POLIMEX-MOSTOSTAL CAPITAL GROUP

DIRECTORS' REPORT ON THE OPERATIONS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2012

Warsaw, March 18, 2013.

This is a translation of a document originally issued in the Polish language

Contents

1. Economic activities of Polimex-Mostostal Capital Group

Polimex-Mostostal S.A. is an engineering and construction company, which has been present on the market since 1945. In the reporting period the Issuer together with the companies forming its own Capital Group continued its business activities as before. As a general contractor it rendered services in the power engineering, chemical, petrorefinery, environment protection and industrial as well as general construction sectors. It mounted comprehensive industrial buildings, modernised existing processing lines and offered servicing of production machinery. Construction activity comprised such areas as execution of large investments in the scope of road, railroad and general construction both with reference to public utility buildings as well as office, warehouse and commercial spaces.

Owing to a considerable production capacity and owning a modern machinery park, the Issuer's Group maintained the position of a leading and respected producer and exporter of steel structures and products, including platform gratings.

In the reporting period, the Issuer also rendered services in the scope of top-notch corrosion protection mostly using a hot dip galvanization method.

Outside Poland, the Issuer's Group remained active in foreign markets mostly in the European Union member states and in Ukraine, selling there a considerable portion of produced steel structures and products and performing construction and erection services.

In the reporting period the Issuer and its subsidiaries concluded a number of contracts securing the realisation of a significant portion of the budget for this year and for the next years. The key ones should include:

- construction of two power blocks for PGE Elektrownia Opole S.A. by the consortium of Rafako S.A. (the consortium leader), Mostostal Warszawa S.A. and Polimex-Mostostal S.A. The value of the contract amounts to approx. PLN 11.6 billion gross, of which 41.8% is attributable to the Company.
- construction of a power block for Elektrownia Kozienice S.A. by the consortium of Hitachi Power Europe GmbH (the consortium leader) and Polimex-Mostostal S.A. The value of the contract amounts to approx. PLN 6.3 billion gross, of which 42.7% is attributable to the Company.
- performing in a turn-key system the catalytic system for denitriding and dedusting of combustion gases from boilers of Heat and Power Plant in the Production Plant of Polski Koncern Naftowy Orlen S.A. worth PLN 466.2 million gross.
- design and performance of construction works for the modernization of the E75 Rail Baltica rail road Warsaw – Białystok - Lithuanian border, stage I by the consortium whose leader is Torpol. The value of the contract amounts to PLN 1.6 billion, of which approx. 83% is attributable jointly to Torpol and Polimex-Mostostal (a consortium member).
- construction of two buildings i.e. Lublin Conference Centre and the Office of Marshal in Lublin worth PLN 117.8 million gross.

In the reporting period the Capital Group conducted activity in five operating segments: power engineering, chemistry, production, construction and roads and railroads.

In **Power Engineering** the offer of the Group included comprehensive construction of facilities for professional, industrial and municipal energy sector. In the reporting period Sefako, a subsidiary, manufactured water and steam boilers of medium capacity. In the scope of large capacity boilers, the Group specializes in the delivery and assembly of a pressure part also for supercritical parameters. It also constructs accompanying facilities such as combustion gas cleaning plants, water treatment plants or fuel delivery and slag collection installations. It also renders overhaul, modernisation and maintenance services for all types of power engineering machineries. In the reporting period the Issuer was a producer of transformers.

In **chemical sector** the Group offers general contracting of production facilities for chemical plants and refineries, biofuel plants and of infrastructure for transfer and storage of gas and liquid fuels. Additionally, it renders services in the scope of delivery and assembly of specialist production systems and delivers all types of containers, pipelines, processing furnaces and similar equipment. It specialises in overhauls of processing lines at plants while at the same time they conduct their business activity, which requires imposing a specific technology regime.

The Issuer's operations in the scope of environment protection are included in the chemistry segment. The offer covers construction and extension of comprehensive sewage treatment plants and municipal and industrial waste treatment plants.

Production remains the activity which distinguishes the Group among other construction companies. No competitor operating on the Polish market has production plants offering such a wide range of products for domestic and foreign customers. Steel structures for the sectors of power engineering, petrochemistry, metallurgy, mining industry, communications, roads and for the construction of halls, shopping centres, sports facilities and public utility buildings are manufactured. The offer includes a wide range of superstructures and covers for large-size structure and industrial construction, elements for bridges, flyovers and footbridges as well as barriers and acoustic screens for road industry. Additionally, Group companies offer delivery of pressure pipelines for transportation of liquid fuel, whereas the Issuer specialises in the production of platform gratings, shelving systems and elements of construction formworks. In the reporting period Energomontaż-Północ Gdynia, a subsidiary, conducted activity in the off-shore market and it performed overhauls of ships. Abroad, the production of steel structures and products is conducted in Ukraine and in Romania.

In the **construction industry** the Group's operations focus on mounting various types of public utility and commercial buildings. The Company owns modern technologies in the scope of production and erection of large-size steel structures used while mounting office buildings, retail centres, warehouses and sports facilities. Moreover, it delivers and assembles steel structures for the needs of industry, in the first place for power engineering and chemistry. Developer companies of the Group conduct their operations in the area of Warsaw, Krakow and Opole.

The activity of the Group in the scope of **road and railroad construction** includes design and construction of roads and rail lines together with a comprehensive technical infrastructure. The construction of roads and motorways is dealt directly by Polimex-Mostostal whereas rail road works are performed by Torpol, a subsidiary. A significant portion of deliveries comes from own production plants, which was described above in the presentation of the production segment. High value contracts are usually performed on a consortium basis.

On 4 July 2012 Polimex-Mostostal (and indirectly the Capital Group) commenced the implementation of a new organizational structure consisting in the concentration in five segments of business activity conducted so far by 22 divisions functioning within the structures of the Company. The process was completed as of 1 January 2013. Within the new structure the following five segments were distinguished: (i) Power engineering and chemistry (services connected with energy and chemistry sector including general contracting services in the energy sector and in chemistry and petrorefinery sectors as well as continuous and full-scale servicing of power plants, heat and power plants and industrial facilities); (ii) General construction (construction and erection services related to execution of facilities in the form of general contracting in the area of industrial construction and public utility construction as well as design services); (iii) Infrastructure construction (services in the scope of road and bridge construction together with lighting and accompanying infrastructure, railroad works and services in the scope of environment protection); (iv) Service (construction and assembly services and services in the scope of industrial maintenance); and (v) Production (production of steel structures and products, production of platform gratings and corrosion protection services). For each segment a Company's division and subsidiaries were allotted based on previous profile of their activity. The objective of shifting from the division structure to the segment structure was to increase the capacity of the Company and of the Group Companies to efficiently and economically effectively allocate owned resources to the execution of large investment projects in the developing segments of the market.

1.1. Revenues and their structure

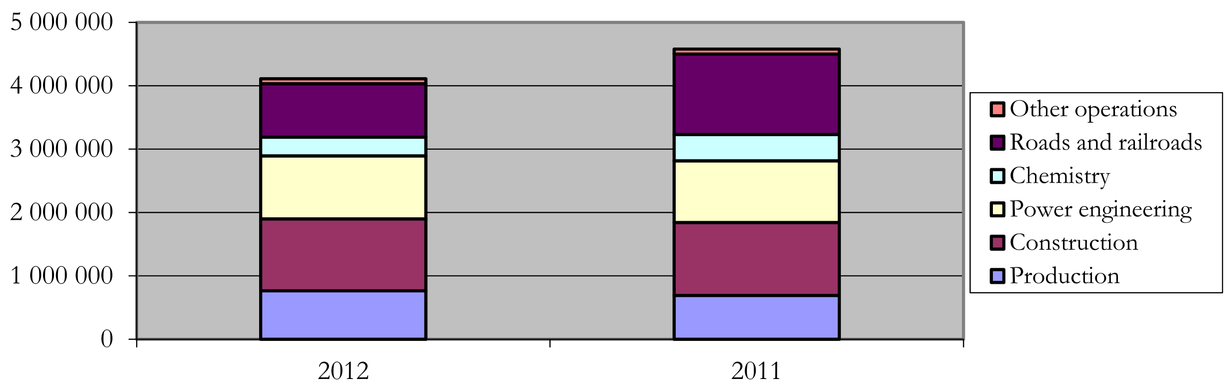
In 2012 Polimex-Mostostal Capital Group generated revenue from sale in the amount of PLN 4.110.417 thousand.

PLN thousands

Segment	Change 2012 2011	2012		2011	
		value	share	value	share
Production	11.0%	763 706	18.6%	687 857	15.0%
Construction	-1.6%	1 131 496	27.5%	1 150 183	25.1%
Power Engineering	2.3%	996 905	24.3%	974 389	21.3%
Chemistry	-29.7%	294 448	7.1%	419 058	9.2%
Roads and railroads	-33.5%	845 488	20.6%	1 271 094	27.8%
Other operations	4.3%	78 374	1.9%	75 157	1.6%
Total revenue from sales	-10.2%	4 110 417	100.0%	4 577 738	100.0%

The highest share in sales was attributed to Construction – 27.5% (a decrease in sales by 1.6% as against comparative data for 2011) followed by Power Engineering industry – 24.3% (an increase in sales by 2.3% as against comparative data for 2011). An increase in sales revenue by 11.0% as against comparative period was reported by the Production. A significant decrease in revenue was reported in Chemistry segment (a reduction by 29.7% as against comparative data for 2011). The largest decrease in revenue was reported in road and railroad segment (a reduction by 33.5% as against comparative data for 2011).

Operating segments of Polimex-Mostostal Group
Revenue from sales in PLN thousands



1.2. Main products and services

The scope of activity of Polimex-Mostostal Capital Group in 2012 did not change as against a prior period and in its basic range it included:

- preparation of preproject studies and analyses and of project initial and working documentation;
- comprehensive services for investment process, completion of deliveries of equipment and industrial installations;
- general contracting of industrial facilities and public utility buildings, roads and railroads;
- assembly of special equipment, in particular for chemical and power engineering industry;
- production of power boilers based on client's or own documentation;
- production and overhauls of transformers;
- continuous and full-scale servicing of industrial plants;
- manufacturing of steel structures for the needs of industrial construction mainly for power engineering and petrochemical industry;
- production, delivery and erection of steel structures used while mounting shopping centers, warehouse halls, sports facilities and public utility buildings, petrol stations, warehouse terminals, drilling rigs and off-shore structures; the Group executes orders using its own typical technical solutions or according to customers' individual projects;
- overhauls of ships;
- production, delivery and assembly of bridges, flyovers, footbridges, gantries as well as protection and acoustic barriers used in road construction;
- production and delivery of welded and pressed platform grates of MOSTOSTAL type together with fixing elements, which ensure quick and safe assembly; grates are used in production plants as a component of platforms for servicing production lines and of circulation paths at pipelines and containers; they are also used as pavements at footbridges and bridges, as duct covers, protection of manhole frames and as stair steps;
- production and delivery of shelving systems, pallets and containers for transportation of various types of products and a wide range of construction accessories including construction props used to mount floor slabs;
- services in the scope of corrosion protection of steel structures by means of:
  - hot (dip) galvanizing,
  - Duplex system (galvanising + hydrodynamic painting),
  - hydrodynamic painting;
- hardware and transport services.

In 2013 as a result of a disposal of an organised part of an enterprise of the Company and of two subsidiaries the scope of the activity of the Issuer's Group will decrease by the following products: (i) production of power boilers, (ii) production and overhauls of transformers, (iii) delivery of elements of drilling platforms and off-shore structures and (iv) overhauls of ships.

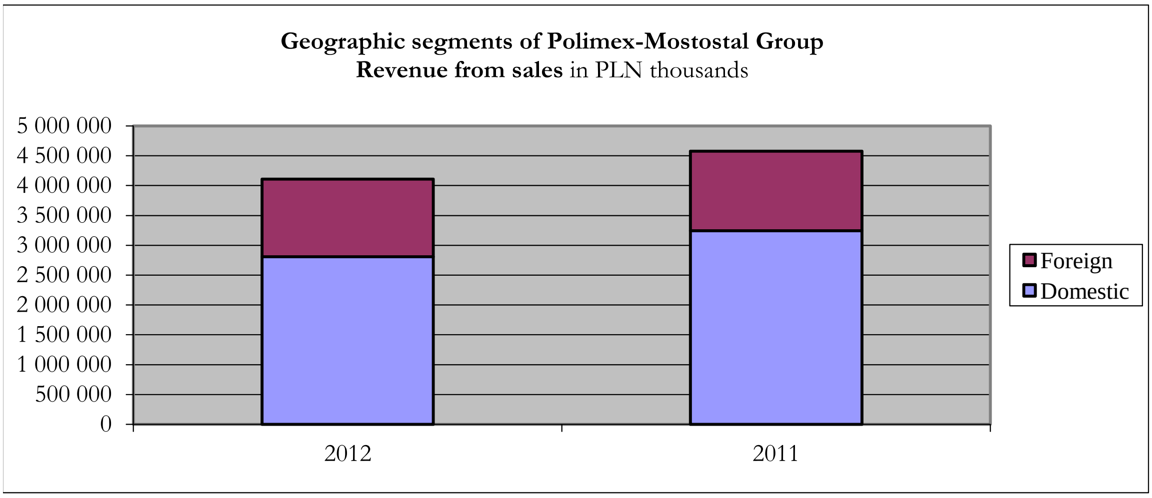
1.3. Trade areas and sources of supply

The value and geographic structure of Polimex-Mostostal S.A. Capital Group's sales in 2012 were as follows:

PLN thousands

Market	Change 2012 / 2011	2012		2011	
		value	share	value	share
Domestic	-13.6%	2 805 532	68.3%	3 245 915	70.9%
Foreign	-2.0%	1 304 885	31.7%	1 331 823	29.1%
Total revenue from sales	-10.2%	4 110 417	100.0%	4 577 738	100.0%

As compared to 2011 a decrease of revenue from sales in the domestic was observed both in terms of its value and structure. The domestic market still remained the main market of the Polimex-Mostostal Group with the share of 68.3% in the total revenue of the Group.



The key customers of the Polimex-Mostostal S.A. in 2012 were: the General Directorate for National Roads and Motorways, Helical Sośnica Sp. z o.o., TAURON Wytwarzanie S.A., Mostostal Warszawa S.A., PKN Orlen S.A., Halla Engineering & Construction S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Projekt 5 - Grupa Echo Sp. z o.o., Galeria Olimpia - Projekt ECHO - 98 Sp. z o.o., Stadion w Zabrzu Sp. z o.o., Pilkington Automotive Poland Sp. z o.o., Wartsila Finland Oy Power Plants - Finland. Only revenues from sales to the General Directorate for National Roads and Motorways exceeded 10% of the revenues from sales of Polimex-Mostostal S.A. The entity is not formally related to Polimex-Mostostal S.A. The key suppliers of the Polimex-Mostostal S.A. in 2012 were: Doprastav S.A. (Branch in Poland), SUPER-KRUSZ Sp. z o.o., Foster Wheeler Energia Polska Sp. z o.o., Glencore International AG - Switzerland, Coifer Impex S.r.l. – Romania, Thyssenkrupp Energostal S.A., Vistal Gdynia S.A., Lotos Asfalt Sp. z o.o., PPUH Konstalex Sp. z o.o., Przedsiębiorstwo Handlowo-Usługowe PLAST-BUD Zdzisław Sówka, Elektrobudowa S.A., SPEC-BRUK Sp. z o.o. Sp. K. In 2011 purchases from individual suppliers did not exceed 10% of revenues from sales of Polimex-Mostostal S.A.

The key customers of **Torpol capital group** in 2012 were: PKP Polskie Linie Kolejowe S.A. (61.1% of group's total sales), the Administration of Municipal Transport in Poznań (12.7% of group's total sales), Trakcja S.A., ALUSTA S.A., Skanska S.A., and Obrascon Huarte Lain S.A. (OHL). None of the above mentioned suppliers is formally related to Torpol company. The key providers of Torpol capital group in 2012 were: ALUSTA S.A. (12.2% of group's total purchases), Thales Polska Sp. z o.o., POZBUD T&R S.A., Arcelor Mittal Steel Poland

S.A., Przedsiębiorstwo Robót Komunikacyjnych w Lublinie EXPOL S.A., Przedsiębiorstwo Handlowo-Usługowe ELEKTRO-TEL-BUD Robert Mąka, Systra S.A. and Nordkam Sp. z o.o. None of the above mentioned suppliers is formally related to Torpol company.

The key customers of **Sefako capital group** in 2012 were: Visser & Smit Hanab GmbH Sverige – Germany (a branch in Sweden), Baumgarte Boiler Systems GmbH – Germany, Novmar Sp. z o.o., Kepel Seghers – Germany, Metso Power Oy – Finland, EC Tychy (Tauron), KMW Energi – Sweden, BWE A/S - Denmark. The 10% threshold of sales of the Sefako Group was exceeded for one customer - Visser & Smit Hanab GmbH Sverige (13.5%). The entity is not formally related to Sefako S.A. The main providers of Sefako Capital Group in 2012 were: Foster Wheeler Energia Oy - Finland, Metso Automation Polska Sp. z o.o., Soning-Stal Sp. z o.o., Aquilex Welding Services Poland Sp. z o.o., Ekoinstal Jan Klusko i Partnerzy Sp. z o.o., R-line Lepiarczyk Sp.j., Budwoj Sp. z o.o. In 2012 purchases from individual suppliers did not exceed 10% of total revenues from sales of Sefako capital group. The key customers of **Energomontaż Północ Gdynia Sp. z o.o.** in 2012 were: Kvaerner Stord AS - Norway, Aker Egersund AS - Norway, Bladt Industries AS - Denmark, Hays Ships Ltd. – Great Britain, Ponticelli Gabon - France, IMECA SAS - France, National Oilwell Varco Norway AS - Norway, Wartsila Oil & Gas Systems AS - Norway, Gdańska Stocznia Remontowa im.J.Piłsudskiego S.A. The 10% threshold of sales was exceeded for the following customers: Kvaerner Stord AS (33 % share in sales), Aker Egersund AS (16 % share in sales) and Bladt Industries AS (15% share in sales). The entities are not formally related to Energomontaż Północ Gdynia Sp. z o.o. The key suppliers of Energomontaż Północ Gdynia Sp. z o.o. in 2012 were: Feichter-Werkzeugmaschinen GmbH, Agencja Budowlana „BIS" Sp. z o.o., Sertom M.M. S.p.a., Polimex-Mostostal S.A., P.P.U.H. "Promus Ruda Śląska" Sp. z o.o., "Tech-Mont Engineering" S.C. Z. Brzeziński E. Sochacki. The 10% treshold of sales was exceeded for purchases from Feichter-Werkzeugmaschinen GmbH (12% of the total sales). The entity is not formally related to Energomontaż Północ Gdynia Sp. z o.o.

1.4. Information on significant transactions concluded by the Issuer or its subsidiary with related party otherwise than under market conditions

According to information acknowledged by the Issuer, transactions concluded in 2012 by the Issuer and its subsidiaries with related entities were concluded under market conditions, and their nature and terms resulted from operating activity.

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

Group's capital expenditure on fixed assets and intangible assets in 2012 amounted to PLN 90,408 thousand. Amortisation and depreciation in 2012 was PLN 99,346 thousand.

The structure of capital expenditure on fixed and intangible assets of Polimex-Mostostal Group in 2012.

PLN thousands

Investment in property, plant and equipment	Change 2012 2011	2012	2011
Land and buildings	-91.1%	4 990	56 151
Plant and equipment	-60.8%	29 558	75 443
Motor vehicles	-67.7%	5 858	18 151
Other fixed assets	-15.4%	4 457	5 268
Fixed assets under construction incl. advance payments	-344.5%	40 245	-16 462
Total	**-38.6%**	**85 108**	**138 551**
Investment in intangible assets	**-32.3%**	**5 300**	**7 823**
Total property, plant and equipment and intangible assets	**-38.2%**	**90 408**	**146 374**

In 2012, generally, the level of implemented investment plans was limited, which is particularly visible for the parent company where the total capital expenditure decreased by 77.4% as compared to 2011. In 2012 among Group Companies one should distinguish the continued construction of the production hall at the quay of the Gdynia Shipyard together with the purchase of plant and equipment by the Energomontaż-Północ Gdynia company and the purchase of technical equipment by the Torpol and Sefako Capital Groups. Grande Meccanica

continued the construction of the production plant located in Civitavecchia, Italy which was commenced in previous years. In the scope of investment in intangible assets on 2012 the main investments related to computer software.
As a result of limiting implemented investment plans, the total value of capital expenditure of the Polimex-Mostostal Group decreased as against 2011 by 38.2%.

1.6. Equity investments

1.6.1. Changes in investment portfolio

The list of changes in the Issuer's investment portfolio in the reporting period is as follows:

- On 30.01.2012 the General Meeting of Shareholders of Grande Meccanica SpA with its registered office in Narni, Italy adopted a resolution on increasing the share capital of the company from EUR 3.3 million to EUR 4.3 million to be used to complete the production installations located in Civitavecchia sea port. The entire new issue was taken up by the Issuer. The Issuer owns 100% of the share capital of Grande Meccanica.
- On 15.02.2012 the Extraordinary Meeting of Shareholders of Energop Sp. z o.o. adopted a resolution on increasing the share capital of the company by PLN 1,134.5 thousand. All shares of the new issue were taken up in return for cash and making a contribution by the Issuer and its subsidiary, which holds 99.99% of capital (indirectly 100%).
- On 24.10.2012 the Issuer concluded with MARS Closed Investment Fund with the registered office in Warsaw a conditional agreement to sell the entire block of shares held in the Energomontaż-Północ Gdynia Sp. z o.o. The agreement was completed in March 2013. Terms and conditions of the sale are discussed in more detail in Section 9 of this report.
- In the reporting period the Issuer acquired 2,594 shares of PRInż-1 spending PLN 93,753. As a result of the transaction, the Issuer's share in company's share capital increased from 89.62% to 91.06%.
- On 05.02.2009 the Contract to sell the shares of Pracownia Wodno-Chemicza Ekonomia sp. z o.o. was concluded, as a result the Issuer came into the possession of 75% of the share capital of the company. As a continuation of the provisions of the above mentioned Contract, on 27.08.2012 another Contract was concluded transferring to the Issuer the ownership of the remaining 25% of the company's share capital for the amount of PLN 222.1 thousand. At present the Issuer holds 100% of the share capital of Pracownia Wodno-Chemiczna Ekonomia sp. z o.o.
- On 29.03.2012 the Extraordinary Meeting of Shareholders of Fabtyka Kotłów Sefako S.A. adopted a resolution on increasing the share capital of the company by PLN 8,751,180. The Issuer took up 863,499 shares at the offering price of PLN 10 each. The payment was made by setting off liabilities of Sefako S.A. arising from the acquisition from the Issuer of the shares of Centralne Biuro Konstrukcji Kotłów S.A. (CBKK) constituting 98.5% of CBBK's capital. As a result of the transaction, the Issuer's share in Sefako S.A.'s capital increased from 89.2% to 95.97%. The increase in share capital was registered at the National Court Register in September 2012. At present the Issuer does not hold any CBKKA's shares. As the price of sold shares of CBKK was higher than the price of Sefako's shares which the Issuer subscribed, the difference in the amount of PLN 116.2 thousand was transferred to the Issuer's account. On 24.10.2012 the Issuer concluded the agreement to sell the entire block of shares held in Sefako. The agreement was executed in January 2013. Terms and conditions of the sale are described in more detail in Section 9 of this report.
- On 11 December 2012 Zakład Instalacyjno-Budowlany Turbud Sp. z o.o. with the registered office in Płock submitted a request to declare bankruptcy in the District Court for the city of Płock, 5th Economic Department in Płock. The Issuer owns 100% of the company's shares. The Issuer wrote off in the books the amount equal 100% of the value of the shares.

Financial year 2012	PLN thousands
Cash expenditure (-) and proceeds (+) for acquisition/ disposal of financial assets (shares/equity interests)	Value
Grande Meccanica SpA	- 4 417,0
Energop Sp. z o.o.	- 1 123,0
PRInż -1 Sp. z o.o.	- 93,8
Ekonomia Sp. z o.o.	-222,1
Fabryka Kotłów Sefako S.A. (Boiler Factory)	- 8 635,0
Centralne Biuro Konstrukcji Kotłów S.A.	+ 8 751,2
Total cash expenditure for acquisition of shares / equity interests in 2012	**- 5 739,7**

The table above does not include the additional payment to the capital in Almost Sp. z o.o. in the amount of PLN 20.0 thousand.

1.6.2. Investment plans

After the period of intense investment, connected mostly to construction of new production floor in Siedlce (the Company) and in Sedziszów (Sefako), in 2012 capital expenditure was limited to performance of only necessary investments.

In connection with concluding on 21.12.2012 the Agreement on Regulations of Debt Servicing, the Company was obliged to limit its capital expenditure planned to incur in 2013 to the amount of PLN 25.0 million. The planned amount is sufficient to cover fully indispensable expenditure relating to the needs of contracts performed by the Company in the next year such as Kozienice Power Plant and Opole Power Plant. Whereas the amount of expenditure to restitutive investments, modernisation and development will be limited to the necessary minimum. Their total amount is lower than planned amortisation and depreciation.

Among the Issuer's subsidiaries, which will remain in the Capital Group in 2013, one should notice the implementation of a multiannual plan of Torpol S.A. in the scope of purchasing specialist equipment to perform rail works (a track tamping machine) and to perform earthworks. Own funds (approx. 1/3 of expenditure) and finance lease were adopted as funding sources. Additionally, in the first half of 2013 Grande Meccanica SpA (Italy) is planning to complete the construction of production machinery located on the quay in the Civitavecchia sea port.

Among the companies included in the divestment process, the largest development programme is implemented in Energomontaż-Północ Gdynia Sp. z o.o. It consists in mounting production installation in the acquired quay of the Gdynia Shipyard, owing to this the company will gain the opportunity to manufacture elements of thick-walled rectification columns for chemical industry, large-size elements for nuclear power sector and the supporting elements of sea drilling towers. The majority of manufactured products will be transported to the construction site by sea. Moreover, Fabryka Kotłów Sefako S.A. will incur expenditure aimed at the development of own technical thought (design office, computer software) as well as at its production capacity (specialist machinery).

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

The Issuer assesses financing of its investment plans in 2013 as fully realistic on condition that an appropriate amount of own funds is generated.

1.7. Information on contracts significant for operations of the Issuer's Capital Group

The following are significant performance contracts concluded by Polimex-Mostostal S.A. in 2012:

- Signing on 15.02.2012 by the consortium of the following companies RAFAKO S.A. (the consortium leader), Polimex-Mostostal S.A. and Mostostal Warszawa S.A. the contract to perform the investment task under the name of "The construction of power blocks No. 5 and 6 in PGE Elektrownia Opole S.A.". The value of contracted works is PLN 11,558.3 million (gross) of which about 42% is attributed to Polimex-Mostostal S.A. Detailed information on the above mentioned contract is included in the Issuer's current report No. 8/2012. Till the date of preparation of this report an instruction to commence works was not given. In January 2012 Voivodship Administrative Court revoked the environmental decision for the construction of power blocks challenged by ClientEarth, an environmental organization. As a result of the appeal made by PGE in October that year the Supreme Administrative Court revoked the ruling of the VAC and sent the matter for judicial review. On 19.02.2013 the Voivodship Administrative Court dismissed the complaint of the ClientEarth Foundation on the environmental decision for the construction of two coal power blocks. The decision is not final.
- Signing on 31.08.2012 the conditional contract with Alstom Power Sp. z o.o. to design and supply two machinery islands together with supervision, assembly and commissioning services for PGE Elektrownia Opole S.A., blocks 5+6. The net remuneration to Alstom for execution of contract object amounts to PLN 2.3 billion (gross). The contract was concluded as part of the execution of the contract of 15.02.2012 for the construction of two power blocks at Opole Power plant of the total power of 1,800 MW, the contract was described above. Detailed information on the above mentioned contract is included in the Issuer's current report No. 69/2012.
- Signing on 21.09.2012 by the consortium of the following companies: Hitachi Power Europe GmbH (the consortium leader) and Polimex-Mostostal S.A. with Enea Wytwarzanie S.A. (a contracting party) the contract to design and perform as a turn-key project a power block for supercritical parameters together with installations and auxiliary facilities of gross electrical power of 1075 MWe in Świeże Górne (Kozienice Power Plant). The value of the tender amounts to PLN 6,279.6 million (gross), of which 42.7% is attributable to the Issuer. Detailed information on the above mentioned contract is included in the Issuer's current report No. 80/2012.
- Signing on 08.02.2012 the contract with the Office of the Marshal of Lublin Voivodship to construct two buildings i.e. the Lublin Conference Centre and the principal office of the Office of the Marshal in Lublin in the total amount of PLN 117.8 million (gross). Detailed information on the above mentioned contract is included in the Issuer's current report No. 7/2012.
- Signing on 12.07.2012 the turn-key contract with Polski Koncern Naftowy ORLEN S.A. to design, supply and construct the catalytic system for denitriding and dedusting of combustion gases from boilers OOG-320 No.1, 2 and 3 and OOG-420 No. 4, 5, 6 and 7 of Heat and Power Plant in the Production Plant of Polski Koncern Naftowy ORLEN S.A. The remuneration for the execution of the contract amounts to PLN 466.2 million (gross). Detailed information on the above mentioned contract is included in the Issuer's current report No. 49/2012.
- Signing on 21.02.2012 the contract with Brista 2KB to "Manufacturing, delivery and assembly of a steel structure together with the detailed design documentation, delivery and assembly of walling and roofing of the facilities of Brista 2, Marsta, Sweden". The value of the contract equals PLN 49.0 million (gross).

- Signing on 19.06.2012 by the consortium of ZRUG Sp. z o.o. (the leader) and Polimex-Mostostal S.A. the contract with GAZ-SYSTEM S.A., the Operator of Gas Transmission Pipelines for "The construction of DN700 Szczecin – Lwówek Gas pipeline Stage 1 and 2". The value of the contract amounts to PLN 268.7 million, of which PLN 48.0 million (gross) is attributable to Polimex-Mostostal.

The key performance contracts concluded by the Issuer's subsidiaries in 2012 include:

- Torpol S.A.:
  - Signing on 19.12.2012 with PKP Polskie Linie Kolejowe S.A. by the consortium of the following companies: Torpol S.A. (the consortium leader), Polimex-Mostostal S.A. and Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. the contract for "Designing and performing construction works for the Modernisation of E75 Rail Baltica Warsaw – Białystok – Lithuanian border rail line, stage 1, section Warsaw - Rembertów - Zielonka - Tłuszcz (Sadowne)". The value of the tender amounts to PLN 1,597.5 million (gross), of which 83% of the contract price is the total share of Torpol S.A. and Polimex-Mostostal. Detailed information on the above mentioned contract is included in the Issuer's current report No. 125/2012.

The description of other significant contracts and events which occurred in 2012 is presented in the sections of this Report that follow.

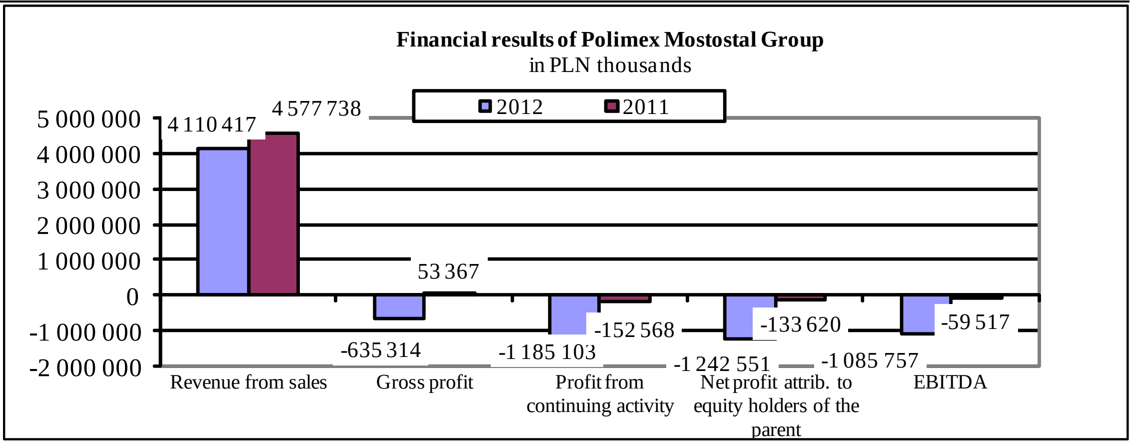
2. Review of financial position

2.1. Profits

In 2012 Polimex-Mostostal Group reported sales revenue in the amount of PLN 4,110,417 thousand (a decrease of 10.2% as against comparative data for 2011). Net loss attributable to equity holders of the parent in 2012 amounted to PLN 1,242,551 thousand (as compared to the loss of PLN 133,620 thousand in 2011). Operating activity resulted in the loss of PLN -1,185,103 thousand (as against the loss of PLN 152,568 thousand in 2011). The value of EBITDA amounted to PLN -1,085,757 thousand (as against PLN -59,517 thousand in 2011).

The financial results of the Capital Group in 2012 are presented below:

PLN thousands	2012	2011	Change
Revenue from sales	**4 110 417**	**4 577 738**	**-10.2%**
Cost of sales	-4 745 731	-4 524 371	4.9%
Gross profit	**-635 314**	**53 367**	**-1290.5%**
Other operating income	25 493	31 452	-18.9%
Selling costs	-34 263	-35 519	-3.5%
Administrative expenses	-182 755	-183 611	-0.5%
Other operating costs	-358 264	-18 257	1862.3%
Profit from continuing operations	**-1 185 103**	**-152 568**	**676.8%**
Finance income	14 995	36 952	-59.4%
Finance costs	-153 456	-84 178	82.3%
Share in associate's profit	1 973	3 203	-38.4%
Profit before tax	**-1 321 591**	**-196 591**	**572.3%**
Income tax	-77 547	-65 468	18.5%
Net profit	**-1 244 044**	**-131 123**	**848.8%**
Net profit attributable to equity holders of the parent	**-1 242 551**	**-133 620**	**829.9%**
EBITDA	**-1 085 757**	**-59 517**	**1724.3%**



The continued analysis of financial and economic position of the Polimex-Mostostal Capital Group, including in particular that of the parent company and the multistage verification of budgets for long-term contracts, became the basis for the introduction of additional adjustments in the financial statements. In the income statement these adjustments referred mostly to the adjustment of a fundamental error, charged to the financial result of 2011, arising from measurement of long-term contracts performed by the Polimex-Mostostal S.A. The effect of identified adjustments mentioned above on the net profit of the Polimex-Mostostal Group in 2011 amounted to PLN -234,009 thousand. For detailed description of the adjustment of error see Note 11 of the Financial Statements of the Polimex-Mostostal Group for 2012.

Making significant amendments to cost budgets relating to concluded contracts had a definitely negative effect on Group's performance in 2012. As the adjustments of contracts related both to reversal of profits recognised in previous periods and reflected a significant decrease of the estimated profitability of performed contracts, which in case of anticipating a loss on execution of a portion of contracts, in line with IAS 11, had to be immediately reflected in recognition of the entire expected loss by making appropriate provisions. Significant changes were made in particular for contracts executed by the parent company in Road and Railroad, Power Engineering and General Construction segments (Note 14.1 of the Financial Statements of the Polimex-Mostostal Capital Group for 2012).
Due to the weak market posing a real risk of unfulfilling previously assumed financial projections for years 2013-2017, implemented process of operating and financial reorganization of the parent company resulting in, for example, reduction of employment, which is one of key conditions of the Permit obtained on 23 July 2008 to conduct business activity in the Tarnobrzeg Special Economic Zone, Polimex-Mostostal S.A., applying the prudence principle, made a decision to write off the recognized asset in its full amount i.e. PLN 38.3 million as at the statement of financial position date. Due to the fact that the Sefako S.A. made a tax loss on activity in the Special Economic Zone in 2012, as at the statement of financial position date the company released an asset in the amount of an expected relief to be utilized in 2012 i.e. PLN 1,168 thousand. At the same time the company verified the amount of relief realisable from 2013 to 2017 based on the assumptions of the financial plan for 2013 and forecasts for the next years. The effect of revaluation was a decrease of the relief expected for 2013 of PLN 2,048 thousand. In total PLN 3,216 thousand was charge to the income statement in 2012. (Note 15.3. to the Financial Statements of the Polimex-Mostostal Capital Group for 2012).

The financial position of the Polimex-Mostostal Group was described in detail in Note 6.1. to the Financial Statements of the Group for 2012. In the Issuer's opinion the implemented measures which should result in gradual improvement of the situation include:

- operating restructuring of the Company in order to reduce operating costs by reduction of administrative expenses, centralization of purchases, optimization of organizational structures, optimization of contract backlog.
- execution of the divestment programme i.e. the programme to sell assets not related to its core activity (under the Agreement on Regulations of Debt Servicing the parent company assumed an obligation to make a due effort so as to generate proceeds of at least PLN 600 million by 31 December 2015);
- prospects of exercising rights issue and warrants by the Agency for Development of Industry;
- a high value of backlog of the Group including the execution of enormous modernisation projects in the Polish power engineering sector in Opole and in Kozienice. The current backlog of Polimex-Mostostal Group, not including sales attributable to consortium members, amounts to PLN 11.3 billion and its entirety refers to concluded contracts (including the contract to design and perform construction works under the project „Improving quality of transport services by means of improving technical condition of No 143 rail road in Kalety-Kluczbork section" of net value of approx. PLN 0.2 billion net, signed by Torpol, a subsidiary, on 06.03.2011). The backlog for individual years is as follows: 2013 –PLN 2.7 billion, 2014 – PLN 3.2 billion, 2015 – PLN 3.1 billion and in the next years - PLN 2.3 billion. The current backlog was specified based on sales generated by 31.12.2012.

2.2. Assets amount and structure

At 31.12.2012, the statement of financial position total of the Polimex-Mostostal Capital Group amounted to PLN 3.850.403 thousand (a decrease of 14,1% as against comparable data as at 31.12.2011). As at 31.12.2012 non-current assets amounted to PLN 1,543,624 thousand (a decrease of 14.8% as against comparable data at 31.12.2011), and current assets amounted to PLN 1,843,772 thousand (a decrease of 30.9% as against comparable data at 31.12.2011). Property, plant and equipment were the largest item in fixed assets structure constituting 18.4% of total assets. Trade and other receivables constituting 30.2% of total assets were the largest item of current assets.

Amount and structure of Capital Group assets as at 31.12.2012 was as follows:

PLN thousands	31.12.2012	% of assets	31.12.2011	% of assets
Non-current assets	**1 543 624**	**40.1%**	**1 810 849**	**40.5%**
Property, plant and equipment	708 242	18.4%	1 044 862	23.3%
Investment property	21 280	0.6%	58 824	1.3%
Goodwill on consolidation	282 694	7.3%	491 674	11.0%
Intangible assets	16 891	0.5%	25 788	0.6%
Investment in associate measured using equity method	16 737	0.4%	16 419	0.4%
Financial assets	274 214	7.1%	4 755	0.1%
Non-current receivables	31 195	0.8%	32 230	0.7%
Non-current prepaid expenses	3 190	0.1%	4 006	0.1%
Deferred tax assets	189 181	4.9%	132 291	3.0%
Current assets	**1 843 772**	**47.9%**	**2 669 469**	**59.5%**
Inventories	308 355	8.0%	445 111	9.9%
Trade and other receivables	1 163 154	30.2%	1 921 932	42.9%
Income tax receivable	950	0.0%	10 525	0.2%
Prepaid expenses	14 307	0.4%	17 655	0.4%
Cash and cash equivalents	260 920	6.8%	272 820	6.1%
Financial assets	96 086	2.5%	1 426	0.0%
Non-current assets available for sale	**463 007**	**12.0%**	**359**	**0.0%**
TOTAL ASSETS	**3 850 403**	**100.0%**	**4 480 677**	**100.0%**

2.3. Liabilities amount and structure

Equity attributable to equity holders of the parent as at 31.12.2012 amounted to PLN 477,288 thousand (a decrease of 63.3% as against comparable data at 31.12.2011), and liabilities amounted to PLN 3,369,001 thousand (an increase of 6.3% as against comparable data at 31.12.2011). The share premium, constituting 19.2% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 51.3% of total liabilities and equity were the largest item of liabilities.

The structure of sources of finance of the Capital Group assets at 31.12.2012 is given below:

PLN thousand	31.12.2012	% of equity and liabilities	31.12.2011	% of equity and liabilities
Equity attributable to equity holders of the parent	**477 288**	**12.4%**	**1 299 811**	**29.0%**
Issued capital	20 846	0.5%	20 846	0.5%
Share premium	738 237	19.2%	738 237	16,5%
Treasury shares	0	0.0%	-6 884	-0.2%
Exchange difference on translation of a foreign operation	-7 839	-0.2%	1 328	0.0%
Supplementary capital	618 552	16.1%	555 994	12.4%
Unregistered share issue	412 500	10.7%	0	0.0%
Other capital	-85 254	-2.2%	-85 254	-1.9%
Reserve capital	32 086	0.8%	32 086	0.7%
Revaluation reserve	1 893	0.1%	-1 188	0.0%
Retained earnings	-1 253 733	-32.6%	44 646	1.0%
Non-controlling interest	**4 114**	**0.1%**	**12 149**	**0.3%**
Total equity	**481 402**	**12.5%**	**1 311 960**	**29.3%**
Liabilities	**3 369 001**	**87.5%**	**3 168 717**	**70.7%**
Non-current liabilities	1 175 570	30.5%	381 680	8.5%
Current liabilities	1 974 747	51.3%	2 787 037	62.2%
Liabilities relating to non-current assets available for sale	218 684	5.7%	0	0.0%
TOTAL EQUITY AND LIABILITIES	**3 850 403**	**100.0%**	**4 480 677**	**100.0%**

2.4. Liquidity

In 2012 according to the prepared Statement of Cash Flows there was a net decrease in cash and cash equivalents of PLN 11,901 thousand. Cash and cash equivalents as at the end of 2012 amounted to PLN 260,920 thousand. Net cash from operating activity amounted to - PLN 354,391 thousand (PLN 61,614 thousand in 2011). Net cash from investing activity amounted to PLN 38,492 thousand (-PLN 99,982 thousand in 2011) and net cash from financing activity amounted to PLN 303,998 thousand (-PLN 62,626 thousand in 2011).

2.5. Ratio analysis

Financial ratios for the Polimex-Mostostal Capital Group	**31.12.2012**	**31.12.2011**
Current liquidity ratio *(current assets : current liabilities)*	0.93	0.96
Quick liquidity ratio((*current assets less inventories less prepaid expenses*) : *current liabilities)*	0.77	0.79
Debt ratio *((total equity and liabilities less equity) : total assets)*	87.5%	70.7%
Net profit margin *(net profit attributable to equity holders of the parent : revenue from sales*)	-30.2%	-2.9%
EBITDA margin *(EBITDA : revenue from sales)*	-26.4%	-1.3%
Earnings per share *(net profit attributable to equity holders of the parent : weighted average number of shares)*	-2.38	-0.26

Current and quick liquidity ratios of Polimex-Mostostal S.A. were 0.93 and 0.77, respectively i.e. lower than in the comparative period. Current and quick liquidity ratios of Polimex-Mostostal S.A. were 1.0 and 0.8 respectively, i.e. similar as in the comparative period. With rising level of liabilities and decreasing of the statement of financial position total, the debt ratio clearly increased. Due to the reported major losses, the profitability ratios are significantly negative.

2.6. Information on loans, borrowings drawn and issued debentures

The total debt of the Capital Group as at the end of 2012 amounted to PLN 809.3 million, of which: debt arising from loans and borrowings drawn PLN 665.5 million, arising from issued debentures PLN 143.9 million (the value of principal after a conversion; the entry into the National Court Register was made on 22.01.2013). The debt of the parent company amounted to PLN 641.7 million, of which PLN 143.9 million was issued debentures (the value of principal).

The key crediting banks in 2012 were:

- for the parent company: PKO BP S.A., Pekao S.A., Bank Ochrony Środowiska S.A. and Kredyt Bank S.A. (currently Bank Zachodni WBK S.A.),
- for Group companies: PKO BP S.A., Bank Millennium S.A., Alior Bank S.A., Unicredit, PEKAO S.A. and Bank Zachodni WBK S.A.

As at 31.12.2012, the following loans and borrowings were to be repaid at the earliest taken out by:

- SC Coifer Impex srl (EUR 4.5 million, the repayment date – 15.01.2013 arising from a loan taken out at Unicredit Tiriac Bank),
- Stalfa Sp. z o.o. (PLN 6.72 million, the repayment date - 29.01.2013, bank overdraft at Kredyt Bank S.A. – currently Bank Zachodni WBK S.A.),
- ZUT Sp. z o.o. (PLN 1.0 million, the repayment date - 31.01.2013, a bank overdraft drawn at Pekao S.A.),
- Energomontaż-Północ Gdynia Sp. z o.o. (PLN 8.0 million, the repayment date - 05.02.2013, bank overdraft at Bank Millennium S.A. with the zero utilisation balance as at 31.12.2012),
- Centrum Projektowe Polimex-Mostostal Sp. z o.o. (PLN 5.4 million, the repayment date - 15.02.2013, a bank overdraft at Bank Millennium S.A.),

The above mentioned credit facilities have been renegotiated. As at the statement of financial position date, the date of repayment of the above mentioned loans is: for SC Coifer Impex srl – 13.09.2013; Stalfa Sp. z o.o. – 29.04.2013. The Company is conducting talks on further extension of the loan; ZUT Sp. z o.o. – repayment in instalments by 31.01.2014; Energomontaż-Północ Gdynia Sp. z o.o. – 5.02.2014; Centrum Projektowe Polimex-Mostostal Sp. z o.o. – preliminarily, technically the loan was extended by 16.03.2013 (as at the date of preparation of this report the Company is conducting talks on the possibility of further extension of the loan).

At present investment loans are of the longest repayment dates:

- the loan at Orzesko-Knurowski BS for Centrum Projektowe Polimex-Mostostal Sp. z o.o. in the amount of PLN 14.0 million – repayable on 18.12.2023,
- the loan at Intensa Sanpaolo in the amount of EUR 3.3 million for SC Coifer Impex srl – repayable on 08.12.2017.

Moreover, on 21 December 2012 Polimex-Mostostal S.A. together with the following Banks: PKO BP S.A., PEKAO S.A., Bank Millennium S.A., Kredyt Bank S.A. (currently Bank Zachodni WBK S.A.) and BOŚ S.A. and Guarantors (Polimex-Development Kraków Sp. z o.o., Polimex-Mostostal Development Sp. z o.o., BR Development Sp. z o.o.) and Debenture Holders concluded the Agreement on Regulations of Debt Servicing. The final repayment date of the loans granted to the Company by the Banks, which entered into the above mentioned Agreement was set at 31.12.2016. The terms and conditions of the above mentioned Agreement are presented in Section 2.11 of this report.

In order to improve the financing structure the divestment process started in 2011, which includes the disposal of a portion of financial and developer's assets, was continued. At the same time the restructuring process for the Group, which is aimed at the further reduction of costs of operations of business units and at the improvement of their efficiency, is conducted. To ensure the continued financing of the Company, "The Agreement to refrain from enforcement of receivables" (the Standstill Agreement) was concluded with the

Creditors on 24.07.2012 and on 21.12.2012 the Agreement on Regulations of Debt Servicing, which is described in detail in Section 2.11 of this Report.

In the opinion of the Board the above mentioned actions and the value of assets intended for potential sale will improve the liquidity and as a result will lead to the reduction of debt and a permanent stabilization of the financial position of the Company.

- At the end of 2012, the balance of loans and borrowings drawn by **Polimex-Mostostal S.A.** (excluding the Debenture Issue Scheme and consolidation) amounted to PLN 497.89 million, of which bank loans were PLN 490.42 million and loans drawn were PLN 7.47 million (including interest accrued but not payable). Under the provisions of the above mentioned agreement on regulations of debt servicing concluded by Polimex-Mostostal on 21.12.2012, which is described in Section 2.11 of this report, the following **loan contracts** were settled:
  - Working capital non-revolving facility in the convertible currency (EUR) granted by PKO BP S.A. up to the amount of EUR 3.4 million as of 21 December 2012 the loan was converted into a loan in PLN. The balance of debt as at the end of 2012 amounted to PLN 7.32 million and the limit was set at the amount utilised as of 24.07.2012 i.e. PLN 7.32 million.
  - Working capital non-revolving facility in the Polish currency granted by PKO BP S.A. up to the amount of PLN 11.2 million. The balance of debt as at the end of 2012 amounted to PLN 5.78 million and the limit was set at the amount utilised as of 24.07.2012 i.e. PLN 5.78 million
  - The loan in the maximum amount of PLN 21.5 million (i.e. 25% of the granted limit) under the multipurpose credit limit at PKO BP S.A. in the amount of PLN 86.0 million. As at 31.12.2012 there was no debt and the limit was set at the level of PLN 21.5 million.
  - A bank overdraft in the amount of PLN 50.0 million granted by Bank Ochrony Środowiska S.A. as at the end of 2012 debt amounted to PLN 44.42 million, and the limit was set at the amount utilised as at 24.07.2012, i.e. PLN 47.93 million.
  - A working-capital facility in a current account in the amount of PLN 40.0 million granted by Kredyt Bank S.A. (currently Bank Zachodni WBK S.A.). As at 31.12.2012 the debt amounted to PLN 39.33 million, and the limit was set at the level of PLN 40.0 million.
  - The contract of a loan in the form of multipurpose multicurrency credit line in the total amount of PLN 420.0 million made available by PEKAO S.A. The loan was made available in the form of: (a) a working capital facility up to PLN 200.0 million (of which: PLN 50.0 million is a bank overdraft; PLN 150 million a revolving credit facility in a form of tranches to finance contracts that are being executed), (b) bank guarantees granted by the Bank up to the total amount not exceeding PLN 250.0 million; however, utilisation of PLN 250.0 million depends on decreasing the drawing of the working capital facility by PLN 30.0 million. On 03.04.2012 under an annex, the Parties agreed that the credit facility may be utilized by the Company in the form of a revolving loan in the credit account in the amount of PLN 36.0 million allocated for prefinancing of the return of VAT by the Tax Office to which the Company is entitled. At the end of 2012 debt under the bank overdraft amounted to PLN 199.01 million and the limit was set at PLN 200.0 million (the loan to service VAT was distinguished as a separate product).
  - The investment loan for PLN 150.0 million granted by PKO BP S.A. The tied loan assigned to financing capital expenditure on construction within the Tarnobrzeg Special Economic Zone (TSEZ) Siedlce Sub-zone, of a steel structure plant, galvanising plant and a paint shop. A portion of the loan denominated in a foreign currency was converted into PLN. The balance of debt as at 31.12.2012 amounted to PLN 93.52 million and the limit was set at the amount utilised as of 24.07.2012 i.e. PLN 93.52 million.
  - Non-revolving working capital facility acquired with the incorporated company of ECeRemont Sp. z o.o. concluded with PKO BP S.A. in the amount of PLN 0.6 million. The balance of debt as at

31.12.2012 amounted to PLN 0.05 million and the limit was set at the amount utilised as of 24.07.2012 i.e. PLN 0.05 million.

- The contract for a revolving working capital facility in the Polish currency in the amount of PLN 100.0 million, with an Annex of 29.05.2012 was increased to PLN 200.0 million. As at 31.12.2012 the utilization of the loan amounted to PLN 69.99 million and the limit was set at the amount utilised as of 24.07.2012 i.e. PLN 199.99 million As at the date of preparation of this report an annex was signed with PKO BP S.A. adjusting the provisions of the contract to the terms and conditions of the agreement on regulations of debt servicing, for more details see Section 2.11 of this report.

Interest rates for loans covered by the above mentioned agreement on regulations of debt servicing was based on WIBOR 3M + margin, the loans were converted into a working capital facility and additionally secured by Polimex-Mostostal S.A. The above loans will be repaid in line with the schedule agreed by the parties to the above mentioned Agreement on Regulations of Debt Servicing by 31.12.2016.

The working capital facility in the amount of PLN 20.0 million granted by Bank Millennium S.A. repayable by 20.03.2012, which was extended with the annex of 16.03.2012 until 19.04.2013, was excluded from the provisions of the above mentioned agreement on regulations of debt servicing except for the procedure of giving consent by the creditors. As at the end of 2012 within the credit facility there was debt of PLN 20.0 million. The interest rate remained unchanged i.e. it is based on WIBOR 1M plus margin.

The crediting banks which did not enter into the standstill agreement and then to the agreement on regulations of debt servicing continued co-operation under the settlements and understandings concluded in 2012:

- The agreement to transfer rights to cash to secure liabilities arising from a working capital facility up to PLN 35.0 million concluded on 24.07.2012 under the standstill agreement. Under the agreement Bank BGŻ S.A. made its securities on cash raised in the accounts of Polimex-Mostostal at this Bank. During 2012 the rules for repayment of the loan were frequently renegotiated (annexes were concluded on 30.05.2012, 12.06.2012 and 28.06.2012). Final settlement of mutual liabilities and receivables was made on 21.09.2012.
- The settlement of 27.07.2012 on exercising obligations arising from multipurpose multicurrency credit facility in the amount of PLN 47.0 million, which may be used in the form of bank guarantees up to the total amount not exceeding PLN 47.0 million, granted by BPH S.A. and repayable by 30.11.2012, decreased with the annex of 16.05.2012 to PLN 23.5 million. Under the settlement the principal is repaid in 8 equal monthly instalments with the first instalment set at 03.08.2012 at the latest and the final repayment and closing of the account at 04.03.2013. As at 31.12.2012, debt amounted to PLN 5.97 million. The rate of interest was determined based on WIBOR 1M plus margin. As of the date of preparation of this report, the loan was repaid at the date agreed as above.
- The settlement of 31.07.2012 on exercising obligations arising from a working capital facility for the amount of EUR 3.0 million concluded with DZ Bank Polska S.A. repayable by 31.10.2012. Under the settlement the principal was repaid in 4 monthly instalments decreased by the amount of PLN 5.0 million payable on the date of concluding the settlement. The maturity of the last instalment was on 24.11.2012. The credit facility was repaid in accordance with the terms and conditions of the settlement.
- The settlement of 24.07.2012 on exercising obligations arising from the credit facility made available by ING Bank Śląski in the amount of PLN 200.0 million which may be utilised in the form of a loan in the amount up to PLN 30.0 million and valid until 30.11.2012. Under the settlement the principal is repaid in 8 equal monthly instalments with the first instalment due on 31.07.2012 at the latest. As at 31.12.2012, debt amounted to PLN 5.01 million. The rate of interest was determined based on WIBOR 1M plus margin. As at the date of preparation of this report, the loan was repaid (the payment of the last tranche was on 28.02.2013).

Moreover, in 2012 the following loans were repaid:

- The bank overdraft in the amount of PLN 0.5 million concluded with Bank DnB Nord Polska S.A. repayable by 29.06.2012.
- The investment loan acquired with the incorporated company of EPE Rybnik Sp. z o.o. concluded with Bank DnB Nord Polska S.A. in the amount of PLN 0.5 million and repayable by 31.03.2013.
- The contract for a credit limit concluded with Bank DNB Nord Bank Polska S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries. Under the granted limit the parties to the contract could utilise the guarantee limit up to PLN 27.0 million, additionally Energomontaż-Północ Gdynia Sp. z o.o. could utilise a bank overdraft up to the maximum of PLN 5.0 million. The rate of interest was determined based on WIBOR 1M plus margin. The final availability date was set at 30.06.2012.

In 2012 Polimex-Mostostal also utilised loans drawn at the following companies: Depolma GmbH, Polimex Hotele Sp. z o.o. and Polimex-Cekop Development Sp. z o.o.:

- The loan contract of December 2004 concluded with Depolma GmbH repayable by 10.12.2016. As of 31.12.2012, debt amounted to EUR 0.2 million (excluding accrued undue interest). The rate of interest was determined based on EURIBOR 12M plus margin.
- The loan contract of December 2006 concluded with Polimex Hotele Sp. z o.o. in the amount of PLN 1.9 million with the repayment date extended by 31.12.2016. The rate of interest was determined based on WIBOR 1M plus margin.
- The loan contract of 23.10.2012 concluded with Polimex-Cekop Development Sp z o.o. in the amount of PLN 6.0 million, and then under the annex of 18.12.2012 decreased to PLN 1.12 million repayable by 31.12.2015. The rate of interest was determined based on WIBOR 1M plus margin.
- The loan contract of 20.12.2012 concluded with Polimex Cekop Development Sp. z o.o. in the amount of PLN 3.31 million repayable by 31.12.2015. The rate of interest was determined based on WIBOR 1M plus margin.

At the same time in 2012 the Company co-operated with the Banks under the following factoring contracts:

- the contract to provide e-financing services of 14.01.2011 concluded with PEKAO S.A. with the limit of PLN 120.0 million and the maximum clearing cycle until 31.12.2012. The contract was terminated early before its expiry date i.e. as of 30.09.2012.
- the reverse (maturity) factoring contract of 18.07.2011 concluded with Bank Millennium S.A. with the limit of PLN 18.0 million and expiry date on 17.07.2012, the limit was not extended.
- the factoring contract of 18.07.2011 concluded with Bank Millennium S.A. with the limit of PLN 18.0 million and expiry date at 17.07.2012 (the contract was not extended and is in force by the date of repayment of liabilities the Bank financed under it i.e. by 31.03.2015),
- the factoring contract of 29.09.2011 concluded with Bank Millennium S.A. with the limit of PLN 20.5 million and expiry date at 28.09.2012 (the contract was not extended and is in force by the date of repayment of liabilities the Bank financed under it i.e. by 31.05.2014),
- the factoring contract of 29.09.2010 concluded with Bank Millennium S.A. with the limit reduced to PLN 76.3 million, extended by 15.03.2012 (the contract was not extended and is valid until the date of repayment of debt financed by the Bank under this contract i.e. until 31.03.2013),
- the factoring contract with risk taking of 24.11.2010 concluded with Bank Millennium S.A. with the limit of PLN 150.0 million, extended by 31.12.2011 (the contract was not extended and is valid until the date of repayment of debt financed by the Bank under this contract i.e. until 31.03.2013),
- the reverse factoring contract of 08.12.2011 concluded with Raiffeisen Bank Polska S.A. with the limit of PLN 60.0 million, decreased with the annex of 13.03.2012 to PLN 29.0 million. The limit was isolated within the contract for debt limit in the amount of PLN 100.0 million. Under the limit invoices could be submitted by 31.08.2012 and the final date of the utilisation of the limit was on 28.09.2012. The limit expired.

In connection with conclusion of the standstill agreement and the agreement on regulations of debt servicing described in Section 2.11 new factoring contracts were not concluded.

Under the **Debenture Issue Scheme** the total liability arising from the debentures issued by Polimex-Mostostal S.A. as at 31.12.2012 amounts to PLN **144.9 million**. The original amount of debt on this account amounted to PLN 400 million. The change in the level of debt in 2012 was the result of the following events:

- ✓ by 31.12.2012 liabilities arising from debentures decreased by PLN 5.1 million under settlements with three debenture holders *)
- ✓ under provisions of the Agreement on Regulations of Debt Servicing concluded by the Company with its Financial Creditors on 21 December 2012 debentures of the nominal value of PLN 250 million were converted into the Company's shares of a new issue **)

*) as at the date of preparation of this report the total liability arising from debentures amounted to PLN 143.9 million in connection with the repayment of the liability by the additional amount of PLN 1 million,

**) the increase of share capital, including the conversion of debentures, was registered on 22 January 2013.

In line with the Agreement on Regulations of Debt Servicing signed on 21.12.2013 interest on liability arising from debentures will be accrued and repaid quarterly, the first period of repaying interest was agreed on 21 June 2013. The repayment of the nominal of the liability arising from debentures will be in quarterly instalments starting from 30 June 2015 to 31 December 2016.

The Group Companies renegotiated and additionally secured existing loan contracts. A portion of the loans was repaid, also a number of new contracts were concluded (the balances of the utilisation of loans are presented in the Financial Statements of Polimex-Mostostal Capital Group for the 12 month period ended 31 December 2012).

- **Polimex-Development Kraków Sp. z o.o.** signed annexes to two investor's loans in the amount of PLN 30.4 million and PLN 10.0 million concluded with PKO BP S.A. extending final repayment period until 31.03.2013. The rate of interest for the loans is WIBOR 3M plus margin.
- **Polimex-Mostostal Development Sp. z o.o.** terminated co-operation with Nordea Bank Polska S.A. The terms and conditions of three contracts to become effective: for an investment loan (PLN 8.2 million), for a revolving working capital facility (PLN 2.0 million) and for a bank overdraft (PLN 0.5 million) repayable by 17.05.2013, 17.05.2013 and 18.05.2012, respectively were not fulfilled and the facilities expired.
- **Torpol S.A.** signed with Alior Bank S.A. the contract for a revolving loan in the credit account with the limit of PLN 10.0 million and valid by 19.06.2013, with the interest rate based on WIBOR 1M + margin, with BOŚ S.A. the contract for a revolving working capital facility with the limit of PLN 4.0 million and the contract for a bank overdraft with the limit of PLN 2.0 million and validity by 30.04.2013, with the interest rate based on WIBOR 1M + margin. As at the date of preparation of this report the Company signed annexes to both contracts with BOŚ S.A.; the bank overdraft was extended by 31.12.2013, the working capital facility was allotted to finance the execution of the task: "Improving quality of transportation by improving the technical condition of no. 143 rail road in the Kalety – Kluczbork section", increased up to PLN 12.0 million and extended by 10.10.2014. Moreover, the Company concluded annexes: to the bank overdraft contract with BZ WBK S.A. extending the crediting period by 31.03.2013 and increasing the amount of the facility from PLN 20.0 million to PLN 25.0 million, to the credit limit contract at DnB Nord Polska S.A. extending the crediting period by 30.06.2013 and increasing the sublimit of the overdraft from NOK 10.0 million to NOK 15.0 million, to the bank overdraft contract at Bank Millennium S.A. (the limit of PLN 13.0 million) extending the by 04.05.2013, to the bank overdraft contract (PLN 5.0 million) at PEKAO S.A. extending the crediting period by 30.06.2013, to the bank overdraft at Alior Bank S.A. extending the crediting period by 04.09.2013 and increasing the amount of the facility from PLN 5.0 million to PLN 10.0 million.

- **PRInż-1 Sp. z o.o.** concluded the new contract for a multipurpose facility with BOŚ S.A., with the limit of PLN 17.0 million and validity by 15.05.2015. The new contract replaced previous contracts for a bank overdraft, revolving loan and a guarantee facility. Under the new facility the Company may use the following sublimits: for a bank overdraft of PLN 2.5 million, a revolving working capital facility of PLN 10.0 million and the guarantee limit of PLN 4.5 million. Moreover, in the analyzed period the Company repaid two investment loans concluded with Volkswagen Bank Polska S.A. in the total amount of PLN 0.04 million.
- **Fabryka Kotłów Sefako S.A.** concluded the annex to the contract for working capital facility in the current account (the limit of PLN 2.0 million) at Nordea Bank S.A. extending the repayment date by 01.02.2013, to the contract for a revolving working capital facility (the limit of PLN 5.0 million, the date of final utilization by 01.02.2013) at the above mentioned bank extending the repayment date by 31.01.2014 (as at the date of preparation of this report the limit was repaid and the availability period was not extended), an annex to a bank overdraft contract (PLN 10.0 million) at PEKAO S.A. extending the repayment date by 30.04.2013 and to the contract for a multipurpose credit facility at PKO BP S.A. increasing the limit from PLN 14.0 million to PLN 20.0 million. The rate of interest of the credit facilities was determined based on WIBOR 1M plus margin. Moreover, the Company concluded with PKO S.A. a new contract for investment loans in the amount of PLN 1.7 million repayable on 31.03.2015. **SPEC Sp. z o.o.**, a subsidiary concluded annexes to the contract: with Bank Spółdzielczy (Co-operative Bank) in Sędziszów increasing the amount of the loan from PLN 1.4 million to PLN 1.5 million and extending the limit availability by 31.07.2013 and with Bank Spółdzielczy in Wolbrom increasing the amount of the loan from PLN 0.5 million to PLN 0.8 million and extending the loan availability by 30.04.2013. As at the date of preparation of this report conditions precedent of the conditional contract to sell Fabryka Kotłów Sefako S.A. were fulfilled, for more information see Section 9. As of 31.01.2013 Polimex-Mostostal S.A. transferred to the Buyer, i.e. MARS Closed Investment Fund with the registered office in Warsaw the ownership of 1,175,705 registered shares constituting approx. 95.97%, of which Polimex-Mostostal S.A. informed in Current Report No. 13/2013 of 31.01.2013.
- **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** signed an annex to the contract for a bank overdraft concluded with Bank Millennium S.A. increasing the amount of the loan from PLN 3.4 million to PLN 5.4 million and extending the repayment by 15.02.2013. As at the date of preparation of this report, the repayment date was extended with a technical annex until 16.03.2013. Moreover, the Company concluded annexes to the bank overdraft contract with Orzesko-Knurowski Bank Spółdzielczy (PLN 2.0 million) extending the repayment date by one year i.e. by 19.10.2013 and to the contract concluded with PEKAO S.A. amending the terms and conditions of repayment in a way that the loan shall be repaid in monthly instalments PLN 0.05 million each by 30.11.2013.
- **WBP Zabrze Sp. z o.o.** signed an annex to the Contract for a bank overdraft concluded with the Orzesko-Knurowski Bank Spółdzielczy extending the validity by 15.05.2013 and increasing the limit from PLN 2.4 million to PLN 3.0 million (the interest rate is based on WIBOR 3M plus margin).
- **ZUT Sp. z o.o.** signed with PEKAO S.A. an annex to the contract for an overdraft facility (PLN 1.0 million) extending the repayment period by one year i.e. until 31.01.2013. The rate of interest was determined based on WIBOR 1M plus margin. As at the date of preparation of this report the Company signed an annex amending the terms and conditions of repayment in a way that the loan will be repaid in monthly instalments specified by the Bank, with the final repayment on 31.01.2014.
- **Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.** concluded with PEKAO S.A. an annex to the contract for a bank overdraft with the limit of PLN 0.5 million extending the repayment by 31.12.2012. (rate of interest for facility loan equals to WIBOR 1M plus margin). The loan was repaid timely.
- **Stalfa Sp. z o.o.** signed an annex to the contract for a bank overdraft with Kredyt Bank S.A. (currently Bank Zachodni WBK) increasing the limit from PLN 5.7 million to PLN 6.7 million and extending the repayment by 29.01.2013. As at the date of preparation of this report the loan was additionally secured and technically extended by 29.04.2013 (the Company is conducting talks with the Bank on further extension). Furthermore,

the Company concluded with PEKAO S.A. an annex to the contract for a bank overdraft under which the amount of a granted limit was reduced in the period of three months from PLN 1.0 million to PLN 0.7 million and the final repayment falls on 31.07.0213 and an annex to the loan contract with Alior Bank S.A. extending the repayment of the loan in the amount of PLN 7.0 million by 29.03.2013.

- **Energomontaż-Północ Gdynia Sp. z o.o.** concluded annexes to the contract for an investment loan at Bank Millennium S.A. increasing the limit from EUR 6.0 million to EUR 8.2 million and to the contract for a bank overdraft increasing the limit from PLN 6.0 million to PLN 8.0 million. As at the date of preparation of this report the repayment date of the bank overdraft (PLN 8.0 million) was extended by 05.02.2014.
- **Energop Sp. z o.o.** concluded an annex to the loan contract with RBS Bank Polska S.A. under which it utilises the bank overdraft and an investment loan. Under this annex the repayment date of the investment loan was shifted to 25.03.2013 and the limit was decreased from EUR 4.0 million to EUR 2.8 million. Whereas the bank overdraft was decreased from EUR 1.2 million to EUR 1.0 million and then repaid.
- **PPU Elektra Sp. z o.o.** concluded with Bank Millennium S.A. an annex to the contract for a bank overdraft increasing the amount of the limit from PLN 1.0 million to PLN 2.0 million and extending the repayment by 20.04.2013r. (the interest rate is WIBOR 1M plus margin).
- **ZBI Turbud Sp. z o.o.** concluded an annex to the contract for a bank overdraft with PEKAO S.A., under which the limit was decreased from PLN 1.0 million to PLN 0.5 million, and the repayment was extended by 31.08.2012. Finally, the loan was repaid by the Company.
- **SC Coifer Impex SRL** concluded an annex to the bank overdraft contract with Unicredit Tiriac Bank with the limit of EUR 4.5 million extending the repayment period until 15.01.2013. As at the date of preparation of this report, the repayment date was postponed until 13.09.2013.
- **Ekonomia Sp. z o.o.** concluded an annex to the contract for a credit facility with ING Bank Śląski S.A. (PLN 0.2 million) extending the limit availability by 28.02.2013. As at the date of preparation of this report the loan was not extended.
- **Moduł System Serwis Sp. z o.o.** signed an annex to a bank overdraft contract with ING Bank Śląski S.A. (the limit of PLN 1.0 million) extending the repayment period until 28.02.2013 (the rate of interest is WIBOR 1M plus margin). As at the date of preparation of this report the company is conducting talks on with the Bank on extension of the repayment of the loan by 31.12.2013.
- **Sinopol Trade Center Sp. z o.o.** did not extend the contract for a bank overdraft with Polski Bank Spółdzielczy in Ciechanów (the limit of PLN 1.05 million).

As at the end of 2012, the weighted average margin for loans of Polimex-Mostostal Capital Group computed based on limits attributable to the Group was: for loans in Polish zloty: WIBOR 1M + 1.6012 p.p. and WIBOR 3M + 2.3263 p.p., for bank loans in foreign currency: EURIBOR 1M + 3.0000 p.p., EUROBOR 3M + 2.8555 p.p., LIBOR 1M + 2.5000 p.p. In turn, the weighted average margin for loans granted to Polimex-Mostostal S.A. (not including the Debenture Issue Scheme) computed based on financing amount attributable to the Company at the end of 2012: for loans in Polish zloty WIBOR 1M + 1.3125 p.p., WIBOR 3M + 2.2500 p.p.

2.7. Information on granted guarantees and borrowings

In 2012 Polimex-Mostostal S.A. granted new **loans** to Group Companies under contracts listed below:

- The contract of 04.04.2012 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 0.197 million for financing current activities and the implementation of investment tasks in the 1st half of 2012. The rate of interest was determined based on WIBOR 1M plus margin. The loan was repayable on 31.12.2012. Under the concluded annex the final repayment date was postponed until 31.12.2013 and it was agreed with the repayment dates of investor's loans concluded by the Company with PKO BP S.A.
- The contract of 16.05.2012 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 0.45 million for financing its current activities in the 1st half of 2012 and to settle charges on a perpetual

usufruct of the real estate located in Katowice. The rate of interest was determined based on WIBOR 1M plus margin. The loan was repayable on 31.12.2012. Under the concluded annex the final repayment date was postponed until 31.12.2013 and it was agreed with the repayment dates of investor's loans concluded by the Company with PKO BP S.A.

- The contract of 28.05.2012 granting ZBI TURBUD sp. z o.o. a loan in the amount of PLN 1.0 million to finance the works related to the execution of the facility of the Youth Education Centre located in Płock. The rate of interest was determined based on WIBOR 1M plus margin. The loan was repayable on 31.12.2012. The loan was not repaid timely and in December 2012 the Company filed a request to declare bankruptcy.

Moreover, in the reporting period the following annexes to the previously concluded loan contracts were signed:

- to the contract of 27.05.2011 granting PRInż Sp. z o.o. a loan in the amount of PLN 2.5 million to finance its current operations. The rate of interest was determined based on WIBOR 3M plus margin. Under the concluded annex the amount of the loan was decreased to the remaining balance to be paid off i.e. PLN 1.8 million (the principal without accrued undue interest) and the final repayment was shifted to 31.12.2012. Another annex extended the repayment date at 31.12.2013.
- to the Understanding on the restructuring the loans of 20.05.2010, under which the loans granted to former Biprokwas Sp. z o.o. and former Energotechnika-Projekt Sp. z o.o. – at present Centrum Projektowe Polimex-Mostostal Sp. z o.o. – were consolidated. The rate of interest was determined based on WIBOR 1M plus margin. Under the concluded annexes the payment of the loan instalments was shifted to 30.09.2013 and the final repayment date is on 31.10.2014.
- to the contract of 29.04.2010 granting Polimex-Mostostal Ukraine a loan in the amount of USD 1.0 million for partial financing of investment process in galvanising plant in Zhytomyr. The interest rate is fixed. Under the concluded annexes the repayment date was postponed until 31.03.2013.
- to the Contract of 06.12.2010 granting ZBI Turbud Sp. z o.o. a loan in amount of PLN 1.5 million for financing of the current activities and preparation works for the new investment at ul.Jachowicza and ul.11 listopada in Płock. The rate of interest was determined based on WIBOR 1M plus margin. Under the concluded annex the amount of the loan was decreased to the remaining balance to be paid off i.e. PLN 0.28 million (the principal without accrued undue interest) and the final repayment was shifted to 30.04.2013
- to the Contract of 27.01.2011 granting Polimex-Mostostal Ukraine a loan in the amount of USD 7.05 million for partial financing of investment process in galvanising plant in Zhytomir. The interest rate is fixed. Under the concluded annex the repayment date was postponed until 31.03.2013.
- to the Contract of 30.08.2010 granting Polimex-Mostostal Ukraine a loan in the amount of USD 1.75 million for partial financing of investment process in galvanising plant in Zhytomyr. The interest rate is fixed. Under the concluded annex the repayment date was postponed until 31.03.2013.
- to the contract of 06.12.2010 granting Polimex-Mostostal Ukraine a loan in the amount of USD 0.3 million for partial financing of investment process in galvanising plant in Zhytomyr. The interest rate is fixed. Under the concluded annex the repayment date was postponed until 31.03.2013.
- to the contract of 23.03.2010 granting Polimex-Mostostal Development Sp. z o.o. a loan in the amount of PLN 6.0 million for financing of the investment at ul. Pustułeczki in Warsaw. The rate of interest was determined based on WIBOR 3M plus margin. Under the annex the repayment date was set at 31.12.2013. (contracts for loans taken out by Polimex-Mostostal Development Sp. z o.o. at Noredea Bank Polska S.A. were terminated, subordination of the repayment of loans expired).
- to the contract of 09.11.2009, granting Polimex-Development Kraków Sp. z o.o. a loan in amount of PLN 2.5 million for financing the current activities including among others costs of projects and fees connected with completing the investments: "Lelka / Roentgena", "Pustułeczki / Rolna / Makolągwy" and "Smulikowskiego". The rate of interest was determined based on WIBOR 1M plus margin. Under the annex the repayment date was set at 31.12.2013. (contracts for loans taken out by Polimex-Mostostal Development Sp. z o.o. at Nordea Bank Polska S.A. were terminated, subordination of the repayment of loans expired).

- to the Contract of 28.09.2007 granting Polimex-Mostostal Development Sp. z o.o. a loan in amount of PLN 8.2 million for financing of the purchase of lots situated in Warsaw at Roentgena street, in the corner of Lelka street. The rate of interest was determined based on WIBOR 3M plus margin. Under the annex the repayment date was set at 31.12.2013. (contracts for loans taken out by Polimex-Mostostal Development Sp. z o.o. at Nordea Bank Polska S.A. were terminated, subordination of the repayment of loans expired).
- to the contract of 19.05.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.985 million for financing of current activities of the company in 2011. The rate of interest was determined based on WIBOR 1M plus margin. Under the annex the repayment date was set at 31.12.2013. (contracts for loans taken out by Polimex-Mostostal Development Sp. z o.o. at Nordea Bank Polka S.A. were terminated, subordination of the repayment of loans expired).
- to the Contract of 29.01.2010, granting Moduł System Serwis Sp. z o.o. a loan in the amount of PLN 1.0 million. Under the concluded annex the repayment date was postponed until 31.12.2013. The rate of interest was determined based on WIBOR 1M plus margin. As at the date of preparation of this report the repayment date of the loan was subordinated to the date of repayment of the loan concluded by the company with Raiffeisen Bank Polska S.A.
- to the contract of 19.08.2011 granting SC Coifer Impex srl a loan in the amount of EUR 2.0 million to finance its current operations. The rate of interest was based on EURIBOR 1M plus margin. The repayment date was postponed until 31.12.2013.
- to the Contract of 16.08.2010 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.5 million for financing current activities and the implementation of investment tasks in the 2nd half of 2010. The rate of interest was determined based on WIBOR 1M plus margin. Under the annex the repayment date was extended by 31.12.2013 and it was agreed with the repayment date of investor's loans concluded by the Company with PKO BP S.A.
- to the Contract of 01.07.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 1.65 million for financing current activities in the 2nd half of 2011. The rate of interest was determined based on WIBOR 1M plus margin. Under the annex the repayment date was extended by 31.12.2013 and it was agreed with the repayment date of investor's loans concluded by the Company with PKO BP S.A.
- to the Contract of 03.03.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 1.7 million for financing current activities in the 1st half of 2011. The rate of interest was determined based on WIBOR 1M plus margin. Under the annex the repayment date was extended by 31.12.2013 and it was agreed with the repayment date of investor's loans concluded by the Company with PKO BP S.A.

Loans granted under the following contracts:

- of 27.05.2011 granting Tchervonograd Metal Structure Plant a loan in the amount of USD 0.9 million to complete the investment process and support the activity in the scope of pressed grates repayable by 31.03.2012.
- of 23.02.2011 granting PPU Elektra Sp. z o.o. a loan in the amount of PLN 1.0 million to finance the repayment of two loan contracts and to finance current operations repayable by 31.03.2012

were repaid in 2012.

On 05.07.2012 the loan contract was signed with Polimex-Development Kraków Sp. z o.o. in the amount of PLN 0.89 million for financing its current activities in the 2nd half of 2012 and to settle charges on a perpetual usufruct of the real estate of the Borrower. The rate of interest was determined based on WIBOR 1M plus margin. The loan was not paid and the contract extinguished with its expiry date i.e. on 31.12.2012.

At the end of December 2012 the total amount of loans paid out by Polimex-Mostostal S.A. equalled PLN 53.9 million (excluding accrued undue interest), of which PLN 22.7 million of developer loans (excluding accrued undue interest).

Under the Agreement on Regulations of Debt Servicing concluded on 21 December 2012 Polimex-Mostostal S.A. may extend a loan granted before the conclusion of the above mentioned agreement and grant new loans up to PLN 23.0 million.

The amount of **guarantees** granted by Polimex-Mostostal S.A. as at 31.12.2012 was PLN 275.2 million, of which for Capital Group companies it was PLN 274.5 million. Energomontaż-Północ Gdynia Sp. z o.o. is the largest beneficiary of guarantees delivered, Polimex-Mostostal S.A. granted guarantees for Bank Millennium S.A. for drawn credit and guarantee facilities, which amounted in total to PLN 51.6 million. The second largest beneficiary of guarantees is Torpol S.A., for which as at the end of December 2012 Polimex-Mostostal S.A. granted guarantees in the total amount of PLN 39.3 million for BZ WBK S.A., Alior Bank S.A., DnB Nord Polska S.A., Bank Millennium S.A. an account of loan contracts and for PZU S.A., BGŻ S.A., PEKAO S.A. on account of guarantee facilities.

Apart from the companies mentioned above, Polimex-Mostostal S.A. delivered guarantees for repayment of loans and guarantee liabilities/bill payables/ payment liabilities drawn by: PRINŻ-1 Sp. z o.o. (PLN 20.1 million), Centrum Projektowe Polimex-Mostostal Sp. z o.o. (PLN 21.6 million), Sefako S.A. (PLN 13.1 million), Turbud Sp. z o.o. (PLN 0.8 million), WBP Zabrze Sp. z o.o. (PLN 5.3 million), PxM Projekt-Południe Sp. z o.o. (PLN 3.0 million), Stalfa Sp. z o.o. (PLN 14.3 million), Grande Meccanica SpA (PLN 37.4 million i.e. EUR 9.2 million) SC Coifer Impex srl (PLN 32.1 million i.e. EUR 7.8 million), PPU Elektra Sp. z o.o. (PLN 5.2 million), Moduł System Serwis Sp. z o.o. (PLN 4.6 million), Energop Sp. z o.o. (PLN 23.4 million), Tchervonograd Metal Structure Plant (PLN 0.2 million), ZUT Sp. zo.o. (PLN 1.0 million) and ZT Sp. z o.o. (PLN 1.5 million).

Among Polimex-Mostostal Group companies, Sefako granted guarantees (in amounts before consolidation PLN 5.3 million). These guarantees were related mostly a company within the Capital Group.

Under the Standstill Agreement concluded on 24 July 2012 and the Agreement on Regulations of Debt Servicing concluded on 21 December 2012 Polimex-Mostostal S.A. may extend granted guarantees without increasing their amount. The exception is guarantees for subsidiaries held for sale, where the guarantees may be extended only in the period before the disposal of the company.

New intra-group loans were granted by Polimex-Development Kraków Sp. z o.o. – the loan for BR Development (PLN 0.06 million). Moreover, the Company extended the repayment of loans granted to its Subsidiary before 01.01.2012 in the total amount of PLN 0.25 million. The new repayment date is on 31.12.2013.

At the end of 2012, weighted average margins for loans granted by Polimex-Mostostal S.A. and Group Companies to other Group Companies amounted to:

- for loans in Polish zloty: WIBOR 1M + 2.37 p.p.;
- for loans in Polish zloty: WIBOR 3M + 1.99 p.p.;
- for loans in Polish zloty: WIBOR 6M + 0.50 p.p.;
- for loans in foreign currency: interest based a fixed interest rate or on EURIBOR 1M + 3.00 p.p.

At the same time, loans granted by Polimex-Mostostal S.A. increase the amount of debt of Capital Group companies arising from contracted loans and borrowings mentioned in section 2.6.

2.8. Information on contract performance bonds and bid bonds

As far as the bonds issued at the request of the Company, the year 2012 should be considered as two significant, different periods – the period by 24.07.2012 and after this date. In the first half of 2012, the parent and companies of the Capital Group to large extent utilised contract performance and bid bonds delivered by banks and insurance companies. At the end of June 2012, the value of all bonds, together with the commitment to grant bonds, delivered upon request of Polimex-Mostostal S.A. translated into Polish zloty amounted to PLN 1,688.1 million. At the same time, the value of guarantees delivered by banks and insurance companies upon request of the Group companies amounted to PLN 374.3 million. A significant increase in the Parent Company liabilities arising from issued guarantees as compared to the end of June 2011 (PLN 1,185.7 million) was the result of, among other things, concluding new contracts and the necessity to hedge appropriately their execution both during the contract execution period and in the guarantee and warranty period as well as the obligation to secure the reimbursement of the advance payment (e.g. design, execution and completion of two power blocks for supercritical parameters fuelled with dust of bituminous coal together with auxiliary systems, of gross electrical 900 MW each i.e. Block 5 and Block 6 at PGE Opole Heat and Power Plant, modernization of Ernest Pohl's Stadium in Zabrze – stage I, construction of the "Central Europe" Shopping Centre in Gliwice, construction of multipurpose building of the International Congress Centre for the City of Katowice) and the presentation in the off-statement of financial position liabilities of the commitment to grant a bond by Bank PKO BP S.A., apart from the limits of Polimex-Mostostal S.A. effective in the 1st half of 2012, the performance bond for the benefit of PGE Opole Heat and Power Plant (PLN 386.12 million). A large number of tenders in which the Company took part together with the need of submitting the bid security in the form of bank and insurance guarantees affected significantly the increase in value of the issued guarantees.

In February 2012 Polimex-Mostostal S.A. concluded with PKO BP S.A. the contract to grant an advance payment reimbursement bond in the amount of PLN 96.5 million for the benefit of PGE Elektrownia Opole S.A., valid by 15.02.2013. As of the date of preparation of this report, the guarantee facility was extended by 15.05.2013.

In the period by 24.07.2012 Polimex-Mostostal S.A. concluded a number of significant annexes to contracts effective at that time:

- to the commitment to grant a performance bond issued by PKO BP S.A. Under the annex amendments were introduced to the commitment consisting in extending the period for which the bond for the benefit of PGE Elektrownia Opole S.A. should be issued, increasing the value of the bond to PLN 386.1 million and extending the validity of the commitment by 13.10.2012 Due to signing the Standstill Agreement and uncompleted process of restructuring the Company, the Bank refused to further extend the commitment, however, it showed interest in participation in the investment and possibly issuing the bond in the future.
- to the contract for a guarantee facility with BNP Paribas Bank Polska S.A. with the limit of PLN 80.0 million extending technically the availability period by 18.07.2012,
- to the contract for a multipurpose credit limit with Polbank EFG S.A. which may be used in the form of a guarantee facility (PLN 100.0 million) extending the availability of the limit by 04.01.2013 (currently Raiffeisen Polbank S.A.),
- to the framework contract on the rules of granting by the bank guarantees and opening letters of credit with RBS Bank (Polska) S.A. which decreased the perpetual limit from PLN 200.0 million to PLN 150.0 million (under the limit - sublimits of PLN 10.0 million for the subsidiaries of Energomontaż-Północ Gdynia Sp. z o.o., Energop Sp. z o.o. remained at their previous level),
- to the contract for bank guarantee facility with Bank Millennium S.A. decreasing the limit from PLN 163.2 million to PLN 162.0 million. The cooperation under the contract for documentary letters of credit in the amount of PLN 10.0 million was ceased as of 08.05.2012,
- to the contract for bank guarantee facility in the amount of PLN 100.0 million at Deutsche Bank Polska S.A. extending its validity until 29.03.2013,
- to the framework contract to grant bank guarantees, open letters of credit and grant a loan at Credit Agricole CIB S.A. Branch in Poland. Under the concluded annexes the Parties extended the availability of the limit by 30.11.2012, renegotiated the terms and conditions of cooperation and decreased the amount of the limit from PLN 190.0 million to PLN 146.0 million,
- to the contract for multipurpose multicurrency credit facility in the amount of PLN 47.0 million, under which one may issue bank guarantees up to the total amount not exceeding PLN 47.0 million, granted by BPH S.A. that may be utilized until 30.11.2012. Under the provisions of the annex of 16.05.2012 the amount of the limit was decreased to PLN 23.5 million; the Company concluded with the Bank a settlement on exercising obligations arising from the loan contract (provisions are presented with the description of Company's loans),

- to the contract to grant contractual insurance guarantees under the guarantee limit in the amount of PLN 60.0 million concluded with TUIR Warta S.A. extending the validity period by 09.01.2013, as at the date of preparation of this report the limit was not extended and is valid until the last guarantee issued under it expires,
- to the contract to grant contract performance bonds within the revolving limit of PLN 25.0 million with TU Euler Hermes S.A. extending the limit availability period until 30.04.2013,
- to the contract with TU Allianz Polska S.A. to grant contractual insurance guarantees under the revolving limit in the amount of PLN 70.0 million extending the term of the contract by 31.12.2012, as at the date of preparation of this report the limit was not extended and is valid until the last guarantee issued under it expires,
- to the contract for co-operation in the scope of issuing insurance guarantees within the limit granted at STU Ergo Hestia S.A. increasing the limit from PLN 90.0 million to PLN 120.0 million,
- to the contract for granting a guarantee facility at Bank DnB Nord Polska S.A., (the limit of EUR 11.5 million) extending the life of the contract until 31.12.2012,
- to the contract for a credit limit concluded with Bank DNB Nord Bank Polska S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries. Under the granted limit the parties to the contract may utilise the guarantee limit up to PLN 27.0 million, additionally Energomontaż-Północ Gdynia Sp. z o.o. may utilise a bank overdraft up to the maximum of PLN 5.0 million. Under the annex the final availability date for bank guarantees was set at 31.12.2012,

and in June 2012 the understanding to the contract to grant guarantees, sureties and open letters of credit concluded with BGŻ S.A.; under the above mentioned understanding the Parties extended the period of operating the facility in the amount of PLN 78.5 million by 31.05.2013.

As of the date of concluding the Standstill Agreement i.e. 24.07.2012 the commitment of the banks on account of bonds was set the level of existing bonds (all bank guarantees issued and valid as at 24.07.2012). The expiry of guarantees after this date did not result in renewing the guarantee limit and the banks were not obliged to grant new guarantees, increase their amounts or extend the validity period of existing guarantees. Each Company's request in this cope could be individually analysed and accepted by banks.

Despite significant impediments many guarantees, especially in the infrastructure construction sector (construction of motorways) were extended, additionally a guarantee was issued by BGŻ S.A. for the guarantee period in the contract for construction of A4 motorway Stryków-Konotopa section. This guarantee was a continuation of a contract performance bond previously issued by this bank. After the date of signing the Standstill Agreement the Banks refused to issue new guarantees.

On 21.12.2012 a Contract was signed between Polimex-Mostostal S.A. and the banks: PKO BP S.A. (Credit Facility Agent), Pekao S.A., Millennium S.A., Kredyt Bank S.A. (currently BZ WBK S.A.) and BOŚ SA (Lenders) for a new guarantee facility and an attached revolving loan regulating the rules of issuing guarantees within the New Guarantee Facility for contracts concluded after the date of signing the Restructuring Agreement.

At the end of 2012 the total amount of guarantees issued by the company was PLN 1,478.7 million, of which bank guarantees PLN 1,347.7 million and insurance guarantees PLN 131.0 million. For the Capital Group the amounts were PLN 1,566.55 million and PLN 258.37 million respectively. In 2012 among Group companies, the largest number of guarantees and bonds was delivered upon request of: Torpol Sp. z o.o. (PLN 253.85 million), Sefako S.A. (PLN 56.29 million), Energomontaż-Północ Gdynia Sp. z o.o. (PLN 8.01 million) and Grande Meccanica SpA (after translation into PLN approx.PLN 10.99 million).

The key banks servicing Polimex-Mostostal S.A. in the scope of guarantees are: PKO BP S.A. (PLN 717.0 million), Pekao S.A. (PLN 158.5 million) and Bank Millennium S.A. (PLN 82.9 million). Among issuers of insurance guarantees, the largest share was attributed to: TUiR Warta S.A. (PLN 39.2 million), and STU Ergo Hestia S.A. (PLN 61.6 million).

The Group Companies concluded the following Contracts and Annexes complementing currently valid contracts:

- **Fabryka Kotłów Sefako S.A.** concluded annexes to the contracts for guarantee facilities: with PKO BP S.A. (the limit of EUR 16.0 million) extending the availability of the facility by 19.06.2013, with PEKAO S.A. (the limit of PLN 20.0 million) extending the availability of the facility by 30.04.2013, with Nordea Bank Polska S.A. (the limit of EUR 3.0 million) extending the availability by 01.02.2013 (as at the date of preparation of this report the limit was not extended) and a new general contract to grant insurance guarantees with Uniqua TU S.A. (the limit of PLN 2.0 million, validity by 11.12.2013). In accordance with the information presented in Section 9 conditions precedent of the conditional agreement to sell Fabryka Kotłów Sefako S.A. were fulfilled. As of 31.01.2013 Polimex-Mostostal S.A. transferred to the Buyer, i.e. MARS Closed Investment Fund with the registered office in Warsaw the ownership of 1,175,705 registered shares constituting approx. 95.97%, of which Polimex-Mostostal S.A. informed in Current Report No. 13/2013 of 31.01.2013.
- **PRInż-1 Sp. z o.o.** concluded the new contract for a multipurpose facility with BOŚ S.A., with the limit of PLN 17.0 million and validity by 15.05.2015. The new contract replaced previous contracts for a bank overdraft, revolving loan and a guarantee facility. Under the new facility the Company may use the following sublimits: for a bank overdraft of PLN 2.5 million, a revolving working capital facility of PLN 10.0 million and the guarantee limit of PLN 4.5 million.
- **WBP Zabrze Sp. z o.o.** concluded a contract with Gothaer TU S.A. (former PTU S.A.), with the limit of PLN 2.7 million and validity by 23.02.2013. As at the date of preparation of this report the limit was not extended.
- In May 2012 **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** concluded an annex with Bank Millennium S.A. to the contract for bank guarantees with the limit of PLN 1.5 million extending the validity of the limit until 27.11.2012. After this date the limit was not extended and is valid by the time the last active guarantee issued under this limit expires.
- **Torpol S.A.** concluded annexes: to the contract for debt limit in the amount of PLN 50.0 million at Raiffeisen Bank Polska S.A. extending its utilisation period by 02.07.2014; to the contract for bank guarantees at BZ WBK S.A. extending the limit availability by 28.02.2013 and increasing the limit from PLN 58.0 million to PLN 130 million, and then decreasing the limit to PLN 50.0 million and later to PLN 48.0 million with the intention to use the limit for a contract performance and retention bond for the Rail Baltica task (the expiry date of the guarantee is 21.12.2020); to the contract to grant guarantees and letters of credit at Bank Millennium S.A. extending the availability of the facility by 04.04.2013 and decreasing the facility from PLN 18.0 million to PLN 5.0 million; to the contract for credit limit at Bank DnB Nord Polska S.A. decreasing the limit to be used for bank guarantees from NOK 40.0 million to NOK 35.0 million (shifting the balance within the limit between sublimits for loans and guarantees) and extending the availability by 30.04.2013; to the contract for guarantee facility in the amount of PLN 15.0 million with HDI Asekuracja TU S.A. extending the availability by 22.03.2013 and an annex extending the contract for granting contract insurance guarantees within the guarantee limit in the amount of PLN 50.0 million at TUiR Warta S.A. by 09.01.2013 (as at the date of preparation of this report the company is conducting talks with HDI Asekuracja on increasing the amount of the limit - as of 01.01.2013 HDI Asekuracja and TUiR Warta merged, and the limit at TUiR Warta expired as of 09.01.2013). Moreover, the Company concluded with Bank Ochrony Środowiska S.A. the contract for guarantee facility in the amount of PLN 20.0 million available by 30.04.2013 and the contract for the limit for guarantee type products with Alior Bank S.A. in the amount of PLN 17.0 million valid by 28.10.2013. As at the date of

preparation of this report the Company concluded with STU Ergo Hestia S.A. a new contract for co-operation in the scope of granting insurance guarantees with the limit of PLN 14.0 million, with Generali TU S.A. the Framework contract to grant contractual guarantees within a renewable limit of PLN 20.0 million valid by 31.12.2013 and an annex to the above mentioned guarantee contract with BOŚ S.A. decreasing the limit from PLN 20.0 million to PLN 10.0 million intended for a guarantee for the "Improving quality of transportation by improving the technical condition of no. 143 rail road in the Kalety – Kluczbork section" project,

- **SC Coifer Impex srl** concluded with RBS Bank (Romania) the contract of request to issue guarantees in the amount of EUR 1.5 million valid by 30.07.2013. The contract for guarantee limit at the above mentioned Bank in the amount of EUR 3.0 million, which was valid by 28.05.2012, expired.
- **Energomontaż-Północ Gdynia Sp. z o.o., Energop Sp. z o.o.** and Polimex-Mostostal S.A. concluded with RBS Bank (Polska) S.A. an annex to the perpetual framework contract on rules of granting by the bank of guarantees and opening letters of credit decreasing the limit from PLN 200.0 million to PLN 150.0 million (within the limit – sublimits of PLN 10.0 million for each of the above mentioned subsidiaries remained unchanged). Moreover, an annex to the guarantee limit up to PLN 27.0 million was concluded with DNB Nord Polska S.A. Under the annex the final availability date was set at 31.12.2012. Furthermore, Energomontaż-Północ Gdynia Sp. z o.o. concluded an annex to the contract for bank guarantees and letters of credit with Bank Millennium S.A. increasing the limit from PLN 6.0 million to PLN 10.0 million. In connection with the conclusion of the above mentioned Standstill Agreement and the Agreement on Regulations of Debt Servicing as of 21 December 2012 the limits were set the their utilization level as of 24 July 2012 and at present they are valid by the expiry of active bank guarantees which were issued under this limits.

The guarantee limits of **PPU Elektra Sp. z o.o.** at Bank Millennium S.A. (PLN 1.0 million), **PxM Projekt-Południe Sp. z o.o.** at Bank Millennium S.A. (PLN 1.5 million) and at PEKAO S.A. (PLN 1.5 million) were not extended and are valid until the last active guarantee issued under the above mentioned limits expires.

The terms and conditions of making available the guarantee facilities to Group Companies, credit limits alike, apart from the above mentioned amendments relating to the amounts of granted limits and their validity dates, in most cases were renegotiated and additionally secured.

The main banks and insurance companies servicing the Group companies in the scope of guarantees are: Pekao S.A. (PxM Projekt Południe Sp. z o.o., Sefako S.A., Turbud Sp. z o.o., Torpol S.A.), BZ WBK S.A. (Torpol S.A.), Raiffeisen Bank Polska S.A. (Torpol S.A.), PKO BP S.A. (Sefako S.A.) and PZU S.A. (Torpol S.A.), TUiR WARTA S.A. (Torpol S.A.).

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

In the opinion of the Board of Directors of the Company the following factors and trends affect significantly the performance of the Group in the presented period or it is forecasted that they will have a significant effect on the performance of the Group in the future:

- macroeconomic situation of the Polish economy;
- regulatory environment;
- changes of exchange rates;
- seasonality;
- participation in the execution of large investment projects in the Polish power engineering sector;
- the value of the held backlog;
- restructuring of operating activity and
- conducted divestment measures.

Macroeconomic situation of the Polish economy

The Group conducts activity mostly in Poland, where a considerable majority of revenue is generated from construction contracts and from activity in the production segment (manufacturing of steel structures and rendering hot dip galvanizing services). Due to the fact that the activity in individual sectors, where the Group operates, is correlated with the business cycle, the key factor having the effect on the Group's operations is the macroeconomic situation in Poland. In particular, a growth of a real GDP and of industrial production in Poland, the state of EU member state economies (the key importers of services) and the extent of using the EU funds influence the demand for the Group's activity.

In the last years, despite a global slowdown of the economic growth, Polish economy reported better results than economies of the majority of the EU member states. According to Eurostat data, a growth of real GDP in Poland amounted to 5.1% in 2008, 1.6% in 2009, 3.9% in 2010 and 4.3% in 2011. In each of these years the pace of growth of the real GDP in Poland was higher than the average growth rate in the EU, and Poland was the only EU member state whose real GDB increased in the entire discussed period (according to the Eurostat data). A vast investment programme implemented in connection with hosting the UEFA European Football Championship 2012 and absorption of the EU funds contributed to a large extent to the growth of GDP in 2009-2011.

Furthermore, based on Eurostat data it is expected the real GDB will continue to grow in Poland and it will amount to 2.7% and 2.6% in 2012 and 2013, respectively i.e. it will be faster than the expected average for the EU, which will amount to 0.0% and 1.3% respectively. Forecasted lower growth of GDP in Poland as compared to previous years is connected mostly with the financial crisis in the EU member states and a severe dependence of the Polish economy on exports of goods in particular to the German market. In 2012 there was also a decrease in investment relating to the completion of preparation to the UEFA European Football Championship 2012 and thinner and thinner stream of EU funds for the years 2007-2013.

According to the estimates of the Polish Central Statistical Office, in 1st, 2nd and 3rd quarter of 2012 GDP (non-seasonally adjusted, in constant average prices of the previous year) increased in Poland by 3.6%, 2.3% and 1.4% respectively as compared to 1st, 2nd and 3rd quarter of 2011, respectively.

The table below presents the growth of real GDP in Poland and selected macroeconomic data for the years ended 31 December 2009, 2010 and 2011.

	As at 31 December		
	2011	**2010**	**2009**
Growth of real GDP*..	4.3%	3.9%	1.6%
Increase of consumer price index**	4.3%	2.6%	3.5%
Increase of buying power of an average monthly gross remuneration**	1.2%	1.5%	2.1%
Unemployment rate*	9.7%	9.6%	8.2%
Gross added value in construction (PLN bn)**	341.0	300.4	293.7
Change in added value in industry**................................	6.3%	9.4%	1.3%
Gross added value in construction (PLN bn)**	105.5	101.0	96.6
Change in gross added value in construction**...............	11.8%	6.4%	11.6%

*Source: *Eurostat; ** Polish Central Statistical Office.*

The Board of the Company believes that a further growth of GDP in Poland and a general development of the Polish economy will affect the demand for construction and assembly services in Poland, and this in turn will have a favourable effect on the activity and operating results of the Group. In particular the Company can see an opportunity for development in investments for power engineering sector, which will level off decreases in other construction segments. However, a significant slowdown of GDP growth in Poland and generally of the development of the Polish economy could have a negative effect on the activity and operating results of the Group.

Regulatory environment

The activity if the Capital Group was affected, and as the Company believes will be still affected, by for example Construction Law, Public Procurement Law, the Act of 28 June 2012 on repayment of certain unsatisfied claims of entrepreneurs arising from the execution of public procurements, the European Law and international conventions. Moreover, the activity if the Capital Group was affected, and as the Company believes will be still affected, by tax regulations, interpretations and recommendations issued by public administration authorities as well as issued individual administrative decisions or the ones which will be issued by such authorities on matters relating to conducted activity.

Changes of exchange rates

EUR/PLN exchange rate has a significant effect on the performance of the Group. The main reason for this situation is the fact that the Group's reporting currency is PLN, whereas:

- a significant portion of revenue from sales of the Company and its subsidiaries (from ¼ to 1/3 depending on the period) is generated in foreign currencies (mainly the EUR); appreciation of PLN as compared to these currencies has a negative effect on the Group's performance as the value of foreign currency revenue expressed in the reporting currency decreases; if there is depreciation of the domestic currency, the Group reports a positive effect of this situation; fluctuations of exchange rates have an effect on revaluation of transactions relating to the above sales which is reflected in financial costs/income of the Group as foreign exchange translation differences;

- a portion of the Group's debt is denominated in EUR and as a result depreciation of PLN as compared to EUR has a negative effect on the performance of the Group because it increases the level and costs of financing in PLN related to such debt and vice versa depreciation of EUR as compared to PLN has a positive effect on the performance of the Group as it decreases the level and costs of financing in PLN related to such debt; In line with the Agreement on Regulations of Debt Servicing the credit exposure of the parent company was translated into PLN and limitations were introduced as far as concluding hedging transactions is concerned. As a result the company will manage foreign exchange rate risk using natural hedging.

- The Company holds shares and interests in foreign entities; appreciation of PLN as compared to foreign currencies has a negative effect on the performance of the Company because the value of these assets expressed in the reporting currency decreases; if there is depreciation of the domestic currency, the Company reports a positive effect of this situation.

- Group Companies, due to a significant effect this risk factor has on financial results, implemented exchange risk management strategies using natural hedging and hedging derivative instruments available on the financial market. The introduction of formalised exchange risk management strategies allows the use of hedge accounting. Their main aim is making it possible to symmetrically present the compensating impact on the financial result of a given period of changes of the hedging instrument fair value and hedged item corresponding to it.

Seasonality

Operations of the Group Companies, similarly to the majority of companies from construction-assembly sector, is characterized by the seasonality of generated revenue caused by: (i) unfavourable weather conditions in the winter season, which make it impossible to perform certain construction and assembly works in that period; (ii) concentration of investment and modernization works performed by most customers in the spring, summer and autumn season; (iii) customers planning investment cycles in a way that they are completed before the year end and (iv) concentration of overhaul and modernization works in heat and power plants in the summer months.

The above mentioned factors result in the Group's sales being the lowest in the 1st quarter and the highest in the 4th quarter.

The Group undertakes activities aimed at reducing the seasonality of sales. These are first of all rendering services for these branches of industry which are not affected by seasonality or are affected to the smallest extent and exports of construction services to countries situated in different climatic zones.

Participation in the execution of large investment projects in the Polish power engineering sector.

On 15 February 2012 the consortium comprising the following companies: Rafako S.A. (the consortium leader), the Company and Mostostal Warszawa S.A. concluded the largest contract in the history of the Polish energy sector for the execution of the investment task relating to the construction of No. 5 and No. 6 power blocks at PGE Elektrownia Opole S.A. The value of contracted works amounts to approx. PLN 11,558.3 million gross, of which 41.8% is attributable to the Company. The contract for design services was signed by: Energoprojekt-Katowice S.A., Centrum Projektowe Polimex-Mostostal sp. z o.o. and Rafako Engineering sp. z o.o. The performance of the contract was threatened due to the proceeding relating to the environmental decision challenged by the ClientEarth Foundation. On 2 October 2012 the Supreme Administrative Court in Warsaw revoked the ruling of the Voivodship Administrative Court in Warsaw of 12 January 2012 relating to revoking of the decision on environmental conditions of approval of the investment and referred the case back to hearing by the Voivodship Administrative Court in Warsaw. In the session on 19 February 2013 the VAC dismissed the complaint of the ClientEarth Foundation on the construction of both power blocks. The decision is not final and may be appealed against. Before the final decision in this matter, commencement of the implementation of the investment and the investor (i.e. PGE Elektrownia Opole S.A.) requesting to commence works is doubtful.

On 21 September 2012 a contract was concluded with ENEA Group for the construction of a power block at Kozienice Power Plant of a gross electrical power of 1075 MWe. The contract is performer by the consortium of the following companies: Hitachi Power Europe GmbH (the consortium leader) and the Company. The value of the contract amounts to PLN 6,279.6 million gross, of which 42.7% is attributable to the Company. The project is executed in accordance with the schedule. The consortium took over the construction site on 2.10.2012. By the date of this report works connected with the construction site establishment were performed, whereas on 21 January 2013 the basic project was handed over by the consortium to the employer.

The subject projects are crucial in view of financial results of the Company in the next several years.

The value of the held backlog

The high value of the backlog of orders held the Group allows to make an assumption that in the nearest future sales will remain at their current level. A favourable change in the back log structure should be noticed. An increase in the share of performing power engineering works at the expense of road works should allow to improve the financial results of conducted activity.

The current backlog of the Capital Group, not including sales attributable to consortium members, amounts to PLN 11.3 billion and its entirety refers to concluded contracts. In each year it is as follows: 2013 – PLN 2.7 billion; 2014 - PLN 3.2 billion; 2015 – PLN 3.1 billion; and in the next years PLN 2.3 billion.

Restructuring of operating activity

The programme of correcting the financial and economic position of the Company adopted by the Board of Directors assumes restructuring of operating activity, which is based on three main objectives: (i) reduction of fixed costs by means of group redundancies and by making economies arising from centralization of purchasing; (ii) change of functioning of acquisition of new contracts by concentration on high margin projects; (iii) concentration on core activity of the Company by strengthening competence in the following segments: Power Engineering and Chemistry, General Construction and Service. Works are performed in accordance with the schedule. They should be completed in 2013, whereas full effects should be expected starting from 2014. By the end of May 2015 reduction of costs on account of restructuring of operating activity should amount to at least PLN 300 million.

Conducted divestment activity

To improve the liquidity, the Company decided to divest subsidiaries and a portion of assets of the enterprises of the Company, which are not closely related to the core activity. Till the date of preparation of this report, under the divestment process, the following major transactions were concluded:

- On 24.10.2012 the Issuer concluded with MARS Closed Investment Fund a conditional agreement to sell all interest held by the Issuer in Energomontaż-Północ Gdynia Sp. z o.o. and the shares of Fabryka Kotłów Sefako S.A. Both transactions were completed in January and February 2013. They are described in more detail in Section 9 of this report.
- On 07.01.2013 the agreement concluded between the Issuer and MARS Finance 1 sp. z o.o. to sell three real properties located in Gdynia, used by Energomontaż-Północ Gdynia Sp. z o.o., was completed. The transaction is described in more detail in Section 9 of this report.
- On 21.12.2012 the Issuer concluded with ZREW TRASFORMATORY sp. z o.o. a contract to sell an organized part of an enterprise of Zakład ZREW Transformatory. The transaction is described in more detail in Section 8 of this report.
- On 08.12.2012 the Issuer concluded with Tomasz Kożuchowski a preliminary contract to sell the entirety of shares held in Zakład Transportu – Grupa Kapitałowa Polimex Sp. z o.o. Till the date of preparation of this report the contract was not completed.

The Company received its first proceeds from the transactions of selling assets in the 4th quarter 2012. By the end of 2015 the total proceeds from divestment should exceed PLN 600 million.

Information on trends

A worsening situation in construction-assembly activity may be seen in the market environment of the Group. December 2012 was the seventh consecutive downward month in the Polish construction sector. According to preliminary data of the Polish Statistical Office (GUS)[1] construction-assembly production (in constant prices) including investment and repair works carried out domestically by enterprises employing more than 9 persons was in December 2012 by 24.8% lower as compared to December 2011 and by 11.6% lower as compared to November 2012.

[1] *Index numbers of industrial and construction assembly production in December 2012*, Polish Central Statistical Office, 18.01.2013.

As compared to December 2011 the decrease in the level of performed works was reported in all construction sectors i.e. in enterprises whose main activity is mounting buildings – by 31.4%, in those dealing mostly with civil engineering works – by 21.5% and the ones performing specialist construction works – by 19.7%.

A drop in index numbers of construction-assembly production is related to the economic slowdown in Poland and in Europe and to a reduction in investments previously connected with the organisation of the UEFA European Football Championship 2012 and to a decreasing inflow of funds for investments from the EU 2007-2012 financial outlook. The Board of the Company projects that in relation to the Group negative trends in the construction industry will be levelled off by the execution of investments in power engineering sector.

2.10. Description of significant financial issues having an effect on assessment of Company's ability to continue its current business activity.

The interim consolidated financial statements.

In point 4 of additional explanatory notes to the interim condensed consolidated financial statement prepared for the period from 01.01.2012 to 30.06.2012 the Board informed that there were circumstances indicating a threat for the Company to continue as a going concern.

In the period of six months ended 30 June 2012 the Group made a net loss of PLN 370 million resulting mostly from remeasurement of executed road contracts, and cash flows from operating activity were negative and amounted to PLN 447 million. Furthermore, as at 30 June 2012 current liabilities exceeded current assets by PLN 427 million, and the amount of total current financial liabilities of the Group rose from PLN 687 million to PLN 1266 million as compared to 31 December 2011.

In the opinion of the Board from this period, the execution of the Standstill Agreement should allow to conclude understandings with creditors and get financial support from the third parties, which in connection with the planned restructuring of the Company will allow the Company to continue its operations. Thus the interim condensed financial statements were prepared with the assumption that the Group would continue as a going concern and did not include adjustments relating to different methods of measurement and classification of assets and equity and liabilities, which could have been necessary if the Group would have not been able to continue its business activity in the period of 12 months of the statement of financial position date.

The Statements were reviewed by Ernst & Young Audit sp. z o.o., an auditing company. In the opinion of the auditor without acquiring additional external sources of financing and the final understanding with creditors, the ability of the Group to continue as a going concern would be severely limited.

Moreover, the auditor indicated that the Board reviewed the budgets of contracts being performed, in particular the contracts to construct express roads and motorways. The remeasurement lead to significant changes in the estimated profitability of contracts being performed and in the opinion of the Board it reflected in the best possible manner the estimate of margins on contracts as at the date of preparation of the interim condensed consolidated financial statements. While verifying, items and subcontracting contracts were found, which probably should be included in the previous contract budgets. The Board informed the auditor that it intended to commission conducting control proceedings in this scope, with the participation of independent experts, to obtain final measurements of the contracts for specific statement of financial position dates and to get explanation of potential effect of identified adjustments on the opening balance of 2012. Due to the fact that the process of verifying contract budgets was not completed by the date of preparation of the Statements, the auditor was not able to assess the potential effect of this issue on the opening balance and the Interim condensed consolidated financial statements.

Because of the significance of the issue of the Company and the Group continuing as a going concern and the effect it would have had, if included in the Interim condensed consolidated financial statements, on the financial result for six months ended 30 June 2012 and on the financial and economic position of the Group as at 30 June 2012, the auditors decided that they were not able to get sufficient evidence from the review enabling preparation of an appropriate review report. As a result they did not issue a review report for the Interim condensed consolidated financial statements.

Condensed consolidated financial statements for the 3rd quarter 2012.

The financial statements were prepared on the assumption that the Company would continue as going concern in the foreseeable future.

In the consolidated financial statements of Polimex Mostostal S.A. Group for the period of 9 months ended 30 September 2012, which were published on 14 November 2012, having verified 13 key and most crucial contracts being performed by the Company as at 31 December 2011 an adjustment of the 2012 opening balance was made in the amount of PLN 225,089 thousand. The adjustment of the 2012 opening balance was introduced to the books in connection with identification of a number of existing contracts and mandate contracts concluded with subcontractors in 2011 which should have been included in the budgets of contracts measured as at 31 December 2011. Moreover, budgets of part of the contracts recognised the financial statements of the Company and of the Group for the year ended 31 December 2011 did not include documented events of 2011, which required significant project changes and a complete material scope of works based on the technical documentation of the contracts and as a result necessary reviews of budgets of measured contracts were not made despite having appropriate knowledge. At the next stage of verification of long-term contracts 28contracts of the Company, which were crucial for its activity and had a significant effect on the financial performance of the Company as at the end of 2011, were analysed. Revenue recognised in 2011 on account of these contracts as compared to the total revenue of the Company recognized on account of contracts executed amounted to approx. 26% (i.e. PLN 0.9 billion as against PLN 3.4 billion). Taking into account the 13 contracts which were analysed earlier and on their verification the adjustment of the 2012 opening balance was recognized in the consolidated financial statements of Polimex-Mostostal S.A. Group for the period of 9 months ended 30 September 2012, in total 41 contracts of the company were analysed which constituted 66% of the total revenue of the Company recognized on account of the contracts executed in the year ended 31 December 2011. These contacts also constituted a set of contracts for the amounts exceeding PLN 15 million of revenue recognized by the Company in 2011. Furthermore, several additional minor contracts, which were selected based on different criteria, were also analysed. Verification of the measurement of 28 contracts revealed the need to adjust the 2012 opening balance for 9 long-term contracts, and the total effect on the net financial result for 2011 amounted to PLN 8,920 thousand. In 2012 the Company completed the process of verification of the remaining contracts measured based on the provisions of IAS 11.

Budgeting for long-term contracts

In the reporting period the Board of Directors assessed and reviewed the budgets in the scope of settlement of contracts executed by the Company based on IAS 11. Performed work is described in detail in Note 14.1 to the financial statements. The review of budgets refers in particular to the contracts for the construction of express roads and motorways as well as to the contracts in the segments of general construction and power engineering. The above mentioned action is caused in particular by:

- difficult relationships, often of a dispute nature, or claims with the main customers for the contracts executed by the Company in the Road and Railroad segment, first of all with the General Directorate for National Roads and Motorways. while executing the road contracts, the Company performed a significant scope of additional works, for which as at the statement of financial position date the Company failed to obtain a satisfactory and appropriate for the scope of works remuneration,

- entering into the final stage of the works executed under these contracts and related detailed financial settlements between the parties to the contracts, in particular in the scope of settling contracts executed on the financial consortium basis,
- a significant rise in the prices of basic materials and raw materials such as fuel, tarmac, aggregate, concrete, reinforced steel and the rise in the prices of transport services and exploitation of equipment. The rise in the prices in the period of execution of long-term contracts ranges from several to several dozen of per cent,
- decided deterioration in the last months of the general position and conditions for activities of entities operating in the so-called construction industry,
- significant deterioration in the last months of position in the scope of cash flows relating to the performance of road contracts,
- deterioration of general business situation and anticipated probability of weakening macroeconomic outlooks in Poland in the near future.

Making significant amendments to cost budgets relating to concluded contracts had a clearly negative effect on Company's performance. As the adjustments of contracts relate both to the earlier reversal of profits recognised on these contracts in previous periods and reflect a significant decrease of the estimated profitability of performed contracts, which in case of currently anticipating a loss on execution of a portion of contracts, in line with IAS 11, have to be immediately reflected in recognition of the entire expected loss on a given contract by making appropriate provisions. In particular significant changes were made on contracts performed in the following segments: Roads and Railroads, Power Engineering and General Construction.

In 2012 the Company verified stage of material completion of performed works with the participation of technical consultants. Moreover, the Company commissioned conducting of control procedure explaining the reasons for irregularities which had arisen with the participation of independent experts. The aim of conducted works was to determine precisely the correct measurements of contracts, explain the causes of potential irregularities in measurements in previous reporting periods and estimate the potential effect of these adjustments on the opening balance and comparative data for 2011. Based on the findings resulting from the above mentioned procedures an adjustment was made to the opening balance of Company's annual financial statements for the year ended 31 December 2012.

Financial position of the Company

Introduction of the adjustments described above, resulting from IAS 11, allows to assess correctly the economic position of the Company but of major importance for its further functioning is maintaining financial liquidity, which requires maintaining the value of working capital appropriate for the scale and nature of activity. In Polimex-Mostostal the value of working capital defined as a difference between current assets (including assets available for sale) and current liabilities (including current loans) as at 31 December 2012 was negative and amounted to PLN 493,412 thousand.

The main reason for the occurrence of high level of the negative working capital are described in Note 6.1. to the financial statements.

2.11. Description of extraordinary factors having an effect on the operations of the Group

Description of extraordinary factors having effect on the operations of the Company are presented in Notes 6.1 and 14.1 to the financial statements.

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

The forecasts regarding financial performance of both Polimex-Mostostal S.A. and of Polimex-Mostostal Group in 2012 were not published.

2.13. Basis of preparation of annual financial statements

Basis for preparation of annual financial statements are given in notes and explanations to the Financial statements.

2.14. Information on dividend paid (or proposed)

In accordance with Resolution No. 7 of the Ordinary General Meeting of Shareholders of 27.06.2012, the net profit for the financial year 2011 was entirely allotted to the supplementary capital of the Company.

The Company does not expect the dividend for 2012 to pay due to, among other things, the obligation of the Company not to pay it resulting from the Agreement on Regulations of Debt Servicing.

3. Risk management in the Issuer's Capital Group

3.1. Description of significant risk factors and threats

The activity conducted by the Company and the Capital Group is exposed to a number of risks relating to both macroeconomic situation and negative internal occurrences. In 2012 a significant effect on the activity of the Company and the Group was the result of external events caused by the crisis in the construction sector, for example bankruptcies of a number of construction companies as well as reducing financing of this sector by financial institutions including a significant reduction by the banks of availability of loans and contractual guarantees, when the dates of repaying by the Company of its obligations on account of debentures and working capital facilities cumulated. Negative market, financial and operating occurrences made it necessary to verify procedures in the scope of risk management in particular regarding the execution of multiannual contracts in the construction sector, processes and procedures of devising and verifying budgets of bids and contracts, reporting their execution and internal control as well as crisis management. Analyses and corrective measures are conducted by the Company with the co-operation from external consultants and day-to-day monitoring of operating and financial activity of the Company by its Financial Creditors, with whom the significant agreements were concluded.

Material **external risks** identified by the Parent Company and the Group Companies include:

Macroeconomic and political risks;

- risks delaying the development of industries in which the Company operates, both by hindering the investment process and by failure to implement fully investment assumptions, resignation from the implementation of investment programmes in crisis stricken sectors or due to the change in the concept in the scope of investment often occurring after costly for bidders, two stage tendering procedures.
- dependence of financing of investment undertakings at home by the majority of banks operating on the domestic market on the assessment of the country economic risk, growth prospects for individual industries and sectors as well as individual business entities from the point of view of foreign decision making centres,
- risk of amendments to statutory legal regulations, made to solve temporary problems including regulations on tendering procedures and sanctioning of non-market financial conditions in public procurement (delayed payments, no advance payments towards performed works), while at the same time there are regulations imposing on contractors or general contractors a statutory obligation to pay or secure payment before receiving payment from ordering parties/investors, in particular the public ones.

Materialisation of risk in the macroeconomic scale in the situation of continuation of long-lasting infrastructure projects, requiring significant prefinancing of deliveries, works and services, effecting in the accumulation of finance liabilities made the Board of the Company take the decision on extraordinary actions (crisis management) in the scope of credit exposure which resulted in signing on 24 July 2012 with the Financial Creditors of "The Agreement to refrain from enforcement of liabilities" and on 21 December 2012 the Agreement on Regulations of Debt Servicing.

Internal risks identified by the Polimex-Mostostal Capital Group entities include:

1) strategic risks:
   a) implementation of financial and economic plans,
   b) maintaining and building the order portfolio and ensuring the execution of multiannual construction contracts,
   c) lack of competitive balance;
2) operating risks:
   a) changes in demand for specialist services, including corrosion protection,
   b) fluctuations of prices in the commodity markets, mostly of steel and zinc prices,
   c) valuation of construction and assembly services;
3) financial risks:
   a) liquidity (credit),
   b) interest rate,
   c) foreign currency risk,
   d) risk of shortage of new bank and insurance guarantees and of current financing of works/production.

From the point of view of the strategy material risks include the possibility of losing:

- multiannual contracts crucial for the development of the Company and the Capital Group,
- reducing/losing the possibility to execute public procurement contracts,
- losing the trust of key business partners.

Preventing the materialisation of these risks is the main objective for the action of the Company's Board of Directors, which is conducting talks with ordering parties, consortium partners and banks as well as insurance companies in the scope of giving support while issuing bank guarantees necessary to execute the above mentioned undertakings. These risks are managed at the highest level of Company's authorities. At the end of 2012 in connection with the restructuring of the operating activity, within the company new organizational units were established, which were responsible for the system of internal audit, project controlling and fraud risk management.

Operating risks, a significant **risk** in this scope is **related to the valuation and execution of construction, service contracts and running production** as well as the risk of contractual penalties which is attached to these contracts. Management of the risk relating to valuation and execution of contracts, which is accumulated at the basis of the whole Capital Group, requires proper functioning of information flow channels in the vertical system, uniform procedures for the verification of budgets and cost discipline during the execution of projects. As at the date of preparation of this report the Company is in the course of works aimed at the implementation of appropriate procedures such as uniform long-term contract planning and clearing procedures within segments and the whole Group. In connection with the implementation of power engineering contracts, managing operating risk is the key task at each level and at every stage of execution and supervision of proper performance of these contracts. The ability of the Company to timely execute contracts significantly worsened in the reporting period due to a cumulated high level of demand for prefinancing of works in these contracts with existing problems with financial liquidity and a crisis on the market in the construction sector. To diminish the effects of materialized threats, the negotiations are conducted with the ordering parties, decisions are made as to take legal action. To minimize materialisation of risks or to limit financial effects of materialization of risks arising from inappropriate valuation of contracts, the Company implemented procedures and instruments of verification of budgets of bids and of supervision of contract budgets and it established an organizational unit responsible for verification of budgets of bids and contracts with the participation of internal and external experts. To this end, the scope of planning contracts within the Company was made uniform as far as their reporting, budgeting and settlement is concerned.

Risk of change of demand for specialist services of corrosion protection – galvanizing and painting of steel structures in Polimex-Mostostal S.A. Trends observed in construction indicate an increasing interest in hot dip galvanising services. It is confirmed by a systematic several per cent increase of year-to-year sale that is why the risk of change in demand may be estimated as average. Service prices depend on the quotations of zinc prices on the London Exchange - the material which is the main cost generating factor for this scope of activity. In its contracts with customers for 2013 the Company applied the principle of amending prices depending on the changes of zinc market prices. The level of this risk and its effect on the Company's results are measured as average.

Raw materials price risk. Economical effectiveness of production of the company depends to large extent on fluctuations in prices of raw materials, mainly steel, aggregates and tarmac. Employment of high class specialists on market analysis is the basic factor mitigating this type of risk. Moreover, the company has implemented procedure for central acquisitions (scale economy, feasibility of negotiating lower purchase price). Unfortunately, implemented procedures were not able to eliminate to a desired extent the negative effect of rising prices of raw materials and materials in multiannual contracts, in particular in road contracts concluded 2-3 years earlier and based on fixed prices.

In this scope it is necessary to make procedural changes in the attitude of main investors to the option of applying price indexation to multiannual contracts, as well as to specify the limit of risk acceptable by the Company, at the level adequate to the ability to cover costs of the loss of the entire margin planned for the project.

Risk of losing resources due to fortuitous events, technical failure or theft The Company uses to a large extent **insurance** products available on the market, both property insurance (including in the first place liability insurance, business liability insurance, professional indemnity insurance [designer, architect and construction engineer insurance], D&O insurance policy and property against random events and against theft and burglary insurance, electronic equipment insurance, insurance of property in transport) as well as construction/erection insurance policies arranged under general agreements and individual policies arranged for contracts being performed. All companies used motor insurance in the scope of third-party liability insurance, comprehensive motor insurance, theft insurance and accident insurance both under general (fleet) agreements as well as based on individual policies. The costs of transferring insurable risks are being analysed, together with terms and conditions of contract insurance required by customers. The risk in this scope is to a large extent transferred outside the Company, and the costs are included in the costs of execution of contracts. The level of risk in this scope is measures as low.

Risk of losing resources due to using debt security established on Company's assets. The risk of creditors using securities constitutes a significant threat from the point of view of ability of the Company to conduct activity. Payment gridlocks and the crisis in the construction sector makes creditors to trust less and causes increased pressure on using securities even if it is not justified by the terms and conditions of the contracts. Materialisation of this risk to a large extent could unable due and proper execution of agreements and contracts, which would lead to escalation of contractual sanctions such as imposing contractual penalties, hiring replacement contractors on the expense of the Company to the termination of contracts through the fault of the Company.

Financial risk:

Liquidity risk. In the opinion of the Company this is the risk which is running high. In the present situation managing this risk is the most important concern to the Board. Maintaining liquidity in the nearest future requires involvement in projects ensuring neutral and positive cash flows and decreasing the range of supporting subsidiaries in form of loans. The risk requires constant monitoring and analyses both in short and in long term. Owing to signing on 21.12.2012 the Agreement on Regulations of Debt Servicing with Financial Creditors, payment of financial liabilities was postponed for the period from 30.06.2015 to 31.12.2016. Nevertheless, the Agreement imposes on the Company a number of obligations in particular obligations to: (i) make timely payments to Creditors; (ii) generate specified proceeds on account of disposal of Company's assets as part of divestment process; (iii) reduce operating costs to the level specified in the Agreement on Regulations of Debt Servicing; (iv) restructure past due trade liabilities; (v) maintain financial ratios at the level specified in the Agreement on Regulations of Debt Servicing; and (vi) not to undertake a number of actions without a prior consent of the Creditors. Failure of the Company to fulfil obligations arising from the Agreement on Regulations of Debt Servicing may lead to Creditors terminating it, which in turn will result in demanding payment of all financial liabilities of the Company towards the Financing Banks and Debenture holders.

At present in the scope of finances, and financial liquidity, the Company introduced elements of crisis management, whose effectiveness depends to a large extent on external factors. A high level of debt of the Company and the Group May have significant consequences for the Group, in particular it may affect: (i) limited ability or no ability of the Group to acquire additional financing from financial institutions for example in the form of loans or bank guarantees; (ii) slowdown of the operations of the Group; (iii) necessity to allot a considerable portion of cash flows from operating activity to repayment of principal (for the Company starting from 2015) and interests, which means that these cash flows will not always be available to use as financing of the Group's operations or of capital expenditure; (iv) limited flexibility of the Group while planning or responding to changes in its activity, competitive environment and in the markets, where it operates; and (v) unfavourable market position of the Group as compared to its competitors, who have lower credit commitment. Signing with Financial Creditors the Agreement on Regulations of Debt Servicing constitutes a mechanism minimizing financial risks.

Factors reducing the default risk are described in Note 6.1 to the financial statements.

Contract performance bond risk. At the stage of submitting tenders, especially in procedures conducted in accordance with the regulations of the Public Procurement Law it is necessary to submit a bid security, so far the Company has met this requirement using bank and insurance bid bonds. Concluding the contract, the Company often acting as a key contractor, is obliged to deliver a performance bond, which amounts on average to approx. 10% of a contract value. Recently due to the crisis on the construction market at home, the banks/ insurance companies are not interested in increasing guarantee commitment in construction companies. In the opinion of the Company, ensuring the possibility to issue bid securities or contract performance bonds will be one the key risk factors deciding on the ability to acquire new contracts. The risk in this scope may be mitigated by agreeing on guarantees shared with partners, subcontractors and suppliers. Nevertheless, it is the risk which at present market conditions is related to the entire construction sector. In case of failure to submit a security in the form of bank or insurance guarantees by the time this issue is arranged with the banks and insurance companies, the Company aims at periodic agreeing on security in the form of guarantee deposit, set off against payment before the bank or insurance guarantee is obtained. Such a solution is treated as a temporary one so that Company does not lose the opportunity to build its back log of orders.

Reduced availability of bank and insurance guarantees in light of the code provisions on the obligation to submit the guarantee of payment for construction works constitutes and additional risk factor at each stage of execution of construction contracts. Lack of timely execution of absolutely binding regulations in the subject matter may result in the suspension of work progress including the termination of contracts through the fault of the Company. The Company signed with PKO B.P. S.A. acting as a Credit Agent, Security Agent, Issuer of Guarantees and Lender and PEKAO S.A., Bank Millennium S.A., Kredyt Bank – currently Bank Zachodni WBK S.A. and BOŚ S.A. acting as Lenders the Contract for a New Guarantee Facility and attached Revolving Loan, which minimizes the risk of lack of guarantees in new undertakings.

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

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

Credit risk in 2012 increased to the level which is significant from the point of view of the Company, due to, among other things, the increase of scale of subcontracting and financing deliveries in contracts with public sector entities. In the revenue of the entire Capital Group the highest share was attributed to the execution of contracts with State Treasury companies and local government entities, which results in an insignificant risk of bad debt the Company is exposed to, but the scale and cost of prefinancing of these works caused temporary upsetting of liquidity in the Company. The risk materialized due to the following circumstances

- pressure from the suppliers of strategic materials for infrastructure projects to shorten to the maximum terms of payment or to secure payments with expensive financial instruments (bank guarantees, letters of credit),
- a series of bankruptcies in the construction sector made subcontractors put pressure on making payments in the shortest possible terms, exceeding considerably the terms of payment under the contracts with ordering parties,
- calling the insurance limits for credit risk and the guarantee limits by the insurance companies,
- lack of understandings relating to the settlement of additional works and to the increase of prices of materials in significant infrastructure contracts,
- unwillingness of banks to finance projects in the construction sector.

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

Moreover, the following risks are monitored on regular basis on the level of the Board:

- creation of order portfolio and performance of long standing investment contracts,
- amount of off-statement of financial position liabilities arising from hedges on construction contract performance,
- changes of the demand for specialist services of corrosion protection, including galvanizing and painting of steel structures,
- situation on qualified labour market.

Qualified labour loss risk. Polish labour market situation significantly determines activities of the home market companies operating in construction and assembly industries. The crisis and a series of bankruptcies in the construction sector increase the supply of personnel on the market. Still there are deficit specialisations, whose shortage may limit the execution capacity of the Company and of the Capital Group. The crisis situation in the construction sector makes it also necessary to immediately reduce costs, including labour costs, which in long-term may lead to difficulties in acquiring essential highly qualified specialist for the execution of power engineering contracts. As part of the operating restructuring and implementation of the cost reduction policy the

Company introduced group redundancies procedures which covered 1,774 persons in total. If the Company acquires new project, it may find it difficult to acquire new, qualified staff having appropriate know-how, experience and qualifications or the acquisition of such staff may lead to temporary increased personnel costs, which may delay the implementation of the strategy and limit the capability to perform new specialist projects. Moreover, shortage of employees having appropriate qualifications may have an unfavourable effect on the capability of the Company and the Group to effectively manage the implementation of its strategy and its operations.

3.2. Information of financial instruments in the scope of interest rate and currency risk as well as adopted by the entity objectives and methods of financial risk management

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

Interest rate risk. The Group has cash in bank accounts and liabilities arising from bank loans and debentures issued. They are based on the floating interest rate. The companies monitor the situation on the financial market, analyse trends and prognoses in the scope of reference market rates in order to decide, in a proper moment, to conclude within available limits contracts hedging them against the unbeneficial increase of costs of interest on loans.

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 were in the reporting period, apart from Polimex-Mostostal S.A., in particular: Torpol S.A., Sefako S.A., StalFa Sp. z o.o. and Energomontaż-Północ Gdynia Sp. z o.o. To minimise the negative impact of foreign currency risk on the effects of their operations, these companies actively use not only natural hedging methods but also foreign exchange derivative instruments available on the market.

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

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

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 effectively hedge foreign currency risk with natural hedging, the companies apply, within available treasury limits, foreign exchange hedges based on using derivative instruments related to the foreign currency market. These are in particular the following instruments:

- forward currency contracts
- PUT/CALL currency options (acquired options),
- option structures built with PUT and CALL options– in particular symmetrical foreign currency corridors constructed with PUT and CALL options.

It is the Group's policy to negotiate the terms of hedging derivative instruments to match the terms of the hedged item so as to maximise hedge effectiveness. The Group Companies monitor the market situation on regular basis and confront hedging transactions they held with projected exposure to foreign currency risk. In 2012 the Company consequently applied the implemented policies for foreign currency risk management. This issue was presented in detail in the consolidated financial statements for the year 2012.

On 24 July 2012 Polimex-Mostostal S.A. concluded with the banks financing the operations of the Company and with the debenture holders holding debentures issued by the Company the agreement to refrain from enforcement of liabilities. In the term of the agreement, the Company was obliged to limit the use of derivative instruments in order not to increase credit commitment of the financing banks. On 21 December 2012 the Agreement on Regulation of Debt Servicing was concluded, whose provisions did not provide for the possibility of using foreign currency derivative instruments as available credit products. In these circumstances it is assumed that natural hedging will gain importance as the basic tool to limit the currency risk arising from the business activity of the enterprise. The Company will continue talks with banks on granting treasury limits allowing to manage foreign exchange risk more effectively.

3.3. Insurance contracts

In 2012 the Group used to a large extent insurance products available on the market, both property insurance (including in the first place liability insurance, business liability insurance, professional indemnity insurance [designer, architect and construction engineer insurance], D&O insurance policy and property against random events and against theft and burglary insurance, electronic equipment insurance, insurance of property in transport, insurance of plant and machinery) as well as construction and erection insurance policies arranged under general agreements and individual policies allotted to specified contracts. Moreover, Group Companies use motor insurance in the scope of third-party liability insurance, comprehensive motor insurance, theft insurance and accident insurance both under general (fleet) agreements as well as based on individual policies. Both Polimex-Mostostal S.A. and part of companies of Polimex-Mostostal Group also purchased medical expenses and personal accident insurance policies for their employees employed on construction sites at home and abroad.

Due to the fact that policies are issued by insurance companies for the period of 12 months as a rule (except for policies dedicated to particular contracts) many polices expired throughout the entire year 2012. The Company either renewed policies (if provisions of insurance contracts allowed for it) or arranged new policies usually with more favourable scope and price terms and conditions.

In 2012 the following policies were used in the Parent Company:

- professional indemnity of designer, architect and construction engineer insurance policy (basic policy) with the guarantee amount of PLN 10 million (consortium of HDI Asekuracja/Allianz/Generali). The policy expired on 31.12.2012. The new policy was concluded with the same consortium for the period of one year and is valid from 1 January 2013 to 31 December 2013.

- professional indemnity of designer, architect and construction engineer insurance policy (consortium of Warta/Hestia) – "oversize" policy with of the liability limit of PLN 10 million per event without the limit of events. The policy expired on 31.12.2012. A new "oversized" policy was concluded with STU Ergo Hestia S.A. for the period of one year and is valid from 01.01.2013 to 31.12.2013.
- property in national and international transport (cargo) insurance policy with Chartis Europe S.A. Branch in Poland expired on 31.12.2012. A New cargo policy was concluded with AIG Europe Limited Branch in Poland. The policy was concluded for the period of one year and is currently valid from 01.01.2013 to 31.12.2013;
- business operations insurance and property utilisation insurance in basic scope and with the guarantee sum of PLN 10 million (the underlying policy the Consortium of Generali/Allianz/HDI Asekuracja – a two-year policy valid from 01.10.2011 to 30.09.2013) and
- business operations insurance and property utilisation insurance exceeding the basic scope of the "basic" policy ("oversized" policy) with the liability limit of PLN 90 million per event without the limit of events (Chartis Europe S.A. Branch in Poland) – a policy concluded for the period of two years i.e. from 01.10.2011 to 30.09.2013. Apart from the general policy in the Company there are individual policies issued on request of Investors for individual contracts.
- a third party liability insurance policy based on English law valid for 12 months (by 10.05.2013) for contracts executed in the territory of Great Britain with the sum insured of GBP 5,000,000;
- Directors and Officers (D&O) liability insurance policy. By 30.09.2012 policy issued by Chartis Europe S.A. Branch in Poland with the sum insured of PLN 20 million was valid. Since 01.10.2012 the Company has held a D&O policy issued by Dual Corporate Risks Limited with the sum insured of PLN 60,000,000. The policy is valid until 30.09.2013.
- construction/erection all risk insurance policy (CAR/EAR policy). The policy automatically covers with the insurance contracts which are to be implemented within 48 months and are worth up to PLN 300,000,000 (consortium of Warta/Hestia/AXA). The policy specifies the maximum sum insured at: PLN 100 million for facilities for petrochemical industry; PLN 50 million for wind power plants and PLN 300 million for the remaining contracts. The policy was issued for the period of one year with the validity from 01.01.2012 to 31.12.2012 and it was automatically extended for the period of another 12 months, as the claims ratio calculated in percentage as the quotient of the amount of damages paid and reserved to the total amount of gross written premium at the end of November of 2012 did not exceed 60%. For contracts with the execution period exceeding 48 months or worth more than PLN 300,000,000 individual insurance policies are required (still active are individual policies issued for performed infrastructure contracts "The construction of A1 Stryków-Tuszyn motorway" worth PLN 1,332.5 million for the period from 22.12.2010 to 21.08.2013 and for "The construction of S-69 Bielsko Biała – Żywiec – Zwardoń express road" for the sum of PLN 866.9 million for the period from 19.08.2010 to 31.03.2013, for the construction of A4 Szarów-Brzesko motorway for the sum of PLN 784.4 million for the period from 26.01.2010 to 30.06.2013);
- insurance policy for property against random events, property against theft and burglary, including cash in hand in transport, electronic equipment against all risks, machinery against all risks with the Consortium of WARTA/Hestia. An annual policy valid by 30.09.2013;
- policy for compulsory insurance of employees delegated or directed to work outside the borders of the Republic of Poland under the policy issued by AXA TuiR S.A. (an annual policy valid by 30.09.2013). This policy replaced the policy of Chartis Europe S.A. Branched in Poland valid by 30.09.2012;
- group personal accident insurance policy for employees working on domestic construction sites under the policy with AXA TUiR S.A. (an annual policy valid by 30.09.2013). This policy replaced the policy of Chartis Europe S.A. Branched in Poland valid by 30.09.2012;

- compulsory liability insurance for entities authorized to provide bookkeeping services with PZU S.A. The policy was valid by 31.12.2012. The new policy (also PZU S.A.) is valid by 31.12.2013;
- the general contract for motor insurance (fleet insurance) signed with TUiR Warta S.A. valid by 20.04.2013 in the scope of third party liability insurance automatically renewed for another insurance year and valid by 20.04.2014 in the scope of comprehensive motor insurance, theft insurance and accident insurance (a two-year contract). Under the terms and conditions of this policy the vehicles of Energomontaż - Północ Gdynia sp. z o.o., Energomontaż Północ Technika Spawalnicza, Laboratorium sp. z o.o. and Energop sp. z o.o., the subsidiaries, are also insured.

In 2012 the Capital Group companies utilised the same type of insurance.

All Group Companies had a business liability insurance. The sum insured ranged from PLN 0.2 million (Polimex Development Kraków sp. z o.o.) to PLN 30 million Torpol S.A.) and additionally:

- professional liability insurance (for a designer, architect and construction engineer): WBP sp. z o.o., PxM-Projekt-Południe sp. z o.o., Torpol S.A. and Coifer Impex srl;
- D&O insurance (liability insurance for the board and managers): Sefako, Torpol, Stalfa sp. z o.o., Energomontaż-Północ Gdynia sp. z o.o., Energop sp. z o.o. and Grande Meccanica SpA (Chartis Europe S.A., AIG Europe S.A., Lloyds, Dual Corporate Risks Ltd);
- insurance of structures and buildings, machines and machinery, equipment, property of third party, property against fire and other random events, property against theft and robbery, computer equipment, cargo in domestic transport;
- motor insurance (general contracts and individual policies);
- construction/erection all risk (CAR) insurance purchased by the Group companies (Sefako, Torpol, Coifer Impex SRL, Energomontaż-Północ Gdynia sp. z o.o., Polimex-Development Kraków sp. z o.o., PRInż-1 sp. z o.o.)
- insurance of medical expenses and accident insurance policy covering workers employed on construction sites at home and abroad (Energop sp. z o.o., Energomontaż – Północ Gdynia, Centrum Projektowe Polimex sp. z o.o.).

All policies concluded by the Group Companies which expired in 2012 were extended for further validity periods or the companies purchased new insurance policies valid also in 2013.

In 2012 Polimex-Mostostal S.A. and the Group companies cooperated in the scope of insurance policies with the following insurance companies: Warta, AXA, Generali, PZU, Hestia, Compensa, HDI Asekuracja (at present Warta), Gothaer (formerly PTU), Allianz, InterRisk, AIG Europe, Chartis Europe, Lloyds, Dual Corporate Risks, Groupama, AXA SpA.

3.4. Description of basic features of internal audit and risk management system applied in the Capital Group with regards to preparation of financial statements and consolidated financial statements

Internal audit and risk management system applied by Polimex-Mostostal Capital Group constitute management policy component and operate according to internal rules and regulations. Internal audit system comprises two, principal elements: functional control performed by management of particular organisation units as well as other employees within the scope of their duties, and institutional control performed by internal control units, aimed at examination of practical observance of binding procedures. The basic objective of internal functional control is to assure the correctness, fairness and timely execution of performed tasks. In practice, functional control is performed by each employee within the limits of defined procedures. Identification of initial risk present in a given organisation unit as well as taking measures aimed at keeping them at agreed level is made within functional control. Objective of institutional control is to examine correctness, legality and reliability of actions performed by particular organisation units of Polimex-Mostostal, conformity assessment of measures with internal procedures, and efficacy of functional control system.

With regards to preparation of financial statements, internal audit and risk management systems are based on embedded reporting control mechanisms, internal regulations facilitating separation of duties, authorities and relations in the scope of preparation of particular parts of statements, continuous assessment of conformity with accounting books and other documents being the basis of financial statements, as well as obligating provisions in the scope of accounting policies and preparation of financial statements.

To ensure the correctness and fairness of the books of accounts of Polimex-Mostostal S.A. and Group companies and to generate high quality financial data based on them, the scope was determined and the policies of financial reporting were adopted based on International Financial Reporting Standards and other regulations, as well as the series of internal procedures was implemented in the system of internal control. The Accounting Policy adopted by Polimex-Mostostal SA. is binding for the Group companies in the scope of presentation of information packages for the purpose of preparation of consolidated financial statements. The Financial Director and the Board of Management of Polimex-Mostostal S.A. are responsible for the correctness of the adopted and applied accounting policies.

The Chief Accountant and the Department of Reporting and Companies Service are responsible for the organisation of work relating to the preparation of financial statements. The entire process of preparation and publication of financial statements is conducted based on the formalised schedule of work drafted in agreement between the Finance Director and the Chief Accountant. The financial statements verified by the Finance Director are approved by the Board of Directors. The process of financial statement preparation includes statement verification by an independent auditor selected by the Supervisory Board in offering action out of the group of reputable audit companies, which guarantee high quality services and the required independence. The body supervising the financial reporting process and co-operating with an independent auditor is the Audit Committee appointed based on the competence of the Supervisory Board. The Audit Committee monitors in particular the process of financial reporting as far as the adopted Accounting Policies and legal requirements are concerned and the efficiency of the systems of internal control and of risk management. In accordance with § 38.1 of the Company's Articles of Association, the Supervisory Board makes an annual assessment of the financial statements of the Company in the scope of their compliance with the books and documents as well as with the facts, and it informs the shareholders of the results of this assessment in its annual statement.

A significant element of the internal control system with regard to the process of preparation of financial statements is the control exercised by the units of internal audit and of internal control. At Polimex-Mostostal S.A. there is internal auditing operating based on „Regulations of the internal auditing" approved by the Management Board of the Company and prepared in accordance with International Standards for the Professional Practice of Internal Auditing. In 2012 the Internal Audit Department conducted a series of audits such as detailed audit of the procedure of preparation of financial statements – internal auditors identified and analysed the risks of audited processes and assessed the adequacy and efficiency of control mechanisms. In the 2nd half of 2012 the activity in the scope of audit and internal control increased, also with reference to Group companies. Intense work was also undertaken on restructuring of the audit unit operating within the Company so as to establish as off 02.01.2013 the Department of Internal Control and Fraud Risk Management, which operates within the Section of the Chief Executive Officer. The tasks of the Department include conducting internal controls and audits, assessment of functioning, identification of weakness of processes, management systems and control mechanisms and recommending improvements as to their correctness and effectiveness as well as co-operation with external regulatory authorities, control institutions and external auditors. The Department will also co-operate with Group Companies in the scope of functioning of the internal control system, which is reflected in devised regulations relating to conducting internal control and audit.

The Group Companies adopt their own internal procedures in the scope of control systems and the assessment of risks arising from their operations. Internal control in the entities of the Group operates based on the regulations approved by the management boards of the companies. In the majority of companies the internal control is of institutional nature i.e. it is performed by a separate organisational unit. The companies regulate the internal control systems on their own depending on the scope of their operations and the needs of the board.

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

4. Organisation of the Issuer's Capital Group

4.1. Structure of the Capital Group

The chart below presents the organisational structure of Issuer's Capital Group, including subsidiaries and associates, as at 28.02.2013. The chart does not present companies in liquidation or discontinuing operations.

Polimex-Mostostal S.A.

Domestic companies	Share
Torpol Sp. z o.o. (at present Torpol S.A.)	100.00%
StalFa Sp. z o.o.	100.00%
Energop Sp. z o.o. *)	99.99%
Energomontaż-Północ Gdynia Sp. z o.o.	99.99%
PRInż-1 Sp. z o.o.	91.06%
Zakład Transportu - Grupa Kapitałowa Polimex Sp. z o.o.	100.00%
Polimex-Mostostal ZUT Sp. z o.o.	100.00%
Przeds. Produkcyjno-Usługowe Elektra Sp. z o.o.	100.00%
Energomontaż-Pólnoc - Technika Spawalnicza i Lab. Sp. z o.o. *)	99.96%
Moduł System Serwis Sp. z o.o.	100.00%
Centrum Projektowe Polimex-Mostostal Sp. z o.o.	99.57%
PxM Projekt Południe Sp. z o.o.	100.00%
WBP Zabrze Sp. z o.o.	99.97%
Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.	100.00%
Polimex-Development Kraków Sp. z o.o.	100.00%
Polimex-Hotele Sp. z o.o.	100.00%
Polimex-Mostostal Development Sp. z o.o.	100.00%
Zarząd Majątkiem Górczewska Sp. z o.o.	100.00%
Energomontaż-Nieruchomości Sp. z o.o.	100.00%
Polimex-Cekop Development Sp. z o.o.	100.00%
Sinopol Trade Center Sp. z o.o	50.00%
Polimex-Sices Polska Sp. z o.o.	50.00%
Energomontaż-Północ Bełchatów Sp. z o.o.	32.82%
Laboratorium Ochrony Środowiska Pracy Sp. z o.o.	27.50%

*) Polimex-Mostostal holds 100% of capital directly or through a subsidiary.

Foreign companies	
Coifer Impex SRL (Romania)	100.00%
Tchervonograd MSP (Ukraine)	99.61%
Depolma GmbH (Germany)	100.00%
Energomontaż Magyarorszag (Hungary)	100.00%
Grande Meccanica SpA (Italy)	100.00%
Polimex-Mostostal Wschód (Russia)	100.00%
Polimex-Mostostal Ukraina (Ukraine)	100.00%
NafIndustriemontage GmbH (Germany)	100.00%

4.2. Information on key entities of the Capital Group

In 2012 the key entities of the Capital Group are:

- **Torpol S.A.**

  Torpol with the registered office in Poznań had been operating as a limited liability company since 1999. On 02.01.2012 Torpol was transformed into a joint stock company. The company offers full-scale construction of railway routes and stations, as well as tramways and traction. The Company specialises in execution of large contracts for example it is participating in the construction of Łódź Fabryczna Complex and E75 Rail

Baltica rail road. The company runs capital group. The conducted investment plan allows for gradual widening of the scope of works executed by own means.

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

  The factory with the registered office in Sędziszów has been operating since 1974. It had operated within Polimex-Mostostal Capital Group by January 2013. The scope of operations of Sefako Boilers Factory S.A. is related to design, manufacturing and sale of water and steam boilers of medium capacity, and contracting of pressure and high-pressure components of high power boilers. As the domestic market is in demand of coal dust and biomass-fired boilers, the company develops and implements internal technical solutions. Export constitutes the most of company sale. The investment plan completed in 2010 increased company production capacities in the scope of production of energy boilers. In September 2012 Sefako acquired from the Issuer a block of shares constituting 98.5% of equity of Centralne Biuro Konstrukcji Kotłów S.A. In January 2013 the Issuer disposed of the entire block of shares held in Sefako. The transaction is described in more detail in Section 9 of this report.

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

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

- **Energop Sp. z o.o.**

  The company was established in 2003 on the initiative of Energomontaż-Północ S.A. The main activity of the company is manufacturing of pressure pipelines for the transportation of liquids mostly fuels. The company's offer also includes manufacturing of steel structures, containers, silos, chimneys and air and exhaust ducts. Together with Energomontaż Północ Technika Spawalnicza i Laboratorium, a subsidiary, the Issuer holds 100% of share capital in the Energop company.

- **Energomontaż Północ Gdynia Sp. z o.o.**

  The company was established in 2001 on the initiative of Energomontaż-Północ S.A. The core of its activity is prefabrication of large-size steel structures for mining industry (mostly oil), petrochemistry and power engineering (including nuclear and renewable energy as well as sea wind energy sectors). The Company also manufactures structures and machinery installed in ports and on ships. As well as that it performs overhauls of ships. Additionally, the company assembles installations at heat and power stations as well as at paper, chemical and food plants. The key customers for the structures are foreign business partners, mostly from Scandinavia (Denmark, Norway). The Issuer disposed of the entire block of shares held in the company in March this year. For more information on the transaction see Section 9 of this report.

- **PRInż -1 Sp. z o.o.**

  The present form of PRInż-1 company is the effect of acquisition of PRInż-9 in October 2008. The company's offer covers construction of roads and all types of routes, including lighting and accessory infrastructure. The company closely co-operates with the Road Construction Division (since 01.01.2013 the Segment of Infrastructure Construction), operating in the structures of Polimex-Mostostal S.A.

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

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

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

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

- **Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.**

  The company was established in 1988. It deals with the construction of high and medium voltage overhead power lines, medium and low voltage buried power lines, supply of transformer stations, construction of overhead and buried power lines of road lightning and corrosion protection of steel structures.

- **Energomontaż Północ-Technika Spawalnicza i Laboratorium" Sp. z o.o.**

  The history of the company dates back to 1953. The main activity of the company is conducting of all types of tests relating to electrical and gas welding technology. Together with Energop, a subsidiary, the Issuer holds 100 % of company's share capital.

  Apart from the laboratory mentioned above, the Issuer has equity links (27.5% of share capital) with Laboratorium Ochrony Środowiska Pracy Sp. z o.o. (Laboratory of Protection of Work Environment) that provides services in the scope described in the business name of the company.

- **Moduł System Service Sp. z o.o.**

  The company was established in 2001 on the initiative of Naftoremont. The company, which has its registered office in Płock, is one of the largest national companies dealing with modular construction and steel frame construction for the purpose of housing and public buildings (e.g. kindergartens). Additionally, the company sells and rents various types of containers.

- **Design companies**

  Design teams operate both, within organisation structures of particular companies of the Capital Group, and as independent design offices. Organisation and technical systems facilitating creation of integrated design centre focusing on needs of the Capital Group is under development. The following design offices operate as companies:

  - Centrum Projektowe Polimex Mostostal Sp. z o.o. with the registered office in Gliwice,
  - PXM Projekt Południe Sp. z o.o. with the registered office in Kraków,
  - WBP Zabrze Sp. z o.o. with the registered office in Zabrze,
  - Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o. with the registered office in Bielsko-Biała.

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

- **Developer companies**

  The developer companies that are within Polimex-Mostostal Capital Group deal with mounting of housing buildings, sale of flats and with real estate administration. In the Capital Group there are the following developer's companies:

  - Polimex-Development Kraków Sp. z o.o.,
  - Polimex-Hotele Sp. z o.o.,
  - Polimex-Mostostal Development Sp. z o.o.,
  - Zarząd Majątkiem Górczewska Sp. z o.o.,
  - Energomontaż-Nieruchomości Sp. z o.o.,

  Apart from the first in the list above, all other companies have their registered offices in Warsaw.

Apart from the mentioned above companies registered in Poland, in the composition of the Capital Group there are foreign companies which offer in the countries of their registration their own products or services or the ones produced by the Issuer's Group. The companies having its own capacity include:

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

  The company has a registered office in Bucharest (Romania). The core activity of **Coifer Impex SRL** is rendering of erection works and performance of construction and assembly contracts in form of general contracting. The company owns a plant producing steel structures.

- **Grande Meccanica SpA**

  The company has its registered office in Narni (Italy). It provides services for the benefit of refinery sector. At present the programme of the extension of the company's manufacturing capacities is under development.

- **Tchervonograd MSP**

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

- **Polimex-Mostostal Ukraina SAZ**

  The registered office of the company is in Zhytomir, Ukraine. The company conducts activity in the scope of construction and erection works.

The following companies act as trade agents:

- Polimex-Mostostal Wschód (Russia)
- Depolma GmbH and Naf Industriemontage GmbH (Germany)
- Energomontaż Magyarorszag (Hungary)

The Issuer also holds 50% of share capital in Sinopol Trade Center Sp. z o.o., the company registered under the Polish law, whose operations are oriented to the Chinese market.

Out of the companies in which the Issuer holds a share of less than 50% in equity, Energomontaż Północ Bełchatów Sp. z o.o. should be mentioned, whose main area of activity is a local mine and power plant.

4.3. Employment

In 2012 as a result of an economic slowdown and the implementation of personnel restructuring processes, the employment in the Polimex-Mostostal Capital Group decreased by 3.3% as compared to the previous year.

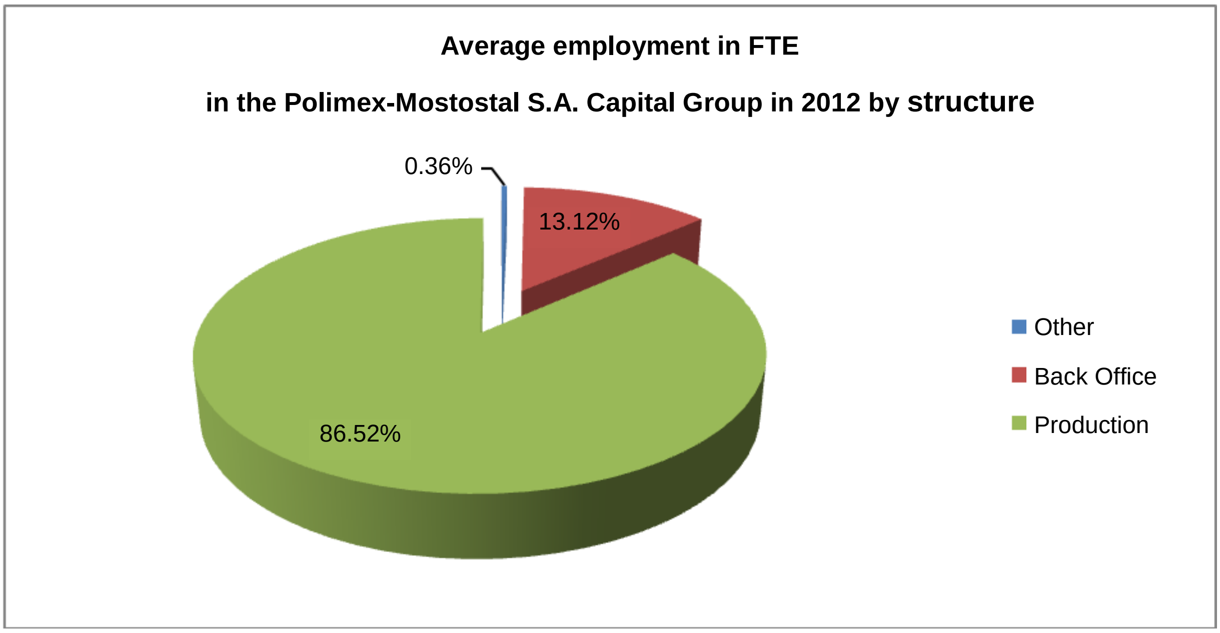
The decrease in employment was the caused by optimisation and adjustment of employment to the new structures of the Companies:

- combination of small offices into one larger office and forming Centrum Projektowe Polimex-Mostostal sp. z o.o.,
- taking over the Research and Diagnostics Division and the Laboratory of Z19 Division by Energomontaż Północ Technika Spawalnicza i Laboratorium sp. z o.o. The takeover was aimed at the integration of functions which were previously located in different places in the structure of the Group.

Detailed list	Change	Employment *)	
	2012 2011	2012	2011
Board of Directors of the Parent Company	0.5%	4	4
Boards of Directors of related companies	2.3%	45	44
Back Office	18.6%	1 782^	1 503
Production	-5.9%	11 745	12 487
Total	-3.3%	13 575	14 038

*) average employment in Full Time Equivalents (FTE)

^) an increase in employment in the back office operations is the result of organizational changes in the Group, taking over employees who in previous years were in the structure of production, for example.



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

In the period from 01.01.2012 to 26.06.2012 **The Board of Directors Polimex-Mostostal S.A.** was composed as follows:

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

On 26.06.2012 the Supervisory Board extended the composition of the Board of Directors by two persons, where:

- Robert Bednarski was appointed for the position of Vice President of the Board of Directors, Director for Finance in force from 02.07.2012
- Robert Oppenheim was appointed for the position of Vice President of the Board of Directors, Director for Operations in force from 06.07.2012.

In the six person composition presented above the Board worked until 10 August 2012, when Konrad Jaskóła was recalled from the position of the President of the Board. Before the new President is appointed, the duties of the President of the Board are performed by Mr. Robert Oppenheim.

On 31 August 2012 the Supervisory Board dismissed Mr. Grzegorz Szkopek and Mr. Zygmunt Artwik resigned from holding the position on the Board of Directors as of 30 November 2012.

In the period from 1 December 2012 until the date of preparation of this report, the composition of the Board of Directors of Polimex-Mostostal S.A. was as follows:

- Robert Oppenheim - Acting President of the Board,
- Aleksander Jonek - Vice President of the Board of Directors,
- Robert Bednarski - Vice President of the Board of Directors.

The term in office of Mr Robert Oppenheim and Mr Robert Bednarski expires on 26.06.2015, whereas the mandate expires not later than on the date of holding the General Meeting of Shareholders approving the financial statements for 2014. The term of office of Mr Aleksander Jonek expires on 30.06.2013, whereas the mandate expires not later than on the date of holding the General Meeting of Shareholders approving the financial statements for 2012.

In line with § 41.1 of the Articles of Association (the uniform text of the Articles of Association was adopted under Resolution No.7 of the Extraordinary Meeting of Shareholders of 15 October 2012, Rep. A No. 14512/2012) and § 1.1 of the Regulations of the Board of Directors, the Company governing body holding all powers in the scope of managing the Company is the Board of Directors acting in all matters not reserved for the sole competence of the General Meeting of Shareholders or the Supervisory Board.

The Board of Directors is composed of one or more members, the number being specified by the Supervisory Board.

The Board of Directors may be composed of the President of the Board, Vice Presidents of the Board and other members of the Board appointed by the Supervisory Board. The appointment of Vice Presidents and members of the Board of Directors is made after having consultations with the President of the Board. In case of appointing a one-person Board of Directors, the Supervisory Board appoints the President of the Board.

Members of the Board may be appointed from among shareholders or other persons.

The Board of Directors is appointed for a three-year term of office. In line with the Regulation of the Board of Directors, expiration due to end of office term does not limit the possibility of reappointment for the position of a member of the Board.

The Supervisory Board has the right to appoint, dismiss and suspend individual or all members of the Board of Directors for major reasons in performing their activity before the expiry of term of office and to delegate members of the Supervisory Board, for a period of no longer than three months, to temporarily perform the duties of members of the Board of Directors who are incapable of performing their duties.

In line with the Regulations of the Board of Directors, the loss of a position of a member of the Board of Directors also happens by means of resignation from the position of the member of the Board of Directors or loss of legal capacity and if a member of the Board of Director dies.

A member of the Board of Directors may be dismissed or suspended in performing his activity with a resolution of the General Meeting of Shareholders.

No entitlement of the Board of Directors or its individual members to make a decision on issue or redemption of shares.

In 2012, meetings of the Board of Directors of Polimex-Mostostal S.A. were held on: 11.01, 17.01, 20.01, 25.01, 02.02, 09.02, 16.02, 28.02, 21.03, 28.03, 03.04, 16.04, 25.04, 11.05, 18.05, 24.05, 14.06, 26.06, 04.07, 05.07, 17.07, 23.07, 24.07, 26.07, 01.08, 08.08, 13.08, 21.08, 28-29.08, 31.08, 04.09, 07.09, 11.09, 17.09, 18.09, 26.09, 01.10, 04.10, 09.10, 16.10, 19.10, 23.10, 30.10, 06.11, 07.11, 13-14.11, 20.11, 27.11, 29.11, 04.12, 05.12, 07.12, 11.12, 19.12, 20.12, 21.12 and 28.12. In the meetings mentioned above the Board made resolutions on matters concerning financial and operating restructuring of the Company and, among other things, approval of financial plan of the Company and of the Capital Group, guaranteeing loans, granting borrowings, establishing and recalling commercial powers of attorney, financing investments, approving Regulations of the Board of Directors of the Company and sale of real property.

In the period from 01.01.2012 to 29.02.2012 the **Supervisory Board of Polimex-Mostostal S.A.** worked in the following composition:

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

On 29.02.2012 the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. adopted resolutions No.4 to No.10 making the following amendments in the composition of the Supervisory Board:

- persons dismissed: Kazimierz Klęk, Mieczysław Puławski, Andrzej Szumański
- persons appointed: Andrzej Bartos, Paweł Dłużniewski, Dariusz Formela, Dariusz Krawczyk.

In the composition amended with the above mentioned resolutions the Supervisory Board established as follows:

- Jan Woźniak – Chairman of the Supervisory Board,
- Artur Jędrzejewski – Vice Chairman of the Supervisory Board,
- Paweł Dłużniewski – Secretary of the Supervisory Board,
- Andrzej Bartos – Member of the Supervisory Board,
- Dariusz Formela – Member of the Supervisory Board,
- Dariusz Krawczyk – Member of the Supervisory Board,
- Jacek Kseń - Member of the Supervisory Board.

On 15.10.2012 the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. adopted resolutions No.11 to No.14 making the following amendments in the composition of the Supervisory Board:

- persons dismissed: Paweł Dłużniewski, Jacek Kseń
- persons appointed: Marek Wierzbowski, Sebastian Bogusławski.

In the composition amended with the above mentioned resolutions the Supervisory Board established as follows:

- Jan Woźniak – Chairman of the Supervisory Board,
- Artur Jędrzejewski – Vice Chairman of the Supervisory Board,
- Sebastian Bogusławski Secretary of the Supervisory Board,
- Andrzej Bartos – Member of the Supervisory Board,
- Dariusz Formela – Member of the Supervisory Board,
- Dariusz Krawczyk – Member of the Supervisory Board,
- Marek Wierzbowski - Member of the Supervisory Board.

On 15.02.2013 the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. adopted resolutions No.3 to No.10 making the following amendments in the composition of the Supervisory Board:

- persons dismissed: Jan Woźniak, Sebastian Bogusławski, Andrzej Bartos, Dariusz Formela
- persons appointed: Jerzy Góra, Tadeusz Kuczborski, Ryszard Engel, Andrzej Kasperek.

In the composition amended with the above mentioned resolutions the Supervisory Board established as follows:

- Jerzy Góra – Chairman of the Supervisory Board,
- Ryszard Engel – Vice Chairman of the Supervisory Board,
- Dariusz Krawczyk – Vice Chairman of the Supervisory Board,

- Artur Jędrzejewski – Secretary of the Supervisory Board,
- Tadeusz Kasperek – Member of the Supervisory Board,
- Dariusz Krawczyk – Member of the Supervisory Board,
- Marek Wierzbowski - Member of the Supervisory Board.

The Supervisory Board was appointed for the period of common term of office. The mandates of members of the Supervisory Board expire not later than on the date of holding the General Meeting approving the financial statements of the Company for the last complete financial period of the current term of office i.e. for the year 2012.

In the structure of the Supervisory Board there are two committees: the Audit Committee and the Remuneration Committee.

In period from 01.01.2012 to 29.02.2012 the composition of the **Audit Committee** was as follows:

- Jacek Kseń – Chairman of the Committee
- Mieczysław Puławski– Member of the Committee
- Jan Woźniak – Member of the Committee.

In the composition amended with the resolutions of the General Meeting of 29.02.2012 the Supervisory Board appointed the following persons to the Audit Committee:

- Jacek Kseń – Chairman of the Committee
- Artur Jędrzejewski – Member of the Committee
- Dariusz Formela – Member of the Committee.

In the composition amended with the resolutions of the General Meeting of 15.10.2012 the Supervisory Board appointed the following persons to the Audit Committee:

- Dariusz Formela – Chairman of the Committee
- Artur Jędrzejewski – Member of the Committee
- Jan Woźniak – Member of the Committee.

In the composition amended with the resolutions of the General Meeting of 15.02.2013 the Supervisory Board appointed the following persons to the Audit Committee:

- Tadeusz Kuczborski – Chairman of the Committee
- Artur Jędrzejewski – Member of the Committee
- Andrzej Kasperek – Member of the Committee.

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

In period from 01.01.2012 to 29.02.2012 the composition of the **Remuneration Committee** was as follows:

- Andrzej Szumański – Chairman of the Committee
- Kazimierz Klęk – Member of the Committee
- Artur Jędrzejewski – Member of the Committee

In the composition amended with the resolutions of the General Meeting of 29.02.2012 the Supervisory Board appointed the following persons to the Remuneration Committee:

- Jan Woźniak – Chairman of the Committee
- Andrzej Bartos – Member of the Committee
- Paweł Dłużniewski – Member of the Committee
- Dariusz Krawczyk - Member of the Committee

In the composition amended with the resolutions of the General Meeting of 15.10.2012 the Supervisory Board appointed the following persons to the Remuneration Committee:

- Marek Wierzbowski – Chairman of the Committee
- Andrzej Bartos – Member of the Committee
- Dariusz Krawczyk - Member of the Committee

In the composition amended with the resolutions of the General Meeting of 15.02.2013 the Supervisory Board appointed the following persons to the Remuneration Committee:

- Jerzy Góra – Chairman of the Committee
- Ryszard Engel – Member of the Committee
- Dariusz Krawczyk - Member of the Committee
- Marek Wierzbowski - Member of the Committee

The main task of the Committee is lending support to the Supervisory Board in terms of execution of its control and supervisory tasks by presenting opinions to the drafts of contracts related to holding the position of a member of the Board of Directors and giving opinion on the proposals of amendments to the remuneration and bonus system for members of the Board of Directors. Particular rights and obligations of the Committee are given in the Regulations of the Supervisory Board. Tasks of the Committee are executed by submittal to the Supervisory Board requests, opinions and statements related to the scope of its tasks. The Committee operates collectively.

Till the date of preparation of this Report the compositions of the Supervisory Board as well as of the Audit Committee and the Remuneration Committee did not undergo any further changes.

Regulations for appointment and functioning of the Supervisory Board are specified in the Company's Articles of Association. In line with § 34 of the Articles of Association the Supervisory Board comprises at least five members appointed by the General Meeting for the period of common term in office. The number of Supervisory Board members for next terms in office is determined by the General Meeting while making appointments. The Articles of Association also specify that at least a half of the total number of member should be independent persons and give premises which should be fulfilled by an independent member of the Supervisory Board.

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

4.5. Agreements concluded among the parent and its executives anticipating compensation for resignation or dismissal from function without any important reason, and if dismissal arises from business combination by acquisition

The Company in connection with the termination of the Management Contract with the former President of the Company makes under the contract the severance payment equal to the monthly remuneration starting from the date of termination of the contract till the approval of the annual report for 2012 by the GSM. Moreover, the Company for the year of the termination of the Management Contract pays to the former President of the Board the compensation under the Non-competition Agreement.

The Company paid to the former President of the Board damages for termination of the Management Contract and for a year of the termination of the Contract it is paying the compensation under the Non-competition Agreement.

In 2012 the terms and conditions of compensations were not amended (as compared to the ones which were in force earlier) in case of resignation or dismissal from the position held for other persons managing the company except for the one mentioned above.

4.6. Value of remuneration for executives and senior employees

The value of remuneration for executives and senior employees was given in notes and explanation to the financial statements of Polimex-Mostostal Capital Group.

4.7 Description of basis for amending the Issuer's Company statute or articles of association

The Issuer is a joint-stock company as a result the principles of its operations and organizational structure is specified in the Articles of Association.

As a rule, in accordance with Article 430 of the Code of Commercial Companies, every amendment to the Article of Articles of Association to be effective requires not only a resolution of the General Meeting but also a constitutive entry in the National Court Register.

Making amendments to the Issuer's Articles of Association is the competence of the General Meeting pursuant to § 33.1.e of the Articles of Association. The task of the Supervisory Board is to give opinion on projects of amendments to the Issuer's Articles of Association pursuant to § 38.7 of the Articles of Association and specifying its uniform text, pursuant to § 38.11 of the Articles of Association (uniform text of the Articles of Association adopted by Resolution No.7 of the Extraordinary Meeting of Shareholders of 15 October 2012, Rep. A No.14512/2012).

4.8 Mode of operation of the Issuer's general meeting and its principal rights, as well as description of rights of shareholders and manner of their exercise

Pursuant to § 29 of the Articles of Association of the Company (uniform text adopted with Resolution No.7 of the Extraordinary Meeting of Shareholders of the Company of 15 October 2012, Rep. A No. 14512/2012) the highest governing body of the Company is the General Meeting of Shareholders.

In accordance with the Code of Commercial Companies and the Articles of Association, General Meetings may be ordinary (ordinary General Meetings) or extraordinary (extraordinary General Meetings).

A General Meeting is convened by the Board of Directors, whereas a General Meeting is convened annually, not later than by 30 June of the year after the financial year. A Supervisory Board may convene an ordinary General Meeting if the Board of Directors does not convene it timely and an extraordinary General Meeting if it deems it necessary. Shareholders representing at least one-half of the share capital or at least one-half of the total vote in the Company may also convene an extraordinary General Meeting. In such a case the shareholders shall elect the chairman of the General Meeting.

Moreover, a shareholder or shareholders representing at least one-twentieth of the share capital of the Company may request that an extraordinary general meeting be convened and that certain matters be placed on the Meeting agenda. The request for an extraordinary General Meeting to be convened shall be submitted to the Board of Directors in writing or in electronic form. If, within two weeks of the request being presented to the Board of Directors, an extraordinary General Meeting is not convened, the registry court may authorize the shareholders submitting the request to convene the extraordinary general meeting. The court shall appoint the chairman of the Meeting.

The General Meeting shall be convened by announcement being made on the Company's website and in a manner set forth for day-to-day communication in accordance with the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading and public companies (uniform text Journal of Laws of 2009, No. 185 item 1439 as further amended). The announcement should be made at least 26 days before the date of the General Meeting. The announcement of the General Meeting should include in particular: (i) date, time and place of the General Meeting and a detailed meeting agenda, (ii) a precise description of procedures relating to participation in the General Meeting and exercising the right to vote, (iii) the date of registering participation in the General Meeting, (iv) information that only persons being shareholders on the date of registration of participation in the General Meeting have the right to participate in the General Meeting, (v) indication where and how the person entitled to participate in the General Meeting may obtain a complete text of the documentation which will be presented to the General Meeting and drafts of resolutions or, if the resolutions are not to be adopted, comments of the Board of Directors or the Supervisory Board concerning matters introduces to the meeting agenda or matters which will be introduced to the meeting agenda before the date of the General Meeting, (vi) indication of an address of the website where information on the General Meeting will be given.

The Company is obliged to communicate in the form of a current report such information as the date, time and place of the General Meeting together with a detailed meeting agenda. Moreover, in the event of intended amendment of the Articles of Association, the provisions thereof currently applicable, as well as draft amendment and, where the company makes a decision to devise a new uniform text due to a substantial scope of the intended amendment, draft new uniform text of the Articles of Association including a specification of the new or amended provisions thereof shall be quoted. Texts of resolution drafts and enclosures to drafts, which are to be discussed by the General Meeting, important for adopted resolution are also subject to communicating in the form of a current report.

The main competences of the General Meeting are as follow:

- examination and approval of the financial statements and the Directors' report on the Company's operations for the previous financial year,
- granting acknowledgement to members of the Supervisory Board and members of the Board of Directors of fulfilment of duties,
- distribution of the profit or coverage of losses,
- appointment and dismissal of members of the Supervisory Board,
- amendment to the Articles of Association of the Company,
- an increase or reduction in the share capital,
- forming and annulment of special purpose funds,
- approval of the Regulations of the Supervisory Board and establishing the regulations of the session of the General Meeting,
- definition of rules for remuneration payable to members of the Supervisory Board,
- giving consent upon issue of convertible or preferential bonds,
- giving consent upon sale and lease of a Company or its organised part, as well as establishment of limited property security right,
- redemption of Shares with the consent of a shareholders by acquiring them by the Company and defining terms and conditions of such redemption,
- merger and wind-up of the Company,
- liquidation of the Company and appointment of liquidators;
- consideration of issues presented by the Supervisory Board and the Board of Directors, as well as by the shareholders,
- other matters reserved to the competence of the General Meeting by provisions of law or provisions of the Articles of Association.

The first category of shareholder rights is rights concerning shares such as:

(i) the right to transfer shares

Shareholders have the right to transfer shares. Transferability of shares includes disposing of them (transferring the ownership) and other forms of disposing such as pledging, establishing a usufructuary right to shares and leasing them. The Articles of Association do not contain provisions limiting the possibility of transferring shares.

(ii) *dividend*

Shareholders are entitled to participate in profit disclosed in the financial statements verified by a certified auditor and allocated by the General Meeting for distribution to the shareholders (the right to dividend).

The governing body entitled to make a decision on profit distribution and paying dividend is the ordinary General Meeting. The Ordinary General Meeting adopts a resolution on what portion of the Company's profit disclosed in the financial statements verified by a certified auditor, if any, should be allocated to payment of dividend. The ordinary General Meeting should be held within six months of the end of the financial year (corresponds to the calendar year) i.e. by the end of June.

The ordinary General Meeting shall set the dividend date and the dividend distribution date. The dividend date may be set as the date of adoption of the resolution or within three consecutive months thereafter.

The amount allocated for distribution among the shareholders shall not exceed the amount of profit for the last financial year, increased by retained earnings and by amounts from supplementary or reserve capital established from profit which may be allocated for dividend distribution. This amount shall be decreased by unabsorbed losses, own shares and by amounts, which pursuant to the law or the Articles of Association, shall be transferred from profit for the last financial year to the supplementary or reserve capital.

The Board may make a pre-payment to the shareholders against dividend expected as at the end of the financial year if the Company has sufficient funds to make such distribution. The pre-payment against expected dividend shall require the consent of the Supervisory Board. The Company may make a pre-payment against expected dividend if its approved financial statements for the preceding year show a profit. The pre-payment may represent no more than one-half the profit earned since the end of the preceding financial year, as shown in the financial statements verified by the certified auditor, increased by reserve capital established from profit, which the Board of Directors may allocate for pre-payments and decreased by unabsorbed losses and own shares.

Entitled to dividend are persons in whose accounts are registered dematerialised (bearer) shares on the dividend date and entities having right from dematerialized shares registered in the collective account.

Shareholder's claims against the Company regarding payment of dividend may be exercised within 10 years of the date when the ordinary Meeting of Shareholders adopted a resolution on allocation of the entire profit of the Company or its portion to payment of dividend to shareholders. After this date the Company may refuse to pay dividend, asserting statute of limitations.

The terms and conditions of collecting dividend by shareholders correspond to regulations adopted by listed companies. As stated above, the resolution on payment of dividend shall set the date of establishing the right to dividend (dividend date) and the dividend distribution date. The dividend date may be set as at the date of adoption of the resolution on profit distribution or within three consecutive months thereafter. The dividend shall be paid on the date set forth in the General Meeting resolution, and if the General Meeting resolution does not specify the date, the dividend shall be paid on the date set forth by the Supervisory Board.

The Board of Directors shall announce in the Court and Economic Monitor the planned prepayments against an expected dividend at least four weeks before the prepayments are made, giving the date as at which the financial statements were prepared, the amount allocated for disbursement, and the date as at which the persons authorised to receive the prepayments are determined. The date shall be within seven days before the payments start to be made.

Pursuant to § 9 Section 3 Chapter XIII of Detailed Exchange Trading Rules adopted with the Resolution No. 4/2006 of the Board of Directors of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange - **WSE**) of 10 January 2006 as further amended, the Company shall immediately notify the Exchange of adoption of a resolution concerning the allocation of profit for the payment of dividend to shareholders, the amount of the dividend, the amount of the dividend per one share, the date of determination of the dividend rights, and the dividend payment date. Moreover, § 106 of Detailed Rules of Operation of the National Depository of Securities ("**NDS**"), whose uniform text constitutes an appendix No.1 to the Resolution of NDS No. 1128/11 of 15 December 2011 as further amended, imposes on the Company the obligation to notify the NDS of the amount of the dividend per share as well as of the dividend date and the dividend payment date not later than 5 days prior to the dividend payment date. Pursuant to § 106.2 of Detailed Rules of Operation of the

National Depository of Securities there shall be at least nine days between the dividend date the dividend payment date. The above mentioned rules are applicable to making pre-payment against expected dividend.

Payment of dividend and pre-payment against the expected dividend to holders of dematerialized shares of the Company shall be made by means of the depository system of the NDS The NDS transfers funds on account of the dividend and pre-payments against the expected dividend into the accounts of the NDS participants who next transfer received funds into cash accounts of the Company's shareholders kept by individual brokerage houses. The dividend payable to persons entitled from dematerialised shares of the Company registered into the collective account is transferred to its holder by the entity keeping such an account.

In 2012 the Company did not pay dividend from profit for the year ended 31 December 2011.

The Company does not expect the dividend for the year ended 31 December 2012 to be paid in 2013, among other things, due to the obligation of the Company not to pay it arising from the Agreement on Regulations of Debt Servicing as defined in Section 5.4 of this Report. Pursuant to Article 29.17 (a) of the Agreement on Regulations of Debt Servicing, payment of the dividend or pre-payment against the expected dividend shall require the consent of the Qualified Majority of Creditors as defined in the above mentioned agreement.

(iii) *Pre-emptive right*

Shareholders are entitled to take up newly issued shares of the Company in proportion to the number of shares currently held (the pre-emptive right). The shareholders shall have the priority right to take up newly issued shares in proportion to the number of shares currently held, where there is a pre-emptive right if convertible securities or securities incorporating the subscription rights are issued. A resolution on the increase in the share capital shall specify the date as at which a list shall be drawn up of shareholders who have pre-emptive rights to the new shares (pre-emptive rights date). The pre-emptive right date may not be set forth later than upon the lapse of six months from adoption of the resolution. The agenda for the General Meeting, when the resolution on increasing the share capital of the Company is adopted, shall specify the proposed date of the pre-emptive rights.

Shareholders may be deprived of their pre-emptive rights to newly issued shares solely by acting in the interest of the Company and if a motion to this effect was included in the agenda for the General Meeting. The Board of Directors shall present the General Meeting with a written opinion providing reasons for depriving the shareholders of their pre-emptive rights and the proposed issue price for shares or the manner of setting thereof. A resolution on depriving the shareholders of their pre-emptive rights shall be adopted by the majority of at least four-fifths of votes.

The majority of four-fifths of votes is not required to adopt a resolution on depriving current shareholders of their pre-emptive rights if:

- pursuant to the resolution on increase in the share capital, all newly issued shares are to be taken up by a financial institution (underwriter), subject to the obligation to subsequently offer the shares to the shareholders in order for the latter to exercise their pre-emptive rights on the terms and conditions set forth in the resolution;
- pursuant to the resolution the newly issued shares are to be taken up by the underwriter in the event the shareholders having the pre-emptive rights fail to take up all or any portion of the shares offered to them.

(iv) right to a share in assets in case of liquidation of the Company

If the Company is liquidated every share entitles on a pro rata basis to a share in the assets remaining after having satisfied or secured creditors of the Company.

Another category of rights of shareholders are rights and duties relating to the General Meeting which include:

(i) the right to participate in the General Meeting and the right to vote

A shareholder may participate in the General Meeting and exercise the right to vote in person or by proxy. A shareholder intending to participate in the General Meeting by proxy must give the proxy a power of attorney in a written or in electronic form. A form including a sample power of attorney shall be included in the announcement to convene the General Meeting. Moreover, the Company should be informed of granting the power of attorney in electronic form with the use of electronic communication media indicated in the announcement to convene the General Meeting. The Company shall take appropriate measures to identify a shareholder of the Company and of proxy in order to verify the validity of the power of attorney granted in electronic form. A detailed description of the manner of verification of validity of a power of attorney granted in an electronic form is included in the text of the announcement to convene the General Meeting.

A shareholder holding shares registered in more than one security account may establish separate proxies to exercise rights arising from shares registered in each of the accounts.

If the proxy of a shareholder at the General Meeting is a member of the Board of Directors, a member of the Supervisory Board, a liquidator, an employee of the Company or a member of governing bodies or an employee of a dependent company or a co-operative of such a Company, a power of attorney may authorize him to represent the principal at only one General Meeting. The proxy shall be obliged to disclose to the shareholder circumstances indicating that there is or may be a conflict of interests. In such a case granting a further power of attorney shall be excluded. A proxy mentioned above shall vote in accordance with instructions given by the shareholder.

Pursuant to § 20 of the Articles of Association of the Company, every share entitles to one vote at the General Meeting.

Resolutions of the General Meeting of shareholders are adopted by an absolute majority of votes unless the regulations of the Code of Commercial Companies or of the Article of Association of the Company provide otherwise.

A shareholder may vote differently under each share held. A proxy may represent more than one shareholder and vote differently under shares of each shareholder.

A shareholder may not, either in person or by proxy, vote on resolutions concerning his liability against the Company on whatever account, including , acknowledgment of fulfilment of his duties, release from any of his duties towards the Company, or any dispute between him and the Company. The above limitation does not refer to a shareholder acting in the capacity of a proxy of another shareholder while adopting resolutions relating to his person as mentioned above.

The right to participate in the General Meeting shall be vested only in persons who are company shareholders sixteen days before the date of the General Meeting (date of registration of participation in the General Meeting).

(ii) rights in the scope of convening the General Meeting, setting forth its agenda and acquiring information affecting the assessment of a matter on the agenda

The rights of shareholders representing a specified portion of the share capital concerning convening the General Meeting are presented in the introduction to this section.

The intention to hold the General Meeting is connected with the right of a shareholder or shareholders representing at least one-twentieth of the share capital of the Company to request that certain issues be placed on the agenda of the next General Meeting. The request should be submitted to the Board of Directors not later than 21 days prior to the specified date of the General Meeting. The request may be submitted in electronic form. The Board of Directors shall be obliged to announce, immediately though not later than 18 days before the date set for the General Meeting, amendments to the agenda introduced at the shareholder's request. The announcement shall be made in a manner appropriate for convening a General Meeting.

A shareholder or shareholders representing at least one-twentieth of the share capital may, before the date of the General Meeting, submit to the Company in writing or by electronic means of communication draft resolutions on issues placed on the agenda of the General Meeting or issues that are to be placed on the agenda. The Company shall immediately announce the draft resolutions on its website.

Each shareholder shall have the right to request copies of motions concerning matters placed on the agenda of the next General Meeting. Such a request should be submitted to the Board of Directors. The copies of motions should be issued not later than within one week before the General Meeting.

The right of a shareholder to participate in the general Meeting is linked with the right to receive information consisting in the Board of Directors being obliged to give a shareholder, during the General Meeting, at his request information relating to the Company if it is reasonable for assessment of an issue placed on the agenda of the General Meeting. If there are important reasons, the Board of Directors may give the information in writing outside the General Meeting. In this case the Board of Directors shall be obliged to give information not later than within two weeks of the date of making the request by the shareholder during the General Meeting.

The Board refuses to give information, it could harm the Company, a related company or a dependent company or a co-operative of the Company in particular by disclosing technical, commercial or organizational secrets of the enterprise. A member of the Board of Directors may refuse to give information if giving the information constituted basis for penal, civil or administrative liability.

(iii) right to request to elect the Supervisory Board by a vote in separate groups

At the request of the shareholders representing at least one-fifth of the share capital of the Company, members of the Supervisory Board shall be elected at the next General Meeting by a vote in separate groups, even if the Articles of Association provide for a different manner of electing the Supervisory Board. In such a case the manner provided for in the Articles of Association of the Company is not applicable and shareholders shall apply the procedure specified in the Code of Commercial Companies.

(iv) right to appeal against resolutions of the General Meeting

Shareholders shall have the right to appeal against resolutions adopted by the General Meeting by filing a statement of claim for repealing such resolution or by filing a claim to declare such resolution invalid.

A statement of claim for repealing such resolution shall be filed to appeal against the resolution of the General Meeting which is in conflict with the provisions of the Articles of Association or good practice or detrimental to Company's interest or aimed at harming a shareholder within one month of receipt of information on the resolution, however, not later than three months after the adoption of such resolution.

A statement of claim for declaring a resolution invalid is filed to appeal against the resolution of the General Meeting adopted in breach of the law within 30 days of its publication, however, not later than one year from adoption of such resolution.

The right to file a statement of claim for repealing a resolution of the General Meeting or to declare a resolution invalid shall be vested in, apart from the Board of Directors, the Supervisory Board and individual members of these authorities, a shareholder who voted against such resolution and, upon the adoption thereof, requested that his objection be recorded, a shareholder who was prevented from participating in the General Meeting without a sound reason and a shareholder who was absent in the General Meeting, only in the event of a defective convening of the General Meeting or adoption of a resolution on a matter not included in the agenda.

A separate category of rights of a shareholder in a public company is the right to request to appoint a special-purpose auditor.

Pursuant to Article 84 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading and public companies (uniform text Journal of Laws of 2009 No. 185 item 1439 as further amended) at the request of a shareholder or shareholders holding at least 5% of the total vote, the General Meeting may adopt a resolution on mandating to an expert, at the Company's expense, a specific issue related to the Company's incorporation or the conduct of its business. To this end, the shareholders may request that an extraordinary General Meeting be convened or the adoption of such a resolution be placed on the agenda of the next General Meeting. The request should be presented to the Board of Directors in writing a month before the proposed date of the General Meeting. If, within two weeks of the request being presented to the Board of Directors, an extraordinary General Meeting is not convened, the registry court may, after having requested the Board to make a statement, authorize the shareholders submitting the request to convene the extraordinary General Meeting. The court shall appoint the chairman of the Meeting.

The resolution of the General Meeting on appointment of the special-purpose auditor should specify in particular:

- identity of the special-purpose auditor agreed upon in writing by the shareholder(s) requesting its appointment;
- subject and scope of the review, compliant with the request submitted by the shareholder(s), unless the shareholder(s) agreed in writing to change therein;
- types of documents which the Company should provide to the auditor; and
- date for commencement of the review, set not later than three months as of the resolution date.

If the General Meeting does not adopt a resolution in accordance with the request or adopts such a resolution in breach of Article 84.4 of the above mentioned Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading and public companies (uniform text Journal of Laws of 2009 No.185 item 1439 as further amended), the requesting shareholder(s) may, within 14 days from the resolution date, move to the registry court for appointment of the designated entity as the special-purpose auditor.

The Board of Directors and the Supervisory Board shall be obliged to provide the special-purpose auditor with the documents specified in the resolution of the General Meeting, or in the court's decision to appoint the special-purpose auditor, and shall also provide all clarifications necessary for the performance of the review.

The special-purpose auditor shall submit a written report on review findings to the Company's Board of Directors and Supervisory Board. The Board of Directors shall forward the report by way of a current report procedure. The report prepared by the special-purpose auditor shall not disclose any information comprising technical, commercial or organizational secrets of the Company, unless its disclosure is necessary to justify the position stated in the report.

The Board of Directors shall submit a report on its response to the review findings at the next General Meeting.

Amendments of rights of owners of shares require a resolution of the General Meeting adopted by the majority of three-quarters of vote and an entry into the register of entrepreneurs of the National Court Register. Moreover, the resolution on amendment of Articles of Association, increasing considerations of shareholders or reducing the rights vested in the shareholders personally require the consent of all shareholders interested.

5. Shareholding

5.1. Total number and nominal value of all shares of Polimex-Mostostal S.A. owned by executives and senior employees

As at 31.12.2012 executives/senior employees held the following number of shares of the Issuer:

Position held	Current number of shares held
Member of the Board of Directors	2,376,281 bearer shares of nominal value of 0.04 PLN each, 2,376,281 voting shares at the Company General Meeting.
Total	2,376,281 bearer shares of nominal value of 0.04 PLN each, 2,376,281 voting shares at the Company General Meeting.

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

Due to the fact that the Company is a public company whose shares are in trading on the prime market of the WSE, the company does not have any detailed information on its current shareholding structure. The table below was prepared based on notifications under Article 69 of the Act of 29.07.2005 on public offering, conditions governing the introduction of financial instruments to organized trading and public companies or published in another manner provided for in the regulations..

As at 31 December 2012 the only shareholder holding, in accordance with presented announcements, at least five per cent of total vote in the General Meeting was ING Open Pension Fund (84,487,729 of shares constituting 16.21% of share capital and votes). As at 31.12.2012 the number of shares of all issues was 521,154,076.

In January 2013 series M and N1 shares were registered by the Court. After taking up new issues, as at 31 January 2013 the structure of shareholding was as follows:

Item No.	**Shareholder**	**No. of** shares / votes	**% interest in share capital/total votes at GSM**
1.	Agencja Rozwoju Przemysłu S.A. (Agency for Development of Industry)	300,000,001	22.49%
2.	ING Open Pension Fund	185,431,892	13.90%
3.	Pioneer Pekao Investment Management S.A., of which:	74,829,384	5.61%
	Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (Pioneer Pekao S.A. Investment Fund Company)	*72,162,718*	*5.41%*
4.	Other shareholders	773,713,311	58.00%
	Number of shares of all issues	1,333,974,588	100.00%

5.3. Representation on corporate governance

In the described reporting period, the Issuer applied all rules for corporate governance defined under "Best Practice of WSE listed companies". These rules are available on the Warsaw Stock Exchange website: www.corp-gov.gpw.pl.

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

On 21 December 2012 the Company and its subsidiaries „Polimex-Development" Kraków Sp. z o.o. in Cracow, Polimex-Mostostal Development Sp. z o.o. in Warsaw and BR Development Sp. z o.o. in Cracow concluded with Banks and Debenture Holders listed in enclosure No.1 the Agreement on Regulations of Debt Servicing ("**Agreement on Regulations of Debt Servicing"**).

Under the Agreement on Regulations of Debt Servicing (Article 7) the majority of Debenture Holders listed in enclosure No.21 to the agreement ("Converting Debenture Holders") assumed an obligation to convert receivables arising from debentures issued by the Company in the amount of approx. PLN 250 million into Series M shares. In the scope of remaining, unpaid portion of receivables of Converting Debenture Holders in the amount of approx. PLN 144 million the Converting Debenture Holders assumed an obligation to postpone the final repayment of this receivable by 31 December 2016.

The conversion was made on 21 December 2012. The Company concluded with the Converting Debenture Holders agreements for them to take up 416,666,666 series M shares in total and the issue price of series M shares was paid by setting off receivables of the Converting Debenture Holders in the total amount of approx. 250 million against the issue price of series M shares.

On 28 December 2012 the Company concluded the agreement to take up Shares under which ING Open Pension Fund took up 75,543,585 Series N1 shares at the total issue price of PLN 39,282,664.20 in exchange for a cash contribution in the amount of PLN 39,282,664.20.

On 31 December 2012 under another agreement to take up Shares ING Open Pension Fund took up 20,610,261 Series N1 shares at the total issue price of PLN 10,717,335.72 in exchange for a cash contribution in the amount of PLN 10,717,335.72.

Under the investment agreement ("**Investment Agreement**") concluded on 21 December 2012 the Company assumed an obligation to offer for the benefit of the Agency for Development of Industry S.A. ("**ADI**") 300,000,000 Series N1 shares at the issue price of PLN 0.50 each Series N1 share i.e. at the total issue price of PLN 150 million, and the ADI assumed an obligation to take up Series N1 shares and to pay the total issue price if the Agreement on Regulations of Debt Servicing becomes effective.

Moreover, the Company assumed an obligation to offer without remuneration for the benefit of the ADI subscription warrants issued under resolution No. 6 of the Extraordinary Meeting of Shareholders of 15 October 2012 in the number which (if the warrants are exercised) together with other Shares will entitle the ADI to exercise not more than 32.99% of vote at the General Meeting of Shareholders (including the final number of shares taken up as a result of issue of Series M shares, Series N1 shares and Series N2 shares) yet not more than 256,630,422 warrants. The warrants shall be issued to the ADI within 10 working days of the registration by the registry court of resolution No. 6 of the Extraordinary Meeting of Shareholders of the Company of 15 October 2012.

As the Investment Agreement was signed and became effective in connection with coming into force of the Agreement on Regulations of Debt Servicing on 21 December 2012, on the same date the Company concluded with the ADI an agreement to take up offered series N1 shares at the total issue price of PLN 150 million.

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

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

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

In the reporting period the parent company did not acquire any treasury shares.
Moreover, pursuant to Article 29.17.(b) of the Agreement on Regulations of Debt Servicing as defined in section 5.4 of this Report, the Company shall not, without a prior written consent of an absolute majority of Creditors - as defined in the above mentioned agreement, acquire own shares or announce the own shares buy-back programme in view of the Commission Regulation (EC) No. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regard exemptions for buy-back programmes and stabilization of financial instruments.

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

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

5.8. Employees shares scheme controlling system

Based on resolutions of the Extraordinary General Meeting of Polimex-Mostostal S.A. of 31.01.2006, option contracts with the President and Members of the Board of Directors, members of management of Polimex-Mostostal S.A. and chairmen of the boards of directors of subsidiaries were concluded under incentive scheme for the years 2006 – 2008 addressed to key members of the Issuer management. Detailed description of the above-mentioned incentive scheme is included in the current report of the Issuer no 9/2006 of 31.01.2006.

On 04.07.2008 The Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. adopted Resolution No 26 on adoption of the company incentive scheme for the years 2009 – 2011, and conditional increase in share capital connected with the scheme and amendments to the Polimex-Mostostal S.A. statute as well as issue of the Company subscription warrants. Detailed description of the above-mentioned incentive scheme is included in the current report of the Issuer No. 43/2008 of 04.07.2008.

As of 31.12.2012 the balance of provision recognised on account of both above mentioned schemes amounts to PLN 32,086 thousand (as at 31.12.2011 – PLN 32,086 thousand).

6. Environmental protection

Emission of pollution to the air, emission of liquid waste (industrial, sanitary and residual), solid waste and noise are the by-products of Polimex-Mostostal S.A. activities. The company runs its operations under requirements on environment protection binding in Poland. Polimex-Mostostal activity is regulated in particular by Act of 27.04.2001 Environmental protection law (Journal of Laws of 2008 No 25, item 150 as further amended) and Act of 27.04.2001 on wastes (Journal of Laws of 2010 No 185, item 1243 as further amended). The Company has all necessary permits and environmental decisions required from enterprises by the Polish and Community law, including:

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

The issues of environment protection are of great importance for the Company (the Company runs the Integrated Management Systems, implemented ISO 14001:2004 standard: Natural Environment Management System). Natural Environment Protection Department of Polimex-Mostostal S.A. is dealing with co-ordination of actions taken by the Company in scope of environmental protection. Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the basic tasks of this Department.

From 14th to 17th May 2012 a recertification audit was conducted in the Company in the scope of compliance with ISO 14001:2004 standard. The audit confirmed that the Company is managed in accordance with the highest environmental standards and the applied production process guarantees the protection of the natural environment by reducing the consumption of energy and materials, improvement of waste management and minimization of the emission of pollution. The system shapes the environmental awareness of the staff, guarantees that the environmental regulations are observed, reduces the risk of fines and improves its environmental credibility. In 2012 Polimex-Mostostal S.A. was not encumbered with any penalties for exceeding of standards defined in natural protection laws.

A by-product of activity conducted by the **Issuer's production subsidiaries** (mostly by SEFAKO, StalFa, Energop, Energomontaż-Północ Gdynia) is emission of air pollution, emission of liquid waste (industrial, sanitary and residual), solid waste and noise. The Companies have all necessary permits and environmental decisions required from enterprises by the Polish and Community law:

- to generate waste other than hazardous one,
- to disposal of rain wastewaters and technological waste,
- to emission of gases and industrial dusts from emitters situated in the factories to the air,

Certain production companies, in connection with the nature of the conducted activity and location, additionally have the following permits:

- for intake of water from drilled wells for and social and technological needs,
- for disposal of treated industrial waste and rain water as well as melting snow directly to surface water-courses,
- for generation of hazardous waste.

The subsidiaries of the Issuer (mostly Torpol, PRInż-1 and Turbud) have plans for the management of waste other than hazardous one in closed areas adopted in accordance with regulations in force.

Coordination of activities in the scope of environment protection in each company is the responsibility of specialist services, whose structure matches the nature of conducted business activity. Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the main tasks of these services. Emphasis is placed on management of waste in the scope of storing, securing and transferring to recovery to entities which hold a permit to neutralise waste and keeping a correct quantity and quality register in compliance with the regulation of the Minister of the Environment.

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

On 01.08.2012 the contract was concluded with z Ernst & Young Audit Sp. z o.o. with the registered office in Warsaw at Rondo ONZ 1 on audit of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for 2012 and on review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2012. The total remuneration due to for the above mentioned services amounts to PLN 1,681 thousand (apart from the audit of Polish and foreign subsidiaries of Polimex-Mostostal S.A.). The entity authorized to audit did not render in 2012 any other services apart from reasonable assurance engagement, in particular it did not render tax advisory services.

8. Other significant events of the reporting period having impact on operations of the Issuer's Group

As a supplement to the information given above, the significant events which occurred in 2012 include:

- On 29 February 2012 the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. was held upon demand of the ING Open Pension Fund, the Company's shareholder. The Meeting adopted resolutions on the following:
  - Change of the composition of the Supervisory Board
    (i) the following persons were dismissed: Kazimierz Klęk, Mieczysław Puławski, Andrzej Szumański
    (ii) the following persons were appointed: Andrzej Bartos, Paweł Dłużniewski, Dariusz Formela, Dariusz Krawczyk
    (iii) The above mentioned persons were appointed for the period of common term of office
    (iv) Till the end of term of office the Supervisory Board shall be composed of 7 members.
  - Amendments to the wording of the Company's Articles of Association
    (i) in the scope of provisions relating to the procedures of convening General Meetings (§ 30 of the Articles of Association)
    (ii) in the scope of amending the procedure of appointing the Board of Directors by the Supervisory Board (§ 42 of the Articles of Association)
    (iii) in the scope of the authorization to represent the Company (§ 46 of the Articles of Association).
  - Determination of the uniform text of the Articles of Association of the Company.

  The new wording of § 42 projects the following mode of appointing the Board of Directors of the Company: „In case of appointing a one-person Board of Directors, the Supervisory Board appoints the

President of the Board, and in case of a collective Board of Directors it appoints the President of the Board, Vice Presidents and other members of the Board. The appointment of Vice Presidents and members of the Board of Directors is made by the Supervisory Board after having consultations with the President of the Board." In the same article the procedure of sharing competence was specified as follows: „The structure and competence of the Board of Directors and its members is approved by the Supervisory Board by means of a resolution".

The new wording of § 46 specifies the representation of the Company in the following way: „In case of a collective Board of Directors, to make statements and sign documents on behalf of the company are authorized: two members of the Board of Directors (the President, Vice presidents or members of the Board) acting jointly or one member of the Board of Directors (the President, Vice President or a member of the Board) acting jointly with a commercial proxy."

Details are included in current report No. 16/2012 of 29.02.2012.

Amendments to the Articles of Association mentioned above were made under resolutions No. 12, 13 and 14 of the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. and were registered in the National Court Register on 13.03.2012.

- On 27.06.2012 the Ordinary General Meeting of Shareholders of the Company adopted resolutions, in which
  - It approved the Directors' Reports on the operations of the Company and of the Capital Group and the standalone and consolidated financial statements for the year 2011.
  - It approved the report of the Supervisory Board for the year 2011.
  - It decided to assign the entire net profit generated by the Company in 2011 to the supplementary capital.
  - It acknowledged the fulfilment of duties by the members of the Supervisory Board.
  - It approved the Regulations of the Supervisory Board of the Company.

  The Ordinary Meeting of Shareholders did not adopt a resolution on acknowledgment of fulfilment of duties by the members of the Board of Directors.

  Details are included in current report No. 43/2012 of 27.06.2012.
- On 17.04.2012 the Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) adopted resolutions which resulted in admitting for trading on the Warsaw Stock Exchange 12,500 ordinary bearer shares formed due to the conversion of registered shares to bearer shares, consequently the number of Issuer's shares in trading rose to 521,104,026.
- On 06.09.2012 the Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) adopted resolutions which resulted in admitting for trading on the Warsaw Stock Exchange 12,500 ordinary bearer shares formed due to the conversion of registered shares to bearer shares, consequently the number of Issuer's shares in trading rose to 521,116,526.
- In the period between 01.10.2012 and 05.12.2012 Polimex-Cekop Development Sp. z o.o. disposed of the entire held block of shares of Polimex-Mostostal S.A. i.e. 13,152,500 shares.
- In the reporting period the holding of Issuer's shares by the clients of Pioneer Pekao Investment Management S.A. (PPIM) changed. As a result of the sale transaction, the number of shares held by all clients of PPIM as at 23.04.2012 decreased to 25,891,203, which constituted 4.97% of the share capital of Polimex-Mostostal S.A. Detailed information on the above-mentioned change may be found in Issuer's current report No. 32/2012 of 27.04.2012.
- In the reporting period the holding of Issuer's shares at ING Open Pension Fund (ING OPF) changed. As a result of purchase transaction, the number of shares held by the Fund as at 23.05.2012 increased to 84,487,729, which constituted 16.21% of the share capital. Detailed information on the above-mentioned change may be found in Issuer's current report No. 34/2012 of 24.05.2012.

- On 25.09.2012 Impexmetal S.A. concluded a sale transaction which resulted in increasing its share in total vote over 5%. After the transaction Impexmetal S.A. held 34,170,355 shares constituting 6.56% of the Issuer's share capital. Detailed information on the above mentioned transaction may be found in Issuer's current report No. 82/2012 of 26.09.2012. On 10.10.2012 Impexmetal S.A. as a result of selling a block of Issuer's shares reduces the number of held shares to 25,100,100 which constituted 4.82% of the share capital. Detailed information on the above mentioned transaction may be found in Issuer's current report No. 99/2012 of 16.10.2012.
- On 29.06.2012 the Board of Directors of the Issuer terminated on a three month notice the Collective Labour Agreement of Polimex-Mostostal S.A. On 30 November 2012 the Board of Directors concluded with No. 36 Inter-company Committee of the "Solidarność" Independent Trade Union of Polimex-Mostostal S.A., the "Budowlani" Trade Union, the Inter-company Board of Polimex-Mostostal S.A., the Trade Union of the Employees of Polimex-Mostostal S.A., the Trade Union of the Employees of ZREW and the Energomontaż-Północ Trade Union a new Collective Labour Agreement of Polimex-Mostostal S.A. On 11 November the new CLA was registered and as of 1 January 2013 it became effective.
- On 27.06.2012 the Extraordinary Meeting of Shareholders of Torpol S.A. adopted a resolution to increase the share capital of the company by means of issuing of 1 to 7,400,000 shares and to introduce all shares of Torpol S.A. to trading on the regulated market. In July 2012 the company submitted its prospectus to the Polish Financial Supervision Authority. Due to an unstable situation on the financial market, the IPO procedure was temporarily held.
- On 15.10.2012 the Extraordinary General Meeting of Shareholders of the Company adopted resolutions, in which
  - it increased the share capital of the Company by amount not less than PLN 0.04 and not more than PLN 16,666,666.64 by issuing not less than 1 and not more than 416,666,666 ordinary series M bearer shares of the nominal value of PLN 0.04 each. Series M shares were taken up by a private subscription by Debenture Holders of the Company at the issue price of PLN 0.60 per one Series M share. The increase in share capital by means of issuing Series M shares was registered in the register of entrepreneurs of the National Court Register on 22 January 2013;
  - it increased the share capital of the Company by amount not less than PLN 12,000,000 and not more than PLN 15,846,153.84 by issuing not less than 300,000,000 but not more than 396,153,846 ordinary series N1 bearer shares of the nominal value of PLN 0.04 each. 300,000,000 Series N1 shares were taken up by the Agency for Development of Industry at the Issue price of PLN 0.50 per one Series N1 share while executing the Investment Agreement, whereas 96,153,846 Series N1 shares were taken up by ING Open Pension Fund at the issue price of PLN 0.52 per one Series N1 share. Increase of share capital by means of issuing Series N1 shares was registered in the register of entrepreneurs of the National Court Register on 22 January 2013;
  - it increased the share capital of the Company by amount not less than PLN 0.04 and not more than PLN 7,692,307.68 by issuing not less than 1 and not more than 192,307,692 ordinary series N2 shares of the nominal value of PLN 0.04 each. The issue of Series N2 shares will be in the form of closed subscription conducted as an Offering made based on the Prospectus. The number of Series N2 shares will be reduced by the number of Series N2 shares subscribed by ING Open Pension Fund. As a result, the share capital of the Company may be increased by not more than 96,153,846 Series N2 shares.
  - it gave its consent to the issue of subscription warrants and to conditionally increase the share capital of the company by means of issue of series O shares, in both cases excluding preemptive rights of current shareholders, and to make appropriate amendments to the Articles of Association of the Company.

- it amended the Articles of Association and adopted the uniform text of the Articles of Association.
- it gave its consent to dispose of organised parts of an enterprise of the Company: ZREW Plant Transformers Branch with the registered office in Łódź, Corrosion Protection Plant Dębica Branch and Corrosion Protection Plant Częstochowa Branch.
- The following persons were dismissed from composition of the Supervisory Board: Paweł Dłużniewski and Jacek Kseń.
- The following persons were appointed for the composition of the Supervisory Board: Marek Wierzbowski and Sebastian Bogusławski.

The Issuer communicated the complete text of adopted resolutions in current report No. 96/2012 of 15.10.2012.

Amendments to the Articles of Association made under resolutions of the General Meeting, which are mentioned above, were registered at the NCR on 22.01.2013.

- On 21.12.2012 the Issue concluded a contract to sell an organized part of an enterprise of the Company under the business name of Zakład ZREW Oddział Transformatory with the registered office in Łódź to ZREW TRANSFORMATORY Sp. z o.o. with the registered office in Łódź (controlled by Highlander Partners with the registered office on Dallas, USA). The Issuer communicated about the concluded transaction in current report No. 128/2012 of 21.12.2012.

- In October 2012 three companies: Eurometal S.A., S-Sercice Agro Sp. z o.o. and Inwestycje Przemysłowe Sp. z o.o. filed requests to declare liquidation bankruptcy of the Issuer (current reports No. 94/2012, 101/2012 and 104/2012, respectively). The requests were later withdrawn by the companies and as a result the Court decided to discontinue the case of which the Issuer informed in current reports No.122/2012, 111/2012 and 121/2012, respectively. The Court decisions are final.
- On 08.12.2012 the Issuer concluded with Tomasz Kożuchowski a preliminary contract to sell the entirety of shares held in Zakład Transportu – Grupa Kapitałowa Polimex Sp. z o.o. The Issuer owns 100% of the company's shares.
- Withdrawing from the contract to construct the multifunctional building of the International Congress Centre in Katowice concluded on 3.10.2011. The employing party gave as reasons for withdrawal delays in construction of the building, which, in his opinion, unable timely completion of the investment. The Issuer thinks that the withdrawal is unjustified. Details are included in current report No. 75/2012 of 20.09.2012.

9. Events significant for operations of Polimex-Mostostal Capital Group that occurred after the end of financial year and to the approval of the financial statements

Apart from the events mentioned above, in the period from the end of 2012 till the date of preparation of this report the following events significant for the operations of the Capital Group occurred:

- On 28.01.2013 as a result of taking up of a block of series M shares, the share of Pioneer Pekao Investment Management S.A. exceeded 5% of Issuer's capital and the number of shares held by Pionier Pekao Towarzystwo Funduszy Inwestycyjnych S.A. was 72,162,718 which constitutes 5.41% of the Issuer's capital, whereas the number of shares held by all clients of Pionier Pekao Investment Management S.A. was 74,829,384 which constitutes 5.61% of capital. Detailed information on the above-mentioned change may be found in Issuer's current report No. 7/2013 of 28.01.2013.
- As a result of taking up a block of series N1 shares, which occurred after the court registered the issue on 22.01.2013, the number of shares held by ING Otwarty Fundusz Emerytalny S.A. increased to 185,431,892, which constitutes 13.9% of the Issuer's capital. Detailed information on the above-mentioned transaction may be found in Issuer's current report No. 9/2013 of 30.01.2013.
- After the registration by the Court of series N1 shares, which took place on 22.01.2013, the number of shares held by the Agency for Development of Industry was 300,000,001 which constitutes 22.49% of the

Issuer's capital. Detailed information on the above-mentioned transaction may be found in Issuer's current report No. 8/2013 of 29.01.2013.

- On 31.01.2013 all conditions precedent specified in the conditional agreement to sell the shares of Fabryka Kotłów Sefako S.A. with the registered office in Sędziszów concluded on 24 October 2012 between the Issuer and MARS Closed Investment Fund with the registered office in Warsaw, managed and represented by MARS Towarzystwo Funduszy Investycyjnych S.A. with the registered office in Warsaw were jointly met. The total price for the block of shares constituting 95.97% of capital and vote in General Meetings of Sefako amounts to PLN 72.3 million, it may change where any circumstance specified in the sale contract arise. MS Towarzystwo Funduszy Inwestycyjnych S.A. is a dependent company of the Agency for Development of Industry, and the Agency holds 22.48% of the Issuer's share capital. After completing the transaction the Issuer does not hold any Sefako shares. Details of the transaction are included in current report No. 13/2013 of 31.01.2013.
- On 24.10.2012 the Issuer concluded with MARS Closed Investment Fund a conditional contract to sell the entire block shares, constituting 99.99% of capital and vote, the Issuer held in Energomontaż-Północ Gdynia Sp. z o.o. with the registered office in Gdynia, for the total price of PLN 57.0 million gross. As on 7.03.2013 conditions precedent for performance of the contract were fulfilled, the Issuer transferred to the buyer the entire held block of shares (at present the Issuer does not hold any interest in Energomontaż-Północ Gdynia). The buyer paid an advance payment, whereas the remaining amount shall be paid in two instalments. The final price of the transaction may be decreased if there circumstances described in the contract arise. The buyer, MARS Closed Investment Fund is managed and represented by MS Towarzystwo Funduszy Inwestycyjnych S.A., which is an entity dependent on Agencja Rozwoju Przemysłu S.A. holding 22.48% of Issuer's capital and vote. More information is included in current report No. 30/2013 of 08.03.2013.
- On 13.02.2013 while executing a preliminary contract of 24.10.2012, the Issuer concluded a conditional contract to sell three real properties located in Gdynia together with attached buildings, structures and machinery for the total price of PLN 43.3 million. The buyer of the real property is MARS Finance 1 spółka z o.o. with the registered office in Warsaw, the company 100% dependent on MARS Closed Investment Fund mention in the paragraph above.. Conditions precedents for the contract were fulfilled and on 07.03.2013 the transaction was completed. Together with the disposal of the above mentioned real properties a contract was concluded to dispose of chattels located in them for the total amount of PLN 9.9 million gross. More information is included in current report No. 31/2013 of 08.03.2013. The execution of the transactions was one of conditions precedent for performing the contract to purchase the block of shares of Energomontaż-Północ Gdynia Sp. z o.o. mentioned above.
- On 06.02.2013 the Issuer submitted to the Polish Financial Supervision Authority a prospectus prepared in connection with a public offering for 96,153,846 ordinary bearer series N2 shares and application for admitting and introducing 521,154,076 pre-emptive rights Series N2 shares, for 96,153,846 rights to series N2 shares, not more than 96,153,846 ordinary bearer series N2 shares, 416,666,666 ordinary bearer series M shares and 396,153,846 ordinary bearer series N1 shares to trading in the prime market of the Warsaw Stock Exchange.
- On 15.02.2013 the Extraordinary General Meeting of Shareholders of the Company adopted resolutions, in which
  - It dismissed from the composition of the Supervisory Board the following persons: Jan Woźniak, Sebastian Bogusławski, Andrzej Bartos and Dariusz Formela
  - It appointed to the composition of the Supervisory Board the following persons: Ryszard Engel, Andrzej Kasperek, Jerzy Góra and Tadeusz Kuczborski
  - It gave consent to establish pledges or registered pledges on the enterprise of the Company or its organized part.

  The Issuer communicated the complete text of adopted resolutions in current report No. 19/2013 of 15.02.2013.
- On 06.03.2013 the consortium of the following companies: Torpol S.A. (the consortium leader, the Issuer's subsidiary) and Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. and POZBUD T&R S.A. concluded with PKP Polskie Koleje Państwowe S.A. a contract to "Design and perform construction works

under "Improving quality of transportation by improving the technical condition of no. 143 rail road in the Kalety – Kluczbork section" project. The value of works amounts to PLN 367.5 million, of which approx.65% is the share of Torpol S.A. The Issuer informed of concluding the contract in current report No. 28/2013 of 06.03.2013.

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

Robert Oppenheim	**Robert Bednarski**	**Aleksander Jonek**
Acting President of the Board	Vice President of the Board	Vice President of the Board