

POLIMEX-MOSTOSTAL S.A.

**DIRECTORS' REPORT ON THE COMPANY'S OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2010**



Warsaw, 28th April 2011

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1. Economic activities of the Company

In 2010 Polimex-Mostostal S.A. basically operated in five segments – **construction, manufacturing, power engineering, and chemical** as well as **road and railway construction sector**.

As far as construction sector in 2010 is concerned, the Company focused on large industrial and general structures, situated mainly in the country. The following contracts of Polimex-Mostostal S.A. are worth mentioning:

- with the Capital City of Warsaw on reconstruction of the football stadium in Warsaw at ul. Łazienkowska 1/3,
- with the Municipality of Kraków on reconstruction of "Wisła Kraków" football stadium at ul Reymonta 22 in Kraków,
- with Lubelski Węgiel Bogdanka S.A. on construction of a gantry – of gotten haulage from the 2.1. shaft in the Stefanów Field to the Division of Coal Mechanical Treatment in the Bogdanka Field in Lubelski Węgiel Bogdanka S.A.,
- with the City Council in Gorzów Wielkopolski on construction of the Center for Art Education in Gorzów Wielkopolski and on planning and execution of an underground car park and access roads.
- with Targi Kielce Sp. z o.o. on construction of a new exhibition hall,
- with the Investor represented by the State Treasury, which was represented by the Minister of Culture and National Heritage and the Capital City of Warsaw – the Warsaw Administration for the Development of the City for the construction of the Museum of the History of the Polish Jews together with associated infrastructure and the improvement of territory.

Manufacturing is an activity differentiating Polimex-Mostostal S.A. from entities of the similar profile of operations. No competitor operating on the Polish market has production plants, producing such a wide range of products for national and foreign customers. This includes, among others: steel structures, gratings, shelf systems and anticorrosion protections (hot-dip galvanising, hydrodynamic painting). Polimex-Mostostal Group utilises synergy arising from internal co-operation and deliveries of steel constructions manufactured in its own production plants.

In power engineering sector, European and global industry leaders are the partners of Polimex-Mostostal S.A.: Siemens, Alstom, Doosan Babcock, Hitachi, AEE, General Electric, Metso and Burmeister & Wein. Co-operation with Fabryka Kotłów Sefako, a subsidiary, is a complimentary activity. The following contracts concluded by Polimex-Mostostal S.A. are worth mentioning among works performed in 2010:

- with Hitachi Power Europe and Alstom Power Boiler on assembly of the pressure parts for two boilers in the Neurath Power Plant,
- with Elektrownia Kozienice S.A. on provision of Combustion Gas Desulphurisation System (IOS III),
- with Zakłady Azotowe Kędzierzyn Koźle S.A. on construction of a new Water Treatment Plant in Zakłady Azotowe in Kędzierzyn Koźle,
- with International Paper Kwidzyn Sp. z o.o. on design, supply, installation, assembly and commissioning of a turbine set for the paper plant in Kwidzyn,
- with PKE S.A. on construction of the power unit with a fluidized-bed boiler, back-pressure turbine, two peak boilers and the heat accumulator in Bielsko-Biała Heat and Power Plant EC1.

In chemical sector, Polimex-Mostostal S.A. performs contracts in form of general contracting, in co-operation with companies of the European and global reach, such as Uhde GmbH, Technip, Babcock FISIA and Lurgi. The following contracts are prominent among concluded by Polimex-Mostostal S.A. in 2010:

- with PKN Orlen S.A. on general contracting related to construction and assembly works under investment task "Construction of Terephthalic Acid Production Plant (PTA)",
- with Technip Polska Sp. z o.o. on MHC installation works (hydro cracking) under Programme 10+ implemented by LOTOS S.A. Group,
- with the Dutch company – Botlek Tank Terminal B.V. for the "turnkey" construction of the tank terminal for storing mineral oils, vegetable oils and liquid fuels with a capacity of 185,000 m³ in the Rotterdam port.

Perspectives for **road and railway sector** may be perceived as particularly good due to inflow of the European Union assets assigned for performance of infrastructural projects (including EURO 2012) – in road, railway and airport infrastructure. The following contracts are prominent among performed by Polimex-Mostostal S.A. in 2010:

- with the General Directorate for National Roads and Motorways on construction of the A-1 motorway section from the Sośnica junction to the Maciejów junction (with the junction) under the task: "Construction of the "Sośnica" junction at the crossroads of the A1 and A-4 motorways, including the section of the A-1 motorway – Sośnica – Maciejów (with the junction) – from 510+530 km to 518+734.34 km",
- with the General Directorate for National Roads and Motorways - Branch in Kraków for the construction of A4 motorway in the section from the Szarów junction to the Brzesko junction from km 455+900 to 479+000,
- with the Municipality of Kraków represented by the Management of Municipal Infrastructure and Transport in Kraków for the extension of streets: ul. Surzyckiego – ul. Botewa and the construction of the street: ul. Śliwaka in Kraków,
- with the General Directorate for National Roads and Motorways Branch in Kraków on construction of the national route – the Trasa Nowohucka – in Kraków with target parameters of the express road in the section from the Bieżanów junction to the Christo Botewa (Rybitwy) junction.

It should be stressed that operations related to five segments mentioned above give rise to competitive advantage of Polimex-Mostostal S.A. Group and lowering of operating risk thanks to significant product and market diversity.

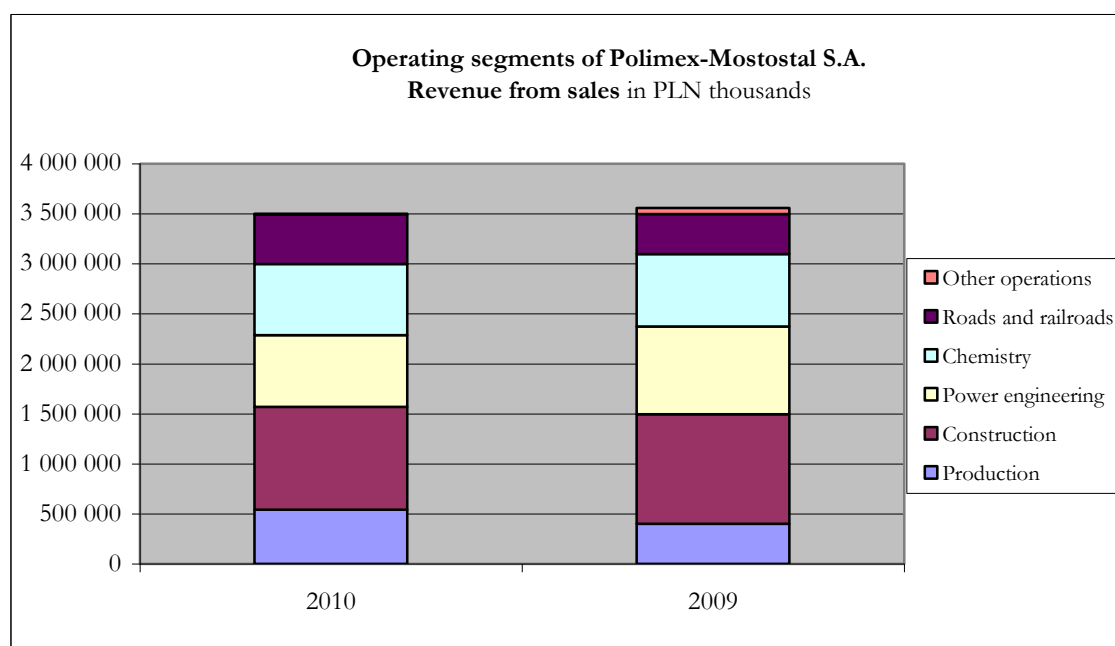
1.1. Revenues and their structure

In 2010, Polimex-Mostostal S.A. gained revenue from sale in the amount of PLN 3,499,251 thousand.

Segment	Change 2010 / 2009	2010		2009	
		value	share	value	share
Production	35.3%	541 081	15.5%	399 998	11.2%
Construction	-6.2%	1 027 700	29.4%	1 095 210	30.8%
Power Engineering	-18.1%	718 316	20.5%	877 365	24.7%
Chemistry	-1.7%	711 161	20.3%	723 099	20.3%
Roads and railroads	23.4%	494 115	14.1%	400 278	11.3%
Other operations	-88.8%	6 878	0.2%	61 406	1.7%
Total revenue from sales	-1.6%	3 499 251	100.0%	3 557 356	100.0%

PLN
thousands

The highest share in sales was attributed to Construction – 29.4% (a decrease in sales by 6.2% as against comparative data for 2009) followed by Power engineering industry – 20.5% (a decrease in sales by 18.1% as against comparative data for 2009). - mostly due to the shift of the execution of modernisation projects in the Polish power engineering sector beyond the year 2010). A significant increase in the revenue of Production segment (an increase in sales of 35.3% as against comparative data for 2009) was the effect of fuller and fuller utilization of new production capacities in Tarnobrzeg Special Economic Zone, whereas in the case of Roads and railroads segments (an increase in sales of 23.4% as against comparative data for 2009) it was the result of a dynamic growth of works in the scope of road infrastructure.



1.2. Main products and services

Operations of Polimex-Mostostal S.A. in basic assortments included:

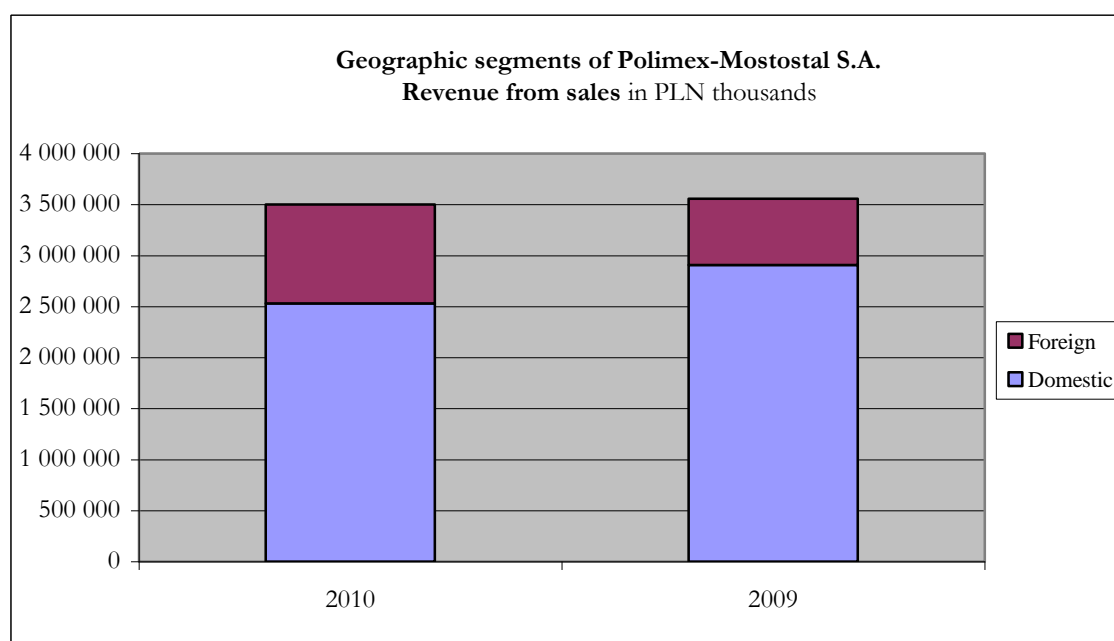
- general contracting of facilities in construction, power engineering, chemical, road and railroad industry.
- assembly of special equipment, in particular for chemical and power industry;
- continuous and full-scale servicing of power plants, heat and power plants, as well as industrial plants;
- production,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

1.3. Trade areas and sources of supply

The value and geographic structure of Polimex-Mostostal S.A. sales in 2010 were as follows:

Segment	2010 / 2009	2010		2009	
		value		value	
		share	share	share	share
Domestic	-12.9%	2 531 826	72.4%	2 906 260	81.7%
Foreign	48.6%	967 425	27.6%	651 096	18.3%
Total revenue from sales	-1.6%	3 499 251	100.0%	3 557 356	100.0%

As compared to 2009 the value and structure growth in sales to foreign markets was reported. The domestic market, where 72.4% of total revenues from sales were generated, remained the main market for Polimex-Mostostal S.A.



The key customers of the Company in 2010 were: PKN Orlen S.A., the General Directorate for National Roads and Motorways, the Municipality of Kraków, the Capital City of Warsaw, Alstom Power Systems GmbH – Germany, Technip Polska Sp. z o.o., Elektrownia Kozienice S.A., Botlek Tank Terminal – Holland, Lubelski Węgiel „Bogdanka” S.A., the City Council of Gorzów Wielkopolski, Vattenfall Heat Poland S.A., Południowy Koncern Energetyczny S.A. Only revenues from sales to PKN Orlen S.A. exceeded 10% of the revenues from sales of Polimex-Mostostal S.A. and equalled 11.3%. PKN Orlen S.A. is not formally related to Polimex-Mostostal S.A.

The key suppliers of the Company in 2010 were: Mostostal Warszawa S.A., Polimex-Sices Polska Sp. z o.o., Doprastav S.A. (Branch in Poland), Poldim-yMosty Sp. z o.o., Taiyo Europe GmbH – Germany, Qumak Sekom S.A., PPH Transsystem S.A., Polbud-Pomorze Sp. z o.o., ISD Trade Sp. z o.o. Sp. k., Thyssenkrupp Energostal S.A., Foster Wheeler Energia Polska Sp. z o.o., Dragados S.A. (Branch in Poland), Bouwbedrijf De Vries en

Verburg B.V. – Holland, ArcelorMittal Distribution Poland Sp. z o.o. In 2010 purchases from individual suppliers did not exceed 10% of revenues from sales of Polimex-Mostostal S.A.

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 2010 by the Issuer or its subsidiaries with related entities were concluded under market conditions, and their nature and terms resulted from operating activity.

1.5. Investments – fixed and intangible assets

In 2010, investment expenditure of Polimex-Mostostal S.A. for fixed and intangibles assets reached the level of PLN 94,672 thousand. Depreciation and amortisation in 2010 amounted to PLN 55,676 thousand.

Structure of investment expenditure for fixed and intangible assets of Polimex-Mostostal S.A. in 2010.

2010	PLN thousands	
Investment in property, plant and equipment	value	share
Land and buildings	38 925	41.1%
Plant and equipment	73 960	78.1%
Means of transportation	10 601	11.2%
Other fixed assets	5 593	5.9%
Fixed assets under construction incl. advance payments	-38 672	-40.8%
Total	90 407	95.5%
Investment in intangible assets	value	share
Patents and Licenses	118	0.1%
Software	4 147	4.4%
Total	4 265	4.5%
Total property, plant and equipment and intangible assets	94 672	100.0%

In 2010 the majority of investment expenditure of Polimex-Mostostal S.A. was investments relating to the continuation of the construction of new manufacturing floor within Tarnobrzeg Special Economic Zone (Polimex-Mostostal S.A.). These were mostly investments in plant and production machinery. In connection with the near completion of the investment tasks there was a decrease in the value of fixed assets under construction, which are gradually transferred to their target classification groups. As regards investments in intangible assets, the main investments related to the implementation works in the scope of the SAP R/3 integrated system.

1.6. Equity investments

1.6.1. Changes in investment portfolio

In the reporting period there was a deep restructuring of the Capital Group, whose main elements were the incorporation of seven subsidiaries by the Issuer and the construction of the design centre. The incorporation procedures were formally completed on 31.12.2010 when the entry of combination became visible in the

National Court Register that meant that the legal existence of the companies being acquired ceased. The combination occurred in the form of general succession which means that the rights and obligations of the companies being acquired were transferred to Polimex-Mostostal S.A. The operations of the acquired companies are continued by separate organisational units called divisions. The changes relating to the above mentioned incorporation are as follows:

- Energomontaż-Północ S.A. operates as Energomontaż Północ Division,
- Naftobudowa S.A. operates as Naftobudowa Division,
- Naftoremont Sp. z o.o. operates as Naftoremont Division,
- Zakłady Remontowe Energetyki Kraków Sp. z o.o. operates as ZRE Kraków Division,
- Zakłady Remontowe Energetyki Lublin S.A. operates as ZRE Lublin Division,
- EPE-Rybnik Sp. z o.o. operates as EPE-Rybnik Division,
- ECeRemont Sp. z o.o. operates as EceRemont Division,

One of the consequences of the above changes was gaining by Polimex-Mostostal S.A. direct control over companies that up to that moment had been in the capital groups of the incorporated companies. The key ones are as follows:

- companies of the former Energomontaż-Północ Capital Group:
 - Energomontaż – Północ Gdynia Sp. z o.o.,
 - Energop Sp. z o.o.,
 - Energomontaż-Nieruchomości Sp. z o.o.,
 - Energomontaż Północ-Technika Spawalnicza i Laboratorium” Sp. z o.o.;
- companies of the former Naftobudowa Capital Group:
 - NAF Industriemontage GmbH;
- companies of the former Naftoremont Capital Group:
 - Modul System Service Sp. z o.o.,
 - Sinopol Trade Center Sp. z o.o.

Under the construction of the design centre Centralne Biuro Konstrukcji Kotłów S.A. was acquired and the share in capital of Centrum Projektowego Polimex-Mostostal Sp. z o.o. was increased.

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

- On 11.02.2010 an agreement was concluded under which the Issuer paid the last, the third, instalment on account of the purchase of the shares of Coifer Impex SRL with the registered office in Bucharest, Romania. As a result of the transaction, the Issuer's share in company's capital and votes increased from 75% to 100%. The Issuer spent EUR 2,500 thousand (equal to PLN 8,577 thousand) on this aim. Terms of shares transfer complied with the basic agreement of 14.02.2008. The first stage of the agreement was completed on 21.02.2008 by paying the first instalment in the amount of EUR 9,375 thousand. The second instalment in the same amount was paid in August 2008. Due to transaction structure and in accordance with the provisions of IAS / IFRS, the Issuer consolidated 100% of financial results of the Coifer group already in 2008 in the statement of the Polimex-Mostostal Capital Group. In October 2010 the share capital of the Coifer Company was increased by means of the conversion of debt into shares which were fully covered by Polimex-Mostostal S.A. allotting the amount equal to PLN 8,519 thousand.

- On 09.03.2010 Polibur Engineering Ltd (Great Britain) was deleted from the register. (Great Britain). The company did not conduct statutory business activity for quite a long time.
- On 27.05.2010 the General Meeting of Porty S.A adopted a resolution on putting the company in liquidation. The Issuer's share in capital and votes of the company amounts to 40%. Porty company was established for the purpose of the construction of port infrastructure in Libya. After the completion of contracted investments the decision was made to liquidate the company.
- On 23.06.2010 the General Meeting of Terminal LNG S.A adopted a resolution on putting the company in liquidation. The Issuer's share in capital and votes of the company amounts to 30.51%. The company was established to perform the construction of LNG Port in Zachodniopomorskie province. In connection with the fact that the statutory objective was not met the decision was made to dissolve the company.
- On 12.07.2010 a contract of sale by the Issuer of the 30% stake of shares in Valmont Polska Sp. z o.o. for the amount of PLN 12,500 thousand was performed. The transaction is in line with the Issuer's policy that assumes disposing of companies in which the Issuer holds minority stakes.
- On 30.07.2010 Polimex-Mostostal S.A. covered for the amount of PLN 96,498 thousand (conversion of debt into shares) the entirety of the issue of shares of Polimex-Development Kraków Sp. z o.o. As a result of the transaction the share of Polimex-Mostostal S.A. in company's equity did not change and amounts to 100%.
- In August 2010 Polimex-Mostostal S.A. concluded contracts under which it acquired the block of shares of Tchervonograd MSP for the amount equal to PLN 21 thousand, thus increasing its holding from 99.5% to 99.63%. The registration of shares was in January 2011.
- On 19.10.2010 Polimex-Mostostal S.A. covered for the amount of PLN 2,011 thousand (conversion of debt into shares) the entirety of the issue of shares of WBP Zabrze Sp. z o.o. After the transaction Polimex-Mostostal S.A. controls 99.97% of company's equity.
- On 24.11.2010 Naftoremont (at present Division of Polimex-Mostostal S.A.) acquired 100% of equity of Grande Meccanica SpA based in Italy. The total value of the transaction was EUR 4,300 thousand and was settled in cash (payment of PLN 1,767 thousand) and by netting mutual receivables and liabilities.
- On 02.12.2010 ZRE Kraków (at present Division of Polimex-Mostostal S.A.) repurchased 100% of equity of Przedsiębiorstwo Produkcyjno-Usługowe ELEKTRA Sp. z o.o. from its shareholders. Total expenditure was PLN 203 thousand.
- As a result of the series of separate transactions carried out from October 2010, Polimex-Mostostal S.A. acquired 98.5% of equity of Centralne Biuro Konstrukcji Kotłów S.A. for PLN 8,829 thousand.
- In the reporting period the Issuer continued the operation of acquiring shares of the PRInż-1 Company by means of the assignment of debt and by spending PLN 35,000. As a result the Issuer's share in the company equity increased from 86.78% to 88.62%.
- As a result of the acquisition of shares for the amount of PLN 25,000, the Issuer increased its holding in the capital of Centrum Projektowe Polimex-Mostostal Sp. z o.o. from 99.32% to 99.51%. Due to preference shares held by founding shareholders, the Issuer's share in votes at the General meeting amounts to 99.16%.
- On 02.02.2010 an application for the opening of liquidation of PUT Nafto-Tur Sp. z o.o. based in Kraków, a subsidiary of Naftobudowa S.A. (at present Division of Polimex-Mostostal S.A.), was filed with the District Court for Kraków-Śródmieście. The Company was deleted from the court register on 26.01.2011.
- On 16.02.2011 the GSM of Energomontaż-Północ Gdynia Sp. z o.o., a subsidiary, adopted a resolution on increasing the share capital by PLN 9,000 thousand. Existing shareholders have preemption right to cover the shares (procedure is pending).

Expenses for acquisition of financial assets (shares / equity interests) by Polimex-Mostostal S.A. in 2010 are given in the table below:

2010		PLN thousands	
Expenditure for acquisition of financial assets (shares / equity interests)		value	share
Centralne Biuro Konstrukcji Kotłów Sp. z o.o.		8 829	41.2%
Coifer Impex SRL		8 577	40.1%
Grande Meccanica SpA		1 767	8.2%
Przedsiębiorstwo Produkcyjno-Usługowe "Elektra" Sp. z o.o.		203	0.9%
PRInż -1 Sp. z o.o.		35	0.2%
Centrum Projektowe Sp. z o.o.		25	0.1%
ZKM Czerwonograd		21	0.1%
Total expenditure for acquisition of shares / equity interests in 2010		19 457	90.8%
Expenditure for contingent payments to prices of shares acquired before 2010			
ZRE Kraków Sp. z o.o.		1 300	6.1%
EPE Rybnik Sp. z o.o.		666	3.1%
Total expenditure for contingent payments to prices of shares acquired before 2010		1 966	9.2%
Total expenditure for acquisition of financial assets in 2010		21 423	100.0%

1.6.2. Investment plans

After the period of intense investments of the Issuer, connected mainly with construction of new production areas within the Tarnobrzeg Special Economic Zone, the Polimex-Mostostal S.A. investment plans for the year 2011 have been prepared on the level close to the depreciation planned, with focus on the investments resulting from the needs of the current operating activities. Exceptions are modernisations of own office buildings located at ul.Czackiego 15/17 and at ul.Elektryczna 2A in Warsaw. Initiatives in the scope of new capital investments will be undertaken by the Company as they arise, depending on the acquisition opportunities perceived, their compliance with the strategic targets adopted and possibilities of financing.

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

In the Company's opinion, financing of investment tasks scheduled for 2011 at the use of both, internal and external sources, including equity and debt, is totally feasible. Any potential acquisitions of control over new companies conducting operations complementing economic activities of the Issuer shall depend on the market situation and opportunities to raise finance.

1.7. Significant achievements in research and development

The company operations of Polimex-Mostostal S.A. do not required any general research and development works to be performed.

1.8. Information on contracts significant for operation of the Company

The following are significant performance contracts concluded by Polimex –Mostostal S.A. in 2010:

- The contract concluded on 18.03.2010 with the Dutch company – Botlek Tank Terminal B.V., whose subject is the "turnkey" construction in the port of Rotterdam of the tank terminal for storing of mineral oils, vegetable oils and liquid fuels with a capacity of 185,000 m3. Naftobudowa S.A. from the Polimex-Mostostal Group is the Polimex-Mostostal S.A.'s subcontractor. The net value of the contract amounted to EUR 52.0 million.

- The contract executed on 20.07.2010 with the General Directorate for National Roads and Motorways – Branch in Katowice in the procedure for awarding a public contract conducted in the restricted tender procedure entitled: “Construction of an express road S-69 Bielsko Biala – Żywiec - Zwardoń, section "Mikuszowice" junction ("Żywiecka / Bystrzańska") – Żywiec”. The contract was executed by the consortium consisting of Polimex-Mostostal S.A., which acts as a Consortium Leader, and Doprastav a.s. Bratislava and Zakład Robót Mostowych "MOSTMAR" Marcin i Grzegorz Marcinków Sp.j. Polimex-Mostostal S.A.'s share in the works and remuneration constitutes 34 % of the whole. The net value of the contract amounts to PLN 646.0 million.
- Concluding on 26.07.2010 by the Consortium of companies: Hitachi Ltd with the registered office in Tokyo - Consortium Leader and Energomontaż-Północ SA with the registered office in Warsaw - Consortium Member the Issuer's subsidiary at the date of execution of the contract, after the combination on 31.12.2010 one of the Issuer's Divisions) of the Contract with Vattenfall Heat Poland S.A. with the registered office in Warsaw for complete and modern catalytic systems for denitrification of combustion gases for unit boilers type OP-430 No 10, 14 and 15 and OP-390 No 11 at Siekierki Heat and Power Plant in Warsaw as a turn-key project, reducing the emission of NOx. The lump remuneration for the execution of contract subject was specified at PLN 139.5 million net. The value of works performed by Energomontaż-Północ S.A. under the said contract was specified at PLN 75.0 million net.
- Conclusion on 23.09.2010 of the contract with the General Directorate for National Roads and Motorways, Branch in Rzeszów for the execution of the task entitled: “Construction of A-4 Motorway, section Rzeszow (the East Rzeszów junction) – Jarosław (the Wierzbna junction) from km 581+250 to km 622+450”. Net value of the contract amounted to PLN 1,799.9 million. The contract was concluded by the consortium: Polimex-Mostostal S.A. (Consortium Leader) and Doprastav a.s. Bratislava. Polimex - Mostostal S.A.'s share in the execution of the Contract was 51%, and Doprastav a.s.'s share was 49%.
- Concluding on 27.09.2010 of the contract with Gdańskie Inwestycje Komunalne Euro 2012 Sp. z o.o. representing the Commune of Gdansk City for the construction of the European Solidarity Centre in Gdansk. Total net value of the contract amounted to PLN 128.4 million.
- Signing on 22.11.2010 of the contract with PGE S.A. for "Modernisation and overhaul of the system of main steam and water pipelines for blocks 7-12 at Belchatów Power Plant" by the Consortium consisting of Energomontaż-Północ S.A. – the Leader (at the date of signing the contract it was the Issuer's subsidiary, after the combination on 31.12.2010 it is one of Issuer's Divisions), Energop Sp. z o.o. (at the date of signing the contract it was the Energomontaż-Północ S.A.'s subsidiary, after the combination on 31.12.2010 it is one of Issuer's subsidiaries). The remuneration for the execution of the subject matter of the contract was specified at the total amount of PLN 288.6 million net, of which PLN 258.9 million net related to the works of Energomontaż-Północ S.A., and PLN 29.7 million net to the works executed by Energop Sp. z o.o.
- Signing on 22.12.2010 of the contract with the General Directorate for National Roads and Motorways – Branch in Łódź in the procedure for awarding a public contract conducted in the restricted tender procedure entitled: “Design and construction of A1 motorway Stryków – „Tuszyn” junction in the section from km 295 +850 (from "Stryków I" junction, without the junction) to km 335+937.65". The party to the contract is the Consortium consisting of Polimex - Mostostal S.A. – the Leader, MSF ENGENHARIA S.A., Lisbon (Portugal), MSF Polska Sp. z o.o., DOPRASTAV a.s., Bratislava (Slovakia), Zakład Robót Mostowych "MOSTMAR" Marcin i Grzegorz Marcinków Spółka Jawna. Net value of the contract is PLN 949.7 million. Polimex-Mostostal S.A.'s share in the works and remuneration constituted 25% of the whole.

Other, significant contracts concluded by Polimex-Mostostal in 2010 are given below in the Report, in particular under the list of other important events that occurred in the financial year, and having impact upon operations of Company (section 8).

2. Current and expected financial position

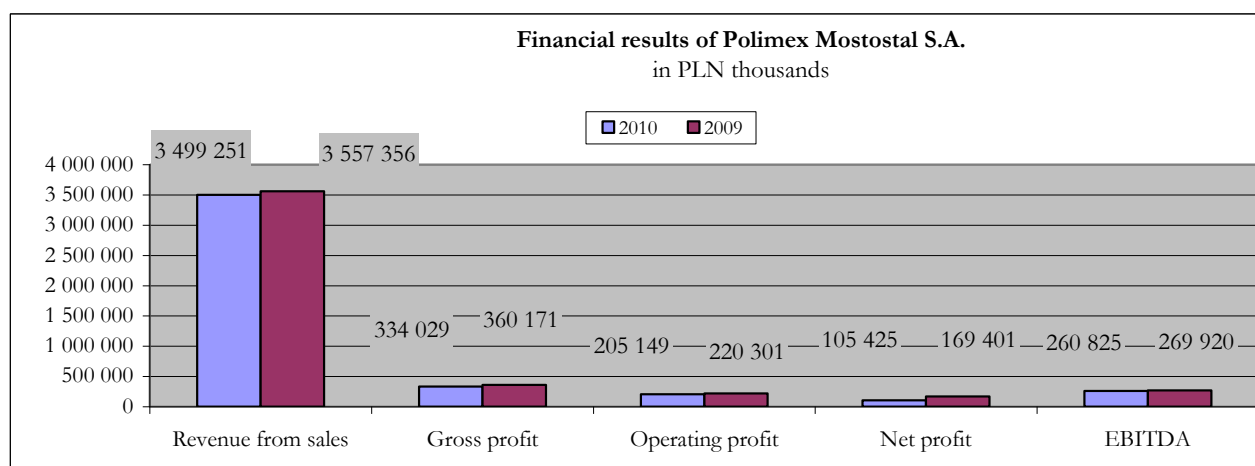
Data for the years 2009 and 2010 present Polimex-Mostostal as if it operated through entire 2009 and 2010 in the structure including the seven incorporated companies.

2.1. Profit

In 2010, Polimex-Mostostal S.A. reported sales revenue in the amount of PLN 3,499,251 thousand (a decrease of 1.6% as against comparative data for 2009). Taking into consideration sales attributable to consortium members, sales revenue in the reporting period amounted to PLN 3,848,931 thousand (an increase of 2.0% as against comparative data for 2009). In 2010 net profit attributable to equity holders of the parent reached PLN 105,425 thousand (a decrease of 37.8% as against comparative data for 2009). The main reason for a decrease in the net profit in 2010 was a write-down of the value of shares held in Coifer Impex SRL for the amount of PLN 35.0 million and a lower value of accounting for a deferred tax asset relating to Tarnobrzeg Special Economic Zone (in 2010 it amounted to PLN 10.0 million as against PLN 15.0 million in 2009). Operating profit amounted to PLN 205,149 thousand (a decrease of 6.9% as against comparative data for 2009). EBITDA value amounted to PLN 260,825 thousand (a decrease of 3.4% as against comparative data for 2009).

Financial results of Polimex-Mostostal S.A. in 2010 are presented below:

PLN thousands	2010	2009	Change
Revenue from sales	3 499 251	3 557 356	-1.6%
Cost of sales	3 165 222	3 197 185	-1.0%
Gross profit	334 029	360 171	-7.3%
Other operating income	20 347	21 758	-6.5%
Selling costs	25 208	23 253	8.4%
Administrative expenses	119 707	124 720	-4.0%
Other operating costs	4 312	13 655	-68.4%
Operating profit	205 149	220 301	-6.9%
Finance income	27 682	18 074	53.2%
Finance costs	94 377	44 397	112.6%
Profit before tax	138 454	193 978	-28.6%
Income tax	33 029	24 577	34.4%
Net profit	105 425	169 401	-37.8%



2.2. Assets amount and structure

The statement of financial position total of Polimex-Mostostal S.A. as at 31.12.2010 amounted to PLN 2,894,896 thousand (an increase of 7.0% as against comparative data as at 31.12.2009). As at 31.12.2010 fixed assets amounted to PLN 1,200,434 thousand (an increase of 12.2% as against comparative data at 31.12.2009), and current assets amounted to PLN 1,694,462 thousand (an increase of 3.5% as against comparative data at 31.12.2009). Property, plant and equipment were the largest item in fixed assets structure constituting 22.8% of total assets. Trade and other receivables constituting 39.4% of total assets were the largest item of current assets.

Amount and structure of Company equity at 31.12.2010 was as follows:

PLN thousand	31.12.2010	% of assets	31.12.2009	% of assets
Non-current assets	1 200 434	41.5%	1 070 128	39.5%
Property, plant and equipment	658 324	22.8%	623 466	23.0%
Investment properties	36 632	1.3%	38 250	1.4%
Intangible assets	23 533	0.8%	23 030	0.9%
Financial assets	409 312	14.1%	305 051	11.3%
Deferred tax assets	44 018	1.5%	66 108	2.4%
Non-current prepaid expenses	605	0.0%	0	0.0%
Non-current receivables	28 010	1.0%	14 223	0.5%
Current assets	1 694 462	58.5%	1 636 554	60.5%
Inventories	222 698	7.7%	141 750	5.2%
Trade and other receivables	1 141 709	39.4%	1 069 681	39.5%
Income tax receivables	0	0.0%	8 141	0.3%
Prepaid expenses	6 536	0.2%	7 174	0.3%
Cash and cash equivalents	280 934	9.7%	288 921	10.7%
Financial assets	42 585	1.5%	120 887	4.5%
TOTAL ASSETS	2 894 896	100.0%	2 706 682	100.0%

2.3. Equity amount and structure

Structure of sources of finance of the Company equity at 31.12.2010 is given below:

PLN thousand	31.12.2010	% of equity and liabilities	31.12.2009	% of equity and liabilities
Equity	920 030	31.8%	829 575	30.6%
Issued capital	20 837	0.7%	18 574	0.7%
Share premium	737 454	25.5%	513 466	19.0%
Other capital	-444 924	-15.4%	-281 090	-10.4%
Reserve capital	33 221	1.2%	30 494	1.1%
Supplementary capital	471 415	16.3%	381 566	14.1%
Revaluation reserve	3 851	0.1%	4 413	0.1%
Retained earnings	98 176	3.4%	162 152	6.0%
Liabilities	1 974 866	68.2%	1 877 107	69.4%
Non-current liabilities	626 455	21.6%	648 643	24.0%
Current liabilities	1 348 411	46.6%	1 228 464	45.4%
TOTAL EQUITY AND LIABILITIES	2 894 896	100.0%	2 706 682	100.0%

Equity of Polimex-Mostostal S.A. as at 31.12.2010 amounted to PLN 920,030 thousand (an increase of 10.9% as against comparative data at 31.12.2009), and liabilities amounted to PLN 1,974,866 thousand (an increase of 5.2% as against comparative data at 31.12.2009). The share premium, constituting 25.5% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 46.6% of total equity and liabilities and equity were the largest item of liabilities.

2.4. Liquidity

In 2010 at Polimex-Mostostal S.A. there was a slight decrease of net cash and cash equivalents in the amount of PLN 7,987 thousand. Cash and cash equivalents as at the end of 2010 amounted to PLN 280,934 thousand. Net cash from operating activities amounted to PLN 81,399 thousand. Net cash from investing activities amounted to –PLN 134,348 thousand, and net cash from financing activities amounted to PLN 44,962 thousand.

2.5. Assessment of financial resources management

Values of Company statement of financial position as well as profit and loss account ratios mentioned below should be considered as correct. As at the statement of financial position date, Polimex-Mostostal S.A. had proper liquidity and promptly repaid borrowings. Current and quick liquidity ratios were at the safe level and amounted to 1.26 and 1.09 respectively, the general debt ratio decreased. EBITDA margin did not change much. A drop in net profit margin and in earnings per share was the result of the decline of net profit connected mostly to a write-down for shares held in Coifer Impex SRL for the amount of PLN 35.0 million and a lower value of accounting for a deferred tax asset relating to Tarnobrzeg Special Economic Zone (in 2010 it amounted to PLN 10.0 million as against PLN 15.0 million in 2009). Both events did not affect cash flows of the Company.

Financial ratios for Polimex-Mostostal S.A.:	31.12.2010	31.12.2009
Current liquidity ratio (<i>current assets : current liabilities</i>)	1.26	1.33
Quick liquidity ratio(<i>(current assets less inventories) : current liabilities</i>)	1.09	1.22
General debt ratio (<i>liabilities : assets</i>)	68.2%	69.4%
Net profit margin (<i>net profit : revenue from sales</i>)	3.0%	4.8%
EBITDA margin (<i>EBITDA : revenue from sales</i>)	7.5%	7.6%
Earnings per share (<i>net profit : weighted average number of shares</i>)	0.20	0.33

Financial performance, as well as value of ratios given, prove good financial position of the Company. Management of financial resources in the Company should be assessed as adequate giving rise to value added for shareholders.

2.6. Information on loans and borrowings drawn

At the end of 2010 the balance of loans and borrowings (including the seven incorporated subsidiaries and excluding Debenture Issue Scheme) amounted to PLN 280,690 thousand, where bank loans were PLN 278,184 thousand and loans drawn were PLN 2,506 thousand (excluding interest accrued but not payable). Polimex – Mostostal S.A. continued current **loan contracts**:

- Working-capital nonrevolving facility in convertible currency (EUR) granted by PKO BP S.A. in the amount up to EUR 3,425 thousand (as at the end of 2010, the balance of debt amounted to EUR 2,200 thousand) and repayable until 26.12.2012. Rate of interest - EURIBOR 1M plus margin.
- Working-capital nonrevolving loan in Polish currency granted by PKO BP S.A. in the amount up to PLN 11,164 thousand and repayable on 26.12.2012, as of the end of 2010 the balance of debt amounted to PLN 7,228 thousand. The rate of interest was WIBOR 1M plus margin.
- The bank loan within the limits of multi-currency loan limit in amount of PLN 30.0 million in PKO BP S.A. and repayable on 12.02.2010. Within this limit, Polimex-Mostostal S.A. may utilise a bank loan in Polish zloty up to 35% of the limit and issue national trade bank guarantees up to 100% of the limit. With the Annex of 12.02.2010 the repayment date was postponed until 12.02.2011, and the guarantees may be issued until 12.02.2013. As of the end of 2010, there was no debt. The rate of interest - WIBOR 3M plus margin. As of the date of preparation of this report, the loan was extended until 12.02.2013.
- Overdraft facility in amount of PLN 30,000 thousand granted by Bank Ochrony Środowiska S.A. and repayable on 03.07.2010. The repayment was extended until 03.07.2011 under the annex of 01.07.2010. As at the end of 2010, debt amounted to PLN 2,936 thousand. Rate of interest was WIBOR 1M plus margin.
- Working-capital overdraft facility in amount of PLN 40.0 million granted by Kredyt Bank S.A. and repayable on 31.10.2010. The repayment period was extended until 30.10.2011 under the annex of 10.11.2010. As at 31.12.2010 there was no debt. Rate of interest - WIBOR O/N plus margin.
- Overdraft facility in amount of PLN 50,000 thousand granted by Bank Pekao S.A. and repayable on 31.07.2010. Under the annex of 06.07.2010 the loan was extended by a year, i.e. until 31.07.2011. As at 31.12.2010 debt amounted to PLN 13,802 thousand. Rate of interest was WIBOR 1M plus margin.
- Multi-currency facility equivalent to PLN 70.0 million granted by Bank Pekao S.A. with expiry date on 31.07.2010. Under the annex of 06.07.2010 the loan was extended until 31.07.2011. As at 31.12.2010 debt amounted to PLN 12,598 thousand. Rate of interest was WIBOR 1M plus margin.
- Investment loan in the amount of PLN 15,000 thousand granted by PKO BP S.A. and repayable on 31.08.2015. The loan is assigned to financing of capital expenditure in Tarnobrzeg Special Economic Zone (TSSE) Siedlce Sub-zone (construction of steel structures factory, galvanising and painting house). As of 31.12.2010 debt amounted to PLN 138,821 thousand. Rate of interest - WIBOR 1M plus margin, and for debt in foreign currency - LIBOR 1M plus margin.
- Bank loan relating to multi-purpose and multi-currency facility granted by BPH S.A. and repayable on 22.08.2010. Under the annex of 19.08.2010 the loan was extended until 31.08.2011 and the limit was increased up to PLN 42,000 thousand with the option to utilise a guarantee facility of PLN 5,000 thousand. As at 31.12.2010 debt amounted to PLN 16,078 thousand. Rate of interest was WIBOR 1M plus margin.
- Overdraft facility in amount of PLN 15,000 thousand granted by Bank Millennium S.A. and repayable on 20.03.2011. As of the date of preparation of this report, the loan was extended until 20.03.2012. As of the end of 2010 there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- Overdraft facility in amount of PLN 5,000 thousand granted by Bank Millennium S.A. and repayable on 20.03.2011. As of the date of preparation of this report, the loan was extended until 20.03.2012. As of the end of 2010 there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.

Moreover, in 2010 the Company concluded the following contracts:

- On 21.06.2010 with BGŻ S.A. a contract for a working capital facility in a current account for the amount of PLN 15.0 million and repayable on 31.05.2011. As at 31.12.2010 debt amounted to PLN 14,333 thousand. Rate of interest was WIBOR 1M plus margin. As at the date of preparation of this report the amount of facility was increased up to PLN 25.0 million.
- On 28.06.2010 with Pekao S.A. a contract for a non-revolving working capital facility for the amount of PLN 50.0 million and repayable on 27.06.2011. Funds were shifted under a general contract with Pekao S.A. which specifies terms and conditions for co-operation in the scope of credit and guarantee facility (the facility amount was decreased from PLN 150.0 million to PLN 100.0 million). As at 31.12.2010, debt in connection with this facility amounted to PLN 50.0 million. The rate of interest was determined based on WIBOR 1M plus margin.

The investment loan to purchase a vehicle drawn with Toyota Bank Polska S.A. for the amount of PLN 122 thousand and repayable on 28.06.2010, bank overdraft up to PLN 20,000 thousand granted by Bank Handlowy w Warszawie S.A. and non-revolving credit facility in Polish zloty for the amount of PLN 20,000 thousand granted by PKO BP S.A. and repayable by 30.06.2010 for the financing of VAT tax on goods and services purchased for the execution of the investment project in Tarnobrzeg Special Economic Zone, Siedlce Subzone were repaid in accordance with their maturity dates.

The incorporation of 7 subsidiaries resulted in the acquisition of the following debt:

- Two loan contracts of the former **Naftobudowa S.A.**: the contract of the short-term revolving working capital facility concluded with DZ Bank Polska S.A. and the bank overdraft contract concluded with BPH S.A. In 2010 two annexes were concluded to the contract of working capital facility with DZ Bank Polska S.A. that changed the amount of the facility from PLN 10.0 million to EUR 2.0 million, and then to EUR 3.0 million, and extended repayment by 30.08.2011. The rate of interest for the facility equals EURIBOR RB plus margin. The repayment date of the other facility, bank overdraft for PLN 10 million, at BPH S.A. was extended by 31.08.2011.
- The contract of a multipurpose credit facility of former **Naftoremont Sp. z o.o.** concluded with PKO BP S.A., with the limit of PLN 10.0 million, which could be utilised for bank guarantees. The contract is valid until 24.06.2011. The rate of interest was based on WIBOR 3M plus margin.
- Four loan contracts of former **EPE Rybnik Sp. z o.o.**: two investment loans to purchase vehicles concluded with Getin Bank S.A. amounting in total to about PLN 0.18 million and two loan contracts concluded with DnB Nord Polska S.A. The investment loan of PLN 0.45 million is valid until 31.03.2013, whereas bank overdraft was extended under the annex by 29.06.2011. (Rate of interest WIBOR 1M plus margin). At the date of preparation of this report one of the investment loans at Getin Bank S.A. in the amount of PLN 0.1 million was repaid.
- Three loan contracts of former **ECeRemont Sp. z o.o.** concluded with PKO BP S.A.: Non-revolving working facility in the amount of PLN 0.6 million repayable by 04.10.2012, bank overdraft with the limit of PLN 1.0 million and a closed-end credit with the limit of PLN 1.2 million. In 2010 the repayment date of the overdraft facility with the limit of PLN 1.0 million was extended by 02.09.2010 and then by 02.09.2011. In the analysed period the Company concluded the contract of a new closed-end credit in the amount of PLN 1.2 million repayable by 31.12.2010, as at the date of preparation of this report it was postponed until 31.03.2011 and then repaid fully on due date. Rate of interest - WIBOR 3M plus margin.

- The contract of the overdraft facility of former **ZRE Kraków Sp. z o.o.** concluded with PEKAO S.A. in December 2009 with the limit of PLN 1.0 million repayable on 31.07.2010 with the rate of interest based on WIBOR 1M plus margin. The facility was open in January 2010, under annexes the repayment was extended by 31.12.2011 and the limit was increased up to PLN 2.0 million. As at the date of preparation of this report the limit was increased up to PLN 5.0 million.

As at the end of 2010 weighted average margin for loans drawn by Polimex-Mostostal S.A. (including the seven incorporated subsidiaries and excluding the Debenture Issue Scheme) calculated on the basis of limits granted for the Company amounted to: WIBOR 1M + 1.5800 p.p., WIBOR 3M + 2.1245p.p., WIBOR O/N + 1.9500p.p. for bank loans in Polish zloty and to EURIBOR + 2.2798p.p. (for Polimex-Mostostal S.A. before incorporation: WIBOR +1.5619p.p. and EURIBOR + 2.7000p.p.) for foreign currency loans.

In 2010 Polimex-Mostostal S.A. utilized **loans** raised with Depolma GmbH and Polimex Hotele Sp. z o.o.

- In December 2010, Polimex-Mostostal S.A. and Depolma GmbH signed Annex No. 6 to the Loan Contract of December 2004 extending repayment period until 10.12.2011. As of 31.12.2010, debt amounted to EUR 153 thousand (excluding interest). The rate of interest was determined based on EURIBOR 12M plus margin.
- In December 2010 the Company signed with Polimex Hotele Sp. z o.o. Annex No. 4 to the Loan Contract of December 2006 in amount of PLN 1.9 million (excluding accrued undue interest) extending the repayment period until 31.12.2011. The rate of interest was determined based on WIBOR 1M plus margin.

At the end of 2010 the weighted average margin for loans granted to Polimex-Mostostal S.A. calculated based on financing amount attributable to the company was: WIBOR + 0.25 p.p. for the loan in Polish zloty and EURIBOR + 0.25 p.p. for the loan in the foreign currency.

Under the Company's **Debenture Issue Scheme** till the date of completion of this report the following debentures were issued:

- coupon debentures:
 - on 25.07.2007 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 100.0 million and with the maturity at 25.07.2012,
 - on 16.10.2007, a block of coupon debentures not admitted for listing, denominated in Polish zloty, in the amount of PLN 73.0 million and with maturity on 25.01.2013,both of the above mentioned blocks of coupon debentures have been consolidated and to 25.07.2012 maturity of half-year interest coupons falls at the same dates.
- on 16.10.2009 a block of long-term coupon debentures for the total amount of PLN 194.5 million with the maturity at 16.10.2012;
- discount debentures:
 - on 28.06.2006, two blocks of current, discounted debentures not admitted to public trade and in total amount of PLN 32.5 million, which were consolidated on 07.01.2009 in one block and its present maturity is on 27.05.2011.

Total balance of debentures issued by Polimex-Mostostal S.A. amounts currently to PLN 400.0 million, of which coupon debentures are PLN 367.5 million, and discount debentures are PLN 32.5 million.

2.7. Information on granted guarantees and borrowings

As at 31.12.2010 the guarantees granted by Polimex-Mostostal S.A. (including guarantees granted by the incorporated companies and at the same time eliminating guarantees granted to the incorporated companies) amounted to PLN 228,873 thousand, of which guarantees for Group companies were PLN 226,425 thousand in total. Guarantees granted by Polimex-Mostostal S.A. not including the guarantees granted by the incorporated companies amounted to PLN 176,562 thousand, of which for PLN 176,341 for the Group companies. Coifer Impex SRL became the key beneficiary of guarantees granted by Polimex-Mostostal S.A., which as at the end of 2010 gave backing in the total amount of PLN 60,752 thousand (EUR 15,340 thousand) for Fortis Bank S.A./NV Bruxelles, Intensa Sanpaolo Bank Romania and RBS Bank (Romania) S.A. for loan contracts and guarantee facilities contracts and for Arcelomittal Distribution Romania srl due to the Company's payment obligations. Torpol Sp. z o.o. is the second largest beneficiary of guarantees delivered, Polimex-Mostostal S.A. granted guarantees for Bank Millennium S.A., BGŻ S.A., BZ WBK S.A., PZU S.A. and PKO BP S.A. for credit and guarantee facilities, which amounted in total to PLN 50,100 million.

Apart from the subsidiaries 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 14,426 thousand), Centrum Projektowe Polimex-Mostostal Sp. z o.o. (PLN 19,900 thousand), Sefako S.A. (PLN 12,681 thousand), Turbud Sp. z o.o. (PLN 922 thousand), WBP Zabrze Sp. z o.o. (PLN 3,725 thousand), Pxm Projekt-Południe Sp. z o.o. (PLN 3,000 thousand), Stalfa Sp. z o.o. (PLN 3,500 thousand), ZUT Sp. z o.o. (PLN 1,000 thousand), Grande Meccanica SpA (PLN 4,589 thousand i.e. EUR 1,159 thousand) and ZT Sp. z o.o. (PLN 1,746 thousand). At the end of 2010 Polimex-Mostostal S.A. acquired the rights and obligations of the guarantor for the liabilities of the subsidiaries of former Naftoremont Sp. z o.o.: Modul System Serwis Sp. z o.o. (PLN 4,550 thousand), Sinopol Trade Center Sp. z o.o. (PLN 1,050 thousand) and those of the subsidiaries of former Energomontaż-Północ S.A.: Energomontaż-Północ Gdynia Sp. z o.o. (PLN 18,000 thousand) and Energop Sp. z o.o. (PLN 26,485 thousand).

In 2010 Polimex-Mostostal S.A. granted a series of loans to the Group Companies under contracts listed below:

- The contract of 23.03.2010, granting Polimex-Mostostal Development Sp. z o.o. a loan in amount of PLN 6.0 million for financing the investment at ul. Pustuleczki in Warsaw. As at 31.12.2010, PLN 5.7 million (excluding accrued undue interest) was paid out under the loan contract. The rate of interest - WIBOR 3M plus margin. The loan is repayable on 30.11.2011.
- The contract of 29.04.2010 granting Polimex-Mostostal Ukraine a loan in the amount of USD 1.0 million for partial financing of investment process in galvanising plant in Zhytomyr. The interest rate is fixed. The loan is repayable on 15.04.2012.
- The contract of 11.05.2010 granting ECeRemont Sp. z o.o. a loan in the amount of PLN 0.8 million for current operations. The rate of interest - WIBOR 3M plus margin. The loan is repayable on 31.12.2010 at the latest. As at 31.12.2010 the loan expired due to the incorporation.
- The contract of 16.08.2010 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.45 thousand for financing current activities and the implementation of investment tasks in the 2nd half of 2010. As at 31.12.2010, PLN 2.0 million was paid out under the loan contract. The rate of interest was determined based on WIBOR 1M plus margin. The loan is repayable on 30.06.2011.

- 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. The loan is repayable on 30.08.2012.
- 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. The loan is repayable on 30.08.2012.
- 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 Plock. The rate of interest was determined based on WIBOR 1M plus margin. The loan is repayable on 31.03.2011. As at the date of preparation of this report the repayment of the loan was postponed: the first tranche amounting to PLN 0.75 million by 30.06.2011, the tranche amounting to PLN 0.75 million by 30.09.2011.
- The contract of 21.12.2010 granting Grande Meccanica SpA a loan in amount of EUR 0.4 thousand. to finance the liabilities for Civitavecchia project. As at 31.12.2010 the loan was not paid out (payment was made in January this year). The rate of interest was determined based on EURIBOR 6M increased by margin. The loan is repayable on 28.02.2013.

Moreover, in the analysed period a number of annexes were signed to previously concluded contracts with Coifer Impex SRL and Polimex-Development Kraków Sp. z o.o. The contracts according to latest data were netted with the amount of increased capital. On 28.09.2007 an annex was concluded to the contract of a loan for Polimex-Mostostal Development Sp. z o.o. in the amount of PLN 8,200 thousand (the outstanding balance - PLN 6,584 thousand) to purchase plots located at the corner of the streets: ul. Roentgena and ul. Lelka in Warsaw. The rate of interest - WIBOR 3M plus margin. The new loan repayment date is 31.12.2011.

In 2010 three loan contracts concluded with Porty S.A. in the total amount of PLN 0.6 million were repaid. The contract of 11.05.2010 granting ECeRemont Sp. z o.o. a loan in the amount of PLN 0.8 million for current operations – due to the incorporation the loan expired.

Moreover, on 18.02.2010 four loans granted to Polimex-Development Kraków Sp. z o.o. were consolidated. The total amount of the loan after consolidation was PLN 3.5 million. The rate of interest was determined based on WIBOR 6M increased by margin. The loan was repayable on 31.12.2010. Then on 30.07.2010 the contract of set-off was concluded under which the parties agreed to set off their mutual liabilities and receivables arising from the loan granted to the Company by Polimex-Mostostal S.A. in the amount of PLN 96.5 million (including the above mentioned loans) against Company's debt arising from covering 30,000 of its shares by Polimex-Mostostal S.A.

On 20.05.2010 four loans granted to former Biprokwas Sp. z o.o. and Energotechnika-Projekt Sp. z o.o., currently operating under the business name of Centrum Projektowe Polimex-Mostostal Sp. z o.o., were restructured. The total amount of the loan after consolidation is PLN 3.5 million (as at 31.12.2010 the outstanding balance was PLN 2.99 million). The loan is repaid in monthly instalments and the final repayment date is on 30.06.2012. The rate of interest was determined based on WIBOR 1M plus margin.

On 15.10.2010 the decision was made by the shareholders of Coifer Impex SRL to increase the Company's capital by EUR 2.17 million. As a result, the loans granted to the Company in the total amount of EUR 2.17 million (including accrued interest) were set off against the liability of Polimex-Mostostal S.A. arising from the increase of capital. Then at the end of December 2010 the balance of loans to be repaid by Coifer Impex SRL, in the total amount of EUR 3.56 million, was set off against the liabilities of Polimex-Mostostal S.A. to the

Company arising from the acquisition of shares in Grande Meccanica SpA (former subsidiary of Coifer Impex SRL) by former Naftoremont (a subsidiary incorporated by Polimex-Mostostal S.A.).

Moreover, Polimex-Mostostal S.A. acquired the contract of the loan granted by the incorporated company of Naftoremont Sp. z o.o. The loan contract of 06.10.2010 in the amount of PLN 1.0 million was concluded with Modul System Serwis Sp. z o.o. The repayment date is on 31.12.2011. The rate of interest was determined based on WIBOR 1M plus margin.

At the end of 2010, weighted average margins for loans granted by Polimex-Mostostal S.A. to Group companies amounted to: WIBOR + 2.4121 p.p., WIBOR 3M + 1.9225 p.p. for bank loans in Polish zloty, EURIBOR + 3.0000 p.p. for bank loans in foreign currency.

At the end of December 2010 the total amount of loans paid out was equal to PLN 31.4 million (excluding accrued undue interest), including PLN 16.8 million of developer loans (excluding accrued, undue interest).

2.8. Information on contract performance bonds and bid bonds

In 2010 Polimex-Mostostal S.A. utilised contract performance and tenders delivered by the banks and insurance companies. At the end of 2010 the balance of all bonds issued upon the request of the Company (including the seven incorporated subsidiaries) was PLN 1,191.7 million (the total amount for Polimex-Mostostal S.A. before incorporation was PLN 1,085.3 million). A significant increase in Company's liabilities arising from issued bonds as compared to the end of 2009 was the result of, among others, the acquisition of bonds issued by the incorporated companies and of concluding new contracts and the necessity to hedge appropriately their execution both during the contract execution stage and in the guarantee and warranty period as well as to refund advance payments (including the construction of A-4 motorway, the section of Rzeszów (the East Rzeszów junction) – Jarosław (the Wierzbna junction); design and construction of A-1 motorway: Stryków – the „Tuszyn” junction (from the „Stryków I” junction without the junction)). A big number of tenders in which the Company takes part together with the need of submitting the bid security in the form of bank and insurance guarantees affect significantly the increase in value of the issued guarantees.

In 2010, further contracts concerning opening of bank and insurance guarantees were concluded:

- on 31.03.2010 with ING Bank Śląski S.A. the contract for guarantee facility in the amount of PLN 36.0 million valid until 31.03.2011 (the contract replaced the facility in the amount of PLN 25.7 million valid until 21.11.2009). As at the date of preparation of this report a new contract was concluded to open a credit facility in the amount up to PLN 200.0 million replacing the above mentioned contract, which can be utilised in the form of bank guarantees by 30.11.2011. (the contract is automatically extended on the same terms and conditions for another 12 month periods of crediting until 30.11.2021.). The limit granted includes the current guarantees of Polimex-Mostostal S.A. those of the incorporated companies: Naftoremont Sp. z o.o. and Energomontaż-Północ S.A., whose limits expired in November 2009.
- On 29.03.2010 with Pekao S.A. the general contract to issue bank guarantees (bid bonds) in the amount of PLN 30.0 million valid until 31.07.2010 and extended with an annex by 31.07.2011.
- On 28.04.2010 with HSCB Bank Polska S.A. the contract for guarantee facility in the amount of PLN 30.0 million valid until 28.04.2011.
- On 14.04.2010 with HDI Asekuracja TU S.A. the contract for guarantee facility with the limit of PLN 1.5 million valid until 14.04.2010 (the contract replaced the facility in the amount of PLN 3.0 million valid until

08.04.2010). As at the date of preparation of this report the terms and conditions of the loan were being negotiated.

- On 21.06.2010 with BGŻ S.A. the contract to grant guarantees and sureties in the amount of PLN 85.0 million valid until 31.05.2011 (the contract replaced the facility in the amount of PLN 60.0 million valid until 31.12.2009). As at the date of preparation of this report an annex was concluded that decreased the limit to PLN 75.0 million. The balance of the limit in the amount of PLN 10.0 million was transferred to be utilised in the form of a bank overdraft.
- On 07.10.2010 with EFG Eurobank Ergasias S.A. Spółka Akcyjna Branch in Poland the contract of a multifunctional credit facility with the limit of PLN 100.0 million to be utilised in the form of bank guarantees by 06.10.2011.

Moreover, in 2010, the Company concluded the following annexes:

- to the contract for releasing guarantee facility at Deutsche Bank Polska S.A. increasing the limit from PLN 40.0 million to PLN 100.0 million and extending the validity until 31.03.2011, and then until 30.03.2012 as at the date of preparation of this report.
- to the framework contract for issuing bank guarantees, opening letters of credit and granting a credit facility at Credit Agricole CIB S.A. Branch in Poland (former Calyon S.A. Branch in Poland) decreasing the limit from PLN 190 million to PLN 165.0 million and further annexes extending the validity until 31.10.2011 and once again increasing the limit up to PLN 190 million,
- to the contract on setting of the concentration limit in the form of revolving credit facility for issuing of bank guarantees at BOŚ S.A. increasing the limit from PLN 90.0 million to PLN 120 million and extending the validity by another year, i.e. until 30.06.2011,
- to the contract for granting a guarantee facility at Bank DnB Nord Polska S.A., (the limit of EUR 11.5 million) extending the life of the contract until 30.06.2011,
- to the contract of the guarantee facility at Svenska Handelsbanken AB S.A. Branch in Poland extending the availability of the product until 31.08.2011 and increasing the limit from PLN 50.0 million to PLN 54.5 million,
- to the contract for a bank loan in the amount of PLN 30.0 million with PKO BP S.A. under which Polimex-Mostostal S.A. may use a credit facility in Polish zloty up to 35% of the limit and order bank guarantees in domestic trade up to 100% of the limit; under this annex the guarantee order period was extended until 12.02.2013.
- to the framework contract to issue bank guarantees at PKO BP S.A. (the limit of PLN 200.0 million) extending the contract validity by 17.02.2011r.; as at the date of preparation of this report the application date was postponed until 17.11.2011,
- to the contract for issuing of contract performance bonds within the revolving limit of 25.0 million at TU Euler Hermes S.A. extending the limit availability period until 28.04.2011,
- to the contract with TU Allianz Polska S.A. for granting contract bonds under a revolving limit increasing the limit up to PLN 25.0 million and extending the life of the contract until 31.07.2010, and then until 31.07.2011,
- to the general contract with Pekao S.A. specifying the terms and condition for co-operation in the scope of credit and guarantee facility decreasing the limit from PLN 150.0 million to PLN 100.0 million and extending the life of the contract until 31.07.2011; the limit was shifted within the financing of Polimex-

Mostostal S.A.; the bank concluded with the Company a new contract for a non-revolving working capital facility in the amount of PLN 50.0 million,

- to the general contract with Pekao S.A. for issuing of bank guarantees in the amount of PLN 118.5 million extending the life of the contract until 31.07.2011,
- to the contract for debt limit with Raiffeisen Bank Polska S.A. increasing the limit from PLN 40.0 million to PLN 100.0 million and extending the validity of the limit until 31.07.2011,
- to the contract granting a guarantee facility with Kredyt Bank S.A. decreasing the limit from PLN 156.0 million to PLN 147.4 million and extending the validity of the limit until 31.10.2011, (the balance of the limit was transferred within Polimex-Mostostal Capital Group to be used by one of subsidiaries),
- to the contract of bank guarantees and documentary letters of credit with Bank Millennium S.A. breaking the limit of PLN 153.2 million into the guarantee facility in the amount of PLN 143.2 million and the letter of credit facility in the amount of PLN 10.0, and extending the availability of both products by 30.08.2011,
- to the general contract with InterRisk TU S.A. Vienna Insurance Group for granting insurance bid bonds increasing the limit from PLN 30.0 million to PLN 40.0 million and extending the validity until 16.07.2011.

The incorporation of the seven subsidiaries, which were owned by Polimex-Mostostal Group, resulted in the acquisition of rights and obligations arising from the following guarantee limits:

- The Contract of bank guarantees of former **Naftobudowa S.A.** concluded with Bank Millennium S.A., the Contract to grant a bank guarantee concluded with PKO BP S.A. and the Contract to grant an insurance guarantee concluded with HDI Gerling Polska TU S.A. The limit granted by Bank Millennium S.A. amounts to PLN 20.0 million, and the validity period until 22.10.2010 was extended with an annex by 22.10.2011. PKO BP S.A. granted the limit of PLN 10.0 million with the validity until 13.05.2010, which was increased with annexes up to PLN 25.0 million, and the validity period was extended by 13.05.2011. Whereas the limit granted by HDI Gerling Polska TU S.A. amounts to PLN 15.0 million, and the validity date of 20.04.2010 was extended by 31.12.2010. The Company did not make any further extensions.
- The contract of a multipurpose credit facility of former **Naftoremont Sp. z o.o.** concluded with PKO BP S.A., with the limit of PLN 10.0 million, which could be utilised for bank guarantees. The contract is valid until 24.06.2011.
- The Contract of former **EPE Rybnik Sp. z o.o.** concluded with TUiR Allianz Polska S.A., with the limit of PLN 1.5 million valid until 25.04.2010, with the validity period extended by 25.04.2011.
- The contract to grant contractual bonds under the revolving limit of former **ECeRemont Sp. z o.o.** concluded with TUiR Allianz Polska S.A., with the limit of PLN 0.3 million and the option to order guarantees until 27.05.2011.
- The Contract of co-operation in the scope of granting insurance guarantees within the revolving limit of former **ZRE Kraków Sp. z o.o.** in the amount of PLN 3.0 million concluded with STU Ergo Hestia S.A. and the general contract to grant insurance guarantees concluded with TU InterRisk S.A. with the limit of PLN 2.0 million and validity until 26.07.2010, extended until 26.07.2011.
- The contracts of former **Energomontaż-Północ S.A.** concluded with DnB Nord Polska S.A., RBS Bank (Polska) S.A., Credit Agricole CIB S.A. Branch in Poland, R+V and HDI Gerling Polska TU S.A. Under the contract with DnB Nord Polska S.A. companies of the former Energomontaż-Północ Capital Group may use the guarantee facility in the amount of PLN 25.0 million and Energomontaż-Północ Gdynia S.A. may use a bank overdraft of PLN 2.0 million. The validity of 30.04.2010 was extended with annex until

30.06.2011. Under the contract with RBS Bank (Polska) S.A. companies of former Energomontaż-Pólnoc Capital Group use perpetually the limit increased in 2010 from PLN 30,0 million to PLN 50.0 million. In May 2010 the Company extended until 26.05.2011 the availability of the limit under the contract with R+V (the limit of EUR 0.4 million) from 26.05.2010 to 26.05.2011 and signed with HDI-Gerling Polska TU S.A. the contract of guarantee facility in the amount of PLN 15.0 million under which contractual bonds will be issued to the companies of former Energomontaż-Pólnoc Capital Group until 12.05.2011. After that, in November 2010 the Company signed with Credit Agricole CIB S.A. Branch in Poland the contract to issue contractual bonds by the Bank within the limit of PLN 41.0 million valid not longer than 31.12.2016.

- The contracts of former **ZRE Lublin S.A.** with Uniqua TU S.A. with the limit of PLN 1.5 million and valid until 12.05.2011, and with PZU S.A. with the limit of PLN 1.5 million valid until 05.03.2010 extended in July 2010 until 20.07.2011.

The key banks servicing Polimex-Mostostal S.A. in the scope of guarantees are: Bank Millennium S.A. (PLN 139.1 million), Kredyt Bank S.A. (PLN 134.3 million), Bank Ochrony Środowiska S.A. (PLN 72.4 million), Pekao S.A. (PLN 70.6 million) and PKO BP S.A. (PLN 219.9 million). Among issuers of insurance guarantees, the largest share was attributed to: TUiR Warta S.A. (PLN 46.3 million), STU Ergo Hestia S.A. (PLN 61.1 million) and TU Euler Hermes (PLN 25.3 million).

After the reporting period in January 2011 an annex was concluded to the trilateral contract to grant insurance contractual guarantees concluded with TU InterRisk S.A. Vienna Insurance Group and Torpol Sp. z o.o. increasing the limit from PLN 40.0 million to PLN 48.5 million and extending the limit availability until 30.01.2012. Furthermore, in March 2011 the framework contract was signed with BRE Bank S.A. specifying the terms and conditions of co-operation in the scope of using by Polimex-Mostostal S.A. of guarantees granted by the Bank. The limit granted amounts to PLN 75.0 million and is available until 31.08.2011.

2.9. Description of external and internal factors significant for development of the Company as well as business development perspectives, including elements of market strategy

External factors, independent of the Company, as well as internal factors, tightly connected with its operations have an impact on the Issuer development perspectives until the end of this financial year.

External factors

Economic activities of the Issuer are conducted mainly in Poland and EU countries as well as in Ukraine. Changes of the macroeconomic situation in these regions have an impact on the Issuer development. GDP growth rate and changes of interest rates, inflation rate and the situation on the labour market are most important. The economic situation of Poland and the EU member states affects directly investment expenditure in industry that is the main trade area for the Issuer. In turn the state of home finance affects the execution of government and local government programmes in the scope of road construction and the level of expenditure for the development of infrastructure.

In trade relations, macroeconomic situation has an effect on the terms and conditions of concluding contracts, whereas the deterioration of the position of trade partners may lead to payment gridlocks.

The situation on the labour market as well as the fluctuation of supply prices should be included in the list of factors that affect the prospects of the Issuer's development. The increase of labour costs and prices of steel, zinc alloys and construction materials is not always fully compensated with an adequate growth of prices paid for the services offered, which may have a negative effect on the economic results of performed activities. Lack of

qualified employees is becoming a more and more serious problem, which forces the Issuer to cover the costs of trainings.

The Issuer development prospects depend also on the degree of intensification of activities of domestic and foreign competitive companies. Growth of competition induces decrease of margins. In recent years, competition of the entities outside the EU has become very strong on the construction services market, in particular in road construction.

Additionally, changes in the Polish law resulting from the implementation of regulations that is in force in the European Union, in particular in the scope of construction and environment law and within labour law, also affect the costs of Issuer's activity.

Internal factors

In order to take opportunities and to effectively prevent the threats arising from the changes in the market environment, from 2008 to 2010 the largest in the Issuer's history investment program was implemented and the manner it operates was thoroughly restructured. The investment programme included the construction of new production lines in Siedlce allowing for a considerable increase in production capacity in the scope of manufacturing of steel structures and provision of galvanisation services. In 2010 the process of incorporation of seven subsidiaries was completed. Divisions were formed based on the acquired companies allowing to continue current operations. The reorganisation of back office operations (finance, human resources, purchasing, IT etc.) will allow to fully integrate new organisational units and will reduce the costs of their operations.

The implemented investment programme, completed incorporation and restructuring of back office operations, as is the intention of the Management, is to enable the achievement of the following objectives:

- in increase of competitiveness, among other things in the scope of the execution of large investment tasks for the benefit of industry as the Investment General Contractor,
- an increase of the participation of own forces in the execution of works (a positive influence on the effectiveness of bidding),
- a decrease of a negative effect of seasonal and cyclical nature of operations by enabling a free flow of human resource and equipment between the Issuer's organisational units (improvement of economic effectiveness of services),
- reduction of costs incurred on own operations (as a result of restructuring of the back office).

Completion of tasks, which are specified in this manner, will allow to increase the competitive advantage on the Issuer's markets and to maintain constant growth of earnings of Polimex-Mostostal S.A.

2.10. 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 Polimex-Mostostal S.A. or Polimex-Mostostal Group in 2010 were not published.

2.11. Basis of preparation of annual financial statements

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

2.12. Information on dividend paid (or proposed)

The Board of Directors is going to apply for the payment of dividend for 2010 in amount of 0.04 PLN (say: four Polish Grosz) per one share of Polimex-Mostostal S.A.

3. Risk management

Polimex-Mostostal S.A. constantly improves risk management methods, analyses external and internal factors that may have influence on performance of planned objectives, obligatory procedures are systematically modified and improved. The Company exercises a broad spectrum of reactions for risk – shifts, reduces, eliminates, accepts or avoids risk by changing the objectives.

Risk Management Procedure currently applied by Polimex-Mostostal S.A. is based on international standards, but maintains and uses previous organisational and legal arrangements related to this scope. In the opinion of the Board of Directors, current system regarding internal regulations, official responsibility and decision taking facilitates risk identification and assessment, as well as taking system actions against identified risk, mitigating negative impact of events upon operations and value of the Company. Actions taken by the Company in 2010, including monitoring and reporting of risks and analyses undertaken were aimed at improving of the risk management procedure and the growth of the Company employees competences. The procedure implemented and its practical application are compliant with recommendations and spirit of “Best Practices of WSE Listed Companies”, and ensure that the Company achieves its objectives.

3.1. Description of significant risk factors and threats

Dynamic development combined with a wide scope of economic activities, is the source of a number of risks and threats which potential effects may negatively influence Polimex-Mostostal S.A. economic performance. That is why the Company takes systemic actions aimed at mitigation of probability of negative events and limitation of costs – if such events occur. Depending on nature of particular risk and its value, these are managed centrally, or in internal organisation entity at place of occurrence. Uniform procedures of identification which function in the Company as well as assessment and manner of conduct regarding risk identified, monitoring and adjustment mechanisms enable the Company to keep the risk on the acceptable level and minimize the impact of undesired events upon economic activities of the Company.

Strategic risk is managed centrally or directly by the Board of Directors of the Company (e.g. risk of development plans non-performed), or by separated organisation unit (e.g. risk of inefficient acquisitions).

Financial risk (described in section 3.2) is managed centrally by the Finance Department of the Company.

Operational risk (related mainly to assessment and fulfilment of service contracts and production) are managed on the level of particular plants or branches under criteria defined and monitored centrally.

Other types of risk are related to limitation of continuation of activity of the Company in particular segments of operations. They may arise from necessity of applying provisions of the law (e.g. health and safety, environmental protection), excessive employee's fluctuation, or be related to loss of material resources (issue of third party liability and property insurance is discussed in greater detail in section 3.3). These risks are managed centrally, but belong to the managers of organisation units, where a given risk is directly identified. Preparing analysis of the current economic activities of the Company, we should point to lack of events significantly dangerous for continuation of statutory activity.

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

- Risk Management Procedure,
- Integrated Management System Procedures,
- Price Committee Operations (control of offering activity of the Company),
- System of coordination meetings dealing with control of performance of construction projects,

- Uniform procedures for assessment of canvassing acquisitions by Business Combination and Acquisition Department,
- Strategy and policy of currency risk management.

Systematic mitigation of risk and threats related to economic activities is very important for the Company. In the opinion of the Board of Directors, the broad spectrum of services and deliveries for many branches of industry, allows the Company, apart from positive feedback from customers and the capital market, to keep risk of economic activity performed by Polimex-Mostostal S.A. below the average in the construction industry. The most important risk areas and potential threats that are concurrently monitored are:

- impact of macroeconomic environment upon development of the Company,
- acquisition effectiveness,
- valuation of construction and assembly services,
- creation of order portfolio and performance of long standing investment contracts,
- amount of off-statement of financial position liabilities arising from hedges on construction contract performance,
- changes in commodity markets, mostly of steel and zinc prices,
- changes of the demand for specialist services of anticorrosive protection, including galvanizing and painting of steel structures,
- situation on skilled labour market.

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

Due to the fact that majority of the Company revenue is generated on national market, development and financial performance of Polimex-Mostostal S.A. **depends on macroeconomic position of Poland**, in particular changeability of Gross Domestic Product, drop in investment level, increase in inflation rate, budget deficit and unemployment. In the opinion of the Issuer, amendments made to legal provisions and tax law do not threaten further development of the Company.

In turn, **political factors**, blocking pace of development of industries where the Company operates, particularly by lack of complete fulfilment of investment assumptions specified in adopted governmental programmes, by resignation upon performance of investment programmes or a shift in their performance due to the crisis on financial markets, as well as by the reduction in procurement by public institutions, which may affect in particular infrastructure undertakings, should be considered as the risk that may slow down the development of the Company. Additionally, delaying tender procedures and lack of progress in investment processes are significant impediment. In the opinion of the Issuer, other market participants suffer from impact of the above factors in similar way, so the Company is not in position worse than its competitors. An additional hedge against the negative effect of deteriorating economy is the multiindustrial nature of operations, which allows to allocate resources from the crisis-stricken industries to the ones that are still developing.

The Company limits canvassing actions due to general economic slowdown, but continuously analyses the market in terms of potential acquisitions of complementary companies. The Company also strengthens its potential by conducting restructuring and consolidation activities within the Capital Group. In 2010 the company successfully conducted the merger with seven subsidiaries operating in power engineering, chemical and environment sector, which increased the potential for performance and completeness of market offer of the

Company in the scope of general contracting of undertakings in these sectors. **Inefficient acquisition risk** in this area is mitigated by market and profitability analyses prepared by the Merger and Acquisition Department and expertises of specialised advisory companies.

The principal operations of the Issuer focus on rendering of services. **The risk of inadequate valuation of construction and assembly works** is mitigated by the Price Committee, advisory authority of the Company's Board of Directors dealing with control over observance of rules for preparation of tenders applied by the Company for contracts of medium and large value.

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

Contract performance bond risk. Concluding the contract, Polimex-Mostostal often acting as a key contractor, is obliged to deliver a good performance bond, which amount on average to 10% of a contract value. First, the Company takes this risk, but in course of outsourcing of the remaining works to sub-contractors, it partially transfers this risk to sub-contractors, obligating them to deliver bond covering the scope of their works. If sub-contractors are not able to deliver such a security in form of a bank guarantee or insurance bond, settlement is made by deduction of guarantee deposit. In this way, the Company transfers proportionate part of performance bond to sub-contractors.

Raw materials price risk. Economical effectiveness of production of the Company depends on fluctuations in prices of raw materials, mainly steel and zinc composite. The main factor which limits the above mentioned risk is the fact that the Issuer has a team of first class specialists analysing the market and making centralised material purchases (economies of scale, opportunity to negotiate lower purchase prices). As far as zinc alloys supply is concerned, the Issuer is analysing efficiency of utilisation of different types of forward instruments available on financial market.

Risk of change of demand for specialist services of anticorrosive protection – galvanizing and painting of steel structures. In the period of worsening of economic situation that was observed on the European market in 2009-2010, demand for high-quality, relatively expensive galvanizing services shifted towards cheaper methods of anticorrosive protection, including painting of steel structures. To minimise the effect of the shift of demand on its revenue, the Issuer enriches its offer, conducts marketing activities promoting the high quality of provided services, and adjusts service prices to market prices.

Qualified labour acquisition risk. Polish labour market position significantly determines operations of the home market companies operating in construction and assembly industries. Earning emigration as observed a few years ago, which caused many obstacles in acquisition of properly qualified employees, was impeded due to global financial crisis. Suspension of numerous investments or shift of commencement dates of new investments increase the supply of qualified staff and construction companies capable of prompt and proper performance of construction and erection works in form of sub-contracting. In order to retain valuable employees, the Company has implemented incentive programmes motivating professionals to continuous improvement of qualifications. The Company implements training programmes, which allow to continuous improvement of qualification of its employees and leading personnel. For example in 2010 the Company completed the execution of the project of trainings co-funded by the EU, which was attended by 1,923 persons. Nevertheless, the Company is aware of the fact that the opening of German and Austrian labour markets may result in the necessity to modify employee remuneration systems.

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

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

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

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

Interest rate risk. Polimex-Mostostal S.A. has cash in bank accounts and has liabilities on account of bank loans and issued debentures based on floating interest rate. Reference market rates systematically dropped in the 10 months of 2010 and it had a positive impact on lowering the expenditure for the debt, despite the increase of margins in banks induced by the increase of money acquisition cost on the interbank market in conditions of the pending crisis in the banking sector and on the international financial market. Starting from November 2010 reference rates have been increasing, but due to the improving situation on the interbank market, banks are willing to reduce margins and owing to that the costs of servicing Company's debt have remained at the controllable level. The Company monitors situation on the financial market, analyses trends and prognoses in a scope of reference market rates in order to decide, at a proper moment, to conclude contracts preventing the Company from the increase of debt interest costs which may be unbeneficial to the Company.

Exchange rate risk. Polimex-Mostostal S.A. financial cash flows are characterised by significant sensitivity to fluctuations of exchange rate relations which results from the fact that foreign currency revenues constitute substantial part of the total enterprise turnover. Basic foreign currency for the Company turnover is still the euro. In order to mitigate the negative impact of the price risk on the results of the enterprise functioning, the Company utilises derivative financial instruments related to exchange rates available on the market, applying the price risk management strategy adopted in the Company. Open transactions of derivative instruments are subject to current valuation with its results included in the enterprise's books of account. Allowing for the above factors, in order to retain stability and comparability of the enterprise financial results in individual reporting periods, the Company, starting from 01.10.2008, has applied the accounting rules of securing of the derivative financial instruments related to exchange rates. Application of the hedge accounting makes it possible to symmetrically present the compensating impact on the financial result of the current period of the hedging instrument fair value and hedged item corresponding to it.

Natural hedging, e.g. hedging of currency risk by concluding transactions generating costs in currency of revenues, is the basic method of protection against price risk applied by the Company. If currency risk may not be hedged by natural hedging, the Company applies currency hedges – based on derivative financial instruments

related to currency market – defined by the currency risk management strategies of the Company. These are in particular the following instruments:

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

Terms and conditions of hedging of derivative instruments are negotiated in a manner corresponding to terms and conditions of hedged item, and providing maximum hedging efficiency. In 2010 the Company consequently realized rules and procedures of conduct implemented, aimed at mitigating of the negative impact of the price risk on the result of the enterprise operations. As far as currency hedging instruments are concerned, the Company actively cooperates (has contracts concluded) with the following banks: Deutsche Bank Polska S.A., DZ Bank Polska S.A., BGŻ S.A., Kredyt Bank S.A., PKO BP S.A., Raiffeisen Bank Polska S.A., CA CIB S.A. Branch in Poland, RBS Bank (Polska) S.A. and HSBC Bank Polska S.A.

Polimex-Mostostal S.A. – in order to limit the changeability of the predicted cash flows connected with the price risk – was as of the date of 31.12.2010 a party to the 33 security strategies as specified below (nominal values and price conditions in terms of instruments to be exercised after 31.12.2010):

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

- Currency options

The Company is the party to 4 symmetrical option transactions concluded between 18 June 2009 and 8 December 2010. The total nominal value of currency options to be exercised over the period between 4 January 2011 and 20 June 2011 amounts to EUR 7,039,000 (in each case the nominal value of acquired PUT option clears the nominal value of CALL option). The exercise rates of PUT options the Company is entitled to range from 3.95 PLN/EUR to 4.55 PLN/EUR depending on a transaction. The exercise rates of CALL options issued by the Company range from 4.20 PLN/EUR to 4.68 PLN/EUR depending on a transaction. Additionally, as at 31.12.2010 there is an option strategy of 28.08.2008 entered into by former Energomontaż-Pólnoc S.A. that consists of a pair of PUT and CALL options worth EUR 750,000 each. The effective exercise rate for both options is 3.35 PLN/EUR.

– Forward future contracts:

- i) The forward future contract of 05 June 2010 to sell EUR 300,000 for PLN to be exercised on 31 March 2011. The exchange rate was specified at 4.6010 PLN/EUR.
- ii) Forward future contract of 27 October 2009 to sell the total amount of EUR 333,000 for PLN to be exercised at 27 May 2011. The exchange rate was specified at 4.3385 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- iii) Series of forward future contracts of 16 December 2009 on the sale of the total amount of EUR 1,795,000 for PLN to be exercised in 3 dates in the period between 10 January 2011 and 3 June 2011. The exchange rate for each maturity date was specified at 4.2650 PLN/EUR.
- iv) The forward future contract of 3 March 2010 to sell EUR 154,000 for PLN to be exercised on 15 June 2011. The exchange rate was specified at 3.9610 PLN/EUR.
- v) Series of forward future contracts of 29 April 2010 on the sale of the total amount of EUR 3,000,000 for PLN to be exercised in 3 dates in the period between 7 January 2011 and 7 March 2011. Forward rates range from 3.9650 PLN/EUR to 3.9770 PLN/EUR.
- vi) The forward future contract of 5 May 2010 to sell EUR 1,200,000 for PLN to be exercised on 25 February 2011. The exchange rate was specified at 4.0730 PLN/EUR.
- vii) The forward future contract of 5 May 2010 to sell EUR 116,000 for PLN to be exercised on 30 March 2011. The exchange rate was specified at 4.0743 PLN/EUR.
- viii) The forward future contract of 6 May 2010 to sell EUR 1,660,000 for PLN to be exercised on 30 June 2011. The exchange rate was specified at 4.2300 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- ix) Series of forward future contracts of 21 May 2010 on the sale of the total amount of EUR 449,000 for PLN to be exercised in 2 dates in the period between 28 January 2011 and 29 March 2011. The exchange rate for each maturity date was specified at 4.1810 PLN/EUR.
- x) The series of forward future contracts of 7 June 2010 on the sale of the total amount of EUR 2,338,000 for PLN to be exercised in 4 dates in the period between 25 January 2011 and 3 June 2011. The exchange rate for each maturity date was specified at 4.2112 PLN/EUR.
- xi) The forward future contract of 19 June 2010 to sell EUR 3,740,000 for PLN to be exercised on 28 June 2011. The exchange rate was specified at 4.2000 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- xii) The series of forward future contracts of 29 October 2010 on the sale of the total amount of EUR 1,383,000 for PLN to be exercised in 2 dates in the period between 14 January 2011 and 28 January 2011. The exchange rate for each date was specified at 4.0001 PLN/EUR.
- xiii) The forward future contract of 26 November 2010 to sell EUR 1,800,000 for PLN to be exercised on 30 September 2011. The exchange rate was specified at 4.1100 PLN/EUR. The Company intends to “shorten” the transaction along with materialization of the hedged item for which this hedging transaction was opened.

- xiv) The series of forward future contracts of 26 November 2010 on the sale of the total amount of EUR 1,983,000 for PLN to be exercised in 3 dates in the period between 20 September 2011 and 10 November 2011. The exchange rate for each date was specified at 4.1000 PLN/EUR.
 - xv) The series of forward future contracts of 6 December 2010 on the sale of the total amount of EUR 350,000 for PLN to be exercised in 3 dates in the period between 17 January 2011 and 28 March 2011. The exchange rate for each date was specified at 4.0205 PLN/EUR.
 - xvi) The series of forward future contracts of 8 December 2010 on the sale of the total amount of EUR 2,810,000 for PLN to be exercised in 8 dates in the period between 24 March 2011 and 26 October 2011. The exchange rate for each date was specified at 4.1017 PLN/EUR;
 - xvii) The series of forward future contracts of 8 December 2010 on the sale of the total amount of EUR 2,035,000 for PLN to be exercised in 5 dates in the period between 26 May 2011 and 27 September 2011. The exchange rate for each date was specified at 4.1087 PLN/EUR.
 - xviii) Two forward future contracts of 06 December 2010 on the sale of total amount of EUR 5,500,000 for PLN to be exercised on 29 July 2011 and on 30 April 2012. Future exchange rates for both dates were specified at the level of 4.1117 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
 - xix) The forward future contract of 10 December 2010 to sell EUR 3,500,000 for PLN to be exercised on 30 December 2011. The exchange rate was specified at 4.1340 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
 - xx) The series of forward future contracts of 13 December 2010 on the sale of the total amount of EUR 600,000 for PLN to be exercised in 6 dates in the period between 12 January 2011 and 14 June 2011. The exchange rate for each date was specified at 4.0526 PLN/EUR.
 - xxi) The forward future contract of 15 December 2010 to sell EUR 122,000 for PLN to be exercised on 29 April 2011. The exchange rate was specified at 4.0105 PLN/EUR.
 - xxii) The series of forward future contracts of 30 December 2010 on the sale of the total amount of EUR 601,000 for PLN to be exercised in 2 dates in the period between 30 March 2011 and 30 May 2011. The exchange rate for each date was specified at 4.0033 PLN/EUR.
- **Reducing volatility of cash flows related to the PLN/GBP pair.**
 - Currency options
- On 15 April 2010 and 5 May 2010 the Company agreed on conditions of 2 symmetrical foreign currency option transactions aimed at limiting the volatility of projected cash flows in GBP. The total nominal value of currency options to be exercised over the period between 24 August 2011 and 13 April 2012 amounts to GBP 3,370,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). Exercise rates of PUT options the Company is entitled to amount to 4.38 PLN/GBP for the transaction of 15 April 2010 and 4.65 PLN/GBP for the transaction of 5 May 2010, while exercise rates of CALL options issued by the Company amount to 4.85 PLN/GBP and 5.1490 PLN/GBP respectively.

– Forward future contracts

- i) The series of forward future contracts of 30 November 2010 on the sale of the total amount of GBP 544,000 for PLN to be exercised in 2 dates in the period between 15 July 2011 and 15 November 2011. The exchange rate for each date was specified at 4.9340 PLN/GBP.
- ii) The series of forward future contracts of 1 December 2010 on the sale of the total amount of GBP 544,000 for PLN to be exercised in 2 dates in the period between 25 July 2011 and 25 November 2011. The exchange rate for each date was specified at 4.8660 PLN/GBP.
- iii) The series of forward future contracts of 20 December 2010 on the sale of the total amount of GBP 581,000 for PLN to be exercised in 2 dates in the period between 15 March 2011 and 16 May 2011. The exchange rate for each date was specified at 4.7545 PLN/GBP.

• **Reducing volatility of cash flows related to the PLN/USD pair.**

On 20 December 2010 the Company entered into a future forward transaction to sell USD 1,350,000 for PLN to be exercised on 31 January 2011. Futures exchange rate was specified at the level of 3.0429 PLN/USD.

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

Summing up, as at 31.12.2010 Polimex-Mostostal S.A. had open hedging transactions for the amount of EUR 43,558,000, GBP 5,039,000 and USD 1,350,000. In each case the hedged item is highly probable future cash flows from foreign currency contracts being executed by the Company (supply of steel products and rendering of construction services).

Maturity dates of hedging transactions for the amount of EUR 42,358,000 fall in 2011. The remaining EUR 1,200,000 thousand is due to be exercised in the first half of 2012. Expiry dates of transactions for PLN/GBP pair fall in the period from 15 March 2011 to 13 April 2012. The maturity of the instrument hedging the fluctuations of PLN/USD is in January 2011.

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

Month the hedging instrument is exercised in 2011*)	Nominal value of the derivative hedging instrument		
	Nominal value of PUT = CALL option thousands EUR	Nominal value of future contracts in EUR thousands	Total in the period thousands EUR
1st quarter	4 230	16 155	20 385
2nd quarter	3 559	8 194	11 753
3rd quarter	0	7 115	7 115
4th quarter	0	3 105	3 105
Total in 2010	7 789	34 569	42 358

*) age structure of maturity of forward contracts in compliance with the forecast of hedged item occurrence

As at 31 December 2010, the fair value of the open derivative instruments was assessed at PLN 6,112.1 thousand. In accordance with the hedging accountancy policy approved by the Company, effectiveness of hedging connections was measured. Cash flow hedges were regarded as highly effective and the change of effective portion of fair value of financial instruments was recognized directly in equity in "Revaluation reserve" item in the following order (amounts after taking into consideration the effect on deferred tax) in PLN thousands:

As at 31.12.2009	Change in 2010	As at 31.12.2010
4 413	-562	3 851

Temporary value of currency options which was excluded from the efficiency measurement was reflected in the profit and loss account in financial activity (finance costs/finance income). It should be stressed out that the presented valuation is of only accounting character and does not effect neither current liquidity nor general financial situation of the Company.

Fluctuations of the average exchange rate of EUR have significant influence on the amount of income expressed in PLN resulting from contracts concluded in a foreign currency. The Company, on the basis of concluded contracts and contracts highly possible to conclude estimated exposition for currency risk in 2011 as follows:

Detailed list	2011
Projected foreign currency proceeds – in EUR thousands	222 796
Projected foreign currency expenditure – in EUR thousands	100 531
Business exposure to foreign currency risk in EUR thousand	122 265
Open hedging transactions at 31.12.2010 to be exercised in 2011 in EUR thousands	42 358
Open item in foreign currency (after taking into consideration hedging transactions) in EUR thousands	79 907

Nominal value of hedging instruments open as of 31.12.2010 constitutes 35% of the total value of expected exposure to foreign exchange risk in 2011. Foreign currency cash flows for contracts concluded by the Company by the date of the completion of this list account for more than 60% of business exposure computed as above. Consequently, 57% of the business exposure to foreign exchange risk on account of the flows contracted as of 31.12.2010 was covered by hedging transactions.

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

In 2011 the Company consequently applied implemented policies for foreign currency risk management. It resulted in concluding additional hedging transactions as characterized below:

- An option transaction in the form of a currency corridor entered into on 14.02.2011. The total nominal value of currency options to be exercised in 4 dates over the period between 21 April 2011 and 12 August 2011 amounts to EUR 2,170,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is

entitled to are 3.90 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.0150 PLN/EUR.

- The series of forward future contracts of 22.02.2011 on the sale of the total amount of EUR 1,097,000 for PLN to be exercised in 4 dates in the period between 29.04.2011 and 31.10.2011. The exchange rate for each date was specified at 4.0100 PLN/EUR.
- The series of forward future contracts of 22.02.2011 on the sale of the total amount of EUR 400,000 for PLN to be exercised in 4 dates in the period between 07.03.2011 and 07.06.2011. The exchange rate for each date was specified at 3.9750 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 23.02.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 3 March 2011 and 4 August 2011 amounts to EUR 3,000,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.90 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.1000 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 28.02.2011. The total nominal value of currency options to be exercised in 5 dates over the period between 28 June 2011 and 20 October 2011 amounts to EUR 1,471,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.95 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.0900 PLN/EUR.
- The forward future contract of 26 March 2011 to sell EUR 600,000 for PLN to be exercised on 30 September 2011. The exchange rate was specified at 4.03 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The forward future contract of 1 March 2011 to sell EUR 600,000 for PLN to be exercised on 31 October 2011. The exchange rate was specified at 4.034 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The forward future contract of 1 March 2011 to sell EUR 700,000 for PLN to be exercised on 30 May 2011. The exchange rate was specified at 4.00 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The series of forward future contract of 1 March 2011 to sell the total of EUR 2,300,000 for PLN to be exercised in two dates on 31 October 2011 and on 31 January 2012. The exchange rate was specified at 4.04 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- An option transaction in the form of a currency corridor entered into on 07.03.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 1 April 2011 and 2 September 2011 amounts to EUR 1,200,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is

entitled to are 3.90 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.1700 PLN/EUR.

- The forward future contract of 11 March 2011 to sell the total of EUR 1,600,000 for PLN to be exercised on 31 January 2012. The exchange rate was specified at 4.1045 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- The series of forward future contract of 1 March 2011 to sell the total of EUR 2,100,000 for PLN to be exercised in two dates: 28 October 2011 and 30 March 2012. The exchange rate was specified at 4.0975 PLN/EUR. The Company intends to "shorten" the transaction along with materialization of the hedged item for which this hedging transaction was opened.
- An option transaction in the form of a currency corridor entered into on 15.03.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 6 April 2011 and 5 September 2011 amounts to EUR 1,200,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.9500 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.2700 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 15.03.2011. The total nominal value of currency options to be exercised in 6 dates over the period between 5 April 2011 and 2 September 2011 amounts to EUR 2,750,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 3.9000 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.3500 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 17.03.2011. The total nominal value of currency options to be exercised in 2 dates over the period between 26 April 2011 and 25 May 2011 amounts to EUR 234,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 4.0000 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.2050 PLN/EUR.
- An option transaction in the form of a currency corridor entered into on 17.03.2011. The total nominal value of currency options to be exercised in 3 dates over the period between 11 July 2011 and 9 September 2011 amounts to EUR 600,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise exchange rates of PUT options the Company is entitled to are 4.0000 PLN/EUR, whereas the exercise exchange rates of CALL options issued by the Company are 4.3000 PLN/EUR.
- The series of forward future contracts of 31.03.2011 on the sale of the total amount of EUR 2,673,000 for PLN to be exercised in 4 dates in the period between 29 June 2011 and 29 September 2011. The exchange rate for each date was specified at 4.0500 PLN/EUR.

In total, till the date of preparation of this report, in 2011 the exposure was hedged at the nominal value of EUR 24,695 thousand.

3.3. Insurance contracts

Due to the fact that most insurance contracts concluded in 2009 expired in September 2010 enquiries were sent in the scope of new insurance that resulted in the execution of the following insurance contracts binding from 01.10.2010 through the following 12 months:

- business operations insurance and property utilisation insurance in basic scope and with the guarantee sum of PLN 10 million (TUiR WARTA S.A./STU Ergo Hestia S.A.) as well as “oversized” policy with liability limit in amount of PLN 90 million per each event (Chartis Europe S.A. Branch in Poland). Additionally, in May 2010 an insurance policy under the English law was issued for contracts executed in the territory of Great Britain with the sum insured of GBP 5,000,000,
- liability insurance for appointed agents and members of the Management Board (Chartis Europe S.A. Branch in Poland), with the sum insured of PLN 20,000,000, the so-called D&O policy,
- construction/assembly works insurance against all types of risk covering contracts with the execution period of up to 48 months and the value up to PLN 400,000, 000 net (consortium: Warta S.A. – STU Ergo Hestia S.A. – PZU S.A.- two-year contract valid until 31.12.2011), For contracts with the execution period exceeding 48 months or worth more than PLN 400,000,000 individual insurance policies were arranged (for the construction of A4 Szarów-Brzesko worth PLN 778.9 million for the period from 26.01.2010 to 25.01.2012, for the construction of A1 Stryków-Tuszyn for the sum of PLN 1,332,5 million from 22.12.2010 to 21.08.2013 and for the construction of S-69 Bielsko Biała – Żywiec – Zwardoń for the sum of PLN 866.9 million from 19.08.2010 to 17.12.2012),
- property insurance (property against random events, property against burglary, including cash in hand and transport, electronic equipment insurance against all types of risks, profit loss insurance with the sum insured of PLN 300,000,000 and liability limit of PLN 60,000,000 per event, insurance of machines against damages, property insurance in national transport) – TUiR WARTA S.A./STU Ergo Hestia SA.,
- CARGO insurance in international transport (Chartis Europe S.A.) – two-year policy valid until 31.12.2011,
- compulsory insurance of employees delegated or directed to work outside the borders of the Republic of Poland under accident insurance policy issued by AVIVA TUO S.A.,
- accident insurance covering workers employed on the national construction sites “Grono” - AVIVA TUO S.A.
- liability insurance for the designer (Chartis Europe S.A. Branch in Poland) with the liability limit of PLN 10,000,000 and an oversized policy with the liability limit of PLN 10,000,000 (Warta/Hestia). Both policies are valid from 01.01.2011 and replace the policy which was valid until the end of 2011,
- professional liability insurance/bookkeeping insurance – PZU S.A.,
- general motor insurance contract with TUiR WARTA S.A. valid from 21.04.2010 to 20.04.2012 (biannual contract).

Insurance contracts listed above (excluding insurance against construction/assembly risks, cargo insurance in international transport as well as motor insurance) were concluded for 1 year and are valid until 30.09.2011. As a result of the combination of Polimex-Mostostal S.A. with seven Group companies the assets of the acquired companies were included in the assets of Polimex-Mostostal S.A. and were covered by the insurance under the property insurance policy of Polimex-Mostostal S.A. Since 01.01.2011 newly established divisions i.e. Energomontaż Północ Division, Naftobudowa Division, Naftoremont Division, EPE Rybnik Division, ZRE Kraków Division, ZRE Lublin Division and EceRemont Division were covered by the insurance policies binding at Polimex-Mostostal S.A. (liability insurance policy, professional liability of a designer, cargo policy, motor insurance policy, insurance of medical expenses policy and accident insurance policy covering workers employed on construction sites at home and abroad).

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

Internal audit system in the Company operates on the basis of applied rules and internal regulations and comprises two, principal elements: functional control performed by each worker within the scope of his/her duties resulting from binding procedures and institutional control performed by internal control units, aimed at examination of practical observance of binding procedures. Internal control with regard to preparation of financial statements is based on internal regulations facilitating separation of duties, authorities and relations in scope of preparation of particular parts of statements.

To ensure the correctness and fairness of the books of account 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 Company adopted to use the Accounting Policies and the Chart of Accounts as well as the documentation of the computer system for the processing of accounting data: Rights and obligations of administrators, List of computer programmes approved for use, List of collections constituting the books of accounts, Principles of data protection in the system, Principles of ensuring proper application of the system, Principles of authorisation in the system, Principles of introducing changes in the system. The Financial Director and the Management Board are responsible for the correctness of accountancy rules accepted and applied in the Company.

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 Management Board. One of the components of control in the process of financial statements preparation is their verification by an independent auditor selected by the Supervisory Board. 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 monitors 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. Internal auditing operates 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. The Internal Audit Department is fully independent in its auditing procedures and covers by them all processes in the company including the areas affecting directly and indirectly the correctness of financial statements. While performing their tasks, in 2010 internal auditors identified and analysed the risk of examined processes and assessed the relevance and efficiency of control mechanisms.

Risk management system with regard to the process of preparation of financial statements is based on the internal regulation system including the Procedure of Risk Management, professional responsibility and the way of taking decision by the Board and ensures identification and risk assessment together with taking actions against identified risk on each stage of preparation of the financial statement. There have been reserves created for risk identification and Companies assets are covered by complex insurance in well-known insurance companies.

4. Organisation of the Company

4.1. Information on entities owned by the Company

Polimex-Mostostal has a multi-branch structure, consisting of internal entities with locations in different regions of Poland. The Issuer's registered office is in Warsaw. Production activity is conducted by plants in Siedlce, Rudnik, Łódź, Częstochowa and Dębica. Construction services are provided by divisions based in Warsaw, Siedlce, Stalowa Wola, Szczecin and Lublin. Road works are performed by the division based in Katowice. General contracting services for power engineering sector are provided by divisions based in Warsaw, whereas the divisions based in Lublin, Kraków, Rybnik and Zielona Góra deal with performance of works. Divisions based in Warsaw, Kraków and Plock work for the benefit of sector of chemistry and environment. The majority of divisions have not only their headquarters but also branches situated closer to their regular customers both at home and abroad.

Apart from these mentioned above, the organizational structure includes also: Quality Management Division, Logistics Division and Maintenance Division providing services for other Issuer divisions.

4.2. Changes in basic rules of management of Polimex-Mostostal S.A.

There were no such changes in the reporting period.

4.3. Information on organisational or capital connections of the Company with other entities

Polimex-Mostostal S.A. is a dominant entity of the Polimex-Mostostal Capital Group. Apart from that, in the year 2010, the Company entered a number of organisational connections, resulting from the needs gained in the reporting period of the orders. The key organisational connections are as follows:

- Consortium of Polimex-Mostostal S.A. (the Consortium Leader) and Doprastav a.s. Bratislava, Slovakia and Zakład Robót Mostowych „MOSTMAR” Marcin i Grzegorz Marcinków sp. j. established to execute the contract with the National Directorate for National Roads and Motorways, Branch in Katowice, for the construction of the S-69 express road Bielsko Biała – Żywiec – Zwardoń in the section from the Mikuszowice junction to Żywiec.
- Consortium of Polimex-Mostostal S.A. (the Consortium Leader) and Doprastav a.s. Bratislava, Slovakia established to execute the contract with the Directorate for National Roads and Motorways, Branch in Rzeszów, for the construction of the A-4 motorway, section from Rzeszów to Jarosław.
- Consortium of Polimex-Mostostal S.A. (the Consortium leader) and Doprastav a.s. Bratislava (Slovakia), MSF Engenharia S.A. Lisbon (Portugal), MSF Polska Sp. z o.o. Warszawa and Zakład Robót Mostowych „MOSTMAR” Marcin i Grzegorz Marcinków sp. j. established to execute the contract with the Directorate for National Roads and Motorways, Branch in Warsaw, for the design and construction of A1 Stryków – Tuszyn in the section from km. 295+850 to km 335+938.
- Consortium of the following companies: Hitachi Ltd. Based in Tokio (the Consortium leader) and Energomontaż Północ S.A., at present Polimex-Mostostal S.A. (consortium member) signed with Vattenfall Heat Poland S.A. the turn key contract for the catalytic systems for denitrification of combustion gases for unit boilers at Siekierki Heat and Power Plant in Warsaw.
- Consortium of Energomontaż-Północ S.A (the Consortium leader – at present Polimex-Mostostal S.A.) and Energop Sp. z o.o. (consortium member) executed with PGE Górnictwo i Energetyka Konwencjonalna S.A. with the registered office in Belchatów the contract for modernisation and overhaul of the system of main steam and water pipelines for power units at Belchatów Power Plant.

The basic structure of Polimex Mostostal Group as at the date of publication of this report is presented as a supplement. The diagram does include companies that are in liquidation, do not conduct economic activity and the ones where the Issuer's holding does not exceed 10%.

Polimex-Mostostal S.A.		
Domestic companies		Share
→	Centralne Biuro Konstrukcji Kotłów S.A.	98.50%
→	Centrum Projektowe Polimex-Mostostal Sp. z o.o.	99.51%
→	Energomontaż Pln. Technika Spawalnica i Lab. Sp. z o.o. *)	99.30%
→	Energomontaż Północ Gdynia Sp. z o.o.	99.99%
→	Energomontaż-Nieruchomości Sp. z o.o.	100.00%
→	Energomontaż-Północ Bełchatów Sp. z o.o.	32.82%
→	Energop Sp. z o.o. *)	99.99%
→	Fabryka Kotłów Sefako S.A.	89.20%
→	Laboratorium Ochrony Środowiska Pracy Sp. z o.o.	27.50%
→	Moduł System Serwis Sp. z o.o.	100.00%
→	Polimex-Cekop Development 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%
→	Polimex-Mostostal ZUT Sp. z o.o.	100.00%
→	Polimex-Sices Polska Sp. z o.o.	50.00%
→	Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.	75.00%
→	PRInż-1 Sp. z o.o.	88.62%
→	Przeds. Produkcyjno-Usługowe Elektra Sp. z o.o.	100.00%
→	PxM Projekt Południe Sp. z o.o.	100.00%
→	Sinopol Trade Center Sp. z o.o.	50.00%
→	Stalfa Sp. z o.o.	100.00%
→	Torpol Sp. z o.o.	100.00%
→	WBP Zabrze Sp. z o.o.	99.97%
→	Zakład Instalacyjno-Budowlany Turbud Sp. z o.o.	100.00%
→	Zakład Transportu - Grupa Kapitałowa Polimex Sp. z o.o.	100.00%
→	Zarząd Majątkiem Górczewska Sp. z o.o.	100.00%
*) Polimex-Mostostal S.A. holds indirectly 100% of equity.		
Foreign companies		
→	Coifer Impex SRL (Romania)	100.00%
→	Tchervonograd MSP (Ukraine)	99.63%
→	Depolma GmbH (Germany)	100.00%
→	Energomontaż Magyarország (Hungary)	100.00%
→	Grande Meccanica SpA (Italy)	100.00%
→	Naf Industriemontage GmbH (Germany)	100.00%
→	Polimex-Mostostal Ukraina (Ukraine)	100.00%
→	Polimex-Mostostal Wschód (Russia)	100.00%

4.4. Employment

Development of the Company is translated to growth in employment that in 2010 – as against average employment rate for 2009 - increased by 2.3%. Slower increase than in the prior years was the result of optimisation of the employment to the backlog of projects to be executed in 2010 and in the years to follow.

Gaining new orders in 2010 resulted in the need of active acquisition of executive forces and supervision together with adjustment of internal recruitment rules and maintaining human resources to requirements of the external job market. The economic slowdown in 2010 facilitated the Company acquisition of employers from labour market. However, it was still difficult to recruit engineers, particularly those with experience in projects realization. It was a result of a big number of domestic investments and outflow of the above mentioned staff abroad and insufficient supply of technical school and technical university graduates. The Company was particularly engaged in the process of search for school and university graduates.

The structure of employment in the Company in 2010 is shown in the following list:

Detailed list	Change 2010 / 2009	Employment *)	
		2010	2009
Management board of the parent company	0.0%	4	4
Back office	5.7%	1 162	1 099
Production	1.9%	9 173	9 005
Total	2.3%	10 339	10 108

*) average employment in Full Time Equivalents (FTE)

4.5. Changes in composition of management and supervisory authorities of the Issuer 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 01.01.2010 until the statement publication day, composition of the **Management Board of Polimex-Mostostal S.A.** was as follows:

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

In view of the expiry of the term of office of the Management Board of the Company in 2010, there were no changes in its composition. On 18.05.2010 the Supervisory Board appointed the members of the Management Board of the expiring term of office for another three year term covering the financial years from 2010 to 2012. The term in office of the members of the Management Board expires on 18.05.2013, whereas the mandate expires not later than on the date of holding the General Meeting of Shareholders approving the financial statements for the last complete year of holding the position on the Board.

The rules for appointment and dismissal of executives are given in the Articles of Association. According to § 39 and § 42 of Articles of Association, the Supervisory Board is in charge of defining number of members of the Board of Directors, as well as appointment and dismissal of members of the Board of Directors. The Supervisory Board appoints other members of the Management Board – Vice Presidents upon the request of the

President of the Board of Directors. Authorities of executives are given in Regulations of the Board of Directors. Internal division of the Board of Directors members work is conducted on the basis of the Organizational Regulations of the Company. On this basis, members of the Board of Directors are in charge of direct supervision of performance of dependent areas. Each member of the Management Board has the right and obligation to run Company affairs. Without previous resolution of the Management Board, he/she may run affairs not exceeding the scope of ordinary affairs of the Company assigned to a given member of the Management Board observing provisions of the law, Company's Articles of Association, resolutions and regulations of the Company authorities. While taking decisions on the Company affairs, members of the Management Board operate within the limits of justified economic risk, i.e. based on consideration of any information, analyses and opinions that in reasonable opinion of the Management Board should be taken into account for the benefit of the Company. Neither the Management Board, nor individual members of the Board of Directors may take decisions on issue or redemption of shares. In 2010 meetings of the Board of Directors of Polimex-Mostostal S.A. were held on: 11.01, 18.01, 20.01, 27.01, 09.02, 18.02, 12.03, 22.03, 09.04, 14.04, 22.04, 28.04, 10.05, 14.05, 20.05, 27.05, 10.06, 15.06, 29.06, 09.07, 22.07, 05.08, 24.08, 02.09, 21.09, 29.09, 19.10, 10.11, 23.11, 02.12, 14.12, 21.12. The subject matter of the resolutions adopted in the board meetings indicated above was, among other things, approval of the financial plan of the Capital Group, adoption and execution of the Combination Plan, granting guarantees to loans, granting loans, disposing of real property and making donations.

In the period from 01.01.2010 to 30.06.2010 the composition of **the Supervisory Board of the Company** was as follows:

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

On 30.06.2010 the Ordinary General Meeting of Polimex-Mostostal S.A. adopted resolutions no 15 – 19 under which the following persons were appointed to the composition of the Supervisory Board of the Company for the following term:

- Jacek Kseń
- Mieczysław Puławski,
- Jan Woźniak,
- Andrzej Szumański,
- Kazimierz Klęk.

The term in office of the members of the Supervisory Board 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 the last complete year of holding the position on the Supervisory Board.

In view of above mentioned facts, in the period from 30.06.2010 till the date of publication of this report the composition of the Supervisory Board was as follows:

- Kazimierz Klęk – Chairman of the Supervisory Board,
- Jacek Kseń – Vice Chairman of the Supervisory Board,

- Artur Jędrzejewski – Secretary of the Supervisory Board (appointed to the Supervisory Board with resolution No. 15 of the Ordinary General Meeting of Shareholders of 16.06.2009)
- Andrzej Szumański – Member of the Supervisory Board,
- Mieczysław Puławski – Member of the Supervisory Board,
- Jan Woźniak – Member of the Supervisory Board.

Within the structure of the Supervisory Board there are two committees - the Audit Committee, which is the advisory and opinion-forming body, and the Remuneration Committee, which is the advisory body. In the period from 01.01.2010 to 30.06.2010 the composition of the **Audit Committee** was as follows:

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

As a result of appointing on 30.06.2010 of the Supervisory Board of the new term in office, until the date of publication of this report the Audit Committee worked in the new composition as follows:

- Jacek Kseń – Chairman of the Committee,
- Mieczysław Puławski – Member of the Committee,
- Jan Woźniak – 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 operation. Particular rights and obligations of the Committee are given in Regulations of the Supervisory Board. Tasks of the Committee are executed by submittal to the Supervisory Board requests, opinions and statements related to the scope of its tasks. The Committee operates collectively.

In period from 01.01.2010 to 30.06.2010 the composition of the **Remuneration Committee** was as follows:

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

As a result of appointing on 30.06.2010 of the Supervisory Board of the new term in office, until the date of publication of this report the Remuneration Committee worked in the new composition as follows:

- Andrzej Szumański – Chairman of the Committee,
- Kazimierz Kłęk – Member of the Committee,
- Artur Jędrzejewski – Member of the Committee.

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

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

4.6. Agreements concluded between the Company and executives anticipating compensation for resignation or dismissal from function without any important reason, and if dismissal arises from business combination by acquisition

In 2010 new contracts were concluded for the management for the next term in office of the Management Board, which did not amend (as compared to the contracts previously in force) the terms and conditions of compensation in case of resignation or dismissal from the position held.

4.7. Value of remuneration for executives and senior employees

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

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

Making amendments to the Company Statute lies within the responsibility of the General Meeting. The Supervisory Board shall give opinion on drafts of amendments to the Company Statute and preparation of its uniform contents.

4.9 Mode of operation of the general meeting and its principal rights, as well as description of rights of shareholders and manner of their execution

General Meeting of Shareholders is the supreme authority of the Company adequate for adopting key resolutions on the Company system and operations. The General Meeting of Shareholders of Polimex-Mostostal S.A. operates under provisions of the Commercial Companies Code and the Articles of Association. A General Meeting may take form of ordinary or extraordinary meeting. Ordinary General Meeting is called upon by the Management Board annually, until 30 June of the year following the financial year. The Supervisory Board is authorised to call upon the Ordinary General Meeting, if the Management Board did not do that in the period specified above and the Extraordinary Meeting of Shareholders, if necessary, and the Management Board did not do that within 14 days from submission of a request by the Supervisory Board. The Extraordinary General Meeting is called upon by the Management Board, if necessary, on its own initiative or upon request of the Supervisory Board or shareholders representing at least 5% of the share capital, in 30 days from submittal of a written request. Extraordinary General Meetings may also be called by shareholders representing at least a half of share capital or at least half of the total votes. Shareholders representing at least 5% of the share capital may request entering particular issues to the agenda of the next General Meeting. An appropriate request should be submitted to the Management Board not later than 21 days prior to the specified date of the General Meeting. The request should contain a justification or a draft resolution relating to the suggested item of the agenda. The request may be submitted electronically. General Meeting is binding irrespective of the number of shares represented at the meeting.

Competences of the General Meeting include in particular:

- consideration and approval of the financial statements and statement of the Directors' report for previous financial year,
- granting discharge to members of the Supervisory Board and Management Board on fulfilment of duties,
- adopting resolutions on division of profits and loss coverage,
- appointment and dismissal of members of the Supervisory Board,

- making amendments to the Company's Articles of Association,
- increase and decrease in share capital,
- creation and annulment of special purpose funds,
- approval of the Regulations of the Supervisory Board,
- 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,
- preparation of regulations of the General Meeting,
- adopting resolutions on redemption of shares upon consent of a shareholder by their acquisition and definition of conditions for such redemption,
- adopting resolutions on integration, termination and liquidation of the Company as well as appointment of receivers,
- consideration of issues presented by the Supervisory Board and the Management Board, as well as shareholders.

5. Shareholding

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

At present, executives/senior employees hold the following number of shares of the Issuer:

Position held	Current number of shares held
Member of the Management Board	3,820,350 bearer shares of nominal value of 0.04 PLN each, 3,820,350 voting shares at the Company General Meeting.
Member of the Management Board	1,939,075 bearer shares of nominal value of 0.04 PLN each, 1,939,075 voting shares at the Company General Meeting.
Member of the Supervisory Board	96,548 bearer shares of nominal value of 0.04 PLN each, 96,548 voting shares at the Company General Meeting.
Total	5,855,973 bearer shares of nominal value of 0.04 PLN each, 5,855,973 voting shares at the Company General Meeting.

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

Shareholding structure of Polimex-Mostostal S.A. prepared under notifications arising from Article 69 item 1 and 4 of Act of 29.07.2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies is as follows:

Item number	Shareholder	No. of shares / votes	% interest in share capital/total votes at GSM*)
1.	Pioneer Pekao Investment Management S.A. – all Customers of which: Pioneer Fundusz Inwestycyjny Otwarty (Open Investment Fund)	52 490 792 52 139 059	10.07% 10.005%
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (Open Pension Fund)	52 224 329	10.02%
3.	ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund)	40 406 650	7.75%
4.	Polimex-Cekop Development Sp. z o.o. **)	13 152 500	2.52%
5.	Other shareholders	362 879 805	69.63%
Number of shares of all issues		521 154 076	100.00%

*) *Polimex-Mostostal S.A. does not have any preferential assets in terms of voting rights, so interest in share capital is equal to interest in total voting shares at the General Meeting*

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

5.3. Representation on corporate governance

In 2010, the Issuer applied all rules for corporate governance defined under "Best Practice of WSE listed companies". These rules are available on the Warsaw Stock Exchange website: www.corp-gov.gpw.pl.

5.4. Information on contracts acknowledged by the Company (including concluded after balance sheet preparation day) and that may change future proportions in shares owned by the current shareholders and bondholders

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

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

The Company 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 financial year 2010 Polimex-Mostostal S.A. did not acquire any treasury shares.

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

As far as Polimex-Mostostal S.A. 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 decisions of the Extraordinary General Meeting of Polimex-Mostostal S.A. of 31.01.2006, option contracts with the President and Members of the Management Board, members of management of Polimex-Mostostal S.A. and chairmen of the boards 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 31.12.2010 the balance of provision recognised in reserve capital of the Issuer for the above scheme amounts to PLN 33,221 thousand (as at 31.12.2009 – PLN 30,494 thousand).

5.9. Proceedings before the court, body competent for arbitrary proceedings or body of public administration

As of 31.12.2010 Polimex-Mostostal S.A. was not a party to the proceedings concerning liabilities or active debts of the Issuer or other dependent entities, which total value would constitute at least 10 % of the Issuer's equity.

6. Environment protection

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

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

The issues of natural protection are of great importance for the Company (the Company runs the Integrated Management Systems, implemented ISO 14001 standard: Natural Environment Management System). Natural Environment Protection Department of Polimex-Mostostal S.A. is dealing with co-ordination of actions taken by the Company in scope of environmental protection. Current control over level of emissions of particular wastes, reporting on wastes and control over their neutralisation and recovery, control over liquid waste disposal and periodical monitoring of emission of pollution to the air are the basic tasks of this Department. From 12th to 15th July 2010 the supervision 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 2010 Polimex-Mostostal S.A. was not encumbered with any penalties for exceeding of standards defined in natural protection laws.

7. Information on entity with which the Company has concluded agreement on audit of financial statements

On 05.07.2010 the contract was executed with z Ernst & Young Audit Sp. z o.o. with the registered office in Warsaw at Rondo ONZ 1 on audit of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for 2010, and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2010. Remuneration due to Ernst & Young Audit Sp. z o.o. for the review of the mid-annual separate and consolidated financial statements for 6 months period ended on 30.06.2010 was specified at PLN 270,400, and for the audit of separate and consolidated financial statements for the financial year ended on 31 December 2010 was specified at PLN 405,600 (net). On 27.08.2010 Annex No.1 to the above contract was signed, which extended the scope of work of Ernst & Young Audit Sp. z o.o. with conducting an audit of consolidated financial statements of Polimex-Mostostal Capital Group for the financial years ended 31.12.2009 and 31.12.2008 prepared by the Management Board of the Company in connection with submitting the Information Memorandum by the Company. Additional remuneration for the above mentioned services was specified at PLN 55, 000 (net).

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

- audit of the financial statements for 2009..... PLN 412,803,
- review of the financial statements for the 1st half of 2010 PLN 284,260,
- audit of the financial statements for 2010..... PLN 0,
- tax advisory PLN 9,000,
- other services PLN 227,377.

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

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

In 2011 until the report publication date, the following (net) amounts were paid to the auditor:

- audit of the financial statements for 2010..... PLN 0,
- other services PLN 0.

8. Other significant events in the accounting year having impact on operations of the Company

Other, significant events having impact upon operations of the Company:

- Conclusion with Calyon S.A. Branch in Poland, on 06.01.2010, of Annex no 12 to the Framework Contract on Bank Guarantees and Opening of Letters of Credit no CRD/041117/06/113/G, decreasing the limit granted from 190.0 million PLN to 165.0 million PLN and extending the term for its utilization until 29.10.2010. The balance by which the limit was decreased, i.e. 25.0 million PLN, was retained in the Polimex-Mostostal Capital Group – it will be used by a Polimex-Mostostal S.A.'s subsidiary.
Adoption and signing on 18.01.2010 of the Directors' Report justifying integration of Polimex-Mostostal S.A. and Energomontaż-Północ S.A., Naftobudowa S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o., ECeRemont Sp. z o.o. under restructuring of the Polimex-Mostostal S.A. Capital Group. Analogous actions were conducted by the Management Boards of Companies Being Acquired. The Issuer informed that the integration of the companies should lead to:
 - saving in costs,
 - improving the Group management system,
 - increasing of the capacity for complete realization of large modernisation and investment projects,
 - more effective utilization of human, intellectual and material resources,
 - improving of the Group transparency for investors and analysts.
- Receiving on 25.01.2010 of the information from Gloria S.a.r.l., Luxemburg on the sale on 22.01.2010 of 28,702,825 of the Polimex-Mostostal S.A. shares which constituted 6.18% of the shares of the Issuer share capital and 6.18% of the total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A. As a result of the above mentioned transaction Gloria S.a.r.l., Luxemburg is not any longer the shareholder of Polimex-Mostostal S.A.
- Receiving on 04.03.2010 of the Decision of the Minister of Economy of 26.02.2010 on change of Permit No 171/ARP S.A./2008 to conduct economic activities on the area of TSEZ granted to Polimex-Mostostal S.A. on 23.07.2008. According to the contents of the decision received, new conditions were specified for conducting economic activities on the area of the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone:
 - Increase in the current employment level of 2,399 employees in area of Siedlce Sub-zone by hiring until 31.03.2011 of not less than 350 new employees in area of EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone TSEZ, and retention until 31.03.2015 in Siedlce Sub-zone of at least 2,749 employees. - instead of until 31 March 2014.
 - Incurring, by 31 March 2011 – instead of by 31 March 2010, the investment expenditure under § 6 item 1 of the Resolution of the Council of Ministers of 22.11.2006 on the Tarnobrzeg Special Economic Zone (Journal of Laws No 215 item 1581 as further amended) in the amount not less than PLN 210.3 million, -instead of until 31 March 2010.
 - Completion of investment until 31.03.2011. -instead of until 31.03.2010.The above mentioned requirements specified in the permit to conduct business activity in EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone were fulfilled by Polimex-Mostostal S.A. In accordance with the letter of 31.03.2011 to Agencja Rozwoju Przemysłu S.A. (the Agency for the Development of Industry) in Warsaw, branch in Tarnobrzeg, capital expenditure was made in excess of PLN 210,300,000 and more than 350 persons were employed.
- Receiving on 10.03.2010 of the information from Sices International B.V., seated in Amstelveen (the Netherlands), on the sale on 05.03.2010 of 28,617,900 of the Polimex-Mostostal S.A. shares which constituted 6.16% of the shares of the Issuer share capital and 6.16% of the total votes at the General

Meeting of Shareholders of Polimex-Mostostal S.A. As a result of the above mentioned transaction Sices International B.V. is not any longer the shareholder of Polimex-Mostostal S.A.

- Withdrawal of 12.03.2010 by the Polimex-Mostostal S.A. Extraordinary General Meeting of Shareholders from voting on the bills of resolutions on integration due to failure to obtain the necessary 2/3 of votes for approval of the share exchange parity defined for Naftobudowa S.A. As a result, the Management of Polimex-Mostostal S.A. intends to continue combination works based on separate combination documentation for Naftobudowa S.A. and 6 other companies i.e. Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE-Rybnik Sp. z o.o., ECeRemont Sp. z o.o.

As a result of the above mentioned facts, on 26.04.2010 the Combination Plan specifying the principles of combination of Polimex-Mostostal S.A. – Acquiring Company, and 6 Companies Being Acquired i.e. Energomontaż-Północ S.A., Naftoremont Sp. z o.o., Zakłady Remontowe Energetyki Kraków Sp. z o.o., Zakłady Remontowe Energetyki Lublin S.A., EPE-Rybnik Sp. z o.o. and ECeRemont Sp. z o.o. was signed. Analogous actions were conducted by the Management Boards of Companies Being Acquired. The Combination Plan defined among other things the method of combination and its legal grounds, Companies Being Acquired valuation methodology, parity for exchange of the shares of Energomontaż-Północ S.A., and Zakłady Remontowe Energetyki Lublin S.A. for the shares of the Combination Issue, parity for exchange of the shares of Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o. for the Combination Issue Shares and principles for assignment of the Acquiring Company shares. Polimex-Mostostal S.A. held, as the Acquiring Company, 100% of shares of ECeRemont Sp. z o.o. and EPE Rybnik Sp. z o.o., thus the combination with these companies was conducted on the basis of Article 515 § 1 of the Code of Commercial Companies, i.e. without the Acquiring Company share capital increase by the amount corresponding the value of the shares of ECeRemont sp. z o.o. and EPE Rybnik sp. z o.o. respectively. The Combination Plan constitutes an attachment to the Issuer's current report No 27/2010 of 27.04.2010.

In turn on 29.04.2010 the Combination Plan specifying the principles of combination of Polimex-Mostostal S.A., the Acquiring Company, and Naftobudowa S.A., the Company Being Acquired was signed. On the same date the Combination Plan was signed by Naftobudowa S.A. The Combination Plan defined among other things the method of combination and its legal basis, methodology of valuation of Naftobudowa S.A., exchange ratio of Naftobudowa S.A.'s shares for the combination issue and the principles of vesting the shares of the Acquiring Company. The Combination Plan constitutes an attachment to the Issuer's current report No 28/2010 of 30.04.2010.

- Receiving on 16.04.2010 of Appendix no 2 to the Contract on guarantee, signed by Deutsche Bank Polska AG and increasing the limit for guarantees up to PLN 100.0 million.
- Polimex-Mostostal S.A. Supervisory Board appointed Ernst & Young Audit Sp. z o.o. with registered office in Warsaw at 1 Rondo ONZ to be the entity authorized to audit financial statements with which a contract is to be concluded for audit of the financial statements for 2010 prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group, and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2010.
- Signing on 06.07.2010 of Appendixes to the package of Contracts under which the Company's co-operation with Bank PEKAO S.A. in the scope of credit facilities, guarantee facilities and credit and guarantee facilities was extended.
- Holding on 12.07.2010 of an Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. which gave its consent to:
 - the combination of Polimex-Mostostal S.A. with 6 companies: Energomontaż-Północ S.A., Naftoremont Sp. z o.o., ZRE Kraków Sp. z o.o., ZRE Lublin S.A., EPE Rybnik Sp. z o.o. and

ECeRemont Sp. z o.o. by transferring all assets of these companies to Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010;

- the combination of Polimex-Mostostal S.A. with Naftobudowa S.A. by transferring all assets of this company to Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 29 April 2010; the resolution on combination with Naftobudowa S.A.

On 12.07.2010 the Extraordinary Meeting of Shareholders of EPE Rybnik Sp. z o.o. was held, which gave its consent to the combination of EPE Rybnik Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 12.07.2010 the Extraordinary Meeting of Shareholders of ECeRemont Sp. z o.o. was held, which gave its consent to the combination of ECeRemont Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 13.07.2010 the Extraordinary Meeting of Shareholders of Naftoremont Sp. z o.o. was held, which gave its consent to the combination of Naftoremont Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 16.07.2010 the Extraordinary Meeting of Shareholders of ZRE Kraków Sp. z o.o. was held, which gave its consent to the combination of ZRE Kraków Sp. z o.o. with Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 16.07.2010 the Extraordinary Meeting of Shareholders of Naftobudowa S.A. was held, which gave its consent to the combination of Naftobudowa S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 29 April 2010.

On 19.07.2010 the Extraordinary Meeting of Shareholders of Energomontaż-Północ S.A. was held, which gave its consent to the combination of Energomontaż-Północ S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

On 22.07.2010 the Extraordinary Meeting of Shareholders of ZRE Lublin S.A. was held, which gave its consent to the combination of ZRE Lublin S.A. and Polimex-Mostostal S.A. on terms specified in the Combination Plan agreed on by the managements of combining companies on 26 April 2010.

- Signing on 20.07.2010 with Raiffeisen Bank Polska S.A. Appendix to Debt Contract under which the limit for guarantees issued was increased to PLN 100.0 million. The guarantee facility is valid until 31 July 2011.
- Receiving on 04.10.2010 a factoring contract signed by Bank Millennium S.A., the subject of which is buying out of debt from the Municipality of Kraków in the maximum amount of PLN 83,300,000, in the maximum settlement cycle by 31.03.2013.
- Signing on 07.10.2010 with EFG Eurobank Ergasias S.A. Spółka Akcyjna Branch in Poland, conducting operations under the business name of Polbank EFG, the Contract for Multifunctional Credit Limit in the amount of PLN 100.0 million.
- Receiving on 19.11.2010 Annex No. 2 to Framework Agreement No 1/2009 to grant bank guarantees concluded with PKO BP S.A. Annex No 2 to Framework Agreement No 1/2009 to grant bank guarantees for the total amount of PLN 200 million was a technical annex extending the limit availability for 3 months

i.e. by the time the Bank receives positive decisions extending the limit availability for another year. On 03.02.2011 the Issue received Annex No 3 to Framework Agreement No. 1/2009 to grant bank guarantees signed by Powszechna Kasa Oszczędności Bank Polski S.A. Annex No 3 to Framework Agreement No 1/2009 to grant bank guarantees for the total amount of PLN 200 million extended the limit availability until 17.11.2011.

- Receiving on 23.11.2010 Annex No 5 to Agreement to grant a guarantee facility No 2366865WS10100700 signed by Kredyt Bank S.A. Annex No 5 to the above mentioned Agreement decreased the amount of facility by PLN 8.6 million to PLN 147.4 million and extended its availability for a year i.e. until 31.10.2011. The balance by which the limit was decreased i.e. PLN 8.6 million remained in Polimex-Mostostal Capital Group. The limit will be used by a subsidiary of Polimex-Mostostal S.A.
- Receiving on 24.11.2010 a Factoring Agreement signed by Bank Milenium S.A. The subject matter of the concluded Agreement was purchasing receivables the Company is entitled to from the Municipality of Kraków in the maximum amount up to PLN 150 million in the maximum settlement period until 31.03.2013.
- Signing with Credit Agricole Corporate and Investment Bank S.A. Branch in Poland (former Calyon S.A., Branch in Poland) on 06.12.2010 of Annex no 14 to the Framework Agreement on Bank Guarantees and Opening of Letters of Credit No. CRD/041117/06/113/G, increasing the limit granted from 165 million PLN to 190 million PLN and extending the term for its utilization until 31.10.2011.
- Issuing on 31.12.2010 by the District Court for the capital city of Warsaw, 12th Economic Department of National Court Register (Krajowy Rejestr Sądowy) the following decisions:
 - on entering the combination of Polimex-Mostostal S.A (the acquiring company) with the following companies: Energomontaż-Północ S.A. with the registered office in Warsaw, Naftoremont Sp. z o. o. with the registered office in Plock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with the registered office in Lublin, EPE-Rybnik Sp. z o. o. with the registered office in Rybnik, ECeRemont Sp. z o.o. with the registered office in Zielona Góra (the acquired companies) conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of these companies to Polimex-Mostostal S.A., registration of an increase of share capital due to the combination with the above mentioned companies and of amendments to the Articles of Association of Polimex - Mostostal S.A – in accordance with Resolution No 1 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.
 - on entering the combination of Polimex-Mostostal S.A (the acquiring company) with Naftobudowa S.A. with the registered office in Kraków conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of Naftobudowa S.A. to Polimex - Mostostal S.A., registration of an increase of share capital due to the combination with Naftobudowa S.A. and of amendments to the Articles of Association of Polimex - Mostostal S.A – in accordance with Resolution No 2 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.

As a result of conducted combinations the share capital of Polimex-Mostostal S.A. increased to PLN 20,836,728.12 (twenty million eight hundred thirty-six thousand seven hundred twenty-eight and 12/100) and it divides into 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) ordinary shares that entitle to 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) votes in a general meeting. The information memorandum was made public in an electronic form on 23.12.2010 by running it on the Issuer's website (www.polimex-mostostal.pl) and on the website of the investment company acting as an offering party (www.dibre.pl).

9. Events significant for operations of the Company that occurred after the end of financial year and until approval of the financial statement

The following events that may have significant impact upon position of the Company occurred after 31 December 2010:

- Receiving on 17.01.2011 the Agreement to provide eFinancing services signed by Pekao S.A. The subject matter of the Agreement is purchasing by Pekao S.A. receivables of the Consortium, on whose behalf Polimex-Mostostal S.A. is acting, from the General Directorate for National Roads and Motorways Branch in Katowice arising from Contract No. GDDKiA/R-1/S-69/M-Ż/2009 concluded between the General Directorate for National Roads and Motorways and the Consortium of companies comprising: Polimex-Mostostal S.A. – the Leader, Doprastav a.s., Zakład Robót Mostowych "MOSTMAR" Marcin i Grzegorz Marcinków Sp.j. currently MOSTMAR S.A in the maximum amount of PLN 120 million and in the maximum settlement cycle until 31.12.2012.
- Receiving on 03.03.2010 the Contract of credit facility signed by ING Bank Śląski S.A. Under the credit facility Polimex-Mostostal S.A. will issue bank guarantees up to PLN 200.0 million. The facility is valid until 30.11.2011 and is extended automatically on the same conditions for another 12 month crediting periods until 30.11.2021 unless the parties submit a termination notice before another 12 month period. The period of issued guarantees may not go beyond the maturity date i.e. 30.11.2021.

The Management Board of Polimex-Mostostal S.A.

Konrad Jaskóła
President of the Management Board

Aleksander Jonek
Vice President of the Board

Grzegorz Szkopek
Vice President of the Board

Zygmunt Artwik
Vice President of the Board