POLIMEX–MOSTOSTAL S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

I. GENERAL NOTES

1. Background

Polimex-Mostostal S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 18 May 1993. The Company's registered office is located in Warsaw at Czackiego 15/17 Street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000022460 on 26 June 2001.

The Company was issued with tax identification number (NIP) PL 821-001-45-09 on 3 August 1993 and statistical number (REGON) 710252031 on 27 July 1993.

The Company is the holding company of the Polimex- Mostostal S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 5 and 37 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the ended 31 December 2010.

The principal activities of the Company are as follows:
- execution of building and civil engineering works
- assembly of equipment, machinery and plant
- production of ironware

Polimex-Mostostal S.A. operates in four primary segments:
- Production
- General construction
- Power engineering
- Chemistry
- Roads and Railways
- Other activity

On 31 December 2010 the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register issued a resolution regarding an incorporation by the parent company, Polimex-Mostostal S.A., of its subisidiaries: Energomontaż-Północ S.A. with its registered office in Warsaw, Naftoremont Sp. z o. o. with its registered office in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with its registered office in Cracow, Zakłady Remontowe Energetyki Lublin S.A. z with its registered office in Lublin, EPE-Rybnik Sp. z o.o. with its registered office in Rybnik, ECeRemont Sp. z o.o. with its registered office in Zielona Góra and Naftobudowa S.A. with its registered office in Cracow according to Article 492 § 1 point 1 of the Code of Commercial Companies Act. The merger was settled by a transfer of all assets and liabilities of incorporated companies to Polimex-Mostostal S.A. Along with the merger the Company registered an increase of share capital relating to acquisition of non-controlling shareholders of incorporated entities and introduced changes to its Articles of Association. in accordance with resolution no. 1 of the Shareholder's Meeting held on 12 July 2010 and in case of Naftobudowa S.A. – resolution no. 2 of the Shareholder's Meeting held on that date (the pooling of interests method, with Polimex-Mostostal S.A. as an acquirer).

(in thousand zlotys)

As of 31 December 2010 issued share capital amounted to 20,837 thousand zlotys at 31 December 2010. Equity as at that date amounted to 920,030 thousand zlotys.

According to the notifications issued by shareholders owning more than 5% of share capital of the Company, acting pursuant to Article 69 § 1 point 1 of the Act on Public Offer and Conditions of Organized Trade in Financial Instruments, and on Public Companies, ownership structure of share capital as at 28 April 2011 was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	52,224	52,224	2,089	10,02%
Pioneer Fundusz Inwestycyjny Otwarty	52,139	52,139	2,085	10,005%
ING Nationale-Nederlanden Polska OFE	40,406	40,406	1,616	7,76%
Polimex-Cekop Development Sp. z o.o.*	13,152	13,152	526	2,52%
Others	363,233	363,233	14,529	69,695%
Total	**521,154**	**521,154**	**20,846**	**100%**
	=====	=====	=====	=====

*subsidiary wholly owned by Polimex-Mostostal S.A.

According to the notifications issued by shareholders owning more than 5% of share capital of the Company, acting pursuant to Article 69 § 1 point 1 of the Act on Public Offer and Conditions of Organised Trade in Financial Instruments, and on Public Companies, the following changes in the ownership structure were registered:

- increase in number of shares of Polimex-Mostostal S.A. owned by AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK to 50,902 thousand from 27,486 thousand, as a result of a purchase of shares during the year ended 31 December 2010.
- decrease of share percentage in share capital owned by Otwarty Fundusz Emerytalny PZU "Polska Jesień" below the level of 5%, as a result of registration on 31 December 2010 by the District Court for the capital city of Warsaw of the issue of series K and L stock issued due to the merger of Polimex-Mostostal S.A. and seven other companies.

After the balance sheet date, up to the date of the opinion the following changes in the structure of the parent company's share capital took place:

- an increase of the amount of shares of Polimex–Mostostal S.A. owned by AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK to the level of 52,224 thousand as a result of a purchase on 25 January 2011.

(in thousand zlotys)

- an increase of the amount of shares of Polimex–Mostostal S.A. owned by Pioneer Fundusz Inwestycyjny Otwarty to the level of 52,139 thousand as a result of purchases on 28 January 2011 and 17 March 2011.
- exercise, as part of a conditional increase of the Company's business capital, of the right to take up 118,749 series G bearer shares of the Company resulting from subscription warrants, at the issue price of PLN 2,35 per share and the nominal value of PLN 0,04 per share. The increase of share capital was registered on 29 March 2011. The taking up of the aforementioned shares was contributed in the entirety.

Movements in the issued share capital of the Company in the financial year were as follows:

	Number of shares	Par value of shares
Opening balance	464,355,625	18,574,225.00
Increase in share capital- aqusition of the share of non controlling interest in incorporated subsidiaries		
K-series shares	38,733,090	1,549,323.60
L-series shares	17,829,488	713,179.52
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Closing balance	520,918,203	20,836,728.12
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As at 28 April 2011, the Company's Management Board was composed of:

Konrad Jaskóła	- President
Aleksander Jonek	- Vice-President
Grzegorz Szkopek	- Vice-President
Zygmunt Artwik	- Vice-President

There were no changes in the Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

On 28 February 2005 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by Supervisory Board on 18 May 2010 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 5 July 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2010.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated 28 April 2011, stating the following:

'To the Supervisory Board of Polimex–Mostostal S.A.

1. We have audited the attached financial statements for the year ended 31 December 2010 of Polimex–Mostostal S.A. ('the Company') located in Warsaw at Czackiego 15/17, containing the income statement and the statement of comprehensive income for the period from 1 January 2010 to 31 December 2010, the balance sheet as at 31 December 2010, the cash flow statement, the statement of changes in equity for the period from 1 January 2010 to 31 December 2010 and the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. We audited the financial statements for the year ended 31 December 2009 and we issued a qualified opinion dated 26 April 2010, with an emphasis of matter regarding those financial statements. The qualifications related to the recognition of revenue from consortium agreements and to the amount of a deferred tax asset recognized in connection with activities carried out by the Group in the special economic zones. The emphasis of matter related to the uncertainty concerning realization of the assumptions used in the valuation of the investment in Coifer Group.
5. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position[3] as at 31 December 2010;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
6. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).'

   We conducted the audit of the Company's financial statements during the period from 29 November 2010 to 28 April 2011. We were present at the Company's head office from 29 November 2010 to10 December 2010 and from 21 March 2011 to 28 April 2011.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'
[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in thousand zlotys)

explanations. The Management Board also provided a letter of representations dated 28 April 2011, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2009 were audited by Sebastian Łyczba, key certified auditor no. 9946, acting on behalf of Ernst &Young Audit Sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, registered on the list of entities authorised to audit financial statements under no. 130.
The key certified auditor issued a qualified opinion with an emphasis of matter on these financial statements for the year ended 31 December 2009. The qualifications related to the recognition of revenue from consortium agreements and to the amount of a deferred tax asset recognized in connection with activities carried out by the Group in the special economic zones. The emphasis of matter related to the uncertainty concerning realization of the assumptions used in the valuation of the investment in Coifer Group. The Company's financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 30 June 2010, and the shareholders resolved to appropriate the 2009 net profit as follows:

Dividends for the shareholders	18, 574, 225
Reserve capital	89,848,775

Total:	**108,423,000**
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The financial statements for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 16 July 2010 with the National Court Register.

The balance sheet as at 31 December 2009, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2009 together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1588 on 3 September 2010.

The closing balances as at 31 December 2009 were correctly brought forward in the accounts as the opening balances at 1 January 2010.

(in thousand zlotys)

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2008- 2010. The ratios were calculated on the basis of financial information included in the financial statements for years ended 31 December 2009 and 31 December 2010 and do not take into account any implications of the qualification included in the auditors' opinion. The financial data for year 2009 were restated in comparison to financial data presented in the published financial statements for year 2009 in order to ensure comparability of the financial data with regard to incorporation of the subsidiaries.

	2010	2009	2008*
Total assets	2 894 896	2 706 682	2,482,797
Shareholders' equity	920 030	829 575	901,670
Net profit/ loss	105 425	169 401	90,304
Return on assets (%)	3,6%	6,3%	3,6%
Net profit x 100 / Total assets			
Return on equity (%)	12,7%	27,3%	10,8%
Net profit x 100 / Shareholders' equity at the beginning of the period			
Profit margin (%)	3,0%	4,8%	3,0%
Net profit x 100 / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1,3	1,3	1,1
Current assets / Short-term creditors			
Liquidity III	0,20	0,20	0,06
Cash and cash equivalents / Short-term creditors			

	2010	2009	2008*
Debtors days	118 days	109 days	110 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			
Creditors days	104 days	101 days	92 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	26 days	16 days	21 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	53,4%	54,6%	54,4%
(Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity			
Debt ratio (%)	68,2%	69,4%	63,7%
(Total liabilities and provisions) x 100 / Total assets			
Rate of inflation:			
Yearly average	2,6%	3,5%	4,2%
December to December	3,2%	3,5%	3,3%

**Financial data for the year 2008 were not restated to present the effect of incorporation. Therefore, the data for 2008 is not fully comparable to the data for the years ended 31 December 2009 and 31 December 2010.*

3.2 Comments

The following trends may be observed based on the above financial ratios:

- The return on assets ratio increased from 3,6% in 2008 to 6,3% in 2009 and then decreased to 3,6% in 2010.
- The return on equity ratio was 10,8% in 2008 and increased to 27,3% in 2009. In 2010 it fell to 12,7%.
- The profit margin ratio rose from 3,0% in 2008 to 4,8% in 2009 and decreased to 3,0% in 2010.
- The liquidity I ratio was 1,1 in 2008 and then increased to 1,3 in 2009 and remained constant in 2010.

- The liquidity III ratio increased in 2009 to 0,2, as compared to the year 2008, when it was 0,06. In 2010 it remained constant.
- The debtors days ratio was 109 days in 2009 and was lower than in 2008, when it equaled 110 days. In 2010 the ratio was 118 days.
- The creditors days ratio was 92 days in 2008 and increased to 101 days in 2009 and further to 104 days in 2010.
- The inventory days ratio was 21days in 2008 and fell to 16 days in 2009. It increased to 26 days in 2010.
- The stability of financing ratio increased from 54,4% in 2008 to 54,6% in 2009 and then decreased to 53,4% in 2010.
- The debt ratio was 63,7% in 2008 and increased to 69,4% in 2009. In 2010 the ratio was 68,2%.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2010 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2010, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2010 that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SAP computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2010.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2010.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2010 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2010 to 31 December 2010 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

6. Work of Experts

During our audit we have taken into account the results of the work of the following independent experts:

- An independent actuary in relation to the valuation of provisions for the costs of retirement benefits, jubilee bonuses and the Social Fund liabilities for former employees of the Parent Company and its subsidiaries;
- Independent appraisers for the purpose of real estate valuation for subsidiaries.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Sebastian Łyczba
certified auditor
no. 9946

Warsaw, 28 April 2011