

**POLIMEX-MOSTOSTAL CAPITAL GROUP**

**Condensed consolidated financial statements  
for the 3rd quarter 2011**



Warsaw, 10th November 2011.

**Polimex-Mostostal  
S.A.**

(Issuer's full name)

**Polimex-Mostostal**

(Issuer's abbreviated name)

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industry)

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(REGON statistic number)

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# 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF POLIMEX-MOSTOSTAL S.A. CAPITAL GROUP FOR 3rd QUARTER 2011

## SELECTED FINANCIAL DATA FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	in PLN thousands		in EUR thousands	
	3 quarters / 2011 from 01.01.2011 to 30.09.2011	3 quarters / 2010 from 01.01.2010 to 30.09.2010	3 quarters / 2011 from 01.01.2011 to 30.09.2011	3 quarters / 2010 from 01.01.2010 to 30.09.2010
SELECTED FINANCIAL DATA				
data relating to consolidated financial statements				
Revenue	3 467 844	2 978 650	858 101	744 160
Revenue from continuing operations	80 703	128 654	19 970	32 142
Profit before tax	57 582	91 974	14 248	22 978
Net profit	41 309	67 763	10 222	16 929
Net profit attributable to shareholders of the parent company	40 754	60 016	10 084	14 994
Net cash flows from operating activities	(396 705)	(330 790)	(98 163)	(82 642)
Net cash flows from investing activities	(58 551)	(90 800)	(14 488)	(22 685)
Net cash flows from financing activities	234 940	215 085	58 135	53 735
Net increase/(decrease) in cash and cash equivalents	(220 316)	(206 505)	(54 516)	(51 591)
Total assets*	4 558 983	3 923 518	1 033 502	990 712
Non-current liabilities*	744 519	756 857	168 779	191 111
Current liabilities*	2 335 733	1 707 963	529 501	431 271
Total equity*	1 478 731	1 458 698	335 222	368 330
Equity attributable to equity holders of the parent*	1 468 281	1 449 011	332 853	365 884
Issued capital*	20 846	20 837	4 726	5 261
Number of shares (pcs.)*	521 154 076	520 918 203	-	-
Diluting potential ordinary shares (pcs.)*	12 142 323	12 378 196	-	-
Earnings per ordinary share attributable to equity holders of the parent (in PLN/ EUR)	0.08	0.13	0.02	0.03
Diluted earnings per ordinary share attributable to equity holders of the parent (in PLN/ EUR)	0.08	0.13	0.02	0.03
Book value per share attributable to equity holders of the parent (in PLN/ EUR)*	2.82	2.78	0.64	0.70
Diluted book value per share attributable to equity holders of the parent (in PLN/ EUR)*	2.75	2.72	0.62	0.69

-individual items of assets and equity and liabilities of the statement of financial position were translated at the exchange rate of 4.4112 (for data as at 30.09.2011) and 3.9603 (for data as at the end of 2010), which were published by the National Bank of Poland for a given statement of financial position date,

-individual items of the income statement and the statement of cash flows were translated at the exchange rate of 4.0413 (for data for three quarters of 2011) and 4.0027 (for data for the three quarters of 2010), which are an arithmetic mean of average exchange rates published by the National Bank of Poland on the last day of each month covered by the presented data.

\* statement of financial position data presented as at 30 September 2011 and as at 31 December 2010.

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
 for the nine months ended 30 September 2011 (in PLN thousands)

		For 3 months ended 30 September 2011 <i>unaudited</i>	For 9 months ended 30 September 2011 <i>unaudited</i>	For 3 months ended 30 September 2010 <i>restated</i>	For 9 months ended 30 September 2010 <i>restated</i>
<b>Continuing operations</b>	Note				
<b>Revenue</b>		<b>1 361 994</b>	<b>3 467 844</b>	<b>1 172 498</b>	<b>2 978 650</b>
Sale of goods		213 984	685 181	215 477	512 613
Rendering of services		1 144 779	2 768 896	955 746	2 450 770
Rental income		3 231	13 767	1 275	15 267
<b>Cost of sales</b>		<b>1 298 690</b>	<b>3 233 850</b>	<b>1 067 665</b>	<b>2 676 922</b>
<b>Gross profit</b>		<b>63 304</b>	<b>233 994</b>	<b>104 833</b>	<b>301 728</b>
Other operating income	1	3 916	20 132	3 963	13 300
Selling costs		9 130	27 850	7 450	20 733
Administrative expenses		40 776	135 479	51 677	158 011
Other operating expenses	2	2 483	10 094	3 234	7 630
<b>Revenue from continuing operations</b>		<b>14 831</b>	<b>80 703</b>	<b>46 435</b>	<b>128 654</b>
Finance income	3	34 859	40 747	613	19 347
Finance costs	4	28 386	65 981	20 455	59 985
Share of associate's profit		557	2 113	2 138	3 958
<b>Profit before tax</b>		<b>21 861</b>	<b>57 582</b>	<b>28 731</b>	<b>91 974</b>
Income tax	6	6 644	16 273	8 359	24 211
<b>Net profit from continuing operations</b>		<b>15 217</b>	<b>41 309</b>	<b>20 372</b>	<b>67 763</b>
<b>Discontinued Operations</b>		-	-	-	-
<b>Profit for the year</b>		<b>15 217</b>	<b>41 309</b>	<b>20 372</b>	<b>67 763</b>
Attributable to:					
Equity holders of the parent		14 986	40 754	17 312	60 016
Non-controlling interests		231	555	3 060	7 747
		<b>15 217</b>	<b>41 309</b>	<b>20 372</b>	<b>67 763</b>
Earnings per share (in PLN)					
- number of shares		521 154 076	521 154 076	464 355 625	464 355 625
- basic, from net profit attributable to equity holders of the parent for the reporting period		0.03	0.08	0.04	0.13
Diluted earnings per share (in PLN):					
- number of shares		521 154 076	521 154 076	464 355 625	464 355 625
-diluting potential ordinary shares		12 142 323	12 142 323	12 378 196	12 378 196
- diluted, from net profit attributable to equity holders of the parent for the reporting period		0.03	0.08	0.04	0.13

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the nine months ended 30 September 2011 (in PLN thousands)

	For 3 months ended 30 September 2011 <i>unaudited</i>	For 9 months ended 30 September 2011 <i>unaudited</i>	For 3 months ended 30 September 2010 <i>restated</i>	For 9 months ended 30 September 2010 <i>restated</i>
<b>Net profit</b>	<b>15 217</b>	<b>41 309</b>	<b>20 372</b>	<b>67 763</b>
Currency translation differences on consolidation	9 269	8 589	(2 707)	2 851
Net gains/losses on cash flow hedges	(3 958)	(7 326)	6 638	324
Deferred tax	751	1 391	(1 195)	(54)
<b>Other comprehensive income, net of tax</b>	<b>6 062</b>	<b>2 654</b>	<b>2 736</b>	<b>3 121</b>
<b>Total comprehensive income</b>	<b>21 279</b>	<b>43 963</b>	<b>23 108</b>	<b>70 884</b>
<b>Comprehensive income attributable to:</b>	<b>21 279</b>	<b>43 963</b>	<b>23 108</b>	<b>70 884</b>
Equity holders of the parent	20 963	43 408	18 870	62 674
Non-controlling interests	316	555	4 238	8 210

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 30 September 2011 (in PLN thousands)

	Note	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>ASSETS</b>				
<b>Non-current assets</b>		<b>1 736 415</b>	<b>1 712 197</b>	<b>1 707 770</b>
Property, plant and equipment	7	1 025 789	1 027 948	979 128
Investment properties		56 997	42 316	75 122
Goodwill on consolidation		491 399	487 001	485 891
Intangible assets	8	25 902	25 234	24 505
Investments in associates accounted for using the equity method		15 329	14 659	19 293
Financial assets		6 758	4 196	4 575
Non-current receivables		60 655	46 184	49 602
Non-current prepaid expenses		2 284	949	31
Deferred tax assets		51 302	63 710	69 623
<b>Current assets</b>		<b>2 822 568</b>	<b>2 211 321</b>	<b>2 277 018</b>
Inventories	9	475 928	432 930	438 472
Trade and other receivables	10	2 156 788	1 376 087	1 570 806
Income tax receivables		10 539	6 808	6 382
Prepaid expenses		24 800	10 077	12 861
Cash and cash equivalents		153 498	373 814	230 872
Financial assets		1 015	11 605	17 625
<b>Available for sale non-current assets</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>4 558 983</b>	<b>3 923 518</b>	<b>3 984 788</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>		<b>1 468 281</b>	<b>1 449 011</b>	<b>1 268 984</b>
Issued capital		20 846	20 837	18 574
Share premium		738 237	737 454	513 466
Treasury shares		(6 884)	(6 884)	(6 884)
Translation of a foreign operation		(927)	(9 516)	(18)
Supplementary capital		555 994	471 415	471 415
Other capital		(85 254)	(85 254)	-
Reserve capital		31 678	33 221	32 534
Revaluation reserve		(2 125)	3 810	5 575
Retained earnings / Accumulated losses		216 716	283 928	234 322
<b>Non-controlling interests</b>		<b>10 450</b>	<b>9 687</b>	<b>148 591</b>
<b>Total equity</b>		<b>1 478 731</b>	<b>1 458 698</b>	<b>1 417 575</b>
<b>Non-current liabilities</b>		<b>744 519</b>	<b>756 857</b>	<b>801 159</b>
Interest bearing bank loans and borrowings		176 634	184 142	233 488
Long-term debentures		367 500	367 435	367 425
Provisions	11	93 867	92 398	85 611
Other liabilities		88 404	86 875	95 897
Deferred income tax liability		16 957	23 608	16 775
Accruals		1 157	2 399	1 963
<b>Current liabilities</b>	<b>12</b>	<b>2 335 733</b>	<b>1 707 963</b>	<b>1 766 054</b>
Trade and other payables		1 625 442	1 288 799	1 228 652
Short-term debentures		41 471	39 331	40 857
Current portion of interest-bearing bank loans and borrowings		592 232	277 407	396 671
Income tax payable		926	4 376	2 993
Accruals		46 673	54 945	59 478
Provisions		28 989	43 105	37 403
<b>Total liabilities</b>		<b>3 080 252</b>	<b>2 464 820</b>	<b>2 567 213</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4 558 983</b>	<b>3 923 518</b>	<b>3 984 788</b>



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the nine months ended 30 September 2011 (in PLN thousands)

	Issued capital	Share premium	Treasury shares	Attributable to equity holders of the parent Translation of a foreign operation	Reserve capital	Revaluation reserve	Supplementary capital	Other capital	Retained earnings / Accumulated losses	Total	Non- controlling interests	Total equity
<b>As at 1 January 2011</b>	<b>20 837</b>	<b>737 454</b>	<b>(6 884)</b>	<b>(9 516)</b>	<b>33 221</b>	<b>3 810</b>	<b>471 415</b>	<b>(85 254)</b>	<b>283 928</b>	<b>1 449 011</b>	<b>9 687</b>	<b>1 458 698</b>
Other comprehensive income, net of tax	-	-	-	8 589	-	(5 935)	-	-	-	2 654	-	2 654
Profit for the period	-	-	-	-	-	-	-	-	40 754	40 754	555	41 309
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8 589</b>	<b>-</b>	<b>(5 935)</b>	<b>-</b>	<b>-</b>	<b>40 754</b>	<b>43 408</b>	<b>555</b>	<b>43 963</b>
Share issue – combination with subsidiaries	9	783	-	-	(238)	-	-	-	-	554	-	554
Revaluation of executive options	-	-	-	-	(1 305)	-	-	-	-	(1 305)	-	(1 305)
Consolidation adjustments due to the change of share in control over a subsidiary	-	-	-	-	-	-	-	-	(2 425)	(2 425)	-	(2 425)
Profit distribution	-	-	-	-	-	-	84 579	-	(84 579)	-	-	-
Dividend	-	-	-	-	-	-	-	-	(20 846)	(20 846)	-	(20 846)
Other adjustments in equity in subsidiaries	-	-	-	-	-	-	-	-	(116)	(116)	208	92
<b>As at 30 September 2011 (unaudited)</b>	<b>20 846</b>	<b>738 237</b>	<b>(6 884)</b>	<b>(927)</b>	<b>31 678</b>	<b>(2 125)</b>	<b>555 994</b>	<b>(85 254)</b>	<b>216 716</b>	<b>1 468 281</b>	<b>10 450</b>	<b>1 478 731</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the nine months ended 30 September 2011 (in PLN thousands)

(continued)

	Attributable to equity holders of the parent										
	Issued capital	Share premium	Treasury shares	Translation of a foreign operation	Reserve capital	Revaluation reserve	Supplementary capital	Retained earnings / Accumulated losses	Total	Non-controlling interests	Total equity
<b>As at 1 January 2010</b>	<b>18 574</b>	<b>513 466</b>	<b>(6 884)</b>	<b>(2 798)</b>	<b>30 494</b>	<b>5 697</b>	<b>381 566</b>	<b>282 181</b>	<b>1 222 296</b>	<b>140 783</b>	<b>1 363 079</b>
Profit for the period	-	-	-	-	-	-	-	60 016	60 016	7 747	67 763
Other comprehensive income, net of tax	-	-	-	2 780	-	(122)	-	-	2 658	463	3 121
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 780</b>	<b>-</b>	<b>(122)</b>	<b>-</b>	<b>60 016</b>	<b>62 674</b>	<b>8 210</b>	<b>70 884</b>
Revaluation of executive options	-	-	-	-	2 040	-	-	-	2 040	-	2 040
Profit distribution	-	-	-	-	-	-	89 849	(89 849)	-	-	-
Dividend	-	-	-	-	-	-	-	(18 574)	(18 574)	-	(18 574)
Consolidation adjustments due to the change of share in control over a subsidiary	-	-	-	-	-	-	-	-	-	(315)	(315)
Other adjustments in equity in subsidiaries	-	-	-	-	-	-	-	548	548	(87)	461
<b>As at 30 September 2010 <i>(restated)</i></b>	<b>18 574</b>	<b>513 466</b>	<b>(6 884)</b>	<b>(18)</b>	<b>32 534</b>	<b>5 575</b>	<b>471 415</b>	<b>234 322</b>	<b>1 268 984</b>	<b>148 591</b>	<b>1 417 575</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

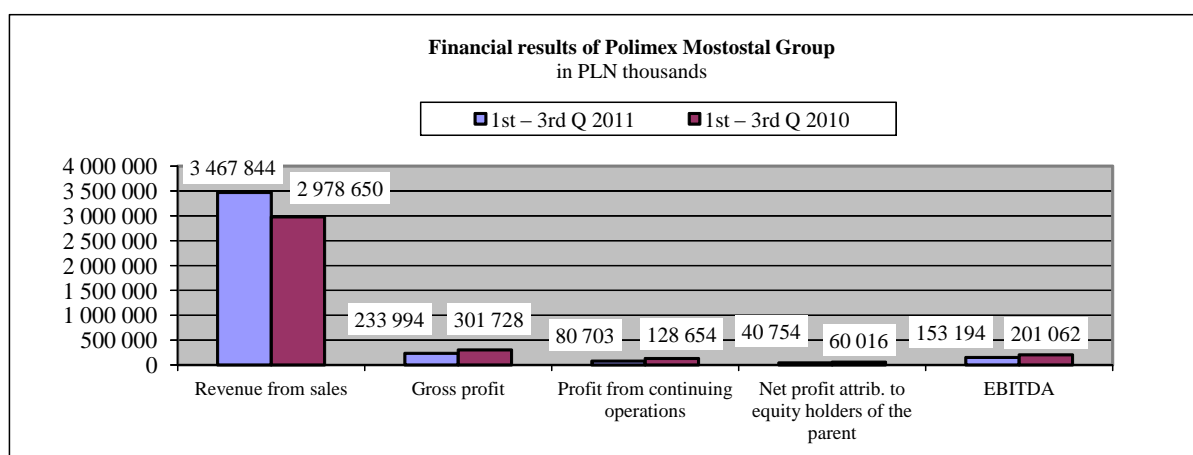
for the nine months ended 30 September 2011 (in PLN thousands)

	9 month period ended 30 September 2011 <i>unaudited</i>	Year ended 31 December 2010 <i>audited</i>	9 month period ended 30 September 2010 <i>restated</i>
<b>Cash flows from operating activities</b>			
<b>Gross profit/(loss)</b>	<b>57 582</b>	<b>155 203</b>	<b>91 974</b>
<b>Adjustments for:</b>	<b>(454 287)</b>	<b>(117 965)</b>	<b>(422 764)</b>
Share of profit of associates accounted for using the equity method	(2 113)	675	(3 958)
Depreciation / Amortisation	72 491	87 705	72 408
Interests and dividends, net	47 043	49 543	34 692
(Gain)/loss from investing activities	1 506	(8 259)	(8 378)
(Increase)/ decrease in receivables	(800 231)	(91 452)	(291 431)
(Increase)/ decrease in inventories	(42 998)	(81 612)	(87 464)
Increase/ (decrease) in payables except for loans and borrowings	331 261	(49 066)	(104 468)
Change in accruals and prepaid expenses	(25 575)	(4 040)	(2 120)
Change in provisions	(12 647)	(3 578)	(15 227)
Income tax paid	(16 305)	(20 845)	(23 273)
Other	(6 719)	2 964	6 455
<b>Net cash flows from operating activities</b>	<b>(396 705)</b>	<b>37 238</b>	<b>(330 790)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangibles	1 983	4 195	3 386
Purchase of property, plant and equipment and intangibles	(63 406)	(135 407)	(103 505)
Proceeds from sale of investment property	12	-	-
Purchase of investment property	-	-	-
Proceeds from sale of financial assets	-	12 838	12 662
Purchase of financial assets	(1)	(10 830)	(10 624)
Acquisition of a subsidiary, net of cash acquired	-	(5 274)	2 620
Dividends and interest received	2 543	4 835	4 038
Repayment of loans granted	6	630	623
Loans granted	-	-	-
Other	312	765	-
<b>Net cash flows from investing activities</b>	<b>(58 551)</b>	<b>(128 248)</b>	<b>(90 800)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debentures	290 957	355 663	258 643
Proceeds from issue of shares	554	-	-
Expenses for redemption of debentures	(292 500)	(357 495)	(259 994)
Payment of finance lease liabilities	(7 368)	(12 683)	(8 315)
Proceeds from loans and borrowings	429 625	238 770	382 515
Repayment of loans and borrowings	(122 308)	(128 694)	(103 180)
Dividends paid to equity holders of the parent	(20 041)	(18 148)	(18 148)
Dividends paid to non-controlling interests	-	-	-
Interest paid	(44 422)	(50 992)	(36 726)
Other	443	1 026	290
<b>Net cash flows from financing activities</b>	<b>234 940</b>	<b>27 447</b>	<b>215 085</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(220 316)</b>	<b>(63 563)</b>	<b>(206 505)</b>
Net foreign exchange difference	4 068	2 086	2 045
<b>Cash and cash equivalents at the beginning of the period</b>	<b>373 814</b>	<b>437 377</b>	<b>437 377</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>153 498</b>	<b>373 814</b>	<b>230 872</b>

### 1.1. Review of Group's financial results in the period of 1<sup>st</sup>-3<sup>rd</sup> quarters of 2011

In the period of 1<sup>st</sup>-3<sup>rd</sup> quarter 2011, Polimex-Mostostal Capital Group reported sales revenue in the amount of PLN 3,467,844 thousand (an increase of 16.4% as against comparative data for the period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2010). In the period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2011, net profit attributable to equity holders of the parent reached PLN 40,754 thousand (a decrease of 32.1% as against comparative data for the period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2010). Profit from continuing operations amounted to PLN 80,703 thousand (a decrease of 37.3% as against comparative data for the period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2010). EBITDA value amounted to PLN 153,194 thousand (a decrease of 23.8% as against comparative data for the 1<sup>st</sup>-3<sup>rd</sup> quarters 2010).

The results of the Group in the period from the 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 are presented below:



Achieved results show that Polimex-Mostostal Capital Group reported in the period from 1st to 3rd quarter 2011 financial results lower than in the analogous period of the prior year. The main reasons for poorer performance were as follows:

- Lower margins for road contracts resulting from more severe competition among contracts together with the need to prefinance the works in the period of a couple of months.
- Shifting the dates of issuing calls for tenders and of realization of modernization projects in the Polish power engineering sector together with significant bidding costs.
- Postponing partially to coming years of the overhaul investments in the Polish power engineering sector.

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

- **High value of the backlog held by the Group.**
- **Giant modernisation project in the Polish power engineering sector which can still be acquired** and executed as they are necessary to maintain the national energy security.

It is likely that Polimex-Mostostal S.A. will win contracts to construct 800 – 900 MW power units at Opole Power Plant. By the end of this PGE Elektrownia Opole S.A. will have selected the contractor of the above mentioned power units out of two consortiums. The first one is composed of Polimex-Mostostal S.A., Rafako S.A. and Mostostal Warszawa S.A., and the other one comprises Alstom Power Sp. z o.o. Polska and Alstom Power Systems GmbH. Both tenders fluctuate around PLN 11 billion gross. On 08.11.2011 the Board of Directors of PGE Polska Grupa Energetyczna S.A. gave its positive opinion on the realization of the above mentioned

investment at the costs arising from the prices presented in the tenders submitted in the conducted tender procedure. In the opinion of the Board of Directors of PGE the Project to construct units 5 and 6 at Opole Power Plant is one of the most profitable projects of constructing conventional energy units that are currently being considered in Poland. The date of putting in operations (supposing that the contract with the General Contractor of the Investment is signed in 2011) is 4<sup>th</sup> quarter 2016 (unit 5) and 2017 (unit 6).

Polimex-Mostostal S.A. is also taking part in tender procedures to construct 900 – 1000 MW units at Kozienice (about PLN 5.5 billion), in Pelpin (about PLN 11 billion) and in Ostrołęka (about PLN 5.5 billion) – all tenders are in co-operation with Hitachi, on its own in Jaworzno (about PLN 5.5 billion) and in Stalowa Wola (about PLN 2 billion) and in Włocławek (about PLN 1.5 billion) to construct power and gas units.

- **Good prospects of domestic construction industry.** Construction and assembly production executed within the country was 18.1% higher in September than in the prior year and 18.3% higher as compared to August this year<sup>1</sup>. In this situation it should be concluded that the prospects of construction industry remain good. This opinion may be supported by the fact that Polimex-Mostostal S.A. signed on 03.10.2011 the contract to “Construct a multifunction building of the International Congress Centre in Katowice” (PLN 205.4 million net) and on 21.10.2011 the contract to “Construct Car Parts Manufacturing Plant in Walbrzych” (PLN 87.2 million net).
- **Good prospects on domestic railroad market.** According to estimates made by The Ministry of Infrastructure PLN 4 billion will be acquired by companies modernizing railroads in 2011. Next year capital expenditure for modernization will double and reach PLN 8 billion. They will remain at this level for two years until 2014. Torpol Group is considered to be of four major entities on this market (the remaining three are Trakcja-Tiltra S.A., Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. and Feroco S.A.).  
Year 2011 will be at record high as far as expenditure on the construction of national roads is concerned. This year expenditure shall amount to about PLN 34 billion i.e. PLN 14 billion more than last year. In 2012 expenditure on road investments in Poland will amount to PLN 26 billion and in 2013 they will be about PLN 12 billion. Polimex-Mostostal S.A., which does not have much of its resources in road construction, will be able to adjust to the forecasted lower level of orders quite easily.
- **Actions taken to intensify Company’s presence on foreign markets.** Currently, Torpol group performs the contract in Norway to construct a two track tram line between the centre of the city of Bergen and the airport in Flesland.  
New orders may arise in the Libyan market. It is estimated that soon Libya will be able to allocate a considerable portion of USD 172 billion unfrozen in foreign accounts to the reconstruction of the country. Polimex-Mostostal S.A. is seriously considering increasing its commitment to execution of new contracts in this market. A key asset of the company is its long activity in Libya, positive opinions of customers and recognition of the brand.
- **Intensification of activities aimed at increasing the level of utilization of the new production installations.**
- **Integration of the support function, optimisation of purchasing costs and integration of operating activity** related to the process of combination of Polimex-Mostostal S.A. with the Group’s seven subsidiaries

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<sup>1</sup> Index: numbers of industrial and construction-assembly production, GUS (Central Statistical Office), 19.10.2011.

completed on 31.12.2010. It should be noted that the administration costs in the 1<sup>st</sup>-3<sup>rd</sup> quarters 2011 decreased by 14.3% as against the comparative period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2010.

The current backlog of the Group amounts to PLN 12.0 billion, of which PLN 11.5 billion is for signed contracts and PLN 0.5 billion for contracts in the final stage of negotiations. The current backlog for individual years is as follows: 2011 PLN 1.6 billion (concluded contracts: PLN 1.6 billion), 2012 PLN 6.1 billion (concluded contracts: PLN 6.0 billion, contracts in the final stage of negotiation: PLN 0.1 billion), 2013 PLN 2.8 billion (concluded contracts: PLN 2.5 billion, contracts in the final stage of negotiation: PLN 0.3 billion) and PLN 1.5 billion (concluded contracts: PLN 1.4 billion, contracts in the final stage of negotiations PLN 0.1 billion).

Current backlog of the business, after eliminating sales attributable to consortium members, amounts to PLN 8.7 billion, of which PLN 8.4 billion is concluded contracts and PLN 0.3 billion is contracts in the final stage of negotiations. Current backlog of the business in individual years is as follows: 2011 PLN 1.2 billion (concluded contracts: PLN 1.2 billion), 2012 PLN 4.2 billion (concluded contracts: PLN 4.1 billion, contracts in the final stage of negotiation: PLN 0.1 billion), 2013 PLN 2.2 billion (concluded contracts: PLN 2.0 billion, contracts in the final stage of negotiation: PLN 0.2 billion) and PLN 1.1 billion in the following years relating in its entirety to concluded contracts.

At 30.09.2011, the statement of financial position total of Polimex-Mostostal Capital Group amounted to PLN 4,558,983 thousand (an increase of 14.4% as against comparable data at 30.09.2010). As at 30.09.2011 non-current assets amounted to PLN 1,736,415 thousand (an increase of 1.7% as against comparative data as at 30.09.2010), and current assets to PLN 2,822,568 thousand (an increase of 24.0% as against comparative data at 30.09.2010). Property, plant and equipment were the largest item in fixed assets structure constituting 22.5% of total assets. Trade and other receivables constituting 47.3% of total assets were the largest item of current assets.

Equity attributable to ordinary equity holders of the parent at 30.09.2011 amounted to PLN 1,468,281 thousand (an increase of 15.7% as against comparable data at 30.09.2010), and liabilities amounted to PLN 3,080,252 thousand (an increase of 20.0% as against comparable data at 30.09.2010). The share premium, constituting 16.2% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 51.2% of total equity and liabilities and equity were the largest item of liabilities.

Cash and cash equivalents at the end of the 3<sup>rd</sup> quarter 2011 amounted to PLN 153,498 thousand (a decrease of PLN 77,374 thousand as compared against as at 30.09.2010). Net cash from operating activity in the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 amounted to PLN - 396,705 thousand as a result of an increase in the amounts due for works, which is the effect of the way road contracts for the benefit of the Directorate for National Roads and Motorways are settled. Net cash from investing activities in the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 amounted to PLN -58,551 thousand, and net cash from financing activity in the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 amounted to PLN 234,940 thousand.

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 liquidity and repaid contracted debt. Current and quick liquidity ratios were on the safe level and were equal to

1.21 and 1.00 respectively. A decrease in EBITDA margin and net profit margin was the result of a slightly lower gross profit on sales as against comparative period, with increased sales at the same time. Lower administration costs and an improvement to the balance of revenue and financial costs did not compensate for a decrease in gross profit on sales.

<b>Ratios for the Polimex-Mostostal Capital Group</b>	<b>30.09.2011</b>	<b>30.09.2010</b>
Current liquidity ratio ( <i>current assets : current liabilities</i> )	1.21	1.29
Quick liquidity ratio( <i>current assets less inventories</i> ) : <i>current liabilities</i> )	1.00	1.04
General debt ratio ( <i>liabilities : assets</i> )	67.6%	64.4%
Net profit margin ( <i>net profit attributable to equity holders of the parent : revenue from sales</i> )	1.2%	2.0%
EBITDA margin (EBITDA : <i>revenue from sales</i> )	4.4%	6.8%
Earnings per share ( <i>net profit attributable to equity holders of the parent : weighted average number of shares</i> )	0.08	0.13

## 1.2. Significant factors and events having an impact on achieved financial results

### 1.2.1. Macroeconomic environment

According to the data by GUS, important to the Issuer <sup>2</sup> **construction and assembly production** (in constant prices), including investment and overhaul works, performed at home by construction companies with more than 9 employees, was 18.1% higher in September this year than a year before and 18.3% higher as compared against August this year. An increase of production was reported in all branches of construction industry as against both September last year and August this year. As compared against August this year the increase in production of enterprises whose core activity is performing civil engineering works amounted to 23.5%, in enterprises performing works relating to mounting buildings – 17.5%, and in enterprises performing specialist construction works – 10.9%. In the period from January to September this year construction and assembly production was 18.2% higher than in the analogous period of the prior year.

**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 changes of prices of the above mentioned materials have the smallest influence on the profitability of conducted activity.

Very high prices of **steel** which were projected at the beginning of this year actually turned out to be much lower and were at the level of 20-30% of the initial price. CRUSPI the global steel price index increased from 180% at the opening of the year to 230% in February and then it started to fall. In the last three months it remained steady at the level of 200%, with a slight falling trend. The European CRUSPI index changed from 170% up to 09% in February and then together with a systematic slow decrease of prices it reached the level of 175% at the end of October. Prices were close to the values as at the beginning of the year.

<sup>2</sup> Index: numbers of industrial and construction-assembly production, GUS (Central Statistical Office), 19.10.2011.

Smelting industry finds it very difficult to maintain production on its current level. High prices of production components as well as these of energy force producers to maintain high steel prices in the situation where the market does not want to accept such prices. A relatively good economic situation remains in the segment of production and usage of enforced steel. Signals flowing from customers and more willingness to negotiate prices suggest further moderate decrease of prices of smelting industry finished products.

**Zinc** prices in the 1<sup>st</sup> half of this year ranged from USD 2,100 to USD 2,500/ Mg. At present the prices have fallen below USD 2,000/Mg due to the crisis in Greece. The average zinc price at the London Metal Exchange (LME) was USD 2,390/Mg in July, USD 2,212/Mg in August and USD 2,077/Mg in September. However, it is not certain if the decreasing trend will continue next year. Despite a very high level of inventories (zinc inventories are about 1.6 million tonnes and are the highest for the last 15 years) a growing demand can be observed on zinc market.

The observed feature of macroeconomic environment in the 3<sup>rd</sup> quarter 2011 was the **significant weakening of Polish zloty exchange rate as compared to the EUR and USD** which was the effect of an increased risk aversion on international financial markets. In the 3<sup>rd</sup> quarter 2011 the arithmetic mean of average daily NBP exchange rates for EUR/PLN was 4.1508 as against 3.9598 in the 2<sup>nd</sup> quarter 2011 (an increase of 4.82%) and for USD/PLN it was 2.9397 as against 2.7508 in the 2<sup>nd</sup> quarter 2011 (an increase of 6.87%). In 3<sup>rd</sup> quarter 2011 the standard deviation of average daily NBP exchange rates for EUR/PLN was 0.1574 (0.0289 in the 2<sup>nd</sup> quarter 2011) and for USD/PLN it was 0.1737 (0.0492 in 2<sup>nd</sup> quarter 2011). The above mentioned observations indicate a significant increase in the volatility of EUR/PLN exchange rate (the variability factor <sup>3</sup> in the 3<sup>rd</sup> quarter 2011 was 3.79% as compared to 0.73% in the 2<sup>nd</sup> quarter 2011) and an increase in volatility of USD/PLN exchange rate (the variability factor in the 3<sup>rd</sup> quarter 2011 was 5.91% as compared to 1.79% in the 2<sup>nd</sup> quarter 2011).

In the 4<sup>th</sup> quarter 2010 the NBP reference rate remained at the level of 3.50%. In January 2011, according to market expectations, Monetary Policy Council decided to increase interest rates by 25 pp, in April by 25 pp, in May by 25 pp and in June by another 25 pp. As a result the above mentioned change in interest rates was 4.50%. On its last meeting (8-9.11.2011) MPC decided to keep the rates at their current level.

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<sup>3</sup> Variability factor = standard deviation / arithmetic mean



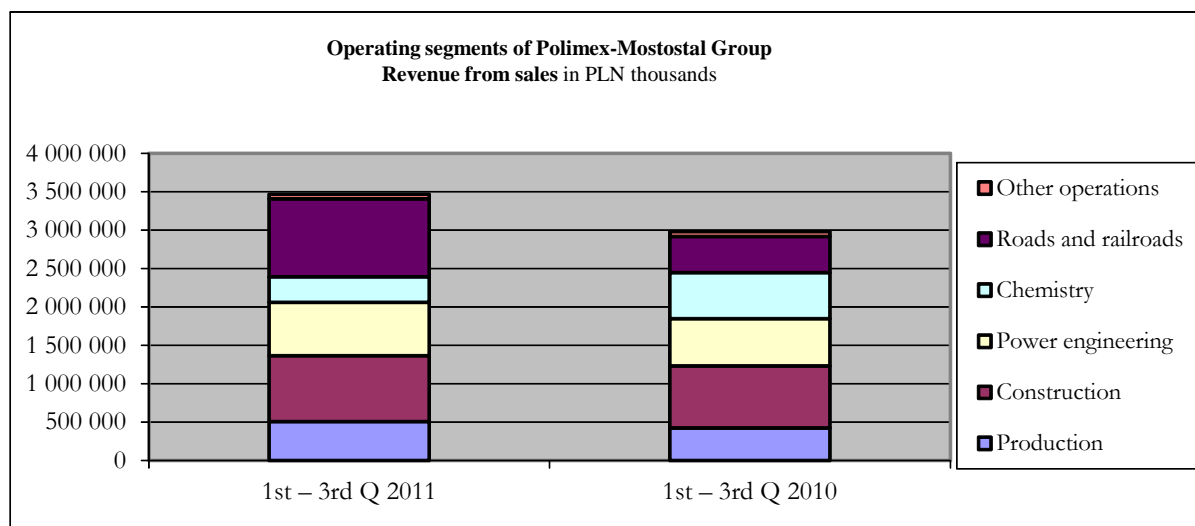
### 1.2.2. Operating segments and geographic information

In the period of 1<sup>st</sup>-3<sup>rd</sup> quarter 2011 the operating segments of the Issuer's Capital Group contributed to sales as follows:

in PLN thousands

Segment	Change 1st-3rd Q 2011 / 1st-3rd Q 2010	1st-3rd Q 2011		1st-3rd Q 2010	
		value	share	value	share
Production	19.5%	504 802	14.6%	422 267	14.2%
Construction	6.0%	859 441	24.8%	810 483	27.2%
Power Engineering	13.1%	693 553	20.0%	613 410	20.6%
Chemistry	-44.2%	334 104	9.6%	599 119	20.1%
Roads and Railways	116.4%	1 017 976	29.3%	470 367	15.8%
Other activity	-8.0%	57 968	1.7%	63 004	2.1%
<b>Total revenue form sales</b>	<b>16.4%</b>	<b>3 467 844</b>	<b>100.0%</b>	<b>2 978 650</b>	<b>100.0%</b>

The highest share in sales was attributed to Roads and Railroads 29.3% (an increase in sales of 116.4% as against comparable data for 1<sup>st</sup>-3<sup>rd</sup> Qs 2010) followed by Construction industry 24.8% (an increase in sales of 6.0% as against comparable data for 1<sup>st</sup>-3<sup>rd</sup> Qs 2010). A very clear increase in the revenue of Roads and Railroads segment was the result of the dynamic growth of works in the scope of road and railway infrastructure. A significant share in sales was reported in Power Engineering – 20.0%, which is before acquiring and executing modernisation projects in Polish power engineering sector. An increase in the revenue of Production (an increase in sales of 19.5% as against comparative data for the 1<sup>st</sup>-3<sup>rd</sup> Qs 2010) was the result of among other things of fuller and fuller utilisation of new production capacity in the Tarnobrzeg Special Economic Zone. A significant decrease in revenue in Chemistry - mostly as a result of completing 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)",

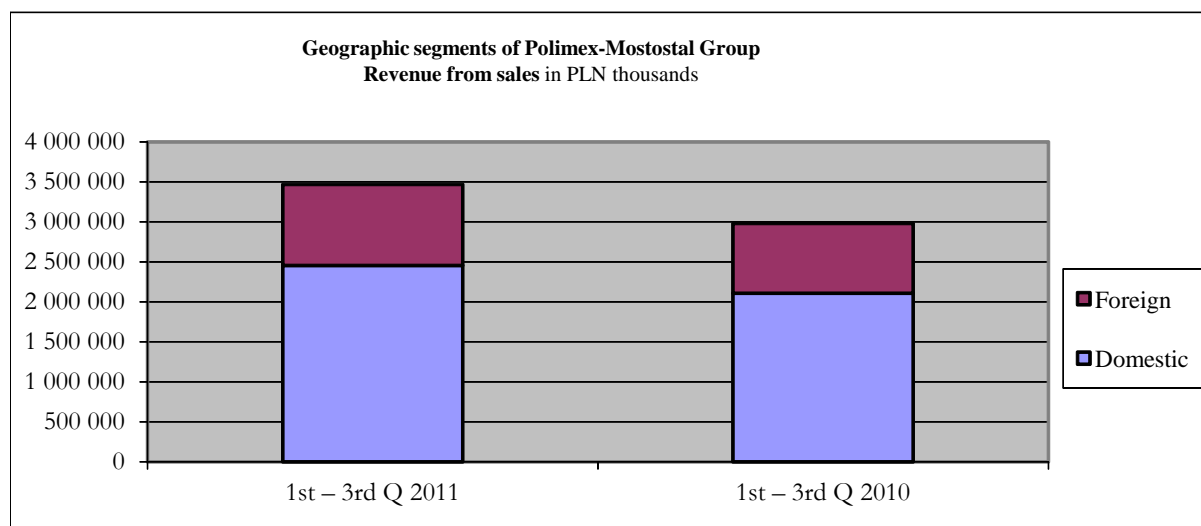


The value and **geographic structure** of Polimex-Mostostal S.A. Group's **sales** in the period from the 1<sup>st</sup> to the 3<sup>rd</sup> quarter 2011 was as follows:

PLN thousands

Market	Change 1st-3rd Q 2011 / 1st-3rd Q 2010	1st-3rd Q 2011		1st-3rd Q 2010	
		value	share	value	share
Domestic	16.7%	2 456 760	70.8%	2 105 511	70.7%
Foreign	15.8%	1 011 084	29.2%	873 139	29.3%
<b>Total revenue from sales</b>	16.4%	3 467 844	100.0%	2 978 650	100.0%

As compared to the period of 1st-3rd Qs 2010 there was observed a similar breakdown of sales by domestic and foreign ones. The domestic market, where 70.8% of total revenues from sales was generated, was the main market for Polimex-Mostostal S.A in the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011.



### 1.2.3. Significant executed construction contracts

In the 3<sup>rd</sup> quarter 2011 Group companies obtained the largest sales revenue as a result of execution of the following contracts (for information on execution of contracts by Polimex-Mostostal S.A. see section 4.2):

Project name	Revenue obtained in 3 <sup>rd</sup> quarter 2011	Operating segment
Modernisation of railway lines	77 750	Roads and railroads
Construction of a boiler	20 063	Power Engineering
<b>Total</b>	<b>97 813</b>	

## 2. ADDITIONAL INFORMATION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 2.1. Information on the parent company and Polimex-Mostostal Group

#### 2.1.1. Corporate information

The Polimex-Mostostal Capital Group (“the Group”) is composed of Polimex-Mostostal S.A., the parent company (“the parent”, “the Company”, “the Parent Company”) and its subsidiaries. The consolidated financial statements of the Group cover the nine months ended 30 September 2011 and contain comparative data for the nine months ended 30 September 2011 and as at 30 September 2010 and as at 31 December 2010 (for the statement of financial position).

**Polimex - Mostostal S.A.** (the parent company) operates based on articles of association established with a notarial deed on 18 May 1993 (Rep. No 4056/93) with further amendments.

Registered Office: country POLAND, the MAZOVIA province, powiat of the Capital City of Warsaw, WARSAW – CENTRUM commune, city of Warsaw.

Address: ul. Czackiego 15/17 -950 – 950 WARSAW.

The Company has been registered by the District Court for the Capital City of Warsaw, 12th Economic Department of the National Court Register, Entry No KRS 0000022460.

The main area of the parent company's business is execution of construction and erection works, fitting equipment and industrial installations, manufacturing.

Polimex-Mostostal S.A. conducts business activities in the following segments:

- Production,
- Construction,
- Power engineering,
- Chemistry,
- Roads and railroads,
- Other activities.

Polimex-Mostostal S.A. has been granted REGON statistical number 710252031.

The parent company and other Group entities have an unlimited period of operation.

## 2.1.2. Composition of the Group

The Group comprises Polimex-Mostostal S.A., the parent company, with the registered office in Warsaw and the following subsidiaries and Capital Groups:

Item no.	Entity name	Registered office	Business activities	% held by the Group in share capital	
				30 September 2011 (%)	31 December 2010 (%)
	Subsidiaries				
1	Depolma GmbH (*)	Ratingen-Germany	Supplies and engineering services on agency basis	100.00	100.00
2	Polimex-Cekop Development Sp. z o. o.(*)	Warsaw	Trading activities, consulting and advisory services	100.00	100.00
3	Fabryka Kotłów "Sefako" S.A.(*)(Capital Group)	Sędziszów	Design, manufacturing and sale of boilers	89.20	89.20
4	Naf Industriemontage GmbH(*)	Berlin	Construction and erection services	100.00	100.00
5	Polimex-Development – Kraków Sp. z o.o. (*) (Capital Group)	Cracow	Execution of construction works	100.00	100.00
6	Sinopol Trade Center Sp. z o.o.(*)	Plock	Wholesale	50.00	50.00
7	Modul System Serwis Sp. z o.o. (*)	Plock	Metal structure manufacturing	100.00	100.00
8	Stalfa Sp. z o.o.(*)	Sokolów Podlaski	Metal products manufacturing	100.00	100.00

9	Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o. (*)	Siedlce	Transport services	100.00	100.00
10	Polimex-Mostostal ZUT Sp. z o.o. (*)	Siedlce	Engineering services	100.00	100.00
11	Polimex-Mostostal Ukraina SAZ (*)	Kiev	Housing development	100.00	100.00
12	SPB Przembud Sp. Z o.o. (***) liquidation process completed on 23 August 2011	Szczecin	Specialist and general construction	-	75.54
13	MSP Tchernonograd -Ukraine (*)	Tchernonograd - Ukraine	Metal structure manufacturing	99.63	99.63
14	Polimex-Hotele Sp. z o.o. (*)	Warsaw	Housing development	100.00	100.00
15	Polimex-Mostostal Development Sp. z o.o. (*)	Warsaw	Housing development	100.00	100.00
16	Torpol Sp. z o.o. (*) (Capital Group)	Poznań	Comprehensive execution of transport facilities	100.00	100.00
17	Energomontaż-Nieruchomości Sp. z o.o.(*)	Warsaw	Real estate trade, maintenance and management	100.00	100.00
18	Energomontaż-Magyarország Sp. z o.o.(*)	Budapest	Construction and erection works, services, trade	100.00	100.00
19	Energomontaż – Północ Gdynia Sp. z o.o. (*)	Gdynia	Construction and erection works, steel structure production, trade	99.99	99.99
20	Energop Sp. z o.o.(*)	Sochaczew	Production of pipelines and steel structures, construction and erection services	99.99	99.99
21	Energomontaż-Północ-Technika Spawalnictwa i Laboratorium Sp. z o.o.(*)	Warsaw	R&D	99.30	99.30
22	Centrum Projektowe Polimex-Mostostal Sp. z o.o. (*)	Gliwice	Construction, urban and engineering design and planning	99.57	99.51
23	Zakład Budowlano – Instalacyjny Turbud Sp. z o.o.(*)	Plock	Housing development, industrial buildings and rehabilitation	100.00	100.00
24	Zarząd Majątkiem Górczewska Sp. z o.o.(*) (Real Estate Administration)	Warsaw	Real estate lease, tenancy and administration	100.00	100.00

25	Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.(*)	Zielona Góra	Construction and design of overhead lines and transformer stations	100.00	100.00
26	PxM Projekt - Południe Sp. z o.o. (*)	Cracow	Design services in construction sector	100.00	100.00
27	Coifer Capital Group (*)	Romania	Steel structure manufacturing	100.00	100.00
28	WBP Zabrze Sp. z o.o.(*)	Zabrze	Design services	99.97	99.97
29	PRInż – 1 Sp. z o.o.(*)	Katowice	Road construction	88.62	88.62
30	Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.(*)	Bielsko Biala	Sewage and water treatment, technical and economic analyses in the scope of modernisation and construction of new systems.	75.00	75.00
31	Polimex-Mostostal Wschód Sp. z o.o. (*)	Moscow, Russia	Specialist and general construction	100.00	100.00
32	Centralne Biuro Konstrukcji Kotłów S.A.(*)	Tarnowskie Góry	Specialist construction, services	98.50	98.50
33	Grande Meccanica SpA(*)	Narni, Italy	Production, construction	100.00	100.00
<b>Associates</b>					
34	PORTY S.A. in liquidation (***)	Gdańsk	Construction, trade, transport and machine rental	40.00	40.00
35	Polimex-Sices Sp. z o.o. (**)	Warsaw	Execution of erection works	50.00	50.00
36	Energomontaż – Północ Belchatów Sp. z o.o. (**)	Belchatów	Specialist construction and erection services	32.82	32.82
*	entity consolidated using the full method				
**	entity recognized using the equity method				
***	entity eliminated from consolidation				

As at 30 September 2011 the percentage of voting rights held by the Group in subsidiaries corresponds to the percentage held in the share capital of those entities, except for Centrum Projektowe Polimex-Mostostal Sp. z o.o., where voting rights are lower and amount to 99.28% (share in capital is 99.57%).

Polimex – Sices Sp. z o.o. is recognised in these financial statements using the equity method due to the fact that the Group does not exercise control over entity operations.

Due to the combination of Polimex-Mostostal S.A. (the acquiring company) with Energomontaż-Północ S.A. with its registered office in Warsaw, Naftobudowa S.A. with its registered office in Krakow, Naftoremont Sp. z o. o. with

its registered office in Plock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with its registered office in Krakow, Zakłady Remontowe Energetyki Lublin S.A. with its registered office in Lublin, EPE-Rybnik Sp. z o. o. with its registered office in Rybnik, ECeRemont Sp. z o.o. with its registered office in Zielona Gora (the companies being acquired), which occurred on 31 December 2010, the comparative data in the standalone interim condensed financial statements of Polimex Mostostal S.A. for the period of 9 months of 2010 and as at 30 September 2010 are presented in a manner as if the combination had occurred at 1 January 2009. The combination had no impact on data presented in the consolidated financial statements.

There were the following changes to the composition of the Group in the 3rd quarter 2011:

- increasing capital in Grande Meccanica SpA in the amount of PLN 4,172 thousand,
- increasing capital in Tchervonograd MSP –Ukraine In the amount of PLN 550 thousand – cash payment and making contribution of property, plant and equipment in the amount of PLN 929 thousand.

### **2.1.3. Composition of the Company's Management Board**

As at 30 September 2011 the composition of the Management Board was as follows:

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

### **2.1.4. Approval of financial statements**

These condensed consolidated financial statements were authorized for issue by the Management Board on 10 November 2011.

## **2.2. Principles adopted for the preparation of the interim condensed consolidated financial statements for the 3rd quarter 2011**

### **2.2.1. Significant accounting policies**

#### **Basis of preparation of financial statements**

The condensed consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available for sale financial assets, which are measured at fair value.

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

The condensed consolidated financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000).

The condensed consolidated financial statements have been prepared on the assumption that the significant Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these condensed consolidated financial statements the Group's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of Group's significant companies except for the following companies: Porty S.A. in liquidation, Energomontaż-Północ –Sochaczew" in bankruptcy.

### **Statement of compliance**

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") applicable to interim reporting, which have been adopted by the European Union, in particular IAS 34. At the date of authorisation of these financial statements for issue, in light of the current process of IFRS adoption in the European Union and the nature of the Group's activities, in terms of accounting policies applied by the Group there is no difference between the effective IFRSs and the IFRSs adopted by the European Union.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Certain Group entities keep their books of account in accordance with accounting policies (principles) specified in the Accounting Act of 29 September 1994 („the Act”) with further amendments and the regulations issued based on that Act ("Polish accounting standards") or according to accounting standards in force in the countries where the companies have their registered offices. The condensed consolidated financial statements contain adjustments introduced to make the financial statements of these entities compliant with IFRSs.

### **Significant accounting principles**

Significant accounting principles applied when preparing these financial statements were described in detail in the consolidated financial statements for the 12 month period ended 31 December 2010, which was communicated to the public on 28 April 2011.

Presentation changes made to the standalone financial statements of Polimex-Mostostal S.A. to keep the data comparable and covering financial data for the nine months ended 30 September 2010 and as at 30 September 2010 relate to the combination described in section 2.1.2 of these financial statements.

#### **2.2.2. Adjustment of error**

There was no adjustment of an error in the reporting period.

#### **2.2.3. Estimates**

Preparation of financial statements in accordance with IFRSs requires estimates and assumptions to be made, which have an effect on the amounts reported in the financial statements as well as in other information and explanatory notes. Despite the fact that the assumptions and estimates are based on the Management's best knowledge of current activities and events, achieved results may differ from the estimated ones.

As at 30 September 2011 Polimex-Mostostal Group recognised deferred tax assets in the amount of PLN 210,025 thousand and a deferred tax liability in the amount of PLN 175,680 thousand.

In the 3<sup>rd</sup> quarter 2011 the following adjustments for provisions and revaluation reserves were made in the Group:

increase:

- provisions for bonuses and rewards for employees PLN 63 thousand,
- provisions for jubilee bonuses, retirement benefits and social fund PLN 180 thousand,
- provisions for guarantee repairs PLN 828 thousand,
- provisions for projected losses on a contract PLN 456 thousand.



decrease:

- provisions for leave entitlement 1,029 thousand,
- receivables allowance PLN 465 thousand,
- inventories allowance PLN 39 thousand,
- provisions for expenditures 3,053 thousand.

#### **Condensed financial statements of Polimex - Mostostal S.A., the parent company.**

As at 30 September 2011 the parent company recognised deferred tax assets in the amount of PLN 195,023 thousand and a deferred tax liability in the amount of PLN 159,198 thousand.

In the 3rd quarter of 2011 the following adjustments for provisions and revaluation reserves were made:

increase:

- provisions for bonuses and rewards for employees PLN 923 thousand,
- provisions for guarantee repairs PLN 1,026 thousand,

decrease:

- provisions for leave entitlement 745 thousand,
- receivables allowance PLN 420 thousand,
- provisions for projected losses on a contract PLN 1,599 thousand,
- provisions for expenditures 810 thousand.

#### **2.2.4. Functional currency and presentation currency**

Polish zloty is the functional currency of the parent company and other companies included in these consolidated financial statements and the presentation currency is also Polish zloty except for the following companies: Tchervonograd MSP –Ukraine, Polimex-Mostostal Ukraine, Depolma GmbH, Germany, Polimex-Mostostal Wschód Sp. z o.o., Russia, Naf Industriemontage GmbH, Germany, Energomontaż Magyarország Sp. z o.o., Hungary, Coifer Capital Group, Romania and Grande Meccanica Sp.A., Italy.

Financial data of the above mentioned companies were translated into the presentation currency in accordance with the principles specified in IAS 21.

#### **2.2.5. Basis of consolidation**

These condensed consolidated financial statements comprise the financial statements of *Polimex-Mostostal S.A.* and financial statements of subsidiaries each time prepared for the 9 months ended 30 September 2011. Financial statements of subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the uniform accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate an impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. An entity is controlled by the Parent Company when the parent has, directly or indirectly, through its subsidiaries, more than half of the votes at the shareholders' meeting of that entity, unless it is possible to prove that such holding does not represent control. Control is also exercised if the company has the power to influence the financial and operating policy of a given entity.

### **2.2.6. Investments in associates**

Investments in associates are accounted for using the equity method. An associate is an entity in which the Parent Company has, either directly or through subsidiaries, significant influence and which is neither its subsidiary nor a joint venture. Financial statements of the associates are the basis for valuation of the Parent's investments in associates using the equity method. The financial year of an associate and that of the Parent Company is identical. Certain associates apply accounting policies as defined in the Accounting Act. Before the share in their net assets is calculated, financial data of associates is adjusted to bring it to conformity with IFRS applied by the Group.

Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Parent's share of the associates' net assets, less any impairment losses. The income statement reflects the parent's share in the results of operations of the associates. Where there has been a change recognised directly in the associates' equity, the Parent recognises its share in each change and discloses it, when applicable, in the statement of changes in equity.

### **2.2.7. Interest in a joint venture**

Interests in joint ventures in which the Group exercises joint control are accounted for using the equity method. Before the share in the joint venture's net assets is calculated, the financial data of the joint venture is adjusted to bring it to conformity with IFRS applied by the Group.

Investments in joint ventures are assessed for impairment if there is any objective evidence that an investment may be impaired or when an impairment write-off recognised in previous years is no longer required.

### **2.2.8. Foreign currency translation**

Transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date.

At the statement of financial position date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP (the National Bank of Poland) rate prevailing for the given currency at the year-end. Foreign currency differences that arise on translation are recognised appropriately in the finance income (costs). Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into Polish zloty using the rate of exchange binding as at the date of remeasurement to fair value.

To translate selected financial data into EUR the following exchange rates were adopted:

- translation of turnover, financial results and cash flows for the current period – the exchange rate of 4.0413 PLN/EUR
- translation of assets and equity and liabilities as at 30 September 2011 – the exchange rate of 4.4112 PLN/EUR
- translation of turnover, financial results and cash flows for the comparative period – the exchange rate of 4.0027 PLN/EUR
- translation of assets and equity and liabilities as at 31 December 2010 – the exchange rate of 3.9603 PLN/EUR
- translation of assets and equity and liabilities as at 30 September 2010 – the exchange rate of 3.9870 PLN/EUR

### 2.3. Selected other explanatory notes to the condensed consolidated financial statements (in PLN thousands)

<b>Note 1</b>	For 3 months ended 30 September 2011 <i>unaudited</i>	For 9 months ended 30 September 2011 <i>unaudited</i>	For 3 months ended 30 September 2010 <i>restated</i>	For 9 months ended 30 September 2010 <i>restated</i>
<b>Other operating income</b>				
Gain on disposal of non-financial fixed assets	587	1 564	96	2 097
Liabilities written off	827	6 126	-	771
Court settlement	22	312	-	282
Reversed provision for future expenses	557	4 657	691	1 266
Recovered damages payments and fines	1 633	4 924	1 175	4 866
Grants received	29	95	751	1 195
Other	261	2 454	1 250	2 823
<b>Other operating income, total</b>	<b>3 916</b>	<b>20 132</b>	<b>3 963</b>	<b>13 300</b>
<b>Note 2</b>	For 3 months ended 30 September 2011 <i>unaudited</i>	For 9 months ended 30 September 2011 <i>unaudited</i>	For 3 months ended 30 September 2010 <i>restated</i>	For 9 months ended 30 September 2010 <i>restated</i>
<b>Other operating expenses</b>				
Donations	95	522	223	857
Damages and fines	1 093	3 942	1 038	1 670
Court expenses	74	1 346	77	452
Costs of post-accident repairs	2	217	-	185
Loss on disposal of non-financial fixed assets	43	461	38	144
Provision for expenses	906	1 076	-	-
Costs of guarantee repairs	-	-	758	758
Other	270	2 530	1 100	3 564
<b>Total other operating expenses</b>	<b>2 483</b>	<b>10 094</b>	<b>3 234</b>	<b>7 630</b>
<b>Note 3</b>	For 3 months ended 30 September 2011 <i>unaudited</i>	For 9 months ended 30 September 2011 <i>unaudited</i>	For 3 months ended 30 September 2010 <i>restated</i>	For 9 months ended 30 September 2010 <i>restated</i>
<b>Finance income</b>				
Interest	477	3 946	698	3 309
Dividends	-	100	-	-
Revenue from measurement and exercise of derivative instruments	(1 305)	16	3 627	7 962
Foreign exchange gains	34 937	35 784	(3 971)	56
Gain on sale of financial assets	-	-	-	6 560
Other	750	901	259	1 460
<b>Total finance income</b>	<b>34 859</b>	<b>40 747</b>	<b>613</b>	<b>19 347</b>

<b>Note 4</b>	For 3 months ended 30 September 2011	For 9 months ended 30 September 2011	For 3 months ended 30 September 2010	For 9 months ended 30 September 2010
<b>Finance costs</b>	<i>unaudited</i>	<i>unaudited</i>	<i>restated</i>	<i>restated</i>
Interest	11 211	28 777	6 148	17 039
Debenture commissions and interest	6 895	19 766	6 427	19 923
Bank commissions and charges	705	3 271	816	3 550
Expenses arising from measurement and exercise of derivative instruments	2 306	2 165	52	1 312
Foreign exchange losses	5 614	8 896	5 873	15 155
Finance charges payable under finance lease agreements	635	1 744	639	1 604
Other	1 020	1 362	500	1 402
<b>Total finance costs</b>	<b>28 386</b>	<b>65 981</b>	<b>20 455</b>	<b>59 985</b>

<b>Note 5</b>	For 3 months ended 30 September 2011	For 9 months ended 30 September 2011	For 3 months ended 30 September 2010	For 9 months ended 30 September 2010
<b>Costs by type</b>	<i>unaudited</i>	<i>unaudited</i>	<i>restated</i>	<i>restated</i>
Depreciation / Amortisation	23 982	72 491	23 995	72 408
Materials and energy	420 209	1 081 047	312 755	680 198
External services	597 776	1 348 230	496 460	1 519 593
Taxes and charges	11 183	30 582	9 337	30 923
Employee benefits expenses	259 367	747 991	230 790	698 523
Other costs by type	26 510	82 990	22 937	56 810
<b>Total costs by type</b>	<b>1 339 027</b>	<b>3 363 331</b>	<b>1 096 274</b>	<b>3 058 455</b>

<b>Note 6</b>	For 3 months ended 30 September 2011	For 9 months ended 30 September 2011	For 3 months ended 30 September 2010	For 9 months ended 30 September 2010
<b>Income tax</b>	<i>unaudited</i>	<i>unaudited</i>	<i>restated</i>	<i>restated</i>
Current income tax	845	4 772	10 485	21 191
Deferred income tax	5 799	11 501	(2 126)	3 020
<b>Total income tax</b>	<b>6 644</b>	<b>16 273</b>	<b>8 359</b>	<b>24 211</b>

<b>Note 7</b>	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Property, plant and equipment</b>			
Land, buildings and structures	567 687	549 820	515 744
Plant and machinery	309 096	285 213	263 960
Means of transportation	76 999	71 146	70 204
Other property, plant and equipment	72 007	121 769	129 220
<i>of which: Fixed assets under construction and advance payments to fixed assets under construction</i>	<i>50 913</i>	<i>97 967</i>	<i>106 653</i>
<b>Total property, plant and equipment, net</b>	<b>1 025 789</b>	<b>1 027 948</b>	<b>979 128</b>

	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 8</b>			
<b>Intangible assets</b>			
Software	18 110	17 404	16 169
Goodwill	4 015	4 015	4 015
Other	3 777	3 815	4 321
<b>Total intangible assets, net</b>	<b>25 902</b>	<b>25 234</b>	<b>24 505</b>
	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 9</b>			
<b>Inventories</b>			
Raw materials	155 577	109 506	125 170
Semi-finished goods and work in progress	292 190	287 099	285 228
Finished goods	14 772	24 602	16 686
Goods for resale	2 149	1 273	2 760
Advance payments to supplies	11 240	10 450	8 628
<b>Total inventories, net</b>	<b>475 928</b>	<b>432 930</b>	<b>438 472</b>
	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 10</b>			
<b>Current receivables</b>			
Trade receivables	2 100 631	1 339 692	1 524 952
Other receivables	56 157	36 395	45 854
<b>Total current receivables, net</b>	<b>2 156 788</b>	<b>1 376 087</b>	<b>1 570 806</b>
	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 11</b>			
<b>Non-current provisions</b>			
Provisions for employee benefits	82 164	81 247	74 609
Other provisions	11 703	11 151	11 002
<b>Total non-current provisions</b>	<b>93 867</b>	<b>92 398</b>	<b>85 611</b>
	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 12</b>			
<b>Current liabilities</b>			
Trade payables	1 426 632	1 073 821	1 025 376
Current portion of interest-bearing loans and borrowings	592 232	277 407	396 671
Income tax	926	4 376	2 993
Other tax liabilities, ZUS (Social Insurance Institution)	79 614	109 873	88 435
Financial liabilities (including short-term discount debentures)	55 202	74 163	56 400
Other liabilities	105 465	70 273	99 298
Accruals	46 673	54 945	59 478
Provisions	28 989	43 105	37 403
<b>Total current liabilities</b>	<b>2 335 733</b>	<b>1 707 963</b>	<b>1 766 054</b>

## 2.4. Operating segments and geographic information

The tables below present data relating to consolidated revenue of individual operating segments and geographic information of the Group for the period of 3 months ended 30 September 2011, for the period of 9 months ended 30 September 2011, for the period of 3 months ended 30 September 2010 and for the period of 9 months ended 30 September 2010 (in PLN thousand).

Operating segments for the three months ended 30 September 2011 <i>unaudited</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	179 429	296 201	269 620	107 649	485 333	23 762	-	1 361 994
Inter-segment sales	94 682	3 211	1 345	2 074	-	11 023	(112 335)	-
<b>Total segment revenue</b>	<b>274 111</b>	<b>299 412</b>	<b>270 965</b>	<b>109 723</b>	<b>485 333</b>	<b>34 785</b>	<b>(112 335)</b>	<b>1 361 994</b>

Operating segments for the nine months ended 30 September 2011 <i>unaudited</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	504 802	859 441	693 553	334 104	1 017 976	57 968	-	3 467 844
Inter-segment sales	230 399	8 321	16 563	6 342	-	34 699	(296 324)	-
<b>Total segment revenue</b>	<b>735 201</b>	<b>867 762</b>	<b>710 116</b>	<b>340 446</b>	<b>1 017 976</b>	<b>92 667</b>	<b>(296 324)</b>	<b>3 467 844</b>

Operating segments for the three months ended 30 September 2010 <i>restated</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	189 589	263 245	235 715	229 968	220 551	33 430	-	1 172 498
Inter-segment sales	40 279	8 592	12 468	1 653	-	10 594	(73 586)	-
<b>Total segment revenue</b>	<b>229 868</b>	<b>271 837</b>	<b>248 183</b>	<b>231 621</b>	<b>220 551</b>	<b>44 024</b>	<b>(73 586)</b>	<b>1 172 498</b>

Operating segments for the nine months ended 30 September 2010 <i>restated</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	422 267	810 483	613 410	599 119	470 367	63 004	-	2 978 650
Inter-segment sales	125 157	16 924	53 506	3 858	-	28 564	(228 009)	-
<b>Total segment revenue</b>	<b>547 424</b>	<b>827 407</b>	<b>666 916</b>	<b>602 977</b>	<b>470 367</b>	<b>91 568</b>	<b>(228 009)</b>	<b>2 978 650</b>

Geographic information for the three months ended 30 September 2011 <i>unaudited</i>	Domestic	Foreign	Eliminations	TOTAL
<b>Revenue</b>				
Sales to external customers	1 026 572	335 422	-	1 361 994
Inter-segment sales	3 668	37 249	(40 917)	-
<b>Total segment revenue</b>	<b>1 030 240</b>	<b>372 671</b>	<b>(40 917)</b>	<b>1 361 994</b>
<b>Geographic information for the nine months ended 30 September 2011 <i>unaudited</i></b>	<b>Domestic</b>	<b>Foreign</b>	<b>Eliminations</b>	<b>TOTAL</b>
<b>Revenue</b>				
Sales to external customers	2 456 760	1 011 084	-	3 467 844
Inter-segment sales	11 104	47 736	(58 840)	-
<b>Total segment revenue</b>	<b>2 467 864</b>	<b>1 058 820</b>	<b>(58 840)</b>	<b>3 467 844</b>
<b>Geographic information for the three months ended 30 September 2010 <i>restated</i></b>	<b>Domestic</b>	<b>Foreign</b>	<b>Eliminations</b>	<b>TOTAL</b>
<b>Revenue</b>				
Sales to external customers	828 880	343 618	-	1 172 498
Inter-segment sales	5 071	11 941	(17 012)	-
<b>Total segment revenue</b>	<b>833 951</b>	<b>355 559</b>	<b>(17 012)</b>	<b>1 172 498</b>
<b>Geographic information for the three months ended 30 September 2010 <i>restated</i></b>	<b>Domestic</b>	<b>Foreign</b>	<b>Eliminations</b>	<b>TOTAL</b>
<b>Revenue</b>				
Sales to external customers	2 105 511	873 139	-	2 978 650
Inter-segment sales	6 382	13 224	(19 606)	-
<b>Total segment revenue</b>	<b>2 111 893</b>	<b>886 363</b>	<b>(19 606)</b>	<b>2 978 650</b>

## 2.5. Consolidated off-statement of financial position items as at 30 September 2011 (in PLN thousands)

	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
From other parties (arising from)	<b>612 078</b>	<b>585 630</b>	<b>404 486</b>
- guaranties and sureties received	462 464	470 852	294 379
- bills of exchange	9 046	42 090	42 090
- legal claims	140 568	72 688	68 017
<b>Contingent liabilities</b>	<b>2 324 734</b>	<b>2 358 672</b>	<b>1 718 716</b>
To other parties (arising from)	2 324 734	2 358 672	1 718 716
- guaranties and sureties granted	1 585 709	1 545 506	1 225 263
- promissory notes	194 728	79 524	175 847
- legal claims	40 481	16 232	15 151
- other	198 104	152 110	693
- contractual ordinary/ capped mortgage	305 712	565 300	301 762
<b>Other (arising from)</b>	<b>114 623</b>	<b>114 623</b>	<b>114 623</b>
- transferred to off-statement of financial position	114 623		
records balances relating to*:		114 623	114 623
- receivables	48 839	48 839	48 839
- cash	15 973	15 973	15 973

- liabilities	25 330	25 330	25 330
- deferred income	24 481	24 481	24 481
<b>Total off-statement of financial position items</b>	<b>3 051 435</b>	<b>3 058 925</b>	<b>2 237 825</b>

\* these are the balances on contracts executed by Polimex-Mostostal S.A. in Iraq before 1991

## 2.6. Risk management objectives and policies

The main types of risks in the Group include risks related to interest rate, liquidity, foreign currency, credit, raw material prices. The Management reviews and agrees on policies for managing each of these risks - the policies are summarised below. The Group also monitors the market price risk arising from all financial instruments it holds.

### Interest rate risk

#### Polimex-Mostostal S.A.

The parent company has financial assets in bank accounts and has liabilities on account of bank loans and issued debentures based on floating interest rate. The Company monitors situation on the financial market, analyses trends and prognoses in a scope of reference market rates in order to decide, at a proper moment, to conclude contracts preventing the Company from the increase of debt interest costs which may be unbeneficial to the Company. As at 30.09.2011 the Company had no open transactions hedging interest rate risk.

#### Polimex-Mostostal Capital Group

The Group companies, like the parent company, have cash in banks and liabilities for bank loans based on the floating interest rate. The companies monitor the situation on the financial market, analyse trends and prognoses in a scope of reference market rates in order to decide, in proper moment, to conclude contracts preventing them from the increase of debt interest costs which may be unbeneficial to the Group companies. On 12 March 2010 Energop Sp. z o.o. , a subsidiary of Energomontaż-Północ S.A., which is part of Polimex-Mostostal Group, entered into an 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 2.20% p.a. in exchange for interest payments based on the floating interest rate equal to EUR-LIBOR 3M.

### Foreign 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: Torpol Sp. z o.o., FK 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 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:

I) companies which have document risk management strategy and implemented hedge accounting policies; at the statement of financial position date this group includes Polimex-Mostostal S.A., Torpol Sp. z o.o. and FK Sefako S.A.



II) 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 other comprehensive income,
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.

### **Polimex-Mostostal S.A.**

Polimex-Mostostal S.A. financial cash flows are characterised by significant sensitivity to fluctuations of exchange rate relations which results from the fact that foreign currency revenues constitute substantial part of the total enterprise turnover. Basic foreign currency for the Company turnover is still the euro. To minimise the negative impact of exchange rate risk on the performance of the enterprise, the Company actively uses exchange rate derivative instruments available on the market thus applying the exchange rate risk management strategy adopted by the Company. Open transactions of derivative instruments are subject to current valuation with its results included in the enterprise's books of account.

Bearing the above mentioned facts in mind, since 1 October 2008 the Company has been applying hedge accounting for foreign currency derivatives so as to ensure stability and comparability of financial results of the Company for individual reporting periods. Application of the hedge accounting makes it possible to symmetrically present the compensating impact on the financial result of the current period of the hedging instrument fair value and hedged item corresponding to it.

As a result gains/losses on hedging transactions affect the profit/loss in the same period as the gains/losses on items they hedge. Thanks to this, the economic nature of hedging transactions is better reflected in the financial statements of the enterprise.

Derivative instruments hedging cash flows are recognised at fair value, taking into account a change in this value:

in portion recognised as an effective hedge	- directly in other comprehensive income,
in portion recognised as ineffective	- in the income statement.

Book records and presentation are according to the accounting policies adopted by the Company and regulations in force which are based on the following legal acts:

IFRS 7 – Financial Instruments: Disclosure,

IAS 39 – Financial instruments: Recognition and Measurement,

IAS 32 – Financial Instruments: Disclosure and Presentation.

The Company has transactional foreign currency exposures. Over 1/4 of transactions executed by the Company is denominated in currencies other than the presentation currency, whereas more than 90% of costs is denominated in this presentation currency. The basic method of hedging against foreign exchange risk applied by the Company is natural hedging i.e. hedging foreign currency risk by entering into transactions which generate costs in the same currency as the revenue currency. If currency risk may not be hedged by natural hedging, the Company applies currency hedges – based on derivative financial instruments related to currency market – defined by the currency risk management strategies of the Company. These are in particular the following instruments:

- ❖ forward future contracts,
- ❖ currency PUT options (acquired options),

- ❖ structures optionally generated from PUT and CALL options – among the other things the so-called “zero-cost” symmetrical currency corridors built with PUT and CALL options of the same nominal value for the given expiry date of options (see details below).

Terms and conditions of hedging of derivative instruments are negotiated in a manner corresponding to terms and conditions of hedged item, and providing maximum hedging efficiency. In the 3rd quarter 2011 the Company consequently applied implemented operating policies and procedures aimed at limiting the negative impact of foreign currency risk on the performance of the enterprise.

#### Disclosure on concluded hedging transactions

To limit the volatility of future cash flows related to foreign currency risk, at 30 September 2011 Polimex-Mostostal S.A. was a party to 24 hedging strategies as characterised below (nominal values of transactions as well as price conditions for instruments to be exercised after 30.09.2011):

#### ***A. Reducing volatility of cash flows related to the PLN/EUR pair.***

##### I. Foreign currency options

The Company is the party to 10 symmetrical option transactions concluded between 28 February 2011 and 14 September 2011. The total nominal value of currency options to be exercised over the period between 3 October 2011 and 3 December 2012 amounts to EUR 8,269,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the CALL option). The exercise rates of PUT options the Company is entitled to range from 3.90 PLN/EUR to 4.30 PLN/EUR depending on a transaction. The exercise rates of CALL options issued by the Company range from 4.09 PLN/EUR to 4.56 PLN/EUR depending on a transaction.

##### II. Forward future contracts

1. The series of forward future contracts of 26 November 2010 to sell the total amount of EUR 1,365,000 for PLN to be exercised in 2 dates in the period between 11 October 2011 and 10 November 2011. The forward rate for each maturity date was specified at 4.1000 PLN/EUR;
2. The forward future contract of 8 December 2010 to sell EUR 100,000 for PLN to be exercised on 26 October 2011. The forward rate was specified at 4.1017 PLN/EUR;
3. The forward future contract of 10 December 2010 to sell EUR 1,200,000 for PLN to be exercised on 30 April 2012. The forward rate was specified at 4.1117 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
4. The forward future contract of 10 December 2010 to sell the total of EUR 1,900,000 for PLN to be exercised at 30 December 2011. The forward rate was specified at 4.1340 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
5. The forward contract of 22 February 2009 to sell EUR 325,000 for PLN to be exercised on 31 October 2011. Futures exchange rate was specified at the level of 4.0100 PLN/EUR.
6. The forward future contract of 01 March 2011 to sell the total amount of EUR 600,000 for PLN to be exercised on 31 October 2011. The forward rate was specified at 4.0340 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;

7. The series of forward future contract of 1 March 2011 to sell the total of EUR 1,130,000 for PLN to be exercised in two dates on 31 October 2011 and on 31 January 2012. The exchange rate for each date was specified at 4.0400 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;

8. The forward future contract of 11 March 2011 to sell the total of EUR 1,350,000 for PLN to be exercised at 31 January 2012. The forward rate was specified at 4.1045 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;

9. The series of forward future contract of 11 March 2011 to sell the total of EUR 2,100,000 for PLN to be exercised in two dates on 28 October 2011 and on 30 March 2012. The exchange rate for each date was specified at 4.0975 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;

10. The series of forward future contracts of 8 July 2011 to sell the total amount of EUR 603,000 for PLN to be exercised in 2 dates in the period between 16 January 2012 and 3 February 2012. The forward rate for each maturity date was specified at 4.0015 PLN/EUR;

### ***B. Reducing volatility of cash flows related to the PLN/GBP pair.***

#### I. Foreign currency options

On 15 April 2010 and 5 May 2010 the Company agreed on terms and 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 14 October 2011 and 13 April 2012 amounts to GBP 2,610,000 (in each case the nominal value of acquired PUT option clears the nominal value of 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.

#### II. Forward future contracts

1. The forward future contract of 30 November 2010 to sell GBP 272,000 for PLN to be exercised on 15 November 2011. The forward rate was specified at 4.9340 PLN/GBP;

2. The forward future contract of 1 December 2010 to sell GBP 272,000 for PLN to be exercised on 25 November 2011. The forward rate was specified at 4.8660 PLN/GBP.

The parameters of the hedging instruments presented above fully guarantee the level of exchange rate relations required by the Company and necessary for reaching planned financial results on a hedged item. As a result, possible negative cash flows resulting from the settlement of the hedging instruments should not be perceived as a loss, but only as an unrealised additional benefit (above the previous assumption of the Company).

Summing up, as at 30.09.2011 Polimex-Mostostal S.A. had open hedging transactions for the amount of EUR 18,942,000 thousand and GBP 3,154,000. In each case the hedged item is highly probable future cash flows from foreign currency contracts being executed by the Company (supply of steel products and rendering of construction services).

Maturity dates of hedging transactions for the amount of EUR 12,091,000 fall in 2011. The remaining EUR 6,851,000 is to be exercised in 2012. Expiry dates of transactions for PLN/GBP pair fall in the period from 14 October 2011 to 13 April 2012.

The table below presents the schedule for the settlement of PLN/EUR hedging instruments in the 4th quarter of 2011:

Quarter the hedging instrument is exercised in 2011*	Nominal value of a hedging derivative instrument		
	Nominal value of PUT = CALL options in EUR thousands	Nominal value of future contracts in EUR thousands	Total in the period in EUR thousands
4th quarter	4 576	7 515	12 091
<b>Total in 4<sup>th</sup> quarter 2011</b>	<b>4 576</b>	<b>7 515</b>	<b>12 091</b>

*\*the age composition of forward contracts maturity according to the projections of occurrence of a hedged item.*

Since 1 October 2008 the Company has been applying hedge accounting. It covers all transactions of derivative instruments of currency exchange rate, concluded in compliance with the applied strategy of hedging of currency risk, meeting the criteria of hedge accounting.

#### Measurement of derivative instruments as at 30 September 2011

As at 30 September 2011, fair value of the open derivative instruments was assessed at minus PLN 6,729.0 thousand. In accordance with the hedge accountancy policy approved by the Company, effectiveness of hedging connections was measured. Cash flow hedging was recognized as highly effective and the change of the effective part of fair value of financial instruments was shown directly in other comprehensive income in the position "Revaluation capital" according to the following order (amounts after including the effect in the deferred tax) – data in PLN thousands:

As at 30.06.2011	Movement in 3 <sup>rd</sup> quarter 2011	As at 30.09.2011
1 193	-3 278	-2 085

Temporary value of currency options which was excluded from the efficiency measurement was reflected in the profit and loss account in financial activity (finance costs/finance income).

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

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

<b>Detailed list</b>	<b>4<sup>th</sup> quarter 2011</b>
Projected foreign currency proceeds – equivalent in EUR thousands	68 152
Projected foreign currency expenditures – equivalent in EUR thousands	28 537
<b>Business exposure to foreign currency risk in EUR thousand</b>	<b>39 615</b>
Open hedging transactions as at 30.09.2011 to be exercised in 4 <sup>th</sup> Q 2011; in EUR thousands	12 091
<b>Open item in foreign currency (after taking into consideration hedging transactions) in EUR thousands</b>	<b>27 524</b>

The nominal value of open hedging instruments as at 30 September 2011 accounts for 31% of total projected exposure to foreign currency risk in the 4<sup>th</sup> quarter 2011. Foreign currency cash flows for contracts concluded by the Company by the date of the completion of this list account for more than 87% of business exposure computed as above. As a result, business exposure to foreign currency risk for cash flows contracted as at 30.09.2011 was covered in 35% by hedging transactions.

Fluctuations of the exchange rate of PLN/EUR shall have a neutral impact upon financial performance of the Company in the scope of cash flows from foreign currency contracts under hedging instruments. Current influence of this parameter shall relate to the part of foreign currency revenues (net proceeds) as yet not covered by hedging transactions.

After 30 September 2011 the Company entered into the following hedging transaction:

- on 7 October 2011 the Company agreed on terms and conditions of a symmetrical transaction of European currency options (the so-called currency corridor). The total nominal value of currency options to be exercised over the period between 24 January 2012 and 20 March 2012 amounts to EUR 942,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 4.35 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.55 PLN/EUR;
- on 2 November 2011 the Company agreed on terms and conditions of a symmetrical transaction of European currency options (the so-called currency corridor). The total nominal value of currency options to be exercised over the period between 9 January 2012 and 8 March 2012 amounts to EUR 600,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 4.30 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.71 PLN/EUR.

### **Polimex-Mostostal Capital Group**

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

It is the Group's policy to negotiate the terms of hedging derivative instruments to match the 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 3rd quarter 2011 the Group companies consequently applied the implemented policies for foreign currency risk management. Below are transactions entered into by Group companies in the 1<sup>st</sup> half 2011 (excluding Polimex-Mostostal S.A.) with maturity dates after 30 September 2011.

*StalFa Sp. z o.o.:*

- the series of forward contracts of 12 July 2011 to sell the total amount of EUR 90,000 for PLN to be exercised in 3 dates in the period between 19 October 2011 and 19 December 2011. The forward rate for each date was specified at 4.06 PLN/EUR;
- the series of forward contracts of 9 August 2011 to sell the total amount of EUR 180,000 for PLN to be exercised in 6 dates in the period between 11 October 2011 and 30 December 2011. The forward rate for each date was specified at 4.10 PLN/EUR;
- the series of forward contracts of 10 August 2011 to sell the total amount of EUR 90,000 for PLN to be exercised in 3 dates in the period between 31 October 2011 and 30 December 2011. The forward rate for each date was specified at 4.13 PLN/EUR;
- the series of forward contracts of 11 August 2011 to sell the total amount of EUR 90,000 for PLN to be exercised in 3 dates in the period between 17 October 2011 and 15 December 2011. The forward rate for each date was specified at 4.1735 PLN/EUR;
- the series of forward contracts of 11 August 2011 to sell the total amount of EUR 90,000 for PLN to be exercised in 3 dates in the period between 19 October 2011 and 19 December 2011. The forward rate for each date was specified at 4.1740 PLN/EUR.

*Torpol Sp. z o.o.:*

- on 29 September 2011 the company shifted the maturity of a forward future contract to be exercised on 30.09.2011. The shifting of the date related to the amount of EUR 161.9 thousand. The new maturity was determined at 31 October 2011. The exercise rate was specified at 4.4275 PLN/EUR. The operations adjusted the parameters of the hedging instrument to the expected exercise date of the business item it covered.

*Energomontaż – Pólnoc Gdynia Sp. z o.o.,*

- the series of forward future contracts of 12 July 2011 to sell the total amount of EUR 250,600 for PLN to be exercised in 10 dates in the period between 12 October 2011 and 22 February 2012. Forward rates range from 4.0475 PLN/EUR to 4.0765 PLN/EUR;

- the series of forward future contracts of 17 August 2011 to sell the total amount of EUR 250,800 for PLN to be exercised in 10 dates in the period between 12 October 2011 and 22 February 2012. Forward rates range from 4.1330 PLN/EUR to 4.1744 PLN/EUR.

*FK Sefako S.A.*

- the forward contract of 24 August 2009 to sell EUR 150,000 for PLN to be exercised on 28 October 2011. The forward rate was specified at 4.1767 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
- the forward contract of 9 September 2011 to sell EUR 100,000 for PLN to be exercised on 17 October 2011. The forward rate was specified at 4.3156 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.

#### Disclosure on the volume of concluded hedging transactions

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 September 2011 total maximum nominal value of open hedging transactions entered into by the Group companies (including Polimex-Mostostal S.A.) amounted to EUR 25,393 thousand and GBP 3,154 thousand.

Transactions for the EUR/PLN pair will have been settled in 61% by 31 December 2011. The time composition of hedging instruments for the foreign currency risk for EUR/PLN pair (according to the criterion of planned exercise date) is presented in the table below.

Instrument settlement period	Maximum nominal amount of hedging instruments to be settled in EUR thousands*
4th quarter	15 416
After 31.12.2011	9 977
<b>TOTAL</b>	<b>25 393</b>

*\*the age composition of forward contracts maturity according to the projections of occurrence of a hedged item.*

#### Measurement of derivative instruments as at 30 September 2011

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

As at 30 September 2011 the total fair value of open instruments hedging foreign exchange risk in the Group was calculated at the amount of minus PLN 8,576.6 thousand. The valuation in 91% is attributable to companies applying hedge accounting. Movements in the derivative instrument revaluation reserve in the Group Companies



(including Polimex-Mostostal S.A.) are presented in the table below (movements after taking into consideration the effect on deferred tax) – in PLN thousands.

As at 30.06.2011	Movement in 3 <sup>rd</sup> quarter 2011	As at 30.09.2011
1 167	-3 292	-2 125

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

Fluctuations of the average exchange rate of EUR have significant influence on the amount of income expressed in PLN resulting from contracts concluded in a foreign currency. Based on contracts which have been entered into and contracts which are highly probable to be concluded, the Capital Group assessed the foreign currency exposure in 4<sup>th</sup> quarter 2011 as follows:

<b>Detailed list</b>	<b>4<sup>th</sup> quarter 2011</b>
Projected foreign currency proceeds – equivalent in EUR thousands	92 655
Projected foreign currency expenditures – equivalent in EUR thousands	42 291
<b>Business exposure to foreign currency risk in EUR thousand</b>	<b>50 364</b>
Open hedging transactions as at 30.09.2011 to be exercised in 4 <sup>th</sup> Q 2011; in EUR thousands	15 416
<b>Open item in foreign currency (after taking into consideration hedging transactions) in EUR thousands</b>	<b>34 948</b>

The nominal value of open hedging instruments as at 30 September 2011 accounts for 31% of total projected exposure to foreign currency risk in the audited period of 2011. Foreign currency cash flows for contracts concluded by the Group companies by the date of the completion of this list account for nearly 90% of business exposure computed as above. As a result, business exposure to foreign currency risk for cash flows contracted as at 30.09.2011 was covered in 34% 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.

After 30 September 2011 Group Companies (apart from Polimex-Mostostal S.A.) entered into the following hedging transactions:

*FK Sefako S.A.*

- the forward contract of 11 October 2011 to sell EUR 100,000 for PLN to be exercised on 3 November 2011. The forward rate was specified at 4.3352 PLN/EUR. It is the intention of the Company to gradually



„shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;

- the forward contract of 25 October 2011 to sell EUR 200,000 for PLN to be exercised on 25 November 2011. The forward rate was specified at 4.3830 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.

### **Credit risk**

Credit risk for the Group arises mainly from applying deferred payment periods for its customers, investments made in securities and deposits opened at banks. Due to relatively high creditworthiness of contracting parties, for whom Group’s sales are made, and opening deposits with reputable banks the risk is minor. Furthermore, the Parent Company and the Group insure part of credit risk (block policy), aim at hedging their payments with documentary letters of credit or bank and insurance guarantees and other hedges which minimise credit risk such as (ordinary or registered) pledge, mortgage or bills of exchange.

### **Liquidity risk**

The risk of the Group losing liquidity arises from the fact that the amounts and payment periods for receivables and payables do not match. The Group hedges against this risk by taking short term bank loans and issuing debt securities which amount and maturity date matches the hedged cash flows. To hedge against this risk, diversification of supplier and customer portfolios, diversification of bank loan portfolio, financing subcontracting projects with funds received from employers are of key importance.

### **Raw material price risk**

Economic effectiveness of production carried out by the Parent company in the Group depends to a large extent on fluctuations of raw material prices, mainly steel and zinc composite prices. The main factor which limits the above mentioned risk is the fact that the Issuer has a team of first class specialists analysing the market and making centralised material purchases (economies of scale, opportunity to negotiate lower purchase prices).

## **2.7. Significant achievements and failures of Polimex-Mostostal Group in the 3rd quarter 2011 together with the list of key events that relate to them**

In 3<sup>rd</sup> quarter 2011 the significant successes of the Issuer included:

- Signing on 12.07.2011 the contract with the University of Gdansk for the construction of a teaching and administrative building of the University of Gdansk in Gdansk. Net value of the contract amounted to PLN 62.8 million.
- Signing on 26.07.2011 with the Commune of Świecie the contract for the construction of Inter-Commune Complex for the Disposal of Municipal Waste for the poviats of Świecie and Chelmno in Sulnówek. Net value of the contract amounted to PLN 34.5 million.
- Signing on 24.08.2011 with Stadion w Zabrzu Sp. z o.o. the contract to modernise the Ernest Pohl stadium in Zabrze – phase I. Net value of the contract amounted to PLN 156.5 million.
- Signing on 31.08.2011 with the Municipal Administration of Roads and Bridges in Tychy the contract for general contracting of construction works for the Project “Reconstruction of national roads (NR) No.1 and 86

Gdańsk-Cieszyn within the boundaries of the city of Tychy – section NR 1 km 0+000 to 5+656 and NR-86 km 27+448 to 28+648”. Net remuneration for execution of the contract object amounted to PLN 121.8 million.

**In 3<sup>rd</sup> quarter 2011 the significant achievements of the Issuer’ Capital Group companies included:**

- Torpol Sp. z o.o.:
  - Signing by Torpol S.A. on 17.08.2011 the contract with Trakcja-Tiltra S.A. for the design and performance of construction works in Kraków -Medyka – state border railroad in the Podlęże – Bochnia section in km 16.000 – 39.000 under the Project „Modernisation of E30/C-E30 railroad, Kraków-Rzeszów section, stage III”. Net value of the contract amounted to PLN 290.2 million.
  - Receiving on 18.08.2011 by Torpol S.A. as the Leader of Consortium of the following companies: Torpol Sp. z o.o., Astaldi S.p.A., Przedsiębiorstwo Usług Technicznych Intercor Sp. z o.o. and Przedsiębiorstwo Budowy Dróg i Mostów Sp. z o.o. of the information on concluding the contract to modernise Warsaw Łódź railway line, stage II, LOT B2 - Łódź Widzew - Łódź Fabryczna section with Łódź Fabryczna station and construction of an underground part of Łódź Fabryczna station servicing departures and arrivals of trains as well as passengers. Extension of the road system and infrastructure around the multimodal Łódź Fabryczna station– construction of an integrated interchange over and under Węgłowa street”. The value of the contract whose parties are PKP Polskie Linie Kolejowe S.A., the City of Łódź and Polskie Koleje Państwowe S.A. (the Employer) and the above mentioned consortium (the Contractor) for the whole consortium amounted to PLN 1,430.3 million net. The estimated scope of works attributable to Torpol Sp. z oo. was 40%.

**2.8. Events after the date of preparation of the condensed quarterly financial statements, not included in the statements that may have a significant effect on the Issuer’s future financial results**

The events that occurred after the statement of financial position date that may have a significant effect on the Issuer's future financial results included:

- Signing on 03.10.2011 with the City of Katowice the contract for “Construction of multifunction building of the International Congress Centre in Katowice”. The total value of the contract amounted to PLN 205.4 million net.
- Concluding on 21.10.2011 with Halla Engineering & Construction Corporation Branch in Poland the contract for “Construction of Car Parts Manufacturing Plant in Walbrzych”. The total value of the contract amounted to PLN 87.2 million net.

**2.9. Other information that in the Issuer’s opinion is significant for the assessment of its personnel status, financial position, financial results and their changes, and information that is significant for the assessment of Issuer’s capabilities to fulfil obligations**

Information significant for the assessment of Issuer’s personnel status, financial position, financial results and their changed and information that is significant for the assessment of the Issuer’s capabilities to fulfil obligations have been partly included in other items. To supplement this information, the following events relating to the Issuer may be mentioned:

- Receiving on 05.07.2011 from Bank Ochrony Środowiska S.A. signed Appendix no 3 to the Contract on setting of the concentration limit in the form of non-revolving loan on issuing of bank guarantees in the amount of

PLN 90.0 million and signed Appendix no 9 to the Contract on overdraft facility in amount of PLN 30.0 million. The guarantee facility may be used by 30.06.2012 and the bank overdraft by 03.07.2012.

- Receiving on 18.07.2011 the following contracts signed by Bank Gospodarki Żywnościowej S.A.: the contract to grant bank guarantees, sureties and opening letters of credit and Appendix No 4 to the Contract of working capital facility in the current account. Under the facility to grant bank guarantees, sureties and opening letters of credit Polimex-Mostostal S.A. will issue bank guarantees up to PLN 115.0 million. The facility is valid until 31.05.2012. Appendix No. 4 to the Contract for working capital facility In the current account extends its maturity until 30.05.2012 and increases the amount of the credit facility from PLN 25.0 million to PLN 35.0 million.
- Receiving on 28.07.2011 the contract of multipurpose multicurrency credit facility and the Appendix to the contract specifying general terms and conditions of crediting signed by Bank Pekao S.A. Under the above mentioned contract Polimex-Mostostal S.A. will use a credit limit up to PLN 420.0 million. The loan will be made available in the form of:
  - working capital facility in the amount of up to PLN 200.0 million (of which: PLN 50.0 million is a bank overdraft, PLN 150.0 million is a revolving credit facility in the form of tranches to finance contracts being executed),
  - bank guarantees granted by the Bank up to PLN 250.0 million, where utilization of the amount of up to PLN 250.0 million is conditional upon decreasing the utilization of the working capital facility by PLN 30.0 million.

The credit facility has been granted until 31.07.2012. Orders to grant guarantees may be submitted until 31.07.2012, whereas the maximum validity of guarantees is 10 years and they may not fall beyond 31.07.2022.

- Receiving on 10.08.2011 Appendix No.6 to the Contract of debt limit signed by Raiffeisen Bank Polska S.A. Under the above mentioned contract of debt limit Polimex-Mostostal S.A. will issue bank guarantees up to PLN 100.0 million. Under the concluded appendix the final date of utilisation period was extended and falls on 28.09.2012 and the final repayment date is 27.12.2018.
- Receiving on 25.08.2011 Appendix No.1 to the contract of documentary letters of credit and Appendix No.12 to the contract of bank guarantee facility signed by Bank Milenium S.A. Under the above mentioned contracts of bank guarantee facility and of documentary letter of credit facility Polimex-Mostostal S.A. will issue bank guarantees up to PLN 163.0 million and documentary letters of credit up to PLN 10.0 million. Under the concluded appendixes the final date of utilization of both limits was extended and falls on 30.08.2012.
- Receiving on 05.10.2011 Appendix No.3 to the Contract of multifunctional credit limit signed by Polbank EFG S.A. Under the above mentioned contract of multifunction credit limit Polimex-Mostostal S.A. will issue bank guarantees up to PLN 100.0 million. Under the concluded appendix the life of the contract was extended by 3 months i.e. orders may be placed by 05.01.2012 and the final crediting date falls on 05.02.2020.

## **2.10. Information concerning seasonal or cyclical nature of the Issuer's operations in the presented period.**

The activity of the Issuer and the Group Companies shows seasonality in the scope of construction and assembly works, overhauls and road and railroad works. In winter the number of works performer in the open sites decreases. Moreover, in some sectors overhaul works are conducted in specified times of year (e.g. in power plants and heat and power plants they concentrate in summer months). Whereas modernisation works are undertaken in multiannual cycles (e.g. in refineries and chemical plants).

The above mentioned factors often make revenue from sales reported by the Issuer's Group in 1<sup>st</sup> quarter are at the lowest level in the year. As a result, revenue in the 2nd half of the year is higher than in the first one.

The Issuer's Group's schedules of performance of investment tasks include climatic conditions and the sales plans include the consequences of applied procedures for awarding and settling of orders. The organisational structure of the Issuer's Group is adjusted to the nature of conducted activities.

In the 3rd quarter 2011 the conditions of Issuer's operations did not diverge from the average in prior years.

## **2.11. Issue, redemption and repayment of debt and capital securities**

Under the Debenture Issue Plan for the total amount of PLN 400 million the following were issued:

A) long-term (coupon) debentures:

1. 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
2. at 16.10.2007 another block 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.

3. on 16.10.2009 a new block of long-term coupon debentures was issued for the total amount of PLN 194.5 million with maturity at 16.10.2012.

B) short-term (discount) 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 09.12.2011.

The balance of debentures issued by Polimex-Mostostal S.A. at their nominal value is PLN 400.0 million, of which

- discounted debentures payable are PLN 32.5 million as at the statement preparation date;
- coupon debentures payable amount to PLN 367.5 million.

## **2.12. Dividend paid (or declared), in total and per share, in breakdown by ordinary and preference shares**

Equity dividends on ordinary shares for 2010 in the amount of PLN 20,846 thousand was paid on 30 September 2011.

The value of dividend per share paid from 2010 profit was PLN 0.04.

## **2.13. Shareholders holding directly or indirectly through subsidiaries and related parties at least 5% of total votes at the Issuer's General Shareholders' Meeting as at the date of filing this quarterly report**

The table below presents the list of shareholders holding at least 5% of the total number of votes at Issuer's General Shareholders' Meeting and of other shareholders according to information received by the Issuer as at 25 October 2011:

Item No	Shareholder	No of shares/votes	% interest in share capital/total votes at GSM
1.	Pioneer Pekao Investment Management S.A.	52 490 792	10.07
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (Open Pension Fund)	51 872 954	9.95
3.	ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund)	40 406 650	7.76
4.	Polimex-Cekop Development Sp. z o.o. *)	13 152 500	2.52
6.	Other shareholders	363 231 180	69.70
	<b>Number of shares of all issues</b>	<b>521 154 076</b>	<b>100.00</b>

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

#### 2.14. Changes in the number of Issuer's shares or entitlement to the them held by the Management Board and Supervisory Board Members, in the period from filing the previous quarterly report

Current holding of issuer's shares by Management Board and Supervisory Board Members as at the date of filing the quarterly report with indication of changes in the holding that have occurred in the period since filing the report for the six months of 2011 is as follows:

Position held	Current number of shares held	Change in holding in the period from communicating the interim report for 1st half 2011
Member of the Management Board	3,820,350	no change
Member of the Management Board	1,939,075	no change
Member of the Supervisory Board	96,548	no change
Total	5,855,973	

#### 2.15. Statement of the Management Board concerning published forecasts

The forecasts regarding financial performance of Polimex-Mostostal S.A. or Polimex-Mostostal Group in 2011 have not been published.

#### 2.16. Proceedings before court, body competent for arbitrary proceedings or public administration body

The total value of proceedings concerning active debts/liabilities of Polimex-Mostostal Group as of 30 September 2011 amounted to:

- proceedings concerning active debts      PLN 140,568, of which the key proceedings are:
- 1. Defendant: Koksownia Przyjaźń Sp. z o.o., the value of the subject of litigation: PLN 62,546,236.67; the subject of litigation: determination of the amount of remuneration; date of bringing the litigation: 4 December 2009.

2. Defendant: Radkom Sp. z o.o., the value of the subject of litigation: PLN 11,178,293.00; the subject of litigation: clearing of the contract after its termination; date of bringing the litigation: 19 March 2009.
3. Defendant: MHC Engineering Fordertechnik GmbH; the value of the subject of litigation: PLN 8,929,591.70; the subject of litigation: payment; date of bringing the litigation: 14 April 2011.

- proceedings concerning liabilities: PLN 40,481 thousand.

In the Issuer's opinion the outcomes of the above mentioned proceedings, if they are won, will have a beneficial effect on the Issuer's financial position.

## **2.17. 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 reporting period by the Issuer or its subsidiaries with related entities were concluded under market conditions, and their nature and terms resulted from operating activity.

## **2.18. Information on sureties, loans or guarantees granted by the Issuer or its subsidiary, jointly to one entity or its subsidiary if the total amount of current sureties and guaranties is at least 10% of the Issuer's equity.**

There were no such events in the 3<sup>rd</sup> quarter 2011.

## **2.19. Factors that in the Issuer's opinion will influence its future financial results in at least next quarter.**

**The findings of the NBP** (the National Bank of Poland)<sup>4</sup> show that in the 3<sup>rd</sup> quarter the situation in the enterprise sector remains sound. Most of the groups under review have showed no significant change conditions over the last few quarters. Although the assessments deteriorated slightly in the sample in 2011 Q3, no permanent downward trend has developed in any of the classes or branches, so far.

After easing of easing of the demand barrier for over 2 years, enterprises point to a slight intensification of these problems in 2011 Q3. Meanwhile, production capacity utilization ebbed down marginally. For the second consecutive quarter expectations about demand and new orders became less optimistic. Most specifically, notable decline occurred in the share of enterprises anticipating a permanent revival of demand. In the wake of deteriorating demand outlook, optimism concerning the developments anticipated for Q4 waned further. Those apprehensions materialized across most of the classes under review. Specialist exporters and construction companies were an exception. It is worth noticing that the construction industry recovered, even though the sales margins markedly decreases for third consecutive year, and the ability to pay debts of this group deteriorated.

Following a reduction in the demand for labour, fewer respondents plan to increase wages for their employees. Meanwhile, the average planned wage hike edged up. This increase concentrated in large enterprises.

Following a weak performance in Q3, the percentage of planned new investment should increase in Q4, yet the scale of improvement will be moderate, and planed investment activity should remain at the level of the first half of this year. An uncertain macroeconomic outlook continuously affects the number of investments

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<sup>4</sup> *Information on the condition of the enterprise sector, including the economic climate in 2011 Q3 and forecasts for 2011 Q4*, the National Bank of Poland, Economic Institute, October 2011.

in progress and numerous enterprises continue to postpone investment-related expenses. This policy is being pursued more often by small enterprises. At the same time, situations in which enterprises decide not to conclude project currently under way are few. This is another confirmation of a sustained good situation of the corporate sector.

**The Gdańsk Institute of Market Economics (IBnGR)** <sup>5</sup> estimates that in the 3rd quarter of 2011 the pace of growth of GDP as compared to the analogous quarter last year equalled 4.0%. Despite decrease in dynamics of economic growth in comparison to previous quarter, you may still talk about a continuing relatively beneficial economic situation.

According to the projections by IBnGR, the GDP growth rate in 2011 will be 3.8%, so it will be nearly identical as in the prior year. In quarterly terms, the increase of GDP will fall from 4.3% in the 1st quarter to 2.8% in the 4th quarter 2011. The growth of GDP lower than in prior quarter will also remain in 1<sup>st</sup> quarter 2012 – according to the presented projections it will amount to 2.9%. The further three quarters of 2012 will see a relatively stable growth – from 3.3% in 2nd quarter to 3.7% in the 4<sup>th</sup> quarter. It means that the GDP growth rate in the whole 2012 projected by IBnGR will be 3.4%. In 2012 the sector growth pattern of 2011 will remain. It means that the fastest growing sector in the economy will be construction, in particular in the first half of the year when the final works relating to the realisation of investment for EURO 2012 will still be performed. The growth rate of domestic demand in 2011 will be 4.3% i.e. slightly lower than in the prior year. In 2012, in the opinion of IBnGR, one should expect a slowdown in the growth of domestic demand to 3.6%. This will be the effect of the lowering of growth rate of two key components i.e. individual consumption and capital expenditure. Despite a tense situation in the euro zone, which must be reflected in the economic slowdown in the entire EU, one should not expect the collapse of Polish exports in the following year. The government of Germany has recently decreased its projections of economic growth for 2012 to 1% (as compared to 2.9% this year), but recession will rather not affect our key business partner. Polish exports will benefit from a low level of processing of offered products and probably from the weak zloty. Taking into account these factors, IBnGR forecasts that next year the export growth rate will be 4.9% as against 5.9% this year. In turn imports in 2011 and 2012 will be 6.8% and 5.4% respectively.

In the Issuer's opinion the situation and prospects of Polish construction market and Polimex-Mostostal Group's remain stable. The Issuer wishes to emphasise the significance of the geographic diversification of its operations. Polimex-Mostostal S.A. is actively looking for new markets among which the most interesting seem to be the Arab ones. The Libyan market, where the projects commenced in prior years are waiting to be completed and where the Issuer expects to acquire new major contracts, remains to be crucial for the Issuer. Reasonable hope is placed in the Norwegian market where Polimex-Mostostal Capital Group intends to develop consistently its investments in the railroad sector.

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<sup>5</sup> *Stan i prognoza koniunktury gospodarczej*, Instytut Badań nad Gospodarką Rynkową, 28 April 2010 (*Condition and forecast of economic climate*, the Gdańsk Institute of Market Economics, 28 October 2011).



### 3. CONDENSED FINANCIAL STATEMENTS OF POLIMEX-MOSTOSTAL S.A. FOR 3rd QUARTER 2011

#### SELECTED FINANCIAL DATA FOR THE CONDENSED FINANCIAL STATEMENTS

	in PLN thousands		in EUR thousands	
	3 quarters / 2011 from 01.01.2011 to 30.09.2011	3 quarters / 2010 from 01.01.2010 to 30.09.2010	3 quarters / 2011 from 01.01.2011 to 30.09.2011	3 quarters / 2010 from 01.01.2010 to 30.09.2010
SELECTED FINANCIAL DATA				
	data relating to financial statements			
Revenue	2 909 185	2 569 803	719 864	642 017
Revenue from continuing operations	65 880	147 208	16 302	36 777
Profit before tax	57 233	125 687	14 162	31 401
Net profit	47 241	103 957	11 690	25 972
Net cash flows from operating activities	(312 073)	(238 903)	(77 221)	(59 685)
Net cash flows from investing activities	(68 556)	(99 288)	(16 964)	(24 805)
Net cash flows from financing activities	222 156	213 918	54 971	53 443
Net increase/decrease in cash and cash equivalents	(158 473)	(124 273)	(39 213)	(31 047)
Total assets*	3 386 417	2 894 896	767 686	730 979
Non-current liabilities*	618 862	626 455	140 293	158 184
Current liabilities*	1 827 817	1 348 411	414 358	340 482
Equity*	939 738	920 030	213 035	232 313
Issued capital*	20 846	20 837	4 726	5 261
Number of shares (pcs.)*	521 154 076	520 918 203	-	-
Diluting potential ordinary shares (pcs.)*	12 142 323	12 378 196	-	-
Earnings per ordinary share (in PLN/ EUR)	0.09	0.20	0.02	0.05
Diluted earnings per ordinary share (in PLN/ EUR)	0.09	0.19	0.02	0.05
Book value per ordinary share (in PLN/ EUR)*	1.80	1.77	0.41	0.45
Diluted book value per ordinary share (in PLN/ EUR)*	1.76	1.73	0.40	0.44

-individual items of assets and equity and liabilities of the statement of financial position were translated at the exchange rate of 4.4112 (for data as at 30.09.2011) and 3.9603 (for data as at the end of 2010), which were published by the National Bank of Poland for a given statement of financial position date,

-individual items of the income statement and the statement of cash flows were translated at the exchange rate of 4.0413 (for data for three quarters of 2011) and 4.0027 (for data for the three quarters of 2010), which are an arithmetic mean of average exchange rates published by the National Bank of Poland on the last day of each month covered by the presented data.

\*statement of financial position data are presented as at 30 September 2011 and as at 31 December 2010.



## CONDENSED INCOME STATEMENT

for the nine months ended 30 September 2011 (in PLN thousands)

		For 3 months ended 30 September 2011 <i>unaudited</i>	For 9 months ended 30 September 2011 <i>unaudited</i>	For 3 months ended 30 September 2010 <i>restated</i>	For 9 months ended 30 September 2010 <i>restated</i>
<b>Continuing operations</b>	Note				
<b>Revenue</b>		<b>1 108 238</b>	<b>2 909 185</b>	<b>1 053 568</b>	<b>2 569 803</b>
Sale of goods		121 672	392 650	166 242	345 040
Rendering of services		983 437	2 506 440	882 960	2 211 163
Rental income		3 129	10 095	4 366	13 600
<b>Cost of sales</b>		<b>1 077 936</b>	<b>2 756 671</b>	<b>964 760</b>	<b>2 322 297</b>
<b>Gross profit</b>		<b>30 302</b>	<b>152 514</b>	<b>88 808</b>	<b>247 506</b>
Other operating income	1	3 450	13 171	2 015	8 710
Selling costs		7 153	22 984	5 907	17 270
Administrative expenses		20 565	69 291	29 028	88 770
Other operating expenses	2	1 543	7 530	1 193	2 968
<b>Revenue from continuing operations</b>		<b>4 491</b>	<b>65 880</b>	<b>54 695</b>	<b>147 208</b>
Finance income	3	28 756	39 317	2 224	24 274
Finance costs	4	17 293	47 964	19 733	45 795
<b>Profit before tax</b>		<b>15 954</b>	<b>57 233</b>	<b>37 186</b>	<b>125 687</b>
Income tax	6	3 234	9 992	8 077	21 730
<b>Net profit from continuing operations</b>		<b>12 720</b>	<b>47 241</b>	<b>29 109</b>	<b>103 957</b>
Earnings per share (in PLN)					
- number of shares		521 154 076	521 154 076	520 918 203	520 918 203
- basic, for net profit for the reporting period		0.02	0.09	0.06	0.20
Diluted earnings per share (in PLN):					
- number of shares		521 154 076	521 154 076	520 918 203	520 918 203
-diluting potential ordinary shares		12 142 323	12 142 323	12 378 196	12 378 196
- diluted, for net profit for the reporting period		0.02	0.09	0.05	0.19

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the nine months ended 30 September 2011 (in PLN thousands)

	For 3 months ended 30 September 2011 <i>unaudited</i>	For 9 months ended 30 September 2011 <i>unaudited</i>	For 3 months ended 30 September 2010 <i>restated</i>	For 9 months ended 30 September 2010 <i>restated</i>
<b>Net profit</b>	<b>12 720</b>	<b>47 241</b>	<b>29 109</b>	<b>103 957</b>
Net gains/losses on cash flow hedges	(4 046)	(7 334)	3 495	(505)
Deferred tax	768	1 398	(665)	95
<b>Other comprehensive income, net of tax</b>	<b>(3 278)</b>	<b>(5 936)</b>	<b>2 830</b>	<b>(410)</b>
<b>Total comprehensive income</b>	<b>9 442</b>	<b>41 305</b>	<b>31 939</b>	<b>103 547</b>

## CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 September 2011 (in PLN thousands)

		30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
	Note			
<b>ASSETS</b>				
<b>Non-current assets</b>		<b>1 242 862</b>	<b>1 200 434</b>	<b>1 209 804</b>
Property, plant and equipment	7	632 783	658 324	649 962
Investment properties		50 475	36 632	37 027
Intangible assets	8	23 759	23 533	22 828
Financial assets		448 220	409 312	415 944
Non-current receivables		51 800	28 010	33 631
Non-current prepaid expenses		-	605	-
Deferred tax assets		35 825	44 018	50 412
<b>Current assets</b>		<b>2 143 555</b>	<b>1 694 462</b>	<b>1 736 577</b>
Inventories	9	228 458	222 698	221 355
Trade and other receivables	10	1 726 789	1 141 709	1 288 196
Income tax receivables		10 115	-	4 676
Prepaid expenses		8 203	6 536	9 319
Cash and cash equivalents		122 461	280 934	164 648
Financial assets		47 529	42 585	48 383
<b>TOTAL ASSETS</b>		<b>3 386 417</b>	<b>2 894 896</b>	<b>2 946 381</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>		<b>939 738</b>	<b>920 030</b>	<b>917 266</b>
Issued capital		20 846	20 837	18 574
Share premium		738 237	737 454	513 466
Supplementary capital		555 994	471 415	471 415
Other capital		(444 924)	(444 924)	(219 173)
Reserve capital		31 678	33 221	32 534
Revaluation reserve		(2 085)	3 851	3 742
Retained earnings / Accumulated losses		39 992	98 176	96 708
<b>Non-current liabilities</b>		<b>618 862</b>	<b>626 455</b>	<b>655 281</b>
Interest bearing bank loans and borrowings		121 241	123 762	160 901
Long-term debentures		367 500	367 435	367 425
Provisions	11	84 171	83 489	74 951
Other liabilities		45 950	51 663	51 922
Accruals		-	106	82
<b>Current liabilities</b>	12	<b>1 827 817</b>	<b>1 348 411</b>	<b>1 373 834</b>
Trade and other payables		1 286 440	1 079 928	978 797
Short-term debentures		41 471	39 331	40 857
Current portion of interest-bearing bank loans and borrowings		438 684	156 928	276 882
Income tax payable		-	84	1 180
Accruals		35 102	36 330	39 137
Provisions		26 120	35 810	36 981
<b>Total liabilities</b>		<b>2 446 679</b>	<b>1 974 866</b>	<b>2 029 115</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3 386 417</b>	<b>2 894 896</b>	<b>2 946 381</b>

**CONDENSED STATEMENT OF CHANGES IN EQUITY**

for the nine months ended 30 September 2011 (in PLN thousands)

*unaudited*

	Issued capital	Share premium	Other capital	Reserve capital	Supplementary capital	Revaluation reserve	Retained earnings / Accumulated losses	Total equity
<b>As at 1 January 2011</b>	<b>20 837</b>	<b>737 454</b>	<b>(444 924)</b>	<b>33 221</b>	<b>471 415</b>	<b>3 851</b>	<b>98 176</b>	<b>920 030</b>
Profit for the period	-	-	-	-	-	-	47 241	47 241
Other comprehensive income for the period	-	-	-	-	-	(5 936)	-	(5 936)
<b>Comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5 936)</b>	<b>47 241</b>	<b>41 305</b>
Share issue – exercise of executive options	9	783	-	(238)	-	-	-	554
Other adjustments relating to combination	-	-	-	-	-	-	-	-
Revaluation of executive options	-	-	-	(1 305)	-	-	-	(1 305)
Profit distribution	-	-	-	-	84 579	-	(84 579)	-
Dividends	-	-	-	-	-	-	(20 846)	(20 846)
<b>As at 30 September 2011 (unaudited)</b>	<b>20 846</b>	<b>738 237</b>	<b>(444 924)</b>	<b>31 678</b>	<b>555 994</b>	<b>(2 085)</b>	<b>39 992</b>	<b>939 738</b>

**CONDENSED STATEMENT OF CHANGES IN EQUITY**

for the nine months ended 30 September 2011 (in PLN thousands)

*unaudited* (continued)

	Issued capital	Share premium	Other capital	Reserve capital	Supplementary capital	Revaluation reserve	Retained earnings / Accumulated losses	Total equity
<b>As at 1 January 2010</b>	<b>18 574</b>	<b>513 466</b>	<b>(281 090)</b>	<b>30 494</b>	<b>381 566</b>	<b>4 413</b>	<b>162 152</b>	<b>829 575</b>
Profit for the period	-	-	-	-	-	-	103 957	103 957
Other comprehensive income for the period	-	-	-	-	-	(410)	-	(410)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(410)</b>	<b>103 957</b>	<b>103 547</b>
Revaluation of executive options	-	-	-	2 040	-	-	-	2 040
Other adjustments relating to combination	-	-	61 917	-	-	(261)	(60 978)	678
Profit distribution	-	-	-	-	89 849	-	(89 849)	-
Dividends	-	-	-	-	-	-	(18 574)	(18 574)
<b>As at 30 September 2010 (restated)</b>	<b>18 574</b>	<b>513 466</b>	<b>(219 173)</b>	<b>32 534</b>	<b>471 415</b>	<b>3 742</b>	<b>96 708</b>	<b>917 266</b>

## CONDENSED STATEMENT OF CASH FLOWS

for the nine months ended 30 September 2011 (in PLN thousands)

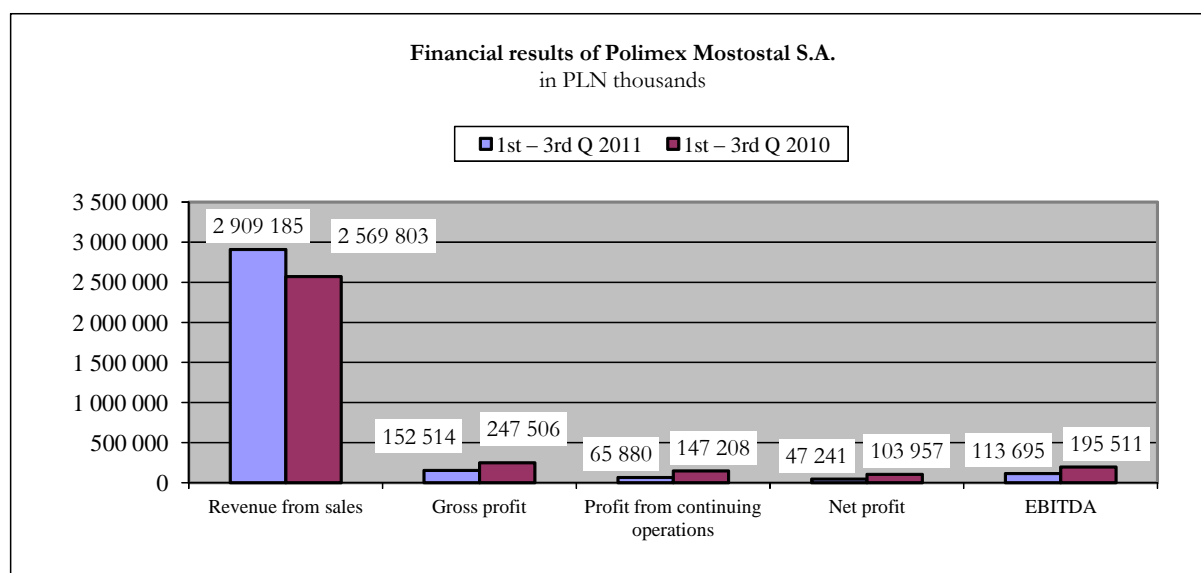
	9 month period ended 30 September 2011 <i>unaudited</i>	Year ended 31 December 2010 <i>audited</i>	9 month period ended 30 September 2010 <i>restated</i>
<b>Cash flows from operating activities</b>			
<b>Gross profit/(loss)</b>	<b>57 233</b>	<b>138 454</b>	<b>125 687</b>
<b>Adjustments for:</b>	<b>(369 306)</b>	<b>(57 055)</b>	<b>(364 590)</b>
Depreciation / Amortisation	47 815	55 676	48 303
Interests and dividends, net	33 158	29 761	19 058
(Gain)/loss from investing activities	482	(10 741)	(11 367)
(Increase)/ decrease in receivables	(612 369)	(83 859)	(235 081)
(Increase)/ decrease in inventories	(5 760)	(80 948)	(79 605)
Increase/ (decrease) in payables except for loans and borrowings	196 896	18 313	(80 382)
Change in accruals and prepaid expenses	(2 396)	(6 468)	(4 507)
Change in provisions	(9 008)	1 501	(5 866)
Income tax paid	(10 600)	(19 432)	(18 200)
Impairment of long-term financial assets	-	35 000	-
Other	(7 524)	4 142	(3 057)
<b>Net cash flows from operating activities</b>	<b>(312 073)</b>	<b>81 399</b>	<b>(238 903)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangibles	1 182	3 593	1 850
Purchase of property, plant and equipment and intangibles	(35 109)	(93 651)	(74 874)
Proceeds from sale of financial assets	-	12 838	12 662
Purchase of financial assets	(14 174)	(21 423)	(10 622)
Acquisition of a subsidiary, net of cash acquired	-	-	-
Dividends and interest received	3 098	3 359	3 205
Repayment of loans granted	2 773	1 215	951
Loans granted	(26 368)	(40 469)	(32 460)
Other	42	190	-
<b>Net cash flows from investing activities</b>	<b>(68 556)</b>	<b>(134 348)</b>	<b>(99 288)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	554	-	-
Proceeds from issue of debentures	290 957	355 663	258 643
Expenses for redemption of debentures	(292 500)	(357 495)	(259 994)
Finance lease liabilities (payment of liabilities)	(1 410)	(3 915)	(2 980)
Proceeds from loans and borrowings	382 153	215 495	373 493
Repayment of loans and borrowings	(102 918)	(106 689)	(107 594)
Dividends paid to equity holders of the parent	(20 041)	(18 574)	(18 574)
Interest paid	(35 236)	(40 622)	(29 460)
Other	597	1 099	384
<b>Net cash flows from financing activities</b>	<b>222 156</b>	<b>44 962</b>	<b>213 918</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(158 473)</b>	<b>(7 987)</b>	<b>(124 273)</b>
Net foreign exchange difference	4 068	2 109	2 025
<b>Cash and cash equivalents at the beginning of the period</b>	<b>280 934</b>	<b>288 921</b>	<b>288 921</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>122 461</b>	<b>280 934</b>	<b>164 648</b>

### 3.1. Review of Polimex-Mostostal S.A.'s financial results in the period of 1<sup>st</sup>-3<sup>rd</sup> quarters of 2011

Data for the 1<sup>st</sup>-3<sup>rd</sup> quarter 2010 present Polimex-Mostostal S.A. as if it had operated since 01.01.2010 in the structure including the 7 incorporated companies.

In the period of 1<sup>st</sup>-3<sup>rd</sup> quarter 2011, Polimex-Mostostal S.A. reported sales revenue in the amount of PLN 2,909,185 thousand (an increase of 13.2% as against comparative data for the period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2010). In the period of 1<sup>st</sup>-3<sup>rd</sup> quarter 2011 net profit reached PLN 47,241 thousand (a decrease of 54.6% as against comparative data for the period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2010). Profit from operating activity amounted to PLN 65,880 thousand (a decrease of 55.2% as against comparative data for the period of 1<sup>st</sup>-3<sup>rd</sup> quarters 2010). EBITDA value amounted to PLN 113,695 thousand (a decrease of 41.8% as against comparative data for the 1<sup>st</sup>-3<sup>rd</sup> quarters 2010).

The results of the Polimex-Mostostal S.A. in the period from the 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 are presented below:



The statement of financial position total of Polimex-Mostostal S.A. as at 30.09.2011 amounted to PLN 3,386,417 thousand (an increase of 14.9% as against comparable data as at 30.09.2010). As at 30.09.2011 non-current assets amounted to PLN 1,242,862 thousand (an increase of 2.7% as against comparative data as at 30.09.2010), and current assets to PLN 2,143,555 thousand (an increase of 23.4% as against comparative data at 30.09.2010). Property, plant and equipment were the largest item in fixed assets structure constituting 18.7% of total assets. Trade and other receivables constituting 51.0% of total assets were the largest item of current assets.

Equity of Polimex-Mostostal S.A. as at 30.09.2011 amounted to PLN 939,738 thousand (an increase of 2.4% as against comparative data at 30.09.2010), and liabilities amounted to PLN 2,446,679 thousand (an increase of 20.6% as against comparative data at 30.09.2010). The share premium, constituting 21.8% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 53.9% of total equity and liabilities and equity were the largest item of liabilities.

In Polimex-Mostostal S.A. cash and cash equivalents at the end of the 3<sup>rd</sup> quarter 2011 amounted to PLN 122,461 thousand (a decrease of PLN 42,187 thousand as compared against as at 30.09.2010). Net cash from operating activities in the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 amounted to PLN - 312,073 thousand as a result of an increase in the amounts due for works, which is the effect of the way road contracts for the benefit of the

Directorate for National Roads and Motorways are settled. Net cash from investing activities in the period from 1st to 3rd quarter 2011 amounted to PLN -68,556 thousand, and net cash from financing activity in the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 amounted to PLN 222,156 thousand.

Values of Company statement of financial position as well as profit and loss account ratios mentioned below should be considered as correct. As at the statement of financial position date, Polimex-Mostostal S.A. had liquidity and repaid borrowings. Current and quick liquidity ratios were on the safe level and were equal to 1.17 and 1.05 respectively. There was a slight increase of the general debt ratio. The main factors that influenced the profit margin were listed in the section describing the financial results of Polimex-Mostostal Capital Group.

<b>Financial ratios for Polimex-Mostostal S.A.:</b>	<b>30.09.2011</b>	<b>30.09.2010</b>
Current liquidity ratio ( <i>current assets : current liabilities</i> )	1.17	1.26
Quick liquidity ratio( <i>(current assets less inventories) : current liabilities</i> )	1.05	1.10
General debt ratio ( <i>liabilities : assets</i> )	72.2%	68.9%
Net profit margin ( <i>net profit : revenue from sales</i> )	1.6%	4.0%
EBITDA margin (EBITDA : <i>revenue from sales</i> )	3.9%	7.6%
Earnings per share ( <i>net profit : weighted average number of shares</i> )	0.09	0.20

## 4. ADDITIONAL INFORMATION

### 4.1. Operating segments and geographic information

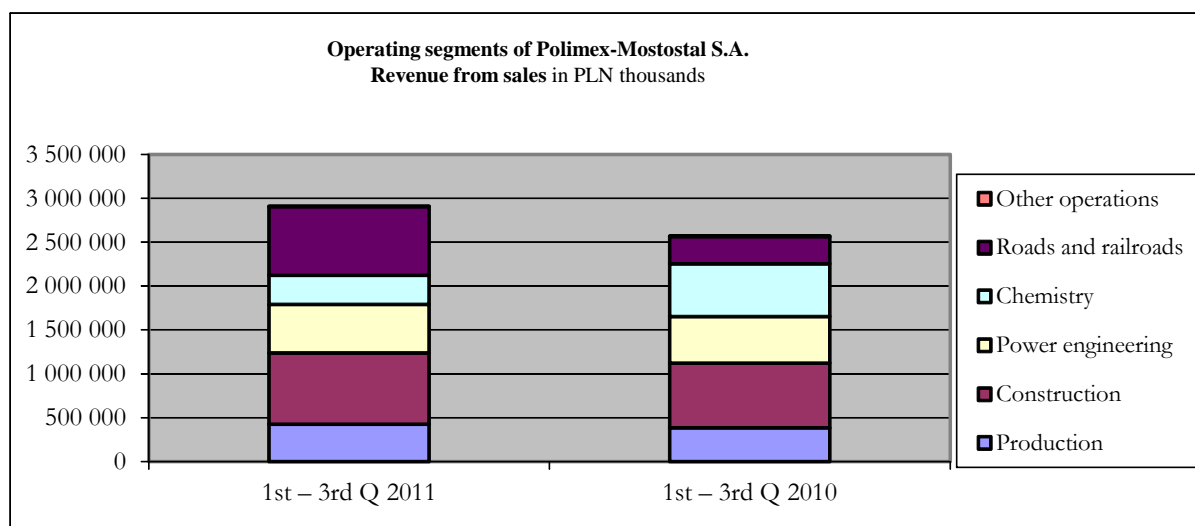
In the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011 the **operating segments** participated in sales as follows:

in PLN thousands

Segment	Change 1st-3rd Q 2011 / 1st-3rd Q 2010	1st-3rd Q 2011		1st-3rd Q 2010	
		value	share	value	share
Production	10.1%	424 839	14.6%	385 856	15.0%
Construction	10.1%	810 787	27.9%	736 189	28.7%
Power Engineering	4.8%	554 507	19.1%	529 216	20.6%
Chemistry	-45.0%	331 429	11.4%	602 594	23.4%
Roads and Railways	151.9%	782 959	26.9%	310 798	12.1%
Other activity	-9.4%	4 664	0.1%	5 150	0.2%
<b>Total revenue from sales</b>	13.2%	2 909 185	100.0%	2 569 803	100.0%

The highest share in sales was attributed to Construction 27.9% (an increase in sales of 10.1% as against comparable data for 1<sup>st</sup>-3<sup>rd</sup> Qs 2010) followed by Roads and Railroads industry 26.9% (an increase in sales of 151.9% as against comparable data for 1<sup>st</sup>-3<sup>rd</sup> Qs 2010). A very clear increase in the revenue of Roads and Railroads segment was mostly the result of the dynamic growth of works in the scope of road infrastructure. A significant share in sales was reported in Power Engineering – 19.1%, which is before acquiring and executing modernisation

projects in Polish power engineering sector. An increase in the revenue of Production (an increase in sales of 10.1% as against comparative data for the 1<sup>st</sup>-3<sup>rd</sup> Qs 2010) was the result of among other things of fuller and fuller utilisation of new production capacity in the Tarnobrzeg Special Economic Zone. A significant decrease in revenue in Chemistry - mostly as a result of completing 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)",



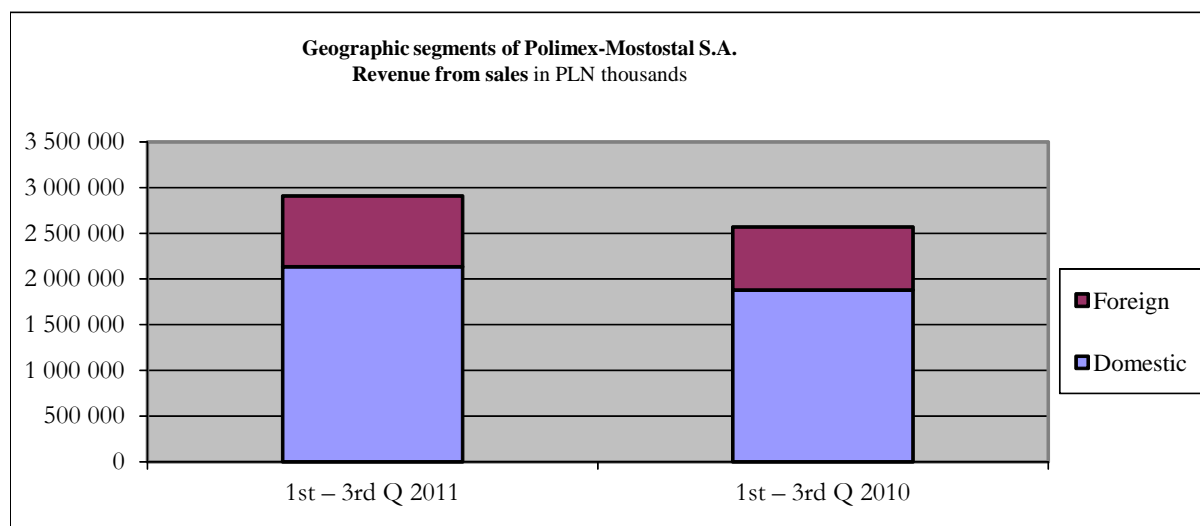
The value and geographic structure of Polimex-Mostostal S.A.'s sales in the period from the 1<sup>st</sup> to the 3<sup>rd</sup> quarter 2011 was as follows:

in PLN thousands

Market	Change 1st-3rd Q 2011 / 1st-3rd Q 2010	1st-3rd 2011		1st-3rd Q 2010	
		value	share	value	share
Domestic	13.6%	2 134 335	73.4%	1 878 043	73.1%
Foreign	12.0%	774 850	26.6%	691 760	26.9%
<b>Total revenue from sales</b>	<b>13.2%</b>	<b>2 909 185</b>	<b>100.0%</b>	<b>2 569 803</b>	<b>100.0%</b>

As compared against the period of 1st-3rd Qs 2010 the share of foreign sales was at a similar level. The domestic market, where 73.4% of revenues from sales was generated, was the main market for Polimex-Mostostal S.A in the period from 1<sup>st</sup> to 3<sup>rd</sup> quarter 2011.





#### 4.2. Significant executed construction contracts at Polimex-Mostostal S.A.

In the 3rd quarter 2011 the Issuer generated the highest revenue from the execution of the following contracts:

PROJECT NAME	Revenue recognised in the income statement in 3rd quarter 2011	Operating segment
A4 RZESZÓW-JAROSŁAW MOTORWAY	155 426 707.48	roads and railroads
A4 SZARÓW-BRZESKO MOTORWAY	142 845 045.59	roads and railroads
S-69 B.BIAŁA-ŻYWIEC EXPRESS ROAD	105 337 067.95	roads and railroads
A2 STRYKÓW-KONOTOPA MOTORWAY	88 421 069.91	roads and railroads
A1 SOŚNICA-MACIEJÓW MOTORWAY	61 802 389.94	roads and railroads
HEAT AND POWER PLANT IN BIELSKO-BIAŁA	38 849 562.09	power engineering
PTA WŁOCŁAWEK	38 676 645.00	chemistry
GLASS PRODUCTION PLANT IN KOMORNIKI	29 850 904.75	construction
EUROPEAN SOLIDARITY CENTRE	17 997 458.26	construction
DISTRICT AND REGIONAL COURT IN ZAMOŚĆ	14 229 837.64	construction
	<b>693 436 688.61</b>	

#### 4.3. Selected other explanatory notes to the condensed financial statements (in PLN thousands)

##### Note 1

	for the three months ended 30 September 2011 <i>unaudited</i>	for the nine months ended 30 September 2011 <i>unaudited</i>	for the three months ended 30 September 2010 <i>restated</i>	for the nine months ended 30 September 2010 <i>restated</i>
<b>Other operating income</b>				
Gain on disposal of non-financial fixed assets	642	959	-	1 416
Court settlement	-	19	-	-
Reversed provision for future expenses	560	4 326	505	982
Release of guarantee repairs provision	-	-	-	108
Recovered damages payments and fines	1 465	4 470	529	3 827
Other	783	3 397	981	2 377
<b>Other operating income, total</b>	<b>3 450</b>	<b>13 171</b>	<b>2 015</b>	<b>8 710</b>

**Note 2**

	for the three months ended 30 September 2011 <i>unaudited</i>	for the nine months ended 30 September 2011 <i>unaudited</i>	for the three months ended 30 September 2010 <i>restated</i>	for the nine months ended 30 September 2010 <i>restated</i>
<b>Other operating expenses</b>				
Donations	59	374	188	713
Court expenses	85	991	92	417
Damages and fines	886	3 597	-	216
Costs of guarantee repairs	-	-	733	733
Other	513	2 568	180	889
<b>Total other operating expenses</b>	<b>1 543</b>	<b>7 530</b>	<b>1 193</b>	<b>2 968</b>

**Note 3**

	for the three months ended 30 September 2011 <i>unaudited</i>	for the nine months ended 30 September 2011 <i>unaudited</i>	for the three months ended 30 September 2010 <i>restated</i>	for the nine months ended 30 September 2010 <i>restated</i>
<b>Finance income</b>				
Interest	1 071	5 136	1 084	5 536
Revenue from measurement and exercise of derivative instruments	(569)	-	762	2 620
Foreign exchange gains	27 940	29 330	-	-
Reimbursement of additional payments to shares	-	450	-	303
Gain on sale of financial assets	-	-	-	10 365
Dividends	-	2 439	-	4 997
Other	314	1 962	378	453
<b>Total finance income</b>	<b>28 756</b>	<b>39 317</b>	<b>2 224</b>	<b>24 274</b>

**Note 4**

	for the three months ended 30 September 2011 <i>unaudited</i>	for the nine months ended 30 September 2011 <i>unaudited</i>	for the three months ended 30 September 2010 <i>restated</i>	for the nine months ended 30 September 2010 <i>restated</i>
<b>Finance costs</b>				
Interest	7 880	20 082	4 025	9 596
Debenture commissions and interest	6 895	19 766	6 139	19 923
Bank commissions and charges	266	2 115	899	2 659
Expenses arising from measurement and exercise of derivative instruments	1 088	1 088	(63)	-
Foreign exchange losses	-	3 366	8 177	12 485
Lease costs	164	445	137	338
Other	1 000	1 102	419	794
<b>Total finance costs</b>	<b>17 293</b>	<b>47 964</b>	<b>19 733</b>	<b>45 795</b>

**Note 5**

	for the three months ended 30 September 2011 <i>unaudited</i>	for the nine months ended 30 September 2011 <i>unaudited</i>	for the three months ended 30 September 2010 <i>restated</i>	for the nine months ended 30 September 2010 <i>restated</i>
<b>Costs by type</b>				
Depreciation / Amortisation	16 005	47 815	16 418	48 303
Materials and energy	359 106	936 689	286 170	587 706
External services	485 931	1 169 615	532 474	1 233 750
Taxes and charges	6 203	19 892	7 985	24 022
Employee benefits expenses	210 576	597 789	218 564	593 241
Other costs by type	11 930	53 415	11 236	38 373
<b>Total costs by type</b>	<b>1 089 751</b>	<b>2 825 215</b>	<b>1 072 847</b>	<b>2 525 395</b>

**Note 6**

	for the three months ended 30 September 2011 <i>unaudited</i>	for the nine months ended 30 September 2011 <i>unaudited</i>	for the three months ended 30 September 2010 <i>restated</i>	for the nine months ended 30 September 2010 <i>restated</i>
<b>Income tax</b>				
Current income tax	(1 096)	1 995	10 756	18 500
Deferred income tax	4 330	7 997	(2 679)	3 230
<b>Total income tax</b>	<b>3 234</b>	<b>9 992</b>	<b>8 077</b>	<b>21 730</b>

**Note 7**

	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Property, plant and equipment</b>			
Land, buildings and structures	345 363	337 392	331 950
Plant and machinery	204 027	186 604	166 655
Means of transportation	37 079	40 569	39 172
Other property, plant and equipment	46 314	93 759	112 185
<i>of which: Fixed assets under construction and advance payments to fixed assets under construction</i>	<i>30 312</i>	<i>74 928</i>	<i>94 358</i>
<b>Total property, plant and equipment, net</b>	<b>632 783</b>	<b>658 324</b>	<b>649 962</b>

**Note 8**

	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Intangible assets</b>			
Software	16 821	16 228	15 862
Goodwill	6 938	6 938	6 938
Other	-	367	28
<b>Total intangible assets, net</b>	<b>23 759</b>	<b>23 533</b>	<b>22 828</b>

	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 9</b>			
<b>Inventories</b>			
Raw materials	101 652	86 200	99 555
Semi-finished goods and work in progress	105 205	103 257	99 764
Finished goods	11 423	22 733	15 059
Goods for resale	33	80	57
Raw materials advance payments	10 145	10 428	6 920
<b>Total inventories, net</b>	<b>228 458</b>	<b>222 698</b>	<b>221 355</b>
	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 10</b>			
<b>Current receivables</b>			
Trade receivables	1 716 864	1 126 787	1 272 676
Other receivables	9 925	14 922	15 520
<b>Total current receivables, net</b>	<b>1 726 789</b>	<b>1 141 709</b>	<b>1 288 196</b>
	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 11</b>			
<b>Non-current provisions</b>			
Provisions for employee benefits	75 252	74 438	69 086
Other provisions	8 919	9 051	5 865
<b>Total non-current provisions</b>	<b>84 171</b>	<b>83 489</b>	<b>74 951</b>
	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Note 12</b>			
<b>Current liabilities</b>			
Trade payables	1 148 568	902 112	835 287
Current portion of interest-bearing loans and borrowings	438 684	156 928	276 882
Income tax	-	84	1 180
Other tax liabilities, ZUS (Social Insurance Institution)	52 877	90 692	67 552
Financial liabilities (including short-term discount debentures)	54 829	68 704	52 332
Other liabilities	71 637	57 751	64 483
Accruals	35 102	36 330	39 137
Provisions	26 120	35 810	36 981
<b>Total current liabilities</b>	<b>1 827 817</b>	<b>1 348 411</b>	<b>1 373 834</b>

#### 4.4. Operating segments and geographic information

The tables below present data relating to revenue of individual operating segments and geographic information of the Company for the period of 3 months ended 30 September 2011, for the period of 9 months ended 30 September 2011, for the period of 3 months ended 30 September 2010 and for the period of 9 months ended 30 September 2010 (in PLN thousand).

Operating segments for the three months ended 30 September 2011 <i>unaudited</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	145 510	285 620	213 024	106 011	356 583	1 490	-	1 108 238
Inter-segment sales	95 191	3 565	7 236	1 404	-	1 869	(109 265)	-
<b>Total segment revenue</b>	<b>240 701</b>	<b>289 185</b>	<b>220 260</b>	<b>107 415</b>	<b>356 583</b>	<b>3 359</b>	<b>(109 265)</b>	<b>1 108 238</b>
Operating segments for the nine months ended 30 September 2011 <i>unaudited</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	424 839	810 787	554 507	331 429	782 959	4 664	-	2 909 185
Inter-segment sales	216 042	5 879	16 603	5 126	-	5 697	(249 347)	-
<b>Total segment revenue</b>	<b>640 881</b>	<b>816 666</b>	<b>571 110</b>	<b>336 555</b>	<b>782 959</b>	<b>10 361</b>	<b>(249 347)</b>	<b>2 909 185</b>
Operating segments for the three months ended 30 September 2010 <i>restated</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	182 161	264 640	208 162	236 812	160 272	1 521	-	1 053 568
Inter-segment sales	25 444	2 538	7 064	1 476	-	1 311	(37 833)	-
<b>Total segment revenue</b>	<b>207 605</b>	<b>267 178</b>	<b>215 226</b>	<b>238 288</b>	<b>160 272</b>	<b>2 832</b>	<b>(37 833)</b>	<b>1 053 568</b>
Operating segments for the nine months ended 30 September 2010 <i>unaudited</i>	Continuing operations						Eliminations	Total Operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations		
<b>Revenue</b>								
Sales to external customers	385 856	736 189	529 216	602 594	310 798	5 150	-	2 569 803
Inter-segment sales	100 163	9 474	33 615	3 001	-	2 465	(148 718)	-
<b>Total segment revenue</b>	<b>486 019</b>	<b>745 663</b>	<b>562 831</b>	<b>605 595</b>	<b>310 798</b>	<b>7 615</b>	<b>(148 718)</b>	<b>2 569 803</b>

Geographic information for the three months ended 30 September 2011 <i>unaudited</i>	Domestic	Foreign	Eliminations	TOTAL
<b>Revenue</b>				
Sales to external customers	853 490	254 748	-	1 108 238

Geographic information for the nine months ended 30 September 2011 <i>unaudited</i>	Domestic	Foreign	Eliminations	TOTAL
<b>Revenue</b>				
Sales to external customers	2 134 335	774 850	-	2 909 185

Geographic information for the three months ended 30 September 2010 <i>restated</i>	Domestic	Foreign	Eliminations	TOTAL
<b>Revenue</b>				
Sales to external customers	754 718	298 850	-	1 053 568

Geographic information for the nine months ended 30 September 2010 <i>unaudited</i>	Domestic	Foreign	Eliminations	TOTAL
<b>Revenue</b>				
Sales to external customers	1 878 043	691 760	-	2 569 803

#### 4.5. Off-statement of financial position items

as at 30 September 2011 (in PLN thousands)

	30 September 2011 <i>unaudited</i>	31 December 2010 <i>audited</i>	30 September 2010 <i>restated</i>
<b>Contingent receivables</b>	<b>582 475</b>	<b>540 356</b>	<b>497 666</b>
From related and other parties (arising from)	582 475	540 356	497 666
- guaranties and sureties received	441 907	469 369	429 649
- legal claims	140 568	70 987	68 017
<b>Contingent liabilities</b>	<b>1 970 864</b>	<b>1 944 489</b>	<b>1 852 799</b>
To related and other parties (arising from)	1 970 864	1 944 489	1 852 799
- guaranties and sureties granted	1 462 909	1 417 398	1 370 934
- promissory notes	89 649	61 719	82 250
- legal claims	40 481	16 232	15 151
- other	170 325	152 110	129 125
- contractual capped / ordinary mortgage	207 500	297 030	255 339
<b>Other (arising from)</b>	<b>114 623</b>	<b>114 623</b>	<b>114 623</b>
- transferred to off-statement of financial position records			
balances relating to*	114 623	114 623	114 623
- receivables	48 839	48 839	48 839
- cash	15 973	15 973	15 973

- liabilities	25 330	25 330	25 330
- deferred income	24 481	24 481	24 481
<b>Total off-statement of financial position items</b>	<b>2 667 962</b>	<b>2 599 468</b>	<b>2 465 088</b>

\* these are the balances on contracts executed by Polimex-Mostostal S.A. in Iraq before 1991

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

**Konrad Jaskóła**  
President of the Board

**Aleksander Jonek**  
Vice President of the Board

**Grzegorz Szkopek**  
Vice President of the Board

**Zygmunt Artwik**  
Vice President of the Board

Warsaw, 10th November 2011.