fact that the statutory objective was not met the decision was made to dissolve the company.
- On 09.03.2010 Polibur Engineering Ltd (Great Britain) was deleted from the register. The company did not conduct statutory business activity for quite a long time.
- On 29.06.2010 a notarial deed was signed relating to the disposal of the 30% stake of shares in Valmont Polska Sp. z o.o. The transaction is in line with the Issuer's policy that assumes disposing of companies in which the Issuer holds minority stakes. The acquiring company is the other shareholder in the company that now holds the entire capital.

Expenses for acquisition of financial assets (shares / equity interests) by entities of Polimex-Mostostal S.A.'s Capital Group in the first half of 2010 are given in the table below:

1st half 2010		PLN thousands	
Cash expenditure on acquisition of financial assets		value	share
<b>by Polimex-Mostostal S.A.</b>			
	SC Coifer Impex srl	8,576.7	92.6%
	EPE Rybnik Sp. z o.o. *)	666.0	7.2%
	Centrum Projektowe Polimex-Mostostal Sp. z o.o.	14.7	0.2%
	PRInż-1 Sp. z o.o.	3.6	0.0%
<b>Total</b>		<b>9,261.0</b>	<b>100.0%</b>

\*) Expenditure on additional payments to prices of shares acquired in prior periods

In the reporting period and till the statement preparation day, the following events giving rise to change in investment portfolio of Naftobudowa S.A. subsidiary occurred:

- On 02.02.2010r. an application was filed with the District Court for the Kraków-Śródmieście to open the liquidation of PUT Nafto-Tur Sp. z o.o with the registered office in Kraków (a 100% subsidiary of Naftobudowa S.A.).

### *1.6.2. Investment plans*

After the period of intense investments of the Issuer's Group, connected mainly with the construction of new production areas within the Tarnobrzeg Special Economic Zone (Polimex-Mostostal S.A.) and within Starachowice Special Economic Zone (Sefako S.A.), investment plans of Group companies for the year 2010 have been prepared on the level close to the depreciation/amortisation planned, with focus on the investments resulting from the needs of the current operating activities. Initiatives in the scope of new capital investments are analyses on regular basis, depending on the acquisition opportunities perceived, their compliance with the strategic targets adopted and possibilities of financing.

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

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

## **1.7. Information on concluded performance contracts significant for the Issuer's Capital Group**

The following are most significant performance contracts concluded by the **parent company** in the first half of 2010:

- The contract concluded on 18.03.2010 with the Dutch company – Botlek Tank Terminal B.V., whose subject is the “turnkey” construction in the port of Rotterdam of the tank terminal for storing of mineral oils, vegetable oils and liquid fuels with a capacity of 185,000 m<sup>3</sup>. Naftobudowa S.A. from the Polimex-Mostostal Group is the Polimex-Mostostal S.A.'s subcontractor. The net value of the contract amounted to EUR 52.0 million.

After 30 June 2010 the parent company entered into the following significant performance contracts:

- The contract executed on 20.07.2010 with the General Directorate for National Roads and Motorways – Branch in Katowice, in the procedure for awarding a public contract conducted in the restricted tender procedure entitled: "Construction of S-69 express road Bielsko Biala - Żywiec - Zwardoń, section "Mikuszowice" junction ("Żywiecka/Bystrzańska") - Żywiec". The contract was executed by the consortium consisting of Polimex-Mostostal S.A., which acts as a Consortium Leader, and Doprastav a.s. Bratislava and Zakład Robót Mostowych "MOSTMAR" Marcin i Grzegorz Marcinków Sp.j. Polimex-Mostostal S.A.'s share in the works and remuneration constitutes 34 % of the whole. The net value of the contract amounts to PLN 646.0 million.

Other significant contracts concluded by Polimex-Mostostal S.A. are included in the list of other significant events (items 8, 9).

The significant performance contracts concluded by the **Issuer's Group companies** in the first half of 2010 include:

- Naftobudowa S.A.:
  - The contract executed on 27.04.2010 with GELDOF Metaalconstructie N.V., the subject of which is the assembly of storage containers in the port in Amsterdam, Holland. The value of the contract was specified based on unit prices and amounted to EUR 5.0 million.

Other significant contracts concluded by the Issuer's group companies are included in the list of other significant events (items 8, 9).

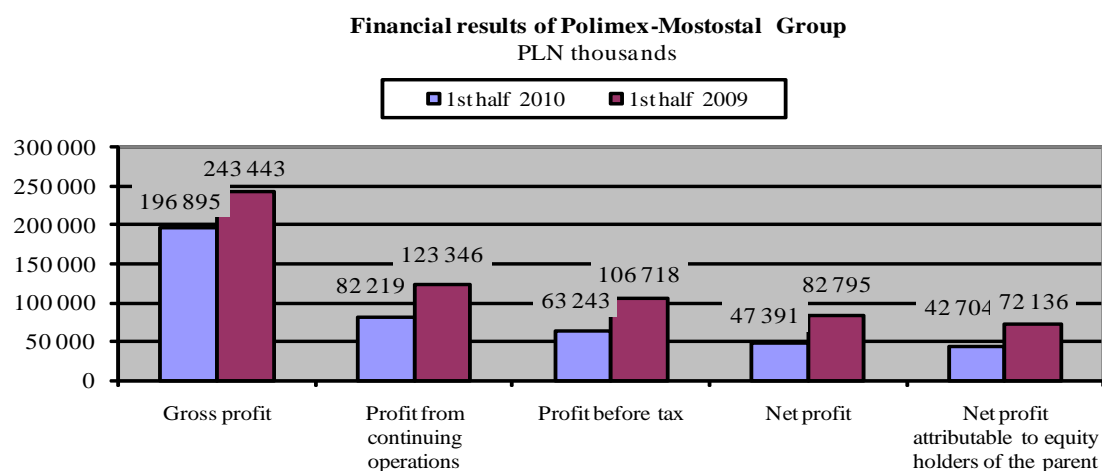
## 2. Current and expected financial position

### 2.1. Profit

In the first half of 2010 **Polimex-Mostostal Group** reported the net profit attributable to equity holders of the parent in the amount of PLN 42,704 thousand (a decrease of 40.8% as against comparable data for the 1<sup>st</sup> half of 2009). From continuing operations the Group made the profit of PLN 82,219 thousand (a decrease of 33.3% as against comparable data for the 1<sup>st</sup> half of 2009). EBITDA amounted to PLN 130,632 thousand (a decrease of 20.2% as against comparable data for the 1<sup>st</sup> half of 2009).

The structure of Consolidated Income Statement of the Capital Group in the first half of 2010 is given below:

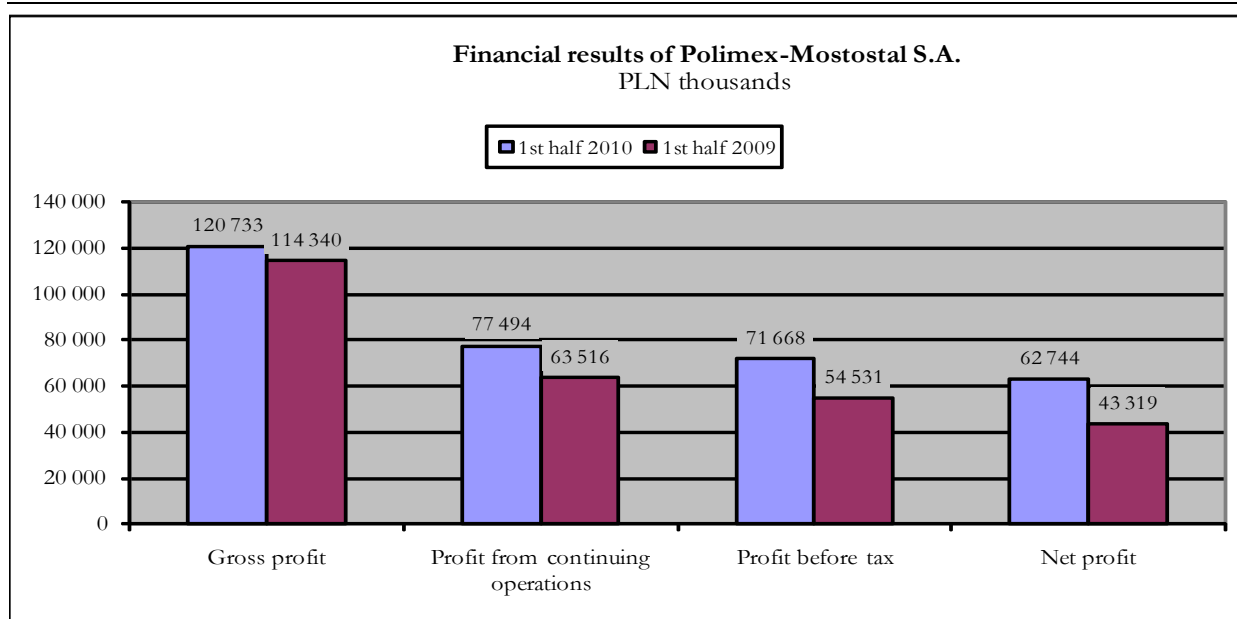
PLN thousands	1st half 2010	1st half 2009	Change
<b>Revenue from sales</b>	<b>1 806 152</b>	<b>1 925 219</b>	<b>-6.2%</b>
Cost of sales	1 609 257	1 681 776	-4.3%
<b>Gross profit</b>	<b>196 895</b>	<b>243 443</b>	<b>-19.1%</b>
Other operating income	9 337	9 556	-2.3%
Selling costs	13 283	14 073	-5.6%
Administrative expenses	106 334	105 371	0.9%
Other operating costs	4 396	10 209	-56.9%
<b>Profit from continuing operations</b>	<b>82 219</b>	<b>123 346</b>	<b>-33.3%</b>
Finance income	18 734	27 171	-31.1%
Finance costs	39 530	46 458	-14.9%
Share in associate's profit	1 820	2 659	-31.6%
<b>Profit before tax</b>	<b>63 243</b>	<b>106 718</b>	<b>-40.7%</b>
Income tax	15 852	23 923	-33.7%
<b>Net profit</b>	<b>47 391</b>	<b>82 795</b>	<b>-42.8%</b>
<b>Net profit attributable to equity holders of the parent</b>	<b>42 704</b>	<b>72 136</b>	<b>-40.8%</b>



The parent company reported in the 1st half of 2010 the net profit of PLN 62,744 thousand (an increase of 44.8% as against comparable data for the first half of 2009). From continuing operations the profit of PLN 77,494 thousand was made (an increase of 22.0% as against comparable data for the 1<sup>st</sup> half of 2009). EBITDA amounted to PLN 102,100 thousand (an increase of 20.4% as against comparable data for the 1st half of 2009). Gross profit on sales amounted to PLN 120,733 thousand (an increase of 5.6% as against comparable data for the 1<sup>st</sup> half of 2009).

The structure of the parent company's Income Statement in the first half of 2010 was as follows:

PLN thousands	1st half 2010	1st half 2009	Change
<b>Revenue from sales</b>	<b>1 289 428</b>	<b>1 274 313</b>	<b>1.2%</b>
Cost of sales	1 168 695	1 159 973	0.8%
<b>Gross profit</b>	<b>120 733</b>	<b>114 340</b>	<b>5.6%</b>
Other operating income	4 945	2 253	119.5%
Selling costs	10 323	11 158	-7.5%
Administrative expenses	36 685	37 952	-3.3%
Other operating costs	1 176	3 967	-70.4%
<b>Profit from continuing operations</b>	<b>77 494</b>	<b>63 516</b>	<b>22.0%</b>
Finance income	19 077	9 528	100.2%
Finance costs	24 903	18 513	34.5%
<b>Profit before tax</b>	<b>71 668</b>	<b>54 531</b>	<b>31.4%</b>
Income tax	8 924	11 212	-20.4%
<b>Net profit</b>	<b>62 744</b>	<b>43 319</b>	<b>44.8%</b>



The achieved results prove a significantly better performance of the parent company in the 1st half of 2010 as compared to group companies. In the 1st half of 2010 Polimex-Mostostal S.A. reported considerably better results than in the 1st half of 2009 and what is more, with much higher net profitability (4.87% as against 3.40%



in the comparative period). However, a significant profit gain was not earlier than in March this year together with intensification of works in numerous building sites of the following segments: construction, roads and railroads, power engineering and chemistry, helped with internal supplies of Polimex-Mostostal S.A.'s Production Plants. Additional, positive influence was continued activities in the scope of cost-cutting as well as activities aimed at increasing the level of utilisation of new production systems and the disposal of 30% stake in Valmont Polska Sp. z o.o.

The operating results achieved by Polimex-Mostostal S.A. could be even better but the severe winter decreased investors' demand in the 1st quarter 2010 for steel structures and road barrier manufactured by the Company. While a longer heating period in the power engineering sector postponed repair works to further quarters of 2010.

For certain Group companies the following factors had an unfavourable influence on the results for the 1st half of 2010:

- for Coifer capital group – longer than expected recession together with severe devastating competition in the Romanian market; in accordance with data by RBS Bank (Romania) S.A. at the end of 2010 GDP is projected to fall by 2.9%<sup>1</sup>; there is an exceptionally difficult situation in construction, where the number of commenced new projects has fallen considerably;
- for significant domestic groups / companies (Torpol group, Energomontaż-Północ group, Naftobudowa group, Naftoremont group, Sefako group) – extreme winter conditions that resulted in:
  - increased costs of conducting construction works with, at the same time, lower level of revenue,
  - postponing commencement dates for new projects by customers, including investments in power engineering sector.
- for Stalfa Sp. z o.o., apart from extremely difficult winter conditions, the change of product range structure of the company (decreasing the share of props and pallets for the benefit of light steel structures) and associated costs of entering into the new market.

In the Issuer's opinion in the further periods of 2010 and in the coming years the following factors will have a favourable influence on the financial results of Polimex-Mostostal Group:

- high value of order portfolio held by the Group;
- high value of quotations that are highly probable to be winning (quotations that are considered the most favourable due to the lowest price) mentioned in items 8 and 9 of the Report;
- integration of support function, optimisation of purchase costs, integration of operating activity and ownership changes relating to the process of combination of Polimex-Mostostal S.A. (the acquiring company) with 7 Group companies (Energomontaż-Północ S.A., Naftobudowa S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o., ECeRemont Sp. z o.o.) that is under way;

---

<sup>1</sup> IMF-EC-WB *fifth review started in July*, Romania Monthly, RBS Bank, 02.08.2010

- probable to acquire and perform large modernisation projects in Polish power engineering sector; Polimex-Mostostal Group is making intense preparations in connection with the intention to participate in the said tender procedures.

## 2.2. Assets amount and structure

As at 30.06.2010, total assets of **Polimex-Mostostal Capital Group** amounted to PLN 3,844,030 thousand (an increase of 0.4% as against comparable data as at 31.12.2009). At 30.06.2010 fixed assets amounted to PLN 1,712,317 thousand (an increase of 1.6% as against comparable data at 31.12.2009), and current assets were PLN 2,131,713 thousand (a decrease of 0.5% as against comparable data as at 31.12.2009). Plant, Property and equipment was the largest item in fixed assets structure constituting 26.3%. Trade and other receivables constituting 37.9% of total assets were the largest item of current assets.

A decrease in cash at the end of the 1st half of 2010 was the result of settling considerable amounts of trade payables in the reporting period. Additional amounts were spent on investment in fixed assets and intangible assets (expenditure of PLN 71.8 million).

Amount and structure of **Capital Group** assets as at 30.06.2010 was as follows:

PLN thousands	30.06.2010	% of assets	31.12.2009	% of assets
<b>Fixed assets</b>	<b>1 712 317</b>	<b>44.5%</b>	<b>1 685 293</b>	<b>44.0%</b>
Plant, property and equipment	1 010 984	26.3%	947 934	24.8%
Investment property	42 340	1.1%	42 352	1.1%
Goodwill on consolidation	486 312	12.6%	486 919	12.7%
Intangible assets	25 194	0.7%	30 773	0.8%
Investments in associates measured using the equity method	17 155	0.4%	25 946	0.7%
Financial assets	4 450	0.1%	4 101	0.1%
Non-current receivables	45 270	1.2%	61 313	1.6%
Non-current prepaid expenses	26	0.0%	23	0.0%
Deferred tax assets	80 586	2.1%	85 932	2.2%
<b>Current assets</b>	<b>2 131 713</b>	<b>55.5%</b>	<b>2 142 424</b>	<b>56.0%</b>
Inventories	424 522	11.0%	350 916	9.2%
Trade and other receivables	1 457 198	37.9%	1 317 453	34.4%
Income tax receivable	6 716	0.2%	10 568	0.3%
Prepaid expenses	13 568	0.4%	9 937	0.3%
Cash and cash equivalents	220 254	5.7%	437 377	11.4%
Financial assets	9 455	0.3%	16 173	0.4%
<b>TOTAL ASSETS</b>	<b>3 844 030</b>	<b>100.0%</b>	<b>3 827 717</b>	<b>100.0%</b>

As at 30.06.2010, total assets of **the parent company** amounted to PLN 2,851,650 thousand (an increase of 2.6% as against comparable data as at 31.12.2009). At 30.06.2010 fixed assets amounted to PLN 1,458,364 thousand (an increase of 1.7% as against comparable data at 31.12.2009), and current assets were PLN 1,393,286 thousand (an increase of 3.5% as against comparable data as at 31.12.2009). The largest item in the structure of fixed assets was financial assets constituting 29.5%, and next plant, property and equipment constituting 18.5% of total assets. Trade and other receivables constituting 35.3% of total assets were the largest item of current assets.

Amount and structure of **parent company's** assets as at 30.06.2010 was as follows:

PLN thousands	30.06.2010	% of assets	31.12.2009	% of assets
<b>Fixed assets</b>	<b>1 458 364</b>	<b>51.1%</b>	<b>1 434 296</b>	<b>51.6%</b>
Plant, property and equipment	526 890	18.5%	508 856	18.3%
Investment property	2 836	0.1%	2 836	0.1%
Intangible assets	17 741	0.6%	17 182	0.6%
Financial assets	841 171	29.5%	836 687	30.1%
Non-current receivables	16 570	0.6%	10 400	0.4%
Deferred tax assets	53 156	1.8%	58 335	2.1%
<b>Current assets</b>	<b>1 393 286</b>	<b>48.9%</b>	<b>1 345 833</b>	<b>48.4%</b>
Inventories	202 089	7.1%	132 487	4.8%
Trade and other receivables	1 005 717	35.3%	924 503	33.2%
Prepaid expenses	3 765	0.1%	4 327	0.1%
Cash and cash equivalents	58 323	2.1%	165 790	6.0%
Financial assets	123 392	4.3%	118 726	4.3%
<b>TOTAL ASSETS</b>	<b>2 851 650</b>	<b>100.0%</b>	<b>2 780 129</b>	<b>100.0%</b>

### 2.3. Equity amount and structure

**Equity attributable to equity holders of the parent** at 30.06.2010 amounted to PLN 1,269,358 thousand (an increase of 2.1% as against comparable data at 31.12.2009), and liabilities amounted to PLN 2,430,286 thousand (a decrease of 0.6% as against comparable data as at 31.12.2009). The share premium, constituting 13.4% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 39.0% of total liabilities and equity were the largest item of liabilities.

The structure of sources of finance of the **Capital Group** assets at 30.06.2010 is given below:

PLN thousands	30.06.2010	% of equity and liabilities	31.12.2009	% of equity and liabilities
<b>Equity attributable to equity holders of the parent</b>	<b>1 269 358</b>	<b>33.0%</b>	<b>1 242 671</b>	<b>32.4%</b>
Issued capital	18 574	0.5%	18 574	0.5%
Share premium	513 466	13.4%	513 466	13.4%
Treasury shares	-6 884	-0.2%	-6 884	-0.2%
Exchange differences on translation of a foreign operation	2 740	0.1%	-2 798	-0.1%
Supplementary capital	471 415	12.3%	381 566	10.0%
Reserve capital	31 846	0.8%	30 494	0.8%
Revaluation reserve	1 259	0.0%	5 697	0.1%
Retained earnings	236 942	6.1%	302 556	7.9%
<b>Non-controlling interests</b>	<b>144 386</b>	<b>3.8%</b>	<b>140 783</b>	<b>3.7%</b>
<b>Total equity</b>	<b>1 413 744</b>	<b>36.8%</b>	<b>1 383 454</b>	<b>36.1%</b>
<b>Liabilities</b>	<b>2 430 286</b>	<b>63.2%</b>	<b>2 444 263</b>	<b>63.9%</b>
Non-current liabilities	931 661	24.2%	817 737	21.4%
Arrangement liabilities to be written off	0	0.0%	0	0.0%
Current liabilities	1 498 625	39.0%	1 626 526	42.5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 844 030</b>	<b>100.0%</b>	<b>3 827 717</b>	<b>100.0%</b>

Equity of **Polimex-Mostostal S.A.** as at 30.06.2010 amounted to PLN 1,091,969 thousand (an increase of 4.0% as against comparable data at 31.12.2009), and liabilities amounted to PLN 1,759,681 thousand (an increase of 1.7% as against comparable data as at 31.12.2009). The share premium, constituting 18.0% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 35.5% of total liabilities and equity were the largest item of liabilities.

The structure of sources of finance of the **parent company's** assets at 30.06.2010 is given below:

PLN thousand	30.06.2010	% of equity and liabilities	31.12.2009	% of equity and liabilities
<b>Equity</b>	<b>1 091 969</b>	<b>38.3%</b>	<b>1 049 687</b>	<b>37.8%</b>
Issued capital	18 574	0.7%	18 574	0.7%
Share premium	513 466	18.0%	513 466	18.5%
Supplementary capital	471 415	16.5%	381 566	13.7%
Reserve capital	31 846	1.1%	30 494	1.1%
Revaluation reserve	1 173	0.0%	4 413	0.2%
Retained earnings	55 495	2.0%	101 174	3.6%
<b>Liabilities</b>	<b>1 759 681</b>	<b>61.7%</b>	<b>1 730 442</b>	<b>62.2%</b>
Non-current liabilities	748 747	26.2%	628 652	22.6%
Current liabilities	1 010 934	35.5%	1 101 790	39.6%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 851 650</b>	<b>100.0%</b>	<b>2 780 129</b>	<b>100.0%</b>

## 2.4. Liquidity

According to the Statement of Cash Flows, in the first half of 2010 there was a net decrease in cash and cash equivalents by PLN 217,123 thousand. Cash and cash equivalents as at the end of the first half of 2010 amounted to PLN 220,254 thousand. Cash from operating activities, as a result of settling considerable amounts of payables, amounted to - PLN 292,451 thousand. Net cash from investing activities amounted to -PLN 74,859 thousand, and net cash from financing activities amounted to PLN 150,187 thousand.

For the **parent company**, in the first half of 2010 there was a net decrease in cash and cash equivalents of PLN 107,467 thousand. Cash and cash equivalents as at the end of the first half of 2010 amounted to PLN 58,323 thousand. Cash from operating activities, as a result of settling considerable amounts of payables, amounted to - PLN 193,239 thousand. Net cash from investing activities amounted to -PLN 64,984 thousand, and net cash from financing activities amounted to PLN 150,756 thousand.

## 2.5. Assessment of financial resources management

The values of Capital Group's statement of financial position ratios as well as income statement ratios mentioned below should be considered as correct. At the statement of financial position date, Polimex-Mostostal Capital Group had proper liquidity and promptly repaid borrowings. Current and prompt liquidity ratios were at the safe level and were equal to 1.42 and 1.14 respectively, i.e. slightly higher than in a comparable period. There was a slight decrease of the general debt ratio. Lower profitability was caused mainly by the factors mentioned in item 2.1.

Liquidity ratios for the Capital Group:

current ( <i>current assets : current liabilities</i> )	30.06.2010	1.42	31.12.2009	1.32
prompt ( <i>(current assets less inventories) : current liabilities</i> )		1.14		1.10

General debt ratio for the Capital Group.

( <i>liabilities : assets</i> )	30.06.2010	63.22%	31.12.2009	63.86%
---------------------------------	------------	--------	------------	--------

Net profit margin for the Capital Group.

( <i>net profit attributable to equity holders of the parent: revenue from sale</i> )	30.06.2010	2.36%	30.06.2009	3.75%
---	------------	-------	------------	-------

EBITDA margin for the Capital Group:

( <i>EBITDA: revenue from sales</i> )	30.06.2010	7.23%	30.06.2009	8.51%
---------------------------------------	------------	-------	------------	-------

Earnings per share in PLN for the Capital Group.

( <i>net profit attributable to equity holders of the parent: weighted average number of shares</i> )	30.06.2010	0.09	30.06.2009	0.16
---	------------	------	------------	------

Financial performance, as well as the value of ratios given prove good financial position of the Group.

As for the **parent company** the ratios achieved are generally more favourable. A particular attention should be drawn to the increase both in net profit margin and in EBITDA margin.

Liquidity ratios for the parent company.

current ( <i>current assets : current liabilities</i> )	30.06.2010	1.38	31.12.2009	1.22
prompt ( <i>(current assets less inventories) : current liabilities</i> )		1.18		1.10

General debt ratio for the parent company:

( <i>liabilities : assets</i> )	30.06.2010	61.71%	31.12.2009	62.24%
---------------------------------	------------	--------	------------	--------

Net profit margin for the parent company.

( <i>net profit attributable to equity holders of the parent: revenue from sales</i> )	30.06.2010	4.87%	30.06.2009	3.40%
--	------------	-------	------------	-------

EBITDA margin for the parent company:

( <i>EBITDA: revenue from sales</i> )	30.06.2010	7.92%	30.06.2009	6.65%
---------------------------------------	------------	-------	------------	-------

Earnings per share in PLN for the parent company.

( <i>net profit attributable to equity holders of the parent: weighted average number of shares</i> )	30.06.2010	0.14	30.06.2009	0.09
---	------------	------	------------	------

## 2.6. Information on loans and borrowings drawn

Total debt of the Capital Group at the end of the first half of 2010 amounted to PLN 932.4 million (of which, loans and borrowings were PLN 532.4 million, issued debentures PLN 400.0 million). Debt of the parent company amounted to PLN 731.2 million, of which PLN 331.2 million was bank loans and PLN 400.0 million was issued debentures (loans in the amount of PLN 2.5 million were eliminated on Group data consolidation). The key crediting banks in the first six months of 2010 were:

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

As at 30.06.2010, the following loans and borrowings were to be repaid at the earliest taken out by:

- Polimex-Development Kraków Sp. z o.o. (limits of PLN 10.0 million and 30.4 million, repayment date – 30.06.2010, two investor loans drawn at PKO BP S.A.),
- Elmont-Kostrzyn Wlkp. Sp. z o.o. (limit of PLN 1.0 million, repayment date - 30.06.2010, bank overdraft at Pekao S.A.),
- Stalfa Sp. z o.o. (the limit of PLN 10.0 million, repayment date - 30.06.2010, bank overdraft at Pekao S.A.),
- Polimex-Mostostal S.A. (the limit of PLN 30.0 million, repayment date - 03.07.2010, bank overdraft at BOŚ S.A.),
- PRInż-1 Sp. z o.o. (the limit of PLN 3.0 million, repayment date - 12.07.2010, two credit facilities: bank overdraft and a revolving credit facility at BOŚ S.A.),
- ZRE Kraków Sp. z o.o. (the limit of PLN 1.0 million, repayment date - 31.07.2010, bank overdraft at Pekao S.A.),
- Polimex-Mostostal S.A. (taken out at Pekao S.A., the limit of PLN 50.0 million, repayment date – 31.07.2010, bank overdraft and the limit of PLN 70.0 million, multicurrency credit facility, repayment date – 31.07.2010).

The above mentioned credit facilities have been renegotiated or repaid (StalFa Sp. z o.o.). At present, the date of repayment of loans and borrowings is: for PRInż-1 Sp. z o.o. – 12.07.2011 (apart from the extension of the credit period there was a change in the structure of financing), Polimex-Development Kraków Sp. z o.o. – for the credit facility of PLN 40.5 million - 31.03.2011, for the credit facility of PLN 10.0 million - 30.06.2011, Elmont-Kostrzyn Wlkp. Sp. z o.o. – as at the date of preparation of this report the Company is negotiating the extension of repayment, Polimex-Mostostal S.A. – credit facilities at Pekao S.A. - 31.07.2011, and a credit facility at BOŚ S.A. - 03.07.2011, ZRE Kraków Sp. z o.o. – is conducting talks with the bank on extension of the crediting period.

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

- loan at Bank PKO BP S.A. for Polimex-Mostostal S.A. in amount of PLN 150.0 million – repayable on 31.08.2015,
- loan at Fortis Bank S.A. for Stalfa Sp. z o.o. in amount of PLN 4.0 million – repayable on 31.12.2013,
- loan at BOŚ S.A. for PRInż-1 Sp. z o.o. in amount of PLN 2.7 million – repayable on 30.06.2014,
- loan at RBS Bank Polska S.A. for Energop Sp. z o.o. in amount of EUR 5.2 million – repayable on 15.12.2013,
- loan at Bank PKO BP S.A. for Sefako S.A. in amount of PLN 48.1 million – repayable on 30.01.2016,

- loan at DnB Nord Polska S.A. for EPE-Rybnik Sp. z o.o. in amount of PLN 0.5 million – repayable on 31.03.2013,
- loan at Orzesko-Knurowski BS for Centrum Projektowe Polimex-Mostostal Sp. z o.o. in amount of PLN 14.0 million – repayable on 18.12.2023.

In majority, Polimex-Mostostal S.A. and the Group companies continued current loan contracts and guarantee facilities. A number of contracts have been renegotiated.

- At the end of the first half of 2010, the balance of loans and borrowings drawn by **Polimex-Mostostal S.A.** (excluding the Debenture Issue Plan) amounted to PLN 333.7 million, of which bank loans PLN 331.2 million and loans drawn PLN 2.5 million (after eliminating accrued undue interest) – loans eliminated on consolidating data of Polimex-Mostostal Group. Polimex – Mostostal S.A. continued current **loan contracts**:
  - Working-capital, non-revolving facility in convertible currency (EUR) granted by PKO BP S.A. up to EUR 3.4 million (at the end the first half of 2010, debt balance amounted to EUR 2.35 million) and repayable until 26.12.2012. Rate of interest - EURIBOR 1M plus margin.
  - Working-capital, non-revolving facility in Polish zloty granted by PKO BP S.A. up to PLN 11.2 million and repayable on 26.12.2012, at the end of the first half of 2010 debt amounted to PLN 7.7 million. Rate of interest was specified as WIBOR 1M plus margin.
  - A bank loan within the limit of multi-currency credit facility in amount of PLN 30.0 million at PKO BP S.A. repayable on 12.02.2011 with the option to issue guarantees until 12.02.2013. Within this limit, Polimex-Mostostal S.A. may utilise bank loan in Polish zloty up to 35% of limit and issue national trade bank guarantees up to 100% of the limit. As at 30.06.2010 there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
  - Bank overdraft up to PLN 30.0 million granted by Bank Ochrony Środowiska S.A. and repayable on 03.07.2010, as at the date of preparation of this report it was extended under appendix until 03.07.2011. At the end of June 2010 the debt amounted to PLN 5.55 million. The rate of interest was determined based on WIBOR 1M plus margin.
  - Bank overdraft granted by Bank Handlowy w Warszawie S.A., whose limit as at the end of the 1st half of 2010 amounted to PLN 10.0 million, repayment date - 22.09.2010. As of 30.06.2010, the debt amounted to PLN 0.9 million. The rate of interest was determined based on WIBOR 1M plus margin.
  - Working-capital facility in a current account in the amount of PLN 40.0 million granted by Kredyt Bank S.A. and repayable on 31.10.2010. As at 30.06.2010, there was no debt. Rate of interest - WIBOR O/N plus margin.
  - Overdraft facility in amount of PLN 50.0 million granted by Bank Pekao S.A. and repayable on 31.07.2010. As at the date of preparation of this report, the loan was extended for another year i.e. until 31.07.2011. As of 30.06.2010, debt amounted to PLN 33.76 million. The rate of interest was determined based on WIBOR 1M plus margin.
  - Multi-currency credit facility equivalent to PLN 70.0 million granted by Bank Pekao S.A. with validity until 31.07.2010. As at the date of preparation of this report, the loan was extended until 31.07.2011. As of 30.06.2010, debt amounted to PLN 68.27 million. The rate of interest was determined based on WIBOR 1M plus margin.



- Investment loan in amount of PLN 150.0 million granted by PKO BP S.A and repayable on 31.08.2015. The loan is assigned to financing of capital expenditure on construction within Tarnobrzeg Special Economic Zone (TSEZ) Siedlce Sub-zone, a steel structure plant, galvanising plant and painting house. As of 30.06.2010, debt amounted to PLN 149.88 million. Rate of interest - WIBOR 1M plus margin, and for debt in foreign currency - EURIBOR 1M plus margin.
- Non-revolving loan in Polish zloty in amount of PLN 20.0 million granted by PKO BP S.A., repayable on 30.06.2010, assigned for financing of VAT tax on goods and services purchased for execution of investment project in the area of Tarnobrzeg Special Economic Zone Siedlce Sub-zone. As at 30.06.2010 the loan was repaid.
- Bank loan relating to multi-purpose and multi-currency facility for the amount of PLN 37.0 million granted by BPH S.A. and repayable on 22.08.2010. As at 30.06.2010, there was no debt. The rate of interest was determined based on WIBOR 1M plus margin. On 19.08.2010 an appendix was signed to the contract for multipurpose and multicurrency facility increasing the limit from PLN 37 million to PLN 42 million, with the option to issue bank guarantees and letters of credit within the limit up to the total amount not exceeding PLN 5 million and extending the limit availability until 31.08.2011.
- Overdraft facility in amount of PLN 15.0 million granted by Bank Millennium S.A. and repayable on 20.03.2010. The repayment period was extended until 20.03.2011 under appendix of 19.03.2010. As at 30.06.2010, debt amounted to PLN 3.79 million. The rate of interest was determined based on WIBOR 1M plus margin.
- Overdraft facility in amount of PLN 5.0 million granted by Bank Millennium S.A. and repayable on 20.03.2010. The repayment period was extended until 20.03.2011 under appendix of 19.03.2010. As at 30.06.2010, debt amounted to PLN 1.61 million. The rate of interest was determined based on WIBOR 1M plus margin.

Investment loan granted by Toyota Bank Polska S.A. in amount of PLN 0.1 million, which was assigned to the purchase of the vehicle and repayable on 28.06.2010, has been repaid. Moreover, in the first half of 2010 the Company concluded:

- On 21.06.2010 with BGŻ S.A. a contract for a working capital facility in a current account for the amount of PLN 15.0 million and repayable on 31.05.2011. The facility was released as at the date of preparation of this report
- On 28.06.2010 with Pekao S.A. a contract for a non-revolving working capital facility for the amount of PLN 50.0 million and repayable on 27.06.2011. Funds were shifted under a general contract with Pekao S.A. specifying terms and conditions for co-operation in the scope of credit and guarantee facility (the facility amount was decreased from PLN 150.0 million to PLN 100.0 million). As at 30.06.2010, debt in connection with this facility amounted to PLN 50.0 million. The rate of interest was determined based on WIBOR 1M plus margin.

In the first half of 2010 the Company continued to use loans drawn with the following companies: Depolma GmbH (contract for EUR 0.3 million; repayable balance - EUR 0.2 million; repayment date - 10.12.2010; interest rate based on EURIBOR 12M plus margin) and Polimex Hotele Sp. z o.o. (the amount of contract and balance to be repaid - PLN 1.9 million; repayment date 31.12.2010; interest rate based on WIBOR 1M plus margin).

On 25.08.2010 Appendix No 3 to the Agency Agreement and No 4 to Dealer Agreement were initialled adjusting the provisions of the above mentioned Agreements to the requirements of the Act of 09 July 2005 on

trading in financial instruments and of the Regulation of the Minister of Finance of 20.11.2009 on procedure and conditions of performance of investments firms, banks referred to in Article 70.2 of the above mentioned Act and introducing a new regulation for issuing, trading and keeping the deposit of dematerialized debt securities issued through BRE Bank S.A. in non-public trade. On 25.08.2010 Appendix No 2 to the Sales Underwriting Agreement of 30.05.2006 and the Agreement for Determining the Underwriting Rate were executed. In total<sup>2</sup>, balance of debentures issued by Polimex-Mostostal S.A. as of the date of preparation of this report amounts to PLN 400.0 million, of which PLN 32.5 million is ascribed to short-term debentures and PLN 367.5 million is ascribed to long-term debentures.

In the first half of 2010, Group companies concluded with banks the following contracts / appendixes to contracts in force:

- **Polimex-Development Kraków Sp. o.o.** concluded Appendixes to two loan contracts at the total amount of PLN 40.45 million entered into with PKO BP S.A. on 24.10.2007 extending repayment dates to 31.03.2011 for the loan in amount of PLN 10.02 million and to 30.06.2011 for the loan in amount of PLN 30.43 million. Rate of interest for the loans equals to WIBOR 3M plus margin.
- **Moduł System Serwis Sp. z o.o.**, a subsidiary of Naftoremont Sp. z o.o., executed in January a loan contract with PKO BP S.A. (PLN 1.0 million) with the repayment date on 31.12.2010 and in April an appendix to the bank overdraft contract with ING Bank Śląski S.A. (the limit of PLN 1.0 million) extending the repayment period until 18.09.2010 (rate of interest for the facility equals to WIBOR 1M plus margin).
- **Sinpol Trade Center Sp. z o.o.**, a subsidiary of Naftoremont Sp. z o.o., concluded in May this year an overdraft contract with Polski Bank Spółdzielczości in Ciechanów (the limit of PLN 0.4 million) with the repayment date on 07.05.2011 (rate of interest for facility loan equals to WIBOR 3M plus margin).
- **Naftobudowa S.A.** concluded with DZ Bank Polska S.A. an appendix to the contract to grant a short-term revolving working capital facility amending the amount of facility from PLN 10.0 million to EUR 2.0 million and extending the repayment date to 31.08.2011. Rate of interest for the facility equals to EURIBOR RB plus margin.
- **Elmont-Kostrzyn Wlkp. Sp. z o.o.** (a subsidiary of Torpol Sp. z o.o.), as at the date of preparation of this report, is negotiating the extension of the repayment period of a bank overdraft with Pekao S.A. (PLN 1.0 million; repayable until 30.06.2010).
- As at the date of preparation of this report, **PRInż-1 Sp. z o.o.**, by concluding appendixes, extended for a year repayment dates for two loans granted by BOŚ S.A. and changed the financing structure. The bank

---

<sup>2</sup> Current issues under Debenture Issue Plan:

- i) non-current debentures:
  - on 25.07.2007 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 100 million and with the maturity at 25.07.2012, and
  - on 16.10.2007 another tranche of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 73 million and with the maturity at 25.01.2013,Both blocks of coupon debentures have been consolidated and to 25.07.2012 maturity of half-year interest coupons falls at the same dates.
- on 16.10.2009 a tranche of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 194.5 million and with the maturity at 16.10.2012,
- ii) short-term debentures:
  - on 28.06.2006 two blocks of short-term discount debentures not admitted for listing for the total amount of PLN 32.5 million, which were combined in one block on 07.01.2009 and its present maturity is at 31.08.2010.

overdraft was decreased from PLN 3.0 million to PLN 2.5 million, and a revolving credit facility was increased from PLN 3.0 million to PLN 3.5 million, a new repayment date is on 12.07.2011, and the rate of interest amounts to WIBOR 1M plus margin.

- **Fabryka Kotłów Sefako S.A.** as of 24.06.2010 repaid the bank overdraft (the limit of PLN 2.0 million; interest rate: WIBOR 1M plus margin) granted under the contract concluded with BRE Bank S.A. valid until 25.06.2010. In February this year it increased the credit in multipurpose facility from PLN 12.0 million to PLN 14 million at PKO BP S.A. (the repayment date of 29.08.2010r. was extended until 06.07.2013; the rate of interest: WIBOR 1M plus margin). Furthermore, in February 2010 it concluded two contracts: on revolving credit facility in a current account (the limit of PLN 2.0 million) and on revolving working capital facility (PLN 5.0 million) with Nordea Bank Polska S.A. The repayment dates fall on 02.02.2011 and 02.02.2012, respectively. Rate of interest for the facilities equals to WIBOR 1M plus margin.
- **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** initialled an appendix to the multipurpose facility contract concluded with Pekao S.A. (PLN 0.3 million) extending the repayment period until 31.03.2011. (the interest rate for the facility is WIBOR 1M plus margin), and in April and May 2010 it initialled appendixes to the bank overdraft contract concluded with Bank Millennium S.A. extending the repayment period until 27.05.2011 and increasing the amount of the facility from PLN 2.4 million to PLN 3.4 million. In the first half of 2010 the Company also repaid the bank overdraft at BRE Bank S.A. valid until 30.03.2010.
- **ZUT Sp. z o.o.** initialled with PEKAOS.A. an appendix to the contract for overdraft facility (PLN 1.0 million) extending the repayment period by one year i.e. until 31.01.2011. Rate of interest - WIBOR 1M plus margin.
- **StalFa Sp. z o.o.** concluded two overdraft contracts with Alior Bank S.A. in amount of PLN 7.0 million and PLN 3.0 million, both with the repayment date on 28.01.2011 and the rate of interest based on WIBOR 1M + margin. The bank overdraft at Pekao S.A. (PLN 10.0 million) with the repayment date on 30.06.2010 has been repaid.
- **EPE Rybnik Sp. z o.o.** concluded with DnB Nord Polska S.A. an appendix to the overdraft contract with the limit of PLN 0.5 million extending the repayment period until 29.06.2011 (rate of interest WIBOR 1M plus margin).
- In June 2010 **ECeRemont Sp. z o.o.** concluded with PKO BP S.A. an appendix to the contract for overdraft facility, in amount of PLN 1.0 million, extending the repayment period until 02.09.2010. The rate of interest was based on WIBOR 3M plus margin.
- In December 2009 **ZRE Kraków Sp. z o.o.** concluded with PEKAO S.A. a contract on overdraft facility in amount of PLN 1.0 million, the repayment date at 31.07.2010 the rate of interest based on WIBOR 1M plus margin. The facility was released in January 2010. At the moment the talks are being conducted on extending the financing for the Company.
- **Energomontaż-Północ Gdynia Sp. z o.o.**, a subsidiary of Energomontaż-Północ S.A., initialled an appendix with DnB Nord Polska S.A. to the overdraft contract (the limit of PLN 2.0 million) extending the repayment period until 30.06.2011 (rate of interest WIBOR 1M plus margin).

As at the end of the first half of 2010, the weighted average margin for loans of Polimex-Mostostal Capital Group computed based on limits attributable to the Group was: for loans in Polish zloty: WIBOR + 1.91513 p.p., for bank loans in foreign currency: EURIBOR + 3.76131 p.p. / LIBOR + 0.9500 p.p. The weighted average bank margin for loans taken out by Polimex-Mostostal was: for loans in Polish zloty: WIBOR 1M +

1.62135 p.p. and WIBOR O/N + 2.0000 p.p., for bank loans in foreign currency: EURIBOR 1M+ 2.7000 p.p. While the weighted average margin for loans granted to Polimex-Mostostal S.A., calculated based on financing amount attributable to the Company as at 30.06.2010: WIBOR + 0.2500 p.p. for bank loan in Polish zloty, EURIBOR + 0.2500 p.p. for bank loan in foreign currency.

## **2.7. Information on guarantees and borrowings**

In the first half of 2010 Polimex-Mostostal S.A. has granted new loans to entities of the Capital Group under contracts listed below:

- The contract of 18.02.2010, granting Polimex-Development Kraków Sp. z o.o. a loan in amount of PLN 3.5 million for financing of necessary capital expenditure and current costs of operating activities. Rate of interest - WIBOR 3M plus margin. The loan is repayable, after signing the appendix, on 31.08.2010. As at the date of preparation of this report, under the Setoff Agreement of 30.07.2010<sup>3</sup> the loan was set off.
- The contract of 23.03.2010, granting Polimex-Mostostal Development Sp. z o.o. a loan in amount of PLN 6.0 million for financing the investment at ul. Pustuleczki in Warsaw. As at 30.06.2010, PLN 1.4 million was paid out under the loan contract. Rate of interest - WIBOR 3M plus margin. The loan is repayable on 30.11.2011.
- The contract of 29.04.2010, granting Polimex-Mostostal Ukraine a loan in the amount of USD 1.0 million for partial financing of investment process in galvanising plant in Zhitomir. As at 30.06.2010, USD 0.5 million was paid out under the loan contract. The interest rate is fixed. The loan is repayable on 15.04.2012.
- The contract of 11.05.2010, granting ECeRemont Sp. z o.o. a loan in amount of PLN 0.8 million for current operations. Rate of interest was based on WIBOR 3M plus margin. The loan is repayable on 31.12.2010 at the latest.
- The contract of 10.06.2010, granting SC Coifer Impex srl a loan in amount of EUR 0.52 million for current operations. Rate of interest - EURIBOR 1M plus margin. The loan is repayable on 31.10.2010.
- The contract of 29.06.2010, granting SC Coifer Impex srl a loan in amount of EUR 2.0 million for current operations. As at the date of preparation of this report the loan was released in amount of EUR 1.9 million. Rate of interest - EURIBOR 1M plus margin. The loan is repayable on 31.12.2010.

Moreover, in the reporting period the following appendixes to the contracts concluded in the prior years were signed:

- The Appendix to the Contract of 12.12.2008, granting SC Coifer Impex srl a loan in amount of EUR 1.15 million for payment of liabilities arising from current invoices for deliveries and services. Rate of interest - EURIBOR 1M plus margin. New loan repayment date is 31.12.2010.
- The Appendix to the Contract of 28.09.2007, granting Polimex-Mostostal Development Sp. z o.o. a loan in amount of PLN 8.2 million for financing of the purchase of lots situated in Warsaw at ul. Roentgena, at the corner of ul. Lelka. Rate of interest - WIBOR 3M plus margin. New loan repayment date is 31.12.2011.
- The Appendix to the Contract of 01.10.2009, granting Polimex-Development Kraków Sp. z o.o. a loan in amount of PLN 2.0 million for partial repayment of the bank loan granted to the Company by PKO BP S.A.

---

<sup>3</sup> Under the Setoff Agreement of 30.07.2010 the parties gave their consent to set off mutual liabilities and receivables arising from loans granted to Polimex-Development Kraków Sp. z o.o. by Polimex-Mostostal S.A. in the total amount of PLN 96.5 million with the Company receivables arising from taking up 30,000 of its shares by Polimex-Mostostal S.A.

The rate of interest was determined based on WIBOR 1M plus margin. As at the date of preparation of this report, under the Setoff Agreement of 30.07.2010 the loan was set off.

- The Appendix to the Contract of 17.12.2008, granting Polimex-Development Kraków Sp. z o.o. a loan in amount of PLN 4.2 million for financing of partial repayment of investment loans in amount securing annulment of mortgage for customers signing final agreements on sale of apartments, and execution of open investment and current operating activities. The rate of interest was determined based on WIBOR 6M increased by margin. As at the date of preparation of this report, under the Setoff Agreement of 30.07.2010 the loan was set off.

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

Moreover, on 18.02.2010 four loans granted to Polimex-Development Kraków Sp. z o.o. were consolidated. The total amount of the loan after consolidation was PLN 3.5 million. The rate of interest was determined based on WIBOR 6M increased by margin. As at the date of preparation of this report, under the Set-off Agreement of 30.07.2010 the loan was set off.

On 20.05.2010 four loans granted to former Biprokwas Sp. z o.o. and Energotechnika-Projekt Sp. z o.o., currently operating under the business name of Centrum Projektowe Polimex-Mostostal Sp. z o.o., were restructured. The total amount of the loan after consolidation is PLN 3.5 million (balance to be repaid at 30.06.2010: PLN 3.33 million). The loan is repaid in monthly instalments and the final repayment date is on 30.06.2012. The rate of interest was determined based on WIBOR 1M plus margin.

At the end of June 2010, total amount of loans paid out by the parent for the benefit of the Group companies was equal to PLN 119.74 million (excluding accrued undue interest), of which PLN 106.98 million of developer loans (excluding accrued undue interest).

As at 30.06.2010, guarantees granted by Polimex-Mostostal S.A. for companies of the Capital Group amounted in total to PLN 206.3 million. SC Coifer Impex srl became the largest beneficiary of guarantees, for whom Polimex-Mostostal S.A. delivered guarantees to Fortis Bank SA/NV Bruxelles, RBS Bank (Romania) S.A., Intensa Sanpaolo Bank Romania and Arcelomittal Distribution Romania srl up to the total amount of EUR 19.84 million (PLN 82.25 million) for credit facility contracts, guarantee facility contracts and payment obligations. Torpol Sp. z o.o. is the second largest beneficiary of guarantees delivered, Polimex-Mostostal S.A. granted guarantees for Bank Millennium S.A., PKO BP S.A. and PZU S.A. for credit and guarantee facilities, which amounted in total to PLN 38.0 million. Apart from subsidiaries mentioned above, Polimex-Mostostal S.A. delivered guarantees for repayment of loans and guarantee liabilities/bill payables drawn by PRINŻ-1 Sp. z o.o. (PLN 10.5 million), Centrum Projektowe Polimex-Mostostal Sp. z o.o. (Biprokwas Sp. z o.o. and Energotechnika Projekt Sp. z o.o. – PLN 22.3 million), Sefako S.A. (PLN 13.7 million), Turbud Sp. z o.o. (PLN 0.9 million), WBP Sp. z o.o. (PLN 3.7 million), Naftobudowa S.A. (PLN 12.5 million), EPE-Rybnik Sp. z o.o. (PLN 1.0 million), PxM Projekt Południe Sp. z o.o. (PLN 3.0 million), ECeRemeont Sp. z o.o. (PLN 2.2 million), Naftoremont Sp. z o.o. (PLN 0.05 million), Stalfa Sp. z o.o. (PLN 2.0 million), ZT Sp. z o.o. (PLN 1.5 million), Grande Meccanica SpA (EUR 2.8 million) and ZUT Sp. z o.o. (PLN 1.0 million). The guarantees were delivered by the following companies of Polimex-Mostostal Group: Sefako S.A. (PLN 3.25 million), Naftoremont Sp. z o.o. (PLN 6.6 million), Torpol Sp. z o.o. (PLN 10.1 million) and Energomontaż-Północ Group (PLN 28.3 million). These guarantees were related mostly to subsidiaries. While Polimex-Development Kraków Sp. z o.o. granted intra-group loans – the loan for BR Development (PLN 0.3 million).



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

- for loans in Polish zloty: WIBOR + 2.32 p.p.;
- for loans in foreign currency: EURIBOR + 2.56 p.p.

For Polimex-Mostostal S.A. the values were as follows:

- for loans in Polish zloty: WIBOR + 2.33 p.p.;
- for loans in foreign currency: EURIBOR + 2.56 p.p.

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

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

In the first half of 2010, the parent and companies of the Capital Group to large extent utilised contract performance and bid bonds delivered by banks and insurance companies. At the end of June 2010, the value of all bonds delivered upon request of Polimex-Mostostal S.A. translated into Polish zloty amounted to PLN 926.3 million. At the same time, the value of guarantees delivered by banks and insurance companies upon request of entities of the Group companies (apart from Polimex-Mostostal S.A.) amounted to PLN 250.5 million. A decrease in liabilities arising from guarantees issued as compared against the end of 2009 (PLN 958.1 million) and as at the end of the 1<sup>st</sup> half 2009 (PLN 951.6 million) was the result of, among other things, the expiry or reduction of the guaranteed sum (in line with advancing performance of contracts) in guarantees granted under limits at RBS Bank Polska S.A. (a performance bond and advance payment reimbursement bond issued for the benefit of ORLEN S.A. under the contract for construction and assembly works in the construction site of PTA system in Włocławek; for the benefit of the General Directorate of National Roads and Motorways in the contract for the construction of Gostynin ring road), at Bank Handlowy w Warszawie S.A. (a performance bond issued for the benefit of LOTOS S.A. Group under the contract for prefabrication and assembly of pipelines and fitting of apparatus, machinery and packets for CDU/VDU system in Gdańsk) and at BRE Bank S.A. (an advance payment reimbursement bond issued for the benefit of Zakłady Azotowe Kędzierzyn S.A. under the contract for construction of water treatment plant at ZAK S.A.) Among Group companies, the largest number of guarantees and bonds was delivered upon request of: Torpol Sp. z o.o. (PLN 53.85 million), Naftoremont Sp. z o.o. (PLN 12.2 million), Sefako S.A. (PLN 47.09 million), Energomontaż-Północ group (PLN 41.79 million), Naftobudowa S.A. (PLN 38.0 million) and SC Coifer Impex group (PLN 33.41 million).

- In March this year **Polimex-Mostostal S.A.** concluded with ING Bankiem Śląskim S.A. a contract for guarantee facility in the amount of PLN 36.0 million valid until 31.03.2011 (the contract replaced previous facility in the amount of PLN 25.7 million valid until 21.11.2009), with Pekao S.A. a general contract for issuing of bank guarantees (bid bonds) in the amount of PLN 30.0 million valid until 31.07.2010, in **April this year** with HSBC Bank Polska S.A. a contract for guarantee facility in the amount of PLN 30.0 million valid until 28.04.2011, with HDI Asekuracja TU S.A. a contract for insurance guarantees with the guarantee limit of PLN 1.5 million and valid until 14.04.2011 (the contract replaced the previous limit in the amount of PLN 3.0 million valid until 08.04.2010) and in **June this year** with BGŻ S.A. a contract for issuing guaranties and sureties in the amount of PLN 85.0 million valid until 31.05.2011 (the contract replaced the contract for guarantee facility for PLN 60.0 million valid until 31.12.2009). Moreover, in the first half of 2010, the Company concluded the following appendixes:

- to the contract for releasing guarantee facility at Deutsche Bank Polska S.A. increasing the limit from PLN 40.0 million to PLN 100.0 million and extending the validity until 31.03.2011,
- to the framework contract for issuing bank guarantees, opening letters of credit and granting a credit facility at Credit Agricole CIB S.A. Branch in Poland (former Calyon S.A. Branch in Poland) decreasing the limit from PLN 190 million to PLN 165.0 million,
- to the contract on setting of the concentration limit in the form of revolving credit facility for issuing of bank guarantees at BOŚ S.A. increasing the limit from PLN 90.0 million to PLN 120 million and extending the validity by another year, i.e. until 30.06.2011,
- to the contract for granting a guarantee facility at Bank DnB Nord Polska S.A., (the limit of EUR 11.5 million) extending the life of the contract until 30.06.2011,
- to the contract for guarantee facility at Svenska Handelsbanken AB S.A. Branch in Poland (the limit of PLN 50.0 million) extending product availability until 31.08.2010,
- to the contract for a bank loan in the amount of PLN 30.0 million with PKO BP S.A. under which Polimex-Mostostal S.A. can use a credit facility in Polish zloty up to 35% of the limit and order bank guarantees in domestic trade up to 100% of the limit. Under this appendix the option to issue guarantees was extended until 12.02.2013,
- to the contract for issuing of contract performance bonds within the revolving limit of 25.0 million at TU Euler Hermes S.A. extending the limit availability period until 28.04.2011,
- to the contract with TU Allianz Polska S.A. for granting contract bonds under a revolving limit increasing the limit up to PLN 25.0 million and extending the life of the contract until 31.07.2010,

As at the date of preparation of this report the following appendixes to contracts were concluded:

- to the general contract with Pekao S.A. for issuing of bank guarantees (bid bonds) in the amount of PLN 30.0 million extending the life of the contract until 31.07.2011,
- to the general contract with Pekao S.A. specifying the terms and condition for co-operation in the scope of credit and guarantee facility decreasing the limit from PLN 150.0 million to PLN 100.0 million and extending the life of the contract until 31.07.2011; the limit was shifted within the financing of Polimex-Mostostal S.A.; the bank concluded with the Company a new contract for a non-revolving working capital facility in the amount of PLN 50.0 million,
- to the general contract with Pekao S.A. for issuing of bank guarantees in the amount of PLN 118.5 million extending the life of the contract until 31.07.2011,
- to the contract for debt limit with Raiffeisen Bank Polska S.A. increasing the limit from PLN 40.0 million to PLN 100.0 million and extending the validity of the limit until 31.07.2011,
- to the general contract with InterRisk TU S.A. Vienna Insurance Group for granting insurance bid bonds increasing the limit from PLN 30.0 million to PLN 40.0 million and extending the validity until 16.07.2011.

The key banks servicing Polimex-Mostostal S.A. in the scope of guarantees are: Bank Millennium S.A. (PLN 130.1 million), Kredyt Bank S.A. (PLN 134.3 million), Bank Ochrony Środowiska S.A. (PLN 71.2 million), Pekao S.A. (PLN 105.1 million) and PKO BP S.A. (PLN 69.8 million). Among issuers of insurance guarantees, the largest share was attributed to TUiR Warta S.A. (PLN 46.5 million), STU Ergo Hestia S.A. (PLN 47.1 million) and TU InterRisk S.A. Vienna Insurance Group (PLN 23.1 million).



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

- In May this year **Naftobudowa S.A.** concluded with PKO BP S.A. an appendix to the contract for a multipurpose credit limit under which it will issue guarantees. The amount of the limit was increased from PLN 10.0 million to PLN 25.0 million and the life of the contract was extended by one year i.e. until 13.05.2011. In April 2010 the Company concluded an appendix to the framework contract for guarantee facility for contractual bonds with HDI Gerling Polska TU S.A. (the limit of PLN 15.0 million) extending the validity until 31.12.2010. The contract with BRE Bank S.A. (the limit of PLN 21.0 million) in force until May this year was not extended and currently the facility is effective till the expiry of the last active guarantee.
- **Fabryka Kotłów Sefako S.A.** concluded an appendix to the contract for guarantee facility with PKO BP S.A. increasing the limit from EUR 8.0 million to EUR 10.0 million and extending its validity until 21.07.2010, and then until 21.06.2011. In February 2010 the Company concluded a framework contract with Nordea Bank Polska S.A. for granting bank guarantees with the limit of EUR 3.0 million and validity until 02.02.2011.
- **Moduł System Serwis Sp. z o.o.**, a subsidiary of Naftoremont Sp. z o.o., concluded an appendix to the contract for a guarantee facility with ING Bank Śląski S.A. decreasing the limit from PLN 1.5 million to PLN 1.0 million and extending the validity until 18.09.2010.
- In **February** 2010 **Torpol Sp. z o.o.** concluded an appendix to the contract for granting of contractual bonds under a revolving limit at Euler Hermes S.A. increasing the limit from PLN 15 million to PLN 25 million, in **March** this year it concluded a new framework contract with for a guarantee facility with HDI-Gerling Polska S.A. with the limit of PLN 15.0 million and validity until 08.03.2011, and in **May** this year a contract for debt limit in the amount of PLN 30.0 million with Raiffeisen Bank Polska S.A. (valid until 30.06.2011). In **June** this year the Company concluded with TUiR Allianz Polska S.A. a contract for granting contractual bonds under a revolving limit of PLN 23.0 million, with the option to use the limit until 10.06.2011 and an appendix with InterRisk TU S.A. Vienna Insurance Group to the contract for granting insurance bid bonds increasing the limit from PLN 5.0 million to PLN 20.0 million and extending its validity until 16.06.2011. The contract for co-operation in the scope of granting insurance guarantees with STU Ergo Hestia S.A. (the limit of PLN 10.0 million) was not extended (valid until 28.02.2010) and is valid until the last guarantee expires. While in June this year **Elmont-Kostrzyn Wilkp. Sp. z o.o.** concluded a general contract with TU Generali S.A. with the limit for insurance guarantees of PLN 2.0 million (valid until 21.06.2011). Moreover, the Company did not extend the contract for insurance guarantees concluded with TUZ S.A. Mutual Insurance Company with the limit of PLN 2.8 million and validity until 17.06.2010 or the contract for insurance guarantees with concluded with PTU S.A. which expired as at the date of preparation of this report. As at the date of preparation of this report, the Company concluded a new general contract (with the limit of PLN 3.0 million) with TU Europa S.A. Insurance Company with the option to use the guarantee limit until 11.07.2011.
- As at the date of preparation of this report, **PRInż-1 Sp. z o.o.** concluded with Bank Ochrony Środowiska S.A an appendix to the contract for revolving facility for the delivery of bank guarantees with a limit of PLN 1.8 million extending the validity period until 15.07.2011.
- In April this year **EPE Rybnik Sp. z o.o.** initialled an appendix with TU Allianz Polska S.A. to the contract for delivery of contract bonds extending the validity of the contract until 25.04.2011.

- In May 2010 **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** concluded an appendix with Bank Millennium S.A. to the contract for bank guarantees increasing the limit from PLN 0.75 million to PLN 1.5 million (the facility is valid until 27.09.2010).
- In February this year **WBP Zabrze Sp. z o.o.** concluded an appendix to the contract for guarantee facility at Orzesko-Knurowski Bank Spółdzielczy (the limit of PLN 1.15 million) extending its validity until 11.02.2012.
- In January 2010 **PxM Projekt Południe Sp. z o.o.** concluded a contract with Pekao S.A. for the opening of bank guarantee facility with the limit of PLN 1.5 million and validity until 31.07.2010.
- In May 2010 **ZUT Sp. z o.o.** concluded with UNIQUA TU S.A. a contract for guarantee limit of PLN 0.5 million and validity until 23.05.2011.
- In May 2010 **ECeRemont Sp. z o.o.** concluded with TUiR Allianz Polska S.A. a contract for the delivery of contract bonds within the revolving limit of PLN 0.3 million and validity until 27.05.2011.
- **Energomontaż-Północ S.A.** concluded with DnB Nord Polska S.A. an appendix extending the availability of the limit of PLN 27.0 million (PLN 25.0 million for guarantee facilities and PLN 2.0 million for a bank overdraft for Energomontaż-Północ Gdynia S.A.) until 30.06.2011. The limit at DnB Nord Polska S.A. is utilised by all companies of Energomontaż-Północ group. Furthermore, Energomontaż-Północ S.A. extended with appendixes the availability of limits under the contracts with R+V (the limit of EUR 0.4 million) until 26.05.2011. and with HDI Gerling Polska TU S.A. (a joint limit for Energomontaż-Północ group in the amount of PLN 15.0 million) until 12.05.2011. **ZRE Lublin S.A.** concluded a new contract with Uniqua TU S.A. with the limit of PLN 1.5 million and validity until 12.05.2011. The company did not extend the limits at TUiR Warta S.A. (PLN 2.0 million) valid until 13.01.2010 or at PZU S.A. (PLN 1.5 million) valid until 05.03.2010. As at the date of preparation of this report, the limits are valid until the last guarantee expires.
- **SC Coifer Impex srl** did not extend one of the contracts for guarantee facility with Fortis Bank S.A./NV Bruxelles. The contract for EUR 1.5 million expired in accordance with its expiry date i.e. on 15.05.2010.

The main banks and insurance companies servicing the Group companies in the scope of guarantees are: PKO BP S.A. (Sefako S.A., Naftobudowa S.A., Naftoremont Sp. z o.o.), RBS Bank (Energomontaż-Północ group, SC Coifer Impex srl), Fortis Bank (Sefako S.A., SC Coifer Impex srl), DnB Nord Bank S.A. (Energomontaż-Północ group) and InterRisk TU S.A. Vienna Insurance Group (Torpol Sp. z o.o., ZRE Kraków Sp. z o.o.), TUiR WARTA S.A. (Torpol Sp. z o.o.), HDI Gerling Polska S.A. (Naftobudowa S.A., Energomontaż-Północ group) and PZU S.A. (Torpol Sp. z o.o.).

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

### 2.9.1. Description of external factors significant for the performance of the Issuer's Capital Group

**Polimex-Mostostal Group conducts business activity in the domestic market, in the European Union and Ukraine.** The global crisis has led to a deep recession or economic slowdown in many countries including Poland. The symptoms of recovery in the global economy recorded in the reporting period vary as to their scale in individual regions. Among developed economies the improvement was reported mostly in the United States and Japan. In the Eurozone, at the turn of 1st and 2nd quarter there were symptoms of economic recovery, yet

due to considerable fiscal imbalance (Greece, Portugal, Spain, Ireland, Italy) there is an increased risk of maintaining the growth of individual economies.

**Domestic macroeconomic environment** in the 1st half of 2010 showed the symptoms of recovery so that one inclines to a positive assessment of the situation. From January to June 2010 the sold production of industry was 10.6% higher as against comparable data for the prior year<sup>4</sup>. According to data by GUS, the sold production of industry in constant prices (in enterprises with more than 9 employees) was 14.5% higher in June this year than a year before and 7.0% higher as compared to May this year. After eliminating seasonal factors, output of industry was 11.7% higher than in the comparable month of the prior year and 1.0% higher as compared to May this year. As compared against June last year an increase in sold production was reported in 27 (out of 34) branches including production of computers, optical and electronic products – an increase of 98.1%, chemicals and chemical products – an increase of 35.5%, car, trailer and semitrailer – an increase of 22.6%, paper and paper products – an increase of 19.6%, other non-metallic mineral material products – an increase of 18.4% and rubber and synthetic products – an increase of 16.7%. There was a decrease in sold production of industry as compared against June last year in 7 branches (their share in total sold production of industry was 8.2%) including production of other transport equipment – a decrease of 29.4%, drinks – 13.6% and furniture – 6.8%. In the opinion of BRE Bank S.A.'s analysts the internal component of production contributes more and more to the growth of production which allows for more optimistic assessment of its dynamics in the coming months<sup>5</sup>.

According to quoted preliminary data by GUS, **construction and erection production** (in constant prices), including investment and overhaul works, performed at home by construction companies with more than 9 employees, **was 9.6% higher in June this year than a year before and 24.4% higher as compared against May this year**. After eliminating seasonal factors, construction and erection production was 4.1% higher than in the comparable month of the prior year and 4.5% higher as compared to May this year. An increase of performed works was reported in all branches of construction industry as against both June last year and May this year. As compared against June last year the increase amounted to: 13.1% in entities dealing with specialist construction works, 13.0% in enterprises whose core activity is construction works related to mounting buildings, and 3.5% in entities performing mostly civil engineering works. As compared against May this year the increase in production of enterprises whose core activity is performing civil engineering works amounted to 36.2%, in enterprises performing works relating to mounting buildings – 19.7%, and in enterprises performing specialist construction works – 17.6%. In only the 1st half of this year construction and erection production was 6.1% lower than a year before (in the branch related to mounting buildings there was a decrease of 6.7%, in specialist construction – 6.0%, and in civil engineering 5.1%). The reported decrease was definitely influenced by weather conditions in the period, in particular the severe winter, which curbed the performance of the majority of construction works for the first two months. In the 1st quarter this year performed works were 15.2% lower than the last year ones. However, it should be noted that as compared against the prior month, starting from February this year, in each month a dynamic growth of production can be observed in all construction branches, and in May and June the last year level was exceeded.

Material costs are significant for the level of costs of Polimex-Mostostal Group, in particular the prices of steel and zinc alloys. **The Issuer tries to shape its pricing policy so as the fluctuations of prices of the above mentioned materials have the smallest influence on the profitability of conducted activity.** Over the first

<sup>4</sup> *Dynamika produkcji przemysłowej i budowlano-montażowej w czerwcu 2010r.*, Current information. Preliminary results, GUS, 19.07.2010.

<sup>5</sup> *Daily Letter*, BRE Bank S.A., 20 March 2009.

half of this year there were significant fluctuations of **steel prices**, CRUSPI the global steel price index increased from 160% to 205% in May and dropped to 180% in June and July. Similarly, the index for Europe rose from 137% to 207% and fell to 186%. However, the increase in prices was not the result of growing demand but was rather an attempt to „boost the prices on the market”. Periodic approval of higher prices by customers was the effect of necessity to supplement stocks and of natural spring revival in construction sites. A further considerable drop in prices in the 3<sup>rd</sup> quarter 2010 should not be expected and another adjustment will not be earlier than at the end of the year.

In January 2010 **the prices of zinc alloys** continued to grow, and the average zinc price at the London Metal Exchange increased to USD 2,437 per tonne. In connection with the increased supply of refined zinc and a slower return to upturn in construction industry the prices of zinc alloys decreased in February of this year to USD 2,153 per tonne, however, they increased in March 2010, together with the spring intensification of works, to USD 2,275 USD per tonne. The average price of zinc alloys in 1<sup>st</sup> quarter 2010 was USD 2,288 per tonne and it was 3.3% higher than the average price in 4<sup>th</sup> quarter 2009 (USD 2,214 per tonne). In the 2<sup>nd</sup> quarter 2010 an average price of zinc alloys fell to USD 2,026 USD per tonne (a decrease of 11.4% as compared to the average price in the 1<sup>st</sup> quarter 2010). The largest Chinese zinc producers have a considerable effect on the performance of the metal exchange. For the following three months they are projecting to reduce zinc production by around 10% and they justify it by limitations in electric energy supply.

One of the observed characteristics of the macroeconomic environment in the 1<sup>st</sup> half 2010 as compared against the 1<sup>st</sup> half of 2009 is **strengthening of Polish zloty against the euro and American dollar**. In the 1<sup>st</sup> half of 2010 the arithmetic mean of average daily NBP exchange rates was for EUR/PLN: 3.9983 against 4.4742 in the 1<sup>st</sup> half of 2009 (a decrease of 10.61%) and for USD/PLN: 3.0199 against 3.3629 in the 1<sup>st</sup> half of 2009 (a decrease of 10.20%). The volatility of EUR/PLN exchange rate dropped in the 1<sup>st</sup> half of 2010 (variability rate<sup>6</sup> in the 1<sup>st</sup> half of 2010 2.44% as compared to 3.91% in 1<sup>st</sup> half of 2009) and a slight increase in USD/PLN exchange rate volatility in the 1<sup>st</sup> half of 2010 (variability rate in the 1<sup>st</sup> half of 2010 6.98% as compared to 6.19% in 1<sup>st</sup> half of 2009). **In 1<sup>st</sup> half of 2010 the NBP reference rate did not change** and since 25.06.2009 it has remained at the level of 3.50%.

#### *2.9.2. Description of internal factors significant for the performance of the Issuer's Capital Group*

Polimex-Mostostal Capital Group render construction and assembly services directly or in form of general contracting, and is an important manufacturer of steel structures and products, steam and water boilers, as well as equipment necessary for making investments in particular in power industry, chemical industry and distribution of liquid fuels. Economic activity of the Capital Group may be divided in two areas: rendering of construction and engineering services under mid and long-term contracts, e.g. of fulfilment period exceeding one year, as well as delivery of services and goods under contracts of fulfilment period shorter than one year. Orders portfolio held by Group companies for mid and long-term contracts, in most companies ensures proper utilisation of production capacity in 2010, and in a significant portion in the coming periods. Still a drop in orders to be executed in a short term was observed.

**Current backlog of business, not eliminating the sales attributable to consortium members**, amounts to PLN 11.2 billion, of which PLN 7.5 billion is contracts signed and PLN 3.7 billion is contracts in the final stage of negotiations. The above mentioned backlog for individual years is as follows: 2010: PLN 2.6 billion in entirety

---

<sup>6</sup> Variability rate = standard deviation / arithmetic mean

relating to contracts concluded, 2011: PLN 4.8 billion (PLN 3.2 billion is contracts concluded and PLN 1.6 billion is contracts in the final stage of negotiations); 2012: PLN 3.0 billion, PLN 1.4 billion and PLN 1.6 billion respectively, and in the following years: PLN 0.8 billion, PLN 0.3 billion and PLN 0.5 billion respectively.

**Current backlog of business, eliminating sales attributable to consortium members**, amounts to PLN 7.8 billion, of which PLN 6.2 billion is contracts signed and PLN 1.6 billion is contracts in the final stage of negotiations. The above mentioned backlog for individual years is as follows: 2010: PLN 2.1 billion in entirety relating to contracts concluded, 2011: PLN 3.2 billion (PLN 2.5 billion is contracts concluded and PLN 0.7 billion is contracts in the final stage of negotiations); 2012: PLN 1.9 billion, PLN 1.2 billion and PLN 0.7 billion respectively, and in the following years: PLN 0.6 billion, PLN 0.4 billion and PLN 0.2 billion respectively.

The Group companies focus their activities on:

- optimising costs and increasing the share of operating activity in more profitable segments,
- decreasing trade risk by analysing the financial position of customers and subcontractors,
- using own planning offices to verify project assumptions for investment tasks,
- making production centres using the resources of the Group,
- full and efficient utilisation of human and technical resources owned,
- decreasing credit exposure and the cost of debt financing,
- increasing the scope of contracting of Group entities in the execution of contracts.

Actions taken that are aimed at stretching operations to related branches should bring visible positive results starting in 2011.

### *2.9.3. Growth prospects for the Issuer's Capital Group*

Polimex-Mostostal Group operates in Poland and in majority of the European states. The level of capital expenditure in the domestic market, where most of the revenue is derived, is of key importance for the stable development of the Group companies. However, due to relations among particular economies, development of the Group is indirectly related to the economic situation in Europe in the scope of industrial investment, particularly in power industry, chemical industry and mineral oil processing. Position of construction industry in Poland, especially cubature construction and transport infrastructure, is also of great importance.

At the moment, in the Issuer's opinion power engineering sector is exposed least to a slump in the economy. In a medium-term prospect a gradual increase in capital expenditure should be carefully expected in chemical and liquid fuel industry and in related branches, in which the Issuer systematically strengthens its position. Implementation of infrastructure development programme in scope of projects co-financed by the European Union as well as investment related to EURO 2012, seems to be successful. Despite a decrease in government and self-government expenditure on the development of infrastructure in the following periods expected by a number of analysts, the Issuer owing to the high quality of services rendered and capability to adopt quickly to market requirement is planning to maintain its revenue in this segment at least at its current high level. **In the Issuer's opinion, in the coming period, we will be dealing with market difficult but advantageous for large, diversified engineering companies managed in a modern manner.**

To effectively benefit from opportunities and fight threats carried by changes in the business environment, the Issuer's Group is implementing a restructuring project whose main component is the integration of seven subsidiaries operating in power engineering and chemical sector i.e. Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o., ECeRemont Sp. z o.o. and at the same time Naftobudowa S.A. The incorporation process commenced in 2009 includes the transfer of the entire



assets of the companies to Polimex-Mostostal S.A. with simultaneous increase of the Issuer's share capital by a new issue of shares to the shareholders and non-controlling interests of the companies being taken over in exchange for the shares and general interest they hold in these companies. The Managements of Issuer's Group companies are conducting organizational activities, which connected with the integration planned, will allow to concentrate activities in the following segments: power engineering, chemistry and steel products manufacturing. From 12.07.2010 to 22.07.2010 the meetings of shareholders of the combined companies gave their consents to the integration in accordance with the principles specified in the Combination Plans. At the end of August this year a Memorandum is planned to be submitted to the Polish Financial Supervision Authority, while an application to the Register Court should be filed in the 4th quarter 2010.

As a result of restructuring the following objectives will be achieved:

- stronger competitive advantage in the branches with high development potential, influencing the growth of sales,
- concentration of resources and implementation of new products enabling the Company to conduct complete realization of large investment and modernisation projects,
- broadening of the scope of services rendered within the Company capabilities increasing the effectiveness of the offering action,
- improving of the management of human resources, intellectual and material resources, having beneficial impact on the effectiveness of the economic activities conducted.

In the opinion of the Issuer's Management the restructuring will allow for the creation of growth of company goodwill in the coming years despite the observed economic slowdown.

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

Economic performance forecasts for the first half of 2010 regarding Polimex-Mostostal S.A. and Polimex-Mostostal Group were not published.

## **2.11. Basis of preparation of interim financial statements**

Basis for preparation of interim financial statements are given in other explanatory notes to the financial statements.

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

In accordance with Resolution No 4 of the Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. of 30.06.2010 the dividend for 2009 will be paid in the amount of PLN 18,574,225.00 (say: eighteen million five hundred seventy-four thousand two hundred twenty-five and 0/100) i.e. PLN 0.04 (say: four Polish grosz) per share. The record date was specified at 01.09.2010. The dividend will be paid on 16.09.2010.

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

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

Risk Management Procedure applied by Polimex-Mostostal S.A. is based on international standards, but maintains and uses previously tested and functioning organisational and legal arrangements related to risk management. It is constantly analysed for its adequacy. Current communication and monitoring of the risk management process is supplemented with quarterly reports on the effectiveness of risk management for the Management of Polimex-Mostostal S.A.

The subsidiaries are conducting works aimed at adjusting risk management methods to international standards using in this scope experience of the parent company.

In **Energomontaż-Pólnoc S.A.** as at the end of the 1st half of 2010 all key objectives planned for this date in the Risk Management Strategy adopted in 2009 by the Management of the company were achieved. The strategy assumes the implementation of organisation system in the company, which will cover identification, analysis and assessment of all risks taken by Energomontaż-Pólnoc's group companies in their economic activity i.e. operating, credit, market, legal and reputation risks. In particular, while constructing the Risk Management System of Energomontaż-Pólnoc group (RMS) changes were made to internal regulations and business processes that enable effective and efficient operation both of the system function structure and of a newly established organisation unit i.e. RMS Competence Centre. All functions of RMS specified in the Risk Management Policy have been implemented by appointing persons to fulfil these functions and equipping them with knowledge and tools necessary to manage risk professionally. RMS has been integrated functionally with the System of Internal Control which ensures more effective use of resources in achieving the objectives of Risk Management as well as a far greater effectiveness of the implementation of solutions controlling the risk minimisation and residual risk monitoring tasks. Work on the strategic risk management system were conducted by Naftobudowa S.A., where the employees and management were trained in risk management in the organisation. The schedule of implementation of risk management system together with its start-up in 2nd half of 2010 were prepared. The objective is a full-scale risk management model/system focusing on identification, measurement method and assessment of strategic, operating, financing and legal risk significant for economic activities of company and the capital group.

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

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

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



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

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

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

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

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

In the parent company and other Group companies a considerable weight is attached to systematic monitoring of risks and threats related to conducted activity in order to implement as soon as possible actions aimed at elimination, shift, reduction or avoidance of threats and taking opportunities found during risk analysis. The most important risk areas and potential threats that are concurrently monitored are:

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

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

Due to the fact that majority of the Capital Group revenue is generated on domestic market, development and financial performance of the Group depends on macroeconomic position of Poland, in particular a GDP level, a drop or suspension of investment, an increase in inflation rate, budget deficit and unemployment. In opinion of the Management of the parent, amendments made to legal provisions and tax law do not pose a threat to the further development of the Capital Group.

In turn, political factors which block the pace of development of industries where the Capital Group operates by both suspension of privatisation (chemical and power engineering industry) and lack of complete fulfilment of

investment assumptions specified in governmental programmes (e.g. dynamics of the development of infrastructure) should be considered as risks that may slow down development of the Capital Group. Additionally, lengthy tender procedures and resignation upon or shift in time of performance of investment programmes due to general situation on the market are significant impediment. In opinion of the Management Board of the parent company, other market participants suffer from impact of the above factors in a similar way, so the Group is not in position worse than its competitors. Participation of the Capital Group in performance of infrastructural enterprises financed from the European Union funds, and multibranch operation, is additional way of protecting against negative impact of worsening of economic situation, facilitating allocation of resources from industries suffering from crisis to those under development.

The parent company is executing a programme of combination with seven subsidiaries and at the same is analysing the market for potential acquisitions of complimentary companies. **Inefficient acquisition risk** in this area is mitigated by market and profitability analysis prepared by internal specialists and expertises of specialised advisory companies.

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

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

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

**Raw materials price risk.** Economic effectiveness of production of the Capital Group depends to large extent on fluctuations in prices of raw materials, mainly steel and zinc. Employment of high class specialists on market analysis is the basic factor mitigating this type of risk. Moreover, the parent has implemented procedure for central acquisitions (scale economy, feasibility of negotiating lower purchase price). As far as zinc supply is concerned, the parent is analysing efficacy of utilisation of different types of forward instruments available on financial market. Risk of fluctuations of materials for production is an intrinsic element of manufacturing activity, in particular in case of long-term contracts which are executed over 2 or 3 years. In such cases precise contractual provisions of the parties and the application of proper financial tools (insurance, guarantees) are crucial.

**Risk of acquisition and retention of qualified labour and leading personnel.** Polish labour market position significantly determines operations of the home market companies operating in construction and assembly industries. A decrease in the dynamics of investments, particularly continuing slowdown in housing construction, is currently increasing the supply of qualified staff and construction companies capable of prompt and proper performance of construction and erection works in form of sub-contracting. The planned combination with seven subsidiaries may lead to an increase in employment fluctuation. The parent company and companies that participate in the combination pursue an appropriate information policy showing to the employees the benefits

arising from increasing the competitive advantage of the Company, ability to work in new areas, to exchange experience, to take part in training programmes and to benefit from incentive plans motivating to continuing improvement of qualifications, which should minimise the outflow of valuable employees. The parent company is continuing the implementation of the training project „Modern management standards as an asset of Polimex-Mostostal S.A.” co-financed with the EU funds. Furthermore, it filed applications for co-financing of another two training projects for 2011 and 2012, which will ensure continuing improvement of qualifications of its employees and management.

**Competition risk.** Polimex-Mostostal Group operates on markets, where the competitive advantage comes not only from the price but also from experience, references and high quality and timely deliveries, services and construction and erection works. New competitors enter the market (capital groups in Poland, price competition from Eastern European countries and Asian companies). Competition risk is limited mostly by assuring high quality of production and services rendered (quality policy, certificates). With constant care for strengthening the position in current markets, new markets and prospective customers are being searched. Due to current market situation, limitation of newly started investments, competition rose dramatically in the scope of acquisition of contracts, especially in construction and erection sector, the number of competing companies has increased and that is in the industries in which these companies have not operated before. Moreover, dishonest competition can be observed that consists in quoting prices which do not guarantee to cover contract realisation costs. At present the risk is assessed as very high. Group companies analyse the market carefully, review prices quotes by competition in public offering procedures, exchange experience and adjust sales policy to new tougher market conditions. In 2010 the parent company is implementing the process of business combination with seven subsidiaries to strengthen its competitive advantage in engineering and construction services in industries of significant potential for growth, in the first place for power engineering sector by ensuring complete realisation of large facilities and their servicing, but also for fuel and chemical industry and for systems of waste utilisation, environment protection and by targeting new technologies such as biotechnology. Concentration of resources will allow for wider range of services provided and of the scope of works performed with own resources and for limitation of the influence of seasonality by shifting the potential between organisation units of Polimex-Mostostal Group resulting in an increased efficiency of operations.

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

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

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

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

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

**Interest rate risk.** The Group has cash in bank accounts and liabilities arising from bank loans and debentures issued. They are based on the floating interest rate. The companies monitor the situation on the financial market, analyse trends and prognoses in a scope of reference market rates in order to decide, in proper moment, to conclude contracts preventing the them from the increase of debt interest costs which may be unbeneficial to the Group companies. On 12 March 2010 Energop Sp. z o.o. , a subsidiary of Energomontaż-Północ S.A., which is a part of Polimex-Mostostal Group, entered into a interest rate swap transaction in a form of an amortised swap. The interest rate risk relating to the investment loan in EUR drawn by the Company is the subject of this hedging transaction. The output nominal value of the transaction was specified at EUR 4 million – the hedged amount of loan is reduces (amortised) on quarterly basis in the period from 30 September 2010 (transaction initial date) to 16 December 2013 (transaction final date). Quarterly, in the dates given in the transaction terms and conditions, the company makes an interest payment to the other party based on the fixed interest rate of 2.2% p.a. in exchange for interest payments based on the floating interest rate equal to EUR-LIBOR 3M.

**Currency risk.** Cash flows of Polimex-Mostostal Capital Group companies are characterised by relatively significant sensitivity to changes in exchange rates, which arise from the fact that revenues are derived in foreign currencies, including mainly the euro. These entities are, apart from Polimex-Mostostal S.A., in particular: Energomontaż-Północ S.A., Naftobudowa S.A., Torpol Sp. z o.o., Sefako S.A. and StalFa Sp. z o.o. To minimise the negative impact of foreign currency risk on the effects of their operations, these companies actively use not only natural hedging methods but also foreign exchange derivative instruments available on the market.

Based on accounting policies applied to the method of recording financial instruments, two groups of companies can be distinguished:

- companies which have document risk management strategy and implemented hedge accounting policies; this group includes not only Polimex-Mostostal S.A. but also such entities as Energomontaż-Północ S.A., Naftobudowa S.A. and Torpol Sp. z o.o.
- companies not applying hedge accounting.

Companies applying hedge accounting present hedge derivative instruments they hold at fair value and taking into account the changes in this value:

- in portion recognised as an effective hedge – directly in equity,
- in portion recognised as ineffective – in the income statement.

Companies not applying hedge accounting recognise changes in fair value of derivative instruments directly in the income statement.

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

- forward currency contracts,
- PUT/CALL currency options (acquired options),

- option structures built with PUT and CALL options– in particular symmetrical foreign currency corridors constructed with PUT and CALL options.

It is the Group's policy to negotiate the terms of hedging derivative instruments to match the terms of the hedged item so as to maximise hedge effectiveness. The Group Companies monitor the market situation on regular basis and confront hedging transactions they held with projected exposure to foreign currency risk. In the first half of 2010 the Group companies consequently followed the implemented principles of the exchange risk management. It resulted in the conclusion of the following hedging transactions:

- **Polimex-Mostostal S.A.:**

- Reducing volatility of cash flows related to the PLN/EUR pair:

The Company is the party to 2 symmetrical option transactions concluded on 18 June 2009 and 10 June 2010. The total nominal value of currency options to be exercised over the period between 06 July 2010 and 03 June 2011 amounts to EUR 4,379,000 (in each case the nominal value of acquired PUT option clears the nominal value of issued CALL option). The exercise rates of PUT options the Company is entitled to amount to 4.55 PLN/EUR for the transaction of 18 June 2009 and 4.00 PLN/EUR for the transaction of 10 June 2010. The exercise rates of CALL options issued by the Company amount to 4.68 PLN/EUR and 4.4950 PLN/EUR respectively.

- Forward future contracts:

- i) Forward future contract of 05 August 2009 to sell the total of EUR 1,668,000 for PLN to be exercised on 30 November 2010. Exchange rate was specified at 4.2000 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- ii) Series of forward contracts of 17 August 2009 on the sale of the total amount of 398,000 EUR for PLN to be exercised in 3 dates in the period between 28 July 2010 and 28 September 2010. The exchange rate for each maturity date was specified at 4.27 PLN/EUR.
- iii) Forward future contract of 30 September 2009 to sell the total amount of EUR 1,803,000 for PLN to be exercised at 29 December 2010. Exchange rate was specified at 4.3445 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- iv) Forward future contract of 27 October 2009 to sell the total amount of EUR 3,500,000 for PLN to be exercised at 27 May 2011. Exchange rate was specified at 4.3385 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- v) Series of forward future contracts of 20 November 2009 on the sale of the total amount of EUR 840,000 for PLN to be exercised in 2 dates in the period between 28 July 2010 and 26 August 2010. The exchange rate for each maturity date was specified at 4.20 PLN/EUR.
- vi) Series of forward future contracts of 16 December 2009 on the sale of the total amount of EUR 4,363,000 for PLN to be exercised in 9 dates in the period between 12 July 2010 and 03 June 2011. The exchange rate for each maturity date was specified at 4.2650 PLN/EUR.
- vii) Series of forward future contracts of 03 March 2010 to sell the total amount of EUR 1,316,000 for PLN to be exercised in 4 dates in the period from 30 September 2010 to 15 June 2011. The exchange rate for each maturity date was specified at 3.9610 PLN/EUR.



- viii) Series of forward future contracts of 05 May 2010 to sell the total amount of EUR 357,000 for PLN to be exercised in 3 dates in the period from 11 August 2010 to 11 October 2010. The exchange rate for each maturity date was specified at 4.0400 PLN/EUR.
  - ix) Series of forward future contracts of 5 May 2010 to sell the total amount of EUR 1,800,000 for PLN to be exercised in 12 dates in the period from 09 July 2010 to 20 December 2010. The exchange rate for each maturity date was specified at 4.0600 PLN/EUR.
  - x) Forward future contract of 05 May 2010 on the sale of total amount of EUR 4,425,000 for PLN to be exercised on 29 December 2010. Exchange rate was specified at 4.0740 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
  - xi) Series of forward future contracts of 05 May 2010 to sell the total amount of EUR 5,450,000 for PLN to be exercised in 3 dates in the period from 30 November 2010 to 25 February 2011. The exchange rate for each maturity date was specified at 4.0730 PLN/EUR.
  - xii) Series of forward future contracts of 05 May 2010 to sell the total amount of EUR 1,424,000 for PLN to be exercised in 5 dates in the period from 29 July 2010 to 30 March 2011. The exchange rate for each maturity date was specified at 4.0743 PLN/EUR.
  - xiii) Two forward future contracts of 06 May 2010 on the sale of total amount of EUR 3,260,000 for PLN to be exercised on 31 December 2010 and on 30 June 2011. The forward rates were specified at 4.1815 PLN/EUR for the first date and 4.23 PLN/EUR for the second date. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
  - xiv) Forward future contract of 19 May 2010 to sell EUR 305,000 for PLN to be exercised on 31 August 2010. Exchange rate was specified at 4.10 PLN/EUR.
  - xv) The series of forward future contracts of 21 May 2010 to sell the total amount of EUR 1,424,000 for PLN to be exercised in 5 dates in the period from 28 September 2010 to 29 March 2011. The exchange rate for each maturity date was specified at 4.1810 PLN/EUR.
  - xvi) Series of forward future contracts of 21 May 2010 to sell the total amount of EUR 1,235,000 for PLN to be exercised in 3 dates in the period from 29 September 2010 to 30 November 2011. The exchange rate for each maturity date was specified at 4.1850 PLN/EUR.
  - xvii) Series of forward future contracts of 07 June 2010 to sell the total amount of EUR 3,901,000 for PLN to be exercised in 8 dates in the period from 24 September 2010 to 03 June 2011. The exchange rate for each maturity date was specified at 4.2112 PLN/EUR.
  - xviii) Forward future contract of 07 June 2010 to sell EUR 195,000 for PLN to be exercised on 30 September 2010. Exchange rate was specified at 4.2004 PLN/EUR.
  - xix) Series of forward future contracts of 07 June 2010 to sell the total amount of EUR 418,000 for PLN to be exercised in 2 dates in the period from 19 July 2010 to 12 August 2011. The exchange rate for each maturity date was specified at 4.1778 PLN/EUR.
  - xx) Series of forward future contracts of 29 June 2010 to sell the total amount of EUR 1,200,000 for PLN to be exercised in 12 dates in the period from 05 July 2010 to 15 December 2010. The exchange rate for each maturity date was specified at 4.1773 PLN/EUR.
- Reducing volatility of cash flows related to the PLN/GBP pair.

On 15 April 2010 and 5 May 2010 the Company agreed on conditions of 2 symmetrical foreign currency option transactions aimed at limiting the volatility of projected cash flows in GBP. The total nominal value of currency options to be exercised over the period between 24 August 2011 and 13 April 2012



amounts to GBP 3,370,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). Exercise rates of PUT options the Company is entitled to amount to 4.38 PLN/GBP for the transaction of 15 April 2010 and 4.65 PLN/GBP for the transaction of 5 May 2010, while exercise rates of CALL options issued by the Company amount to 4.85 PLN/GBP and 5.1490 PLN/GBP respectively.

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

- The forward future contract of 07 January 2010 to sell EUR 3,000,000 for PLN to be exercised on 31 March 2011. Exchange rate was specified at 4.1980 PLN/EUR.
- The forward future contract of 07 January 2010 to sell EUR 4,000,000 for PLN to be exercised on 31 March 2011. Exchange rate was specified at 4.1800 PLN/EUR.

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

- The series of forward future contracts of 05 May 2010 to sell the total amount of EUR 700,000 for PLN to be exercised in 7 dates in the period from 25 June 2010 to 27 December 2010. The exchange rate for each date was specified at 4.1100 PLN/EUR.
- The series of forward future contracts of 20 May 2010 to sell the total amount of EUR 350,000 for PLN to be exercised in 7 dates in the period from 30 June 2010 to 31 December 2010. The exchange rate for each date was specified at 4.1750 PLN/EUR.
- The series of forward future contracts of 04 June 2010 to sell the total amount of EUR 350,000 for PLN to be exercised in 7 dates in the period from 30 June 2010 to 31 December 2010. The exchange rate for each date was specified at 4.2160 PLN/EUR.

- **Naftobudowa S.A. and Energomontaż-Pólnoc S.A.:**

The foreign currency risk issues in listed companies of Naftobudowa S.A. and Energomontaż-Pólnoc S.A. were presented in detail in reports for the 1<sup>st</sup> half of 2010 published by these entities.

The Group companies limit the volatility of future foreign currency cash flows in view of their exposure to foreign currency risk. In each case the hedged position is highly probable future cash flows from export contracts or domestic contracts denominated in a foreign currency. At 30 June 2010 total maximum nominal value of open hedging transactions entered into by the Group companies (including Polimex-Mostostal S.A.) amounted to EUR 83,029 thousand and GBP 3,370 thousand. Transactions for the EUR/PLN pair will have been settled in 72% by 31 December 2010.

The time composition of hedging instruments for the foreign currency risk for PLN/EUR pair (according to the criterion of planned exercise date) is presented in the table below.

<b>Instrument settlement period</b>	<b>Maximum nominal amount of hedging instruments to be settled in EUR thousands*</b>
3rd quarter 2010	30 556
4th quarter 2010	29 329
<b>Total for 2010</b>	<b>59 885</b>
After 31.12.2010	23 144
<b>TOTAL</b>	<b>83 029</b>

<sup>\*)</sup> age structure of maturities of forward contracts in compliance with the prognosis of hedged item occurrence

**Measurement of derivative instruments as at 30 June 2010** Certain Group companies execute effectively implemented hedge accounting policies. In case of these entities (in particular Polimex-Mostostal S.A.,

Energomontaż-Północ S.A.; Naftobudowa S.A. and Torpol Sp. z o.o.) the fair value of hedging instruments and (its changes) in part recognised as an effective hedge is transferred to revaluation reserve. The remaining portion (including the portion which is excluded from effectiveness measurement) is recognised directly in the profit and loss. In case of other entities using derivative instruments for foreign currency risk management, the fair value measurement is recognised in the profit and loss. As at 30 June 2010 the total fair value of open instruments hedging foreign exchange risk in the Group was calculated at the amount of – PLN 538 thousand, of which – PLN 80 thousand is attributable to Group companies applying hedge accounting. The remaining portion of the measurement of open transactions relates to companies not applying hedging accounting policies and therefore recording all changes in fair value directly in the profit or loss.

Movements in the derivative instrument revaluation reserve in the Group Companies (including Polimex-Mostostal S.A.) are presented in the table below (movements after taking into consideration the effect on deferred tax).

<b>As at 31.12.2009</b> in PLN thousands	<b>Change in the 1st half of 2010</b> in PLN thousands	<b>As at 30.06.2010</b> in PLN thousands
5 259	- 5 173	86

The measurement presented above is only of computational nature and does not affect current liquidity or general financial situation of the Group.

The fluctuations of NBP (the National Bank of Poland) average EUR exchange rate have a significant effect on the amount of revenue denominated in PLN which is derived from contracts concluded in a foreign currency. Based on contracts which have been entered into and contracts which are highly probable to be concluded, the Capital Group assessed the foreign currency exposure in the period from July to December 2010 as follows:

<b>Detailed list</b>	<b>2nd half of 2010, in EUR thousands</b>
Projected foreign currency proceeds	280 590
Projected expenditure in foreign currency	145 348
<b>Foreign exchange business exposure</b>	<b>135 242</b>
Open hedging transactions at 30.06.2010 to be exercised in 2010	59 885
<b>Open item in foreign currency (after taking into consideration hedging transactions)</b>	<b>75 357</b>

The nominal value of open hedging instruments as at 30 June 2010 accounts for 44% of total projected exposure to foreign currency risk in the period from July to December 2010. Foreign currency cash flows for contracts concluded by the Group companies by the date of the completion of this list account for over 70% of business exposure computed as above. Consequently, 62% of the business exposure to foreign exchange risk on account of the flows contracted as of 30.06.2010 was covered by hedging transactions.

Fluctuations of PLN/EUR exchange rate will have a neutral effect on the Capital Group financial results in the scope of cash flows from foreign currency contracts covered by hedging instruments. Current effect of this market parameter will only relate to the portion of foreign currency transactions (net proceeds), which will not be covered with hedging transactions.

### 3.3. Insurance contracts

In the first half of 2010 the Group was to large extent utilising property insurance (including also business operations insurance and professional indemnity insurance), as well as construction and erection works insurance and motor insurance. As at 30.06.2010 **Polimex-Mostostal S.A.** had the following insurance contracts:

- Business operations insurance and property utilisation in basic scope and in guarantee amount of 10 million PLN (Consortium of TUiR WARTA S.A./STU Ergo Hestia S.A.) as well as “oversized” policy with liability limit in amount of PLN 60 million per each event, without limit of events (AIG Europe S.A. Branch in Poland, currently Chartis Europe S.A. Branch in Poland). In February 2010 a new contract was concluded with Chartis Europe S.A. to issue a surplus third party liability insurance policy with a guarantee sum of PLN 30 million in excess of the aggregated share amounting to PLN 70 million, which means that the Company holds a third party liability insurance policy with the total guarantee sum of PLN 100 million.
- Liability insurance for appointed agents and members of the Management Board under policy issued by AIG Europe S.A. Branch in Poland (currently Chartis Europe S.A. Branch in Poland), the so-called D&O policy.
- Construction and erection all risk insurance under a revolving annual policy in 2010 and 2011 concluded with the consortium of TUiR Warta S.A./STU Ergo Hestia S.A./PZU S.A.
- Property insurance (property against random events, property against burglary and robbery, including cash in hand and in transport, computer equipment insurance, profit loss insurance, insurance of machines against damages, property insurance in national transport) – under policy issued by the consortium of TUiR WARTA S.A./STU Ergo Hestia S.A.,
- Cargo insurance in international transport under a two-year contract concluded for years 2010 and 2011 with Chartis Europe S.A. Branch in Poland.
- Insurance of employees delegated or directed to work outside the borders of the Republic of Poland under accident insurance policy issued by AVIVA TUO S.A.
- “Grono” accident insurance covering workers employed on the national construction sites – under the policy issued by AVIVA TUO S.A.
- Liability insurance for the Planner under insurance of medical expenses policy issued by Chartis Europe S.A. Branch in Poland.
- Professional liability insurance/bookkeeping insurance under policy issued by PZU S.A.
- The general contract for motor insurance concluded on 21.04.2010 with TUiR WARTA S.A. – a two-year contract for years 2010 and 2011 that is an extension of the two-year contract concluded for years 2008-2010.

Insurance contracts listed above (excluding insurance against construction/assembly risks, cargo insurance in international transport as well as motor insurance) were concluded for 1 year and are valid until 30.09.2010. As at the date of preparation of this report in connection with the coming expiry dates of insurance contracts inquiries have been sent to leading insurers about the continuation of contracts or conclusion of new ones for another year.

In the same period, **companies of the Capital Group** utilised the same type of insurance. All companies purchased business liability insurance (TUiR Warta S.A., STU Ergo Hestia S.A., Chartis Europe S.A. Branch in Poland – oversized liability insurance, TU Allianz Polska S.A., PZU S.A., TU Generali S.A., HDI Asekuracja TU) and the sum insured amounted from PLN 0.2 million (Polimex-Development Kraków Sp. z o.o.) to EUR 20.0 million (Naftobudowa S.A.) and professional liability insurance of the planner/architect (such companies as Centrum Projektowe Polimex-Mostostal Sp. z o.o., WBP Zabrze Sp. z o.o., PxM Projekt Południe Sp. z o.o.). A

number of Polimex-Mostostal Group companies also purchased D&O insurance (liability insurance for the Management of the Company) at TU Allianz Polska S.A. and TUiR Warta S.A. Apart from Polimex-Mostostal S.A. the policies have been purchased by: Energomontaż-Północ group, Sefako S.A., StalFa Sp. z o.o., Torpol Sp. z o.o. The companies have concluded insurance contracts for buildings and structures, machines and equipment, equipage, property of third parties, property against fire and other random events, against theft and robbery, computer equipment, national transport and motor vehicle insurance with TUiR Warta S.A., PZU S.A., TU Allianz Polska S.A., Filar, STU Ergo Hestia S.A., TU InterRisk S.A., TU Generali S.A., Compensa TU S.A., HDI Asekuracja TU S.A., UNIQA TU S.A., TU Filar S.A., ASIBAN. A number of companies have also purchased Construction/Erection all risk insurance at the consortium of the following insurance companies: WARTA/PZU/Hestia, TUiR Warta S.A., STU Ergo Hestia S.A., TU Allianz Polska S.A., InterRisk TU S.A. Vienna Insurance Group, TU Generali S.A.

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

Internal audit and risk management system applied by Polimex-Mostostal Capital Group constitute Company management policy component and operate according to internal rules and regulations. The internal audit system covers the entire Company, including organisational units of the headquarters, Plants and Divisions and subsidiaries belonging to the Capital Group.

Internal audit system comprises two, principal elements: Functional control performed by the management of individual organisation units and other employees within the scope of their responsibilities and institutional control performed by the units of internal audit.

The basic objective of internal functional control is to assure the correctness, fairness and timely execution of performed tasks. In practice, functional control is performed by each employee within the limits of defined procedures. Control mechanism include the manner of performing tasks, in particular competence, principles and procedures for the exercise of control. Identification of initial risk present in a given organisation unit as well as taking measures aimed at keeping them at agreed level is made within functional control.

Objective of institutional control is to examine correctness, legality and reliability of actions performed by particular organisation units of Polimex-Mostostal, conformity assessment of measures with internal procedures, and efficacy of functional control system.

Under the internal audit system the risk relating to each product and process, which results from the organisational structure of the Polimex-Mostostal Company and Capital Group, is identified and actions are taken that aimed at elimination, shifting, reduction or avoiding threats and taking benefit of opportunities found during analyses.

With regards to preparation of financial statements, internal audit and risk management system is based on embedded reporting control mechanisms, internal regulations facilitating separation of duties, authorities and relations in scope of preparation of particular parts of statements, continuous assessment of conformity with accounting books and other documents being the basis of financial statements, as well as obligating provisions in the scope of accounting policies and preparation of financial statements. To ensure the correctness of the books of account kept by the Company, the Management adopted and approved for application the Accounting Principles (in line with International Financial Reporting Standards), the chart of accounts, documentation for the data processing information system (SAP) and a series of internal procedures in the scope of systems of control and assessment of risk resulting from the Company's operations.

Organisation of works related to preparation of financial statements is within the responsibility of Accounting Department. The whole process of preparation and publication of financial statements is based on formalised schedule of works. Statements prepared are communicated to the Financial Director for review. Then, financial statements are approved by the Management Board. The process of financial statement preparation includes statement verification by independent auditor selected by the Supervisory Board in offering action out of the group of reputable audit companies. The body supervising the financial reporting process and co-operating with an independent auditor is the Audit Committee appointed based on the competence of the Supervisory Board.

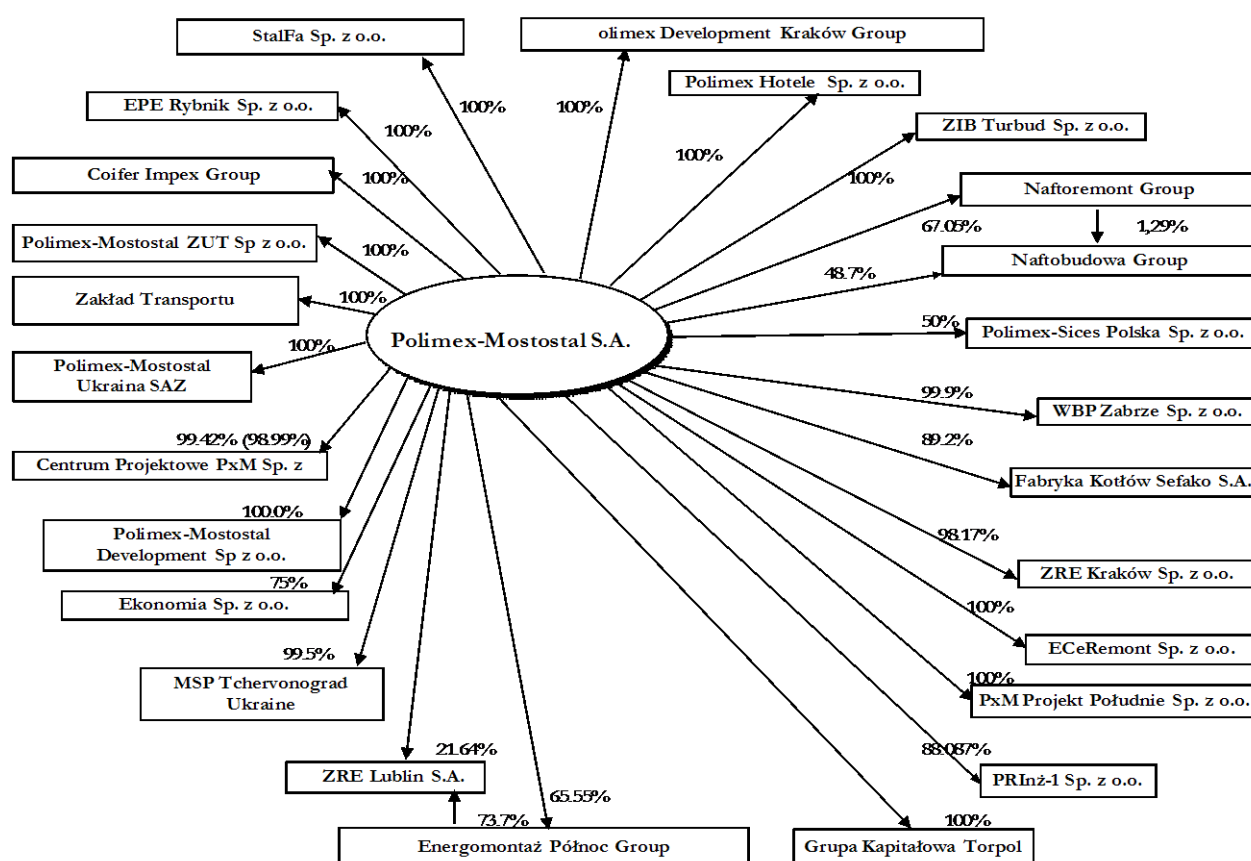
Summarising, internal control and risk management system covers the whole operations of Polimex-Mostostal Group and are aimed at support of decision making processes, in particular contributing towards: efficiency and efficacy of actions, reliability of accounting reporting and consistency of action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

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

### 4.1. Structure of the Capital Group

The structure of the Issuer's Capital Group as at the statement preparation date is presented below. The chart does not include companies in liquidation or not conducting business activity.

Fig. 1 Basic structure of Polimex-Mostostal Group as at 30.06.2010.



#### Key

As at 16.08.2010

0.00% PXM's share in capital of the company

(0.00%) share in votes

The list does not include companies in liquidation, not conducting business activity or with no practical effect on PXM Group's operations.

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

In the first half of 2010 the key entities of the Capital Group were:

- **Energomontaż-Północ S.A.**

Energomontaż-Północ S.A. with the registered office in Warsaw is the company listed on the Warsaw Stock Exchange. The company is a legal successor of a state enterprise operating under the business name of Przedsiębiorstwo Montażu Elektrowni i Urządzeń Przemysłowych „Energomontaż Północ”. In 1991 the enterprise was transformed into a State Treasury’s single-member joint stock company. Together with the companies of its capital group, it specialises in performance of investment contracts for power engineering industry, gas and petrochemical industry, natural environment protection as well as industrial and communal construction. The offer of Energomontaż-Północ includes contracting of construction and assembly works, start-up of plants, guarantee and post-guarantee service as well as workshop production with prefabrication of steel components, including large span structures and pipelines. Majority of production and services is rendered by subsidiaries. The key subsidiaries are: Energomontaż-Północ Gdynia Sp. z o.o., Energop Sp. z o.o. and Zakłady Remontowe Energetyki Lublin S.A. (the Issuer also holds interest in this company). Outside Poland, the company has subsidiaries in Germany and Hungary. Energomontaż-Północ company is included in the process of integration with Polimex-Mostostal S.A.

- **Naftobudowa S.A.**

Naftobudowa was established in 1952 in Kraków, and it has been operating as joint stock company since April 1992. The company is listed on the Warsaw Stock Exchange. Naftobudowa S.A. renders full-scale services covering all principal areas of construction and assembly works, in particular delivery, assembly with start-up as well as overhauls of technological lines, systems and equipment, for the benefit of chemical and petrochemical industry. Naftobudowa S.A. has its own manufacturing plants in Kraków and Jasło. Naftobudowa company is included in the process of integration with Polimex-Mostostal S.A.

- **Naftoremont Sp. z o.o.**

The company with the registered office in Płock started its operations in 1962, first under the name Naftoremont - Naftobudowa Przedsiębiorstwo Inwestycyjno – Remontowe Sp. z o.o. The company specialises in construction works, overhauls and modernisation of industrial installations, mostly in petrochemical industry, as well as construction of fuel depots and storage containers. It also runs production operations covering manufacturing and preliminary prefabrication of steel structures and pipelines. Orders from the largest Polish refineries PKN ORLEN S.A. and LOTOS S.A. make a significant share in company’s revenue. Naftoremont company is included in the process of integration with Polimex-Mostostal S.A.

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

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

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

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



solutions. Export constitutes the most of company sale. The investment plan completed in 2009 increased company production capacities in the scope of production of energy boilers.

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

The company has a registered office in Bucharest (Romania). The company runs its own capital group. One of its subsidiaries, rendering services for the refinery, is registered in Italy. In Romania, the company runs plants manufacturing steel structures. It also offers planning and delivery of pressure equipment. The second form of operations covers rendering of erection works, and performance of construction and assembly contracts in form of general contracting.

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

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

- **Tchervonograd ZKM -Ukraine**

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

- **Polimex-Mostostal Ukraina SAZ**

The registered office of the company is in Kiev, Ukraine. The company performs operation in the scope of construction and erection services.

- **PRInż -1 Sp. z o.o.**

The present form of PRInż-1 company is the effect of acquisition of PRInż-9 in October 2008. The company offer covers construction of roads and all types of routes, including lighting and accessory infrastructure. The company closely co-operates with Road Construction Division, operating in the structures of Polimex-Mostostal S.A.

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

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

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

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

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

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

- **Design companies**

Design teams operate both within organisation structures of particular companies of the Capital Group and as independent design offices. Organisation and technical systems facilitating creation of integrated design

centre focusing on needs of the Capital Group companies is under development. The following design offices operate as companies:

- Centrum Projektowe Polimex-Mostostal Sp. z o.o. with the registered office in Gliwice (the company was established as a result of incorporation of Biuro Studiów, Projektów i Realizacji Inwestycji „Biprokwas” Sp. z o.o. by Energotechnika Projekt Sp. z o.o.),
- PXM Projekt Południe Sp. z o.o. with the registered office in Kraków,
- WBP Zabrze Sp. z o.o. with the registered office in Zabrze, and
- Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o. with the registered office in Bielsko-Biała.

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

- **Power industry (overhaul) companies**

The Capital Group includes three companies, directly dependent on the Issuer, established as a part of former overhaul power engineering plants: Zakłady Remontowe Energetyki Kraków, EPE Rybnik and ECeRemont with the registered office in Zielona Góra. In addition, together with Energomontaż Północ S.A., a subsidiary, the Issuer holds a controlling interest in Zakłady Remontowe Energetyki Lublin S.A. The above mentioned companies deal with overhauls in combined heat and power plants situated in southern and western Poland in the scope of overhauls and modernization of processing lines. For the purpose of executed works the companies manufacture components of boilers, heat exchangers and steel structures. They provide overhaul and maintenance of power engineering, electrical equipment and heat networks used in industrial plants operating in other industries. The four above mentioned companies are included in the process of integration with Polimex-Mostostal S.A.

- **Developer companies**

Polimex-Mostostal Group incorporates three companies dealing with developers operations. These are: “Polimex-Development” Kraków Sp. z o.o., Polimex Hotele Sp. z o.o. and Polimex-Mostostal Development Sp. z o.o., both with the registered office in Warsaw. The companies execute projects mostly on their home markets, and in area of housing and commercial construction.

- **Polimex-Sices Polska Sp. z o.o.**

Polimex-Sices Polska Sp. z o.o. with the registered office in Plock is a special purpose vehicle established in December 2002 by Polimex-Mostostal S.A. (50%) and the Italian company SICES INTERNATIONAL B.V. (50%), at present Sices Montaż Sp. z o.o., its subsidiary. The basic objective of the company is contracting assembly works within the limits of contracts concluded and performed jointly with shareholders for the benefit of Polish refineries.

#### **4.3. Employment**

Employment in the 1st half of 2010 was 0.6% lower than in 2009. The process of active acquisition of planning supervisors and specialists was continued, while non-complex repeated works were tried to be outsourced. Internal principles for recruitment and retention of human resources were adjusted to the requirements of the external labour market. In particular, sales force (an increase of 28.9% as against 2009) and the group of other employees mainly health and safety specialists, quality control specialists and repair forces (an increase of 19.8% as against 2009) were strengthened. Employment structure in Polimex-Mostostal Capital Group is given below.

Detailed list	Change 1st half 2010 / 2009	Employment *)	
		1st half of 2010	2009
Management Board of the parent	0.0%	4	4
Management Boards of related companies	-18.4%	55	67
Administration	-8.4%	1 011	1 103
Sales	28.9%	340	264
Production	-3.2%	10 895	11 260
Other	19.8%	1 873	1 564
<b>Total</b>	<b>-0.6%</b>	<b>14 178</b>	<b>14 262</b>

\*) average employment in the period

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

The rules for appointment and dismissal of supervisory authorities are given in the Articles of Association. According to the Articles of Association (Article 33.1.d), General Meeting has the authority to appoint and dismiss members of the Supervisory Board. From 01.01.2010 to 30.06.2010, the composition of the **Supervisory Board of Polimex-Mostostal S.A.** was as follows:

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

On 30.06.2010 an Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. , in connection with the end of term of the Supervisory Board, adopted resolutions No 15, 16, 17, 18 and 19 on the appointing of Mr Jacek Kseń, Mr Mieczysław Puławski, Mr Jan Woźniak, Mr Andrzej Szumański and Mr Kazimierz Klęk to the composition of the Company's Supervisory Board, of which the management informed in current reports No 55/2010 and No 58/2010.

At present the **Supervisory Board of Polimex-Mostostal S.A.** is working in the following composition:

- Kazimierz Klęk – Chairman of the Supervisory Board,
- Jacek Kseń – Vice Chairman of the Supervisory Board,
- Artur Jędrzejewski – Secretary of the Supervisory Board,
- Mieczysław Puławski – Member of the Supervisory Board,
- Andrzej Szumański – Member of the Supervisory Board,
- Jan Woźniak – Member of the Supervisory Board.

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

From 01.01.2010 until the date of publication of this report, the composition of the **Management Board of Polimex-Mostostal S.A.** was as follows<sup>7</sup>:

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

The rules for appointment and dismissal of executives are given in the Articles of Association. According to the Articles of Association (Article 39 and 42), the Supervisory Board is in charge of defining number of members of the Board of Directors, as well as appointment and dismissal of members of the Board of Directors. Upon request of the President of the Board of Directors, the Supervisory Board appoints other members of the Management Board – Vice Presidents. Authorities of executives are given in Regulations of the Board of Directors. Internal division of the Board of Directors members work is conducted on the basis of the Organizational Regulations of the Company. On this basis, members of the Board of Directors are in charge of direct supervision of performance of dependent areas. Each member of the Management Board has the right and obligation to run Company affairs. Without previous resolution of the Management Board, he/she may run affairs not exceeding the scope of ordinary affairs of the Company assigned to a given member of the Management Board observing provisions of the law, Company's Articles of Association, resolutions and regulations of the Company authorities. While taking decisions on the Company affairs, members of the Management Board operate within the limits of justified economic risk, i.e. based on consideration of any information, analyses and opinions that in reasonable opinion of the Management Board should be taken into account for the benefit of the Company. Neither the Management Board, nor individual members of the Board of Directors may take decisions on issue or redemption of shares. In the first half of 2010, meetings of the Management Board of Polimex-Mostostal S.A. were held on: 11.01.2010, 18.01.2010, 20.01.2010, 27.01.2010, 09.02.2010, 18.02.2010, 12.03.2010, 22.03.2010, 09.04.2010, 14.04.2010, 22.04.2010, 28.04.2010, 10.05.2010, 14.05.2010, 20.05.2010, 27.05.2010, 10.06.2010, 16.06.2010, 29.06.2010. During the above-mentioned meetings, the Board of Directors took resolutions among other things on: approval of the Group's financial plan, adoption and execution of the Combination Plan, credit sureties, granting loans, transfer and disposal of real property, donations.

**Audit Committee** is advisory authority acting collectively within the structures of the Supervisory Board. In the first half of 2010 the composition of the Audit Committee was as follows:

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

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

---

<sup>7</sup> The Supervisory Board of Polimex-Mostostal S.A., acting under Article 369.1 of the Code of Commercial Companies, in the session of 18 May 2010 appointed for another term (commencing on the date when an Ordinary Meeting of Shareholders approving the financial statements for the financial year 2009 was held) the Management Board composed as before.

form of resolutions adopted by the Committee. The Committee operates collectively, and any requests should be in form of resolutions of the Committee.

**Remuneration Committee** is advisory authority acting collectively within the structure of the Supervisory Board. In the first half of 2010 the composition of the Remuneration Committee was as follows:

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

Lending support to the Supervisory Board in terms of execution of its control and supervisory tasks is the basic objective of the Committee. Particular rights and obligations of the Committee are given in Regulations of the Supervisory Board. Tasks of the Committee are executed by submittal to the Supervisory Board requests, opinions and statements related to scope of its tasks, in form of resolutions adopted by the Committee. The Committee operates collectively. Any requests should take form of resolutions of the Committee.

#### 4.5. Value of remuneration for executives and senior employees

Value of remuneration for executives and senior employees was stated in notes and explanations to the financial statements of the Issuer.

### 5. Shareholding

#### 5.1. Total number and nominal value of all shares of the parent owned by executives and senior employees

At present, persons managing and supervising the parent company hold the following number of Issuer's shares:

Position held	Current number of shares held
Member of the Management Board	3,820,350 bearer shares of nominal value of 0.04 PLN each, 3,820,350 voting shares at the Company General Meeting.
Member of the Management Board	1,939,075 bearer shares of nominal value of 0.04 PLN each, 1,939,075 voting shares at the Company General Meeting.
Member of the Supervisory Board	77,000 bearer shares of nominal value of 0.04 PLN each, 77,000 voting shares at the Company General Meeting.
<b>Total</b>	5,836,425 bearer shares of nominal value of 0.04 PLN each, 5,836,425 voting shares at the Company General Meeting.

As compared to the report for 1st quarter 2010 there were no changes in the scope presented above.

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

The company does not have any preferential assets in terms of voting rights, so interest in share capital is equal to interest in total voting shares at the General Meeting. At the date of publication of the report, the shareholding structure of Polimex-Mostostal S.A. prepared under notifications arising from Article 69.1 and 69.4 of Act of 29.07.2005 on public offering and conditions for entering financial instruments for trade, as well as public companies, Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK S.A.'s (the shareholder's) letter of 10.02.2009 is as follows:

Item	Shareholder	Number of shares/ votes	% interest in share capital/ total number of votes at GSM
1.	ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny	40 406 650	8.70%
2.	Otwarty Fundusz Emerytalny PZU "Złota Jesień"	40 000 000	8.61%
3.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	27 486 075	5.92%
4.	Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A.	46 473 750	10.01%
5.	Polimex-Cekop Development *)	13 152 500	2.83%
6.	Other shareholders	296 836 650	63.92%
<b>Number of shares of all issues</b>		<b>464 355 625</b>	<b>100.00%</b>

\*) the company is 100% subsidiary of Polimex-Mostostal S.A.

### 5.3. Representation on corporate governance

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

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

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

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

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

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

In the first half of 2010 the parent did not acquire any treasury shares.

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

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



## 5.8. Indication of proceedings pending before court, arbitration procedure authority or public administration authority, which total amount constitutes at least 10% of Issuer's equity

The total value of proceedings concerning active debts/liabilities of Polimex-Mostostal Group as at 30.06.2010 amounted to:

- proceedings concerning active debts: ..... PLN 62,924.8 thousand,
  - proceedings concerning liabilities: ..... PLN 15,569.5 thousand,
- then it did not exceed 10% of Issuer's equity.

## 6. Environmental protection

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

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

The issues of natural protection is of great importance for the Company (the Company runs the Integrated Management Systems, implemented ISO 14001 standard: Natural Environment Management System). Natural Environment Protection Department of Polimex-Mostostal S.A. is dealing with co-ordination of actions taken by the Company in scope of environmental protection. Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the basic tasks of this Department. In the first half of 2010 Polimex-Mostostal S.A. was not encumbered with any penalties for exceeding of standards defined in natural protection laws.

The Issuer runs continuous actions towards the improvement of natural environment condition. The effect of these measures is SCC (*Safety Checklist Contractors*) system implemented in the 1st half of 2010 that relates to health, safety and environment management during construction and erection works and is used in Germany, Holland, England, Belgium, Austria and Switzerland. The fact that the above mentioned requirements are met was confirmed by the positive result of the audit of VSS-SCA system conducted in Construction Division in Siedlce and Erection Division in Stalowa Wola by KEMA certification unit in June 2010. Implementation of the new system means a further improvement of employees' safety and working conditions, it also increases the level of environment protection in construction projects managed by the Company.

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

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

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

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

On 05.07.2010 the contract was concluded with z Ernst & Young Audit Sp. z o.o. with the registered office in Warsaw at Rondo ONZ 1 on audit of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for 2010, and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2010. The remuneration due to Ernst & Young Audit Sp. z o.o. for the above mentioned services was specified at PLN 676,000 (net).

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

- audit of the financial statements for 2009..... PLN 412,803,
- review of the financial statements for the 1st half of 2010..... PLN 0,
- tax advisory..... PLN 9,000,
- other services ..... PLN 173,377.

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

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

## **8. Other significant events in the 1<sup>st</sup> half of of 2010 having impact on operations of the Issuer's Capital Group**

Other significant events having impact upon operations of the **parent**:

- Signing with Calyon S.A. Branch in Poland, on 06.01.2010, of Appendix no 12 to the Framework Contract on Bank Guarantees, Opening of Letters of Credit and Granting of Loan no CRD/041117/06/113/G, decreasing the limit granted from PLN 190.0 million to PLN 165.0 million and extending the term for its utilization until 29.10.2010. The balance by which the limit was decreased i.e. PLN 25.0 million will be

retained in the Polimex-Mostostal Capital Group – the limit will be utilised by a Polimex-Mostostal S.A.'s subsidiary.

- Approval and signing on 18.01.2010 of the Statement of Management Board justifying the combination of Polimex-Mostostal S.A. and Energomontaż-Północ S.A., Naftobudowa S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o., ECeRemont Sp. z o.o. under restructuring of the Polimex-Mostostal S.A. Capital Group. Similar measures were taken by the Managements of Companies Being Acquired. On 23.02.2010 the Issuer notified in the supplement to the above-mentioned document of the conclusions resulting from analyses of the synergy effects conducted together with the Company's advisor – AT KEARNEY and resulting from: support function integration, acquisitions costs optimisation, operating activity integration and ownership changes. Conclusion are as follows:
  - target annual synergy value is planned to be achieved in the third year after integration and should amount to PLN 50.9 million
  - NPV (Net Present Value) of the synergy for the period of 2010-2020 – should amount to over PLN 250 million.

Moreover, integration of companies should lead to additional beneficial changes which are not included in the valuation presented above, among other things to:

- improving the Group management system,
  - increasing of the capacity for complete realization of large modernisation and investment projects,
  - more effective utilization of human, intellectual and material resources,
  - improving of the Group transparency for investors and analysts.
- Receiving on 25.01.2010 communications from Gloria S.a.r.l., Luxemburg on disposal on 22.01.2010 of 28,702,825 of Polimex-Mostostal S.A. shares, which constituted 6.18% share of the Issuer's share capital and 6.18% of the total votes at the General Shareholders' Meeting of Polimex-Mostostal S.A. As a result of the transaction mentioned-above, Gloria S.a.r.l., Luxemburg will hold 0 shares which will constitute 0% of the share in the Polimex-Mostostal S.A. share capital and 0% of the total votes.
  - Receiving on 04.03.2010 of the Decision of the Minister of Economy of 26.02.2010 on change of Permit No 171/ARP S.A./2008 to conduct economic activities in the area of Tarnobrzeg Special Economic Zone granted to Polimex-Mostostal S.A. on 23.07.2008. According to the contents of the decision received, new conditions were specified for conducting economic activities on the area of the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone:
    - Increase in the current employment level of 2,399 employees in area of Siedlce Sub-zone by hiring until 31.03.2011 of not less than 350 new employees in area of EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone TSEZ, and retention until 31.03.2015 in Siedlce Sub-zone of at least 2,749 employees. - instead of until 31 March 2014.
    - Incurring, by 31 March 2011 – instead of by 31 March 2010, the investment expenditure under § 6 item 1 of the Resolution of the Council of Ministers of 22.11.2006 on the Tarnobrzeg Special Economic Zone (Journal of Laws No 215 item 1581 as further amended) in the amount not less than PLN 210.3 million, .
    - Completion of investment until 31.03.2011. -instead of until 31.03.2010.
  - Receiving on 10.03.2010 communication from Sices International B.V. with the registered office in Amstelveen (Holland) on sale on 05.03.2010 of 28,617,900 of the Polimex-Mostostal S.A. shares, which constituted 6.16% of the shares of the Issuer's share capital and 6.16% of the total votes at the General Shareholders' Meeting of Polimex-Mostostal S.A. As a result of the transaction mentioned-above, Sices

International B.V. will hold 0 shares which will constitute 0% of the share in the Polimex-Mostostal S.A. share capital and 0% of the total votes.

- Withdrawal of 12.03.2010 of the Polimex-Mostostal S.A. Extraordinary General Shareholders' Meeting from voting on the bills of resolutions on business combination due to failure to obtain the necessary 2/3 of votes for approval of the share exchange parity defined for Naftobudowa S.A. Due to that, the Management Board of Polimex-Mostostal S.A. continued its works on combination based on the separate documentations for combination for Naftobudowa S.A. and six remaining companies, i.e.: Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE-Rybnik Sp. z o.o., ECeRemont Sp. z o.o.
- Conclusion on 29.03.2010 of the general contract with Bank Pekao S.A. specifying the terms and conditions of cooperation in a scope of bid bonds. Under the above-mentioned contract, bid bonds will be issued with the maximum expiry date of 120 days up to the amount of PLN 30.0 million. Maximum bid bond lifetime ends on 28.11.2010. Period for placing orders ends on 31.07.2010.
- Receiving on 15.04.2010 a notification from Pioneer Pekao Investment Management S.A. on the concentration increase up to 8.92% of the total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A., in terms of the financial instruments constituting the Pioneer Fundusz Inwestycyjny Otwarty (Pioneer FIO) portfolio created by Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (the Company). The above-mentioned change was made exclusively due to transformation on 09.04.2010 of the open investment funds created by the Company in particular sub-funds of the Pioneer FIO fund. After the change, the Pioneer FIO portfolio included in total 41,398,282 shares which constituted 8.92% of the share capital and 8.92% of the total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A. Before the change, the Pioneer FIO portfolio included in total 957,356 shares of Polimex-Mostostal S.A. which constituted 0.21% of the share capital and 0.21% of the total votes at the General meeting of Shareholders of Polimex-Mostostal S.A.. Detailed information on the above mentioned change is included in the Issuer's Current Report No 25/2010 of 15.04.2010.
- Receiving on 16.04.2010 of Appendix no 2 to the Contract on guarantee facility, signed by Deutsche Bank Polska AG and increasing the limit for guarantees up to PLN 100.0 million.
- Signing on 26.04.2010 of the Combination Plan specifying the principles of combination of Polimex-Mostostal S.A. – Acquiring Company, and Companies Being Acquired i.e.. Energomontaż-Północ S.A., Naftoremont Sp. z o.o., Zakłady Remontowe Energetyki Kraków Sp. z o.o., Zakłady Remontowe Energetyki Lublin S.A., EPE-Rybnik Sp. z o.o. and ECeRemont Sp. z o.o. Analogous activities were conducted by the Management Boards of Companies Being Acquired. The Combination Plan defines among other things the method of combination and its legal grounds, Companies Being Acquired valuation methodology, parity for exchange of the shares of Energomontaż-Północ S.A., and Zakłady Remontowe Energetyki Lublin S.A. for the shares of the Combination Issue, parity for exchange of the shares of Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o. for the Combination Issue Shares and principles for assignment of the Acquiring Company shares. Polimex-Mostostal S.A. holds, as the Acquiring Company, 100% of shares of ECeRemont Sp. z o.o. and EPE Rybnik Sp. z o.o., thus the combination with these companies will be conducted on the basis of Article 515 § 1 of the Code of Commercial Companies, i.e. without the Acquiring Company share capital increase by the amount corresponding the value of the shares of ECeRemont sp. z o.o. and EPE Rybnik sp. z o.o. respectively. All the same, Combination Issue Shares will not be issued to the only partner, i.e. the Acquiring Company.

The Combination Plan constitutes an attachment to the Issuer's current report No 27/2010 of 27.04.2010.

- Signing on 29.04.2010 of the Combination Plan specifying the principles of combination of Polimex-Mostostal S.A., the Acquiring Company, and Naftobudowa S.A., the Company Being Acquired. On the same date the Combination Plan was signed by Naftobudowa S.A. The Combination Plan defined among other things the method of combination and its legal basis, methodology of valuation of Naftobudowa S.A., exchange ratio of Naftobudowa S.A.'s shares for the combination issue and the principles of vesting the shares of the Acquiring Company.

The Combination Plan constitutes an attachment to the Issuer's current report No 28/2010 of 30.04.2010.

- Polimex-Mostostal S.A. Supervisory Board appointed Ernst & Young Audit Sp. z o.o. with registered office in Warsaw at 1 Rondo ONZ to be the entity authorized to audit financial statements with which a contract is to be concluded for audit of the financial statements for 2010 prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group, and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2010.

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

- Naftobudowa S.A.:
  - Holding on 24.02.2010 of an Extraordinary Meeting of Shareholders of Naftobudowa S.A., which gave its consent to the combination of Naftobudowa S.A. and Polimex-Mostostal S.A. under Article 492.1.1 of the Code of Commercial Companies by transferring the entire assets of Naftobudowa S.A. to Polimex-Mostostal S.A. and at the same increasing Polimex-Mostostal S.A.'s share capital, in exchange for shares issued to shareholders of Naftobudowa S.A., other than Polimex-Mostostal S.A. and Naftoremont Sp. z o.o., on terms and conditions specified in the Business Combination Plan agreed on by the Managements of combining companies on 20.11.2009.  
In addition, upon request of ING Otworthy Fundusz Emerytalny, a shareholder, amendments were introduced to Resolution No 3 as compared to the resolution draft, which were communicated to the public in Naftobudowa S.A.'s current report No 6/2010 of 26.01.2010. The major change consisted in specifying by shareholders a different parity of exchanging Naftobudowa S.A.'s shares to shares of combination issue of Polimex-Mostostal S.A. The parity was determined at 6.50 instead of 6.04 as proposed in the draft of the subject resolution.
  - Concluding on a forward transactions hedging foreign currency risk with PKO S.A. on 29.04.2010 for the total nominal amount of EUR 11 million.
- Energomontaż-Pólnoc S.A.:
  - Holding on 01.03.2010 of an Extraordinary Meeting of Shareholders of Energomontaż-Pólnoc S.A., which gave its consent to the combination of Energomontaż S.A. and Polimex-Mostostal S.A. under Article 492.1.1 of the Code of Commercial Companies by transferring the entire assets of Energomontaż-Pólnoc S.A. to Polimex-Mostostal S.A. and at the same increasing Polimex-Mostostal S.A.'s share capital in exchange for shares issued to shareholders of Energomontaż-Pólnoc S.A., other than Polimex-Mostostal S.A., on terms and conditions specified in the Business Combination Plan agreed on by the Managements of combining companies on 20.11.2009. The adopted resolution included amendments resulting from determining on 24.02.2010 a different than the one specified in the Business Combination Plan parity of exchanging Naftobudowa S.A.'s shares to shares of combination issue of Polimex-Mostostal S.A.
  - receiving on 31.05.2010 of the decision of the District Court for the Capital City of Warsaw in Warsaw, 10<sup>th</sup> Economic Department for Bankruptcy and Restructuring Affairs relating to the request by



Energomontaż-Pólnoc S.A. based on which the Court decided to declare the arrangement proceedings of Energomontaż-Pólnoc S.A. completed.

- Naftoremont Sp. z o.o.
  - Holding on 25.02.2010 of an Extraordinary Meeting of Owners of Naftoremont Sp. z o.o., which gave its consent to the combination of Naftoremont Sp. z o.o. and Polimex-Mostostal S.A. The adopted resolution included amendments resulting from determining on 24.02.2010 a different than the one specified in the Business Combination Plan parity of exchanging Naftobudowa S.A.'s shares to shares of combination issue of Polimex-Mostostal S.A.
- EPE Rybnik Sp. z o.o.
  - Holding on 26.02.2010 an Extraordinary Meeting of Owners of EPE Rybnik Sp. z o.o., which gave its consent to the combination of EPE Rybnik Sp. z o.o. and Polimex-Mostostal S.A. The adopted resolution included amendments resulting from determining on 24.02.2010 a different than the one specified in the Business Combination Plan parity of exchanging Naftobudowa S.A.'s shares to shares of combination issue of Polimex-Mostostal S.A.
- ECeRemont Sp. z o.o.:
  - Holding on 26.02.2010 an Extraordinary Meeting of Owners of ECeRemont Sp. z o.o., which gave its consent to the combination of ECeRemont Sp. z o.o. and Polimex-Mostostal S.A. The adopted resolution included amendments resulting from determining on 24.02.2010 a different than the one specified in the Business Combination Plan parity of exchanging Naftobudowa S.A.'s shares to shares of combination issue of Polimex-Mostostal S.A.
- ZRE Lublin S.A.:
  - Holding on 03.03.2010 an Extraordinary Meeting of Shareholders of ZRE Lublin S.A., which gave its consent to the combination of ZRE Lublin S.A. and Polimex-Mostostal S.A. The adopted resolution included amendments resulting from determining on 24.02.2010 a different than the one specified in the Business Combination Plan parity of exchanging Naftobudowa S.A.'s shares to shares of combination issue of Polimex-Mostostal S.A.
- Torpol Sp. z o.o.:
  - Receiving on 25.05.2010 information on selecting the tender submitted by Torpol Sp. z o.o., a subsidiary, on performing construction works of modernisation of railroad infrastructure of stations and lines in the area of SSA Hanna Wnękowskaze LCS Ciechanów, Ciechanów - Mława Section from km 99.450 to km 131.100. LOT A - stations: Konopki, Mława. LOT B - lines: Ciechanów - Konopki, Konopki - Mława, under Project "Modernisation of E 65/CE 65 rail road in Warszawa - Gdynia section- area of LCS Ciechanów". The parties to this contract are PKP Polskie Linie Kolejowe S.A., and the consortium of: FEROCO S.A., (Consortium leader), Torpol Sp. z o.o., Zakład Robót Komunikacyjnych - DOM w Poznaniu Sp. z o.o., Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. The contract price for the entire consortium amounts to PLN 397.7 million net. The estimated value of works to be completed by Torpol Sp. z o.o. amounts to PLN 120.0 million net.
- Porty S.A.
  - Adoption on 27.05.2010 of the resolution by the Extraordinary Meeting of Shareholders of Porty S.A. on putting the company in liquidation and appointing Mr Janusz Wiszniewski the official receiver. Polimex-Mostostal S.A. holds 40% of Porty S.A.'s shares. Porty S.A. company was established for the



purpose of constructing fishing ports in Libya. The decision on the liquidation of the company was made in connection with the completion of the investment.

- Terminal LNG S.A.
  - Adopting on 23.06.2010 of the resolution by the Ordinary Meeting of Shareholders of "Terminal LNG S.A." on putting the company in liquidation and appointing Mr Andrzej Dąbrowski the official receiver. Polimex-Mostostal S.A. holds 30.5% of all shares of "Terminal LNG S.A.". "Terminal LNG S.A." company was established as a special purpose vehicle for the purpose of construction of LNG Port in port complex in Szczecin-Świnoujście. In connection with the fact that the statutory objective of the company was not met, shareholders decided to dissolve the company.

## **9. Events significant for operations of Polimex-Mostostal Capital Group that occurred after 30 June 2010 and to the approval of the financial statements**

After 30 June 2010 the following events significant to the operations of the **parent company** occurred:

- Signing on 06.07.2010 of Appendixes to the package of Contracts under which the Company's co-operation with Bank PEKAO S.A. in the scope of credit facilities, guarantee facilities and credit and guarantee facilities was extended.
- Holding on 12.07.2010 of an Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. which gave its consent to:
  - The combination of Polimex-Mostostal S.A. with 6 companies: Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o. and ECeRemont Sp. z o.o. by transferring all assets of these companies to Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010;
  - combination of Polimex-Mostostal S.A. and Naftobudowa S.A. by transferring all assets of the company to Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 29 April 2010; the resolution on combination with Naftobudowa S.A. is a conditional one and it will have legal consequences provided that the Combination with 6 companies mentioned above is entered into the register of entrepreneurs of the National Court Register by the registry court which have local jurisdiction for Polimex-Mostostal S.A.
- Signing on 20.07.2010 with Raiffeisen Bank Polska S.A. Appendix to Debt Contract under which the limit for guarantees issued was increased to PLN 100.0 million. The guarantee facility is valid until 31 July 2011.
- Signing on 04.08.2010 of the contract with ALSTOM Power Systems GmbH, Stuttgart (Germany) for erection of structure and channels in Mannheim Power Plant with net value of EUR 14.8 million.
- Receiving on 17.08.2010 of information that the Issuer's tender was deemed to be the best in the procedure for awarding a public contract conducted in the restricted tender procedure i.e. "Construction of A-4 Motorway, section of Rzeszów (junction Rzeszów East) - Jarosław (junction Wierzbna) from km 581+250 to km 622+450" by the General Directorate for National Roads and Motorways Branch in Rzeszów, the Awarding entity The tender was submitted by Polimex - Mostostal S.A. (Consortium Leader) together with Doprastav a.s. Bratislava. The tender net price is PLN 1,799.9 million. Polimex-Mostostal S.A. share in the works and remuneration is to constitute 51% of the whole.
- Bidding the lowest price (PLN 128.4 million net ) by the Issuer in the tender procedure for the construction of the head office of Europejskie Centrum Solidarności (the European Centre for Solidarity) in Gdansk. The European Centre for Solidarity is located in the former Gdansk Shipyard at Solidarity square and the

Monument of Killed Shipyard Workers. The centre will host a permanent exhibition devoted to the history of Solidarity, archives, multifunction room for 430 persons, scientific research facility, library for 100 thousand volumes and education and training centre.

The events listed below and having significant impact upon position of the Issuer's Capital Group companies occurred after 30 June 2010:

- Torpol Sp. z o.o.
  - Receiving on 10.08.2010 of information on selecting the tender submitted by Torpol Sp. z o.o., the Issuer's subsidiary, for planning and performance of construction works in Kraków - Medyka – country border railroad, in Podłęże - Bochnia section in km 16.000 – 39.000 under Project "Modernisation of E30/C-E30 railroad, Kraków – Rzeszów section, stage III". If the contract is signed, its parties are PKP Polskie Linie Kolejowe S.A., and the consortium of: Torpol Sp. z o.o. (Consortium Leader), FEROCO S.A., Zakład Robót Komunikacyjnych - DOM w Poznaniu Sp. z o.o., Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. The contract price for the entire consortium amounts to PLN 516.3 million net. The estimated value of works to be completed by TORPOL Sp. z o.o. amounts to PLN 232.3 million net.
- Naftobudowa S.A.:
  - Holding on 16.07.2010 of the Extraordinary Meeting of Shareholders of Naftobudowa S.A., which gave its consent to the combination of Naftobudowa S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 29 April 2010; the resolution on combination with Polimex-Mostostal S.A. is a conditional one and it will have legal consequences provided that the Combination of Polimex-Mostostal S.A. with 6 companies mentioned above is entered into the register of entrepreneurs of the National Court Register by the registry court which have local jurisdiction for Polimex-Mostostal S.A.
- Energomontaż-Północ S.A.:
  - Holding on 19.07.2010 of the Extraordinary Meeting of Shareholders of Energomontaż-Północ S.A., which gave its consent to the combination of Energomontaż-Północ S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.
  - Concluding on 26.07.2010 by the consortium of the following companies: Hitachi Ltd with the registered office in Tokyo (Consortium Leader) and Energomontaż-Północ SA with the registered office in Warsaw (Consortium Member) of the Contract with Vattenfall Heat Poland S.A. with the registered office in Warsaw for complete and modern catalytic systems for denitrification of combustion gases for unit boilers type OP-430 No 10, 14 and 15 and OP-390 No 11 at Siekierki Heat and Power Plant in Warsaw as a turn-key project, reducing the emission of NOx. The lump remuneration for the execution of contract subject was specified at PLN 139.5 million net. The value of works performed by Energomontaż-Północ S.A. under the said contract will amount to PLN 75.0 million net.
- Naftoremont Sp. z o.o.
  - Holding on 13.07.2010 of the Extraordinary Meeting of Shareholders of Naftoremont S.A., which gave its consent to the combination of Naftoremont Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

- EPE Rybnik Sp. z o.o.
  - Holding on 12.07.2010 of the Extraordinary Meeting of Shareholders of EPE Rybnik Sp. z o.o., which gave its consent to the combination of EPE Rybnik Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.
- ECeRemont Sp. z o.o.:
  - Holding on 12.07.2010 of the Extraordinary Meeting of Shareholders of ECeRemont Sp. z o.o., which gave its consent to the combination of ECeRemont Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.
- ZRE Lublin S.A.
  - Holding on 22.07.2010 of the Extraordinary Meeting of Shareholders of ZRE Lublin S.A., which gave its consent to the combination of ZRE Lublin S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.
- ZRE Kraków Sp. z o.o.
  - Holding on 16.07.2010 of the Extraordinary Meeting of Shareholders of ZRE Kraków sp. z o.o., which gave its consent to the combination of ZRE Kraków Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

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

**Konrad Jaskóła**  
President of the Management Board

**Aleksander Jonek**  
Vice President of the Board

**Grzegorz Szkopek**  
Vice President of the Board

**Zygmunt Artwik**  
Vice President of the Board

Warsaw, 30 August 2010