

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
WITH THE INDEPENDENT AUDITORS' OPINION**



Polimex-Mostostal S.A.
Financial statements for the year ended 31 December 2011
(in PLN thousands)

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Accounting policies and other explanatory notes included on pages 10 to 76 are an integral part of these financial statements

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Financial statements for the year ended 31 December 2011
(in PLN thousands)

INCOME STATEMENT
for the year ended 31 December 2011

		<i>Year ended</i> <i>31 December 2011</i>	<i>Year ended</i> <i>31 December 2010</i>
	Note		
Continuing operations			
Sale of goods		500 825	478 436
Rendering of services		3 357 307	3 003 092
Rental income		13 316	17 723
Revenue	13& 14.1	3 871 448	3 499 251
Cost of sales	14.6	(3 663 793)	(3 165 222)
Gross profit		207 655	334 029
Other operating income	14.2	21 366	20 347
Selling costs		(29 114)	(25 208)
Administrative expenses		(88 860)	(119 707)
Other operating expenses	14.3	(10 839)	(4 312)
Revenue from operating activities		100 208	205 149
Finance income	14.4	40 713	27 682
Finance costs	14.5	(63 428)	(94 377)
Profit before tax		77 493	138 454
Income tax	15	(14 935)	(33 029)
Net profit from continuing operations		62 558	105 425
Profit for the year		62 558	105 425
Earnings per share (in PLN)*:	17		
– number of shares		521 154 076	520 918 203
– basic, for net profit for the year		0.12	0.20
– basic, for net profit from continuing operations for the year		0.12	0.20
Diluted earnings per share (in PLN):			
– number of shares		521 154 076	520 918 203
– diluting potential ordinary shares		12 142 323	12 378 196
– diluted, for net profit for the year		0.12	0.20
– diluted, for net profit from continuing operations for the year		0.12	0.20
*additional information for computation of earnings per share is presented in note No. 17			

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

		<i>Year ended</i> <i>31 December 2011</i>	<i>Year ended</i> <i>31 December 2010</i>
Net profit		62 558	105 425
Net gains/(losses) on valuation of cash flow hedges	14.9	(6 201)	(999)
Deferred tax	5.1,15.3	1 183	188
Other comprehensive income, net of tax		(5 018)	(811)
Total comprehensive income		57 540	104 614

Accounting policies and other explanatory notes included on pages 10 to 76 are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	19	632 564	658 324
Investment properties	21	52 380	36 632
Intangible assets	22	23 457	23 533
Financial assets	23.1	454 387	409 312
Non-current receivables		22 741	28 010
Non-current prepaid expenses		-	605
Deferred tax assets	15.3	30 210	44 018
		1 215 739	1 200 434
Current assets			
Inventories	25	195 948	222 698
Trade and other receivables	26	1 517 070	1 141 709
Income tax receivables		10 101	-
Prepaid expenses	27	10 894	6 536
Cash and cash equivalents	28	176 594	280 934
Financial assets	23.2	60 835	42 585
		1 971 442	1 694 462
TOTAL ASSETS		3 187 181	2 894 896
EQUITY AND LIABILITIES			
Equity			
Issued capital	29.1	20 846	20 837
Share premium		738 237	737 454
Supplementary capital	29.2	555 994	471 415
Other capital		(444 924)	(444 924)
Reserve capital	29.4	32 086	33 221
Revaluation reserve	29.3	(1 167)	3 851
Retained earnings / Accumulated losses		55 429	98 176
Total equity	29	956 501	920 030
Non-current liabilities			
Interest bearing bank loans and borrowings	30	82 317	123 762
Long-term debentures	32	73 000	367 435
Provisions	34	45 826	83 489
Non-current liabilities	33	48 761	51 663
Accruals		-	106
		249 904	626 455
Current liabilities			
Trade and other payables	35	1 373 556	1 079 928
Short-term debentures	32	334 742	39 331
Current portion of interest-bearing bank loans and borrowings	30	211 217	156 928
Income tax payable		-	84
Accruals	35	38 953	36 330
Provisions	34	22 308	35 810
		1 980 776	1 348 411
Total liabilities		2 230 680	1 974 866
TOTAL EQUITY AND LIABILITIES		3 187 181	2 894 896

STATEMENT OF CASH FLOWS for the year ended 31 December 2011

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Gross profit/(loss)		77 493	138 454
Adjustments for:		(29 601)	(57 055)
Depreciation / Amortisation	14.7	59 860	55 676
Interests and dividends, net		47 851	29 761
Loss from investing activities		(1 072)	(10 741)
Change in receivables	28	(374 282)	(83 859)
Change in inventories	28	20 259	(80 948)
Change in payables except for loans and borrowings	28	281 881	18 313
Change in accruals and prepaid expenses	28	(1 236)	(6 468)
Change in provisions	28	(51 165)	1 501
Income tax paid		(10 129)	(19 432)
Write-down for non-current financial assets		2 274	35 000
Other		(3 842)	4 142
Net cash flows from operating activities		47 892	81 399
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		1 472	3 593
Purchase of property, plant and equipment and intangibles		(52 531)	(93 651)
Acquisition of financial assets in related companies		(18 136)	(21 423)
Disposal of financial assets in related companies		-	12 838
Dividends received		2 446	1 998
Interest received		652	1 361
Repayment of loans granted		4 728	1 215
Loans granted		(27 695)	(40 469)
Other		199	190
Net cash flows from investing activities		(88 865)	(134 348)
Cash flows from financing activities			
Proceeds from issue of shares		554	-
Proceeds from issue of debentures		355 550	355 663
Expenses for redemption of debentures		(357 500)	(357 495)
Payment of finance lease liabilities		(2 340)	(3 915)
Proceeds from loans and borrowings		170 716	215 495
Repayment of loans and borrowings		(157 872)	(106 689)
Dividends paid to equity holders of the parent		(20 846)	(18 574)
Interest paid		(52 452)	(40 622)
Other		823	1 099
Net cash flows from financing activities		(63 367)	44 962
Net increase/decrease in cash and cash equivalents		(104 340)	(7 987)
Net foreign exchange difference		2 963	2 109
Cash and cash equivalents at the beginning of the period	28	280 934	288 921
Cash and cash equivalents at the end of the period	28	176 594	280 934

Balance of cash and cash equivalents recognised in the statements of cash flows comprises the following:

	Year ended 31 December 2011	Year ended 31 December 2010
Cash at bank and in hand	176 594	280 934

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2011

	Note	Issued capital	Share premium	Other capital	Reserve capital	Supplementary capital	Revaluation reserve	Retained earnings / Accumulated losses	Total equity
As at 1 January 2011	29	20 837	737 454	(444 924)	33 221	471 415	3 851	98 176	920 030
Profit for the period		-	-	-	-	-	-	62 558	62 558
Other comprehensive income for the period	14.9, 15.1	-	-	-	-	-	(5 018)	-	(5 018)
Comprehensive income for the period		-	-	-	-	-	(5 018)	62 558	57 540
Share issue – exercise of executive options		9	545	-	-	-	-	-	554
Other adjustments		-	238	-	(238)	-	-	120	120
Revaluation of executive options		-	-	-	(897)	-	-	-	(897)
Profit distribution		-	-	-	-	84 579	-	(84 579)	-
Dividends	18	-	-	-	-	-	-	(20 846)	(20 846)
31 December 2011		20 846	738 237	(444 924)	32 086	555 994	(1 167)	55 429	956 501

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2010

	Note	Issued capital	Share premium	Other capital	Reserve capital	Supplementary capital	Revaluation reserve	Retained earnings / Accumulated losses	Total equity
As at 1 January 2010	29	18 574	513 466	(281 090)	30 494	381 566	4 413	162 152	829 575
Profit for the period		-	-	-	-	-	-	105 425	105 425
Other comprehensive income for the period	14.9, 15.1	-	-	-	-	-	(811)	-	(811)
Comprehensive income for the period		-	-	-	-	-	(811)	105 425	104 614
Share issue – combination with subsidiaries		2 263	223 988	-	-	-	-	-	226 251
Other adjustments relating to combination		-	-	(163 834)	-	-	249	(60 978)	(224 563)
Revaluation of executive options		-	-	-	2 727	-	-	-	2 727
Profit distribution		-	-	-	-	89 849	-	(89 849)	-
Dividends	18	-	-	-	-	-	-	(18 574)	(18 574)
At 31 December 2010		20 837	737 454	(444 924)	33 221	471 415	3 851	98 176	920 030

ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES

1. Corporate information

The financial statements of Polimex-Mostostal S.A. cover the year ended 31 December 2011 and contain comparable data for the year ended 31 December 2010.

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

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

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

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

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

The Company has an unlimited period of operation.

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

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

Production,

Construction,

Power engineering,

Chemistry,

Roads and railroads,

Other activities.

The Company is a parent company in Polimex-Mostostal Group.

2. Identification of consolidated financial statements

The Company prepared consolidated financial statements for the year ended 31 December 2011, which was authorised for issue on 20 March 2012.

3. Composition of the Management Board and Supervisory Board

As at 31 December 2011, the Management Board of the company consisted of:

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

In the reporting period and till the day the financial statements have been authorised for issue the composition of the Management Board of the company did not change.

As at 31 December 2011, the Supervisory Board of the company consisted of:

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

On 29 February 2012 at the Extraordinary Meeting of Shareholders of Polimex-Mostostal S.A. the following representatives were dismissed from the composition of the Supervisory Board: Kazimierz Klęk, Mieczysław Puławski, Andrzej Szumański and at the same time the following representatives were appointed: Dariusz Formela, Dariusz Krawczyk, Paweł Dłużniewski, Andrzej Bartos.

Till the date the financial statements were authorised and published the new composition of the Supervisory Board of the company had not established.

4. Approval of financial statements

These financial statements were authorized for issue by the Management Board on 20 March 2012.

5. Company investments

The Company has investments in the following subsidiaries and associates:

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

9	Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.	Siedlce	Transport services	100.00	100.00
10	Polimex-Mostostal ZUT Sp. z o.o.	Siedlce	Engineering services	100.00	100.00
11	Polimex-Mostostal Ukraina SAZ	Kiev	Housing development	100.00	100.00
12	SPB Przembud Sp. z o.o. in liquidation (liquidation process completed on 23 August 2011)	Szczecin	Special and general construction	-	75.54
13	Tchervonograd MSP - Ukraine	Tchervonograd- Ukraine	Metal structure manufacturing	99.61	99.63
14	Polimex-Hotele Sp. z o.o.	Warsaw	Construction housing	100.00	100.00
15	Polimex-Mostostal Development Sp. z o.o.	Warsaw	Housing development	100.00	100.00
16	Torpol Sp. z o.o. (Capital Group)	Poznań	Comprehensive execution of transport facilities	100.00	100.00
17	Energomontaż-Nieruchomości Sp. z o.o.	Warsaw	Real estate trade, maintenance and management	100.00	100.00
18	Energomontaż-Magyarország Sp. z o.o.	Budapest	Construction and erection works, services, trade	100.00	100.00
19	Energomontaż – Północ Gdynia Sp. z o.o.	Gdynia	Construction and erection works, steel structure production, trade	99.99	99.99
20	Energop Sp. z o.o.	Sochaczew	Production of pipelines and steel structures, construction and erection services	99.99	99.99
21	Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o.	Warsaw	R&D	99.96	99.30
22	Centrum Projektowe Polimex Mostostal Sp. z o.o.	Gliwice	Construction, urban and engineering design and planning	99.57	99.51
23	Zakład Budowlano – Instalacyjny Turbud Sp. z o.o.	Płock	Housing development, industrial buildings and rehabilitation	100.00	100.00
24	Zarząd Majątkiem Górczewska Sp. z o.o.	Warsaw	Real estate lease, tenancy and administration	100.00	100.00
25	Przedsiębiorstwo Produkcyjno-Usługowe Elektra Sp. z o.o.	Zielona Góra	Construction and design of overhead lines and transformer stations	100.00	100.00
26	PxM Projekt - Południe Sp. z o.o.	Cracow	Design services in construction sector	100.00	100.00

27	S.C. Coifer Impex SRL	Romania	Steel structure manufacturing	100.00	100.00
28	WBP Zabrze Sp. z o.o.	Zabrze	Design services	99.97	99.97
29	PRInż – 1 Sp. z o.o.	Katowice	Road construction	89.62	88.62
30	Pracownia Wodno Chemiczna Ekonomia Sp. z o.o.	Bielsko Biala	Sewage and water treatment, technical and economic analyses in the scope of modernisation and construction of new systems.	75.00	75.00
31	Polimex-Mostostal Wschód Sp. z o.o.	Moscow, Russia	Special and general construction	100.00	100.00
32	Centralne Biuro Konstrukcji Kotłów S.A.	Tarnowskie Góry	Specialist construction, services	98.50	98.50
33	Grande Meccanica SpA	Narni, Italy	Production, construction	100.00	100.00
Associates					
34	PORTY S.A. in liquidation	Gdańsk	Construction, trade, transport and machine rental	40.00	40.00
35	Polimex-Sices Polska Sp. z o.o.	Warsaw	Execution of erection works	50.00	50.00
36	Valmont Polska Sp. z o.o. (disposal of shares in 1st half 2010)	Siedlce	Manufacturing	-	-
37	Energomontaż Północ Bełchatów Sp. z o.o. (Capital Group)	Bełchatów	Specialist construction and erection services	32.82	32.82

As at 31 December 2011 the percentage of voting rights held by the Company in subsidiaries corresponds to the percentage held by the Group in the share capital of those entities, except for Centrum Projektowe Polimex-Mostostal Sp. z o.o., where voting rights are lower and amount to 99.28% (share in capital 99.57%).

6. Significant values based on accounting judgements and estimates

6.1. Accounting judgements

In the process of applying the accounting policies to the issues described below, the management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Classification of lease commitments

The Company classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership have been transferred from the lessor to the lessee. The assessment is based on economic substance of each agreement.

Identification of embedded derivatives

As at the date of concluding a contract the Company management makes assessments if under the concluded contracts there are economic characteristics and risks typical of an embedded derivative denominated in a foreign currency, which would not be closely related to economic characteristics and risks typical of the host agreement (main contract).

Classification of financial assets

At each balance sheet date the Company makes an assessment if the financial assets it owns are investments held to maturity.

Risk related to recognition of contingent liabilities

At each statement of financial position date the Company makes an assessment if it is necessary to recognise contingent liabilities arising from agreements of acquisition of share in companies.

6.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Assets

The Company conducts tests for impairment of plant, property and equipment in a situation when there are factors proving the possibility of impairment of assets. This requires an estimation of the value in use of the cash-generating unit to which those assets are allocated. Estimating the value in use amount requires making an estimate of the expected future cash flows from the cash-generating unit and also choosing a suitable discount rate in order to calculate the present value of those cash flows.

Valuation of provisions for employee benefits

Provisions for employee benefits are determined using actuarial valuations. The assumptions made for this purpose are presented in Note 24.

Deferred tax assets

The Company recognises deferred tax assets based on the assumption that taxable profits will be available against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. The Company applies professional judgement in selecting appropriate methods and assumptions.

Revenue recognition

Long-term contracts are accounted for by the Company using the percentage of completion method. This method requires the Company to estimate the proportion of work already completed in relation to total work to be performed. If this proportion had been 1 % higher than the one estimated by the Company, the amount of revenue would have been increased by PLN 107,030 thousand and the related costs would have been increased by PLN 98,080 thousand in 2011.

Depreciation and amortisation rates

Depreciation and amortisation rates are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets. The economic useful lives are reviewed annually by the Company based on current estimates.

Provision for losses

At each statement of financial position date the Company carries out a revaluation of estimates of total costs and revenues by virtue of projects in progress. An estimated total loss on a contract is recorded as costs of the period in which it was recognized, according to IAS 11.

Write-down of unnecessary materials

At each statement of financial position date the Company writes down unnecessary materials taking into consideration the period of keeping them in a warehouse and potential possibilities to use in the future.

7. Basis of preparation of financial statements

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

Carrying values of recognised hedged assets and liabilities are adjusted by the changes in fair value related to the hedged risk.

These financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000), if it is not indicated otherwise.

The financial statements have been prepared on the assumption that the Company will continue as going concern in the foreseeable future.

A significant item in equity and liabilities is current loans and debentures with maturity in 2012. To improve the financing mix, the process of divestment was started which includes disposal of a portion of financial and developer's assets. At the same time the process of restructuring of the Group, which is aimed at a further decrease of the costs of operations of business units and at the improvement of their efficiency, is continued. In the opinion of the Board these additional activities along with regular and continued negotiations with the banks as well as the value of assets that may be sold will successfully ensure supplementary financing to the Company.

Taking into consideration the above facts as at the date of authorisation of these financial statements the Company's Management Board is not aware of any facts or circumstances that would indicate a threat to continued activity of the Company.

7.1. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with IFRSs endorsed by the European Union. At the date of authorisation of these financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Company's activities, in terms of accounting policies applied by the Company there is no difference between the IFRSs applied by the Company and the IFRSs endorsed by the European Union. IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC').

7.2. Functional currency and presentation currency

Polish zloty (PLN) is the functional currency as well as the presentation currency of these financial statements.

8. Changes in accounting policies

The accounting policies used to prepare these financial statements are consistent with ones used while preparing the Company's financial statements for the year ended 31 December 2010 except for the application of the following amendments to standards and new interpretations effective for reporting periods beginning on 1 January 2011.

- Amendments to IAS 24 *Related part disclosures* (reviewed in November 2009) – effective for financial years beginning on or after 1 January 2011. The objective of these amendments is to simplify and clarify the definition of a related party. The amendment exempts from the disclosure requirements transactions with a state-related entity, where state controls or jointly controls the reporting entity or influences it significantly and in relation to other entity which is a related party because the state controls or jointly controls the reporting entity and the other entity or influences them significantly. Adopting these amendments had no impact on the financial position or performance of the Company or on the scope of information presented in the Company's financial statements.
- Amendments to IFRIC 14 *IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments Minimum Funding Requirements* - effective for financial years beginning on or after 1 January 2011. The amendment removes unintended consequences of IFRIC 14 relating to voluntary contributions towards pension assets when an entity is subject to minimum funding

requirements. The adoption of these amendments did not have an impact on the financial position or performance of the Company.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* - – effective for financial years beginning on or after 1 July 2010. IFRIC 19 explains accounting principles applied when as a result of renegotiating by the entity the terms and conditions of its debt, the liability is extinguished with the issue of equity instruments for the creditor by the debtor. The adoption of this interpretation did not have an impact on the financial position or performance of the Company.
- Amendments to IAS 32 *Financial Instruments: Presentation, Classification of Rights Issue*. The amendment clarifies how to recognise specific rights issues when issued financial instruments are denominated in a currency other than the issuer's functional currency. The adoption of these amendments did not have an impact on the financial position or performance of the Company.
- Amendments resulting from IFRS review (published in May 2010) – part of the amendments is effective for financial years beginning on 1 July 2010, and part of them for financial years beginning on 1 January 2011. The adoption of these amendments did not have an impact on the financial position or performance of the Company.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemptions for First-time Adopters from Comparative IFRS 7 Disclosures for First-time Adopters* – effective for financial years beginning on or after 1 July 2010. The adoption of these amendments did not have an impact on the financial position or performance of the Company.

9. New standards and interpretations published but not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but are not yet effective:

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* - effective for financial years beginning on or after 1 January 2015 - it has not been endorsed by the EU till the day of approval of these financial statements. In the next phases the International Accounting Standards Board will deal with hedge accounting and impairment. The application of the phase 1 IFRS 9 will have an impact on the classification and valuation of Company's financial assets. The Company will assess the effect in relation with other phases, when they will be published, so as to present a consistent picture,
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – effective for financial years beginning on or after 1 July 2011,
- Amendments to IAS 12 *Income Taxes: Recovery of Underlying Assets* - effective for financial years beginning on or after 1 January 2012 - it has not been endorsed by the EU till the day of approval of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates* - effective for financial years beginning on or after 1 July 2011 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 10 *Consolidated Financial Statements* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 11 *Joint Arrangements* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 12 *Disclosure of Interest in Other Entities* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRS 13 *Fair Value Measurement* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,
- Amendments to IAS 19 *Employee Benefits* - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements,

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - effective for financial years beginning on or after 1 July 2012 - it has not been endorsed by the EU till the day of approval of these financial statements,
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine - effective for financial years beginning on or after 1 January 2013 - it has not been endorsed by the EU till the day of approval of these financial statements.

The Company has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

The Company is in the course of the analysis of the application of new standards for the expected financial position and financial results of the Company.

10. Adjustment of error

There was no adjustment of a fundamental error in the reporting period.

11. Changes in estimates

There was no change of estimates in the reporting period.

12. Significant accounting policies

12.1. Foreign currency translation

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

At the statement of financial position date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP (the National Bank of Poland) rate prevailing for the given currency at the year-end. Exchange differences resulting from translation are recorded under finance revenue (or finance costs), or – in cases defined in accounting policies – are capitalised in the cost of the assets. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into Polish zloty using the rate of exchange binding as at the date of remeasurement to fair value.

The following exchange rates were used for statement of financial position valuation purposes:

	31 December 2011	31 December 2010
USD	3.4174	2.9641
EUR	4.4168	3.9603
CHF	3.6333	3.1639
LTL	1.2792	-
CNY	0.5428	-
CZK	0.1711	0.1580
GBP	5.2691	4.5938
LYD	2.7433	2.4104
SEK	0.4950	0.4415
DKK	0.5941	0.5313
NOK	0.5676	0.5071

RUB	0.1061	0.0970
UAH	0.4255	-
XPF	3.6773	-
JPY	4.4082/100	3.6440/100
LVL	6.3120	-
HUF	1.4196/100	1.4206/100
RON	1.0226	-
BGN	2.2583	-
RSD	0.0426	-
BYR	0.0402/100	-
XDR	5.2444	-

12.2. Property, plant and equipment

Property, plant and equipment are measured at purchase price/ cost of manufacturing less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components, which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent an asset component.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives as presented below:

Type	Useful life
Buildings and structures	20-40 years
Plant and machinery	5-20 years
Office equipment	3-5 years
Motor vehicles	3-10 years
Computers	3-8 years

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.

An item of property, plant and equipment is derecognised from the statement of financial position upon disposal or when no future economic benefits are expected from its further use. Any gains or losses arising on derecognition of an asset from the balance sheet (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in the income statement for the period in which derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognized at purchase price or cost of manufacturing less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

12.3. Investment properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value. Any gains or losses arising from a change in the fair value of investment property are recognized in the income statement for the year in which they arose.

Investment property is derecognized from the statement of financial position when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.

If investment property is transferred to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is the fair value of investment property at the date of change in use.

12.4. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for capitalised research and development costs) are measured on initial recognition at purchase price or cost of construction. The purchase price of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at purchase price or cost of construction less any accumulated amortisation and any impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended.

Research and development costs

Research costs are expensed in the profit and loss account as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires the asset to be carried at purchase price or cost of construction less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment is identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

A summary of the policies applied to the Company's intangible assets is as follows:

	Patents and Licenses	Development Costs	Software
Useful lives	Indefinite. For patents and licenses used on the basis of a defined period contract, that period is adopted, taking into account any possible extended term of their use.	5 years	2 to 10 yrs
Applied method of amortisation	Assets with an indefinite useful life are not amortised or revalued. Other are amortised using the straight-line method	Straight-line method	Straight-line method
Internally generated or acquired	Acquired	Internally generated	Acquired
Impairment testing	For assets with an indefinite useful life - annually and where an indication of impairment exists. For other assets - annual assessment to determine whether there is any indication that an asset may be impaired.	Annual assessment (when items have not been brought into use) and when there is any evidence indicating an impairment loss.	Annual assessment to determine whether there is any indication that an asset may be impaired.

Gains or losses arising from derecognition of an intangible asset from the balance sheet are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

12.4.1 Goodwill

Goodwill on acquisition is initially measured at cost being the excess of

- the sum of:
 - (i) the payment made,
 - (ii) the amount of all non-controlling interests in the company being acquired and
 - (iii) in case of a business combination executed in phases, goodwill as at the date of acquisition of *share in equity* of the company being acquired that previously was held by the acquiring company.
 - over the net amount determined as at the date of acquisition of identifiable acquired assets and liabilities.
- Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortised.
- As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that is expected to benefit from the synergy of the combination. Each unit, or set of units, to which the goodwill has been allocated:
- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
 - is not larger than one operating segment defined in accordance with IFRS 8 Operating Segments.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained. A cash-generating unit is not larger than one operating segment before aggregation.

12.5. Leases

The Company as the lessee.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss unless requirements for capitalization are met.

Fixed assets used under finance lease agreements are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease charges and subsequent lease payments are recognised as operating costs in the profit or loss on a straight-line basis over the lease term.

Contingent rents are recognised as cost in the period in which they are due.

The Company as the lessor.

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

12.6. Impairment of non-financial non-current assets

An assessment is made at each reporting date to determine whether there is any indication that any non-financial non-current asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or cash-generating unit to which the asset is allocated.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell the asset or cash-generating unit, as appropriate, and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those generated from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of assets used in continuing operations are recognised in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount of the asset. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognised for the asset in prior years. The reversal of an impairment loss is recognised immediately as revenue in the income statement. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value, on a systematic basis over its remaining useful life.

12.7. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment and intangibles. Borrowing costs comprise interest calculated using the effective interest rate method, financial lease

charges and foreign exchange differences arising from borrowing to the extent they are regarded as an adjustment to interest costs.

12.8. Interests and shares in subsidiaries, associates and joint ventures

Shares and interest in subsidiaries, affiliates and joint ventures are recognised at historical cost less any impairment losses.

12.9. Financial assets

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Available-for-sale financial assets

Financial assets held to maturity are quoted on an active market, non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss;
- those that are designated as available for sale,
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the statement of financial position date.

A financial asset measured at fair value through profit or loss is a financial asset that meets either of the following conditions:

- a) it is classified as held for trading. A financial asset is classified as held for trading if it is:
 - acquired principally for the purpose of selling it in the near term;
 - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,
 - a derivative, except for a derivative that is a designated and effective hedging instrument or financial guarantee contract,
- b) upon initial recognition it is designated as at fair value through profit or loss according to IAS 39.

Financial assets measured at fair value through profit or loss are measured at fair value, which takes into account their market value as at the statement of financial position date less attributable transaction costs. Any change in the fair value of these financial instruments is taken to finance costs or finance income in the income statement. When a contract contains one or more embedded derivatives, the entire contract may be designated as a financial asset at fair value through profit or loss. Except where the embedded derivative does not significantly modify the cash flows from the contract or it is clear that separation of the embedded derivative is prohibited. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from their recognition or measurement (accounting mismatch); or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed

12 months after the statement of financial position date. Loans granted and receivables with maturities exceeding 12 months from the statement of financial position date are classified under non-current assets.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories of assets. Available-for-sale financial assets are measured at fair value taking into account transaction costs that may be directly attributed to the acquisition or issue of a financial asset component. Where no quoted active market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at their purchase price, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition price, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to other comprehensive income. Decrease in the value of available-for-sale assets arising from impairment is recognised in finance costs.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at fair value plus, for financial assets other than classified as financial assets as at fair value through profit and loss, transaction costs which can be directly attributed to the acquisition.

Financial assets are derecognized from the statement of financial position if the Company loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

12.10. Impairment of financial assets

At each balance sheet date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

12.10.1 Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance amount. The amount of the loss shall be recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and whether there is evidence of impairment for financial assets that are not individually significant. If, on the basis of an analysis carried out by the Company, it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

12.10.2 Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

12.10.3 Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss, is removed from equity and recognised in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

12.11. Embedded derivatives

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as embedded derivative would meet the definition of a derivative,
- the hybrid (compound) instrument is not recorded at fair value and changes in its fair value are not taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate derivative instruments, which have not been designated as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risks of foreign currency embedded derivatives are closely related to those of the host (main) contract covers circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market of a given transaction.

The Company assesses whether a given embedded derivative is required to be separated from host contracts upon its initial recognition.

12.12. Derivative financial instruments and hedges

The Company uses derivative financial instruments mostly such as forward currency contracts and interest rate swaps to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to the net profit or loss for the period.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability, or
- cash flow hedges, when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecast transaction, or
- Hedges of a net investment in a foreign operation

Hedges of foreign currency risk in a firm future commitment are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges

are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed on a regular basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

12.12.1 Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm future commitment, or an identified portion of such an asset, liability or firm future commitment, which is attributable to a particular risk and could affect profit or loss. Where fair value is hedged, any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item, the hedging instrument is re-measured to fair value and the gains and losses on the hedging instrument and hedged item are recognised in profit or loss.

When an unrecognised firm future commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm future commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Company discontinues hedge accounting prospectively if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is used is amortised and the amortisation expenses are recognized in profit or loss. Amortisation may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

12.12.2 Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and that could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognized directly in comprehensive income and accumulated in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability or the forecast transaction associated with the non-financial asset or non-financial liability becomes a firm future commitment for which a fair value hedge is applied, the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting applied to it. In this case any cumulative gain or loss on the hedging instrument that has been recognised initially in other comprehensive income and accumulated in equity remains recognised in equity until the forecast transaction occurs. If the forecast transaction is no longer expected by the Company to occur, the net cumulative gain or loss recognised in equity is taken to net profit or loss for the current period.

12.12.3 Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other

comprehensive income while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation the cumulative amount of gains or losses recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment.

12.13. Inventories

Inventories are valued at the lower of purchase price/cost of manufacturing and net realizable value.

Costs incurred in bringing each inventory item to its present location and condition are accounted for, both for the current and previous year, as follows:

- | | |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Raw materials | – purchase price determined on a first-in, first-out basis. |
| Finished goods and work-in-progress | – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, excluding borrowing costs; |
| Goods for resale | – purchase price determined on a first-in, first-out basis. |

Net realisable value is the estimated selling price in the ordinary course of business, less costs of finishing and the estimated costs necessary to make the sale.

12.14. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance of receivables due to the passage of time is recognized as finance income.

Other receivables include in particular advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are recognized in accordance with the character of underlying assets, i.e. under non-current or current assets. Advance payments as non-monetary assets are not discounted.

Receivables from public authorities are presented within other non-financial assets, except for corporate income tax receivables that constitute a separate item in the statement of financial position.

12.15. Cash and cash equivalents

Cash and short-term deposits recognised in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents balance recognised in the statement of cash flows is composed of the above defined cash and cash equivalents.

12.16. Interest-bearing bank loans, borrowings and debt securities

All loans and borrowings are initially recognized at the fair value net of transaction costs associated with the borrowing.

Following the initial recognition, interest-bearing bank loans, borrowings and debt securities are measured at the amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into account any transaction costs, and any discount or premium granted in connection with the liability.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised from the statement of financial position as well as a result of a settlement using the effective interest rate method.

12.17. Trade and other payables

Short-term trade payables are carried at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2011, no financial liabilities have been designated as at fair value through profit and loss (as at 31 December 2010: nil).

Financial liabilities are measured at fair value through profit or loss, taking into account their market value at the statement of financial position date less transaction costs. Changes in fair value of these instruments are recognised in the income statement as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortised cost, using the effective interest rate method.

A financial liability is derecognised from the Company's balance sheet when the obligation under the liability has expired i.e. the obligation specified in the contract has been fulfilled, cancelled or has expired. When an existing financial liability is replaced by another on substantially different terms between the same entities, the Company treats it as the expiry of the original liability and a recognition of a new financial liability. Similarly, the significant modifications of terms and conditions of an agreement relating to the existing financial liability are treated by the Company as an expiry of the original liability and recognition of a new financial liability. The differences in appropriate carrying amounts arising from these changes are recognised in the income statement.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of value added tax and advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognised at the amount due.

12.18. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expenses relating to any provision are presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

12.19. Retirement benefits and jubilee bonuses

In accordance with internal remuneration regulations, employees of the Company are entitled to jubilee bonuses and retirement benefits. Jubilee bonuses are paid out after completion of a number of years in service. Retirement benefits are paid out as one-off benefit upon retirement. The amount of those benefits depends on the number of years of employment and the employee's average salary. The Company makes a provision for retirement benefits and jubilee bonuses in order to allocate the costs of those allowances to the periods to which they relate. In accordance with IAS 19, jubilee bonuses represent other long-term employee benefits, while retirement benefits are post-employment defined benefits. The carrying amount of the liabilities resulting from these benefits is calculated at each statement of financial position date by an independent actuary. The balance of these liabilities equals discounted payments which will be made

in the future and accounts for staff turnover, and relates to the period to the balance sheet date. Demographic information and information on staff turnover are based on historical information. Any actuarial gains and losses are recognised in the income statement.

Additionally, according to Social Fund regulations employees of the Company after retirement are entitled to supplementary non-compulsory benefits from Social Fund. The Company makes a provision for these future liabilities in order to allocate the cost of these allowances to the periods to which they relate.

12.20. Share-based payment transactions

Employees (including members of the Management Board) receive share-based awards.

12.20.1 Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an independent valuer using a binominal model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the benefits ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Management of the Company at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market conditions or conditions other than vesting ones, which are treated as vested irrespective of whether or not the market conditions or conditions other than vesting ones are satisfied, provided that all other conditions relating to performance/ results and/or to performance of work or rendering of services are satisfied.

Where the terms and conditions of an equity-settled award are modified, to fulfil the minimum requirement an expense is recognised as if the terms and conditions had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. It also refers to awards for which conditions other than vesting ones that are controlled by the Company or an employee are not satisfied. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The diluting effect of issued options is reflected as additional share dilution in the computation of earnings per share (see Note 17).

12.21. Appropriation of profit for employee purposes and special funds

In accordance with a Polish business practice, shareholders may appropriate profits for employee purposes by making a transfer to the social fund and other special funds. In the financial statements, which are in line with IFRS, this portion of profit appropriation is recognised as operating costs of the period to which the profit appropriation relates.

12.22. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits relating to the transaction will flow to the Company and the revenue can be reliably measured. Revenues are recognised after deducting Value Added Tax (VAT), excise duty and discounts. The following specific recognition criteria must also be met before revenue is recognised:

Gross margins on contracts in progress are calculated on the basis of a formalised Project Review process as a difference between the selling price and estimated total costs of the contract (the total of the incurred costs and estimated costs to the completion of the contract). The verification of estimated costs to the completion of the contract takes place during the Project Reviews carried out on monthly, quarterly, half-yearly or other basis depending on the type of the contract. Costs to the completion of the contract are estimated by competent teams having professional knowledge and being responsible for the execution of the given area and based on their knowledge and experience.

12.22.1 Sale of goods

Revenues are recognised when the significant risks and benefits of ownership of the goods and products have passed to the buyer and the amount of revenue can be reliably measured.

12.22.2 Rendering of services

Revenue from provision of an uncompleted service under the contract, provided at the statement of financial position date to a significant extent (each time assessed by the Management for each contract individually) is recognised at the statement of financial position date on pro rata basis to the stage of completion of the service if the revenue can be reliably measured. The stage of completion is measured as a percentage of costs incurred from the date of concluding the contract to the date of recognition of revenue in estimated total costs of providing the service or as percentage of labour costs incurred to date to total labour costs.

Where at the statement of financial position date the stage of completion of the service cannot be measured reliably, revenue is recognised at the amount of costs incurred in a given reporting period, however not more than the costs which will probably be covered in the future by the employer.

Where it is probable that accumulated costs of executing the contract will exceed accumulated revenue from the contract, an estimated loss is recognised as the cost of the period in which it has been revealed.

Production costs of the service which is not completed include costs incurred from the date of concluding the contract to the statement of financial position date. Production costs incurred before the date of concluding the contract and relating to the execution of the contract subject matter are recognised as assets if it is probable that these costs will be covered in the future with the revenue from the employer. Then they are recognised as production costs of an uncompleted construction service.

If the incurred costs less estimated losses plus gains recognised in the income statement exceed in their stage of completion the stage of completion of invoiced sales, the non-invoiced sales arising from the above mentioned difference are presented in the assets as trade receivables against revenue from rendering of services.

If the percentage of invoiced sales exceeds the percentage of incurred costs less estimated losses and plus gains recognised in the income statement, deferred income resulting from the above mentioned difference is recognised as trade payables against revenue from these services.

12.22.3 Interest

Revenue is recognised as interest accrues (using the effective interest rate method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

12.22.4 Dividends

Dividends are recognised when the shareholders' rights to receive the payment are established.

12.22.5 Rental (operating lease) income

Rental income arising from investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

12.22.6 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to the income statement over the estimated useful life of the relevant asset by way of equal annual instalments.

12.23. Taxes

12.23.1 Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authorities (to be recovered from the taxation authorities). The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the statement of financial position date.

12.23.2 Deferred tax

For financial reporting purposes deferred income tax is recognised, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liability is recognised for all positive taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of positive taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses forwarded to future periods, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised in the statement of financial position to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss: in other comprehensive income as for deferred tax relating to items recognised in other comprehensive income or directly in equity as for deferred tax relating to items recognized directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, only if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

12.23.3 Value Added Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of acquisition price of the asset or as part of the expense item as applicable, or
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

12.24. Earnings per share

Basic earnings per share for each reporting period is calculated as quotient of the net profit attributed to parent entity's shareholders for a given period and the weighted average of shares in a given reporting period. Diluted earnings per share for each reporting period is calculated as a quotient of the net profit attributed to parent entity's shareholders for a given period and the sum of the weighted average of the number ordinary shares in the reporting period and all potential shares from new issues.

13. Segment information

For management purposes, the Company is organised in business units based on their products and services. The Company has reportable operating segments as follows:

Production	- production and delivery of steel structures, platform gratings, shelving systems, pallets, road barriers. Services in the scope of steel structure corrosion protection with the use of hot dip galvanising, Duplex system, hydraulic painting.
Construction	- construction and erection services General contracting of facilities in construction industry (including developer's activity). Execution of large industrial and general construction facilities. Erection of steel structures, specialist equipment, halls and special structures.
Power Engineering	- services associated with the power engineering industry. General contracting of facilities in power engineering sector, continuous and full-scale servicing of power plants, heat and power plants, as well as industrial plants.
Chemistry	- general contracting of facilities in chemical industry. Assembly of equipment for processing systems in chemical and petrochemical industry, prefabrication and assembly of steel structures, processing pipelines, storage containers and pipelines, prefabrication and assembly of furnaces for refineries. Execution of environmentally-friendly projects. The recipients of the services are chemical plants, refineries, petrochemical and gas industry.
Roads and railroads	- general contracting of facilities in road construction industry. The recipient of these services is the General Directorate for National Roads and Motorways.
Other operations	- hardware and transport services, rental services, leases and other services not included in other segments.

The Management monitors the operating results of its operating segments for the purpose of making decisions about resource allocation, assessment of the results of this allocation and performance assessment. The basis for performance measurement is profit or loss on operating activity, which to a certain extent, as the table below explains, is measured differently from profit or loss on operating activity in the financial statements. Company financing (including finance costs and finance income) and income tax are monitored on a company basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

13.1.1 Operating segments

The following tables present revenue and profit information and certain asset and liability information regarding the Company's operating segments for the year ended 31 December 2011 and 31 December 2010 or respectively as at 31 December 2011 and 31 December 2010.

Year ended 31 December 2011 or as at 31 December 2011	Continuing operations							Total operations
	<i>Production</i>	<i>Construction</i>	<i>Power Engineering</i>	<i>Chemistry</i>	<i>Roads and railroads</i>	<i>Other operations</i>	<i>Eliminations</i>	
Revenue								
Sales to external customers	566 823	1 103 828	794 603	413 484	986 267	6 443	-	3 871 448
Inter-segment sales	330 592	20 460	26 232	7 850	-	9 533	(394 667)	
Total segment revenue	897 415	1 124 288	820 835	421 334	986 267	15 976	(394 667)	3 871 448
Results								
Amortisation and depreciation, of which:	23 094	6 080	10 163	8 808	4 405	7 310	-	59 860
-depreciation of property, plant and equipment	22 356	5 571	9 317	8 336	4 170	6 458	-	56 208
-amortisation of intangible assets	738	509	846	472	235	852	-	3 652
Profit/ (loss) of the segment	34 503	30 828	(1 984)	972	27 635	8 254	(22 715)	77 493
Assets and liabilities								
Segment assets*	566 626	634 653	530 864	198 337	528 479	61 816	-	2 520 775
Segment liabilities**	120 301	404 950	244 795	101 664	408 301	62 633	-	1 342 644
*Segment assets do not include assets managed on a Company basis, of which:								
-property, plant and equipment								87 050
-intangible assets								12 744
- financial assets								512 894
-deferred tax assets								30 210
- other receivables								10 495
-cash and cash equivalents								7 184
- other								5 829
Total segment assets								3 187 181
**Segment liabilities do not include assets managed on a Company basis:								
-loans and borrowings								290 407
- debentures								407 742
- provision for employee and similar benefits								49 287
- taxation, customs duty and social security payables								112 274
- other								28 326
-equity								956 501
Total equity and liabilities								3 187 181

Revenue from intersegment transactions is eliminated on data consolidation. Operating profit does not include finance income in the amount of PLN 40,713 thousand and finance costs in the amount of PLN 63,428 thousand.

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Investment expenditure corresponds to the increase of plant, property and equipment, intangible assets and investment property.

Year ended 31 December 2011 or as at 31 December 2011	Continuing operations						Total operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations	
Other segment information							
Capital expenditure:	14 532	5 096	8 764	3 327	7 664	18 818	58 201
- property, plant and equipment	13 983	4 837	8 639	3 264	7 551	13 629	51 903
- intangible assets	549	259	125	63	113	2 706	3 815
- investment properties	-	-	-	-	-	2 483	2 483

Year ended 31 December 2010 or as at 31 December 2010	Continuing operations							Total operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations	Eliminations	
Revenue								
Sales to external customers	541 081	1 027 700	718 316	711 161	494 115	6 878	-	3 499 251
Inter-segment sales	124 021	11 332	38 349	6 512	-	159	(180 373)	-
Total segment revenue	<u>665 102</u>	<u>1 039 032</u>	<u>756 665</u>	<u>717 673</u>	<u>494 115</u>	<u>7 037</u>	<u>(180 373)</u>	<u>3 499 251</u>

Results

Amortisation and depreciation, of which:	18 101	6 733	11 190	9 136	4 559	5 957	-	55 676
-depreciation of property, plant and equipment	17 447	6 184	10 406	8 535	4 417	5 115	-	52 104
-amortisation of intangible assets	654	549	784	601	142	842	-	3 572
Profit/ (loss) of the segment	<u>24 767</u>	<u>54 942</u>	<u>30 708</u>	<u>30 542</u>	<u>61 664</u>	<u>2 526</u>	<u>(66 695)</u>	<u>138 454</u>

**Assets and
liabilities**

Segment assets*	538 421	490 299	422 259	356 464	344 936	127 139	-	2 279 518
Segment liabilities**	75 327	326 208	182 709	149 238	298 059	48 868		1 080 409

*Segment assets do not include assets managed on a Company basis, of which:

-property, plant and equipment	51 214
-intangible assets	11 260
- financial assets	451 897
-deferred tax assets	44 018
-cash and cash equivalents	54 298
- other	2 691
Total segment assets	2 894 896

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**Segment liabilities do not include assets managed on a Company basis:

-loans and borrowings	280 690
- debentures	406 766
- provision for employee and similar benefits	70 397
-income tax payable	84
- taxation, customs duty and social security payables	75 554
-accruals	12 819
- other	48 147
-equity	920 030
Total equity and liabilities	2 894 896

Revenue from intersegment transactions is eliminated on data consolidation. Operating profit does not include finance income in the amount of PLN 27,682 thousand and finance costs in the amount of PLN 94,377 thousand. Investment expenditure corresponds to the increase of plant, property and equipment, intangible assets and investment property.

Year ended 31 December 2010 or as at 31 December 2010	Continuing operations						Total operations
	Production	Construction	Power Engineering	Chemistry	Roads and railroads	Other operations	
Other segment information							
Capital expenditure:	47 303	3 105	10 968	17 491	1 947	13 874	94 688
- property, plant and equipment	46 385	2 791	10 692	17 381	1 793	11 365	90 407
- intangible assets	918	314	276	94	154	2 509	4 265
- investment properties	-	-	-	16	-	-	16

13.1.2 Geographic information

The following tables present revenue, expenditure and certain asset information regarding the Company geographic areas for the year ended 31 December 2011 and 31 December 2010 or respectively as at 31 December 2011 and 31 December 2010.

Year ended 31 December 2011 or as at 31 December 2011	Domestic	Foreign	Eliminations	Total
Revenue				
External customers	2 888 062	983 386	-	3 871 448
Revenue from continuing operations	2 888 062	983 386	-	3 871 448
Inter-segment sales	-	-	-	-
Total segment revenue	2 888 062	983 386	-	3 871 448
Other segment information				
Segment assets	1 227 319	431 646	-	1 658 965
Unallocated assets	1 528 216	-	-	1 528 216
Total assets	2 755 535	431 646	-	3 187 181
Capital expenditure:	58 200	1	-	58 201
- property, plant and equipment	51 902	1	-	51 903
- intangible assets	3 815	-	-	3 815
- investment properties	2 483	-	-	2 483

Year ended 31 December 2010 or as at 31 December 2010	<i>Domestic</i>	<i>Foreign</i>	<i>Eliminations</i>	<i>Total</i>
Revenue				
External customers	2 531 826	967 425	-	3 499 251
Revenue from continuing operations	2 531 826	967 425	-	3 499 251
Inter-segment sales	-	-	-	-
Total segment revenue	<u>2 531 826</u>	<u>967 425</u>	<u>-</u>	<u>3 499 251</u>
Other segment information				
Segment assets	<u>1 230 829</u>	<u>313 323</u>	<u>-</u>	<u>1 544 152</u>
Unallocated assets	<u>1 350 744</u>	<u>-</u>	<u>-</u>	<u>1 350 744</u>
Total assets	<u>2 581 573</u>	<u>313 323</u>	<u>-</u>	<u>2 894 896</u>
Capital expenditure:	94 666	22	-	94 688
- property, plant and equipment	90 385	22	-	90 407
- intangible assets	4 265	-	-	4 265
- investment properties	16	-	-	16

14. Revenues and expenses

14.1. Sales of goods, rendering of services and rental income

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Sale of goods	500 825	478 436
Rendering of services	3 357 307	3 003 092
Rental income	13 316	17 723
Revenue	<u>3 871 448</u>	<u>3 499 251</u>

The Company included in the financial statements for 2011, in reference to one of the road contracts, the additional revenue resulting from the claim against the investor of PLN 26 million and recognised the net profit of PLN 21 million. The material scope of works was acknowledged as a rule by the Employer with a relevant annex to the contract and the fact of partial payment of the receivables which are the subject of the claim. Negotiations with the Employer refer only to the issue of determination of unit prices for the increased scope of works performed by the Company, such an increase should be the result of a significant design change introduced by the Employer with an appropriate change order. In the opinion of the Company our expectations in this scope have been reliably documented and it should be assumed that there is a high probability of agreeing with the employer the amount of remuneration we expect. Additionally, the Company indicates that the contract in question does not include a lump price, and furthermore while it was performed the remuneration of the Company was increased for other reasons by approx. 11%. In this situation, including the above mentioned claim in the revenue is reasonable in the opinion of the Company.

14.2. Other operating income

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Release of provision for guarantee repairs and other costs	2 313	983
Gain on re-measurement of investment properties to fair value	1 147	-
Gain on disposal of property, plant and equipment	1 242	6 216
Recovered damages payments and fines	4 855	7 409
Grants	-	907

Liabilities written off	6 825	1 754
Release of provision for disputable claims	3 094	601
Sale of scrap metal	202	212
Other	1 688	2 265
Total	21 366	20 347

14.3. Other operating expenses

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Receivables written-off	6 439	-
Donations	446	1 304
Liquidated assets non- written off	249	418
Court expenses	1 387	-
Costs of repairs	-	1 258
Other	2 318	1 332
Total	10 839	4 312

14.4. Finance income

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Revenue from measurement and exercise of derivative instruments	-	2 581
Income from interest on deposits, loans, for delay in payment	6 883	7 017
Dividend income	2 853	4 998
Gain on sale of non-current financial assets	-	10 430
Excess of foreign exchange gains over foreign exchange losses	24 734	-
Measurement of granted guarantees	2 494	656
Write-off of financial liabilities	1 175	-
Other	2 574	2 000
Total finance income	40 713	27 682

14.5. Finance costs

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Expenses arising from measurement and exercise of derivative instruments	1 070	55
Interest on bank loans and borrowings	27 140	15 092
Debenture commissions and interest	26 948	26 341
Excess of foreign exchange losses over foreign exchange gains	-	13 183
Bank loan and guarantee commissions and charges	3 343	1 067
Impairment of financial assets	2 275	35 255
Interest on liabilities	1 249	279
Other	1 403	3 105
Total finance costs	63 428	94 377

14.6. Costs by type

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Depreciation / Amortisation	14.7	59 860	55 676
Materials and energy		1 279 098	813 904
External services, including construction		1 544 096	1 613 901
Taxes and charges		26 649	30 871
Employee benefits expenses	14.8	825 042	766 021
Other costs by type		67 140	47 667
Total costs by type		3 801 885	3 328 040
Items included in selling and distribution expenses		(29 114)	(25 208)
Items included in administrative expenses		(88 860)	(119 707)
Cost of goods and materials sold		58 412	20 530
Change in the stock of finished goods		(73 876)	(35 155)
Cost of goods produced for the entity's own use		(4 654)	(3 278)
Cost of sales		3 663 793	3 165 222

14.7. Depreciation/ amortisation and impairment losses included in the income statement

	Year ended 31 December 2011	Year ended 31 December 2010
Included in cost of sales:	52 178	48 536
Depreciation	49 514	46 268
Amortisation of intangible assets	2 664	2 268
Items included in selling and distribution expenses	1 683	1 513
Depreciation	1 600	1 340
Amortisation of intangible assets	83	173
Included in administrative expenses	5 999	5 627
Depreciation	5 094	4 496
Amortisation of intangible assets	905	1 131
Total depreciation	56 208	52 104
Total amortisation of intangible assets	3 652	3 572
Total amortisation and depreciation	59 860	55 676

14.8. Employee benefits expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	649 939	611 920
Social security costs	105 645	100 276
Retirement benefits	3 842	2 371
Jubilee bonuses	8 269	6 560
Share-based payments	(850)	1 992
Transfers to Social Fund	11 980	10 597
Other employee benefits expenses	46 217	32 305
Total employee benefits expenses	825 042	766 021

14.9. Components of other comprehensive income

The following are components of other comprehensive income:

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Cash flow hedges		
Gains (losses) for the period	(6 201)	(999)
	<u>(6 201)</u>	<u>(999)</u>

15. Income tax

15.1. Tax expense

Major components of income tax expense for the year ended 31 December 2011 and 31 December 2010 are as follows:

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Recognised in profit or loss		
<i>Current income tax</i>	-	10 927
Current income tax expense	-	11 122
Adjustments in respect of current income tax of previous years	-	(195)
<i>Deferred income tax</i>	14 935	22 102
Relating to origination and reversal of temporary differences	14 935	22 102
Tax burden recognised in profit or loss	<u>14 935</u>	<u>33 029</u>
Comprehensive income statement		
<i>Deferred income tax</i>	1 183	188
Relating to origination and reversal of temporary differences	1 183	188
Tax burden/ tax credit recognised in other comprehensive income	<u>1 183</u>	<u>188</u>

15.2. Reconciliation of the effective income tax rate

The reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year ended 31 December 2011 and 31 December 2010 is as follows:

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Accounting profit from continuing operations before income tax	77 493	138 454
Profit before tax from discontinued operations	-	-
Profit before income tax	<u>77 493</u>	<u>138 454</u>
Tax at statutory income tax rate binding in Poland of 19% in 2011 (2010: 19%)	14 723	26 306
Recognised deferred tax on investment credit	(3 400)	(10 025)
Expenditure not allowable for income tax purposes	5 837	16 366
Not taxable incomes	(2 312)	(1 770)
Other	87	2 152
Income tax at effective income tax rate which is 19.27% for the year ended 31 December 2011 and 23.85% for the year ended 31 December 2010:	<u>14 935</u>	<u>33 029</u>
Income tax (burden) reported in the income statement	14 935	33 029
Income tax reported in other comprehensive income		
Amount before taxation	(6 201)	(999)
Income tax	1 183	188
Amount after taxation	(5 018)	(811)

15.3. Deferred income tax

Deferred income tax relates to the following:

	<i>Statement of financial position</i>		<i>Income statement</i>	
	<i>31 December</i>	<i>31 December</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>2011</i>	<i>2010</i>	<i>31 December</i>	<i>31 December</i>
			<i>2011</i>	<i>2010</i>
<i>Deferred tax liability</i>				
Accelerated depreciation/amortisation for tax purposes	11 595	9 068	2 527	(228)
Revaluation of fixed assets to fair value	1 353	4 101	(2 748)	103
Revaluation of investment property to fair value	2 605	-	2 605	(390)
Measurement of long-term contracts	118 697	66 936	51 761	31 376
Perpetual usufruct right to land	746	2 302	(1 556)	-
Foreign exchange translation differences	2 702	449	2 253	60
Revaluation of foreign currency contracts	-	370	(370)	285
Leases	597	978	(381)	198
Revaluation of foreign exchange contracts (cash flow hedges) taken to capital	-	903	(903)	-
Other	10 674	6 588	4 030	1 990
Deferred tax liability	148 969	91 695	57 218	33 394
Of which, recognised in comprehensive income	-	903	(903)	-
<i>Deferred tax assets</i>				
Provision for jubilee bonuses and retirement benefits	7 378	13 586	6 208	1 286
Foreign exchange translation differences	-	485	485	73
Other employee benefits	9 092	6 938	(2 154)	164
Inventory write-downs	1 420	504	(916)	24
Measurement of long-term contracts	96 959	58 951	(38 008)	4 628
Salaries/wages and ZUS (Social Insurance Institution) benefits paid out in future periods	3 672	3 333	(339)	307
Receivables write-downs	4 384	5 155	771	(962)
Provisions for expenses	200	1 538	1 338	(1 566)
Guarantee repair provision	-	-	-	(9)
Difference in the amount for tax purposes and carrying amount	1351	1351	-	-
Measurement of foreign currency contracts to fair value (cash flow hedges)	290	-	(290)	-
Measurement of foreign currency options - presentation in comprehensive income	280	-	(280)	(227)
Investment measurement to fair value	1 621	-	(1 621)	-
Losses available for offset against future taxable income	9 937	-	(9 937)	-
Other	2 337	3 703	1 366	(2 474)
Deferred tax arising from the investment in Tarnobrzeg Special Economic Zone	40 258	40 169	(89)	10 025
Deferred tax assets	179 179	135 713	(43 466)	11 269
Deferred income tax charge	-	-	14 935	22 102
Deferred income tax net assets	(30 210)	(44 018)	-	-
of which, recognised in other comprehensive income	(280)	903	1 183	188

In the year ended 31 December 2011 the company recognised an asset referring to the tax loss of PLN 9,937 thousand. The asset shall be set off against tax profit made in the coming financial years.

The Company does not recognise a deferred tax asset on impairment of investments in subsidiaries.

Disclosure on investment in Tarnobrzeg Special Economic Zone.

On 23 July 2008 the Company obtained Permit No. 171/ARP S.A./2008 to conduct business activity in EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone. On 26 February 2010 the Company received decision No 45/IW/10, issued by the Minister of Economy, on change of conditions of the obtained permit. Full use of public aid which the company will be entitled to in the future in the period from 1 April 2011 to 15 November 2017 is conditional upon fulfilment of terms and conditions of the permit mentioned above and upon achieving appropriate profitability of operations conducted in the zone.

On 27 June 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 at 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 June 2008 as further amended to conduct economic activity in EURO-PARK WISŁOSAN Tarnobrzeg Special Economic Zone.

The discounted value of tax relief Polimex-Mostostal S.A. is entitled to upon the fulfilled investment condition as at 31 March 2011 amounts to PLN 72 million, whereas the maximum (nominal) realisable relief is estimated at PLN 103 million.

Based on prepared financial projections the Company recognised by 31 December 2011 assets for future benefits from the permit obtained on 23 July 2008 in the amount of PLN 40.2 million. Owing to the fact that the terms and conditions of the Permit were formally fulfilled, the Company, starting from the 2nd quarter 2011, commenced to utilise the granted relief. As a result the total recognised by the Company benefits arising from the Zone Permit amounted to PLN 43.6 million as at 31.12.2011, of which 2011 the asset of PLN 3.4 million was recognised in 2011. By 31 December 2011 the amount of utilised tax relief had amounted to PLN 3.3 million.

Due to the long term of projections and dynamic changes in the economic environment, the Company plans to verify the financial projections on half-yearly basis to review their contents and possibly revalue the asset recognised for the subject undertaking.

16. Social assets and SOCIAL FUND liabilities

The Social Fund Act of 4 March 1994, with further amendments, requires the companies whose full time employees' number exceeds 20 to establish and run a Social Fund. The Company operates such a Fund and makes periodical transfers to it based on the required amounts agreed with the trade unions. The Funds' purpose is to subsidise the operation of the Company's social activity, loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liability to the Fund, as these are not separate assets of the Company. Accordingly, the net balance as at 31 December 2011 is PLN (848) thousand (as at 31 December 2010 PLN (882) thousand).

The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the following tables:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Loans granted to employees	4 141	3 190
Cash	5 540	4 064
Social Fund liabilities	8 833	8 136
Net balance	848	(882)

	<i>31 December 2011</i>	<i>31 December 2010</i>
Transfers made to the Social Fund during the period	11 980	10 597

17. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of issued ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders (after deducting convertible redeemable preference shares) by the weighted average number of issued ordinary shares outstanding during the year (adjusted by the effect of diluting options and diluting convertible redeemable preference shares).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended 31 December 2011	Year ended 31 December 2010
Net profit	62 558	105 425
Earnings per share (in PLN)		
-number of shares	521 154 076	520 918 203
- basic, for net profit for the year	0.12	0.20
Diluted earnings per share (in PLN)		
-number of shares	521 154 076	520 918 203
- diluting potential ordinary shares	12 142 323	12 378 196
- diluted, for net profit for the year	0.12	0.20

There were no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

18. Dividends paid and proposed

Equity dividends on ordinary shares from 2010 profit paid on 30 September 2011 amounted to PLN 20,846 thousand (dividend from 2009 profit paid on 16 September 2010 amounted to PLN 18,574 thousand).

The value of dividend per share paid for the year 2010 was PLN 0.04 (for the year 2009 it was PLN 0.04).

The Management Board of the Company does not intend to pay the dividend for 2011.

19. Property, plant and equipment

Year ended 31 December 2011

	Land and buildings	Plant and equipment	Motor vehicles	Other fixed assets	Fixed assets under construction	Advanced payments to fixed assets under construction	Total
Net carrying amount at 1 January 2011	337 392	186 604	40 569	18 831	74 928	-	658 324
Additions	44 763	55 671	5 382	3 247	35 227	-	144 290
Disposals	(1 392)	(2 505)	(2 857)	(1 846)	(92 387)	-	(100 987)
Reclassification	(10 952)	(170)	1 918	20	(3 671)	-	(12 855)
Depreciation charge for the year	(14 833)	(29 439)	(7 505)	(4 431)	-	-	(56 208)
Net carrying amount at 31 December 2011	354 978	210 161	37 507	15 821	14 097	-	632 564
As at 1 January 2011							
Cost	398 192	338 945	77 260	44 817	75 478	100	934 792
Write-off and impairment loss	(60 800)	(152 341)	(36 691)	(25 986)	(550)	(100)	(276 468)
Net carrying amount	337 392	186 604	40 569	18 831	74 928	-	658 324
As at 31 December 2011							
Cost	426 972	385 594	79 105	44 261	14 645	-	950 577
Write-off and impairment loss	(71 994)	(175 433)	(41 598)	(28 440)	(548)	-	(318 013)
Net carrying amount	354 978	210 161	37 507	15 821	14 097	-	632 564

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Financial statements for the year ended 31 December 2011
Accounting policies and other explanatory notes
(in PLN thousands)



Year ended 31 December 2010

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Motor vehicles</i>	<i>Other fixed assets</i>	<i>Fixed assets under construction</i>	<i>Advanced payments to fixed assets under construction</i>	<i>Total</i>
Net carrying amount at 1 January 2010	314 615	145 687	32 904	16 660	113 600	-	623 466
Additions	38 925	73 960	10 601	5 593	63 212	-	192 291
Disposals	(2 110)	(618)	(271)	(446)	(101 884)	-	(105 329)
Reclassification	-	(7 640)	5 943	1 697	-	-	-
Depreciation charge for the year	(14 038)	(24 785)	(8 608)	(4 673)	-	-	(52 104)
Net carrying amount at 31 December 2010	337 392	186 604	40 569	18 831	74 928	-	658 324

As at 1 January 2010

Cost	362 001	283 391	59 266	36 862	114 150	100	855 770
Write-off and impairment loss	(47 386)	(137 704)	(26 362)	(20 202)	(550)	(100)	(232 304)
Net carrying amount	314 615	145 687	32 904	16 660	113 600	-	623 466

As at 31 December 2010

Cost	398 192	338 945	77 260	44 817	75 478	100	934 792
Write-off and impairment loss	(60 800)	(152 341)	(36 691)	(25 986)	(550)	(100)	(276 468)
Net carrying amount	337 392	186 604	40 569	18 831	74 928	-	658 324

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2011 is PLN 14,999 thousand (as at 31 December 2010: PLN 18,401 thousand).

Land and buildings are covered with mortgages established mainly to secure Company's bank loan liabilities amounting jointly to PLN 418 million (as at 31 December 2010: PLN 295 million). Moreover, as at 31 December 2011 pledges and temporary ownership titles were established on other non-current assets in the total amount of PLN 50,726 thousand (as at 31 December 2010: PLN 22,481 thousand).

Due to the fact that the market value of the equity of the Company at the statement of financial position date resulting from the quotations of the Company on the Warsaw Stock Exchange was lower than the book value of Company's non-current assets, the Board of the Company conducted in line with IAS 36 impairment tests for non-current assets. The Company is treated as the smallest independent cash generating unit. Estimated for the purpose of the test discounted value of future cash flows is higher than the book value of tested assets. Due to the above facts as at the statement of financial position date there are no indications to impair the non-current assets. The test were conducted based on prepared by the Board projections of cash flows covering the period of 5 years and taking into consideration the residual value after the projection period. Main assumptions taken for the tests of the largest units generating independent cash flows are as follows: an increase of revenue of an average 4.3% annually from 2012 to 2016, an average EBIT margin of 4.1% in the forecasting period, the weighted average cost of capital (WACC): 9.19%, the growth rate after the forecasting period: 3.0%.

20. Leases

20.1. Finance lease and hire purchase commitments

As at 31 December 2011 and 31 December 2010 future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

	31 December 2011		31 December 2010	
	<i>Minimum payments</i>	<i>Payment current value</i>	<i>Minimum payments</i>	<i>Payment current value</i>
Within 1 year	6 666	6 317	6 649	5 956
Within 1 to 5 years	5 831	5 574	8 920	8 275
Over 5 years	-	-	-	-
Minimum lease payments, total	12 497	11 891	15 569	14 231
Less amounts representing finance charges	(606)	-	(1 338)	-
Present value of minimum lease payments, of which:	11 891	11 891	14 231	14 231
- current	6 317	-	5 956	-
- non-current	5 574	-	8 275	-

21. Investment properties

	31 December 2011	31 December 2010
Opening balance as at 1 January	36 632	38 250
Purchase of investment property	2 483	-
Modernisation of investment property	-	16
Gain/(loss) on investment property measurement	1 147	(1 652)
Reclassification from property, plant and equipment	12 855	-
Other	(737)	18
Closing balance	52 380	36 632

22. Intangible assets

Year ended 31 December 2011	<i>Patents and licences</i>	<i>Software</i>	<i>Goodwill</i>	<i>Other</i>	<i>Total</i>
Net carrying amount at 1 January 2011	336	16 228	6 938	31	23 533
Additions	51	3 764	-	-	3 815
Disposals	(126)	(86)	-	(27)	(239)
Reclassification	(183)	183	-	-	-
Depreciation charge for the year	(78)	(3 573)	-	(1)	(3 652)
Net carrying amount at 31 December 2011	-	16 516	6 938	3	23 457
As at 1 January 2011					
Cost	1 994	29 618	6 938	138	38 688
Write-off and impairment loss	(1 658)	(13 390)	-	(107)	(15 155)
Net carrying amount	336	16 228	6 938	31	23 533
As at 31 December 2011					
Cost	-	34 637	6 938	160	41 735
Impairment	-	(18 121)	-	(157)	(18 278)
Net carrying amount	-	16 516	6 938	3	23 457

Year ended 31 December 2010	Patents and licences	Software	Goodwill	Other	Total
Net carrying amount at 1 January 2010	388	15 672	6 938	32	23 030
Additions	118	4 147	-	-	4 265
Revaluation	-	(190)	-	-	(190)
Depreciation charge for the year	(170)	(3 401)	-	(1)	(3 572)
As at 31 December 2010	336	16 228	6 938	31	23 533
As at 1 January 2010					
Cost	1 876	25 976	6 938	138	34 928
Write-off and impairment loss	(1 488)	(10 304)	-	(106)	(11 898)
Net carrying amount	388	15 672	6 938	32	23 030
As at 31 December 2010					
Cost	1 994	29 618	6 938	138	38 688
Impairment	(1 658)	(13 390)	-	(107)	(15 155)
Net carrying amount	336	16 228	6 938	31	23 533

23. Financial assets

23.1. Non-current financial assets

	31 December 2011	31 December 2010
Shares and interests*	431 278	395 163
Other financial assets	23 109	14 149
Total	454 387	409 312

*Of which:

- the value of Coifer's shares based on acquisition price PLN 50,158 thousand;
- the value of Torpol Sp. z o.o.'s shares based on acquisition price PLN 33,990 thousand;
- the value of Prinz-1 Sp. z o.o.'s shares based on acquisition price PLN 17,036 thousand.

In line with IAS 36 the Board of Polimex-Mostostal S.A. conducted impairment tests for all investments in the Companies.

The tests showed that as at the date of preparation of these financial statements there is no need to impair the value of these investments except for the company of Energomontaż Magyarország Sp. z o.o. in the amount of PLN 2,274 thousand. Below we presented the tests description together with their results for the largest investments held by the Company.

While reviewing for impairment the value of investment in the standalone financial statements was compared to the value of a subsidiary resulting from the measurement using discounted cash flow method. The amount of capital employed resulting from discounting future cash flows was increased by non-operating assets and non-operating cash and decreased by bank loans and borrowings taken out by the company. Fair value recognized in this manner exceeds the acquisition price for all the companies. As a result, there are is no reason to impair due to the impairment test.

Company	Goodwill (DCF)	Weighted average cost of capital (WACC) adopted at measurement	Weighted average cost of capital (WACC) pre tax	Fixed growth rate after the forecasting period	Non-operating assets (including investment property)	Non-operating cash	Loans and borrowings	Acquisition price in the separate financial statements
Coifer*	50 230	9,54%	11,36%	3,0%	-	-	27 391	50 158
Prinż -1 Sp. z o.o.**	36 556	8,71%	10,75%	3,0%	-	-	12 851	17 036
Torpol***	305 119	9,68%	11,95%	3,0%	-	34 364	38 671	33 990

* In line with the provisions of IAS 36, the Board of Polimex-Mostostal S.A. conducted the impairment test of the investment in the COIFER Company, which resulted in the goodwill of the Company of PLN 50.2 million. Because in the statements for 2010 the impairment of PLN 35 million was made, there is no need to impair the value of this Company as at the date of preparation of these financial statements. The valuation of the Coifer Company was done with the following assumptions: revenue increase of an average of 7% annually from 2013 to 2016, EBIT margin of 3.2% in the entire projection period, weighted average cost of capital (WACC): 9.54%, growth rate after the projection period: 3.0%. The valuation sets the goodwill of the Company at PLN 50.2 million.

A decrease in the average cost of capital of 0.5% (depending mostly on risk-free rate) compared to base value or an increase in EBIT margin of 10% results in the goodwill increase of about 5 to 10 percentage points. An increase in the average cost of capital of 0.5% compared to base value or a decrease in EBIT margin of 10% results in the goodwill decrease of 5 to 10 percentage points.

** In line with the provisions of IAS 36, the Board of Polimex-Mostostal S.A. conducted the impairment test of the value of the investment in Prinż-1 Sp. z o.o., which showed that as at the date of preparation of these statements there is no need to impair. While reviewing for impairment the value of investment in the standalone financial statements was compared to the value of a subsidiary resulting from the measurement using discounted cash flow method. The amount of capital employed resulting from discounting future cash flows was increased by non-operating assets and non-operating cash and decreased by bank loans and borrowings taken out by the company. Fair value recognised in this manner is higher than the acquisition price. Accordingly, there are no indications to recognise an impairment loss.

Goodwill of this company was measured at PLN 23.7 million (after the adjustment for non operating assets and non operating cash as well as for loans and borrowings), of which PLN 20.8 million (87.9% of shares) is attributable to Polimex. The valuation was done with the following assumptions: revenue increase of 23% in 2012, and then by an average of 5% annually from 2013 to 2016, EBIT margin of 3.3% in the entire projection period, weighted average cost of capital (WACC): 8.71%, growth rate after the projection period: 3.0%, inventory turnover of 10 days, trade receivables turnover of 122 days and trade payables turnover of 106 days.

A decrease in the average cost of capital of 0.5% (depending mostly on risk-free rate) compared to base value or an increase in EBIT margin of 10% results in the goodwill increase of about 10 percentage points. An increase in the average cost of capital of 0.5% compared to base value or a decrease in EBIT of 10% results in the goodwill decrease of about 10 per cent.

*** In line with the provisions of IAS 36, the Board of Polimex-Mostostal S.A. conducted the impairment test of the value of the investment in Torpol Sp. z o.o., which showed that as at the date of preparation of these statements there is no need to impair. While reviewing for impairment the value of investment in the standalone financial statements was compared to the value of a subsidiary resulting from the measurement using discounted cash flow method. The amount of capital employed resulting from discounting future cash flows was increased by non-operating assets and non-operating cash and decreased by bank loans and borrowings taken out by the company and by lease liabilities. Fair value recognised in this manner is higher than the acquisition price. Accordingly, there are no indications to recognise an impairment loss.

Goodwill of this company was measured at PLN 300.8 million (after the adjustment for non-operating assets and non-operating cash as well as for loans, borrowings and leases). The valuation was done with the following assumptions: revenue increase of 3.8% in 2012, and then by an average of 5% annually from 2013 to 2016, EBIT margin of 4.0% in the entire projection period, weighted average cost of capital (WACC): 9.68%, growth rate after the projection period: 3.0%, inventory turnover of 15 days, trade receivables turnover of 147 days and trade payables turnover of 172 days.

A decrease in the average cost of capital of 0.5% (depending mostly on risk-free rate) compared to base value or an increase in EBIT margin of 10% results in the goodwill increase of about 10 percentage points. An increase in the average cost of capital of 0.5% compared to base value or a decrease in EBIT of 10% results in the goodwill decrease of about 10 per cent.

23.1.1 Non-current financial assets

	31 December 2011	31 December 2010
Shares and interests		
Shares and interests – companies not listed on the stock exchange	431 278	395 163
Available-for-sale financial assets	-	-
Total	431 278	395 163

23.1.2 Change in non-current financial assets – shares and interests

	31 December 2011	31 December 2010
At the beginning of the period	395 163	292 400
Increase:		
Acquisition of shares and interests	38 546	141 500
Increase of capital in subsidiary	-	26 590
Other	32 561	107 058
Decrease:		
Impairment losses	5 985	7 852
Other	(2 431)	(38 737)
	(2 303)	(35 255)
	(128)	(3 482)
At the end of the period	431 278	395 163

23.1.3 Other non-current financial assets

	31 December 2011	31 December 2010
Other non-current financial assets		
Loans granted	20 072	11 348
Bank guarantee deposits	3 037	2 145
Deposits	-	656
Other	-	-
Other non-current financial assets	23 109	14 149

Non-current loans

Business entity	Amount of loan granted	Currency	Maturity	Amount of debt with interest	
				31 December 2011	31 December 2010
Polimex-Mostostal Development Sp. z o.o.*	8 200	PLN	2013.05.19	8 035	-
Polimex-Mostostal Development Sp. z o.o.*	2 500	PLN	2013.05.19	2 888	-
Polimex-Mostostal Development Sp. z o.o.*	6 000	PLN	2013.05.19	6 613	-
Polimex-Mostostal Development Sp. z o.o.*	2 985	PLN	2013.05.19	1 253	-
Polimex Mostostal Ukraine	1 000	USD	2012.04.15	-	3 024
Centrum Projektowe Polimex Mostostal Sp. z o.o.	3 482	PLN	2013.06.30	1 230	2 149
Polimex Mostostal Ukraine	300	USD	2012.08.30	-	890
Polimex Mostostal Ukraine	1 750	USD	2012.08.30	-	5 225
Natural persons		PLN		53	60
Total non-current loans				20 072	11 348

* repayment date of the loans was agreed with the repayment date of the loans taken out by Polimex-Mostostal Development Sp. z o.o. at Nordea Bank Polska S.A.

At 31 December 2011 weighted average margins for loans granted by Polimex-Mostostal S.A. to Group companies amounted to: for loans in Polish zloty WIBOR 1M + 2.35 p.p., WIBOR 3M + 2.04 p.p., for loans in a foreign currency EURIBOR + 3.00 p.p.

At 31 December 2010 weighted average margins for loans granted by Polimex-Mostostal S.A. to Group companies amounted to: WIBOR + 2.00 p.p. for loans in Polish zloty and 4.00% for foreign currency loans.

23.2. Current financial assets

	31 December 2011	31 December 2010
Loans granted	53 831	34 858
Bank guarantee deposits	513	-
Derivative financial instruments	-	7 073
Available-for-sale financial assets	-	594
Other	6 491	60
Other current financial assets	60 835	42 585

Current loans

Business entity	Amount of loan granted	Currency	Maturity	Amount of debt with interest in PLN thousands	
				31 December 2011	31 December 2010
Coifer *	2 000	EUR	2012.12.31	8 954	-
Coifer *	54	EUR	2011.05.31	239	-
Energomontaż Magyarország* (interest)	707	EUR	2008.03.31	839	-
Grande Meccanica Spa***	400	EUR	2013.02.28	28	-
Tchervonograd Metal Structure Plant*	900	USD	2012.12.31	1 081	-
(as at the date of preparation of these statements the loan was repaid in the amount of USD 600 thousand)					
Polimex Mostostal Ukraine*	1 000	USD	2012.04.15	3 623	-
Polimex Mostostal Ukraine*	1750	USD	2012.08.30	6 264	-
Polimex Mostostal Ukraine*	300	USD	2012.08.30	1 067	-
Polimex Mostostal Ukraine	7 050	PLN	2012.08.30	7 411	-
Elektra Sp. z o.o.	1 000	PLN	2012.03.31	1 064	-
PRInż -1 Sp. z o.o.	2 500	PLN	2012.12.31	1 872	-
(as at the date of preparation of these statements the loan was decreased to PLN 1,800 thousand)					
Polimex-Development Kraków Sp. z o.o.**	4 200	PLN	2012.12.31	318	318
Polimex-Development Kraków Sp. z o.o.**	2 000	PLN	2012.12.31	93	93
Polimex-Development Kraków Sp. z o.o.**	3 548	PLN	2012.12.31	593	593
Polimex-Development Kraków Sp. z o.o.**	7 600	PLN	2012.12.31	933	933
Polimex-Development Kraków Sp. z o.o.**	8 750	PLN	2012.12.31	1 152	1 152
Polimex-Development Kraków Sp. z o.o.**	16 500	PLN	2012.12.31	2 554	2 554
Polimex-Development Kraków Sp. z o.o.**	1 400	PLN	2012.12.31	107	107
Polimex-Development Kraków Sp. z o.o.**	18 000	PLN	2012.12.31	2 749	2 749
Polimex-Development Kraków Sp. z o.o.**	3 000	PLN	2012.12.31	178	178
Polimex-Development Kraków Sp. z o.o.**	3 500	PLN	2012.12.31	73	73
Polimex-Development Kraków Sp. z o.o.**	10 000	PLN	2012.12.31	1 362	1 362
Polimex-Development Kraków Sp. z o.o.**	20 000	PLN	2012.12.31	3 324	3 324
Polimex-Development Kraków Sp. z o.o.	2 450	PLN	2012.12.31	2 670	2 036
Polimex-Development Kraków Sp. z o.o.	1 700	PLN	2012.12.31	1 799	-
Polimex-Development Kraków Sp. z o.o.	1 650	PLN	2012.12.31	801	-
ZBI Turbud Sp. z o.o.	1 500	PLN	2012.04.30	328	1 507
Polimex-Mostostal Development Sp. z o.o.	2 500	PLN	2012.12.31	-	2 675
Polimex-Mostostal Development Sp. z o.o.	6 000	PLN	2012.12.31	-	5 885
Polimex-Mostostal Development Sp. z o.o.	8 200	PLN	2012.12.31	-	7 435

Centrum Projektowe Polimex-Mostostal Sp. z o.o. (current portion)	3 482	PLN	2012.12.31	1 253	840
Moduł System Service Sp. z o.o.	1 000	PLN	2012.12.31	1 011	1 000
Natural persons		PLN		91	44
Total current loans				53 831	34 858

*the amount of debt with interest was translated into PLN

**in 2010 Company's loan receivables were partly converted to an increase in capital in Polimex-Development Kraków. Total amount of conversion equalled to PLN 96,498 thousand. The repayment date for interest in the total amount of PLN 13,436 thousand, which was accrued on the amount of converted loans, is on 31.12.2012.

*** on 01.06.2011 the shareholders of Grande Meccanica SpA decided to increase the Company's capital by EUR 1,300 thousand. Due to the above fact the loan granted to the Company on 21.12.2010 of EUR 400 thousand was set off against the liability of Polimex-Mostostal S.A. arising from the above mentioned increase of capital.

23.3. Derivative financial instruments

	31 December 2011	31 December 2010
Short-term derivative financial instruments	-	7 073
Forward currency contracts	-	5 926
Currency options	-	1 147

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

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

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

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

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

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

IFRS 7 – Financial Instruments: Disclosure,

IAS 39 – Financial instruments: Recognition and Measurement,

IAS 32 – Financial Instruments: Disclosure and Presentation.

The Company has transactional foreign currency exposures. Over 25% of transactions executed by the Company are denominated in currencies other than the presentation currency, whereas nearly 85% of costs are denominated in this presentation currency.

The basic method of hedging against foreign exchange risk applied by the Company is natural hedging i.e. hedging foreign currency risk by entering into transactions which generate costs in the same currency as the revenue currency. If currency risk may not be hedged by natural hedging, the Company applies currency hedges –

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

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

Terms and conditions of hedging of derivative instruments are negotiated in a manner corresponding to terms and conditions of hedged item, and providing maximum hedging efficiency. In 2011, the Company consequently applied the rules and procedures of conduct implemented, aimed at mitigating the negative impact of the price risk on the result of the enterprise operations.

Disclosure on concluded hedging transactions

To limit the volatility of future cash flows related to foreign currency risk, at 31 December 2011 Polimex-Mostostal S.A. was a party to 12 hedging strategies as characterised below (nominal values of transactions as well as price conditions for instruments to be exercised after 31.12.2011):

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

I. Foreign currency options

The Company is the party to 7 symmetrical option transactions concluded between 11 May 2011 and 2 November 2011. The total nominal value of currency options to be exercised over the period between 3 January 2012 and 3 December 2012 amounts to EUR 5,235,000 (in each case the nominal value of the acquired PUT option clears the nominal value of the issued CALL option). The exercise rates of PUT options the Company is entitled to range from 3.90 PLN/EUR to 4.35 PLN/EUR depending on a transaction. The exercise rates of CALL options issued by the Company range from 4.1650 PLN/EUR to 4.71 PLN/EUR depending on a transaction.

II. Forward future contracts

1. The forward future contract of 10 December 2010 to sell EUR 1,200,000 for PLN to be exercised on 30 April 2012. The forward rate was specified at 4.1117 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
2. The forward future contract of 1 March 2011 to sell the total of EUR 385,000 for PLN to be exercised on 31 January 2012. Exchange rate was specified at 4.04 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
3. The forward future contract of 11 March 2011 to sell the total of EUR 1,200,000 for PLN to be exercised at 31 January 2012. The forward rate was specified at 4.1045 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
4. The forward future contract of 11 March 2011 to sell the total of EUR 630,000 for PLN to be exercised on 30 March 2012. Exchange rate was specified at 4.0975 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
5. The series of forward future contracts of 8 July 2011 to sell the total amount of EUR 603,000 for PLN to be exercised in 2 dates in the period between 16 January 2012 and 3 February 2012. The forward rate for each maturity date was specified at 4.0015 PLN/EUR;

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

I. Foreign currency options

On 15 April 2010 and 5 May 2010 the Company agreed on conditions of symmetrical foreign currency option transactions aimed at limiting the volatility of projected cash flows in GBP. The total nominal value of currency

options to be exercised over the period between 13 January 2012 and 13 April 2012 amounts to GBP 1,290,000 (in each case the nominal value of acquired PUT option clears the nominal value of issued CALL option). Exercise rates of PUT options the Company is entitled to amount to 4.38 PLN/GBP for the transaction of 15 April 2010 and 4.65 PLN/GBP for the transaction of 5 May 2010, while exercise rates of CALL options issued by the Company amount to 4.85 PLN/GBP and 5.1490 PLN/GBP respectively.

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

Summing up, as at 31.12.2011 Polimex-Mostostal S.A. had open hedging transactions for the amount of EUR 9,253,000 thousand and GBP 1,290,000. In each case the hedged item is highly probable future cash flows from foreign currency contracts being executed by the Company (supply of steel products and rendering of construction services).

Maturity of all above mentioned hedging transactions falls in 2012. The table below presents the schedule for the settlement of PLN/EUR hedging instruments in each quarter of 2012:

Quarter the hedging instrument is exercised in 2012*	Nominal value of a hedging instrument		
	Nominal value of PUT = CALL options in EUR thousands	Nominal value of future contracts in EUR thousands	Total in the period in EUR thousands
1st quarter	2 985	2 818	5 803
2nd quarter	1 004	1 200	2 204
3rd quarter	1 073	0	1 073
4th quarter	173	0	173
Total in 2012	5 235	4 018	9 253

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

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

Measurement of derivative instruments as at 31 December 2011.

As at 31 December 2011, fair value of the open derivative instruments was assessed at minus PLN 3,000.1 thousand. In accordance with the hedge accounting policy approved by the Company, effectiveness of hedging connections was measured. Cash flow hedging was recognized as highly effective and the change of the effective part of fair value of financial instruments was shown directly in other comprehensive income in the position "Revaluation capital" according to the following order (amounts after including the effect in the deferred tax) – data in PLN thousands:

As at 31.12.10	Movement in 2011	As at 31.12.11
3 851	(5 018)	(1 167)

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

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

Fluctuations of the average exchange rate of EUR have significant influence on the amount of income expressed in PLN resulting from contracts concluded in a foreign currency. Based on contracts which have been entered into and contracts which are highly probable to be concluded, the Company assessed the foreign currency exposure in 2012 as follows:

Detailed list	2012
Projected foreign currency proceeds – equivalent in EUR thousands	217 722
Projected foreign currency expenditures – equivalent in EUR thousands	126 853
Business exposure to foreign currency risk in EUR thousand	90 869
Open hedging transactions as at 31.12.2011 to be exercised in 2012; in EUR thousands	9 253
Open item in foreign currency (after taking into consideration hedging transactions) in EUR thousands	81 616

The nominal value of open hedging instruments as at 31 December 2011 accounts for 10% of total projected exposure to foreign currency risk in 2012. Foreign currency cash flows for contracts concluded by the Company by the date of the completion of this list account for more than 67% of business exposure computed as above. As a result, business exposure to foreign currency risk for cash flows contracted as at 31.12.11 was covered in 15% by hedging transactions.

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

After 31 December 2011 Polimex-Mostostal S.A. entered into the following hedging transaction:

- the series of forward future contract of 19 January 2012 to sell the total of EUR 1,660,000 for PLN to be exercised in two dates: 30 May 2012 and 28 December 2012. The exchange rate for each date was specified at 4.3929 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
- the forward future contract (a synthetic one constructed with currency options) of 19 January 2012 to sell the total of EUR 1,750,000 for PLN to be exercised at 30 April 2012. The forward rate was specified at 4.3730 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
- the forward future contract (a synthetic one constructed with currency options) of 19 January 2012 to sell the total of EUR 1,790,000 for PLN to be exercised at 30 April 2012. The forward rate was specified at 4.3730 PLN/EUR. It is the intention of the Company to gradually „shorten” transactions and materialise the hedged item in connection with which the hedging transaction was opened;
- on 27 February 2012 the Company agreed on terms and conditions of a symmetrical transaction of European currency options (the so-called currency corridor). The nominal value of currency options which are to be exercised on 21 June 2012 is EUR 167,000 thousand (the nominal value of the PUT option clears the value of issued CALL option). The exercise rate of the PUT option the Company is entitled to is 4.10 PLN/EUR, whereas the exercise rate of CALL option issued by the Company is 4.48 PLN/EUR.

24. Retirement and other post-employment benefit plans

The Company provides retiring employees with the amounts of retirement benefits as specified in Company Collective Agreement as well as jubilee bonuses and post-employment benefits. As a result, based on the valuation made by a professional actuarial company the Company recognises a provision for the current value of retirement benefits liability.

On 30 December 2011 the Company signed an Agreement with Trade Unions introducing the amendments relating to jubilee bonuses in the Company Collective Labour Agreement of Polimex-Mostostal S.A. of 16 February 2007. In line with the provisions of the Agreement the Employee Pension Scheme is introduced in the Company and the payment of jubilee bonuses is maintained until 31 December 2012.

The table below summarises the amounts of the provision and reconciliation presenting movements over the period:

	2011	2010
At the beginning of the period at 1 January, of which:	84 247	76 852
Provision recognized	434	16 367
Released	(34 693)	(8 359)
Utilised	(701)	(742)
Reclassifications	-	129
At the end of the period at 31 December	<u>49 287</u>	<u>84 247</u>

Main assumptions made by an actuary at the balance sheet date to compute the amount of liability are as follows:

	31 December 2011	31 December 2010
Discount rate (%)	5.5	5.5
Future inflation index (%)	3.0	2.5
Future salary increases (%)	1.0	2.5

25. Inventories

	31 December 2011	31 December 2010
Raw materials	75 311	86 200
Work-in-progress (at cost)	95 622	103 257
Finished goods:	20 929	22 733
At cost	20 929	22 733
At net realisable value	-	-
Raw materials advance payments	3 706	10 428
Goods for resale	380	80
Total inventories, at the lower of cost and net realisable value	<u>195 948</u>	<u>222 698</u>

At 31 December 2011 and at 31 December 2010 there were pledges established on smelting products at the total amount of PLN 100 thousand as security to bank loan agreements.

26. Trade and other receivables

	31 December 2011	31 December 2010
Trade receivables	1 508 686	1 126 787
- of which, receivables from related parties	19 787	23 248
Receivables from public authorities, of which:	3 679	9 171
- value added tax	-	5 926
- other	3 679	3 245
Other receivables from third parties	716	4 927
Other receivables from related parties	3 989	824
Total receivables (net)	<u>1 517 070</u>	<u>1 141 709</u>
Doubtful debts allowance	42 041	49 905
Total receivables, gross	<u>1 559 111</u>	<u>1 191 614</u>

For terms and conditions of related party transactions refer to Note 37.1.

Trade receivables are non-interest bearing and are usually receivable within 30 to 60 days.

The Company has a policy to sell only to customers who have undergone an appropriate credit verification procedure. Thanks to that, as the Management believes, there is no additional credit risk that would exceed the doubtful debts allowance recognised for trade receivables of the Company.

The balance of receivables relating to contracts performed by the Company in Libya amounts to PLN 11.4 million. The Company believes that as at the date of preparation of these financial statements the default risk for the above receivables is slight. Despite the interruption in the works on the contract, the Company is all the time in touch with the persons on the investor's part responsible for the continuation of the contract. The Company is receiving positive signals from the investor suggesting willingness to cooperate further and to restart works still this year. The Board of Polimex-Mostostal S.A. expects reconciliation of the conditions of conducting further works and restarting the performance of the contract in Libya in June 2012. The Board of Polimex-Mostostal S.A. expects reconciliation of the conditions of conducting further works and restarting the performance of the contract in Libya in June 2012. The process of claim analysis is pending. The Company systematically monitors the situation concerning Libyan contracts and if there is a possibility of losing assets it will recognise provisions.

26.1. Trade receivables (gross) with remaining maturity from the statement of financial position date

	31 December 2011	31 December 2010
Up to one month	1 066 335	638 321
Over 1 month to 3 months	149 771	216 618
Over 3 months to 6 months	7 951	23 506
Over 6 months to 1 year	41 682	7 961
Past due receivables	284 702	290 053
Total receivables, gross	1 550 441	1 176 459
Doubtful debts allowance	(41 755)	(49 672)
Net receivables	1 508 686	1 126 787

26.2. Aging analysis of trade receivables

	31 December 2011	31 December 2010
Up to one month past due	109 284	60 557
Over 1 month to 3 months past due	45 355	70 348
Over 3 months to 6 months past due	39 716	26 922
Over 6 months to 1 year past due	25 004	33 960
Over 1 year past due	65 343	98 266
Total receivables, gross	284 702	290 053
Doubtful debts allowance*	(41 755)	(49 584)
Net receivables	242 947	240 469

*the allowance refers to the receivables past due for over 1 year.

26.3. Allowances for trade receivables

Movements in allowance for receivables were as follows:

	31 December 2011	31 December 2010
Allowance at 1 January	49 672	60 310
Increase:	2 872	10 587
- provision for impairment	2 872	10 587
Decrease:	10 789	21 225
- utilisation	5 275	9 564
- receivables pay-off	6	2 368
- release	5 508	9 293
Impairment at 31 December	41 755	49 672

27. Prepaid expenses

	<i>31 December 2011</i>	<i>31 December 2010</i>
Insurance costs	5 456	3 742
IT support expenses	114	182
Quality certificate expenses	-	270
Rental	453	67
Auxiliary materials	-	32
Licence fees	1 053	547
Subscription	91	159
Perpetual usufruct charge	-	120
Acquisition costs	1 700	-
Other	2 027	1 417
Total	10 894	6 536

28. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. For the purposes of the cash flow statement the balance of cash and cash equivalents comprise the following:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Cash at bank and in hand	172 115	254 118
Short-term deposits	4 479	26 816
	176 594	280 934

Reconciliation of changes in balance sheet items to the changes recognised in the cash flow statement are presented in the tables below:

Change in receivables	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Change in receivables in the statement of financial position	(370 092)	(85 815)
Adjustment relating to setting off receivables with a loan	(3 360)	(1 158)
Receivables set off against shares	(403)	-
Adjustment for dividend receivable	407	3 000
Adjustment of receivables due to loan revaluation	(2 486)	114
Adjustment for receivables from disposal of non-current assets	1 652	-
Change in receivables in the statement of cash flows	(374 282)	(83 859)

Change in inventories	<i>Year ended</i> <i>31 December 2011</i>	<i>Year ended</i> <i>31 December 2010</i>
Change in inventories in the statement of financial position	26 750	(80 948)
Conversion of delivery advance payments to Coifer loan	(6 491)	-
Change in inventories in the statement of cash flows	20 259	(80 948)

Change in liabilities	<i>Year ended</i> <i>31 December 2011</i>	<i>Year ended</i> <i>31 December 2010</i>
Change in liabilities in the statement of financial position	290 726	11 202
Change in lease liabilities	2 340	(2 135)
Adjustment for liabilities arising from acquisition of non-current assets	(3 284)	6 679
Assignment of interest of Prinz – 1 Sp. z o.o. and Centrum Projektowe Polimex Mostostal Sp. z o.o.	-	(333)
Adjustment for option measurement	-	(168)
Other – sureties granted to subsidiaries	(3 484)	(7 475)
Adjustment for realised contingent payments for shares in Coifer Impex, ZRE Kraków Sp. z o.o. and EPE Rybnik	-	10 543
Liabilities arising from increase of capital in Grande Meccanica	(4 417)	-
Change in liabilities in the statement of cash flows	281 881	18 313

Change in accruals and prepaid expenses	<i>Year ended</i> <i>31 December 2011</i>	<i>Year ended</i> <i>31 December 2010</i>
Change in accruals and prepaid expenses in the statement of financial position	(1 236)	(6 468)
Acquisition of shares in incorporated company	-	-
Change in accruals and prepaid expenses in the statement of cash flows	(1 236)	(6 468)

Change in provisions	<i>Year ended</i> <i>31 December 2011</i>	<i>Year ended</i> <i>31 December 2010</i>
Change in provisions in the statement of financial position	(51 165)	1 501
Acquisition of shares in incorporated company	-	-
Change in provisions in the statement of cash flows	(51 165)	1 501

29. Issued capital and supplementary/ reserve/other capital

29.1. Issued capital

<i>Equity capital (in share thousands)</i>	<i>31 December 2011</i>	<i>31 December 2010</i>
Series A ordinary shares	55 386	55 386
Series B ordinary shares	36 532	36 532
Series C ordinary shares	8 580	8 580
Series D ordinary shares	13 499	13 499
Series E ordinary shares	43 499	43 499
Series F ordinary shares	223 716	223 716
Series G ordinary shares	236	-
Series H ordinary shares	25 823	25 823
Series I ordinary shares	57 321	57 321
Series K ordinary shares	38 733	38 733
Series L ordinary shares	17 829	17 829
Total	521 154	520 918

All issued shares are at nominal value of PLN 0.04 as at

31 December 2011 and as at 31 December 2010. Shares have been fully paid.

On 31 December 2010 the District Court for the capital city of Warsaw, 12th Economic Department of National Court Register issued the decisions:

- on entering the combination of Polimex-Mostostal S.A. (the acquiring company) with the following companies: Energomontaż-Północ S.A. with the registered office in Warsaw, Naftoremont Sp. z o.o. with the registered office in Płock, Zakłady Remontowe Energetyki Kraków Sp. z o.o. with the registered office in Kraków, Zakłady Remontowe Energetyki Lublin S.A. with the registered office in Lublin, EPE-Rybnik Sp. z o.o. with the registered office in Rybnik, ECeRemont Sp. z o.o. with the registered office in Zielona Góra (the acquired companies) conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of these companies to Polimex-Mostostal S.A., registration of an increase of share capital due to the combination with the above mentioned companies and of amendments to the Articles of Association of Polimex - Mostostal S.A. – in accordance with Resolution No 1 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.
- on entering the combination of Polimex-Mostostal S.A. (the acquiring company) with Naftobudowa S.A. with the registered office in Kraków conducted under Article 492.1.1 of the Code of Commercial Companies by transferring all the assets of Naftobudowa S.A. to Polimex - Mostostal S.A., registration of an increase of share capital due to the combination with Naftobudowa S.A. and of amendments to the Articles of Association of Polimex - Mostostal S.A. – in accordance with Resolution No 2 of the General Shareholder Meeting of Polimex - Mostostal S.A. of 12.07.2010.

As a result of conducted combinations the share capital of Polimex- Mostostal S.A. increased to PLN 20,836,728.12 (twenty million eight hundred thirty-six thousand seven hundred twenty-eight and 12/100) and it divides into 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) ordinary shares that entitle to 520,918,203 (five hundred twenty million nine hundred eighteen thousand two hundred and three) votes in the General Shareholder Meeting.

29.1.1 Shareholders rights

Each share has a right to 1 vote at a General Meeting of Shareholders. There are no shares with preferences relating to distribution of dividends or repayment of capital. According to the information based on stock exchange releases, the structure of shareholders who have directly or indirectly through subsidiaries at least 5% of total number of votes is as follows:

29.1.2 Shareholder with significant shareholding as at 31 December 2011

Item No	Shareholder	No of shares/votes	% interest in share capital/total votes at GSM
1.	ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund)	64 586 526	12.39
2.	Pioneer Pekao Investment Management S.A.	51 859 290	9.95
3.	Polimex-Cekop Development Sp. z o.o. *)	13 152 500	2.52
4.	Other shareholders	391 555 760	75.14
	Number of shares of all issues	521 154 076	100.00

31 December 2011 31 December 2010

ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny (ING Nationale-Nederlanden Poland Open Pension Fund)

share in equity	12.39%	7.76%
share in votes	12.39%	7.76%

Pioneer Pekao Investment Management S.A.

share in equity	9.95%	10.08%
share in votes	9.95%	10.08%

AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (Open Pension Fund)

share in equity	-	10.03%
share in votes	-	10.03%

Otwarty Fundusz Emerytalny PZU „Złota Jesień” (PZU „Złota Jesień” Open Pension Fund)

share in equity	-	7.68%
share in votes	-	7.68%

Polimex-Cekop Development Sp. z o.o.

(Polimex-Mostostal S.A.'s subsidiary)

share in equity	2.52%	2.52%
share in votes	2.52%	2.52%

Other Shareholders

share in equity	75.14%	61.93%
share in votes	75.14%	61.93%

*Polimex-Cekop Development sp. z o.o. holds 13,152,500 shares of Polimex-Mostostal S.A. whose fair value at 31 December 2011 is PLN 21.8 million and at 31 December 2010 PLN 52.6 million.

29.2. Supplementary capital

. 396. § 1. According to Article 396 (1) of The Code of Commercial Companies, to cover a loss supplementary capital should be recognised to which at least 8% of the profit for the year is transferred until the supplementary capital reaches at least a third of the share capital. Supplementary capital recognised in this way is not subject to distribution.

29.3. Revaluation reserve

The revaluation reserve was recognised in connection with the application of hedge accounting by the Company. Revaluation reserve is a result of net valuation of cash hedges adjusted for deferred tax. The transactions and applied hedge accounting are described in note 23.3 to the financial statements.

29.4. Reserve capital

Reserve capital resulted from Resolution No 2 of Extraordinary General Meeting of Shareholders of Polimex-Mostostal S.A. of 31 January 2006 establishing the Incentive Plan for Directors and Officers of Polimex-Mostostal S.A. Partial modification to the principles of the Plan was introduced by Resolution No 39 of Ordinary Meeting of Shareholders of Polimex-Mostostal S.A. of 28 June 2007.

In connection with the implementation of the Plan the share capital was conditionally increased by not more than PLN 762,417 (say seven hundred sixty-two thousand four hundred seventeen) by means of the issue of not more than 19,060,425 (say nineteen million sixty thousand four hundred and twenty-five) series G bearer shares with nominal value of PLN 0.04 each. Share capital was increased in order to grant rights to holders of subscription warrants to take up series G shares issued under the resolutions of the General Shareholders Meeting of 31 January 2006.

19,060,425 bearer subscription warrants were issued. One bearer subscription warrant entitles to take up 1 (say one) series G ordinary share of the Issuer with nominal value of PLN 0.04 (say oh point zero four) each, excluding rights issue which Issuer's shareholders are entitled to. Warrants were issued at the issue price equal to PLN 0.00 (say: zero).

16,535,013 bearer subscription warrants were vested.
2,525,412 bearer subscription warrants remain to be redeemed.

Warrants may be exercised in the following periods:

- warrants granted for 2006: from 1 October 2010 to 31 December 2013,
- warrants granted for 2007: from 1 October 2011 to 31 December 2013,
- warrants granted for 2008: from 1 October 2012 to 31 December 2013,

In 2009 the phase of vesting warrants based on the above criteria was completed. In a three-year period of plan maintenance, all three criteria were met twice, the highest criteria entitling to obtain the maximum number of warrants. In 2008 only two criteria were met: „EBITDA/per share” and „earnings per share”, while the „market condition” was not fulfilled. Thus, the total number of issued warrants amounted to 16,535,013 convertible to 16,535,013 shares.

Due to the failure to meet the third criterion in 2008, 2,525,412 warrants were not vested on the above specified conditions and consequently these warrants shall be redeemed.

In accordance with Resolution No 26 of 4 July 2008 the share capital of the Company may be conditionally increased by not more than PLN 928,687.32 by means of issuing not more than 23,217,183 series J bearer shares with nominal value of PLN 0.04 (say four grosz) each. The purpose of a conditional increase of the equity is granting rights to take up Company shares to the holders of subscription warrants issued under the incentive plan for the directors and officers of the Company and major subsidiaries. The plan is for three years and the warrants will be issued after meeting assumed growth criteria for each of the reporting periods i.e. 2009, 2010 and 2011.

- Criterion 1: meeting required growth rate of consolidated EBIDTA per Company share,
- Criterion 2: meeting required growth rate of consolidated earnings per share,
- Criterion 3: achieving the required difference between the change in the simple average of Company shares closing quotation (computed for the last three months of the calendar year) and a change in the simple average of WIG Warsaw Stock Exchange Index (computed for the last three months of the calendar year).

An additional allocation criterion is the employment criterion that is the requirement for being employed by the Company for at least 9 months of a given financial year. If the above described vesting criteria are not met, the warrants for which the vesting criterion was not met are subject to redemption. Warrants may be exercised in the following periods:

- warrants granted for 2009: from 1 October 2013 to 31 December 2016,
- warrants granted for 2010: from 1 October 2014 to 31 December 2016,
- warrants granted for 2011: from 1 October 2015 to 31 December 2016,

As at 30 December 2011 the balance of the provision for this plan recognised in reserve capital of the Company amounts to PLN 32,086 thousand (PLN 33,221 thousand as at 31 December 2010).

30. Interest-bearing bank loans and borrowings

Bank loan and borrowing liabilities at 31 December 2011

Bank / financing entity	Maturity	31 December 2011	31 December 2010
Current		211 217	156 928
BGŻ S.A. – bank overdraft up to PLN 35,000 thousand	30.05.2012	-	14 333
Bank PEKAO S.A. – bank overdraft up to PLN 50,000 thousand	31.07.2011	-	13 802
Bank PEKAO S.A. – working capital facility up to PLN 70,000 thousand	31.07.2011	-	12 598
Bank PEKAO S.A. – working capital facility up to PLN 50,000 thousand	27.07.2011	-	50 000
Bank PEKAO S.A. – bank overdraft of PLN 5,000 thousand	31.12.2011	-	241
Bank PEKAO S.A. – credit facility in the form of credit line*)	31.07.2012	150 000	-

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BPH S.A. – bank overdraft up to PLN 47,000 thousand **)	30.11.2012	-	16 078
BPH S.A. – bank overdraft up to PLN 10,000 thousand	31.08.2011	-	3 338
Depolma GmbH – loan in EUR	10.12.2012	850	739
Polimex-Hotele Sp. z o.o. – loan in PLN	31.12.2012	2 277	2 098
PKO BP S.A. – working capital facility in EUR (current portion)	26.12.2012	8 503	1 188
PKO BP S.A. – working capital facility in PLN (current portion)	26.12.2012	6 345	964
PKO BP S.A. – investment loan in PLN/EUR (current portion)	31.12.2012	29 861	29 226
BOŚ S.A. – bank overdraft up to PLN 50,000 thousand	03.07.2012	-	2 936
DZ Bank S.A. – bank overdraft up to EUR 3,000 thousand	31.10.2012	13 214	7 807
DnB Nord Bank Polska S.A. – investment loan in PLN (current portion)	31.12.2012	-	147
Getin Bank S.A. – investment loan in PLN (current portion) (repaid)	31.12.2011	-	22
Getin Bank S.A. – investment loan in PLN (repaid)	25.04.2011	-	11
PKO BP S.A. – non-revolving working capital facility up to PLN 600 thousand	04.10.2012	167	1 400

*) credit facility in the form of a multipurpose multicurrency credit line in the total amount of PLN 420,000 thousand, of which working capital facility up to PLN 200,000 thousand (PLN 50,000 thousand – bank overdraft, PLN 150,000 thousand - revolving loan in tranches to finance contracts being performed); it replaced among other things the above mentioned credit facilities at PEKAO S.A. up to PLN 50,000 thousand, PLN 70,000 thousand, PLN 50,000 thousand and PLN 5,000 thousand.

**) the loan replaced the prior loan up to PLN 42,000 thousand and the loan of the incorporated company of Naftobudowa S.A. up to PLN 10,000 thousand.

Non-current		82 317	123 762
PKO BP S.A. – investment loan in PLN/EUR	31.08.2015	82 118	109 595
PKO BP S.A. – working capital facility in EUR	26.12.2012	-	7 525
PKO BP S.A. – working capital facility in PLN	26.12.2012	-	6 265
Getin Bank S.A. – investment loan in PLN (repaid)	25.02.2013	-	28
DnB Nord Polska S.A. – investment loan in PLN	31.03.2013	199	199
PKO BP S.A. – non-revolving working capital facility up to PLN 600 thousand	04.10.2012	-	150
PKO BP S.A. – revolving credit facility up to PLN 100,000 thousand	30.06.2014	-	-

Interest-bearing bank loans and borrowings

Current, of which:	211 217	156 928
Bank loans	208 090	154 091
Borrowings	3 127	2 837
Non-current, of which:	82 317	123 762
Bank loans	82 317	123 762
Borrowings	-	-

Comparison of interest rates for the periods	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Weighted average for bank loans in PLN	WIBOR 1M+1.3858 p.p. WIBOR 3M+ 1.6357 p.p. WIBOR ON+ 1.9500 p.p.	WIBOR 1M+1.5800 p.p. WIBOR 3M+ 2.1255 p.p. WIBOR ON+ 1.9500 p.p.
Weighted average for bank loans in EUR	EURIBOR 1M + 2.0871 p.p.	EURIBOR 1M + 2.2798 p.p.

31. Assets pledged as security

	31 December 2011	31 December 2010
Property, plant and equipment	465 958	318 433
Inventories	100 000	100 000
Total	565 958	418 433

32. Debentures

	31 December 2011	31 December 2010
Long-term debentures	73 000	367 435
Short-term debentures	334 742	39 331
Total debentures	407 742	406 766

In total, under the Debenture Issue Plan balance of debentures issued by Polimex-Mostostal S.A. as at 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.

Current issues under Debenture Issue Plan:

i) coupon 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 were consolidated and until 25.07.2012 the 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) discount debentures:

- on 28.06.2006 two blocks of short-term discount debentures not admitted for listing for the total amount of PLN 32.5 million, which were combined in one block on 07.01.2009 and its present maturity is at 30 March 2012.

33. Other non-current liabilities

	31 December 2011	31 December 2010
Finance lease	5 574	8 275
Non-current guarantee payment liabilities	42 166	40 754
Financial asset purchase payables	-	1 175
Deposits	-	3
Liabilities arising from acquisition of property, plant and equipment	-	1 456
Other	1 021	-
Total	48 761	51 663

34. Provisions

34.1. Movements in provisions

	<i>Provisions for guarantee repairs and refunds</i>	<i>Restructuring provision</i>	<i>Other long-term employee benefits and post employment benefits</i>	<i>Other provisions</i>	<i>Total</i>
As at 1 January 2011	20 142	-	84 247	14 910	119 299
Recognised during the year	7 036	-	434	10 861	18 331
Utilised	(8 691)	-	(701)	(498)	(9 890)
Released	(9 603)	-	(34 693)	(15 310)	(59 606)
As at 31 December 2011	8 884	-	49 287	9 963	68 134
Current as at 31 December 2011	3 894	-	8 451	9 963	22 308
Non-current as at 31 December 2011	4 990	-	40 836	-	45 826
As at 1 January 2010	22 364	342	76 852	18 240	117 798
Recognised during the year	13 397	217	16 367	9 249	39 230
Utilised	-	(217)	(742)	(3 878)	(4 837)
Released	(16 289)	-	(8 359)	(8 133)	(32 781)
Reclassifications	670	(342)	129	(568)	(111)
As at 31 December 2010	20 142	-	84 247	14 910	119 299
Current as at 31 December 2010	11 223	-	9 809	14 778	35 810
Non-current as at 31 December 2010	8 919	-	74 438	132	83 489

34.2. Guarantee and refund provision

The Company recognised in the statement of financial position guarantee repair provisions in the amount of PLN 8,884 thousand as at 31 December 2011 and PLN 20,142 thousand as at 31 December 2010. Assumptions used to calculate the provision for guarantees were based on current sales levels and current information available about the contractual guarantee period for all products sold.

34.3. Other provisions

The items of other provisions as at 31 December 2011 comprise provisions for losses and costs of construction projects PLN 8,467 thousand and other provisions in the amount of PLN 1,496 thousand; as at 31 December 2010 the balance of provisions comprises provisions for fines in the amount of PLN 5,456 thousand, provisions for losses and costs of construction projects PLN 8,163 thousand and other provisions in the amount of PLN 1,291 thousand

35. Trade and other payables (current)

	31 December 2011	31 December 2010
Trade payables		
To related parties	58 065	58 740
To third parties	1 156 589	843 372
	1 214 654	902 112
Taxation, customs duty, social security and other payables		
VAT	28 422	46 675
Withholding tax	65	165
Personal income tax	8 349	8 588
Social Insurance Institution (ZUS)	36 015	33 515
National Disabled Persons Rehabilitation Fund (PFRON)	726	610
Other	518	1 139
	74 095	90 692
Financial liabilities		
Foreign currency option contract	3 000	372
Interest acquisition liabilities	-	16 247
Finance lease and hire purchase contracts	6 317	5 956
Other	6 492	6 798
	15 809	29 373
Other liabilities		
Remuneration payable to employees	37 101	36 906
Non-current asset purchase payables	12 239	9 602
Social fund	(848)	882
Other liabilities	20 506	10 361
	68 998	57 751
Accrued expenses related to:		
Unused annual leave	19 521	13 359
Bonuses and rewards	16 967	17 145
Bank guarantee costs	-	996
Court expenses	458	458
Other	2 007	4 372
	38 953	36 330

Terms and conditions of payment of financial liabilities presented above:

Transactions with related parties are concluded on market conditions (typical trade transactions).

Trade payables are non-interest bearing and are normally settled within 30 to 50 days.

Other payables are non-interest bearing and have an average term of 1 month.

Deferred gains on foreign exchange contracts represent the net payable arising from a forward currency contracts and currency options.

The net VAT payable is remitted to the appropriate tax authority in periods specified in tax regulations.

Interest payable is normally settled based on accepted interest notes.

35.1. Trade payables with remaining maturity from the statement of financial position date

	31 December 2011	31 December 2010
Up to one month	502 564	558 541
Over 1 month to 3 months	253 688	146 251
Over 3 months to 6 months	11 403	4 352
Over 6 months to 1 year	15 057	10 520
Past due liabilities	431 942	182 448
Total trade payables	1 214 654	902 112

35.2. Past due trade payables

	31 December 2011	31 December 2010
Up to one month	218 600	85 523
Over 1 month to 3 months	140 705	37 813
Over 3 months to 6 months	22 029	32 058
Over 6 months to 1 year	26 156	14 338
Over 1 year	24 452	12 716
Total past due liabilities	431 942	182 448

36. Contingent liabilities, legal claims and other off-statement of financial position items

	31 December 2011	31 December 2010
Contingent liabilities (arising from)	2 226 248	1 944 489
- guaranties and sureties granted	1 517 144	1 417 398
- promissory notes	85 360	61 719
- legal claims	42 809	16 232
- other	162 703	152 110
- contractual capped / ordinary mortgage	418 232	297 030
Other off-statement of financial position items (arising from)	114 623	114 623
- transferred to off-statement of financial position records balances relating to*	114 623	114 623
- receivables	48 839	48 839
- cash	15 973	15 973
- liabilities	25 330	25 330
- deferred income	24 481	24 481
Total off-statement of financial position items	2 340 871	2 059 112

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

The Company is the party to legal proceedings before administration authorities on applications filed by former owners to return expropriated plots being the property of State Treasury situated at ul.Górczewska in Warsaw. One of the plots is leased by Polimex-Mostostal S.A., and others are part of real property which is perpetually usufructed by Zarząd Majątkiem Górczewska Sp. z o.o. and administered by this company.

36.1. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines and penalties. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between

companies and government bodies create areas of uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Company believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2011 and as at 31 December 2010.

37. Related party disclosures

The table below presents the total values of transactions with related parties entered into during the financial year and the prior financial year.

<i>Related party</i>	<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Receivables from related parties</i>	<i>Amounts owed to related parties</i>
Subsidiaries	2011			
Energomontaż Północ Gdynia Sp. z o.o.	4 763	178	981	391
Energop Sp. z o.o.	5 351	16 692	95	10 270
Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o.	2 522	4 956	34	1 147
Energomontaż-Nieruchomości Sp. z o.o.	27	-	-	-
Energomontaż-Magyarország Sp. z o.o.	48	15	3 355	1
Sefako S.A.	33	193	3	5
NAF Industriemontage GmbH	-	105	-	-
Torpol Sp. z o.o.	2	14	24	14
PRInż -I Sp. z o.o.	72	14 607	1 907	7 146
Centrum Projektowe PxM Sp. z o.o.	178	8 760	2 616	2 434
PxM Projekt Południe Sp. z o.o.	28	3 785	242	1 093
Moduł System Service Sp. z o.o.	1 126	4 724	2 124	2 375
Zarząd Majątkiem Górczewska Sp. z o.o.	383	-	7	-
WBP Zabrze Sp. z o.o.	144	8 652	44	1 707
Stalfa Sp. z o.o.	7 263	10 576	842	172
Polimex-Mostostal ZUT Sp. z o.o.	1 333	13 124	83	3 101
Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.	180	9 539	2	998
MSP Tchervonograd	5 159	3 322	3 676	1 360
Polimex Mostostal Ukraine	1 577	-	18 365	-
Polimex-Development Kraków Sp. z o.o.	478	3 237	20 085	-
Polimex-Cekop Development Sp. z o.o.	39	-	-	-
Polimex-Mostostal Development Sp. z o.o.	7 789	41	26 230	-
Polimex Hotele Sp. z o.o.	59	180	61	2 277
Mostostal Siedlce Wschód Sp. z o.o.	6 128	-	262	-
Pracownia Wod- Chem. "Ekonomia" Sp. z o.o.	-	479	-	250
S.C. Coifer Impex SRL	6 581	65 221	11 032	15 051
Grande Meccanica SPA	151	-	68	-
Depolma GmbH	-	37	-	850
Elektra Sp. z o.o.	67	-	1 064	-
Turbud Sp. z o.o.	1 086	532	1 324	283
Centralne Biuro Konstrukcji Kotłów S.A.	1	1 552	-	852
Total	52 568	170 521	94 526	51 777

<i>Related party</i>	<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Receivables from related parties</i>	<i>Amounts owed to related parties</i>
Subsidiaries	2010			
Energomontaż Północ Gdynia Sp. z o.o.	5 857	6 176	1 765	413
Energop Sp. z o.o.	1 274	10 657	82	2 335
Energomontaż Północ-Technika Spawalnicza i Laboratorium” Sp. z o.o.	354	1 915	-	431
Sefako S.A.	1 281	46	264	989
Zakład Budowlano – Instalacyjny Turbud Sp. z o.o.	-	2 401	1 507	1 177
Torpol Sp. z o.o.	57	1	31	-
PRInż -I Sp. z o.o.	716	16 321	2	3 037
Centrum Projektowe Polimex Mostostal Sp. z o.o.	2	8 616	2 990	1 948
Polimex Mostostal Projekt Południe Sp. z o.o.	2	337	-	22
Moduł System Service Sp. z o.o.	262	3 594	1 085	244
Zarząd Majątkiem Górczewska Sp. z o.o.	268	-	27	-
Wojewódzkie Biuro Projektów w Zabrzu Sp. z o.o.	3	189	31	-
Stalfa Sp. z o.o.	7 324	13 024	2 279	694
Polimex-Mostostal ZUT Sp. z o.o.	1 575	13 851	-	1 075
Zakład Transportu Grupa Kapitałowa Polimex Sp. z o.o.	289	8 790	-	741
MSP Tchervonograd	1 064	735	1 641	-
Polimex Mostostal Ukraine	-	-	9 253	-
Polimex-Development Kraków Sp. z o.o.	148	3 771	16 852	1 275
Polimex-Cekop Development Sp. z o.o.	3	-	1	-
Polimex-Mostostal Development Sp. z o.o.	5 420	-	16 518	-
Polimex-Hotele Sp. z o.o.	119	-	1	2 098
Pracownia Wodno Chemiczna Ekonomia Sp. z o.o.	48	1 129	-	40
S.C.Coifer Impex SRL	2 507	20 878	1 321	22 605
Depolma GmbH	-	-	-	739
Centralne Biuro Konstrukcji Kotłów Sp. z o.o.	-	33	-	70
Polimex-Mostostal Wschód Sp. z o.o.	4 961	-	-	-
Afta Sp. z o.o.	-	-	44	-
Energomontaż-Nieruchomości Sp. z o.o.	36	1	1	-
Energomontaż Magyaroszag Sp. z o.o.	1 331	3 600	5 783	-
Nafto-Tur Sp. z o.o.	4	-	-	-
Nafta Industriemontage GmbH	-	-	753	166
Sinopol Trade Center Sp. z o.o.	8	15	1	-
Total	34 913	116 080	62 232	40 099

<i>Related party</i>	<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Receivables from related parties</i>	<i>Amounts owed to related parties</i>
Associates	2011			
Energomontaż Północ Gdynia Sp. z o.o.	104	-	8	-
Polimex-Sices Sp. z o.o.	559	6 050	3 001	10 813
Laboratorium Ochrony ŚP Sp. z o.o.	-	79	-	34
Terminal LNG S.A.	6	-	-	-
Total	669	6 129	3 009	10 847

<i>Related party</i>		<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Receivables from related parties</i>	<i>Amounts owed to related parties</i>
Associates	2010				
Porty S.A.		-	-	533	3 740
Polimex-Sices Sp. z o.o.		30 295	98 645	8 291	17 703
Laboratorium Ochrony Środowiska Pracy Sp. z o.o.		-	54	-	35
Energomontaż Północ Bełchatów Sp. z o.o.		97	-	10	-
Terminal LNG S.A.		2	-	3	-
Sices Montaż Sp. z o.o.		2 752	-	168	-
Total		33 146	98 699	9 005	21 478

37.1. Terms and conditions of transactions with related parties

Transactions between related parties are entered into on the same conditions as transactions entered into on market conditions.

37.2. Directors' loan

There were no other directors' loans.

37.3. Other directors' interests

There were no other directors' interests.

37.4. Compensation of key management personnel of the Company

37.4.1 Compensation paid to members of the Management Board and members of the Supervisory Board

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Management Board		
Short-term employee benefits (salaries and surcharges)	4 722	5 863
Supervisory Board		
Short-term employee benefits (salaries and surcharges)	509	488
Total	5 231	6 351

Compensation paid by the Issuer to the Management Board for 2011 amounted to PLN 4,722 thousand and respectively PLN 5,863 thousand for 2010, of which:

		<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
President of the Management Board	Konrad Jaskóła	1 668	2 311
Vice President of the Board	Aleksander Jonek	1 163	1 181
Vice President of the Board	Grzegorz Szkopek	948	1 259
Vice President of the Board	Zygmunt Artwik	943	1 112
Total		4 722	5 863

Compensation paid to the Supervisory Board by the Issuer over 2011 amounted to PLN 509 thousand and over 2010 it amounted to PLN 488 thousand, of which:

		<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
Chairman of the Supervisory Board,	Kazimierz Klęk	108	104
Vice Chairman of the Supervisory Board,	Jacek Kseń	95	38
Vice Chairman of the Supervisory Board,	Andrzej Szumański	73	82

Member of the Supervisory Board	Wiesław Rozłucki	-	41
Member of the Supervisory Board	Mieczysław Puławski	73	29
Member of the Supervisory Board	Janusz Lisowski	-	41
Member of the Supervisory Board	Jan Woźniak	73	30
Secretary of the Supervisory Board,	Artur P. Jędrzejewski	87	75
Secretary of the Supervisory Board,	Elżbieta Niebisz	-	48
Total		509	488

Disclosure on Company shares which are held by the Management Board and Supervisory Board as at 31 December 2011 and 31 December 2010.

As at 31 December 2011

Position held	Current number of shares held
Member of the Management Board	3,820,350
Member of the Management Board	1,939,075
Member of the Supervisory Board	96,548
Total	5,855,973

As at 31 December 2010

Position held	Current number of shares held
Member of the Management Board	3,820,350
Member of the Management Board	1,939,075
Member of the Supervisory Board	96,548
Total	5,855,973

38. Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise bank loans, debentures, finance leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions mostly *forward* currency futures contracts and *option contracts*. The purpose of these transactions is to manage the currency risks arising from the Company's operations and from the sources of finance it uses (see note 23.3).

It is the Company's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management reviews and agrees on policies for managing each of these risks - the policies are summarised below. The Company also monitors the market price risk arising from all financial instruments it holds. The magnitude of this risk that has arisen over the year is discussed in Note 39.3.

For the purpose of measuring the fair value of open derivative instruments, in 2009 Polimex-Mostostal S.A. used mostly the measurement of the financial instruments carried out by banks – the other parties to the transactions. Irrespective of the above mentioned measurement, for the purpose of measurement of effectiveness of hedging instruments held the Company made its own estimate in accordance with implemented hedge accounting policies.

Starting 2010 the Company has been using its own measurements for the purpose of the accounting records, where:

- fair value of future contracts is measured in relation to forward rates specific for given maturity dates of individual instruments.
- fair value of options is measured with the use of Garman-Kohlhagen model.

Market data necessary to make measurements is derived from an established information system.

38.1. Interest rate risk

The Company's exposure to the risk of changes in interest rates relates primarily to the Company's long-term debt obligations.

The Company has financial assets in bank accounts and has liabilities on account of bank loans and issued debentures based on floating interest rate. The Company monitors situation on the financial market, analyses trends and prognoses in a scope of reference market rates in order to decide, at a proper moment, to conclude contracts preventing the Company from the increase of debt interest costs which may be unbeneficial to the Company. As at 31.03.2011 the Company had no open transactions hedging interest rate risk.

Interest rate risk – sensitivity to changes

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact of floating rate borrowings).

Analysis of sensitivity to changes in interest rates

	<i>Amount exposed to risk</i>	<i>Increase/decrease by +0.50%</i>	<i>-0.50%</i>
Year ended 31 December 2011			
Cash in bank accounts	176 594	883	(883)
Loans granted	73 903	370	(370)
Bank loans and borrowings	293 534	(1 468)	1 468
Obligations under finance lease agreements	11 891	(59)	59
Debentures	407 742	(2 039)	2 039
Effect on profit before tax	-	(2 313)	2 313
Deferred tax	-	439	(439)
Total		(1 874)	1 874
Year ended 31 December 2010			
Cash in bank accounts	280 934	1 405	(1 405)
Loans granted	46 206	231	(231)
Bank loans and borrowings	280 690	(1 403)	1 403
Obligations under finance lease agreements	14 231	(71)	71
Debentures	406 766	(2 034)	2 034
Effect on profit before tax	-	(1 872)	1 872
Deferred tax	-	356	(356)
Total		(1 516)	1 516

38.2. Foreign currency risk

The Company is exposed to foreign currency risk arising from transactions related to the execution of export contracts and domestic transactions denominated in foreign currencies (financed from aid funds mainly in EUR). For service contracts the foreign currency risk is eliminated to a large extent by incurring production costs in the same currency as revenues. In justified cases appropriate re-insurance agreements are concluded.

The table below presents the sensitivity to reasonably possible exchange rate fluctuations, with all other variables held constant, of profit before tax (due to changes in the fair value of monetary assets and liabilities):

Foreign currency risk exposure*

	<i>31 December 2011</i>			<i>31 December 2010</i>		
	<i>EUR</i>	<i>USD</i>	<i>GBP</i>	<i>EUR</i>	<i>USD</i>	<i>GBP</i>
Trade receivables	58 711	4 775	486	57 888	5 832	856
Hedged bank loans	10 331	-	-	10 971	-	-
Trade payables	14 962	928	366	24 573	1 073	-
Gross carrying amount	33 418	3 847	120	22 344	4 759	856
Estimated sales forecast	217 722	-	4 845	222 796	2 821	4 747
Estimated expenses forecast	(126 853)	(15 124)	(902)	(100 533)	(18 864)	(189)
Gross exposure	90 869	(15 124)	3 943	122 263	(16 043)	4 558
Forward foreign currency contracts	(4 018)	-	-	(34 569)	(1 350)	(1 669)
Foreign currency option contracts	(5 235)	-	(1 290)	(7 789)	-	(2 080)
Net exposure	115 034	(11 277)	2 773	102 249	(12 634)	1 665

* data in the above table are presented in the amounts of respective currencies

Analysis of sensitivity of foreign currency risk at 31 December 2011

	Carrying amount	EUR/PLN		USD/PLN		GBP/PLN	
		exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	Exchange rate
		(10% change)	((10)% change)	(10% change)	((10)% change)	(10 % change)	((10)% change)
Cash and cash equivalents	77 029	7 110	(7 110)	222	(222)	371	(371)
Trade and other receivables	278 197	25 932	(25 932)	1 632	(1 632)	256	(256)
Trade and other payables	71 184	(6 608)	6 608	(317)	317	(193)	193
Bank loans, borrowings and other sources of finance	45 628	(4 563)	4 563	-	-	-	-
Effect on profit before tax		21 871	(21 871)	1 537	(1 537)	434	(434)
Derivative financial instruments	(2 502)	(3 645)	3 433	-	-	(604)	464
Effect on total comprehensive income		(3 645)	3 433	-	-	(604)	464

Analysis of sensitivity of foreign currency risk at 31 December 2010

	Carrying amount	EUR/PLN		USD/PLN		GBP/PLN	
		exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	Exchange rate
		(10% change)	((10)% change)	(10% change)	((10)% change)	(10% change)	((10)% change)
Cash and cash equivalents	42 618	3 910	(3 910)	257	(257)	94	(94)
Trade and other receivables	261 343	24 012	(24 012)	1 729	(1 729)	393	(393)
Derivative financial instruments	1 589	-	-	(399)	399	-	-
Trade and other payables	112 474	(10 930)	10 930	(318)	318	-	-
Bank loans, borrowings and other sources of finance	43 450	(4 345)	4 345	-	-	-	-
Effect on profit before tax		12 647	(12 647)	1 269	(1 269)	487	(487)
Derivative financial instruments	4 447	(14 210)	14 790	-	-	(1 932)	1 928
Effect on total comprehensive income		(14 210)	14 790	-	-	(1 932)	1 928

38.3. Commodity price risk

Economical effectiveness of production of the Company depends to large extent on fluctuations in prices of raw materials, mainly steel and zinc composite. The main factor which limits the above mentioned risk is the fact that the Company has a team of first class specialists analysing the market and making centralised material purchases (economies of scale, opportunity to negotiate lower purchase prices). For zinc alloys purchases the Company, depending on current market situation, analyses the need for using actively futures instruments available on the financial market. Hedging transactions, if any, will be entered into in a form of zero-cost operations based on collar structure/ price tunnel (structured strategies).

38.4. Credit risk

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

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Company.

38.5. Liquidity risk

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

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2011 and as at 31 December 2010 based on contractual undiscounted payments.

<i>31 December 2011</i>	<i>On demand</i>	<i>3 months and less</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest bearing bank loans and borrowings	-	-	211 217	82 317	-	293 534
Debentures	-	32 500	302 242	73 000	-	407 742
Other non-current liabilities, of which	-	-	-	48 761	-	48 761
- Leases	-	-	-	5 574	-	5 574
Trade and other payables, of which	448 794	898 302	26 460	-	-	1 373 556
- Leases	-	1 579	4 738	-	-	6 317
- Derivatives	-	1 534	1 466	-	-	3 000
	448 794	930 802	539 919	204 078	-	2 123 593

<i>31 December 2010</i>	<i>On demand</i>	<i>3 months and less</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest bearing bank loans and borrowings	-	-	156 928	123 762	-	280 690
Debentures	-	39 331	-	367 435	-	406 766
Other non-current liabilities, of which	-	-	-	51 663	-	51 663
- Leases	-	-	-	8 275	-	8 275
Trade and other payables, of which	204 291	854 716	20 235	686	-	1 079 928
- Leases	-	1 350	4 606	-	-	5 956
- Derivatives	-	372	-	-	-	372
	204 291	894 047	177 163	543 546	-	1 819 047

39. Financial instruments

39.1. Fair values of individual classes of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments divided into individual classes and categories.

Abbreviations used below:

HtM	– Financial assets held to maturity,
FVtPoL	– Financial assets/ financial liabilities at fair value through profit or loss,
LaR	– Loans granted and receivables,
AFS	– Available-for-sale assets,
FLaAC	– Other financial liabilities at amortised cost.

	Category	Carrying amount		Fair value	
	in accordance with IAS 39	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Financial assets					
Shares and interests*		431 278	395 163	431 278	395 163
Available-for-sale financial assets		-	594	-	594
Financial assets held to maturity,	HtM	-	7	-	7
Other financial assets, of which	LaR	83 944	49 067	83 944	49 067
- non-current		23 109	14 149	23 109	14 149
- current		60 835	34 918	60 835	34 918
Trade receivables	LaR	1 508 686	1 126 787	1 508 686	1 126 787
Derivative financial instruments, of which:	FVtPoL	-	7 073	-	7 073
- <i>Forward</i> foreign currency contracts	FVtPoL	-	5 926	-	5 926
- Foreign currency <i>option</i> contracts	FVtPoL	-	1 147	-	1 147
- Interest rate options		-	-	-	-
- Interest rate swaps (IRS)		-	-	-	-
Cash and cash equivalents	FVtPoL	176 594	280 934	176 594	280 934
Total financial assets		2 200 502	1 859 625	2 200 502	1 859 625

	<i>Category in accordance with IAS 39</i>	<i>Carrying amount</i>		<i>Fair value</i>	
		<i>31 December 2011</i>	<i>31 December 2010</i>	<i>31 December 2011</i>	<i>31 December 2010</i>
<i>Financial liabilities</i>					
Bank overdraft		13 214	59 936	13 214	59 936
Interest-bearing bank loans and borrowings, of which:	FLaAC	280 320	220 754	280 320	220 754
- long-term with floating interest rate	FLaAC	82 317	123 762	82 317	123 762
- short-term with floating interest rate	FLaAC	198 003	96 992	198 003	96 992
- other - non-current	FLaAC	-	-	-	-
Other liabilities (non-current), of which:	FLaAC	48 761	51 663	48 761	51 663
- - guarantee payments and deposits	FLaAC	42 166	40 757	42 166	40 757
- - other	FLaAC	1 021	2 631	1 021	2 631
- finance lease and hire purchase contract liabilities		5 574	8 275	5 574	8 275
Trade payables	FLaAC	1 214 654	902 112	1 214 654	902 112
Short-term lease		6 317	5 956	6 317	5 956
Derivative financial instruments, of which:	FVtPoL	1 553	5 126	1 553	5 126
- recognised in revaluation reserve		(1 447)	4 754	(1 447)	4 754
- foreign currency <i>option</i> contracts		(1 447)	4 754	(1 447)	4 754
- forward foreign currency contracts	FVtPoL	-	-	-	-

-recognised in the income statement.		3 000	372	3 000	372
- foreign currency <i>option</i> contracts		1 510	372	1 510	372
- forward foreign currency contracts	FVtPoL	1 490	-	1 490	-
Total financial liabilities		<u>1 564 819</u>	<u>1 245 547</u>	<u>1 564 819</u>	<u>1 245 547</u>

As at 31 December 2011 the Company held the following financial instruments measured at fair value:

	31 December 2011	Level 1	Level 2	Level 3
Financial assets at fair value – hedge accounting	-	-	-	-
Securities	-	-	-	-
Derivative financial instruments	-	-	-	-
Financial liabilities at fair value	-	1 553	-	-
Hedge accounting	-	(1 447)	-	-
Derivative financial instruments	-	3 000	-	-

As at 31 December 2010 the Company held the following financial instruments measured at fair value:

	31 December 2010	Level 1	Level 2	Level 3
Financial assets at fair value – hedge accounting	-	7 073	-	-
Securities	-	-	-	-
Derivative financial instruments	-	7 073	-	-
Financial liabilities at fair value	-	5 126	-	-
Hedge accounting	-	4 754	-	-
Derivative financial instruments	-	372	-	-

In the year ended 31 December 2010 no items moved between Level 1 and Level 2 of fair value hierarchy or no instruments were moved to/ from the level 3 of fair value hierarchy.

* For unlisted entities the company is not capable of estimating the fair value of stocks/shares.

39.2. Items of income, expense, gains and losses recognized in the income statement divided by financial instrument categories

Year ended 31 December 2011

	Category in accordance with IAS 39	Interest income / (expense)	Foreign exchange gains / (losses)	Impairment (write off) / reversal	Sales adjustment for hedging transactions	Valuation gains / (losses)	Gain / (loss) on disposal	Other	Total
Financial assets		6 074	15 773	5 510	-	-	-	-	27 357
Shares and interests		-	-	-	-	-	-	-	-
Financial assets held to maturity, HtM		-	-	-	-	-	-	-	-
Other financial assets LaR		2 965	2 105	-	-	-	-	-	5 070
Trade and other receivables LaR		2 249	7 277	5 510	-	-	-	-	15 036
Derivative financial instruments FVtPoL		-	-	-	-	-	-	-	-
Cash and cash equivalents FVtPoL		860	6 391	-	-	-	-	-	7 251
Financial liabilities		(53 194)	(5 420)	-	(14)	(548)	-	-	(59 176)
Bank overdrafts		-	-	-	-	-	-	-	-
Interest-bearing bank loans and borrowings FLAC		(26 609)	(3 342)	-	-	-	-	-	(29 951)
Debentures FLAC		(24 964)	-	-	-	-	-	-	(24 964)
Other non-current liabilities FLAC		-	-	-	-	-	-	-	-
Trade and other payables, of which: FLAC		(1 621)	(1 556)	-	-	-	-	-	(3 177)
- leases		(1 621)	-	-	-	-	-	-	(1 621)
Derivative financial instruments		-	(522)	-	(14)	(548)	-	-	(1 084)
Total		(47 120)	10 353	5 510	(14)	(548)	-	-	(31 819)

Year ended 31 December 2010

	Category in accordance with IAS 39	Interest income / (expense)	Foreign exchange gains / (losses)	Impairment (write off) / reversal	Sales adjustment for hedging transactions	Valuation gains / (losses)	Gain / (loss) on disposal	Other	Total
Financial assets		7 988	(2 234)	2 582	9 479	(634)	2 211	40	19 432
Shares and interests		-	-	-	-	-	-	-	-
Financial assets held to maturity, HtM		-	-	-	-	-	-	-	-
Other financial assets	LaR	4 418	114	-	-	(813)	-	2	3 721
Trade and other receivables	LaR	1 489	(862)	2 582	-	215	-	38	3 462
Derivative financial instruments	FVtPoL	-	-	-	9 479	(36)	2 211	-	11 654
Cash and cash equivalents	FVtPoL	2 081	(1 486)	-	-	-	-	-	595
Financial liabilities		(42 220)	(1 200)	-	-	(68)	(806)	(25)	(44 319)
Bank overdrafts		(179)	-	-	-	-	-	-	(179)
Interest-bearing bank loans and borrowings	FLaAC	(14 693)	-	-	-	-	-	-	(14 693)
Debentures	FLaAC	(26 341)	-	-	-	-	-	-	(26 341)
Other non-current liabilities	FLaAC	(32)	-	-	-	-	-	(29)	(61)
Trade and other payables, of which:	FLaAC	(975)	(1 200)	-	-	(68)	-	4	(2 239)
- leases		(338)	-	-	-	-	-	-	(338)
Derivative financial instruments		-	-	-	-	-	(806)	-	(806)
Total		(34 232)	(3 434)	2 582	9 479	(702)	1 405	15	(24 887)

39.3. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

31 December 2011	<1 year	1-2 years	2-3 years	3-4 years	4-6 years	Total
Fixed rate						
Finance lease and hire purchase contracts	-	-	-	-	-	-
Bank loan	-	-	-	-	-	-
Total	-	-	-	-	-	-
Floating rate						
Cash assets	176 594	-	-	-	-	176 594
Loans granted	53 831	20 027	8	8	29	73 903
Bank overdraft	13 214	-	-	-	-	13 214
Working capital facility and investment loan	194 875	32 549	29 861	19 907	-	277 192
Other credit facilities	-	-	-	-	-	-
Leases	6 317	1 931	1 642	1 806	195	11 891
Debentures	334 742	73 000	-	-	-	407 742
Borrowings	3 128	-	-	-	-	3 128
Total	782 701	127 507	31 511	21 721	224	963 664

31 December 2010	<1 year	1-2 years	2-3 years	3-4 years	4-6 years	Total
Fixed rate						
Finance lease and hire purchase contracts	-	-	-	-	-	-
Bank loan	-	-	-	-	-	-
Total	-	-	-	-	-	-
Floating rate						
Cash assets	280 934	-	-	-	-	280 934
Loans granted	34 858	11 348	-	-	-	46 206
Bank overdraft	59 936	-	-	-	-	59 936
Working capital facility and investment loan	94 156	31 709	29 271	29 226	33 556	217 918
Other credit facilities	-	-	-	-	-	-
Leases	5 956	5 119	2 365	639	152	14 231
Debentures	39 331	294 435	73 000	-	-	406 766
Borrowings	2 836	-	-	-	-	2 836
Total	518 007	342 611	104 636	29 865	33 708	1 028 827

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

40. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Within net debt the Company includes interest bearing bank loans and borrowings, trade and other payables, less cash and cash equivalents.

	31 December 2011	31 December 2010
Interest-bearing bank loans, borrowings and debentures	701 276	687 456
Trade and other payables	1 422 317	1 131 591
Less cash and cash equivalents	176 594	280 934
Net debts	1 946 999	1 538 113
Equity	956 501	920 030
Capital and net debt	2 903 500	2 458 143
Gearing ratio (net debt/capital and net debt)	67.1%	62.6%

41. Long-term construction contracts

The amount of recognised receivables and liabilities arising from the valuation of long-term construction services contracts in the parent company was as follows:

	31 December 2011	31 December 2010
Revenue from rendering of services for the financial period:		
- rendering of services (adjusted upwards)	273 732	161 910
- rendering of services, invoiced	3 101 334	2 950 669
Total	3 375 066	3 112 579

Total amount of incurred expenses and recognised gains (less recognised losses) in the financial period	3 084 719	2 769 530
Advance payments received	109 093	148 257
Retained amounts	78 852	59 128
Gross amount owed by employers for works under the contract (asset)	641 915	362 857
Gross amount owed to employers for works under the contract (liability)	91 661	86 336

Retained amounts presented above refer to rehabilitation contracts as well as construction and erection contracts and represent a portion of total balance of settlements recognised in the balance sheet. The maturity structure of total retained amounts is presented in the table below:

To settle within:	31 December 2011	31 December 2010
- above 12 months	23 014	26 377
- up to 12 months	55 838	32 751
Total	78 852	59 128

42. Employment structure

The average employment in the Company in the year ended 31 December 2011 and 31 December 2010 was as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
The Management Board of the Parent Company	4	4
Back office	411	1 162
Production	9 474	9 173
Total	9 889	10 339

43. Events after the statement of financial position date

The following events that may have a significant effect on the position of the Company occurred after 31 December 2011:

Polimex-Mostostal S.A. as a Member of the Consortium composed of Rafako S.A.(Leader) with the registered office in Racibórz, Polimex - Mostostal S.A. with the registered office in Warsaw and Mostostal Warszawa S.A. with the registered office in Warsaw (hereinafter referred to as the General Contractor) on 15 February 2012 concluded with PGE Elektrownia Opole S.A. with the registered office in Bełchatów (Employer) the contract whose subject is design, as well as delivery, performing construction works, assembly, start-up and all services relating to this procedure rendered in turn-key system of the facility comprising power block No. 5 and power block No.6 in PGE Elektrownia Opole S.A. together with machines and equipment as well as relating buildings and structures. In accordance with the terms and conditions of the Contract the General Contractor assumes an obligation to complete the order within 54 (fifty-four) months of issuing the request to commence works as far as power block No. 5 is concerned and within 62 (sixty-two) months of issuing the request to commence works as far as power block No. 6 is concerned.

The total amount of the contract is PLN 9,397,000,000.00 net and the contract gross amount is PLN 11,558,310,000.00.

The total limit of contractual penalties to be paid by the General Contractor to the Employer for failure to reach the completion stage within the delivery deadline and for failure to fulfil indicated motion guarantees shall not exceed 30% (thirty per cent) of the price of block No.5 or block No.6, while the total amount of contractual penalties for failure to reach completion stage within the delivery deadline shall not exceed 15% of the price of block No.5 or block No.6, and the total amount of contractual penalties for failure to fulfil indicated motion guarantees shall not exceed 15% of the price of block No.5 or block No.6, together with contractual penalties for availability, while the total amount of contractual fines for availability shall not exceed 5% of the price of block No.5 or block No.6.

In case of failure to perform or improper performance of the contract in the scope of indicated motion guarantees or of failure to reach the completion stage within the delivery deadline, payment by the General Contractor of the contractual penalties agreed for this occasion as a rule excludes the possibility to claim compensation on general terms, exceeding the contractual penalties due. However, the Contract provides for the cases when the subject rule is excluded and the Employer may claim compensation on general terms, which would exceed the contractual penalties due.

Having concluded the contract, the parties entered into an additional contract according to the provisions of which in case of ascertaining that the contract is null and void as a result of accepting by the Regional Court in Łódź the complaint of Alstom Consortium, the parties shall reimburse what they have rendered to each other, among other things the General Contractor shall reimburse to the Employer the amount of prepayment paid.

Moreover, having concluded the contract, the parties signed Annex No.1 to the Contract in which they limited the risks of the parties relating to the complaint made by Alstom Consortium at the Regional Court in Łódź and relating to the judgement of the Voivodship Administrative Court in Warsaw revoking the decision on environment considerations of the permit to implement the undertaking.

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

Konrad Jaskóła
President of the Board of Directors

Aleksander Jonek
Vice President of the Board

Grzegorz Szkopek
Vice President of the Board

Zygmunt Artwik
Vice President of the Board

The person entrusted
with keeping accounting books

Ewa Kaczorek
Chief Accountant

Warsaw, March 20, 2012.