POLIMEX-MOSTOSTAL CAPITAL GROUP

DIRECTORS' REPORT ON THE GROUP'S OPERATIONS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

Polimex Mostostal
GRUPA KAPITAŁOWA

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

Contents

1. Economic activities of Polimex-Mostostal Capital Group

The Issuer's Capital Group provides a wide range of construction and erection services. It mounts complete industrial facilities and modernises existing production lines. It constructs public utility buildings, stadiums as well as shopping and entertainment centres. It executes a number of investment projects in the area of road and railroad construction. A significant portion of deliveries for mounted facilities comes from Group's own production plants. The Issuer is recognised as one of the largest producers and exporters of steel products (including platform grates), and an unquestionable leader in modern corrosion protection in particular in the scope of hot dip galvanising.

Within the Capital Group, the Issuer specialises in the management of large investment projects as a general contractor. Execution of tasks requiring the highest competence in the scope of management quality and the technical and technological level of services and deliveries is a direction that is being developed.

In the 1st half 2011 Polimex-Mostostal Capital Group operated in five basic segments: **chemistry, power engineering, construction, road and railway construction industry and production.**

In **the chemical and power engineering industry** the Issuer's Capital Group offers specialist assembly and overhaul services. It is also the supplier of various types of equipment, pressure systems, pipelines, containers, steel structures and other products that are part of production lines. Its production and economic potential enables the Group to perform complete turn key projects. A sectioned-off design centre and erection divisions operate within the Group. Production activity is conducted directly by the Issuer or its subsidiaries; the most important ones being Fabryka Kotłów Sefako (Sefako Boiler Factory) and Energop. As far as companies registered abroad are concerned, one should mention Grande Meccanica SpA, which is the company providing services to refinery industry in the Italian market.

In the construction industry the Issuer's operations focus on mounting various types of public utility and commercial buildings. The Issuer owns modern technologies in the scope of production and further erection of large-size steel structures used while mounting office buildings, retail centres, warehouses and sports facilities. Apart from the Issuer, construction and erection works are performed by ZIB Turbud, and on the foreign market by Coifer Impex SRL, the company registered in Romania.

Within the Group, Polimex-Mostostal together with PRInż-1, a subsidiary, specialises in **road construction,** whereas Torpol, a subsidiary, conducts business activity in the scope of **railroad construction**. The Issuer's Group provides services such as design, construction and rehabilitation of roads and rail and tram lines together with technical facilities that accompany these investments.

As far as **production** is concerned, operating activities are conducted mainly by Polimex-Mostostal S.A. and the subsidiaries: Sefako, Energop, StalFa and Energomontaż-Północ Gdynia mentioned above. The manufactured products are aimed at the needs of projects executed by the Capital Group or directly at the market. Industry as well as general and road construction remain the main customer for steel structures. A significant portion of products is hot dip galvanised.

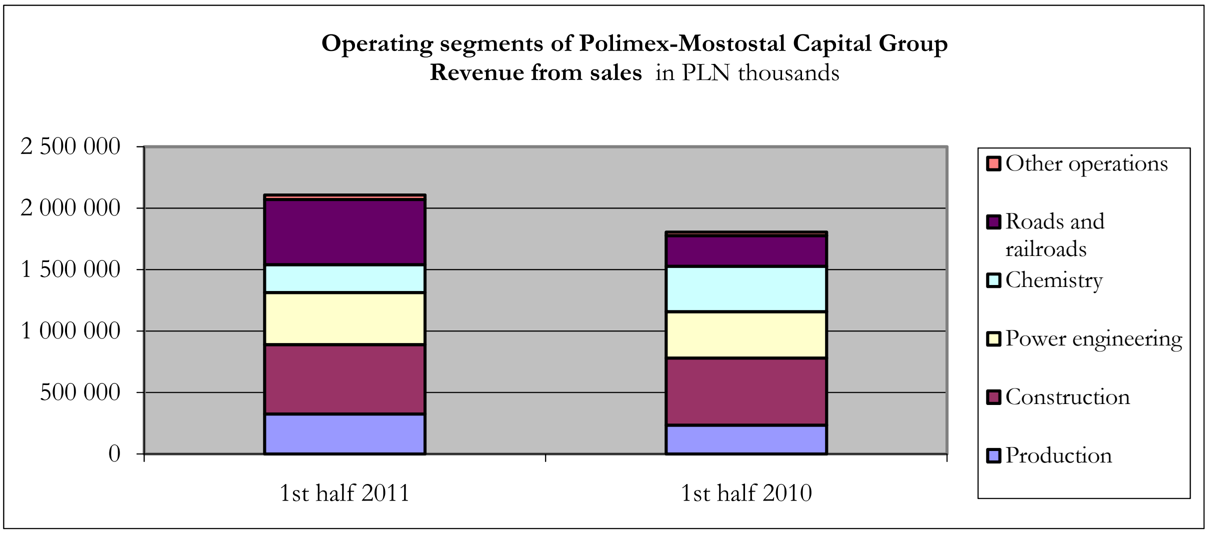
1.1. Revenues and their structure

In the 1st half 2011, Polimex-Mostostal Capital Group raised revenue from sales in the amount of PLN 2,105,850 thousand.

PLN thousands

Segment	Change 1st half 2011 / 1st half 2010	1st half 2011		1st half 2010	
		value	share	value	share
Production	39.8%	325 373	15.5%	232 678	12.9%
Construction	2.9%	563 240	26.7%	547 238	30.3%
Power Engineering	12.2%	423 933	20.1%	377 695	20.9%
Chemistry	-38.7%	226 455	10.8%	369 151	20.5%
Roads and railroads	113.2%	532 643	25.3%	249 816	13.8%
Other operations	15.7%	34 206	1.6%	29 574	1.6%
Total revenue from sales	16.6%	2 105 850	100.0%	1 806 152	100.0%

The highest share in sales was attributed to Construction industry 26.7% (an increase in sales value by 2.9% as against comparable data for the 1st half of 2010), and then to Roads and Railroads 25.3% (an increase in sales value by 113.2% as against comparable data for the 1st half of 2010). A very clear increase in the revenue of Roads and Railroads segment was the result of the dynamic growth of works in the scope of road infrastructure. A significant share in sales was reported in Power Engineering – 20.1%, which is before acquiring and executing modernisation projects in Polish power engineering sector. An increase in the revenue of Production (an increase in sales of 39.8% as against comparative data for the 1st half of 2010) was the result of among other things of fuller and fuller utilisation of new production capacity in the Tarnobrzeg Special Economic Zone. A significant decrease in revenue in Chemistry - mostly as a result of completing Polimex-Mostostal S.A.'s contract on general contracting related to construction and assembly works under investment task "Construction of Terephthalic Acid Production Plant (PTA)",



1.2. Main products and services

The scope of activity of Polimex Mostostal Capital Group in the 1st half of 2011 did not change as against a prior period and in its basic range it included:

- preparation of preproject studies and analyses and of project initial and working documentation;
- comprehensive services for investment process, completion of deliveries of equipment and industrial installations;
- general contracting of industrial facilities and public utility buildings, roads and railroads;
- assembly of special equipment, in particular for chemical and power engineering industry;design, production and sales of power boilers;
- continuous and full-scale servicing of industrial plants in particular power plants and heat and power plants;
- manufacturing of steel structures for the needs of industrial construction mainly for power engineering, petrochemical industry and road construction;
- production, delivery and erection of steel structures used while mounting shopping centres, warehouse halls, sports facilities and public utility buildings, petrol stations, warehouse terminals, drilling rigs and off-shore structures; the Group executes orders using its own typical technical solutions or according to customers' individual projects;
- production, delivery and assembly of bridges, flyovers, footbridges, gantries as well as protection and acoustic barriers used in road construction;
- production and delivery of welded and pressed platform grates of MOSTOSTAL type together with fixing elements, which ensure quick and safe assembly; grates are used in production plants as a component of platforms for servicing production lines and of circulation paths at pipelines and containers; they are also used as pavements at footbridges and bridges, as duct covers, protection of manhole frames and as stair steps;
- production and delivery of shelving systems, pallets and containers for transportation of various types of products and a wide range of construction accessories including construction props used to secure floor slabs;
- services in scope of corrosion protection of steel structures by means of:
  - hot-dip galvanising according to PN-EN ISO 1461 standard,
  - Duplex system (galvanising + hydrodynamic painting),
  - hydrodynamic painting;
- hardware and transport services.

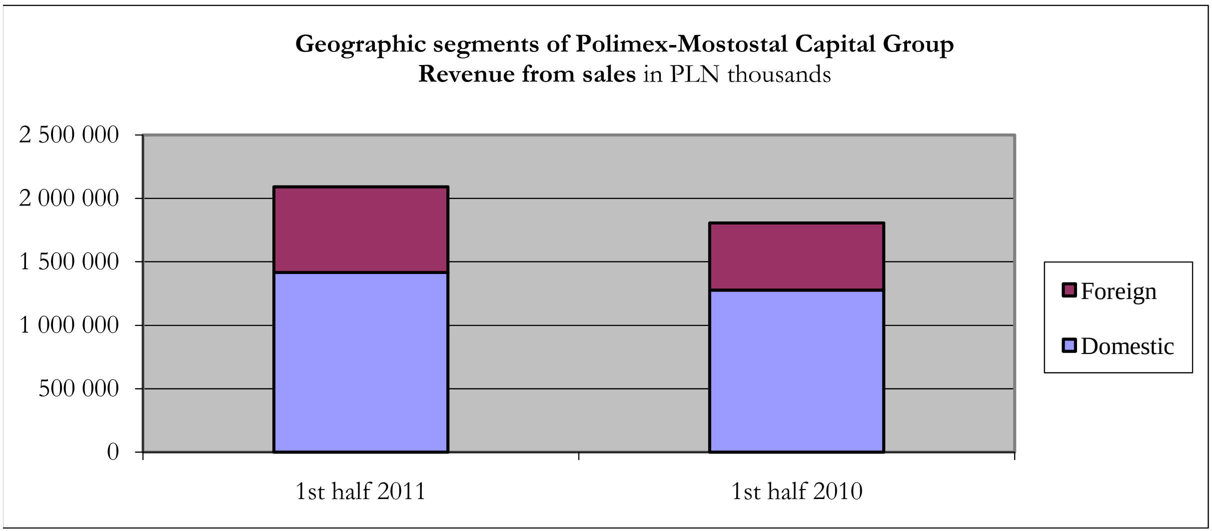
1.3. Trade areas and sources of supply

The value and geographic structure of Polimex-Mostostal S.A. Capital Group's sales in the first half of 2011 was as follows:

PLN thousands

Market	Change 1st half 2011 / 1st half 2010	1st half 2011		1st half 2010	
		value	share	value	Share
Domestic	12.0%	1 430 188	67.9%	1 276 631	70.7%
Foreign	27.6%	675 662	32.1%	529 521	29.3%
Total revenue from sales	16.6%	2 105 850	100.0%	1 806 152	100.0%

As against the 1st half of 2010 the share of sales on foreign markets increased by 2.8 p.p. In the first half of 2011, the domestic market, where 67.9% of total revenues from sales of Polimex-Mostostal Capital Group were generated, remained the principal market for the Group.



The key customers of **the parent entity** in the first half of 2011 were: the General Directorate for National Roads and Motorways, Botlek Tank Terminal – Holland, the Municipality of Krakow, PKN Orlen S.A, the Capital City of Warsaw, Mostostal Warszawa S.A., Południowy Koncern Energetyczny S.A. The threshold of 10% sales was reached for the General Directorate for National Roads and Motorways (10.0% of total sales of the Group). The entity is not formally related to Polimex-Mostostal S.A.

The key suppliers of the parent entity in the first half of 2011 were: Doprastav S.A. Branch in Poland, Foster Wheeler Energia Polska Sp. z o.o., Salzgitter Mannesmann Stahlhandel Sp. z o.o., Thyssenkrupp Energostal S.A., Polbud-Pomorze Sp. z o.o., Coifer Impex SRL, Poldim-Mosty Sp. z o.o., Konsorcjum Stali S.A., Przedsiębiorstwo Handlowo Usługowe „Bychowo". In the 1st half of 2011 purchases from individual suppliers did not exceed 10% of total revenue from sales of Polimex-Mostostal S.A. Group.

The key customers of **Torpol capital group** in the first half of 2011 were: PKP Polskie Linie Kolejowe S.A. (64% of total sales), Gdańskie Inwestycje Komunalne Euro 2012 Sp. z o.o., Municipal Road Administration in Poznan and Projekt-Bud Sp. z o.o. None of the above mentioned business partners is formally related to Torpol company.

The key suppliers of Torpol capital group in the first half of 2011 were: Arcelor Mittal Steel Poland S.A. (10% of total purchases of the group), Alusta S.A., KDM Dariusz Mazur in Michałowice, Elektroskandia Polska S.A., Wytwórnia Podkładów Strunobetonowych S.A in Goczałkowo, Wytwórnia Podkładów Strunobetonowych S.A.

in Mirosław Ujski, Tor-Mel Sp. z o.o., PKP Cargo Service Sp. z o.o., Vossloh Skamo Sp. z o.o., PKP Polskie Linie Kolejowe S.A, BUDNET Waldemar Illmann in Czerwonak and Polskie Kruszywa Sp. z o.o. None of the above mentioned business partners is formally related to Torpol company.

The key customers of **Sefako capital group** in the first half of 2011 were: BWV – Denmark, Martin – Germany, Josef Bertach - Austria, Fisia – Germany, Foster Wheeler Energia Polska Sp. z o.o., LLT - France, Aalborg Energie Technik - Denmark. The threshold of 10% of Sefako Capital Group's sales was exceeded for two customers– BWV (Denmark) and Martin (Germany). These entities are not formally related to Sefako S.A.

The key suppliers of Sefako capital group in the first half of 2011 were: Ekoinstal Jan Klusko i Partnerzy Sp.j., ZRE Katowice S.A., Aquilex Welding Services Poland Sp. z o.o., R - Line Lepiarczyk Sp.j., PGE Obrót S.A.., Panas Transport, Spaw-Serwis, Energomontaż Poznań Sp. z o.o., Algor Sp. z o.o., Zakład Produkcji Rur Sp. z o.o., Bowim S.A., Orbi - Trans Józef Rędziński, AIR Liquide. In the 1st half of 2011 purchases from individual suppliers did not exceed 10% of revenue from sales of Sefako Group.

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

According to information acknowledged by the Issuer, transactions concluded in the first half of 2011 by the Issuer or its subsidiaries with related entities were concluded on market conditions, and their nature and terms resulted from operating activity.

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

In the first half of 2011, capital expenditure of the Capital Group for property, plant and equipment and intangible assets reached the level of PLN 60,028 thousand. The majority was expenditure on plant and machinery (73.7%) and land and buildings (43.3%). Among the performed investments one should mention the continued project of the construction of production installation in Civitavecchia (Grande Meccanica – Italy), purchasing production machinery (Energomontaż Północ Gdynia Sp. z o.o.), modernisation of an office block in Katowice (Polimex-Mostostal S.A.) and expenditure on specialist equipment for railroad works (Torpol Sp. z o.o.). Investment in intangible assets related mainly to computer systems and software (mostly at Polimex-Mostostal S.A.).
The structure of the Group's capital expenditure for property, plant and equipment and intangible assets in the first half of 2011 in line with the statement of financial position as at 30.06.2011 (negative value of fixed assets under construction is the result of the fact that manufactured fixed assets were transferred for use in the 1st half of 2011 and since then they have been recognised in other groups of fixed assets).

1st half 2011		PLN thousands
Investment in property, plant and equipment	value	share
Land and buildings	26 017	43.3%
Plant and equipment	44 236	73.7%
Means of transportation	6 534	10.9%
Other fixed assets	3 336	5.5%
Fixed assets under construction incl. advance payments	-22 412	-37.3%
Total	**57 711**	**96.1%**
Investment in intangible assets	value	share
Patents and Licenses	595	1.0%
Software	1 722	2.9%
Total	**2 317**	**3.9%**
Total property, plant and equipment and intangible assets	**60 028**	**100.0%**

1.6. Equity investments

1.6.1. Changes in investment portfolio

On 31 December 2010 an entry on the combination of Polimex-Mostostal with seven subsidiaries was disclosed in the National Court Register. In this manner formal procedures connected with the incorporation were completed. In the 1st half of 2011 the acquired companies were assimilated with the organisational structure of the Issuer. Planned economic results of the restructuring that was carried out are discussed in more detail in section 2.9 of this report.

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

a) Companies that previously were in Energomontaż-Północ 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.

b) Companies that previously were in Naftobudowa Group:
   - NAF Industriemontage GmbH

c) Companies that previously were in Naftoremont Group:
   - Grande Meccanica SpA
   - Moduł System Service Sp. z o.o.
   - Sinopol Trade Center Sp. z o.o.

More information on operations of the above mentioned companies in presented in section 4.2 of this report.

The list of other changes in the investment portfolio of the Issuer which occurred from 1 January 2011 till the date of preparation of this report is as follows:

- On 01.06.2011 shareholders of Grande Meccanica SpA with its registered office in Narni, Italy adopted a resolution on increasing the share capital of the company from EUR 1.0 million to EUR 2.3 million. The Issuer covered the entire issue by setting off the balance of loans and taking cash. The company allotted the acquired funds to the extension of its production potential. On 26.08.2011 the shareholders of the Company adopted the resolution on increasing the share capital up to the amount of EUR 3.3 million. The company will allot the acquired funds to investments in means of production. The Issuer owns 100% of the shares of Grande Meccanica.
- In the 1st half of 2011 the Issuer continued buying out shares of Centrum Projektowe Polimex-Mostostal Sp. z o.o. As a result of acquiring 8 shares for PLN 1.4 thousand, the Issuer increased its share in the company capital to 99.57% and in votes up to 99.28%. The difference is the effect of voting preference of shares held by company owners.
- On 16.02.2011 an Extraordinary General Meeting of Shareholders of Energomontaż-Północ Gdynia Sp. z o.o. adopted a resolution to increase its share capital from PLN 12,860.0 thousand to PLN 21,860.0 thousand. The Issuer covered the entirety of the new issue spending PLN 9,000.0 thousand on this purpose. After the registration of the new issue, the Issuer's share in company's capital increased up to 99.998%. The company invested the acquired funds in the Special Econimic Zone located at Gdynia Harbour in order to commence business activity in off-shore construction sector.
- On 18.07.2011 the General Meeting of Shareholders of Energomontaż-Północ - Technika Spawalnicza i Laboratorium Sp. z o.o. adopted a resolution to increase the share capital of the company from PLN 143.0 thousand to PLN 2,287.5 thousand. All issued shares were covered by the Issuer. The company allotted acquired funds to purchasing laboratory equipment. The Issuer holds (directly and through a subsidiary) 100% of capital in Energomontaż-Północ – Technika Spawalnicza i Laboratorium.

- On 12.04.2011 the Issuer disposed of all the shares held in Orlen Wir Sp. z o.o. for PLN 28.1 thousand. Before the transaction the Issuer held 0.56 % of capital of the company.
- In Ukraine the Issuer owns two companies: Tchervonograd Metal Structure Plant with its registered office in Tchervonograd and Polimex-Mostostal Ukraine with its registered office in Zhytomir. Both companies were established as joint stock companies. In mid 2011 a new law became effective which amended the prior legal status of each type of companies. The Issuer decided that according to new regulations, the most appropriate form for functioning of Tchervonograd Metal Structure Plant would be „Additional liability company", whereas for Polimex-Mostostal Ukraine it would be „Limited liability company" (both legal forms are close to Polish limited liability company). Accordingly, legal forms of both companies were amended appropriately. Taking the opportunity provided by the new law, the Issuer took action to acquire total control (100% of capital) over Tchervonograd Metal Structure Plant (currently it is 99.63%). The Issuer holds 100% of capital in Polimex-Mostostal Ukraine.
- On 02.02.2010 an application was filed with the District Court for the Kraków-Śródmieście to open the liquidation of PUT Nafto-Tur Sp. z o.o with the registered office in Kraków, a subsidiary of Naftobudowa S.A. (in the reporting period the subsidiary of Polimex-Mostostal S.A.). The company was deleted from the court register on 26.01.2011.

Expenses for acquisition of financial assets (shares / equity interests) by entities of Polimex-Mostostal S.A.'s Capital Group in the first half of 2011 are given in the table below:

1st half of 2011		PLN thousands
Cash expenditure on acquisition of financial assets	value	share
incurred by Polimex-Mostostal S.A.		
Grande Meccanica SpA	1 231.7	12.0%
Energomontaż Północ Gdynia Sp. z o.o.	9 000.0	88.0%
Centrum Projektowe Polimex-Mostostal Sp. z o.o.	1.4	0.0%
Total	**10 233.1**	**100.0%**

The following events changing investment portfolio of Torpol S.A., a subsidiary, occurred in the reporting period and till the report preparation date:

- On 14.06.2011 an Extraordinary Meeting of Shareholders of Torpol sp. z o.o. adopted a resolution to combine the companies of Torpol sp. z o.o. and Elmont-Kostrzyń Wlkp. Sp. z o.o. by transferring the entire assets of Elmont-Kostrzyń to Torpol. Due to the fact that Torpol held 100% of shares in Elmont-Kostrzyń, there was no need to increase the share capital of Torpol. The combination was entered into the National Court Register on 01.07.2011. The Issuer owns 100% of shares in the Torpol Company.

1.6.2. Investment plans

After the period of intense investment in the Issuer's Group, which related mostly to the construction of new production floor in the Tarnobrzeg Special Economic Zone (Polimex-Mostostal S.A.) and in Starachowe Special Economic Zone (Sefako S.A.), in 2011 investment expenditure of the Group companies was set at the level close to the planned amortisation/depreciation. The projected sums cover fully the needs of current operating activity. Additional funds were allotted to the modernisation of the Issuer's office buildings located in Katowice and Warsaw and to the construction of production facilities by Energomontaż-Północ Gdynia in the Special Economic Zone located in Gdynia Shipyard. As for abroad, the construction of production installation was continued in Civitavecchia (Grande Meccanica – Italy). Initiatives in the scope of further investments will be undertaken 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 Issuer's opinion, financing of investment tasks scheduled for 2011 at the use of both internal and external sources of funding, including equity and debt, is totally feasible. Any potential acquisitions of control over new companies conducting operations complementing economic activities of the Issuer shall depend on the market situation and opportunities to raise finance.

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

The following are most significant performance contracts concluded by the **parent company** in the first half of 2011:

- The Contract concluded on 8.06.2011 with Projekt Echo – 55 Sp. z o.o. with the registered office in Kielce to construct "Olimpia" Retail and Entertainment Centre in Bełchatow. The remuneration of the Issuer acting as the general contractor was specified at PLN 80.3 million net.
- The contract concluded on 17.06.2011 to design and construct a multipurpose sports hall for 6,000 spectators in Bacau, Romania. The value of the contract concluded by the consortium of Polimex-Mostostal S.A. (the consortium leader) and Instakon OY, Finland (the consortium partner) amounts to about EUR 14.1 million net. The main contractor of works together with the delivery of steel structures will be Coifer Impex SRJ, Romania (the Issuer's subsidiary).

The more important performance contracts concluded by the **Issuer's Group companies** in the first half of 2011 include:

- Torpol Sp. z o.o.:
  - The contract signed on 11.02.2011 to perform construction works of modernisation of railroad infrastructure of stations and lines in the area of LCS Ciechanów, Ciechanów - Mława section from km 99.450 to km 131.100. LOT A - stations: Konopki, Mława and LOT B - lines: Ciechanów - Konopki, Konopki – Mława under the Project „Modernisation of E 65/CE 65 railroad in Warszawa - Gdynia section- area of LCS Ciechanów". The parties to the contract are: PKP Polskie Linie Kolejowe S.A. (Polish Railroads) with the registered office in Warsaw (the Employer) and the consortium of the following companies: FEROCO S.A. with the registered office in Poznan (the consortium leader), TORPOL Sp. z o.o. with the registered office in Poznan, Zakład Robót Komunikacyjnych – DOM w Poznaniu Sp. z o.o. with the registered office in Poznan and Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. z with the registered office in Zawiercie. The net remuneration for performing the subject matter of the contract was specified at PLN 397.7 million, of which PLN 121.8 million is attributable to TORPOL. The deadline to perform the works was set at 24 March 2013.
  - Two contracts signed on 02.03.2011 with PKP Polskie Linie Kolejowe S.A. (the Employer) to perform construction works in the area of LCS Gdańsk: LOT A - stations, LOT B – lines and LCS Gdynia: Lot A – stations, LOT B - lines under project No. 7.1-1.2 "Modernisation of E 65/C-E 65 railroad in the section Warszawa - Gdynia – area of LCS Gdańsk, LCS Gdynia", of the total amount of PLN 850.6 million net. The contractor is the consortium of the following companies: TORPOL Sp. z o.o. with the registered office in Poznan, FEROCO S.A. with the registered office in Poznan and Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. with the registered office in Zawierce. The net remuneration for the execution of construction works in the area of LCS Gdańsk: LOT A - stations, LOT B – lines was specified at PLN 479.1 million, and the estimated value of works attributable to TORPOL Sp. z o.o. (the Consortium Leader) amounts to PLN 344.8 million. The net remuneration for the execution of construction works in the area of LCS Gdynia: LOT A - stations, LOT B – lines was specified at PLN 371.5 million, and the estimated portion of works attributable to TORPOL Sp. z o.o. (the consortium partner) amounts to PLN 55.6 million net.

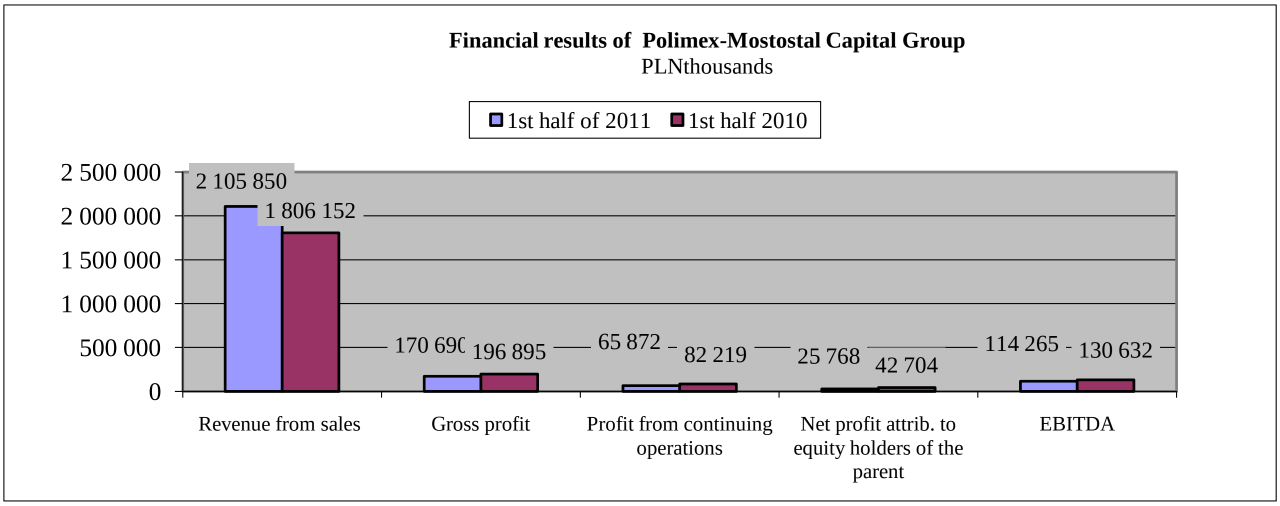
2. Current and expected financial position

2.1. Profit

In the 1st half 2011, **Polimex-Mostostal Capital Group** recorded net profit attributable to equity holders of the parent in amount of PLN 25,768 thousand (a decrease of 39.7% as against comparable data for the 1st half 2010). Profit from continuing operations amounted to PLN 65,872 thousand (a decrease of 19.9% as against comparable data for the first half of 2010). EBITDA value amounted to PLN 114,265 thousand (a decrease of 12.5% as against comparable data for the first half of 2010).

The structure of Consolidated Income Statement of the Capital Group in the first half of 2011 is given below:

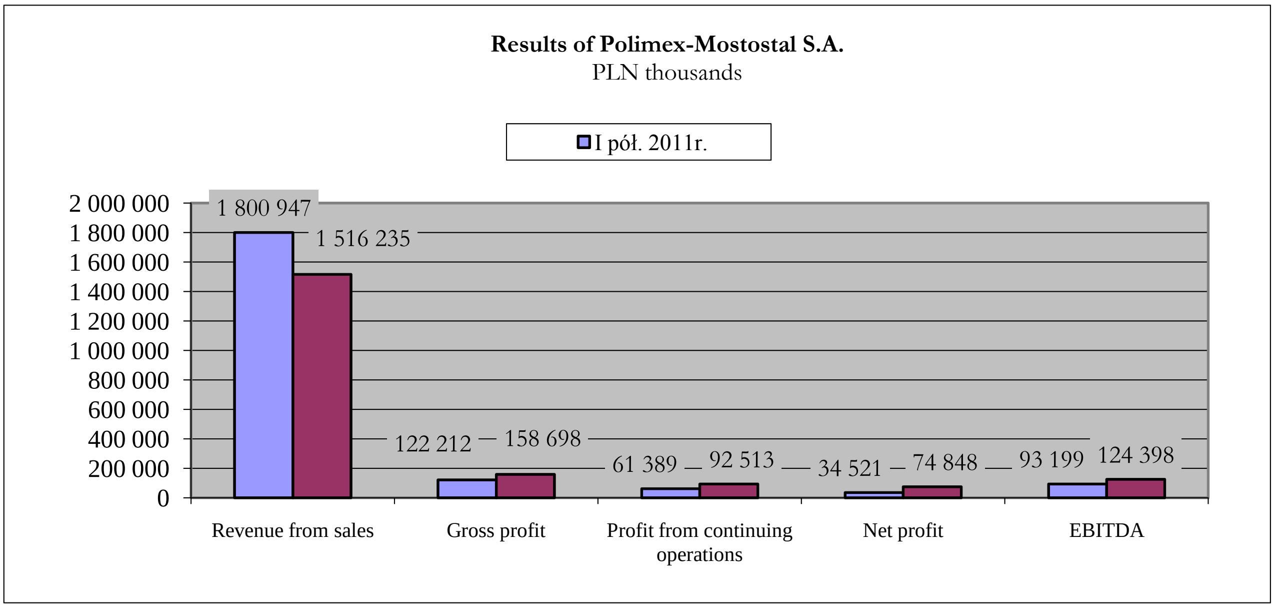
PLN thousands	1st half of 2011	1st half 2010	Change
Revenue from sales	**2 105 850**	**1 806 152**	**16.6%**
Cost of sales	1 935 160	1 609 257	20.3%
Gross profit	**170 690**	**196 895**	**-13.3%**
Other operating income	16 216	9 337	73.7%
Selling costs	18 720	13 283	40.9%
Administrative expenses	94 703	106 334	-10.9%
Other operating costs	7 611	4 396	73.1%
Profit from continuing operations	**65 872**	**82 219**	**-19.9%**
Finance income	5 888	18 734	-68.6%
Finance costs	37 595	39 530	-4.9%
Share in associate's profit	1 556	1 820	-14.5%
Profit before tax	**35 721**	**63 243**	**-43.5%**
Income tax	9 629	15 852	-39.3%
Net profit	**26 092**	**47 391**	**-44.9%**
Net profit attributable to equity holders of the parent	**25 768**	**42 704**	**-39.7%**



In the first half of 2011, t**he parent company** reported a net profit of PLN 34,521 thousand (a decrease of 53.9% as compared against the first half of 2010). Profit from continuing operations amounted to PLN 61,389 thousand (a decrease of 33.6% as against comparable data for the first half of 2010). EBITDA value amounted to PLN 93,199 thousand (a decrease of 25.1% as against comparable data for the first half of 2010). Gross profit on sales amounted to PLN 122,212 thousand (a decrease of 23.0% as against comparable data for the first half of 2010).

The structure of the **parent company**'s Income Statement in the 1st half of 2011 was as follows:

PLN thousands	1st half of 2011	1st half of 2010	Change
Revenue form sales	**1 800 947**	**1 516 235**	**18.8%**
Cost of sales	1 678 735	1 357 537	23.7%
Gross profit	**122 212**	**158 698**	**-23.0%**
Other operating income	9 721	6 695	45.2%
Selling costs	15 831	11 363	39.3%
Administrative expenses	48 726	59 742	-18.4%
Other operating costs	5 987	1 775	237.3%
Profit from continuing operations	**61 389**	**92 513**	**-33.6%**
Finance income	10 561	22 050	-52.1%
Finance costs	30 671	26 062	17.7%
Profit before tax	**41 279**	**88 501**	**-53.4%**
Income tax	6 758	13 653	-50.5%
Net profit	**34 521**	**74 848**	**-53.9%**



The achieved results prove a better performance of the parent company in the 1st half of 2011 as compared to Group Companies. Nevertheless, Polimex-Mostostal S.A. also reported in the 1st half of 2011 results lower than in the 1st half of 2010. The main reasons for poorer performance were as follows:

- No permanent improvement of the situation in the Production segment which resulted in lower margins in a highly competitive market.
- Shifting the dates of issuing calls for tenders and of the execution of modernisation projects in the Polish power engineering sector together with significant costs of bidding.
- Stronger competition from Polish and foreign companies trying to win construction contracts.

In the Issuer's opinion, the following factors will have a beneficial effect on Polimex-Mostostal Group's financial results in the coming periods of 2011:

- **High value of the backlog held by the Group.**

- **Giant modernisation project in the Polish power engineering sector which can still be acquired and executed as they are necessary to maintain the national energy security.**
  It is very likely that Polimex-Mostostal S.A. will win contracts not only to construct the power unit at Siekierki Heat and Power Plant but also to construct 800 – 900 MW power units at Opole Power Plant. By the end of this PGE Elektrownia Opole S.A. will have selected the contractor of the above mention power units out of two consortiums. The first one is composed of Polimex-Mostostal S.A., Rafako S.A. and Mostostal Warszawa S.A., and the other one comprises Alstom Power Sp. z o.o. Polska and Alstom Power Systems GmbH. Both tenders fluctuate around PLN 11 billion gross. The analysis of submitted tenders will take several months.
  Among other things, Polimex-Mostostal S.A. is taking part in tender proceedings to construct power units in Kozienice (about PLN 5.6 billion) together with Hitachi, on its own in Jaworzno (about 5 billion) and in tender procedures in Stalowa Wola (together with Tecnimont) and in Włocławek (together with Ansaldo and Techint), which are worth about PLN 1.6 billion each. The Company has best chances to win in Kozienice, Stalowa Wola and Włocławek. The tender procedure which is closest to awarding the contract, for the construction of the power unit in Kozienice, is in the stage of selecting a technical offer. Then, at the end of 2011 and at the beginning of 2012 final price offers will be placed.

- **Good prospects of construction for the 2nd half of 2011 and for coming years.** In accordance with GUS (Polish Central Statistical Office) data[1] an increase of performed works was reported in all sections of construction industry as compared to July last year**.**
  - Modernisation of Ernest Pohl Stadium in Zabrze – 1st stage (the net value is about PLN 156 million, the contract was signed on 24.08.2011),
  - Construction of the Shaw Hall in Gliwice (the value is about PLN 240 million, the decision of the Polish National Chamber of Appeals awarded the contract to Polimex-Mostostal S.A.)
  - Construction of Katowice Congress Centre (the value is about PLN 205 million, Polimex-Mostostal S.A. offered the best price).

- **Good prospects on domestic road and railroad market.** The confirmation may be signing of two significant contracts by Torpol Sp. z o.o.:
  - Modernisation of Warsaw Łódź railway line, stage II, LOT B2 - Łódź Widzew - Łódź Fabryczna section with Łódź Fabryczna station and construction of an underground part of Łódź Fabryczna station servicing departures and arrivals of trains as well as passengers. Extension of the road system and infrastructure around the multimodal Łódź Fabryczna station - construction of an integrated interchange over and under ul.Weglowa. (amount for the Execution Consortium whose leader is Torpol Sp. z o.o. is about PLN 1.4 billion net, the amount for Torpol Sp. z o.o. is PLN 0.6 billion net),
  - Design and performance of construction works in Kraków -Medyka – state border railroad in the Podłeze – Bochnia section in km 16.000 – 39.000 under the Project „Modernisation of E30/C-E30 railroad, Kraków-Rzeszów section, stage 3" (the net amount is about PLN 290 million).

  Admittedly as for domestic road market the value of investments will decrease starting from 2012, however, this unfavourable trend will be halted in 2013. Then, in accordance with the estimates by Arcata Partners, a consultancy, total expenditure will decrease to about PLN 27 billion. Starting from the

[1] *Index numbers of industrial and construction-assembly production*, Current Information, GUS, 18.08.2011.

following year they will start to grow again. In 2014 expenditure will reach PLN 29 billion, and in 2015 it will be close to PLN 30 billion.

- **Actions taken to intensify Company's presence on foreign markets.** Currently, Torpol group performs the contract in Norway to construct a two track tram line between the centre of the city of Bergen and the airport in Flesland. Polimex-Mostostal S.A. is looking for attractive projects in the scope of road construction outside Poland. At present investments in Romania and Bulgaria are in the centre of attention.

- **Intensification of activities aimed at increasing the level of utilization of the new production installations.**
One should emphasise that Polimex-Mostostal is using in better and better manner taxation benefits arising from conducting economic activity in the Tarnobrzeg Special Economic Zone. On 27.06.2011 the Company received the report of the audit of the Issuer conducted from 24 to 25 May 2011 by the Administrator of the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone, which was approved on 22 June 2011, stating that Polimex-Mostostal S.A. fulfils correctly the terms and conditions included in Permit No. 171/ARP S.A./2008 of 23.07.2008 as further amended to conduct economic activity in EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone. Owing to the fact that the terms and conditions of the Permit were formally fulfilled, the Company commenced to utilise the granted relief in the 2nd quarter of this year. In this manner by 30.06.2011 the Company had made the savings of PLN 2 million on current income tax, which were the signal of further tax benefits.

- **Integration of the support function, optimisation of purchasing costs, integration of operating activity and ownership changes related to the process of combination of Polimex-Mostostal S.A. with the Group's seven subsidiaries completed on 31.12.2010.**

The current backlog of the Group amounts to PLN 12.3 billion, of which PLN 11.9 billion is for signed contracts and PLN 0.4 billion for contracts in the final stage of negotiations. The current backlog for individual years is as follows: 2011 – PLN 3.0 billion (concluded contracts PLN 3.0 billion; contracts in the final stage of negotiations PLN 0.04 billion); 2012 - PLN 5.6 billion (concluded contracts PLN 5.4 billion; contracts in the final stage of negotiations PLN 0.2 billion); 2013 - PLN 2.5 billion (concluded contracts PLN 2.3 billion; contracts in the final stage of negotiations PLN 0.2 billion); in the following years - PLN 1.2 billion which relates in its entirety to concluded contracts.

Current backlog of Group's business, after eliminating sales attributable to consortium members, amounts to PLN 9.0 billion, of which PLN 8.6 billion is concluded contracts and PLN 0.4 billion is contracts in the final stage of negotiations. The current backlog in individual years is as follows: 2011 – PLN 2.4 billion (concluded contracts PLN 2.4 billion; contracts in the final stage of negotiations PLN 0.04 billion); 2012 - PLN 3.8 billion (concluded contracts PLN 3.6 billion; contracts in the final stage of negotiations PLN 0.2 billion); 2013 - PLN 1.9 billion (concluded contracts PLN 1.7 billion; contracts in the final stage of negotiations PLN 0.2 billion); in the following years - PLN 0.9 billion which relates in its entirety to concluded contracts.

2.2. Assets amount and structure

As at 30.06.2011, the statement of financial position total of **Polimex-Mostostal Capital Group** amounted to PLN 4,262,347 thousand (an increase of 8.6% as against comparative data as at 31.12.2010). As at 30.06.2011 non-current assets amounted to PLN 1,713,539 thousand (an increase of 0.1% as against comparative data as at 31.12.2010), and current assets to PLN 2,548,808 thousand (an increase of 15.3% as against comparative data at 31.12.2010). Plant, property and equipment were the largest item in fixed assets structure constituting 23.9%. Trade and other receivables constituting 44.6% of total assets was the largest item of current assets.

A decrease in cash at the end of the 1st half of 2011 is mainly the result of an increase in the receivables for works performed in the reporting period. As against the comparative period the investment expenditure on plant, property and equipment and intangible assets as well as on financial assets was limited by PLN 27,083 thousand.

Amount and structure of **Capital Group** assets as at 30.06.2011 was as follows:

PLN thousands	30.06.2011	% of assets	31.12.2010	% of assets
Non-current assets	**1 713 539**	**40.2%**	**1 712 197**	**43.6%**
Property, plant and equipment	1 021 217	23.9%	1 027 948	26.2%
Investment property	55 229	1.3%	42 316	1.1%
Goodwill on consolidation	488 998	11.5%	487 001	12.4%
Intangible assets	24 994	0.6%	25 234	0.6%
Investments in associates measured using the equity method	14 747	0.3%	14 659	0.4%
Financial assets	5 817	0.1%	4 196	0.1%
Non-current receivables	41 908	1.0%	46 184	1.2%
Non-current prepaid expenses	2 252	0.1%	949	0.0%
Deferred tax assets	58 377	1.4%	63 710	1.6%
Current assets	**2 548 808**	**59.8%**	**2 211 321**	**56.4%**
Inventories	452 961	10.6%	432 930	11.0%
Trade and other receivables	1 899 925	44.6%	1 376 087	35.1%
Income tax receivable	12 627	0.3%	6 808	0.2%
Prepaid expenses	16 371	0.4%	10 077	0.3%
Cash and cash equivalents	160 468	3.8%	373 814	9.5%
Financial assets	6 456	0.1%	11 605	0.3%
TOTAL ASSETS	**4 262 347**	**100.0%**	**3 923 518**	**100.0%**

As at 30.06.2011, the statement of financial position total of **the parent company** amounted to PLN 3,208,341 thousand (an increase of 10.8% as against comparative data as at 31.12.2010). As at 30.06.2011 non-current assets amounted to PLN 1,227,572 thousand (an increase of 2.3% as against comparative data as at 31.12.2010), and current assets to PLN 1,980,769 thousand (an increase of 16.9% as against comparative data at 31.12.2010). Plant, property and equipment were the largest item in fixed assets structure constituting 20.0% of total assets. Trade and other receivables constituting 49.0% of total assets was the largest item of current assets.

Amount and structure of **parent company's** assets as at 30.06.2011 was as follows:

PLN thousands	30.06.2011	% of assets	31.12.2010	% of assets
Non-current assets	**1 227 572**	**38.3%**	**1 200 434**	**41.5%**
Property, plant and equipment	639 612	20.0%	658 324	22.8%
Investment property	47 827	1.5%	36 632	1.3%
Intangible assets	22 770	0.7%	23 533	0.8%
Fianancial assets	446 149	13.9%	409 312	14.1%
Non-current reveivables	28 932	0.9%	28 010	1.0%
Non-current prepaid expenses	542	0.0%	605	0.0%
Deferred tax assets	41 740	1.3%	44 018	1.5%
Current assets	**1 980 769**	**61.7%**	**1 694 462**	**58.5%**
Inventories	225 095	7.0%	222 698	7.7%
Trade and other receivables	1 572 932	49.0%	1 141 709	39.4%
Income tax receivable	9 018	0.3%	0	0.0%
Prepaid expenses	9 371	0.3%	6 536	0.2%
Cash and cash equivalents	129 525	4.0%	280 934	9.7%
Financial assets	34 828	1.1%	42 585	1.5%
TOTAL ASSETS	**3 208 341**	**100.0%**	**2 894 896**	**100.0%**

2.3. Equity amount and structure

Equity attributable to ordinary equity holders of the parent at 31.12.2011 amounted to PLN 1,449,782 thousand (an increase of 0.1% as against comparable data at 31.12.2010), and liabilities amounted to PLN 2,802,554 thousand (an increase of 13.7% as against comparable data at 31.12.2010). The share premium, constituting 17.3% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 47.4% of total equity and liabilities and equity were the largest item of liabilities.

The structure of sources of finance of the **Capital Group** assets at 30.06.2011 is given below:

PLN thousands	30.06.2011	% of equity and liabilities	31.12.2010	% of equity and liabilities
Equity attributable to equity holders of the parent	**1 449 782**	**34.0%**	**1 449 011**	**36.9%**
Issued capital	20 846	0.5%	20 837	0.5%
Share premium	738 237	17.3%	737 454	18.8%
Treasury shares	-6 884	-0.2%	-6 884	-0.2%
Exchange differences on translation of a foreign operation	-10 196	-0.2%	-9 516	-0.2%
Supplementary capital	555 994	13.0%	471 415	12.0%
Other capital	-85 254	-2.0%	-85 254	-2.2%
Reserve capital	31 678	0.8%	33 221	0.9%
Revaluation reserve	1 167	0.0%	3 810	0.1%
Retained earnings	204 194	4.8%	283 928	7.2%
Non-controlling interests	**10 011**	**0.2%**	**9 687**	**0.3%**
Total equity	**1 459 793**	**34.2%**	**1 458 698**	**37.2%**
Liabilities	**2 802 554**	**65.8%**	**2 464 820**	**62.8%**
Non-current liabilities	784 525	18.4%	756 857	19.3%
Current liabilities	2 018 029	47.4%	1 707 963	43.5%
TOTAL EQUITY AND LIABILITIES	**4 262 347**	**100.0%**	**3 923 518**	**100.0%**

Equity of **Polimex-Mostostal S.A.** as at 30.06.2011 amounted to PLN 930,296 thousand (an increase of 1.1% as against comparative data at 31.12.2010), and liabilities amounted to PLN 2,278,045 thousand (an increase of 15.4% as against comparative data at 31.12.2010). The share premium, constituting 23.0% of total equity and liabilities, was the largest item in equity structure. Current liabilities constituting 50.7% of total equity and liabilities and equity were the largest item of liabilities.

The structure of sources of finance of the **parent company's** assets at 30.06.2011 is given below:

PLN thousands	30.06.2011	% of equity and liabilities	31.12.2010	% of equity and liabilities
Equity	**930 296**	**29.0%**	**920 030**	**31.8%**
Issued capital	20 846	0.7%	20 837	0.7%
Share premium	738 237	23.0%	737 454	25.5%
Supplementary capital	555 994	17.3%	471 415	16.3%
Other capital	-444 924	-13.9%	-444 924	-15.4%
Reserve capital	31 678	1.0%	33 221	1.2%
Revaluation reserve	1 193	0.0%	3 851	0.1%
Retained earnings	27 272	0.9%	98 176	3.4%
Liabilities	**2 278 045**	**71.0%**	**1 974 866**	**68.2%**
Non-current liabilities	652 896	20.3%	626 455	21.6%
Current liabilities	1 625 149	50.7%	1 348 411	46.6%
TOTAL EQUITY AND LIABILITIES	**3 208 341**	**100.0%**	**2 894 896**	**100,0%**

2.4. Liquidity

According to the Statement of Cash Flows, in the first half of 2011 there was a net decrease in cash and cash equivalents of PLN 213,346 thousand. Cash and cash equivalents as at the end of the first half of 2011 amounted to PLN 160,468 thousand. Cash from operating activities, due to an increase of amounts receivable for performed works (which is mostly the result of the nature of clearing road contracts performed by the parent company for the benefit of the National Directorate for Roads and Motorways), amounted to - PLN 354,141 thousand. Net cash from investing activities amounted to –PLN 50,149 thousand, and net cash from financing activities amounted to PLN 191,214 thousand.

For the parent company, according to the Statement of Cash Flows, in the first half of 2011 there was a net decrease in cash and cash equivalents of PLN 151,409 thousand. Cash and cash equivalents as at the end of the first half of 2011 amounted to PLN 129,525 thousand. Cash from operating activities, due to an increase of amounts receivable for performed works (which is mostly the result of the nature of clearing road contracts performed for the benefit of the National Directorate for Roads and Motorways), amounted to - PLN 50,602 thousand, and cash from operating activities amounted to PLN 185,724 thousand.

2.5. Assessment of financial resources management

The values of the ratios of the statement of financial position of the **Capital Group** presented below should be considered as correct. At the statement of financial position date, Polimex-Mostostal Capital Group had proper liquidity and repaid contracted debt. Current and quick liquidity ratios were at the safe level and were equal to 1.26 and 1.04 respectively, i.e. similar as at the comparative date. There was a slight increase of the general debt ratio. Lower profitability ratios were caused mainly by the factors mentioned in section 2.1.

Ratios for the Polimex-Mostostal Capital Group	30.06.2011	31.12.2010
Current liquidity ratio *(current assets : current liabilities)*	1.26	1.29
Quick liquidity ratio*((current assets less inventories)* : *current liabilities)*	1.04	1.04
General debt ratio (*liabilities* : *assets*)	65.8%	62.8%

	30.06.2011	30.06.2010
Net profit margin *(net profit : revenue from sales)*	1.2%	2.4%
EBITDA margin (EBITDA : *revenue from sales)*	5.4%	7.2%
Earnings per share *(net profit : weighted average number of shares)*	0.05	0.09

The values of presented ratios indicate a stable financial position of the Group.

The values of the ratios of the statement of financial position of the **parent company** presented below should also be considered as correct. As at the statement of financial position date, Polimex-Mostostal S.A. had proper liquidity and repaid contracted debt. Current and quick liquidity ratios were on a safe level and equalled to 1.22 and 1.08 respectively, i.e. slightly lower than at a comparable date. Profitability ratios for the parent company also decreased as against the 1st half of 2010. Polimex-Mostostal S.A. reported net profit margin which was 0.7 p.p. higher than the one for the Capital Group.

Ratios for Polimex-Mostostal S.A.	30.06.2011	31.12.2010
Current liquidity ratio *(current assets : current liabilities)*	1.22	1.26
Quick liquidity ratio*((current assets less inventories)* : *current liabilities)*	1.08	1.09
General debt ratio (*liabilities* : *assets*)	71.0%	68.2%
	30.06.2011	**30.06.2010**
Net profit margin *(net profit : revenue from sales)*	1.9%	4.9%
EBITDA margin (EBITDA : *revenue from sales)*	5.2%	8.2%
Earnings per share *(net profit : weighted average number of shares)*	0.07	0.14

The values of presented ratios indicate a stable financial position of the parent company.

2.6. Information on loans and borrowings drawn

Total debt of the Capital Group at the end of the first half of 2011 amounted to PLN 1.088,9 million (of which, loans and borrowings PLN 688.9 million, issued debentures PLN 400.0 million). The debt of the parent company amounted to PLN 888.2 million, of which loans and borrowings were PLN 488,2 million and issued debentures were PLN 400.0 million (loans for PLN 2.5 million were eliminated on consolidation of the Group data). The key crediting banks in the first six months of 2011 were:

- for the parent company: Pekao S.A., PKO BP S.A., BPH S.A. and Kredyt Bank S.A.,
- for Group companies: PKO BP S.A., Alior Bank S.A., BOŚ S.A., Kredyt Bank S.A., Bank Millennium S.A., RBS Bank (Poland) S.A. and Intensa Sanpaolo as well as Unicredit Tiriac Bank for foreign companies.

As at 30.06.2011, the following loans and borrowings were to be repaid at the earliest taken out by:

- Polimex-Development Kraków Sp. z o.o. (limits of PLN 10.0 million and 30.4 million, repayment date – 30.06.2011, two investor loans drawn at PKO BP S.A.),
- Stalfa Sp. z o.o. (the limit of PLN 1.0 million, repayment date - 31.07.2011, bank overdraft at Pekao S.A.),
- PRInż Sp. z o.o. (the limit of PLN 2.5 million, repayment date - 12.07.2011, bank overdraft at BOŚ S.A.),
- Polimex-Mostostal S.A. (the limit of PLN 25.0 million, repayable on 15.07.2011, bank overdraft at BGŻ S.A.),
- Polimex-Mostostal S.A. (the limit of PLN 50.0 million, repayment date – 27.07.2011, non-revolving working capital facility, the limit of PLN 50.0 million, repayment date – 31.07.2011, bank overdraft and the limit of PLN 70 million, multicurrency credit facility, repayment date – 31.07.2011; all facilities drafted at Pekao S.A.).

The above mentioned credit facilities have been renegotiated. At present, the date of repayment of loans and borrowings is: for PRInż-1 Sp. z o.o. – 12.07.2012, for Polimex-Development Kraków Sp. z o.o. – the loan of PLN 30.4 million - 30.09.2011, the loan of PLN 10.02 million – the negotiations are being conducted to extend the loan by one year, StalFa Sp. z o.o. – 31.08.2011, for Polimex-Mostostal S.A. – as at the date of preparation of this report a contract was concluded with PEKAO S.A. for a loan in the form of a multipurpose multicurrency credit facility in the total amount of PLN 420.0 million valid until 31.07.2012; the above mentioned contracts for working capital facility, for a bank overdraft and a multicurrency credit facility (under this facility Polimex-Mostostal S.A. may issue bank guarantees for the maximum amount of PLN 250.0 million; the new credit facility is described further in this section) were debited to this limit; an annex was concluded with BGŻ S.A. extending the availability of a credit facility increased up to PLN 35.0 million until 30.05.2012.

At present the loans with the longest maturity apart from the ones mentioned above are investment loans with the following limits (the balances of loan drawings are presented in the Financial Statements of Polimex-Mostostal Capital Group for the six months ended 30.06.2011):

- the loan at Orzesko-Knurowski BS for Centrum Projektowe Polimex-Mostostal Sp. z o.o. in the amount of PLN 14.0 million – repayable on 18.12.2023,
- the investment loan at Bank Millennium S.A. in the amount of EUR 6.0 million for Energomontaż-Północ Gdynia Sp. z o.o. – repayable on 31.12.2018,
- the loan at Intensa Sanpaolo in the amount of EUR 3.3 million for SC Coifer Impex srl – repayable on 08.12.2017,
- the loan at PKO BP S.A. for Sefako S.A. in amount of PLN 48.1 million – repayable on 30.01.2016,
- the loan at Bank PKO BP S.A. for Polimex-Mostostal S.A. in the amount of PLN 150.0 million – repayable on 31.08.2015,
- the loan at BOŚ S.A. for PRInż-1 Sp. z o.o. in the amount of PLN 2.7 million – repayable on 30.06.2014,
- the loan at RBS Bank (Polska) S.A. for Energop Sp. z o.o. in the amount of EUR 5.2 million – repayable on 15.12.2013,
- the loan at Kredyt Bank S.A. for Stalfa Sp. z o.o. in the amount of PLN 2.3 million – repayable on 24.05.2013,
- the loan at Nordea Bank Polska S.A. for Polimex-Mostostal Development Sp. z o.o. in the amount of PLN 8.2 million – repayable on 17.05.2013.

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

- At the end of the first six months of 2011, the balance of loans and borrowings drawn by **Polimex-Mostostal S.A.** (excluding the Debenture Issue Plan) amounted to PLN 490.7 million, of which bank loans PLN 488.2 million and loans drawn PLN 2.5 million (after eliminating accrued undue interest) – loans eliminated on consolidating data of Polimex-Mostostal Group. Polimex - Mostostal S.A. continued current loan contracts:
  - Working-capital, non-revolving facility in convertible currency (EUR) granted by PKO BP S.A. up to EUR 3.4 million (at the end the first half of 2011, debt balance amounted to EUR 2.05 million) and repayable until 26.12.2012. The rate of interest - EURIBOR 1M plus margin.
  - Working-capital, non-revolving facility in Polish zloty granted by PKO BP S.A. up to PLN 11.2 million and repayable on 26.12.2012, at the end of the first half of 2011 debt amounted to PLN 6.7 million. The rate of interest was specified as WIBOR 1M plus margin.
  - Credit facility in the maximum amount of PLN 21.5 million (i.e. 25% of the granted limit) under the multicurrency credit limit at PKO BP S.A. increased up to PLN 86.0 million and with the repayment date extended until 12.02.2013 and with the option to issue guarantees until 12.02.2013. The above mentioned amendments to the limit were introduced with an annex of 11.02.2011 (extending the limit

availability) and of 14.06.2011 (increasing the amount of the limit from PLN 30.0 million to PLN 86.0 million and including in the limit the limits of the following incorporated companies: Naftoremont Sp. z o.o. – the limit of PLN 10.0 million, which may be used for a loan and bank guarantees, valid until 24.06.2011., Naftobudowa S.A. – the limit for bank guarantees and ECeRemont Sp. z o.o. – the credit limit in the amount of PLN 1.0 million; valid until 02.09.2011). As at 30.06.2011 the debt amounted to PLN 14.4 million. The rate of interest was determined based on WIBOR 3M plus margin.

- Bank overdraft up to PLN 30.0 million granted by Bank Ochrony Środowiska S.A. and repayable on 03.07.2011, as at the date of preparation of this report it was extended under an annex until 03.07.2012. As at the end of June this year the debt amounted to PLN 29.7 million. The rate of interest was determined based on WIBOR 1M plus margin.
- Working-capital facility in a current account in the amount of PLN 40.0 million granted by Kredyt Bank S.A. and repayable on 30.10.2011. As at 30.06.2011 the debt amounted to PLN 4.7 million. The rate of interest was determined based on WIBOR O/N plus margin.
- The overdraft facility in amount of PLN 50.0 million granted by Bank Pekao S.A. and repayable on 31.07.2011. (*). As at 30.06.2011, debt amounted to PLN 44.08 million. The rate of interest was determined based on WIBOR 1M plus margin.
- The multi-currency credit facility equivalent to PLN 70.0 million granted by Bank Pekao S.A. with validity until 31.07.2011 (*). As at 30.06.2011, debt amounted to PLN 66.21 million. The rate of interest was determined based on WIBOR 1M plus margin.
- The investment loan in the amount of PLN 150.0 million granted by PKO BP S.A and repayable on 31.08.2015. The loan is assigned to financing of capital expenditure on construction within the Tarnobrzeg Special Economic Zone (TSEZ) Siedlce Sub-zone, a steel structure plant, galvanising plant and paint shop. As at 30.06.2011, debt amounted to PLN 124.36 million. The rate of interest was determined based on WIBOR 1M plus margin, and for debt in foreign currency based on EURIBOR 1M plus margin.
- The multipurpose multicurrency credit facility in the amount of PLN 42.0 million, under which one may issue bank guarantees and letters of credit up to the total amount not exceeding PLN 5 million, granted by BPH S.A. and repayable by 31.08.2011. As at 30.06.2011, debt amounted to PLN 41.82 million. The rate of interest was determined based on WIBOR 1M plus margin.
- Overdraft facility in the amount of PLN 15.0 million granted by Bank Millennium S.A. and repayable on 20.03.2011. The repayment period was extended until 20.03.2012 under the appendix of 17.03.2011. As at 30.06.2011, debt amounted to PLN 15.2 million. The rate of interest was determined based on WIBOR 1M plus margin.
- Overdraft facility in the amount of PLN 5.0 million granted by Bank Millennium S.A. and repayable on 20.03.2011. The repayment period was extended until 20.03.2012 under the appendix of 17.03.2011. As at 30.06.2011, debt amounted to PLN 4.38 million. The rate of interest was determined based on WIBOR 1M plus margin.
- Working capital facility in the current account granted by BGŻ S.A. in the amount of PLN 15.0 million and repayable on 31.05.2011. Under the annex of 19.01.2011 the amount of the facility was increased to PLN 25.0 million (while the guarantee limit was decreased by PLN 10.0 million). As at the date of preparation of this report, under the annex of 15.07.2011 the facility was increased up to PLN 35.0 million and the repayment date was extended until 30.05.2012. As at 30.06.2011, debt amounted to PLN 24.96 million. The rate of interest was determined based on WIBOR 1M plus margin.
- Non-revolving working capital facility granted by PEKAO S.A. in the amount of PLN 50.0 million and repayable on 27.06.2011. The credit facility was technically extended until 27.07.2011 (*). 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 30.06.2011, 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 guarantee and credit facility with the limit of PLN 100.0 million, of which: the debt limit for the facility of up to PLN 50 million, valid until 31.07.2011 (*). As at 30.06.2011, there was no debt.
- The contract for revolving working capital facility acquired with the incorporated company of Naftobudowa S.A., concluded with DZ Bank Polska S.A. in the amount of EUR 3.0 million and repayable by 30.08.2011. As at 30.06.2011, debt amounted to PLN 10.55 million. The rate of interest was determined based on EURIBOR RB plus margin.
- The contract for the bank overdraft acquired with the incorporated company of Naftobudowa S.A. concluded with BPH S.A. in the amount of PLN 10.0 million and repayable by 31.08.2011. As at 30.06.2011, debt amounted to PLN 9.97 million. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract for the non-revolving working capital facility acquired with the incorporated company of ECeRemont Sp. z o.o. concluded with PKO BP S.A. in the amount of PLN 0.6 million and repayable by 04.10.2012. As at 30.06.2011, debt amounted to PLN 0.25 million. The rate of interest was determined based on WIBOR 3M plus margin.
- The contract for the investment loan acquired with the incorporated company of EPE Rybnik Sp. z o.o. concluded with DnB Nord Polska S.A. in the amount of PLN 0.45 million and repayable by 31.03.2013. As at 30.06.2011, debt amounted to PLN 0.29 million. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract for the bank overdraft acquired with the incorporated company of EPE Rybnik Sp. z o.o. concluded with DnB Nord Polska S.A. in the amount of PLN 0.5 million and repayable by 29.06.2011, extended by 29.06.2012. As at 30.06.2011, there was no debt. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract for the bank overdraft acquired with the incorporated company of ZRE Krakow Sp. z o.o. concluded with PEKAO S.A. in the amount of PLN 5.0 million and repayable by 31.12.2011 (*). As at 30.06.2011, debt amounted to PLN 2.39 million. The rate of interest was determined based on WIBOR 1M plus margin.
- The contract for a credit limit acquired with the incorporated company of Energomontaż-Północ S.A. concluded with DNB Nord Bank Polska S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries. Under the granted limit the parties to the contract may utilise the guarantee limit up to PLN 27.0 million, additionally Energomontaż-Północ Gdynia Sp. z o.o. may utilise a bank overdraft up to the maximum of PLN 5.0 million –at present the granted sublimit is PLN 2.0 million). The final availability date was set at 30.06.2012. The rate of interest was determined based on WIBOR 1M plus margin.

In the first six months of 2011 the Company concluded with ING Bank Śląski S.A. a new contract for credit facility in the amount of PLN 200.0 million, which may be utilised in the form of a loan up to PLN 30.0 million, repayable by 30.11.2011 (the contract is automatically renewed on the same terms and conditions for further 12 month crediting periods until 30.11.2021). The above mentioned contract replaced the contract for a guarantee facility in the amount of PLN 36.0 million and validity until 31.03.2011. As at 30.06.2011, debt amounted to PLN 30.04 million. The rate of interest was determined based on WIBOR 1M plus margin.

(*) Moreover, as at the date of preparation of this report a contract was concluded for a loan in the form of a multipurpose multicurrency credit facility in the total amount of PLN 420.0 million. The loan was made available in the form of: (a) a working capital facility up to PLN 200.0 million (of which: PLN 50.0 million is bank overdraft; PLN 150 million a revolving credit facility in a form of tranches to finance contracts that are being executed), (b) bank guarantees granted by the Bank up to the total amount not exceeding PLN 250.0 million;

however, utilisation of PLN 250.0 depends on decreasing the drawing of the working capital facility by PLN 30.0 million. The credit facility was granted by 31.07.2012. The following were debited to the limit:

- the bank overdraft in the amount of PLN 50.0 million repayable by 31.07.2011,
- the loan in the form of a multicurrency credit facility in the amount equal to PLN 70.0 million repayable by 31.07.2011,
- the non-revolving working capital facility in the amount of PLN 50.0 million repayable by 27.07.2011,
- the credit and guarantee facility with the limit of PLN 100.0 million repayable by 31.07.2011,
- the bank overdraft acquired with the incorporated company of ZRE Krakow Sp. z o.o. in the amount of PLN 5.0 million and repayable by 31.12.2011

and the general contract to issue bank guarantees (the limit of PLN 118.5 million; valid until 31.07.2011.) and the general contract to issue bank guarantees/bid bonds (the limit of PLN 30.0 million valid until 31.07.2011).

In the 1st half of 2011 Polimex-Mostostal S.A. utilized loans raised with Depolma GmbH and Polimex Hotele Sp. z o.o.:

- The loan contract of December 2004 concluded with Depolma GmbH repayable by 10.12.2011. As at 30.06.2011, the balance of the loan amounted to EUR 0.2 million (excluding interest). The rate of interest was determined based on EURIBOR 12M plus margin.
- The loan contract of December 2006 concluded with Polimex Hotele Sp. z o.o. in the amount of PLN 1.9 million repayable by 31.12.2011. The rate of interest was determined based on WIBOR 1M plus margin.

In the first six months of 2011 the Company continued its collaboration under factoring contracts concluded with the banks in 2010:

- the contract for efinancing services concluded with PEKAO S.A. (the limit of PLN 100.0 million; expiry date 14.01.2012),
- the factoring contract with risk taking concluded with Bank Millennium S.A. (the limit of PLN 150.0 million; expiry date 31.12.2011).

Moreover, as the date of preparation of this report Polimex-Mostostal S.A. concluded the following annexes/ new contracts:

- an annex to the factoring contract with Bank Millennium S.A. decreasing the limit from PLN 83.3 million to PLN 76.3 million (the limit expires on 28.09.2011),
- a reverse factoring contract with Bank Millennium S.A. with the limit of PLN 22.0 million and expiry date at 17.07.2012,
- the factoring contract with Bank Millennium S.A. with the limit of PLN 36.7 million and expiry date at 17.07.2012.

On 25.08.2010 Annex No 3 to the Agency Agreement and No 4 to Dealer Agreement were signed with BRE Bank S.A. adjusting the provisions of the above mentioned Agreements to the requirements of the Act of 09 July 2005 on trading in financial instruments and of the Regulation of the Minister of Finance of 20.11.2009 on procedure and conditions of performance of investments firms, banks referred to in Article 70.2 of the above mentioned Act and introducing a new regulation for issuing, trading and keeping the deposit of dematerialized debt securities issued through BRE Bank S.A. in non-public trade. On 25.08.2010 Appendix No 2 to the Sales Underwriting Agreement of 30.05.2006 and the Agreement for Determining the Underwriting Rate were executed. In total[2], balance of debentures issued by Polimex-Mostostal S.A. as of the date of preparation of this report amounts to PLN 400.0 million, of which PLN 32.5 million is ascribed to short-term debentures and PLN 367.5 million is ascribed to long-term debentures.

In the 1st half of 2011 Group Companies concluded with banks the following contracts / annexes to contracts in force (the balances of loan drawings are presented in the Financial Statements of Polimex-Mostostal Capital Group for the six months ended 30 June 2011):

- **Polimex-Development Kraków Sp. o.o.** signed an annex to the loan contract concluded with PKO BP S.A. on 24.10.2007 extending the repayment by 30.09.2011 for the loan in the amount of PLN 30.43 million. The rate of interest for the loans equals to WIBOR 3M plus margin. As at the date of preparation of this report the negotiations are conducted to extend the other investment loan at this bank by another year (PLN 10.02 million).
- **Sinopol Trade Center Sp. z o.o.** signed an annex to a bank overdraft contract with Polski Bank Spółdzielczy w Ciechanowie (the limit of PLN 1.05 million) extending the repayment date until 05.05.2012 (the rate of interest is WIBOR 3M plus margin).
- **Polimex-Mostostal Development Sp. z o.o.** concluded three contracts with Nordea Bank Polska S.A. for an investment loan (PLN 8.2 million), for a revolving working capital facility (PLN 2.0 million) and for a bank overdraft (PLN 0.5 million) repayable by 17.05.2013, 17.05.2013 and 18.05.2012, respectively (the rate of interest for the above mentioned products amounts to WIBOR 1M plus margin),
- **PRInż-1 Sp. z o.o.** concluded three new investment loan contracts with Volkswagen Bank Polska S.A. and Getin Bank S.A. to purchase vehicles in the total amount of PLN 0.2 million, under the annex of 08.06.2011 it extended the repayment of the revolving credit at BOŚ S.A. until 02.06.2012 and increased the amount of the loan from PLN 3.5 million to PLN 9.0 million. Moreover, as at the date of preparation of this report it extended the repayment date of a bank overdraft granted by BOŚ S.A. and decreased its amount from PLN 2.5 million to PLN 2.2 million. The new repayment date is at 12.07.2012, and the interest rate for loans at BOŚ S.A. is WIBOR 1M plus margin.
- **Fabryka Kotłów Sefako S.A.** concluded with Nordea Bank Polska S.A. an annex to the revolving credit facility in the current account (the limit of PLN 2.0 million) extending the repayment date until 02.02.2012. The rate of interest for the facilities is WIBOR 1M plus margin. **SPEC Sp. z o.o.**, a subsidiary, repaid at the due date a bank overdraft at PKO BP S.A. (the limit of PLN 0.2 million).
- **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** signed an annex to the multipurpose facility contract concluded with Pekao S.A. (PLN 1.3 million) extending the repayment period until 31.07.2012. (the interest rate for the loan is WIBOR 1M plus margin) and an annex to the bank overdraft contract in the amount of PLN 3.4 million concluded with Bank Millennium S.A. extending the repayment date until 25.05.2012.

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[2] Current issues under Debenture Issue Plan:

i) long-term debentures:
   - on 25.07.2007 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 100 million and with the maturity at 25.07.2012, and
   - on 16.10.2007 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 73 million and with the maturity at 25.01.2013,

     Both blocks of coupon debentures have been consolidated and to 25.07.2012 maturity of half-year interest coupons falls at the same dates.
   - on 16.10.2009 a block of coupon debentures not admitted for listing, denominated in PLN for the amount of PLN 194.5 million and with the maturity at 16.10.2012.

ii) short-term debentures:
   - on 28.06.2006 two blocks of short-term discount debentures not admitted for listing for the total amount of PLN 32.5 million, which were combined in one block on 07.01.2009 and its present maturity is at 31.08.2011.

- **Polimex-Mostostal ZUT Sp. z o.o.** signed with Pekao S.A. an annex to the contract for overdraft facility (PLN 1.0 million) increasing the limit to PLN 1.5 million and extending the repayment period by one year i.e. until 31.01.2012. The rate of interest was determined based on WIBOR 1M plus margin.
- **StalFa Sp. z o.o.** signed with Alior Bank S.A. an annex to the bank overdraft contract (the limit of PLN 7.0 million) extending the repayment date until 30.03.2012 and a new loan contract with the limit of PLN 2.0 million, which replaced the current limit of PLN 3.0 million, repayable on 28.02.2013. The rate of interest for the both loans is based on WIBOR 1M plus margin. At the same time the company repaid two loans drawn at BNP Paribas Bank Polska S.A. (former Fortis Bank S.A.) in the total amount of PLN 11.0 million, and in their place it concluded two new loan contracts with Kredyt Bank S.A. (the investment loan of PLN 2.3 million repayable on 24.05.2013 and the bank overdraft of PLN 5.7 million repayable on 31.12.2012). As at the date of preparation of this report the repayment date of the loan at PEKAO S.A. was extended until 31.08.2011 and the negotiations are being conducted to extend the contract for another year.
- **Zakład Transportu - Grupa Kapitałowa Polimex Sp. z o.o.** concluded with Pekao S.A. an annex to the bank overdraft contract with the limit of PLN 0.3 million extending the repayment date until 31.12.2011 and increasing the limit to PLN 0.5 million (the interest rate for the loan is WIBOR 1M plus margin).
- **Tchervonograd Metal Structure Plant** concluded annexes extending the availability of loans in the amount of EUR 0.25 million and UAH 0.60 million at Bank Ukrgazprombank until 05.12.2011 and a new loan contract with Bank Kredobank with the limit of EUR 0.19 million and repayable on 31.01.2012 (fixed interest rate).
- **PPU Elektra Sp. z o.o.** concluded with Bank Millennium S.A. two contracts: for a bank overdraft (PLN 1.0 million) repayable on 21.03.2012 and for maturity reverse factoring (PLN 1.0 million) available until 27.03.2012 (the interest rate for both products is WIBOR 1M plus margin). Working capital facilities at PKO BP S.A. with the total limit of PLN 0.67 million were repaid.
- **Turbud Sp. z o.o.** concluded with Pekao S.A. a bank overdraft contract of PLN 1.0 million repayable on 31.12.2011. (the rate of interest for the facility equals to WIBOR 1M plus margin).
- **Torpol Sp. z o.o.** concluded with Bank Millennium S.A. a bank overdraft contract with the limit of PLN 10.0 million repayable on 04.04.2012 (the rate of interest was determined based on WIBOR 1M plus margin).
- **Energomontaż-Północ Gdynia Sp. z o.o.** together with Polimex-Mostostal S.A., Energop Sp. z o.o. concluded an annex the quadrilateral bank overdraft contract with DnB Nord Polska S.A., (the loan is utilised by Energomontaż-Północ Gdynia Sp. z o.o.; the maximum limit is PLN 5.0 million – currently granted sublimit PLN 2.0 million) extending the repayment period until 30.06.2012 (the interest rate is WIBOR 1M plus margin) and an investment loan contract at Bank Millenium S.A. with the limit of EUR 6.0 million and repayable on 31.12.2018.

As at the end of the first half of 2011, the weighted average margin for loans of Polimex-Mostostal Capital Group computed based on the limits attributable to the Group was: for loans in Polish zloty: WIBOR 1M + 1.5012 p.p., WIBOR 3M + 2.0936 p.p., WIBOR 6M + 2.8500 p.p. and WIBOR O/N + 1.9500 p.p., and for foreign currency loans: EURIBOR 1M + 2.2912 p.p., LIBOR 1M + 0.9500 p.p., EURIBOR 3M + 2.0712 p.p. The weighted average bank margin for loans contracted by Polimex-Mostostal S.A. amounted to WIBOR 1M + 1.4796 p.p., WIBOR 3M + 1.7975 p.p. and WIBOR O/N + 1.9500 p.p. for loans in Polish zloty and to EURIBOR 1M + 2.2798 for foreign currency loans.

2.7. Information on granted guarantees and borrowings

In the first half of 2011 Polimex-Mostostal S.A. granted new loans to Group Companies under contracts listed below:

- The contract of 27.01.2011 granting Polimex-Mostostal Ukraine a loan in the amount of USD 7.05 million for partial financing of investment process in galvanising plant in Zhytomir. As at the date of preparation of this report PLN 5.5 million was paid out under this loan. The interest rate is fixed. The loan is repayable on 30.08.2012.
- The contract of 23.02.2011 granting PPU Elektra Sp. z o.o. a loan in the amount of PLN 1.0 million to finance the repayment of two loan contracts and to finance current operations. The rate of interest was determined based on WIBOR 3M plus margin. The repayment of the loan was extended and is on 31.03.2012.
- The contract of 03.03.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 1.7 million for financing current activities and the implementation of investment tasks in the 1st half of 2011. As at the date of preparation of this report PLN 1.0 million was paid out under this loan. The rate of interest was determined based on WIBOR 1M plus margin. The loan is repayable on 31.12.2011.
- The contract of 24.03.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.4 million to finance the VAT relating to bringing in the contribution to the special purpose vehicle established to execute the Tatarska 9 investment. PLN 1.5 million was paid out under the loan. The rate of interest was determined based on WIBOR 1M plus margin. The loan is repayable on 30.06.2011. As of the date of preparation of this report the loan was repaid by the Company.
- The contract of 19.05.2011 granting Polimex-Development Kraków Sp. z o.o. a loan in the amount of PLN 2.98 million for financing of current activities of the company in 2011. As at the date of preparation of this report no tranche was paid out under this loan. The rate of interest was determined based on WIBOR 1M plus margin. The repayment date of the loan was agreed with the repayment of the investment loan and the bank overdraft contracted by the Company.
- The contract of 27.05.2011 granting PRInż Sp. z o.o. a loan in the amount of PLN 2.5 million to finance its current operations. As at the date of preparation of this report PLN 1.2 million was paid out under this loan. The rate of interest was determined based on WIBOR 3M plus margin. The loan is repayable on 31.12.2011.
- The contract of 27.05.2011 granting Tchervonograd Metal Structure Plant a loan in the amount of USD 0.9 million to complete the investment process and support the activity in the scope of pressed grates. As at the date of preparation of this report USD 0.6 million was paid out under this loan. The interest rate is fixed. The loan is repayable on 30.09.2011.

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

- to the contract of 06.12.2010 granting ZIB Turbud Sp. z o.o. a loan in amount of PLN 1.5 million for financing of the current activities and preparation works for the new investment at ul.Jachowicza and ul.11 listopada in Płock. The rate of interest was determined based on WIBOR 1M plus margin. The new loan repayment date for the 1st tranche in the amount of PLN 0.75 million falls on 30.06.2011, and for the 2nd tranche in the amount of PLN 0.75 million it is by 30.09.2011.
- to the contract of 23.03.2010 granting Polimex-Mostostal Development Sp. z o.o. a loan in the amount of PLN 6.0 million for financing of the investment at ul. Pustułeczki in Warsaw. The rate of interest was determined based on WIBOR 3M plus margin. Under an annex the repayment date of the loan was agreed with the repayment of the investment loan and the bank overdraft contracted by the Company.
- to the Contract of 09.11.2009 granting Polimex-Development Kraków Sp. z o.o. a loan in amount of PLN 2.5 million for financing the current activities including among others costs of projects and fees connected with completing the investments: "Lelka / Roentgena", "Pustułeczki / Rolna / Makolągwy" and "Smulikowskiego". The rate of interest was determined based on WIBOR 3M plus margin. Under an annex the repayment date of the loan was agreed with the repayment of the investment loan and the bank overdraft contracted by the Company.

- to the Contract of 28.09.2007 granting Polimex-Mostostal Development Sp. z o.o. a loan in amount of PLN 8.2 million for financing of the purchase of lots situated in Warsaw at Roentgena street, in the corner of Lelka street. The rate of interest was determined based on WIBOR 3M plus margin. Under an annex the repayment date of the loan was agreed with the repayment of the investment loan and the bank overdraft contracted by the Company.

On 01.06.2011 the decision was made by the shareholders of Grande Meccanica SpA to increase the Company's capital by EUR 1.3 million. Due to the above mentioned fact the loans granted to the company on 31.03.2011 in the amount of EUR 0.8 million and on 21.12.2010 in the amount of EUR 0.4 million (excluding accrued interest and repaid tranches) and company liabilities to Polimex-Mostostal S.A. in the total amount of EUR 0.1 million were set off against the liability of Polimex-Mostostal S.A. arising from the above mentioned increase of capital.

As at the end of June 2011, total amount of loans paid out by the parent for the benefit of the Group companies was equal to PLN 42.9 million (excluding accrued undue interest), of which PLN 18.72 million is loans paid out in the 1st half of 2011. Developer loans paid out within the amount of PLN 42.9 million amounted to PLN 20.0 million (excluding accrued undue interest), of which loans paid out in the 1st half of 2011 were PLN 3.46 million.

As at 30.06.2011 the **guarantees granted by Polimex-Mostostal S.A.** (including guarantees granted by the incorporated companies and eliminating guarantees granted to the incorporated companies) amounted to PLN 218.3 million, of which guarantees for Group companies were PLN 215.9 million. The largest beneficiary of guarantees became Energomontaż-Północ Gdynia Sp. z o.o., for whom Polimex-Mostostal S.A. granted guarantees to Bank Millennium S.A. up to the total amount of PLN 35.9 million (including guarantees taken over together with the incorporated company of Energomontaż-Północ S.A. in the amount of PLN 12.0 million) arising from loan contracts and the contract for a guarantee facility. Torpol Sp. z o.o. is the second largest beneficiary of guarantees delivered, Polimex-Mostostal S.A. granted guarantees for PKO BP S.A., BGŻ S.A., BZ WBK S.A. and PZU S.A. for credit and guarantee facilities in the total amount of PLN 35.1 million. Apart from the above mentioned subsidiaries, Polimex-Mostostal S.A. delivered guarantees for the repayment of loans and guarantee liabilities/ bill payables drawn by PRINŻ-1 Sp. z o.o. (PLN 19.9 million), Centrum Projektowe Polimex-Mostostal Sp. z o.o. (PLN 18.9 million), Sefako S.A. (PLN 12.8 million), Turbud Sp. z o.o. (PLN 0.8 million), WBP Zabrze Sp. z o.o. (PLN 5.9 million), PxM Projekt Południe Sp. z o.o. (PLN 3.0 million), Stalfa Sp. z o.o. (PLN 12.9 million), ZUT Sp. z o.o. (PLN 2.4 million), Grande Meccanica SpA (EUR 4.6 million). SC Coifer Impex srl (EUR 4.74 million), Tchervonograd Metal Structure Plant (PLN 0.2 million), PPU Elektra (PLN 3.0 million), Polimex-Mostostal Development Sp. z o.o. (PLN 10.7 million), and the subsidiaries of the incorporated companies i.e. Moduł System Serwis Sp. z o.o. (PLN 4.6 million), Sinopol Trade Center Sp. z o.o. (PLN 1.1 million), Energop Sp. z o.o. (PLN 25.4 million). Among Polimex-Mostostal Group companies, the following delivered the largest number of guarantees (in amounts before consolidation): Sefako S.A. (PLN 4.4 million), Torpol Sp. z o.o. (PLN 8.8 million) and Elmont-Kostrzyn Wlkp Sp. z o.o. (PLN 0.3 million). These guarantees were related mostly to subsidiaries. Whereas, Polimex-Development Kraków Sp. z o.o. granted intra-group loans – the loan for BR Development (PLN 0.3 million).

At the end of the 1st half of 2011, weighted average margins for loans granted by Polimex-Mostostal S.A. and the Group company (Polimex-Development Kraków Sp. z o.o.) to other companies of the Group amounted to:

- for loans in Polish zloty: WIBOR 1M + 2.40 p.p.;
- for loans in Polish zloty: WIBOR 3M + 1.80 p.p.;
- for loans in Polish zloty: WIBOR 6M + 0.50 p.p.;
- the rate for foreign currency loans was based on a fixed interest rate.

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

2.8. Information on contract performance bonds and bid bonds

In the first half of 2011, the parent and companies of the Capital Group to large extent utilised contract performance and bid bonds delivered by banks and insurance companies. At the end of June 2011, the value of all bonds delivered upon request of Polimex-Mostostal S.A. (together with the seven incorporated subsidiaries) translated into Polish zloty amounted to PLN 1,185.7 million. At the same time, the value of guarantees delivered by banks and insurance companies upon request of the Group companies (excluding Polimex-Mostostal S.A.) amounted to PLN 284.2 million. An increase in the liabilities of the parent company related to the delivered bonds as compared to the end of the 1st half of 2010 (PLN 926.3 million) was the result of the acquisition of the bonds delivered for the incorporated companies. Among Group companies, the largest number of guarantees and bonds was delivered upon request of: Torpol Sp. z o.o. (PLN 173.6 million), Sefako S.A. (PLN 65.8 million), Grande Meccanica SpA (PLN 16.5 million) and SC Coifer Impex (PLN 9.1 million).

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

- in **march 2011** with ING Bank Śląski S.A. a contract for credit facility in the amount of PLN 200.0 million, which may be utilised in the form of bank guarantees and a loan up to PLN 30.0 million, repayable by 30.11.2011 (the contracts is automatically extended on the same terms and conditions for further 12 month crediting periods until 30.11.2021). This contract replaced the contract for a guarantee facility in the amount of PLN 36.0 million and validity until 31.03.2011. The granted limit covers the guarantees valid for Polimex-Mostostal S.A. and the ones of the incorporated companies: Naftoremont Sp. z o.o. and Energomontaż-Północ S.A., whose limits expired in November 2009, with BRE Bank S.A. a framework contract for guarantee facility in the amount of PLN 75.0 million valid until 31.08.2011,
- in **May 2011**: with Caja de Ahorros y Pensiones de Barcelona „la Caixa" (Savings Bank) Branch in Poland the contract for bank guarantee facility in the amount of PLN 60.0 million for an indefinite time, with RBS Bank (Polska) S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries, the framework contract relating to the regulations of delivering bank guarantees and opening letters of credit with the limit of PLN 200.0 million (sublimits of PLN 10.0 million for each of the above mentioned subsidiaries), for an indefinite time (the contract replaced the current limit of PLN 150.0 million and the limit of former Energomontaż-Północ S.A. and its subsidiaries in the amount of PLN 50.0 million),
- in **June 2011:** with BNP Paribas Bank Polska S.A. the contract for guarantee facility with the limit of PLN 80.0 million and the first current availability period starting on 18.06.2012 (the crediting period to 19.06.2021), with TUiR Warta S.A. the contract to grant insurance contract performance bonds under the guarantee limit of PLN 60.0 million valid until 09.01.2012.

Moreover, in the first half of 2011, the Company concluded the following annexes:

- to the contract for bank guarantee facility with Bank Millennium S.A. increasing the limit from PLN 143.2 million to PLN 163.2 million. The granted limit consolidated the prior limit of Polimex-Mostostal S.A. and of the incorporated company of Naftobudowa S.A.,
- to the contract for bank guarantee facility at Deutsche Bank Polska S.A. extending its validity until 30.03.2012,
- to the contract for guarantees, sureties and opening letters of credit at BGŻ S.A. extending technically the availability of the facility until 15.07.2011 (as at the date of preparation of this report the Company signed a new contract),
- to the contract on setting of the concentration limit in the form of revolving facility for issuing bank guarantees at BOŚ S.A. extending the validity of the limit by another year, i.e. until 30.06.2012,
- to the framework contract for bank guarantees at PKO BP S.A. (the limit of PLN 200.0 million) extending the life of the contract until 17.11.2011,
- to the loan contract in the amount of PLN 30.0 million with PKO BP S.A. extending the limit validity until 12.02.2013 and extending the limit up to PLN 86.0 million. Prior guarantee limits of the incorporated companies of Naftoremont Sp. z o.o. (the multipurpose limit of PLN 10.0 million valid until 24.06.2011), Naftobudowa S.A. (the limit for bank guarantees in the amount of PLN 25.0 million

valid until 13.05.2011) were included in this contract. Within the increased limit, Polimex-Mostostal S.A. may utilise a bank loan in Polish zloty up to 25% of the limit and issue national trade bank guarantees up to 100% of the limit,

- to the contract for issuing of contract performance bonds within the revolving limit of 25.0 million with TU Euler Hermes S.A. extending the limit availability period until 30.04.2012,
- to the contract for co-operation in the scope of issuing insurance guarantees within the limit granted at STU Ergo Hestia S.A. increasing the limit from PLN 70.0 million to PLN 90.0 million,
- to the trilateral general contract for granting contract performance bonds concluded with TU InterRisk S.A. and Torpol Sp. z o.o. increasing the limit from PLN 40.0 million to PLN 48.5 million and extending its validity until 30.01.2012.

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

- the contract for granting guarantees, sureties and opening letters of credit with BGŻ S.A. in the amount of PLN 115.0 million valid until 31.05.2012 (the contract replaced the prior limit of PLN 75.0 million valid until 15.07.2011),
- an annex 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 30.06.2012,
- an annex to the contract for a credit limit acquired with the incorporated company of Energomontaż-Północ S.A. concluded with DNB Nord Bank Polska S.A., together with Energomontaż-Północ Gdynia Sp. z o.o. and Energop Sp. z o.o., the subsidiaries. Under the granted limit the parties to the contract may utilise the guarantee limit up to PLN 27.0 million, and additionally Energomontaż-Północ Gdynia Sp. z o.o. may utilise a bank overdraft up to PLN 5.0 million. Under the annex the final availability date was set at 30.06.2012,
- an annex to the general contract with InterRisk TU S.A. Vienna Insurance Group for granting insurance bid bonds increasing the limit from PLN 40.0 million to PLN 45.0 million and extending the validity until 18.07.2012,
- an annex to the contract of assigning debt with Raiffeisen Bank Polska S.A. extending the validity of the limit of PLN 100.0 million until 28.09.2012 (the final repayment date is 27.12.2018),
- annexes to contracts for a bank guarantee facility (PLN 163.0 million) and for documentary letters of credit facility (PLN 10.0 million) with Bank Millenium S.A. extending the validity of both limits until 30.08.2012.

The key banks servicing Polimex-Mostostal S.A. in the scope of guarantees are: Pekao S.A. (PLN 210.6 million), Kredyt Bank S.A. (PLN 134.3 million), Bank Millennium S.A. (PLN 132.3 million), PKO BP S.A. (PLN 106.4 million) and RBS Bank (Polska) S.A. (PLN 88.8 million). Among the issuers of insurance guarantees the largest share was attributable to STU Ergo Hestia S.A. (PLN 70.6 million) and TU InterRisk S.A. Vienna Insurance Group (PLN 35.4 million).

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

- **Fabryka Kotłów Sefako S.A.** concluded an annex to the contracts for guarantee facilities with PKO BP S.A. increasing the limit from EUR 10.0 million to EUR 16.0 million and extending its validity until 20.06.2012, with Nordea Bank Polska S.A. (the limit of EUR 3.0 million) extending the validity of the limit until 02.02.012 and with PEKAO S.A. (the limit of PLN 20.0 million) extending the validity until 31.10.2011.
- **Torpol Sp. z o.o.** concluded annexes: to the contract for debt limit at Raiffeisen Bank Polska S.A. decreasing the limit to PLN 10.0 million and extending its validity until 29.06.2012; to the trilateral contract with InterRisk TU S.A. Vienna Insurance Group and Polimex-Mostostal S.A. increasing the limit from PLN 40.0 million to PLN 48.5 million and extending its validity until 30.01.2012; to the contract for periodic

insurance contract performance bonds with PZU S.A. increasing the limit from PLN 57.7 million to PLN 80.0 million and extending its validity until 25.05.2012; to the framework contract for guarantee facility with HDI-Gerling Polska S.A. with the limit of PLN 15.0 million extending its validity until 02.03.2012 and renewing the contract for granting insurance contract performance bonds within the guarantee limit of PLN 20.0 million at TUiR Warta S.A. and extending its validity until 09.01.2012. Moreover, the Company concluded the contract for granting guarantees and opening letters of credit with Bank Millennium S.A. in the amount of PLN 20.0 million and validity until 04.04.2012 and a new contract for granting guarantees with BGŻ S.A. in the amount of PLN 50.0 million and validity until 31.05.2012 (the contract replaced the limit of PLN 50.0 million valid until 25.08.2011). **Elmont-Kostrzyn Wlkp. Sp. z o.o.** (the subsidiary of Torpol Sp. z o.o.; as at the date of preparation of this report the company was incorporated by Torpol Sp. z o.o.) concluded the contract for guarantee limit with TUiR Warta S.A. (the limit of PLN 5.0 million; valid until 18.01.2012). The limits at TU Generali S.A. (PLN 2.0 million), TUZ S.A. (PLN 2,8 million) and TU Europa S.A. (PLN 3.0 million) were not extended.

- As at the date of preparation of this report, **PRInż-1 Sp. z o.o.** concluded with Bank Ochrony Środowiska S.A an annex to the contract for revolving facility for the delivery of bank guarantees with the limit of PLN 4.5 million extending the validity period until 15.07.2012.
- In June 2011 **Centrum Projektowe Polimex-Mostostal Sp. z o.o.** concluded an annex with Bank Millennium S.A. to the contract for bank guarantees with the limit of PLN 1.5 million extending the validity of the limit until 27.05.2012.
- In July 2011 **PxM Projekt Południe Sp. z o.o.** concluded with Pekao S.A. an annex to the contract for opening of bank guarantee facility with the limit of PLN 1.5 million extending its validity until 31.07.2012.
- In May 2011 **Polimex-Mostostal ZUT Sp. z o.o.** concluded with UNIQUA TU S.A. the contract for guarantee limit of PLN 0.5 million and validity until 23.05.2012.
- **PPU Elektra Sp. z o.o.** concluded with Bank Millennium S.A. the contract for guarantee limit (PLN 1.0 million) valid until 21.03.2012.
- **Energomontaż-Północ Gdynia Sp. z o.o., Energop Sp. z o.o.** and **Polimex-Mostostal S.A.** concluded with RBS Bank (Polska) S.A. the framework contract relating to regulations of granting bank guarantees and opening letters of credit with the limit of PLN 200.0 million (sublimits of PLN 10.0 million for each of the above mentioned subsidiaries), for an indefinite time (the contract replaced the limit of former Energomontaż-Północ S.A. and its subsidiaries in the amount of PLN 50.0 million).

The main banks and insurance companies servicing the Group companies in the scope of guarantees are: PKO BP S.A. (Sefako S.A., Torpol Sp. z o.o.), RBS Bank (Energomontaż-Północ Gdynia Sp. z o.o., Energop Sp. z o.o., SC Coifer Impex srl), BZ WBK S.A. (Torpol Sp. z o.o.), BGŻ S.A. (Torpol Sp. z o.o.), Bank Millennium S.A. (Torpol Sp. z o.o., PPU Elektra Sp. z o.o., Centrum Projektowe Polimex-Mostostal Sp. z o.o., PxM Projekt-Południe Sp. z o.o., Energomontaż-Północ Gdynia Sp. z o.o.) and InterRisk TU S.A. Vienna Insurance Group (Torpol Sp. z o.o., Elmont-Kostrzyn Wlkp Sp. z o.o.), TUiR WARTA S.A. (Torpol Sp. z o.o., Elmont Kostrzyn Wlkp Sp. z o.o.) TU Euler Hermes S.A. (Torpol Sp. z o.o.) as well as PZU S.A. (Torpol Sp. z o.o.).

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

External factors, independent of the Group companies, as well as internal factors, tightly connected with its operations have an impact on the Capital Group's development prospects.

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

Economic activities of Polimex-Mostostal Capital Group 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 development of the Capital Group. GDP growth rate, relationships between exchange rates, changes of interest rates, inflation rate and the situation on the labour market are the most important. The mentioned ratios have an impact on the economic situation of Capital Group companies' contractors. The economic situation of the EU member states determines investment expenditure for the implementation of investment programmes in industry that is the main trade area for the companies of the Capital Group. In turn, the state of home finance affects the scope and pace of execution of government programmes in the scope of road and railroad construction and the level of expenditure for the development of infrastructure incurred by local governments.

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 significant factors that affect the prospects of the development of the Issuer's Capital Group. 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 Group companies to cover the costs of trainings.

The Group's development prospects depend also on the degree of intensification of activities of domestic and foreign competitors. Growth of competition induces decrease of margins. In recent years, competition of the entities outside the EU has increased significantly on the market for construction services.

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 activity of Group companies.

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

Such factors as global financial crisis and accompanying excessive debt of a significant number of the euro zone countries have a negative impact on the situation on markets where the Issuer operates. One can see a decrease in the number of orders and the return of unhealthy competition between companies. As a result the profitability of performed works goes down and the risk related to the execution of works by subcontractors increases.

The Issuer implements a multiannual program aimed at decreasing the negative impact of the economic slowdown on generated financial results.

The e impact of the crisis on the value of investment market in individual segments is not even. Conducts operations in several segments, the Issuer effectively acquires orders which is confirmed by the record high of the backlog. For more information see section 2.1 of this report.

Unsecure market situation makes the employers delay the execution of investment projects, which were planned earlier. This situation forces the Issuer to temporarily shift free resources to other segments. To facilitate this type of actions and to reduce incurred costs the process of incorporation of the seven subsidiaries was completed. Divisions, which continue current activities within the Issuer's organisational structure, were established based on the acquired companies.

The Issuer conducts production as well as construction and assembly activities. Manufactured products are intended to a large extent for the needs of investment tasks performed by the Issuer. From 2008 to 2010 the Group completed the largest investment program in its history, which included the construction of new production lines in Siedlce enabling to significantly increase the capacity in the scope of steel structure manufacturing and galvanising service and in Sędziszów, where the construction of a new production hall enabled the company to increase the production of power engineering boilers. Own deliveries of products which are of key importance for the execution of investments reduce the risk of delayed and incorrect completion of works.

Incorporation of the subsidiaries, apart from having the positive impact on the extent of utilisation of owned resources, allowed to restructure back office operations (finance, human resources, procurement, IT etc.) which serve organisational units responsible for over 80% of Group's sales. The restructuring covered both optimisation of employment and improvement of the processes of managing human and material resources. The restructuring of back office operations, which has been completed this year, will enable to reduce the costs of conducted activity.

The company and the Group are not only extending their production potential, but are also continuing activities aimed at increasing the quality of provided products and services. An Integrated Management System is used in the Company whose key element is Quality Control System. Procedures which are applied guarantee constant improvement of the quality of provided services to the extent that ensures that customers' growing requirements are met. Additionally, the Code of Ethics adopted by Polimex-Mostostal specifies clearly the rules of open communication with customers and of conducting customer satisfaction surveys. Building its competitive advantage, the Issuer counts on high quality, which apart from price and meeting deadlines is a key factor to ensure the satisfaction of business partners.

2.9.3. Growth prospects for the Issuer's Capital Group

The implemented investment programme, completed incorporation and conducted 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 mainly in the scope of the execution of large investment tasks for the benefit of industry as the Investment General Contractor (lower pressure on margins),
- a decrease of a negative effect of the business cycle by enabling a free flow of human resource and equipment between the Issuer's organisational units (improvement of economic effectiveness of conducted activity),
- extending the range of own deliveries to new products, in particular ones which are of key importance to the execution of the entirety of orders (lower risks),
- reduction of costs incurred on own operations (as a result of restructuring of the Issuer's back office).

Completion of tasks specified above will enable the Group to increase the competitive advantage on the main markets where it operates.

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 the first six months of 2011 were not published.

2.11. Basis of preparation of interim financial statements

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

2.12. Information on dividend paid (or proposed)

In accordance with Resolution No 7 of the Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. of 29.06.2011 the dividend for 2010 will be paid in the amount of PLN 20,846,163.04 (say: twenty million eight hundred forty-six thousand one hundred sixty-three zlotys 04/100) i.e. PLN 0.04 (say: four Polish grosz) per share. The record date was specified at 15.09.2011. The dividend will be paid on 30.09.2011.

3. Risk management in the Issuer's Capital Group

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

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 risk management adopted by the Group. Subsidiaries have also verified procedures binding risk management procedures, and now work over alignment of risk management methods to international standards, applying in this scope the experience of the parent company. In the opinion of the Management of the parent, the system regarding internal regulations, official responsibility and decision taking by management boards of the Group companies, facilitate risk identification and assessment, as well as taking actions against identified risk, mitigating negative impact of events upon operations and value of the Group companies. Actions taken by the parent company, including analysis and training as well as decisions of the Management of the parent in the scope of implementation of uniform risk management procedure are compliant with recommendations and spirit of "Best Practices of WSE Listed Companies", and ensure that the parent and companies of the Capital Group will achieve their objectives.

3.1. Description of significant risk factors and threats

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

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

Definition of threats and methods for limiting the level of strategic and financial risk on Group companies' basis is one of issues discussed on regularly held conferences of presidents of companies and management of Polimex-Mostostal S.A.

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

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

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

Systematic mitigation of risk and threats related to economic activities is very important for the parent and other companies of Polimex-Mostostal Capital Group. The most important risk areas and potential threats that are concurrently monitored are:

- impact of macroeconomic environment upon development of the parent company and the Group,

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

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

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

In turn, **political factors,** blocking pace of development of industries where the Capital Group operates by both, suspension of privatisation (chemical and power engineering industry) and lack of complete fulfilment of investment assumptions specified in governmental programmes (e.g. development of infrastructure) should be considered as risks that **may slow down development of the Capital Group**. Additionally, lengthy tender procedures and resignation upon the performance of investment programmes due to the financial crisis, as well as the reduction in procurement by public institutions due to the budget deficit, which may affect in particular infrastructure undertakings, are a significant impediment. In opinion of the Management Board of the parent company, other market participants suffer from impact of the above factors in a similar way, so the Group is not in position worse than its competitors. Multibranch operations allow allocating resources from crisis-stricken sectors to the ones that are still developing.

The parent company limits canvassing actions due to general crisis, but continuously analyse the market in terms of potential acquisitions of complementary companies. **Inefficient acquisition risk** in this area is mitigated by market and profitability analysis prepared by internal specialists and expertises of specialised advisory companies. In the first six months of 2011 the parent company conducted the process of unification of procedures, among other things procedures relating to risk management in organisational units formed as a result of the merger with the seven subsidiaries operating in the industries of power engineering, petrochemistry and environment protection.

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

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

Contract performance bond risk. While concluding a contract, companies of the Capital Group often acting as a key contractor, are obliged to deliver performance bonds, on average in amount of about 10% of contract value. First, the Group companies take this risk, but in the course of outsourcing of the remaining works to sub-contractors, they partially transfer this risk to sub-contractors, obligating them to deliver bonds covering the scope of their works. If sub-contractors are not able to deliver such security in form of bank guarantees or insurance guarantees, settlement is made by deduction of guarantee deposit. In this way, the Group companies transfers a portion of the performance bond to sub-contractors on pro rata basis.

Raw materials price risk. Economic effectiveness of production of the Capital Group depends to large extent on fluctuations in prices of raw materials, mainly steel and zinc composite. Employment of high class specialists on market analysis is the basic factor mitigating this type of risk. Moreover, the parent has implemented procedure for central acquisitions (scale economy, feasibility of negotiating lower purchase price). As far as zinc alloys supply is concerned, the parent is analysing efficacy of utilisation of different types of forward instruments available on financial market.

Risk of change of demand for specialist services of corrosion protection – galvanizing and painting of steel structures in the parent company. 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 their revenue, the Group companies enrich their offer, conduct marketing activities promoting the high quality of provided services, adjust 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. Nevertheless, the management of the Group is aware of the fact that the opening of German and Austrian labour markets may result in the necessity to modify employee remuneration systems. In order to retain valuable employees, the Parent Company has implemented incentive programmes motivating professionals to continuous improvement of qualifications.

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

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

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

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

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

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

On 12 March 2010 Energop Sp. z o.o., the subsidiary, entered into interest rate swap transaction in the form of an amortised swap. The interest rate risk relating to the investment loan in EUR drawn by the Company is the subject of this hedging transaction. The output nominal value of the transaction was specified at EUR 4 million – the hedged amount of loan is reduces (amortised) on quarterly basis in the period from 30 September 2010 (transaction initial date) to 16 December 2013 (transaction final date). Quarterly, in the dates given in the transaction terms and conditions, the company makes an interest payment to the other party based on the fixed interest rate of 2.2% p.a. in exchange for interest payments based on the floating interest rate equal to EUR-LIBOR 3M.

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

- companies which have document risk management strategy and implemented hedge accounting policies; at the statement of financial position date this group includes Polimex-Mostostal S.A. and Torpol Sp. z o.o.,
- companies not applying hedge accounting.

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

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

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

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

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

It is the Group's policy to negotiate the terms of hedging derivative instruments to match the terms of the hedged item so as to maximise hedge effectiveness. The Group Companies monitor the market situation on regular basis and confront hedging transactions they held with projected exposure to foreign currency risk. In the first half of 2011 the Group companies consequently applied the implemented policies for foreign currency risk management. This issue was presented in detail in the interim financial statements for the six months ended 30 June 2011.

3.3. Insurance contracts

In the first six months of 2011 the Group was to large extent utilising both property insurance (including also business operations insurance and professional indemnity insurance) as well as construction and erection works insurance and motor insurance. As at 30.06.2011 **Polimex-Mostostal S.A.** had the following insurance contracts:

- Business operations insurance and property utilisation insurance in basic scope and in guarantee amount of PLN 10 million (Consortium of 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, without the limit of events (Chartis Europe S.A. Branch in Poland). Additionally, in connection with business operations conducted on the British market the company utilises a liability insurance policy issued under the British law with the sum insured of GBP 5,000,000,
- Liability insurance for appointed agents and members of the Management Board (D&O policy) under the policy issued by Chartis Europe S.A. Branch in Poland with the sum insured of PLN 20,000,000,
- Construction and erection all risk insurance under an annual policy revolving from 2010 to 2011 concluded with the consortium of TUiR Warta S.A./STU Ergo Hestia S.A./PZU S.A. The insurance may cover contracts worth up to PLN 400,000,000 to be executed within 48 months. Individual polices were arranges and are used for contracts with terms and conditions different than the ones specified in the general contract,
- Property insurance (property against random events, property against burglary and robbery, including cash in hand and in transport, computer equipment insurance, profit loss insurance, insurance of machines against damages, property insurance in national transport) – under policy issued by the consortium of TUiR WARTA S.A./STU Ergo Hestia SA.,
- CARGO insurance in international transport under a two-year contract concluded for years 2010 and 2011 with Chartis Europe S.A. Branch in Poland.
- Insurance of employees delegated or directed to work outside the borders of the Republic of Poland or travelling abroad on business under foreign medical expenses insurance policy issued by AVIVA TUO S.A.
- "Grono" accident insurance covering workers employed on the national construction sites – under the policy issued by AVIVA TUO S.A.
- Liability insurance for the Designer (professional liability insurance) under the policy issued by Chartis Europe S.A. Branch in Poland with the liability limit of PLN 10,000,000. Due to the scope and value of performed projects the Company has purchased at the consortium of TUiR Warta S.A./STU Ergo Hestia S.A. an oversized liability insurance policy for the Planner with the sum insured of PLN 10,000,000.
- Professional liability insurance/bookkeeping insurance under policy issued by PZU S.A.
- The general contract for motor insurance concluded on 21.04.2010 with TUiR WARTA S.A. – it is the continuation of a biannual contract for the years 2010 – 2012.

In connection with the incorporation of the companies of Naftobudowa S.A., Energomontaż-Północ S.A., Naftoremont sp. z o.o., EPE Rybnik sp. z o.o., ZRE Kraków sp. z o.o., ZRE Lublin S.A. and ECeRemont sp. z o.o. on 31.12.2010 and including them into the organisational structures of Polimex-Mostostal S.A., the polices used by the above mentioned companies until the end of 2010 were not extended and the entire assets and employees of the acquired companies have been covered by the insurance protection under polices used at Polimex Mostostal S.A. As a result, annexes were signed to property insurance contract and the general contract including the assets of the acquired companies into the assets of the acquiring company. Individual insurance contracts concluded before the incorporation by the above mentioned companies (construction and erection contract insurance, motor liability insurance) are still in force until the contracts are completed or the polices expire.

Insurance contracts listed above (excluding insurance against construction/assembly risks, cargo insurance in international transport as well as motor insurance) were concluded in September 2010 for 1 year and are valid until 30.09.2011. CAR/EAR general insurance contract is valid until the end of 2011, whereas the general motor insurance contract is valid until 20.04.2012. As at the date of preparation of this report in connection with the coming expiry dates of insurance contracts inquires have been sent to leading insurers about the continuation of contracts or conclusion of new ones for another year.

In the same period, **companies of the Capital Group** utilised the same type of insurance. All companied purchased business liability insurance (TUiR Warta S.A., STU Ergo Hestia S.A., Chartis Europe S.A. Branch in Poland, PZU S.A., TU Generali S.A. – domestic companies and Axxa Assicurazzioni and Fondiaria SAI SpA – foreign companies) with the sum insured ranging from PLN 0.5 million (WBP Zabrze sp. z o.o.) to PLN 30.0 million (Torpol Sp. z o.o.). Certain companies purchased liability insurance for the designer/architect (including Centrum Projektowe Polimex-Mostostal Sp. z o.o., WBP Zabrze Sp. z o.o., PxM Projekt Południe Sp. z o.o., Torpol Sp. z o.o., Sefako SA) as well as Directors and Officers insurance. These insurance polices, apart from Polimex-Mostostal S.A., were purchased by such companies as Sefako S.A., Torpol sp. z o.o., Energop sp. z o.o., StalFa sp. z o.o., Energomontaż-Północ Gdynia sp. z o.o., Grande Meccanica SpA, Italy at Chartis Europe Branch in Poland, Lloyd's and at AIG Europe. The companies have concluded insurance contracts for their assets (buildings and structures, machines and equipment, equipage, property of third parties, property against fire and other random events, against theft and robbery, computer equipment) as well as national transport and motor vehicle insurance contracts with TUiR Warta S.A., PZU S.A., TU Compensa, TU Generali, UNIQA TU S.A. and ASIBAN and AXA SpA for foreign companies. A number of companies have also purchased Construction/Erection all risk insurance at the consortium of the following insurance companies: WARTA/PZU/Hestia, TUiR Warta S.A., STU Ergo Hestia S.A., TU Allianz Polska S.A., InterRisk TU S.A. Vienna Insurance Group, TU Generali S.A.

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

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

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

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

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

A significant element of the internal control system with regard to the process of preparation of financial statements is the control exercised by the units of internal audit and of internal control. At Polimex-Mostostal S.A. there is internal auditing operating based on „Regulations of the internal auditing" approved by the Management Board of the Company and prepared in accordance with International Standards for the Professional Practice of Internal Auditing. 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 the fist half of 2011 internal auditors identified and analysed the risk of examined processes and assessed the relevance and efficiency of control mechanisms. Polimex-Mostostal S.A. also takes action to cover the Group companies with the internal auditing.

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

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

4. Organisation of the Issuer's Capital Group

4.1. Structure of the Capital Group

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

Polimex-Mostostal S.A.

Domestic companies

	Share
Torpol Sp. z o.o.	100.00%
Fabryka Kotłów Sefako S.A.	89.20%
StalFa Sp. z o.o.	100.00%
Energop Sp. z o.o. *)	99.99%
Energomontaż-Północ Gdynia Sp. z o.o.	99.99%
PRInż-1 Sp. z o.o.	88.62%
Zakład Instalacyjno-Budowlany Turbud Sp. z o.o.	100.00%
Zakład Transportu - Grupa Kapitałowa Polimex Sp. z o.o.	100.00%
Polimex-Mostostal ZUT Sp. z o.o.	100.00%
Przeds. Produkcyjno-Usługowe Elektra Sp. z o.o.	100.00%
Energomontaż-Pólnoc - Technika Spawalnicza i Lab. Sp. z o.o. *)	99.30%
Moduł System Serwis Sp. z o.o.	100.00%
Centrum Projektowe Polimex-Mostostal Sp. z o.o.	99.57%
PxM Projekt Południe Sp. z o.o.	100.00%
WBP Zabrze Sp. z o.o.	99.97%
Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o.	75.00%
Centralne Biuro Konstrukcji Kotłów S.A.	98.50%
Polimex-Development Kraków Sp. z o.o.	100.00%
Polimex-Hotele Sp. z o.o.	100.00%
Polimex-Mostostal Development Sp. z o.o.	100.00%
Zarząd Majątkiem Górczewska Sp. z o.o.	100.00%
Energomontaż-Nieruchomości Sp. z o.o.	100.00%
Polimex-Cekop Development Sp. z o.o.	100.00%
Sinopol Trade Center Sp. z o.o	50.00%
Polimex-Sices Polska Sp. z o.o.	50.00%
Energomontaż-Północ Bełchatów Sp. z o.o.	32.82%
Laboratorium Ochrony Środowiska Pracy Sp. z o.o.	27.50%

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

Foreign companies

Coifer Impex SRL (Romania)	100.00%
Tchervonograd Metal Structure Plant (Ukraine)	99.63%
Depolma GmbH (Germany)	100.00%
Energomontaż Magyarorszag (Hungary)	100.00%
Grande Meccanica SpA (Italy)	100.00%
Polimex-Mostostal Wschód (Russia)	100.00%
Polimex-Mostostal Ukraina (Ukraine)	100.00%
NafIndustriemontage GmbH (Germany)	100.00%

4.2. Information on key entities of the Capital Group

The following companies are the key entities of Polimex-Mostostal Capital Group:

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

  Torpol Sp. z o.o. with the registered office in Poznań started its operations in 1991. The company offers full-scale execution of railway routes and stations, as well as tramways and traction. Poland is the main trade area. The company is developing the Norwegian market, where it is preparing to take part in large railway investments. The company owns its capital group. The conducted investment plan allows for gradual widening of the scope of works executed by own means.

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

  The factory with the registered office in Sędziszów has been operating since 1974. The scope of operations of the company is related to planning, manufacture and sale of water and steam boilers of medium capacity, and contracting of pressure and high-pressure components. As the domestic market is in demand of coal dust and biomass-fired boilers, the company develops and implements internal technical solutions. Export constitutes the most of company sale. The investment plan completed in 2010 increased company production capacities in the scope of production of energy boilers.

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

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

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

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

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

  The company was established in 2001 on the initiative of Energomontaż-Północ S.A. The main activity of the company is production of steel structures and various types of installations for mining, power engineering and chemical sectors. As for new types of activity the company started overhauls of ships and commences operations in off shore structures sector.

- **PRInż -1 Sp. z o.o.**

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

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

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

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

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

- **Grande Meccanica SpA**

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

- **Tchervonograd Metal Structure Plant**

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

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

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

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

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

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

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

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

  The history of the company dates back to 1953. The main activity of the company is conducting of all types of tests relating to electrical and gas welding technology. The company provides services for the benefit of the Issuer's Group and for external customers. The Issuer holds 100 % of company's capital, directly and by Energop, a subsidiary.

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

- **Polimex Mostostal Ukraine**

  The registered office of the company is in Zhytomir, Ukraine. The company performs operation in the scope of construction and erection services. There is a plan to extend the scope of the company's operations with galvanisation services.

- **Moduł System Service Sp. z o.o.**

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

- **Design companies**

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

  - Centrum Projektowe Polimex Mostostal Sp. z o.o. with the registered office in Gliwice,
  - PXM Projekt Południe Sp. z o.o. with the registered office in Kraków,
  - WBP Zabrze Sp. z o.o. with the registered office in Zabrze,
  - Pracownia Wodno-Chemiczna Ekonomia Sp. z o.o. with the registered office in Bielsko-Biała,
  - Centralne Biuro Konstrukcji Kotłów S.A. with the registered office in Tarnowskie Góry.

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

- **Developer companies**

  The developer companies that are within Polimex-Mostostal Capital Group deal with mounting of housing buildings and with real estate administration. One of the companies, Polimex-Cekop Development, holds a block of shares of Polimex-Mostostal S.A. (2.52% of equity). List of developer companies is as follows:

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

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

Apart from the foreign companies presented above, in the composition of the Capital Group there are companies which offer products or services produced by the Issuer's Group in the countries of their registration. These are:

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

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

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

4.3. Employment

Employment in the first half of 2011 was 0.5% lower than in 2010. The process of active acquisition of planning supervisors and specialists was continued, while non-complex repeated works were tried to be outsourced. Internal principles for recruitment and retention of human resources were adjusted to the requirements of the external labour market. In particular task execution forces were strengthen (an increase of 2.3% as against 2010), an employment in back office operations was decreased (a decrease of 15.9% as against 2010). Employment structure in Polimex-Mostostal Capital Group is given below.

Detailed list	Change 1st half 2011 / 2010	Average employment	
		1st half 2011	2010r.
Management Board of the parent	0.0%	4	4
Management Boards of related entities	-29.2%	46	65
Production	2.3%	12 331	12 051
Backoffice	-15.9%	1 794	2 133
Total	**-0.5**	**14 175**	**14 253**

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

In the period from 01.01.2011 until the date of publication of this report, the 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.

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 the President of the Board and than upon his request other members of the Management Board – Vice Presidents. Authorities of executives are given in Regulations of the Board of Directors. Internal division of the Board of Directors members work is conducted on the basis of the Organizational Regulations of the Company. On this basis, members of the Board of Directors are in charge of direct supervision of performance of dependent areas. Each member of the Management Board has the right and obligation to run Company affairs. Without previous resolution of the Management Board, he/she may run affairs not exceeding the scope of ordinary affairs of the Company assigned to a given member of the Management Board observing provisions of the law, Company's Articles of Association, resolutions and regulations of the Company authorities. While taking decisions on the Company affairs, members of the Management Board operate within the limits of justified economic risk, i.e. based on consideration of any information, analyses and opinions that in reasonable opinion of the Management Board should be taken into account for the benefit of the Company.

Neither the Management Board, nor individual members of the Board of Directors may take decisions on issue or redemption of shares. In the first half of 2011, meetings of the Management Board of Polimex-Mostostal S.A. were held on: 5.01.2011, 14.01.2011, 27.01.2011, 7.02.2011, 11.02.2011, 22.02.2011, 11.03.2011, 21.03.2011, 23.03.2011, 02.04.2011, 06.04.2011, 12.04.2011, 28.04.2011, 13.05.2011, 25.05.2011, 03.06.2011, 09.06.2011, 14.06.2011 and 29.06.2011. During the above-mentioned meetings, the Board of Directors took resolutions among other things on: approval of the Group's financial plan, clearance of the combination with the subsidiaries, determination of the uniform wording of the Articles of Association, commercial representations, granting loans, transfer and disposal of real property, donations.

In the period from 01.01.2011 until the date of preparation of this report, the composition of **the Supervisory Board of Polimex-Mostostal S.A.** 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,
- Mieczysław Puławski – Member of the Supervisory Board,
- Andrzej Szumański – Member of the Supervisory Board,
- Jan Woźniak – Member of the Supervisory Board.

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.

The rules for appointment and dismissal of supervisory authorities are given in the Articles of Association. According to the Articles of Association (§ 33.1.d), General Meeting has the authority to appoint and dismiss members of the Supervisory Board.

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

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

In the first half of 2011 the composition of the **Audit Committee** was as follows:

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

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

In the first half of 2011 the composition of the **Remuneration Committee** was as follows:

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

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

4.5. Value of remuneration for executives and senior employees

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

5. Shareholding

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

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

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

As compared to the report for 1st quarter 2011 there were no changes in the scope presented above.

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

The company does not have any preferential assets in terms of voting rights, so interest in share capital is equal to interest in total voting shares at the General Meeting. As at the date of publication of this report shareholding structure of the parent company prepared based on 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 No.	Shareholder	Number of shares/ votes	% share in share capital/total number of votes at GSM
1.	Pioneer Pekao Investment Management S.A. - *all Clients*	52 490 792	10.07
	of which: Pioneer Fundusz Inwestycyjny Otwarty (Open Investment Fund)	52 139 059	10.005
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (Open Pension Fund)	51 872 954	9.95
3.	ING Nationale Nederlanden Polska Otwarty Fundusz Emerytalny (Open Pension Fund)	40 406 650	7.76
4.	Polimex-Cekop Development Sp. z o.o. *	13 152 500	2.52
5.	Other shareholders	363 231 180	69.70
	Number of shares of all issues	**521 154 076**	**100.00**

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

5.3. Representation on corporate governance

In the first half of 2011, the Issuer applied all rules for corporate governance defined under "Best Practice of WSE listed companies". These rules are available on the Warsaw Stock Exchange website: www.corp-gov.gpw.pl.

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

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

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

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

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

In the first half of 2011 neither the parent company nor its subsidiaries acquired the shares of Polimex-Mostostal S.A.

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

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

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

As at 30 June 2011 the Company is the party to proceedings regarding liabilities and debts, which amount in total to at least 10% of Issuer's equity.

The total amount of proceedings in the debt group amounts to PLN 134,855 thousand. Below is the information on the most significant proceedings in the debt group:

1. Defendant: Koksownia Przyjaźń Sp. z o.o., the value of the subject of litigation: PLN 62,546,236.67; the subject of litigation: determination of the amount of remuneration; date of bringing the litigation: 4 December 2009.
2. Defendant: Radkom Sp. z o.o., the value of the subject of litigation: PLN 11,178,293.00; the subject of litigation: clearing of the contract after its termination; date of bringing the litigation: 19 March 2009.
3. Defendant: MHC Engineering Fordertechnik GmbH; the value of the subject of litigation: PLN 8,929,591.70; the subject of litigation: payment; date of bringing the litigation: 14 April 2011.

The total amount of proceedings in the liability group amounts to PLN 37,276 thousand.

In the Issuer's opinion the results of the above mentioned proceedings shall have a positive impact on the Issuer's financial position.

6. Environment protection

Polimex-Mostostal SA. conducts its statutory activity in accordance with the environment protection regulations and ISO 14001 standard. Emission of gas and dust, emission of liquid waste (industrial, sanitary and residual), solid waste and noise are the by-products of Company's activities. The company runs its operations under legal requirements of environment 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 2010 No. 185 item 1243 as further amended). The Company has all necessary permits and environmental decisions required from enterprises by the Polish and Community law, including:

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

The issues of 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. In the first half of 2011, Polimex-Mostostal S.A. was not encumbered with any penalties for exceeding of standards defined in natural protection laws. The production activity of the Company does not pose a threat to the environment

and the level of emission is within the limits specified by the permits. Audits that were conducted by the Voivoidship Inspectorate for Environment Protection prove that the permissible emission levels are not exceeded, the environment payments are made correctly and the reporting required by the low is prepared.
A by-product of activity conducted by the **Issuer's production subsidiaries** (mostly by SEFAKO, StalFa, Energop, Energomontaż-Północ Gdynia) is emission of air pollution, emission of liquid waste (industrial, sanitary and residual), solid waste and noise. The Companies have all necessary permits and environmental decisions required from enterprises by the Polish and Community law:

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

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

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

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

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

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

On 30.06.2011 the contract was concluded with z Ernst & Young Audit Sp. z o.o. with the registered office in Warsaw at Rondo ONZ 1 on audit of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for 2011 and review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2011. The remuneration due to Ernst & Young Audit Sp. z o.o. for the above mentioned services was specified at PLN 850,000 (net).

The following (net) amounts were paid to the auditor in 2011:

- audit of the financial statements for the year 2010............ PLN 423,242,
- review of the financial statements for the 1st half of 2011............ PLN 0,
- tax advisory............ PLN 5,000,
- other services............ PLN 0.

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

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

8. Other significant events in the 1st half of 2011 having impact on operations of the Issuer's Capital Group

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

- In the reporting period the holding of Issuer's shares at Pioneer Pekao Investment Management S.A. (Pioneer) changed. As a result of the transaction conducted on 28.01.2011 the number of shares held by all clients of Pioneer Pekao Investment Management S.A. increased to 52,490,792 shares, which constitute 10.07% of share capital and the same number of total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A. On 17.03.2011 Pioneer Open Investment Fund, the client of Pioneer Investment Management S.A. conducted the transaction of acquisition of the Issuer's shares increasing its holding to 52, 139, 059 shares, which constitute 10.005 of the Issuer's share capital. More details on the above mentioned changes are presented in the Issuer's current reports No. 15/2011 of 04.02.2011 and No. 22/2011 of 24.03.2011.
- In the reporting period the holding of Issuer's shares at Aviva Open Pension Fund Aviva BZ WBK (Aviva OPF) changed several times. As a result of purchasing additional shares on 25.01.2011 and the registration and assimilation on 02.02.2011 of series K and L shares, Aviva OPF held 52,224,329 shares, which constituted 10.03% of share capital and the same percentage of total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A. On 20.04.2011 Aviva OPF disposed of a block of Issuer's shares. After clearing the transaction, Aviva OPF held 51,872,954 shares, which constituted 9.95% of share capital and the same percentage of total votes at the General Meeting of Shareholders of Polimex-Mostostal S.A. More details on the above mentioned transaction are included in the Issuer's current reports No. 16/2011 of 07.04.2011 and No. 28/2011 of 05.05.2011.
- Receiving the report of the audit of the activity conducted by the Issuer in the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone dated 22.06.2011, which stated that Polimex-Mostostal S.A. fulfils correctly the terms and conditions included in Permit No. 171/ARP S.A./2008 to conduct business activity in the EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone.
- In the reporting period, the Board of Directors of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) adopted resolutions, which resulted in admitting to listing the following quantities of the Issuer's shares:
  - 7,500 series A shares (conversion of nominative shares to bearer shares)
  - 235,873 series G shares (covering shares in exchange for subscription warrants)
  - 38,733,090 series K shares (issued in connection with the combination of Polimex-Mostostal S.A. with the companies of : 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.)
  - 17,829,488 series L shares (issued in connection with the combination of Polimex-Mostostal S.A. with Naftobudowa S.A.)

- On 27.01.2011 the Board of Directors of Giełda Papierów Wartościowych w Warszawie S.A. adopted the resolutions on elimination as of 02.02.2011 the shares of Naftobudowa S.A. and the shares of

Energomontaż-Północ S.A. from trading on the WSE Primary Market due to the completed combination of these companies with the Polimex-Mostostal S.A. Company.

- Appointing by Polimex-Mostostal S.A.'s Supervisory Board Ernst & Young Audit Sp. z o.o. with the 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 2011 prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group and for review of the financial statements prepared by Polimex-Mostostal S.A. and Polimex-Mostostal Capital Group for the first half of 2011.
- Due to the outbreak of a military conflict in the territory of Libya, the Issuer withdrew its employees from this country. Machinery and building materials have been secured and will be used again when the political situation in this country is stable.

9. Events significant for operations of Polimex-Mostostal Capital Group that occurred after 30 June 2011 and to the approval of the financial statements

After 30 June 2011 the following events significant to the operations of the **parent company** occurred:

- Signing on 26.07.2011 with the Commune of Świecie the contract for the construction of Inter-Commune Complex for the Disposal of Municipal Waste for the poviats of Świecie and Chełmno in Sulnówek. The net value of the contract is PLN 34.5 million.
- Taking the second place in the tender for the construction of „Podium" sports and show hall in Gliwice. The value of the Issuer's tender is PLN 294.3 million. Due to the fact that the investor rejected for formal reasons the less expensive offer, signing the contract, if any, will take place after conducting appeal procedures.
- Signing on 12.07.2011 the contract with the University of Gdansk for the construction of a teaching and administrative building of the University of Gdansk in Gdansk. The net value of the contract is PLN 62.8 million.
- Signing on 24.08.2011 the contract to perform the first stage of the modernisation of the Ernest Pohl football stadium in Zabrze. The scope of works includes the construction of three new stands. The net value of the contract is PLN 156.5 million.
- Receiving on 13.07.2011 the notification from the Municipal Administration of Roads and Bridges in Tychy on selecting as the most favourable one the tender submitted by the Issuer for the execution of construction works for the project of „Remodelling of National Road No.1 and 86 Gdańsk – Cieszyn in the borders of the city of Tychy – section DK-1". The tender net amount is PLN 121.9 million.

The events listed below and having significant impact upon position of the Issuer's Capital Group companies occurred after 30 June 2011:

- Torpol Sp. z o.o.

  - The contract signed on 18.08.2011 with PKP Polskie Linie Kolejowe S.A. (Polish Railroads) with the registered office in Warsaw, the City of Łódź and Polskie Koleje Państwowe S.A. (Polish National Railways) with the registered office in Warsaw (Employer) for „Modernisation of Warsaw Łódź railroad, stage II, LOT B2 – Łódź Widzew – Łódź Fabryczna section with the Łódź Fabryczna station and the construction of underground section of the Łódź Fabryczna station servicing departures and arrivals of trains and passengers". Extension of the road system and infrastructure around the multimodal Łódź Fabryczna station– construction of an integrated interchange over and under ul.Weglowa". Total remuneration for all works to be executed by the consortium composed of: TORPOL Sp. z o.o. (the consortium leader) and Astaldi S.p.A. with the registered office in Rome, Italy, Przedsiębiorstwo Usług Technicznych INTERCOR Sp. z o.o. with the registered office in Zawiercie and Przedsiębiorstwo Budowy Dróg i Mostów Sp. z o.o. with the registered office in Minsk (the consortium partners) amounts to PLN 1,430.3 million net, of which 40% is attributable to TORPOL Sp z o.o.
  - Signing on 17.08.2011 with Trakcja – Tiltra S.A. with the registered office in Warsaw the contract for the design and construction of Kraków – Medyka – state border railroad, Podłęże – Bochnia section under the project of „Modernisation of E30/C-E30 railroad, Kraków – Rzeszów section, stage III". The net value of the contract is PLN 290,287,460.

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

Konrad Jaskóła	**Aleksander Jonek**	**Grzegorz Szkopek**
President of the Board	Vice President of the Board	Vice President of the Board

Zygmunt Artwik
Vice President of the Board

Warsaw, 30th August 2011.