

POLIMEX-MOSTOSTAL CAPITAL GROUP

**Condensed consolidated financial statements
for the 1st quarter 2014**



Warsaw, 12th May 2014.

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

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SA**

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**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF POLIMEX-
MOSTOSTAL S.A. GROUP FOR 1st QUARTER 2014**
**SELECTED FINANCIAL DATA FOR THE CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

SELECTED FINANCIAL DATA	in PLN	thousands	in EUR	thousands
	1st quarter / 2014 from 01.01.2014 to 31.03.2014	1st quarter / 2013 from 01.01.2013 to 31.03.2013	1st quarter / 2014 from 01.01.2014 to 31.03.2014	1st quarter / 2013 from 01.01.2013 to 31.03.2013
data relating to consolidated financial statements				
Revenue from sales	412 368	532 566	98 431	127 597
Operating profit / loss from continuing activities	(27 127)	32 603	(6 475)	7 811
Gross profit/(loss)	(36 707)	(14 255)	(8 762)	(3 415)
Net profit/(loss)	(39 244)	(23 499)	(9 367)	(5 630)
Net profit / loss attributable to shareholders of the parent company	(39 244)	(23 493)	(9 367)	(5 629)
Net cash flows from operating activities	(12 521)	(338 683)	(2 989)	(81 145)
Net cash flows from investing activities	20 237	46 504	4 831	11 142
Net cash flows from financing activities	(11 639)	174 245	(2 778)	41 747
Net increase/(decrease) in cash and cash equivalents	(3 923)	(117 934)	(936)	(28 256)
Total assets*	3 312 436	3 346 908	794 102	807 028
Non-current liabilities*	665 310	308 695	159 497	74 435
Current liabilities*	2 329 191	2 675 011	558 385	645 016
Liabilities directly related to assets available for sale*	-	-	-	-
Total equity*	317 935	363 202	76 220	87 578
Equity attributable to equity holders of the parent*	317 935	363 202	76 220	87 578
Issued capital*	58 695	58 695	14 071	14 153
Number of shares registered as at the statement of financial position date of 31.03.2014 and 31.12.2013/ 31.03.2013	1 467 368 290	1 333 974 588	-	-
Weighted average number of ordinary shares used to compute earnings per share	1 379 657 363	1 333 974 588	-	-
Earnings per share (in PLN/EUR) out of (net) profit/ (loss) for the period attributable to equity holders of the parent	(0.03)	(0.02)	(0.01)	0.00
Diluting potential ordinary shares as at the statement of financial position date of 31.03.2014 and 31.12.2013 / 31.03.2013	273 165 435	364 926 591	-	-
Weighted average number of ordinary shares used to compute diluted earnings per share	1 652 822 798	1 698 901 179	-	-
Diluted earnings per share (in PLN/EUR) out of (net) profit/ (loss) for the period attributable to equity holders of the parent	(0.02)	(0.01)	0.00	0.00
Book value per ordinary share registered as at the statement of financial position date attributable to equity holders of the parent (in PLN/ EUR)*	0.22	0.25	0.05	0.06
Diluted book value per ordinary share attributable to equity holders of the parent (in PLN/ EUR)*	0.18	0.21	0.04	0.05

(*) Selected financial data relating to the consolidated statement of financial position are presented as at 31.03.2014 and as at 31.12.2013.

- individual items of assets and equity and liabilities of the consolidated statement of financial position were translated at the exchange rate of 4.1713 (for data as at 31.03.2014) and at 4.1472 (for data as at the end of 2013), which were published by the National Bank of Poland for a given statement of financial position date,

- individual items of the consolidated income statement and the consolidated statement of cash flows were translated at the exchange rate of 4.1894 (for data for the 1st quarter of 2014) and at 4.1738 (for data for the 1st quarter of 2013), which are an arithmetic mean of average exchange rates published by the National Bank of Poland on the last day of each month covered by the presented data.

CONDENSED CONSOLIDATED INCOME STATEMENT
 for the three months ended 31 March 2014 (in PLN thousands)

		For 3 months ended 31 March 2014 <i>unaudited</i>	For 3 months ended 31 March 2013 <i>unaudited</i>
Continuing operations	Note		
Revenue from sales		412 368	532 566
Sale of goods		77 913	160 156
Rendering of services		332 755	367 057
Rental income		1 700	5 353
Cost of sales		424 791	478 006
Gross profit / (loss)		(12 423)	54 560
Other operating income	1	20 144	34 526
Selling costs		4 800	6 416
Administrative expenses		21 994	30 576
Other operating expenses	2	8 054	19 491
Profit/ loss on operating activities		(27 127)	32 603
Finance income	3	11 111	7 322
Finance costs	4	21 072	55 414
Share of associate's profit		381	1 234
Gross profit/(loss)		(36 707)	(14 255)
Income tax	6	(2 537)	(9 244)
Net profit/loss from continuing operations		(39 244)	(23 499)
Discontinued Operations		-	-
Net profit/loss for the period		(39 244)	(23 499)
Attributable to:			
Equity holders of the parent		(39 244)	(23 493)
Non-controlling interests		-	(6)
		(39 244)	(23 499)
Earnings per share (in PLN):			
- number of shares registered at the statement of financial position date		1 467 368 290	1 333 974 588
- weighted average number of ordinary shares used to compute earnings per share		1 379 657 363	1 333 974 588
- basic, for net profit/ loss from continuing operations for the reporting period		(0.03)	(0.02)
Diluted earnings per share (in PLN)			
- number of shares		1 467 368 290	1 333 974 588
-diluting potential ordinary shares		273 165 435	364 926 591
- weighted average number of ordinary shares used to compute diluted earnings per share		1 652 822 798	1 698 901 179
- diluted, for net profit/loss for the reporting period		(0.02)	(0.01)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 for the three months ended 31 March 2014 (in PLN thousands)

	For 3 months ended 31 March 2014	For 3 months ended 31 March 2013
	unaudited	unaudited
Net profit/(loss)	(39 244)	(23 499)
Items that may be transferred to the income statement in the later periods		
Foreign exchange translation differences	(6 277)	1 913
	(6 277)	1 913
Cash flow hedges		
Gains/losses in the current year	-	(295)
	-	(295)
Deferred tax relating to items that may be transferred in the later periods	-	56
	-	56
Total other comprehensive income net	(6 277)	1 674
Total comprehensive income	(45 521)	(21 825)
Total comprehensive income attributable to:		
Equity holders of the parent	(45 521)	(21 819)
Non-controlling interests	-	(6)
	<u>(45 521)</u>	<u>(21 825)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2014 (in PLN thousands)

	Note	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
ASSETS			
Non-current assets			
Property, plant and equipment	7	1 348 353	1 347 640
Investment property		556 180	575 772
Goodwill on consolidation		5 919	2 640
Intangible assets	8	282 694	282 694
Investments in associates accounted for using the equity method		12 012	12 909
Financial assets		19 691	19 310
Non-current receivables		218 344	218 622
Non-current prepaid expenses		72 588	51 619
Deferred tax assets		1 389	1 440
		179 536	182 634
Current assets			
Inventories	9	1 898 140	1 901 792
Trade and other receivables	10	91 430	106 318
Income tax receivables		1 180 718	1 071 501
Prepaid expenses		783	284
Cash and cash equivalents		19 348	12 980
Financial assets		596 882	600 805
		8 979	109 904
Available for sale non-current assets		65 943	97 476
TOTAL ASSETS		3 312 436	3 346 908
EQUITY AND LIABILITIES			
Equity			
Issued capital		317 935	363 202
Share premium		58 695	58 695
Translation of a foreign operation		1 184 044	1 184 044
Supplementary capital		(13 047)	(6 770)
Other capital		618 552	618 552
Reserve capital		(85 254)	(85 254)
Revaluation reserve		32 086	32 086
Retained earnings / Accumulated losses		77 458	77 458
		(1 554 599)	(1 515 609)
Non-controlling interests			
		-	-
Total equity		317 935	363 202
Non-current liabilities			
Interest bearing bank loans and borrowings		665 310	308 695
Provisions	11	7 266	727
Other liabilities		63 754	45 558
Deferred income tax liability		592 393	256 127
		1 897	6 283
Current liabilities			
Trade and other payables	12	2 329 191	2 675 011
Current portion of interest-bearing bank loans and borrowings		1 318 696	1 613 113
Short-term debentures		733 334	752 254
Income tax payable		128 074	126 890
Accruals		82	9 654
Provisions		36 263	33 376
		112 742	139 724
Total liabilities		2 994 501	2 983 706
TOTAL EQUITY AND LIABILITIES		3 312 436	3 346 908

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2014 (in PLN thousands) *unaudited*

	Issued capital	Share premium	Unregistered share issue	Translation of a foreign operation	Reserve capital	Revaluation reserve	Supplementary capital	Other capital	Retained earnings / Accumulated losses	Total	Non-controlling interests	Total equity
As at 1 January 2014	58 695	1 184 044	-	(6 770)	32 086	77 458	618 552	(85 254)	(1 515 609)	363 202	-	363 202
Other comprehensive income, net of tax	-	-	-	(6 277)	-	-	-	-	-	(6 277)	-	(6 277)
Profit for the period	-	-	-	-	-	-	-	-	(39 244)	(39 244)	-	(39 244)
Total comprehensive income for the period	-	-	-	(6 277)	-	-	-	-	(39 244)	(45 521)	-	(45 521)
Other adjustments in equity in subsidiaries	-	-	-	-	-	-	-	-	254	254	-	254
As at 31 March 2014 (unaudited)	58 695	1 184 044	-	(13 047)	32 086	77 458	618 552	(85 254)	(1 554 599)	317 935	-	317 935

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2013 (in PLN thousands) *unaudited*

	Issued capital	Share premium	Unregistered share issue	Treasury shares	Attributable to equity holders of the parent Translation of a foreign operation	Reserve capital	Revaluation reserve	Supplementary capital	Other capital	Retained earnings / Accumulated losses	Total	Non-controlling interests	Total equity
As at 1 January 2013	20 846	738 237	412 500	-	(7 839)	32 086	1 893	618 552	(85 254)	(1 253 733)	477 288	4 114	481 402
Other comprehensive income, net of tax	-	-	-	-	1 913	-	(239)	-	-	-	1 674	-	1 674
Profit /loss for the period	-	-	-	-	-	-	-	-	-	(23 493)	(23 493)	(6)	(23 499)
Total comprehensive income for the period	-	-	-	-	1 913	-	(239)	-	-	(23 493)	(21 819)	(6)	(21 825)
Registration of share issue	32 513	429 987	(412 500)	-	-	-	-	-	-	-	50 000	-	50 000
Elimination on subsidiary consolidation	-	-	-	-	-	-	(1 627)	-	-	1 627	-	(4 876)	(4 876)
Other adjustments in equity in subsidiaries	-	-	-	-	-	-	-	-	-	3	3	-	3
As at 31 March 2013 (unaudited)	53 359	1 168 224	-	-	(5 926)	32 086	27	618 552	(85 254)	(1 275 596)	505 472	(768)	504 704

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2014 (in PLN thousands)

	3 month period ended 31 March 2014 <i>unaudited</i>	3 month period ended 31 March 2013 <i>unaudited</i>
Cash flows from operating activities		
Gross profit/(loss)	(36 707)	(14 255)
Adjustments for:	24 186	(324 428)
Share of profit of associates accounted for using the equity method	(381)	(1 234)
Depreciation / Amortisation	15 193	19 469
Interest and dividend, net	(1 307)	3 177
(Gain)/loss from investing activities	(8 064)	(2 839)
(Increase)/ decrease in receivables	(28 846)	70 235
(Increase)/ decrease in inventories	28 388	(6 566)
Increase/ (decrease) in payables except for loans and borrowings	42 119	(339 751)
Change in accruals and prepaid expenses	(3 430)	(3 622)
Change in provisions	(8 786)	(52 943)
Income tax paid	(9 988)	384
Other	(712)	(10 738)
Net cash flows from operating activities	(12 521)	(338 683)
Cash flows from investing activities		
Sale of property, plant and equipment and intangibles	26 826	29 964
Purchase of property, plant and equipment and intangibles	(6 781)	(5 779)
Sale of investment property	-	-
Purchase of investment property	-	-
Sale of financial assets	-	22 553
Purchase of financial assets	-	-
Acquisition of a subsidiary, net of cash acquired	-	-
Dividends and interest received	435	113
Repayment of loans granted	2	1
Loans granted	-	-
Other	(245)	(348)
Net cash flows from investing activities	20 237	46 504
Cash flows from financing activities		
Proceeds from issue of debentures	-	-
Proceeds from issue of shares	-	50 000
Expenses for redemption of debentures	-	(1 000)
Payment of finance lease liabilities	(1 314)	(3 525)
Proceeds from loans and borrowings	36 692	160 241
Repayment of loans and borrowings	(54 903)	(28 185)
Dividends paid to equity holders of the parent	-	-
Interest paid	(1 355)	(3 762)
Other	9 241	476
Net cash flows from financing activities	(11 639)	174 245
Net increase/(decrease) in cash and cash equivalents	(3 923)	(117 934)
Net foreign exchange difference	106	287
Cash and cash equivalents at the beginning of the period	600 805	260 920
Cash and cash equivalents at the end of the period*	596 882	142 986
<i>*of which: restricted access cash</i>	<i>435 967</i>	<i>-</i>

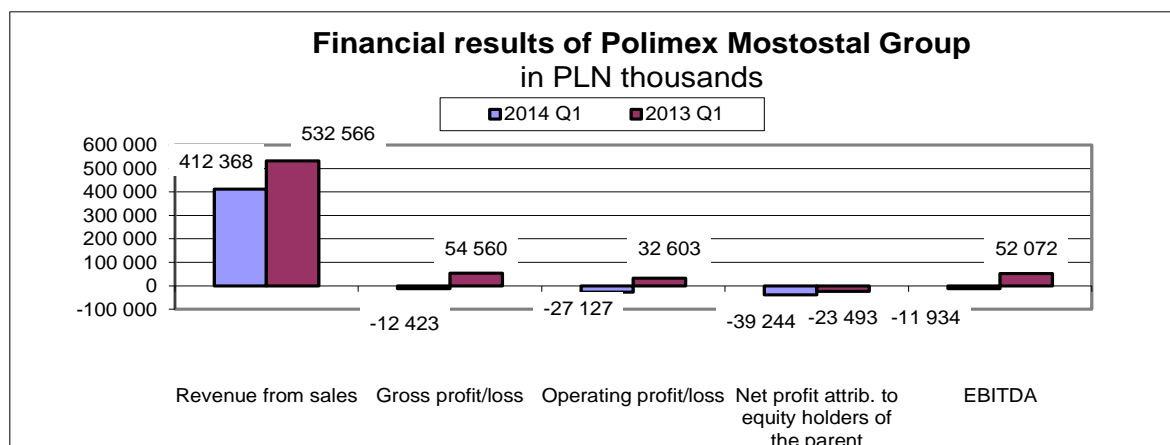
1.1. Review of the financial results of the Group in the 1st quarter 2014

In the period of 1st quarter 2014, Polimex-Mostostal Capital Group generated sales revenue in the amount of PLN 412,368 thousand (a decrease of 22.6% as against comparative data for the comparative period of 1st quarter 2013). The volume of sales of the Group in the 1st quarter 2014 was affected by: (i) delays in completion of power engineering contracts (power engineering works did not enter the revenue generating stage), (ii) reduction of orders in the scope of industry services connected with plant maintenance, repairs and maintenance, emergency works, overhaul and modernization works, assembly of steam and water boilers as well as condensation, heat and industrial turbines together with ancillary machinery and with regulation of industrial automation systems.

In the period of 1st quarter 2014, net loss attributable to equity holders of the parent amounted to PLN 39,244 thousand (a deterioration of results of 67.0% as against comparative data for the period of 1st quarter 2013). The gross loss amounted to PLN 36,707 thousand (a deterioration of results of 157.5% as against comparative data for the 1st quarter 2013). The result of measures taken by the Board in the scope of operating restructuring, and as part of it of the simplification of the organizational structure and a significant reduction of costs of functioning of the Group, is a considerable reduction of administrative expenses (a decrease of 28.1% as against comparative data for the 1st quarter 2013). The value of EBITDA amounted to PLN -11,934 thousand (as against PLN 52,072 thousand in the comparative period of 2013).

The structure of the Consolidated Income Statement of the Capital Group in the 1st quarter 2014 is given below:

PLN thousands	31.03.2014	31.03.2013	Change
Revenue from sales	412 368	532 566	-22.6%
Cost of sales	-424 791	-478 006	-11.1%
Gross profit	-12 423	54 560	-122.8%
Other operating income	20 144	34 526	-41.7%
Selling costs	-4 800	-6 416	-25.2%
Administrative expenses	-21 994	-30 576	-28.1%
Other operating costs	-8 054	-19 491	-58.7%
Operating profit	-27 127	32 603	-183.2%
Finance income	11 111	7 322	51.7%
Finance costs	-21 072	-55 414	-62.0%
Share in associates' profit	381	1 234	-69.1%
Profit before tax	-36 707	-14 255	157.5%
Income tax	-2 537	-9 244	-72.6%
Net profit	-39 244	-23 499	67.0%
Net profit attributable to equity holders of the parent	-39 244	-23 493	67.0%
EBITDA	-11 934	52 072	-122.9%



At 31.03.2014, the total assets of the Polimex-Mostostal Capital Group amounted to PLN 3,312,436 thousand (a decrease of 1.0% as against comparative data as at 31.12.2013). As at 31.03.2014 non-current assets amounted to PLN 1,348,353 thousand (an increase of 0.1% as against comparative data at 31.12.2013), and current assets amounted to PLN 1,898,140 thousand (a decrease of 0.2% as against comparable data at 31.12.2013). Plant, property and equipment were the largest item in fixed assets structure constituting 16.8% of the total assets. Trade and other receivables constituting 35.6% of the total assets were the largest item of current assets.

Equity attributable to equity holders of the parent as at 31.03.2014 amounted to PLN 317,935 thousand (a decrease of 12.5% as against comparative data at 31.12.2013 resulting mostly from the loss made), and liabilities amounted to PLN 2,994,501 thousand (an increase of 0.4% as against comparative data at 31.12.2013). The share premium, constituting 35.7% of total equity and liabilities, and the supplementary capital, constituting 18.7% of total equity and liabilities, were the largest items in equity structure. Current liabilities constituting 70.3% of total liabilities and equity were the largest item of liabilities.

According to the prepared Statement of Cash Flows of the Capital Group, in the period of 1st quarter 2014 there was a net decrease in cash and cash equivalents of PLN 3,923 thousand. **Cash and cash equivalents** as at 31.03.2014 amounted to PLN 596,882 thousand. Net cash from operating activities amounted to PLN -12,521 thousand. Net cash from investing activities amounted to PLN 20,237 thousand, and net cash from financing activities amounted to PLN - 11,639 thousand. Cash includes the amount of advance payment obtained in connection with the “Kozienice” and “Opole” contract, which constitutes the security to the contract performance bonds in the amount of PLN 275,302 thousand and PLN 160,665 thousand respectively. **The current backlog of orders** of the Capital Group, calculated based on sales made as at 31.03.2014 and reduced by sales attributable to consortium members, amounts to PLN 9.1 billion and relates to concluded contracts in its entirety. The current backlog for individual years is as follows: 2014 – PLN 2.2 billion, 2015 – PLN 3.3 billion, 2016 – PLN 2.3 billion and in the coming years - PLN 1.3 billion. Liquidity ratios for the Capital Group, the current one and the quick one, as at 31.03.2014 were at the higher level than as at the comparative date and amounted to 0.81 and 0.77 respectively. With rising level of liabilities and decreasing of the statement of financial position total, the debt ratio increased. Due to the reported loss, the profitability ratios are negative.

Ratios	31.03.2014	31.12.2013
Current liquidity ratio	0.81	0.71
Quick ratio	0.77	0.67
Debt ratio	90.4%	89.1%
	31.03.2014	31.03.2013
Net profit margin	-9.5%	-4.4%
EBITDA margin	-2.9%	9.8%
Earnings per share	-0.03	-0.02
Amortisation/ depreciation	15 193	19 469
EBITDA	-11 934	52 072

1.2. Other significant factors having influence on the operating activity of the Company and of the Group

In the scope of significant factors having influence on financial results and position of the Company and the Group the following ones should be mentioned:

- difficult relationships, often of dispute or claim nature, with the main customers for the contracts executed by the Company,
- significant deterioration in the last year of position in the scope of cash flows relating to the performance of contracts,
- deterioration of the financial standing which resulted in the reduced production capacity and withdrawing from contracts both by the ordering parties and by subcontractors,
- heavy competition on the market for construction and assembly services resulting in the decrease of margin on performed contracts,
- implementation of correction actions which are aimed at regaining financial stability in the Group, which still is in a difficult economic position. An important issue is reduction of costs of functioning of the Company,
- conducted operating restructuring aimed at simplification of the organizational structure and reduction of costs of the Group's functioning. A reduction of employment, which is to be adjusted to the current economic position of the Company, also contributed significantly.

Macroeconomic environment

According to preliminary data, construction and assembly production (in constant prices), including investment and overhaul works, performed at home by construction companies with more than 9 employees, was 17.4% higher in March this year than a year before (as against a decrease of 18.5% in March last year) and 24.2% higher as compared to February this year. After eliminating seasonal factors, construction and assembly production was 15.5 % higher than in March last year and 0.4% higher as compared to February this year.

An increase in performed construction works was reported in all construction sectors both as compared to March last year and to February this year. As compared to March last year the increase was: in entities specializing in mounting civil engineering structures – 48.6%, in entities dealing mostly with specialized construction works - 21.7% and in entities whose basic type of activity is construction of buildings – 11.7%. As compared to March this year the increase in production of enterprises whose core activity is performing civil engineering works amounted to 21.7%, in enterprises performing works relating to mounting buildings – 19.5%, and in enterprises performing specialist construction works – 10.7%.

In the period from January to March this year construction and assembly production was 10.6% higher than in the analogous period of the prior year when a decrease of 15.1% was recorded.

The observed features of macroeconomic environment in the 1st quarter 2014 were the slight appreciation of the **Polish zloty as compared to the Euro** and its appreciation as compared to USD. In 1st quarter 2014 the arithmetic mean of average daily NBP exchange rates was for EUR/PLN: 4.1858 as compared to 4.1863 in 4th quarter 2013 (a decrease of 0.01%) and for USD/PLN: 3.0551 as compared to 3.0746 in 4th quarter 2013 (a decrease of 0.63%). In 1st quarter 2014 the standard deviation of average daily NBP exchange rates for EUR/PLN was 0.0252 (0.0156 in the 4th quarter 2013) and for USD/PLN it was 0.0266 (0.0327 in 4th quarter 2013). The above mentioned observations indicate an increase in the volatility of EUR/PLN exchange rate (the variability factor¹ in the 1st quarter 2014 was 0.60% as compared to 0.37% in the 4th quarter 2013) and a decrease in volatility of USD/PLN exchange rate (the variability factor in the 1st quarter 2014 was 0.87% as compared to 1.06% in the 4th quarter 2013).

The reference rate of the National Bank of Poland had remained stable since July 2013 and as at the end of 1st quarter 2014 it was 2.50%.

¹ Variability factor = standard deviation / arithmetic mean

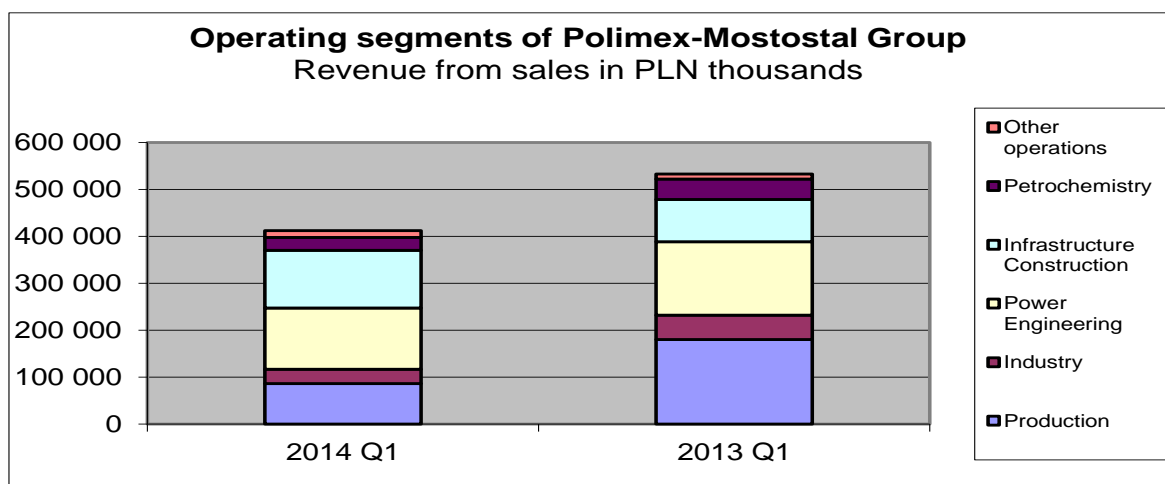
1.3. Operating segments and geographic information

In the 1st quarter 2014 the operating segments of the Polimex-Mostostal Capital Group contributed to sales as follows:

PLN thousands

Segment	Change 2014 Q1 / 2013 Q1	2014 Q1		2013 Q1	
		value	share	value	share
Production	-52.0%	86 525	21.0%	180 086	33.8%
Industry	-40.7%	30 751	7.5%	51 873	9.7%
Power Engineering	-16.6%	130 523	31.7%	156 422	29.4%
Infrastructure Construction	35.7%	122 473	29.7%	90 226	16.9%
Petrochemistry	-37.8%	27 206	6.6%	43 770	8.2%
Other operations	46.1%	14 890	3.5%	10 189	2.0%
Total revenue from sales	-22.6%	412 368	100.0%	532 566	100.0%

The highest share in sales revenue was attributed to Power Engineering – 31.7% (a decrease in sales of 16.6% against the comparative data for the 1st quarter 2013), and then to Infrastructure Construction 29.7% (an increase in sales of 35.7% against the comparative data for the 1st quarter 2013), Production – 21.0% (a decrease in sales of 52.0% against the comparative data for the 1st quarter 2013, after eliminating sales revenue generated in the 1st quarter 2013 by EPN Gdynia, the Transport Division, Energop and Coifer – a decrease of 32.0%), Industry – 7.5% (a decrease in sales of 40.7% against the comparative data for the 1st quarter 2013), Petrochemistry – 6.6% (a decrease in sales of 37.8% the comparative data for the 1st quarter 2013).

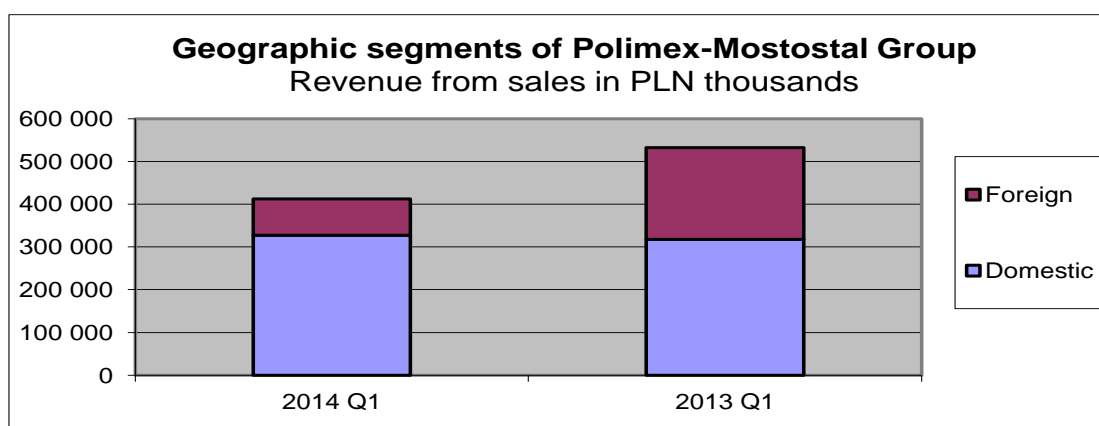


The value and geographic structure of Polimex-Mostostal S.A. Group's sales in the 1st quarter 2014 was as follows:

PLN thousands

Market	Change 2014 Q1 / 2013 Q1	2014 Q1		2013 Q1	
		value	share	value	share
Domestic	3.1%	327 375	79.4%	317 452	59.6%
Foreign	-60.5%	84 993	20.6%	215 114	40.4%
Total revenue from sales	-22.6%	412 368	100.0%	532 566	100.0%

As compared against the period of 1st quarter 2013 the share of foreign sales decreased by 60.5%. The domestic market, where 79.4% of total revenue from sales of Polimex-Mostostal Capital Group was generated, was the main market for the Group in the 1st quarter 2014.



1.4. Significant construction contracts performed in 1st quarter 2014

In the 1st quarter 2014 Group companies obtained the largest sales revenue as a result of execution of the following contracts (for information on execution of contracts by Polimex-Mostostal S.A. see section 4.2):

Project name	Revenue generated in 1 st quarter 2014	Operating segment
Modernisation of Warsaw-Łódź rail lines	23 349	Infrastructure Construction
Modernisation of the Warsaw-Gdynia rail line	9 640	Infrastructure Construction
Modernisation of the Rail Baltica Warsaw-Białystok rail line	9 058	Infrastructure Construction
Total	42 047	

2. ADDITIONAL INFORMATION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2.1. Information on the parent company and Polimex-Mostostal Group

2.1.1. Corporate information

The Polimex-Mostostal Capital Group (“the Group”) is composed of Polimex-Mostostal S.A., the parent company (“the parent”, “the Company”, “the Parent Company”) and its subsidiaries. The consolidated financial statements of the Group cover the three months ended 31 March 2014 and contain comparative data for the three months ended 31 March 2013 and as at 31 March 2014, as at 31 December 2013 (for the statement of financial position).

Polimex - Mostostal S.A. (the parent company) 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, powiat of the Capital City of Warsaw, WARSAW – CENTRUM commune, city of Warsaw.

Address: ul. ul. Czackiego 15/17, 00-950 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.

The main area of the parent company’s 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, Industry, Power Engineering, Petrochemistry, Infrastructure Construction, Other Operations.

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

The parent company and other Group entities have an unlimited period of operation.

2.1.2. Composition of the Group

The Group comprises Polimex-Mostostal S.A., the parent company, with the registered office in Warsaw and the following subsidiaries and Capital Groups:

Item no.	Entity name	Registered office	Business activities	% held by the Company in share capital	
				31 March 2014 (%)	31 December 2013 (%)
Subsidiaries					
1	Polimex GmbH (former business name Depolma GmbH) (*)	Ratingen-Germany	Supplies and engineering services on agency basis	100.00	100.00
2	Polimex Projekt Opole Sp. z o.o. (former business name Polimex-Cekop Development Sp. z o. o. in liquidation) (*)	Warsaw	Execution of construction works, trading activities, consulting and advisory services	100.00	100.00
3	Polimex-Development Kraków Sp. z o.o. (Capital Group) (*)	Cracow	Execution of construction works	100.00	100.00
4	Stalfa Sp. z o.o.(*)	Sokolów Podlaski	Metal products manufacturing	100.00	100.00
5	Polimex-Mostostal ZUT Sp. z o.o. (*)	Siedlce	Engineering services	100.00	100.00
6	Polimex-Mostostal Ukraina SAZ (*)	Kiev	Housing development	100.00	100.00
7	MSP Tchervonograd - Ukraine (*)	Tchervonograd -Ukraine	Metal structure manufacturing	99.61	99.61
8	Polimex-Hotele Sp. z o.o. (*)	Warsaw	Construction mieszkaniowe	100.00	100.00
9	Polimex-Mostostal Development Sp. z o.o. (*)	Warsaw	Housing development	100.00	100.00
10	Torpol S.A. (Capital Group) (*)	Poznań	Comprehensive execution of transport facilities	100.00	100.00
11	Polimex Venture Development Sp. z o.o. (former business name Energomontaż-Nieruchomości Sp. z o.o. (*)	Warsaw	Real estate trade, maintenance and management	100.00	100.00

12	Energomontaż-Północ-Technika Spawalnicza i Laboratorium Sp. z o.o.(*)	Warsaw	Research & development works	99.96	99.96
13	Polimex Engineering Sp. z o.o. (former PxM -Projekt - Południe Sp. z o.o.(*))	Cracow	Design services in construction sector	100.00	100.00
14	WBP Zabrze Sp. z o.o.(*)	Zabrze	Design services	99.97	99.97
15	PRInż – 1 Sp. z o.o.(*)	Sosnowiec	Road construction	95.46	95.46
16	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	100.00	100.00
17	Polimex-Mostostal Wschód Sp. z o.o. (*)	Moscow, Russia	Special and general construction	100.00	100.00
18	Grande Meccanica SpA(*)	Narni, Italy	Production, construction	100.00	100.00
19	Mostostal Siedlce Sp. z o.o.	Siedlce	Production	100.00	100.00
Associates					
20	Polimex-Sices Polska Sp. z o.o. (**) in liquidation	Warsaw	Execution of erection works	50.00	50.00
21	Energomontaż – Północ Bełchatów Sp. z o.o. (**) (Capital Group)	Bełchatów	Specialist construction and erection services	32.82	32.82
*	entity consolidated using the full method				
**	entity recognized using the equity method				
***	entity eliminated on consolidation (sale, liquidation, bankruptcy proceedings, loss of control)				

As at 31 March 2014 the percentage of the total votes held by the Group in its subsidiaries corresponds to the percentage held in the share capital of these entities.

There were no changes to the composition of the Group in the 1st quarter 2014.

2.1.3. Composition of the Company's Board of Directors

As at 31 March 2014 the composition of the Board of Directors was as follows:

Gregor Sobisch	President of the Board of Directors
Joanna Makowiecka	Vice President of the Board
Maciej Stańczuk	Vice President of the Board

In the period from the statement of financial position date of 31 March 2014 till the date these consolidated financial statements of the Issuer have been authorized for issue the composition of the Board of Directors of the Issuer changed.

On 9 May 2014 Mr Gregor Sobisch resigned from the position of the President of the Board of Directors of Mostostal S.A.

On 9 May 2014 the Supervisory Board of the Company entrusted Mr Maciej Stańczuk, previously the Vice President of the Board of Directors, with the position of the Acting President of the Board of Directors.

On 9 May 2014 the Supervisory Board of the Company appointed Mr Bogusław Piekarski to the composition of the Board of Directors of Polimex-Mostostal S.A. and entrusted him with the position of the Vice President, the Chief Operating Officer.

As at 12 May 2014 i.e. as at the date of publication of these consolidated financial statements of the Company prepared as at 31 March 2014 the composition of the Board of Directors was as follows:

Maciej Stańczuk	Acting President of the Board
Joanna Makowiecka	Vice President of the Board
Bogusław Piekarski	Vice President of the Board

2.1.4. Composition of the Supervisory Board

As at 31 March 2014 the composition of the Supervisory Board was as follows:

Jerzy Góra	Chairman of the Supervisory Board,
Ryszard Engel	Vice Chairman of the Supervisory Board
Artur Jędrzejewski	Secretary of the Supervisory Board,
Wojciech Barański	Member of the Supervisory Board
Andrzej Kasperek	Member of the Supervisory Board
Dariusz Krawczyk	Member of the Supervisory Board
Marcin Milewicz	Member of the Supervisory Board

In the period from the statement of financial position date of 31 March 2014 till the date these consolidated financial statements of the Issuer have been authorized for issue the composition of the Supervisory Board of the Issuer did not change.

2.1.5. Approval of financial statements

These condensed consolidated financial statements were authorized for issue by the Board of Directors on 12th May 2014.

2.2. Principles adopted for the preparation of the interim condensed consolidated financial statements for the 1st quarter 2014

2.2.1. Significant accounting policies

Basis of preparation of financial statements

These condensed consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments, available-for-sale financial assets and the class of non-current assets and the group of long-term financial assets that are measured at fair value.

The carrying amount of recognised hedged assets and liabilities is adjusted by the changes in fair value attributable to the risk against which the assets and liabilities are hedged.

The condensed consolidated financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000).

The condensed consolidated financial statements have been prepared on the assumption that the significant Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these condensed consolidated financial statements, the Board of Directors is not aware of any facts or circumstances that would indicate a threat to the continued activity of the key Group companies except for Polimex - Sices Polska Sp. z o.o. (**) in liquidation.

Financial position of the Issuer.

In the financial statements of the Company for 2013 which were communicated to the public on 21 March 2014 the Issuer described in detail the following measures having the effect on continuation of the activity:

- the restructuring of debt,
- the key amendments to the Agreement on Regulations of Debt Servicing,
- operating and asset restructuring,
- amendments to the New Guarantee Facility,
- share issue and conversion of debt to share capital of the Company,
- the other amendments to the Agreement on Regulations of Debt Servicing,
- assumption of continuing as a going concern and threats.

After the statement of financial position date, on 30 April 2014, the interest on loans, the interest on debt towards the debenture holders and recourses arising from payments out of guarantees issued by the Banks, parties to the ARDS, were due. On this date the Issuer did not pay its liabilities arising from the Agreement.

As at the date of publication of the financial statements the Creditors of the Company agreed to amend the payment date for the interest on loans, the interest on debt towards the debenture holders and recourses arising from payments out of guarantees issued by the Banks, the parties to the agreement. The new date falls on 3 June 2014. The consent of the creditors covers both the liabilities of the company whose payment fell on 30 April 2014 and those whose payment would be due from 30 April to 3 June 2014. The consent of the creditors was given with the stipulation of the condition subsequent which will be fulfilled if the company fails to submit the contractual document specified by the creditors by 15 May 2014.

Working capital defined as a difference between current assets taking into consideration available for sale long-term assets and current liabilities (including current loans) as at 31 March 2014 is negative and amounts to PLN (547,163) thousand, as at 31 December 2013 PLN (742,236) thousand.

	31 March 2014	31 December 2013
Total available for sale long-term assets	1 396 314	1 277 928
Current liabilities	1 943 477	2 020 164
Working capital	(547 163)	(742 236)

Despite the fact that the working capital remains negative, in the opinion of the Board of Directors the situation of the Company will gradually improve in spite of the existence of circumstances indicating a threat for the Company to continue as a going-concern especially in the next 12 months of preparation of these financial statements. Thus these financial statements have been prepared on the assumption that the Company will continue as going concern in the foreseeable future.

Statement of compliance

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') applicable to interim reporting, which have been adopted by the European Union, in particular IAS 34. At the date of authorisation of these financial statements for issue, in light of the current process of IFRS adoption in the European Union and the nature of the Group's activities, in terms of accounting policies applied by the Group there is no difference between the effective IFRSs and the IFRSs adopted 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").

Certain Group entities keep their books of account in accordance with accounting policies (principles) specified in the Accounting Act of 29 September 1994 („the Act”) with further amendments and the regulations issued based on that Act ("Polish accounting standards") or according to accounting standards in force in the countries where the companies have their registered offices. The condensed

consolidated financial statements contain adjustments introduced to make the financial statements of these entities compliant with IFRSs.

Significant accounting principles

Significant accounting principles applied when preparing these financial statements were described in detail in the consolidated financial statements for the 12 month period ended 31 December 2013, which was communicated to the public on 21 March 2014 except for:

- introducing as of 1 January 2014 an amendment to the accounting policy in the scope of the measurement of non-current financial assets. The amendment above consists in measuring this group of assets at fair value. The change of accounting policies was applied prospectively. The measurement of fair value of non-current assets was carried out by reputable valuers. The following methods of valuation were adopted to estimate the fair value of the selected group of long-term financial assets: the comparative method and the DCF method.

The table below presents the comparison of the book value, fair value and the effect of the change of method of valuation of the selected group of non-current financial assets on other comprehensive income of the Company:

The book value of non-current financial assets as at 1 January 2014	The fair value of non-current financial assets as at 1 January 2014	Gross effect of the change of the method of valuation of non-current financial assets on other comprehensive income as at 1 January 2014
37 145	100 000	62 855

2.2.2. Adjustment of error

There was no adjustment of an error in the reporting period.

2.2.3. Estimates

Preparation of financial statements in accordance with IFRSs requires estimates and assumptions to be made, which have an effect on the amounts reported in the financial statements as well as in other information and explanatory notes. Despite the fact that the assumptions and estimates are based on the Management's best knowledge of current activities and events, achieved results may differ from the estimated ones.

As at 31 March 2014 Polimex-Mostostal Group recognised deferred tax assets in the amount of PLN 253,393 thousand and a deferred tax liability in the amount of PLN 75,724 thousand.

In the first quarter of 2014 there were the following adjustments for provisions and revaluation reserves in the Group:

- increases in the amount of PLN 5,391 thousand, of which:
 - provisions for costs of contracts PLN 2,609 thousand,
 - provision for employee benefits PLN 2,232 thousand,
 - provisions for leave entitlement PLN 550 thousand,

- decreases in the amount of PLN 6,343 thousand, of which:
 - receivables allowance PLN 1,217 thousand,
 - provisions for bonuses and rewards PLN 3,599 thousand,
 - provision for guarantee repairs PLN 1,527 thousand.

As at 31 March 2014 the parent company recognised deferred tax assets in the amount of PLN 222,702 thousand and deferred tax liability in the amount of PLN 73,857 thousand.

In the first quarter of 2014 there were the following adjustments for provisions and revaluation reserves in the Company:

- increases in the amount of PLN 3,159 thousand, of which:
 - provisions for costs of contracts PLN 2,609 thousand,
 - provisions for leave entitlement PLN 550 thousand,
- decreases in the amount of PLN 8,892 thousand, of which:
 - receivables allowance PLN 3,566 thousand,
 - provisions for bonuses and rewards PLN 3,599 thousand,
 - provision for guarantee repairs PLN 1,727 thousand.

2.2.4. Functional currency and presentation currency

Polish zloty is the functional currency of the parent company and other companies included in these consolidated financial statements and the presentation currency is also Polish zloty except for the following companies: Tchervonograd MSP –Ukraine, Polimex-Mostostal Ukraine, Polimex GmbH (former business name Depolma GmbH), Germany, Polimex-Mostostal Wschód Sp. z o.o., Russia and Grande Meccanica S.p.A., Italy.

Financial data of the above mentioned companies were translated into the presentation currency in accordance with the principles specified in IAS 21.

2.2.5. Basis of consolidation

These condensed consolidated financial statements comprise the financial statements of Polimex-Mostostal S.A. and financial statements of subsidiaries each time prepared for the 3 months ended 31 March 2014. Financial statements of subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the uniform accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. An entity is controlled by the Parent Company when the parent has, directly or indirectly, through its subsidiaries, more than half of the votes at the shareholders' meeting of that entity, unless it is possible to prove that such

holding does not represent control. Control is also exercised if the company has the power to influence the financial and operating policy of a given entity.

2.2.6. Investments in associates

Investments in associates are accounted for using the equity method. An associate is an entity in which the Parent Company has, either directly or through subsidiaries, significant influence and which is neither its subsidiary nor a joint venture. Financial statements of the associates are the basis for valuation of the Parent's investments in associates using the equity method. The financial year of an associate and that of the Parent Company is identical. Certain associates apply accounting policies as defined in the Accounting Act. Before the share in their net assets is calculated, financial data of associates is adjusted to bring it to conformity with IFRS applied by the Group.

Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Parent's share of the associates' net assets, less any impairment losses. The income statement reflects the parent's share in the results of operations of the associates. Where there has been a change recognised directly in the associates' equity, the Parent recognises its share in each change and discloses it, when applicable, in the statement of changes in equity.

2.2.7. Interest in a joint venture

The Group recognizes its interest in the joint venture using the equity method.

2.2.8. 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. Foreign currency differences that arise on translation are recognised appropriately in the finance income (costs). 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.

To translate selected financial data into EUR the following exchange rates were adopted:

- translation of turnover, financial results and cash flows for the current period – the exchange rate of 4.1894 PLN/EUR
- translation of assets and equity and liabilities as at 31 March 2014 – the exchange rate of 4.1713 PLN/EUR
- translation of turnover, financial results and cash flows for the comparative period – the exchange rate of 4.1738 PLN/EUR
- translation of assets and equity and liabilities as at 31 December 2013 – the exchange rate of 4.1472 PLN/EUR

2.3. Selected other explanatory notes to the condensed consolidated financial statements (in PLN thousands)

Note 1	For	For
Other operating income	3 months ended 31 March 2014	3 months ended 31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Gain on disposal of non-financial fixed assets	8 107	22 911
Reversed provision for expenses	9 952	6 691
Recovered damages payments and fines	456	2 544
Other	1 629	2 380
Other operating income, total	20 144	34 526
Note 2	For	For
Other operating expenses	3 months ended 31 March 2014	3 months ended 31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Donations	1	2
Damages and fines	3 095	1 162
Court expenses	976	834
Costs of post-accident repairs	4	23
Loss on disposal of non-financial fixed assets	-	239
Provision for expenses	2 774	15 485
Other	1 204	1 746
Total other operating expenses	8 054	19 491
Note 3	For	For
Finance income	3 months ended 31 March 2014	3 months ended 31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Interest	9 742	1 272
Revenue from measurement and exercise of derivative instruments	-	231
Foreign exchange gains	1 255	4 007
Other	114	1 812
Total finance income	11 111	7 322
Note 4	For	For
Finance costs	3 months ended 31 March 2014	3 months ended 31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Interest	11 120	14 446
Debenture commissions and interest	1 183	41
Bank commissions and charges	286	2 340
Foreign exchange losses	6 893	835
Loss on disposal of financial fixed assets	-	36 040
Other	1 590	1 712
Total finance costs	21 072	55 414

Note 5	For	For
Costs by type	3 months ended 31 March 2014	3 months ended 31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Depreciation / Amortisation	15 193	19 469
Materials and energy	118 730	164 725
External services	198 593	225 186
Taxes and charges	4 365	8 463
Employee benefits expenses	114 090	185 417
Other costs by type	6 826	9 092
Total costs by type	457 797	612 352

Note 6	For	For
Income tax	3 months ended 31 March 2014	3 months ended 31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Current income tax	(22)	(1 061)
Deferred income tax	(2 515)	(8 183)
Total income tax	(2 537)	(9 244)

Note 7	31 March 2014	31 December 2013
Property, plant and equipment	<i>unaudited</i>	<i>audited</i>
Land, buildings and structures	260 759	267 212
Plant and machinery	200 975	206 622
Motor vehicles	50 078	51 465
Other property, plant and equipment <i>of which: Fixed assets under construction and advance payments to fixed assets under construction</i>	44 368	50 473
	31 770	39 741
Total property, plant and equipment, net	556 180	575 772

Note 8	31 March 2014	31 December 2013
Intangible assets	<i>unaudited</i>	<i>audited</i>
Software	10 522	10 033
Other	1 490	2 876
Total intangible assets, net	12 012	12 909

Note 9	31 March 2014	31 December 2013
Inventories	<i>unaudited</i>	<i>audited</i>
Raw materials	64 532	75 106
Semi-finished goods and work in progress	12 830	14 964
Finished goods	10 902	15 985
Goods for resale	309	249
Advance payments to supplies	2 857	14
Total inventories, net	91 430	106 318

	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 10		
Current receivables		
Trade receivables	1 110 893	1 014 656
Other receivables	69 825	56 845
Total current receivables, net	1 180 718	1 071 501
	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 11		
Non-current provisions		
Provisions for employee benefits	8 933	9 488
Other provisions	54 821	36 070
Total non-current provisions	63 754	45 558
	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 12		
Current liabilities		
Trade payables	1 132 917	1 415 088
Current portion of interest-bearing loans and borrowings	733 334	752 254
Income tax	82	9 654
Other tax liabilities, ZUS (Social Insurance Institution)	39 362	62 388
Financial liabilities (including short-term discount debentures)	139 560	138 778
Other liabilities	134 931	123 749
Accruals	36 263	33 376
Provisions	112 742	139 724
Total current liabilities	2 329 191	2 675 011

2.4. Operating segments and geographic information

The tables below present data on consolidated revenue of individual operating segments and geographic information of the Group for the three months ended 31 March 2014, for the three months ended 31 March 2013 (in PLN thousands):

Period ended 31 March 2014 (unaudited)	Continuing operations							Total Operations
	Production	Industry	Power Engineering	Petrochemistry	Infrastructure Construction	Other operations	Eliminations	
Revenue								
Sales to external customers	86 525	30 751	130 523	27 206	122 473	14 890	-	412 368
Inter-segment sales	8 035	52	1 290	1 375	-	908	(11 660)	-
Total segment revenue	94 560	30 803	131 813	28 581	122 473	15 798	(11 660)	412 368

Period ended 31 March 2013 (unaudited)	Continuing operations							Total Operations
	Production	Industry	Power Engineering	Petrochemistry	Infrastructure Construction	Other operations	Eliminations	
Revenue								
Sales to external customers	180 086	51 873	156 422	43 770	90 226	10 189	-	532 566
Inter-segment sales	10 905	645	5 084	445	-	1 346	(18 425)	-
Total segment revenue	190 991	52 518	161 506	44 215	90 226	11 535	(18 425)	532 566

Geographic information

The three month period ended 31 March 2014 (unaudited)	Domestic	Foreign	Eliminations	TOTAL
Revenue				
Sales to external customers	327 375	84 993	-	412 368
Inter-segment sales	657	1 266	(1 923)	-
Total sales	328 032	86 259	(1 923)	412 368

The three month period ended 31 March 2013 (unaudited)	Domestic	Foreign	Eliminations	TOTAL
Revenue				
Sales to external customers	317 452	215 114	-	532 566
Inter-segment sales	1 590	571	(2 161)	-
Total sales	319 042	215 685	(2 161)	532 566

2.5. Consolidated off-statement of financial position items as at 31 March 2014 (in PLN thousands)

	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Contingent receivables		
From other parties (arising from)	807 297	715 189
- guaranties and sureties received	365 877	361 394
- legal claims	441 420	353 795
Contingent liabilities	2 175 133	1 754 953
To other parties (arising from)	2 175 133	1 754 953
- guaranties and sureties granted	1 851 327	1 437 572
- promissory notes	44 218	27 418
- legal claims	212 527	223 372
- other	67 061	66 591

Other (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	3 097 053	2 584 765

In connection with concluded loan and (both bank and insurance) guarantee contracts, also in the scope of liabilities arising from debentures, and in particular in connection with the Agreement of 24 July 2012 on refraining from enforcement of liabilities, the Agreement of 21 December 2012 on Regulations of Debt Servicing as further amended and the Agreement of 21 December 2012 on New Guarantee Facility as further amended and the attached revolving credit facility as further amended, the Group established mortgages, pledges, temporary ownership titles, assignments, issued promissory notes and accepted sureties of certain subsidiaries to secure the debt relating to the above mentioned instruments. Total commitment of the Group on account of the above mentioned instruments amounted to approx. PLN 3,205 million as at 31 March 2014.

2.6. Risk management objectives and policies

Financial risk:

Liquidity risk. In the opinion of the Company this is the risk which is running very high.

Maintaining liquidity in the nearest future requires involvement in projects ensuring neutral and positive cash flows. The risk is constantly monitored and analysed both in short and in long term. Owing to signing on 25.10.2013 of Annex No.4 to the Agreement with the Financial Creditors of 21.12.2012 the repayment of financial debt was postponed for the period from 01.01.2016 to 31.12.2019. Nevertheless, the Agreement on Regulations of Debt Servicing imposes on the Company a number of obligations in particular the obligations to: (i) make timely payments to Creditors; (ii) generate specified proceeds on account of disposal of Company's assets as part of divestment process; (iii) reduce operating costs to the level specified in the Agreement; (iv) restructure past due trade liabilities; (v) maintain financial ratios at the appropriate level; and (vi) not undertake a number of actions without a prior consent of the Creditors. Failure of the Company to fulfil obligations arising from the Agreement on Regulations of Debt Servicing may lead to Creditors terminating it with an immediate effect, which in turn will result in demanding immediate payment of all financial liabilities of the Company towards the Financing Banks and Debenture Holders and the loss of capacity to issue guarantees.

A high level of debt of the Company and the Group may have significant consequences, in particular it may affect: (i) limited ability or no ability of the Company and of the Group to acquire additional financing from financial institutions for example in the form of loans or bank guarantees; (ii) slowdown of the operations of the Company and of the Group due to a considerable decrease in availability of loans and shortening terms of payment or demanding prepayments by business partners; (iii) necessity to allot a considerable portion of cash flows from operating activity to repayment of the

principal (for the Company starting from 2016) and interest, which means that these cash flows will not always be available to use as financing of the Group's operations or of capital expenditure; (iv) limited flexibility of the Group while planning or responding to changes in its activity, competitive environment and in the markets, where it operates; and (v) unfavourable market position of the Group as compared to its competitors who have lower credit commitment. Signing with Financial Creditors the Agreement on Regulations of Debt Servicing constitutes a mechanism minimizing financial risks including default risk.

Contract performance bond risk. At the stage of submitting tenders, especially in procedures conducted in accordance with the regulations of the Public Procurement Law it is necessary to submit a bid security, so far the Company has met this requirement using bank and insurance bid bonds. Concluding the contract, the Company often acting as the main contractor, is obliged to deliver a performance bond, which amounts on average to approx. 10% of the contract value. Recently due to the crisis on the construction market at home, the banks/ insurance companies are not interested in increasing guarantee commitment in construction companies.

In line with the Agreement of New Guarantee Facility of 21.12.201 as further amended, the Company may request the issue of guarantees up to the amount of the agreed limit. The condition to issue a guarantee under the New Guarantee Facility is having the project approved by experts such as an external consultant and the Financing Banks and receiving consent from contract partners to assign debt from contracts being performed to the Banks. For most project no consent to assign debt, in particular in the scope of construction works projects, is a major impediment to use this facility.

In the 1st quarter 2014 the risk of claims and payments out of bank guarantees materialized, in particular due to difficulties to timely execute multiannual contracts and to acquire bank guarantees or to amend the terms and conditions of these guarantees arising from signing annexes to contracts including extension of the validity of guarantees relating to contracts concluded before 21.12.2012.

Ensuring availability of issuing bid bonds or contract performance bonds as well as of making amendments to issued guarantees constituted in the 1st quarter 2014 one of major risk factors having a decisive effect on acquisition of new contracts and undisturbed performance of contracts already concluded. If it is not possible to present a security in the form of a bank guarantee, the Company arranges securities in the form of guarantee deposits but strengthening this trend has had a negative effect on Company's financial liquidity.

Reduced availability of bank and insurance guarantees in light of the code provisions on the obligation to submit the guarantee of payment for construction works constitutes an additional risk factor at each stage of execution of construction contracts. Failure to timely execute the absolutely binding regulations in the subject matter may result in the suspension of work progress including the termination of contracts through the fault of the Company.

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

- for foreign customers:
 - trade receivables insurance,
 - obtaining securities of receivables in form of letters of credit, guarantees and sureties;
- for domestic customers:
 - obtaining hedging of receivables in form of bank guarantees and insurance bonds,
 - securing receivables in form of sureties, temporary ownership title transfers, registered pledge, mortgage, promissory notes due to limited availability of bank guarantees

Despite the fact that this risk is monitored and negotiations are conducted with business partners to extend terms of payments, the Company failed to reduce the high level of this risk due to the following circumstances:

- pressure from the suppliers of strategic materials for infrastructure projects to maximally shorten terms of payment, including prepayments, or to secure payments with expensive financial instruments (bank guarantees, letters of credit);
- bankruptcies in the construction sector and financial problems of consortium partners, subcontractors and subsidiaries,
- no insurance limits for credit risk and the guarantee limits by the insurance companies,
- lack of understandings relating to the settlement of additional works and to the increase of prices of materials in significant infrastructure contracts,
- unwillingness of banks to finance projects in the construction sector,

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

Currency risk. Cash flows of Polimex-Mostostal Capital Group companies are characterised by relatively high sensitivity to changes in exchange rates, which arises from the fact that revenues are derived in foreign currencies, including mainly the euro.

A preferred method of hedging against foreign exchange risk applied by the Group Companies remains natural hedging i.e. hedging foreign currency risk by entering into transactions which generate costs in the same currency as the revenue currency.

On 21 December 2012 the Agreement on Regulation of Debt Servicing was concluded, whose provisions did not provide for the possibility of using foreign currency derivative instruments as credit products available to the Company. In these circumstances natural hedging gains importance as the basic tool to limit the currency risk arising from the business activity of the enterprise.

As at 31 March 2014 the Group did not hold any foreign currency financial instruments measured at fair value.

Macroeconomic risks

The risk relating to changes of legal regulations: on 24 December 2013 an amendment to the Act of 29 January 2004 Public Procurement Law (Journal of Laws 2013 item 1473) which may possibly have an effect on deterioration of the cash position of contractors to contracts concluded pursuant to this Act, the Company included. The amendment introduces strict regulation in the scope of payments to subcontractors, which generates significant risks for financial liquidity of contractors.

Operating risks, a significant risk in this scope is related to the valuation and execution of long-term construction contracts and the risk of contractual penalties which is attached to these contracts. The ability of the Company to timely execute contracts significantly worsened in the reporting period due to a high level of demand for financing with existing problems with financial liquidity and the market situation in the construction sector.

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

Risk of losing resources due to using debt security established on Company's assets. The risk of creditors making security constitutes a significant risk from the point of view of possibility to conduct business activity by the Company when there are payment gridlocks and the crisis in the construction sector, which puts pressure on using security even if it is not justified by the terms and conditions of contracts. The risk to a large extent could unable due and proper execution of agreements and contracts, which would lead to escalation of contractual sanctions such as imposing contractual penalties, hiring replacement contractors on the expense of the Company to the termination of contracts through the fault of the Company. As at the date of preparation of these financial statements a significant risk relating to accruing fines by the Company in contracts and to termination through the fault of the Ordering Party of motorway contracts materialised.

Risk of losing qualified staff. The crisis in the construction sector makes it necessary to immediately reduce costs, including personnel costs. As part of operational restructuring and the execution of cost-cutting policy the Company has implemented group redundancies procedures. If new projects

are acquired, the Company may find it difficult to hire new qualified staff that will have appropriate know-how, experience and qualifications or hiring such staff may involve an increase of labour costs.

2.7. Significant events affecting the situation of the Polimex-Mostostal Capital Group in the 1st quarter 2014

In the 1st quarter 2014 the significant achievements of the Issuer included:

- on 3 January 2014 the Board of Directors of the Warsaw Stock Exchange adopted Resolution No. 9/2014 concerning the admission and introduction to exchange trading on the WSE Main List of series P ordinary bearer shares of Polimex-Mostostal S.A. Based on the motion of the Company series P ordinary bearer shares a par value of PLN 0.04 each, in the amount of 133,393,702, were admitted to exchange trading in the main market (for details see Current Report No. 1/2014);
- on 14 January 2014 the Company withdrew from the contracts: by the Consortium of the following companies: Polimex-Mostostal S.A., Doprastav a.s., MSF Engenharia S.A. and MSF Polska sp. z o.o. from the contract of 22 December 2010 concerning the design and construction of A1 motorway Stryków – Tuszyn junction concluded between the Consortium and the State Treasury – the General Director of National Roads and Motorways due to granting payment guarantees in form of revocable and conditional bank guarantees – not allowing to secure property the party to the contract (the Consortium) and consequently expiration of the deadline set to submit appropriate, (ii) by the consortium of the following companies: Polimex-Mostostal S.A., Doprastav a.s. from the contract of 23 September 2010 concerning the construction of A4 motorway Rzeszów (the East Rzeszów junction) – Jarosław (the Wierzbna junction) concluded between the Consortium and the State Treasury – the General Director of National Roads and Motorways due to granting payment guarantees in form of revocable and conditional bank guarantees – not allowing to secure property the party to the contract (the Consortium) and consequently expiration of the deadline set to submit appropriate; (iii) by the consortium of the following companies: Polimex-Mostostal S.A. and Doprastav a.s. from the contract of 20 July 2010 concerning the construction of S-69 Bielsko-Biała – Żywiec – Zwardoń express road, the Mikuszowice junction - Żywiec section concluded between the Consortium and the State Treasury – the General Directorate of National Roads and Motorways due to the failure to grant payment guarantees despite the expiration of the deadline set pursuant to Article 649'1 of the Civil Code. On 15 January this year the Company received the original of the letter from the State Treasury, the General Director of National Roads and Motorways, on the withdrawal by the GDNRM from the contract of 23 September 2010 concerning the construction of A4 motorway, the Rzeszów Jarosław (the Wierzbna junction) section and concerning the reception of a facsimile including the letter on the withdrawal by the GDNRM from the contract of 22 December 2010 concerning the design and construction of the A1 motorway, the Stryków Tuszyn junction concluded by the consortium of the following companies: Polimex-Mostostal S.A., Doprastav a.s., MSF Engenharia S.A. and

MSF Polska sp. z o.o. In the opinion of the Company, the statements of the GDNRM concerning withdrawing from the contracts mentioned above do not produce any legal effects due to the fact that on 14 January 2014 the Company withdrew effectively from the contracts above in their entirety, of which the Issuer informed in Current Report No. 4/2014. On 4 February this year the Board of Directors of Polimex-Mostostal S.A. was informed by Bank Pekao S.A. of the fact that the Guarantor received from the State Treasury, the General Director of National Roads and Motorways, represented by the General Directorate of National Roads and Motorways Rzeszów Branch the demand to pay out the total amount of PLN 55,996,064.23 arising from the contract performance bond and the quality bond No. DDF/5052/2010 of 17.09.2010. On 11 February this year the Board of Polimex-Mostostal S.A. was informed by Bank Pekao S.A. of the fact that the Guarantor received from the State Treasury, the General Director of National Roads and Motorways, the demand to pay out the amount of PLN 29,204,683.47 arising from the bank guarantee securing liabilities arising from improper performance of the contracts and from the warranty for defects of 17.12.2010 as further amended. In line with the legal opinion presented in Current Report No. 5/2014 the Company deems the withdrawal by the State Treasury, the General Director of National Roads and Motorways, null and void and consequently the Company believes that the Beneficiary is overusing its rights arising from the contract improper performance bond and the warranty for defects it holds. On 13 February 2014 the Board of Directors of Polimex-Mostostal S.A. was informed by the Guarantor, Bank Pekao S.A., of the negative decision concerning payment out of the guarantee which was communicated to the Beneficiary, the State Treasury, the General Director of National Roads and Motorways, in the letter of 10 February 2014 (for details see Current Report No. 4/2014, 5/2014, 20/2014, 26/2014, 27/2014);

- On 19 February 2014 the conditional agreement transferring the real property perpetual usufruct right was concluded between the Polimex Mostostal S.A. Company as a seller and Molina spółka z ograniczoną odpowiedzialnością as a buyer whose subject is the sale of perpetual usufruct right of real property located in Warsaw at ul.Czackiego 15/17 with the plot surface of 0.0870 hectare together with the building for the gross price of PLN 30,750,000. The sale of property will be made after meeting a number of conditions specified in the Conditional Agreement such as receiving the consent of the creditors. If all conditions are not met by 30.04.2014, the Conditional Agreement expires. Pursuant to the Conditional Agreement the price shall be paid by the buyer into an escrow account of the seller. With reference to Current Report No. 32/2014 on 28 March 2014 the agreement was concluded by the Company as the seller and Molina Sp. z o.o. transferring the real property perpetual usufruct right and the ownership right of the building constituting an object of property separated from the land whose subject is the sale of perpetual usufruct right to real property located in Warsaw at ul.Czackiego 15/17 and the separate ownership of the office building for the price of PLN 30,750,000.00 gross. The price was paid by the buyer into the escrow account of the seller, whereas the seller assumed an obligation to issue the subject of

the Promised Agreement to the buyer not later than on 2 April 2014. Pursuant to the Promised Agreement the proprietary copyrights to complete design documentation relating to the investment in the real property sold together with rights from the warranty and guarantee deposit granted to the seller were transferred to the buyer (for details see Current Report No. 32/2014 and 41/2014);

- On 31 March 2014 Polimex-Mostostal S.A. concluded with TMT TRADING sp. z o.o. spółka komandytowa with the registered Office in Rudnik upon the River San a preliminary agreement to sell an organized part of enterprise of Polimex-Mostostal S.A. i.e. the Steel Structure Plant in Rudnik upon the River San. The selling price of the Plant amounts to PLN 7,450,000.00 assuming that the book value of inventories agreed by the Parties as at the date of the promised agreement to sell the Plant is maintained, appropriate adjustments may be made in the scope agreed by the Parties if the value of inventories of the Plant diverges from the value agreed by the Buyer and the Seller. The promised sale agreement should occur not later than by 30 September 2014 and depends on fulfilment of the following conditions precedent: 1. receiving the consent of the President of the Office for Competition and Consumer Protection or occurrence of an event equal to the consent of the President of the Office for Competition and Consumer Protection to concentration occurring in the performance of the agreement to sell the Plant, 2. the buyer paying before the Closing Date the selling price (decreased by the amount of the advance payment that was paid to the escrow account after concluding the preliminary agreement); and 3. the Company receiving an individual interpretation of tax regulations which would confirm that the sale of an organised part of enterprises is not subject to VAT (or occurrence of an event equal to such an interpretation), and 4. submitting to the Buyer: a) a declaration in the scope of waiver of mortgages encumbering real property which is subject to the sale together with a request to delete these mortgages from the land and mortgage register or a decision of a competent court confirming the deletion of the mortgages from the land and mortgage register of the real property of the Plant, b) a declaration based on which the creditors directly or through the administrator of the pledge on the enterprise of the Company (in the scope in which it encumbers the assets of the Plant) agree to separate the assets of the organized part of enterprise covered by the pledge together with the request to amend the wording of the entry of such a pledge in the scope of releasing/ deleting the assets of the Plant from the pledge, or a decision of a competent court in the scope amending the subject of the pledge by releasing/deleting the assets of the Plant from the pledge; 5. the Parties receiving the certificate issued by tax authorities and the Social Security Institution (ZUS) with the wording agreed by the Parties; 6. the Company receiving the consent of the Supervisory Board expressed in a form of a resolution to sell the organized part of enterprise to the Buyer on conditions specified in the Agreement (for details see Current Report No. 42/2014);

2.8. Events after the statement of financial position date, as of which the condensed consolidated quarterly financial statements were prepared, having a significant effect on the financial statements and future financial results of the Issuer

The events that occurred after the statement of financial position date that may have a significant effect on the Issuer's future financial results included:

- On 7 April 2014 the agreement was concluded by Polimex-Mostostal S.A. with two natural persons acting on behalf of a partnership as buyers to sell (i) the perpetual usufruct right of land situated in Lublin at ul.Inżynierska 8R and ul.Inżynierska 8 of the total area of 6,318 sqm and building and machinery located in this land constituting a separate ownership, (ii) joint perpetual usufruct right in a share that is 6318/22850 of the land situated in Lublin specified as plot No. /16 with the area of 1,281 sqm. The total selling price of the rights mentioned above is PLN 3,097,602.25. Pursuant to the Sales Agreement the Company received a portion of the price in the amount of PLN 257,000.00 before concluding the Sales Agreement, whereas the remaining amount i.e. PLN 2,840,602.25, which was placed by the buyers in the notary deposit, shall be paid by paying out this amount on the date of presenting the excerpt of the notarized deed documenting the Sales Agreement for the benefit of the buyers. The premises being the subjects of the Sales Agreement shall be released after paying the price yet not later than by 10 April 2014 (for details see Current Report No. 45/2014);
- on 8 April 2014 Polimex-Mostostal S.A. as a seller concluded agreements with Ghelamco GP 1 Spółka z o.o. Tilia Spółka komandytowo-akcyjna as a buyer to sell (i) perpetual usufruct right of land constituting record plot No. 24/5 situated in Warsaw at ul.Elektryczna No. 2A with the area of 999.00 sqm and (ii) the ownership of a building located in this land that is separate real property from the land marked with No. 2A at ul.Elektryczna in Warsaw for the gross total price of PLN 10,701,000, the price is composed of (i) the price of the perpetual usufruct right in the amount of PLN 5,104,500.00 gross, (ii) the price of the building in the amount of PLN 5,596,500.00 gross. Pursuant to the Sales Agreement the Company received a portion of the price in the amount of PLN 246,000.00, whereas the remaining portion of the price i.e. PLN 10,455,000.00 was paid by paying this amount out of the notarial deposit into the technical account of the Company. The premises that are subject to the Sales Agreement shall be released to the buyer by 9 April 2014. Pursuant to the Sales Agreement the Company also assumed an obligation to conclude an agreement under which proprietary copyrights shall be transferred onto the buyer together with derivative copyright to designs relating to the extension of the building which is the subject of the Sales Agreement. Concluding of the Sales Agreement is part of the execution of the operating restructuring (for details see Current Report No. 46/2014);
- on 8 April 2014 the Board of Directors of Polimex-Mostostal S.A. with the registered office in Warsaw received information that the creditor conducting business activity under the business name of Techwid Jan Rutkowski with the registered office in Gdańsk filed at the District Court for the Capital City of Warsaw a request to declare bankruptcy including liquidation of the assets of the debtor. According to the knowledge of the Company the debt mentioned in the

request to declare bankruptcy was not confirmed by an enforcement title. The Company intends to take legal action aimed in particular at discontinuing proceedings to declare bankruptcy (for details see current report No. 47/2014);

- on 30 April 2014 in connection with Current Report No. 30/2014 of 14 February 2014 concerning receiving consent of all banks and debenture holders, who are the party to the agreement concluded with Polimex-Mostostal S.A. on 21 December 2012 specifying the terms and conditions of financing the Company by the Creditors, to the Creditors waiving their rights arising from the occurrence of the breach of the Agreement on account of the failure to pay by the Company for the benefit of the Creditors: (i) interest on loans covered by the Agreement, (ii) interest on receivables of the debenture holders covered by the Agreement, (iii) recourses arising from payments out of guarantees issued by the banks that are the party to the Agreement (the Company informed of this breach in Current Report No. 17/2014 of 1 February 2014). The Board of the Company informs that as a result of the failure of the Company to meet the requirements of the consent mentioned above, the consent became ineffective. Consequently, as of 29 April 2014 the Company became obliged to make for the benefit of the Creditors the immediate payment of: (i) interest on loans covered by the Agreement, (ii) interest on receivables of the debenture holders covered by the Agreement, which the Company was obliged to pay by 31 January 2014, as well as (iii) recourses arising from payments out of guarantees issued by the banks that are the party to the Agreement whose payment was due by 31 January 2014 and those whose payment was due after this date. The Company requested the Creditors to grant their consent to postpone the payment date of the liabilities mentioned above by 3 June 2014 on conditions analogous to those of which the Company informed in Current Report No. 30/2014 of 14 February 2014. Due to the lack of consent of one of the Creditors for the request above, the due date of the liabilities of the Company specified above was not amended. (for details see current report No.48/2014);
- On 3 May 2014 in connection with Current Report No. 130/2012 of 21 December 2012 concerning Polimex-Mostostal S.A. concluding with the banks and debenture holders of the agreement specifying the terms and conditions of financing the Company by the Creditors, the Board of the Company informs that the Company did not make for the benefit of the following Medium Exposure Banks (i.e. the banks that are not the party to the Agreement): BNP Paribas Bank Polska S.A., Deutsche Bank Polska S.A., Raiffeisen Bank Polska S.A. and RBS Bank (Polska) S.A. payments of recourses that became due on 2 May 2014. The situation above constitutes the breach by the Company of provisions of the Declarations submitted by the Medium Exposure Banks mentioned above on 21 December 2012 in the scope of making timely payments by the Company of portions of recourses arising from payments made out of guarantees issued by the banks on request of the Company. The event above also constitutes a breach of the Agreement which, if not removed within 10 working days, shall authorize the Majority Creditors to terminate the Agreement (for details see Current Report No. 49/2014).
- on 6 May 2014 a letter of intent was signed by the Company with the State Treasury the General Director of National Roads and Motorways concerning the terms and conditions of

collaboration and mutual settlements. The letter of intent concerns the dispute regarding mutual settlements between the Company and the GDNRM relating to the performance of the following projects: (i) the construction of A1 motorway (the Stryków – Tuszyn section), (ii) the construction of S69 express road (the Mikuszowice – Żywiec section), (iii) the construction of A4 motorway (the East Rzeszów – Jarosław section), (iv) the construction of A4 motorway (the Szarów – Brzesko junction section). The Company and the GDNRM declared in particular: (i) the intention to collaborate in the scope of settling subcontractors, suppliers and service providers employed in the projects above, (ii) the intention to undertake talks concerning an amicable determination of the amount of mutual claims (for details see Current Report No. 50/2014).

- on 6 May 2014 in connection with Current Report No. 48/2014 of 30 April 2014 concerning the breach by Polimex-Mostostal S.A. of the agreement of 21 December 2012 concluded by Polimex-Mostostal S.A. with the banks and debenture holders, the Board of Directors of the Company informs that all Creditors gave to the Company their consent to amend the payment date of (i) interest on loans covered by the Agreement, (ii) interest on receivables of the debenture holders covered by the Agreement, and (iii) recourses arising from payments out of guarantees issued by the banks that are the party to the Agreement. The Company was obliged by the Creditors to fulfil the obligations mentioned above by 3 June 2014 on conditions analogous to the ones of which the Company informed in Current Report No. 30/2014 of 14 February 2014. At the same time the Company informs that the above consent of the Creditors to postpone the date when the Company makes payments for the benefit of the Creditors includes both (i) the liabilities of the Company on the account mentioned above which were due by 30 April 2014 as well as (ii) the liabilities of the Company on the account mentioned above which would become due in the period from 30 April 2014 to 3 June 2014 pursuant to the Agreement concluded by the company with its Creditors (for details see Current Report No. 51/2014);
- on 7 May 2014 the District Court for the Capital City of Warsaw 10th Economic Department for Bankruptcy and Restructuring issued a decision to discontinue combined for joint examination and conduct proceedings to declare bankruptcy of the Company on request of: 1. Ergon Poland Sp. z o.o. with the registered office in Badowo Mściska, 2. Firma Budowlano - Drogowa MTM S.A. in Gdynia, 3. Jan Rutkowski conducting business activity under the business name of TECHWIND Jan Rutkowski in Gdańsk (for details see Current Reports No. 24/2014, 35/2014, 47/2014);
- on 9 May 2014 the Board of Polimex-Mostostal S.A. informed that Mr Gregor Sobisch resigned from the position of the President of the Board of Directors of the Company as of 9 May 2014 for personal reasons (for details see Current Report No. 53/2014);
- on 9 May 2014 the Supervisory Board of the Company adopted a resolution concerning entrusting Mr Maciej Stańczuk, previously Vice President of the Board of Directors, with the position of the Acting President of the Board and also adopted a resolution concerning appointing as of 9 May 2014 Mr Bogusław Piekarski to the composition of the Board of

Directors of Polimex-Mostostal S.A. and entrusted him with the position of the Vice President of the Board (the Chief Operating Officer) (for details see Current Reports No. 54/2014 and 55/2014).

2.9. Information concerning seasonal or cyclical nature of the Issuer's operations in the presented period.

The activity of the Issuer and the Group Companies shows seasonality in the scope of construction and assembly works, overhauls and road and railroad works. In winter the number of works performed in the open sites decreases. Moreover, in some sectors overhaul works are conducted in specified times of year (e.g. in power plants and heat and power plants they concentrate in summer months). Whereas modernisation works are undertaken in multiannual cycles (e.g. in power plants and chemical plants). The Issuer's Group's schedules of performance of investment tasks include climatic conditions and while preparing budgets the consequences of applied procedures for awarding and settling of orders are taken into account. The organisational structure of the Issuer's Group is adjusted to the nature of conducted activities.

2.10. Other information that in the Issuer's opinion is significant for the assessment of its personnel status, financial position, financial results and their changes, and information that is significant for the assessment of Issuer's capabilities to fulfil obligations

Information significant for the assessment of Issuer's personnel status, financial position, financial results and their changed and information that is significant for the assessment of the Issuer's capabilities to fulfil obligations have been partly included in other sections. To supplement this information, the following events relating to the Issuer may be mentioned:

- on 9 January 2014 the Board of Polimex-Mostostal S.A. received by electronic mail a scanned copy of a letter from Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("the Guarantor") informing of the fact that on 8 January 2014 the Guarantor made the payment for the benefit of the General Director of National Roads and Motorways ("the Beneficiary") of the amount of PLN 13,397,707.60 out of a contract performance bond and a quality bond. The subject bond was issued on request of the Company for the liabilities of the Consortium in connection with the execution of the contract for "The construction of S-69 Bielsko-Biała – Żywiec – Zwardoń express road, "Mikuszowice" junction – Żywiec section (for details see Current Report No. 2/2014).
- on 20 January 2014 Polimex-Mostostal received two bank guarantees issued on request of the State Treasury - the General Directorate of National Roads and Motorways. The bank guarantees secure payment of remuneration in the total amount of PLN 1,827,077,049.85. The first guarantee was issued for the benefit of the Company and the companies of Doprastav a.s., MSF Engenharia S.A. and MSF Polska S.A. as beneficiaries for the amount of PLN 970,466,276.99 to secure timely payment of remuneration for construction works performed under the contract of 22 December 2010 called "The Design and construction of A-1 motorway, Stryków – Tuszyń junction" valid not later than 18 January 2016. The second guarantee was issued for the benefit of the Company and Doprastav a.s. as beneficiaries for the amount of PLN 856,610,772.86 to secure timely payment of

remuneration for construction works performed under the contract of 23 September 2010 called "The construction of A-4 motorway, Rzeszów (the East Rzeszów junction) – Jarosław (the Wierzbna junction)" valid not later than by 10 July 2015. Both guarantees are conditional and may be revoked by the GDNRM (for details see Current Report No. 3/2014);

- on 23 January 2014 Polimex Projekt Opole Sp. z o.o., a subsidiary, with the registered office in Warsaw ("Polimex Projekt Opole") signed with PKO BP S.A. the Agreement to Grant the Guarantee to the contract to construct power blocks no. 5 and 6 in PGE Elektrownia Opole S.A. of 15 February 2012 concluded between PGE Górnictwo i Energetyka Konwencjonalna S.A. with the registered office in Bełchatów ("the Ordering Party") and the Company ("the Main Contract"). In line with the terms and conditions of the Agreement the Bank shall grant on request of Polimex Projekt Opole an advance payment reimbursement bond to the amount of PLN 199,161,600.00 valid by 15.05.2019 and a contract performance bond to the amount of PLN 199,161,600.00 valid by 30.08.2018 whose beneficiary shall be the Ordering Party. The guarantees were granted to the Ordering Party on 24 January 2014 (for details see Current Report No. 9/2014);
- on 23 January 2014 the Board of Directors of Polimex-Mostostal S.A. informed that in connection with the Current Report No. 9/2014 of 23.01.2014 it concluded with Bank PKO BP S.A. the agreement to grant a surety for Polimex Projekt Opole Sp. z o.o. in Warsaw, a subsidiary, in the amount up to PLN 597,484,800.00 and the guarantee period by 31.03.2024, which constitutes the security to the Agreement to grant Bank Guarantees for the contract to construct power blocks No. 5 and 6 in PGE Elektrownia Opole S.A. of 15 February 2012 concluded by Polimex Projekt Opole on 23.01.2014, to which the Bank assumed an obligation to issue the following bonds: the contract performance bond in the amount of PLN 199,161,600.00 valid by 30.08.2018 and the advance payment reimbursement bond in the amount of PLN 199,161,600.00 valid by 15.05.2019 (for details see Current Report No. 10/2014);
- on 24 January 2014 the Board of Polimex-Mostostal S.A. informed that in connection with Current Report No. 9/2014 of 23.01.2014 it concluded with Bank PKO BP S.A. the agreement to establish two joint mortgages for the benefit of PKO BP S.A. up to PLN 597,484,800.00 each and the agreement concerning the priority of mortgages with mortgage creditors i.e. Bank Millennium Spółka Akcyjna, mBank Spółka Akcyjna, Bank Zachodni WBK Spółka Akcyjna, Bank Zachodni WBK Spółka Akcyjna and 26 Debenture Holders and that it filed two declarations to submit to execution up to PLN 597,484,800.00, constituting security to the Agreement to grant Bank Guarantees for the contract to construct Power blocks No. 5 and 5 in PGE Elektrownia Opole S.A. of 15 February 2012 concluded by Polimex Projekt Opole Sp. z o.o., a subsidiary, on 22.01.2014 under which the Bank shall issue the following bonds: the contract performance bond of PLN 199,161,600.00 valid by 30.08.2018 and the advance payment reimbursement bond of PLN 199,161,600.00 PLN valid by 15.05.2019 as well as to secure the liabilities of the Company as a Guarantor of Polimex Projekt Opole Sp. z o.o. (for details see Current Report No. 11/2014);
- on 28 January the Board of Polimex-Mostostal S.A. informed that in connection with Current Report No. 157/2013 of 6 November 2013, on 28 January 2014, Centrum Projektowe Polimex-Mostostal Sp. z o.o. with the registered office in Gliwice, a Company's subsidiary, received the

decision of the District Court in Gliwice, 12th Economic Department for Bankruptcy and Restructuring to reject the request to declare bankruptcy including liquidation of the assets of the Subsidiary (for details see Current Report No. 12/2014);

- on 13 February 2014 the Board of Polimex-Mostostal S.A. informed that on 28 January this year it received information that Tierspol Firma Produkcyjno-Uslugowa with the registered office in Mragowo, a creditor of the Company, filed in the District Court for the Capital City of Warsaw a request to declare bankruptcy and to secure assets of the debtor by establishing a temporary insolvency administrator. According to the knowledge of the Company the debt mentioned in the request to declare bankruptcy was not confirmed by an enforcement title. On 11 March this year the District Court for the Capital City of Warsaw issued the decision to discontinue the proceedings to declare bankruptcy of the Company on request of Triespol Firma Produkcyjno-Handlowa with the registered office in Mragowo (for details see Current Reports No. 13/2014, 39/2014);
- on 13 February 2014 the board of Polimex-Mostostal S.A. informed that on 28 January this year it received information that Agencja Finansowa ASSIST sp. j. Zbigniew Dyllus, Marek Gwózdź with the registered office in Tychy, a creditor of the Company, filed in the District Court for the Capital City of Warsaw a request to declare bankruptcy including liquidation of the assets of the debtor. According to the knowledge of the Company the debt mentioned in the request to declare bankruptcy was not confirmed by an enforcement title. The Company intends to take legal action aimed in particular at discontinuing proceedings to declare bankruptcy. On 17 March this year the District Court for the Capital City of Warsaw issued the decision to discontinue the proceedings to declare bankruptcy of the Company on request of Agencja Finansowa ASSIST Zbigniew Dyllus, Marek Gwózdź sp. j. with the registered office in Tychy (for details see Current Reports No. 14/2014, 44/2014);
- on 13 February 2014 the Board of Polimex-Mostostal S.A. informed that in connection with Current Report No. 140/2013 of 16 October 2013, on 13 February 2014, the District Court in Plock, 5th Economic Department for Bankruptcy and Restructuring issued the decision to reject the request to declare bankruptcy including liquidation of assets of Modułowe Systemy Specjalistyczne sp. z o.o. with the registered office in Plock, a subsidiary. The petition was rejected by the Court due to the fact that the assets of the Subsidiary are encumbered to such an extent that the remaining assets of the Subsidiary, in line with the analysis of the state and value of the assets carried out by the Court, will not be sufficient to cover the costs of the liquidation proceedings and as a result it was grounded for the Court to reject the petition to declare the bankruptcy of the Subsidiary (for details see current report No.15/2014);
- on 13 February 2014, in connection with Current Report No. 194/2013 of 19 December 2013 informing on receiving from PGE Górnictwo i Energetyka Konwencjonalna S.A. (former PGE Elektrownia Opole S.A.) a notice on the planned date of releasing the Notice to Proceed for Works under the Project to construct power blocks No. 5 and 6 in the Opole Power Plant (the Opole Project”) of 31 January 2014, the Board of Polimex-Mostostal S.A. informs that on 31 January 2014 the consortium composed of the Company, Rafako and Mostostal Warszawa S.A. (jointly

“the General Contractor”) received from the Ordering Party the Notice to Proceed on the Opole Project (for details see Current Report No.16/2014);

- on 13 February 2014 in connection with Current Report No. 130/2012 of 21 December 2012 concerning concluding by Polimex-Mostostal S.A. with the banks and debenture holders of the agreement specifying the terms and conditions of financing the Company by the Creditors and in connection with Current Report No. 189/2013 of 13 December 2013 concerning the consent of the creditors to postpone the date of fulfilling certain obligations, the Board of the Company informed that as of 31 January 2014 the Agreement was breached. The breach consisted in the failure of the Company to pay to the Creditors the entirety of interest on: (i) loans covered by the Agreement, (ii) receivables of the debenture holders covered by the Agreement, and (iii) recourses arising from payments made out of guarantees issued by the banks that are the party to the Agreement whose payment was due on 31 January 2014. The Company requested its Creditors to postpone the date mentioned above by 30 April 2014 (for details see Current Report No. 17/2014);
- on 13 February 2014 the Board of Polimex-Mostostal S.A. informed that on 31 January 2014 Polimex Mostostal S.A. and Doprastav a.s. filed the following notices to pay contractual penalties: (i) the notice to pay by the State Treasury the General Directorate of National Roads and Motorways the contractual penalty of PLN 176,954,030.25 due to withdrawing from the contract of 22 December 2010 concerning the design and construction of A1 motorway, Stryków - Tuszyn junction in section from km 295 + 850 to km 335 + 937.65 – by fault of the General Directorate of National Roads and Motorways, (ii) the notice to pay by the State Treasury the General Directorate of National Roads and Motorways the contractual penalty of PLN 219,592,408.75 due to withdrawing from the contract of 23 September 2010 concerning the construction of A4 motorway, Rzeszów (the East Rzeszów junction) Jarosław (the Wierzbna junction) from km 581+250 to 622+450 – by fault of the General Directorate of National Roads and Motorways, (iii) the notice to pay by the State Treasury the General Directorate of National Roads and Motorways the contractual penalty of PLN 78,810,044.69 due to withdrawing from the contract of 20 July 2010 concerning the construction of S-69 express road, Bielsko-Biała - Żywiec - Zwardoń, the “Mikuszowice” junction - Żywiec section from km 9 + 100.00 to km 24 + 660 - by fault of the General Directorate of National Roads and Motorways. Moreover, the Company informs that it received on 31 January 2014 the notice from the General Directorate of National Roads and Motorways to pay a contractual penalty of PLN 221,381,096.20 due to the withdrawal by the GDNRM from the contract specified in section (ii) above. In the opinion of the Company the demand of the GDNRM to pay the amount mentioned above is groundless due to the fact that the party that effectively withdrew from the contracts above was the consortium whose member was the Company. The withdrawal of the GDNRM from the contracts mentioned above as a later event as compared to the declaration of the Consortium was ineffective and consequently the demand to pay the contractual penalty should be deemed groundless. At the same time on 31 January 2014 Polimex-Mostostal S.A. and Doprastav a.s. returned bookkeeping notes issued groundlessly by

the GDNRM for the total amount of PLN 104,255,027.35 concerning the contract specified in section (iii) (for details see Current Report No. 18/2014).

- on 13 February 2014 the Board of Polimex-Mostostal informed that on 4 February 2014 it was notified by Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. of the fact that the Guarantor received from the University of Gdansk with the registered office in Gdańsk a demand to pay the total amount of PLN 7,723,732.67 out of two contract performance bonds for contract No. A120-211-29/11/KSZ for „The construction of the teaching and administrative building of the University of Gdańsk” in Gdańsk. On 21 February 2014 in connection with Current Report No. 19/2014 the Board of Polimex-Mostostal S.A. informed that on 21 February 2014 it was notified by electronic means by Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. ("the Guarantor") of making by the Guarantor on 21 February 2014 of the payment for the benefit of the University of Gdansk with the registered office in Gdańsk ("the Beneficiary") of the total amount of PLN 7,723,732.67 (say: seven million seven hundred and twenty-three thousand seven hundred and thirty-two zlotys 67/100) on account of two contract performance bonds for contract No.A120-211-29/11/KSZ for "The construction of the teaching and administrative building of the University of Gdansk". At the same time on 21 February 2014 an understanding was concluded between the Guarantor and the Company to spread the amount paid by the Guarantor on account of the contract performance bonds into 12 (say: twelve) monthly payments repayable by the Company by 30 January 2015 (for details see Current Reports No. 19/2014, 33/2014).
- On 13 February 2014 the Board of Polimex-Mostostal S.A. informed of bringing on 4 February 2014 by two plaintiffs: the Company and Doprastav a.s. court proceedings by writ of payment of money against the State Treasury the General Directorate of National Roads and Motorways, the defendant, concerning the contract of 23 September 2010 to construct the A4 motorway, the Rzeszów (the East Rzeszów junction) – Jarosław (the Wierzbna junction) section. The value of the subject of the litigation is PLN 219,592,408. The proceedings were instigated on 4 February 2014. The Defendant did not present the guarantee to pay the contract remuneration despite the written demand made by the Plaintiffs as the Contracting Party. Due to the ineffective expiry of the 45 day term to grant the guarantee by the Defendant, the statutory right to withdraw from the Contract by fault of the Defendant was formed for the benefit of the Plaintiff. The Plaintiffs used the right they were entitled to by submitting appropriate declarations of withdrawal from the Contract I. Pursuant to the terms and conditions of the Contract I in case of withdrawing from the Contract I by the Plaintiffs as the contracting party by fault of the Defendant as the ordering party, it is obliged to pay to the Plaintiffs the contractual penalty of 10% of the accepted contract amount which is PLN 219,592,408.75 together with interest on account of delay. The share of the Company in the contractual penalty is 51% (for details see Current Report No. 21/2014);
- on 13 February 2014 the Board of Directors of Polimex-Mostostal S.A. informed that on 6 February 2014 the Supervisory Board of the Issuer adopted a resolution concerning the appointment of Mr Maciej Stańczuk to the composition of the Board of Directors of Polimex-Mostostal S.A. as of 7 February 2014 and entrusted him with the position of the Vice President of

the Board for a three year individual term of office. (for details see current report No. 22/2014 and 23/2014).

- on 13 February 2014 the Board of Polimex-Mostostal S.A. informed that on 10 February it received information that Ergon Poland sp. z o.o. with the registered office in Badowo Męciska, a creditor of the Company, filed in the District Court for the Capital City of Warsaw a request to declare bankruptcy including liquidation of assets of the debtor. The Company took legal action aimed in particular at discontinuing proceedings to declare bankruptcy (for details see current report No. 24/2014);
- on 13 February 2014 the Board of Polimex-Mostostal S.A. informed that on 10 February it received information that Montin Korizola sp. z o.o. with the registered office in Kraków, a creditor of the Company, filed in the District Court for the Capital City of Warsaw a request to declare bankruptcy including liquidation of assets of the debtor. According to the knowledge of the Company the debt mentioned in the request to declare bankruptcy was not confirmed by an enforcement title. On 3 March this year the District Court for the Capital City of Warsaw issued the decision to discontinue the proceedings to declare bankruptcy of the Company on request of Montin Korizola sp. z o.o. with the registered office in Kraków (for details see Current Reports No. 25/2014, 43/2014);
- on 13 February 2014 the Board of Polimex-Mostostal S.A. informed that on 12 February 2014 the Supervisory Board of the Issuer adopted a resolution concerning the dismissal of Mr Arkadiusz Kropidłowski from the function of the Vice President of the Company as of the date of adopting the resolution (for details see Current Report No. 28/2014);
- on 13 February 2014 the Board of Polimex-Mostostal S.A. received information that a request was filed at the District Court for the Capital City of Warsaw by Przedsiębiorstwo Budowlane "Kokoszki" S.A. with the registered office in Gdańsk, a creditor of the Company, to declare bankruptcy covering liquidation of assets of the debtor and to secure the assets of the debtor by appointing a temporary insolvency administrator (for details see Current Report No. 29/2014).
- on 14 February 2014 the Board of the Company informed that it received information on granting to the Company the consent of all Creditors to waive their rights arising from the occurrence of the breach of the Agreement resulting from the failure to pay by the Company to the Creditors (i) interest on loans covered by the Agreement, (ii) interest on receivables of the debenture holders covered by the Agreement and (iii) recourses arising from payments made out of guarantees issued by the banks that are the party to the Agreement. The Company was obliged by the Creditors to fulfil the above obligations by 30 April 2014. The above consent of the Creditors to postpone the date when the Company makes payments for the benefit of the Creditors includes both (i) the liabilities of the Company on the account mentioned above which were due by 31 January 2014 as well as (ii) the liabilities of the Company on the account mentioned above which would become due in the period from 31 January 2014 to 30 April 2014 pursuant to the Agreement concluded by the Company with its Creditors (for details see Current Report No. 30/2014).

- On 14 February 2014 the Board of the Company informed that in connection with Current Report No. 18/2014 of 1 February 2014 concerning filing by the Company and other consortium members i.e. MSF Polska Sp. z o.o., MSF Engenharia SA, Doprastav a.s. (“the Consortium Members”) a petition against the State Treasury the General Directorate of National Roads and Motorways to pay contractual penalties accrued in connection with withdrawing from contract No. 4/12/R/2010 for the design and construction of the A-1 motorway, Stryków – Tuszyn junction, by fault of the General Directorate of National Roads and Motorways. The value of the subject matter of the claim made by all Consortium Members amounts to PLN 176,954,027, of which the claim of the Company is PLN 79,204,623. In the opinion of the Company filing the petition is grounded due to the fact that the Company withdrew from the Contract by fault of the General Directorate of National Roads and Motorways. (for details see current report No.31/2014);
- On 25 February 2014 the Board of Polimex-Mostostal S.A. informed that, in connection with Current Report No. 130/2013 of 21 December 2012 concerning concluding by Polimex-Mostostal with the banks and debenture holders the agreement specifying the terms and conditions of financing the Company by its Creditors, on 24 February it received information that the breach of the terms and conditions of the Agreement occurred. The breach of the Agreement consisted in receiving the demand to pay by the Company the amount of EUR 2,179,559.17 on account of the aval the Company granted to Intensa Sanpaolo Bank Romania for the obligations of S.C. Coifer Impex SRL, a subsidiary, arising from an investment loan granted to this subsidiary by the Bank (for details see Current Report No. 34/2014);
- on 27 February 2014 the Board of the Company informed that on 26 February it received information that Firma Budowlano-Drogowa MTM SA with the registered office in Gdynia, a creditor of the Company, filed in the District Court for the Capital City of Warsaw a request to declare bankruptcy including liquidation of assets of the debtor. According to the knowledge of the Company the debt mentioned in the request to declare bankruptcy was not confirmed by an enforcement title. The Company intends to take legal action aimed in particular at discontinuing proceedings to declare bankruptcy (for details see current report No. 35/2014);
- On 1 March 2014 the Board of Polimex-Mostostal S.A. informed that, in connection with Current Report No. 130/2013 of 21 December 2012 concerning concluding by Polimex-Mostostal with the banks and debenture holders the agreement specifying the terms and conditions of financing the Company by its Creditors, as of 28 February 2014 the breach of the terms and conditions of the Agreement occurred consisting in: (i) failure to acquire by 28 February 2014 cash proceeds arising from the process of disposal of real property and shares in subsidiaries in the amount specified in the Agreement; (ii) failure to fully implement by 28 February 2014 the system and key procedures of internal audit, risk management, cost estimation and offering (for details see Current Report No. 37/2014).

2.11. Factors that in the Issuer's opinion will influence its future financial results in at least next quarter.

External factors

The findings of the **NBP**² indicate that the climate in the enterprise sector is improving slowly. Optimism of entrepreneurs may be hindered by the Russian and Ukrainian crisis whose consequences and scope are unforeseeable. Despite their fears enterprises involved in the eastern markets hope that the problems will be quickly solved and other companies do not consider its direct consequences. The degree of utilisation of production capacity, production forecasts or investment plans and intentions of the companies indicate further yet still gradual upturn in the economy.

Another consecutive quarter problems to find customers for products offered by enterprises decreased. Despite a slight decrease of the balance of forecasts of demand and the deterioration of forecasts of new orders, expectations for the second quarter may be regarded as optimistic ones. It is the effect of improving their structure i.e. it is expected that the demand for products and services will continue to increase on the one hand, and on the other hand the production forecast ratio went up for another consecutive quarter, which may indicate the establishing of the increasing demand as observed earlier.

Slight deterioration of the situation in the 1st quarter was recorded in exports due to the decrease of export margins. Export driven enterprises that are oriented towards eastern markets may feel the effects of the crisis faster due to fluctuations of the zloty exchange rate, which intensified as a side effect of the Russian and Ukrainian crisis.

Enterprises intend to commence more investment projects in the 2nd quarter this year than in the previous quarter but the pace of improvement has decreased as against the previous quarter, still in present situation a higher number of decisions to commence new projects indicate a decisively optimistic assessment of the present and future economic climate.

In the 2nd quarter an increase of employment may be expected typical for this period. Stable indications of the ratio are the effect of the worsening of expectations in services and in trade with further increase of the number of companies planning to increase the number of employees in the industrial sector and the improvement of the forecasts in the construction (still more companies will reduce employment there). Inflation pressure is not visible and the increase of raw material and basic materials used in production or the increase of consumer prices is not anticipated. As a result their tendency to increase prices and their degree of changes remained at the level similar to the one in the previous quarter.

Worse assessments of the situation were recorded, which partly may be the effect of adjustments of overoptimistic assumptions from the previous quarter, and partly a result of increasing fears of the consequences of the Ukrainian and Russian crisis. At the same time more enterprises than a quarter before expect an upturn of the economy in the next six months.

² *Economic climate in the enterprise sector in 2014 Q1 and forecasts for 2014 Q2*, the National Bank of Poland, Economic Institute, April 2014.

Instytut Badań nad Gospodarką Rynkową (**the Gdansk Institute of Market Economics**)³ estimates that in the first quarter of 2014 the economic growth rate in Poland for the third time in a row was lower than the one recorded three months earlier. The growth of the GDP as against the comparative quarter of last year amounted to 2.9%.

The main factor behind the economic growth in the 1st quarter was internal demand and foreign demand was additionally driving the growth. It should be treated as a positive signal coming from economy as it proves the fact that Polish economy becomes more and more independent of instable external economic climate. Among components of the internal demand, the fastest growth was recorded in capital expenditure, which increased by 2.2% from January to March. Improvement of the situation in the employment market and better economic climate will contribute to both further growth of consumption and reversal of negative tendencies in shaping the investment demand. A factor influencing the growth of investment will be the necessity to recreate property, plant and equipment in enterprises after six quarters of decrease in investment. According to the forecasts by the GloME the growth of gross domestic product in 2014 will amount to 3.1% in Poland, which means that it will be significantly higher than last year. According to the forecasts by GloME the economic growth will accelerate in the coming quarters of this year, with only slight differences between quarters, in the first quarter the GDP rose by 2.9% and in the fourth one it will increase by 3.3%. In 2015 further acceleration of the economic growth is projected, which may amount to 3.8%. According to the forecasts of the GloM, 2014 will see a clear improvement in domestic demand, which will increase by 3.2%. According to the forecasts of the Institute the climate in the construction sector will considerably improve, where the added value will increase by 6.8% after a 9.0% last year's decrease. In 2015 inflation in Poland will probably grow slightly, and its average according to the forecasts of the Institute will be 2.1%. In the opinion of the Institute, in 2014 a slight appreciation of the zloty against the euro and the dollar should be expected. However, due to continuously low interest rates the appreciation tendency will not be as visible as it seemed several years ago. According to the GloME, in 2014 average annual exchange rates of the euro and the dollar will be 4.3 and 3.1, respectively, whereas in 2015 the average annual euro rate will be 4.2 and the average dollar rate will be 3.0 zlotys.

Internal factors

In the Issuer's opinion, while facing a difficult macroeconomic situation, the modernization contracts in the power engineering sector acquired by Polimex-Mostostal S.A. become extremely important. The Issuer also wants to emphasise the immense significance of the restructuring programme it is conducting in the scope of financial and operating activity (implemented divestment procedures, optimization of purchasing processes, shifting from division based to segment based structure).

The effects of the Issuer's measures in the scope of liquidity maintenance and control, the results of the continued review of contracts being performed and the outcome of disputes and claims brought against ordering parties will be vital for the Issuer future results.

³ *Stan i prognoza koniunktury gospodarczej*, Instytut Badań nad Gospodarką Rynkową, April 2014 (*Economic climate its present state and forecasts*, the Gdansk Institute of Market Economics, April 2014).

2.12. Issue, redemption and repayment of debt and capital securities

The total obligation arising from debentures issued by Polimex-Mostostal S.A. as at 31.03.2014 amounts to PLN 121.2 million (the amount of the principal i.e. not including accrued interest). The amount of the liability on this account did not change as compared to as at 31.12.2013.

Annex No. 4 of 25.10.2013 to the ARDS specified that the unconverted debentures shall be repaid in line with a new repayment schedule which provides for the repayment of the principal starting from the first working day falling after 31 December 2015 to 31 December 2019. On 14 February 2014 all creditors, including the Debenture Holders, on the request of the Company gave their consent to waive their rights arising from the breach of the ARDS consisting in the failure to timely repay interest on 31 January 2014. At the same time the Company was obliged to fulfil the obligation by 30 April 2014 (the shift in date referred both to the payment of interest due by 31 January 2014 as well as the payments which would be due in the period from 31 January 2014 to 30 April 2014). On 30 April 2014 the Company informed in Current Report No. 48/2014 that as a result of the failure of the Company to meet the requirements of the consent mentioned above, the consent became ineffective. Consequently, as of 29 April 2014 the Company became obliged to make for the benefit of the Creditors the immediate payment of: interest on receivables of the Debenture Holders covered by the ARDS which the Company was obliged to repay by 31 January 2014 as well as those which were to be paid after this date (i.e. by 30 April 2014). The Company requested the Creditors to grant their consent to postpone the payment date of the liabilities mentioned above and on 6 May 2014 all creditors, including Debenture Holders, gave their consent to amend the date of payment of (i) interest on loans covered by the Agreement, (ii) interest on receivables of the debenture holders covered by the Agreement and (iii) recourses arising from payments out of guarantees issued by the banks that are the party to this Agreement. The Company was obliged by the Creditors to fulfil the obligations mentioned above by 3 June 2014 on conditions analogous to the ones of which the Company informed in Current Report No. 30/2014 of 14 February 2014. The consent of the Creditors mentioned above was given with the stipulation of the condition subsequent which will be fulfilled if the Company fails to submit the contractual document specified by the Creditors by 15 May 2014.

2.13. Dividend paid (or declared), in total and per share, in breakdown by ordinary and preference shares

In the 1st quarter 2014 no dividend was paid or declared.

2.14. Shareholders holding directly or indirectly through subsidiaries and related parties at least 5% of total votes at the Issuer's General Shareholders' Meeting as at the date of filing this quarterly report

The table below presents the list of shareholders holding at least 5% of total vote.

Item No	Shareholder	No of shares/votes	% interest in share capital/total votes at GSM*)
1.	Agencja Rozwoju Przemysłu S.A. (the Agency for Development of Industry)	300 000 001	20.44 %
2.	ING Open Pension Fund	143 938 546	9.81 %
3.	Other shareholders	1 023 429 743	69.75 %
	Number of shares of all issues	1 467 368 290	100.00 %

2.15. Changes in the number of Issuer's shares or entitlement to them held by the Management Board and Supervisory Board Members, in the period from filing the previous quarterly report

From the date of communicating to the public of the annual report for the year 2013 there were no changes in the number of Issuer's shares or entitlement to them held by the persons supervising and managing it.

2.16. Statement of the Board of Directors concerning published forecasts

The forecasts regarding financial performance of Polimex-Mostostal S.A. and Polimex-Mostostal Group in 2014 have not been published.

2.17. Ongoing proceedings concerning receivables and liabilities before court, body competent for arbitrary proceedings or public administration body

The total value of proceedings concerning active debts/liabilities of Polimex-Mostostal Group as of 31 March 2014 amounted to:

Proceedings concerning active debts PLN 441,420 thousand, of which the key proceedings are:

1. Defendant: Koksownia Przyjaźń Sp. z o.o., the value of the subject of the litigation: PLN 58,114,940.00; the subject of the litigation: demand for increasing the remuneration due to rising prices in the market for construction materials and services; PxM's share 65%.
2. Defendant: the State Treasury – the General Directorate for National Roads and Motorways – the value of the subject of litigation: PLN 114,604,498.00, the subject of litigation: granting additional remuneration for the scope of works, which needed to be performed because the geological and hydrological conditions found in the foundation soil were worse than the ones described in geological engineering documentation; date of bringing: 7 May 2012, PxM's share: 51%.
3. Defendant: the State Treasury – the General Directorate for National Roads and Motorways; the value of the subject of the litigation: PLN 36,961,661.00; the subject of the litigation: demand for increasing remuneration due to rising prices of liquid fuel and tarmac; date of bringing: 3 June 2012, PxM's share 49%.

4. Defendant: the State Treasury – the General Directorate for National Roads and Motorways – the value of the subject of the litigation: PLN 29,121,769; the subject of litigation: payment claim
5. Recovery of claims relating to the contracts performed by the Issuer in Iraq in 1990s; recovery through Iraq Debt Reconciliation Office, Jordan; the value of the claim: PLN 25,286,018.
6. Defendant: Helical Sośnica Sp. zo.o. – the value of the litigation: PLN 25,938,605; the subject of the litigation: security to the claim.
7. Defendant: the City Hall of Katowice – the value of the subject of the litigation: PLN 39,763,698; the subject of the litigation: unpaid remuneration, contractual penalties, reimbursement of additional costs.
8. Defendant: Stadion w Zabrze Sp. z o.o. – the value of the litigation: PLN 19,249,986; the subject of the litigation: the contract performance bond, withdrawal from the contract.

Proceedings concerning liabilities: PLN 212,527 thousand

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

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

2.19. Information on sureties, loans or guarantees granted by the Issuer or its subsidiary, jointly to one entity or its subsidiary if the total amount of current sureties and guaranties is at least 10% of the Issuer's equity.

In the 1st quarter 2014 the Company granted a surety for Polimex Projekt Opole sp. z o.o. to PKO BP SA on account of the two guarantees granted by the bank for the Opole contract: the contract performance bond and the advance payment reimbursement bond. Both bonds were issued in the amount of PLN 199,161,600 each. The surety for 150% of the value of bonds i.e. for PLN 597,484,800 is valid by 31 March 2024.

3. CONDENSED FINANCIAL STATEMENTS OF POLIMEX-MOSTOSTAL S.A. FOR THE 1st QUARTER 2014.

SELECTED FINANCIAL DATA FOR THE CONDENSED FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	in PLN	thousands	in EUR	thousands
	1st quarter / 2014 from 01.01.2014 to 31.03.2014	1st quarter / 2013 from 01.01.2013 to 31.03.2013	1st quarter / 2014 from 01.01.2014 to 31.03.2014	1st quarter / 2013 from 01.01.2013 to 31.03.2013
data relating to financial statements				
Revenue from sales	290 778	382 150	69 408	91 559
Operating profit/ loss on operating activities	(26 699)	36 309	(6 373)	8 699
Gross profit/(loss)	(29 042)	79 701	(6 932)	19 096
Net profit/(loss)	(31 408)	72 482	(7 497)	17 366
Net cash flows from operating activities	98 788	(332 676)	23 580	(79 706)
Net cash flows from investing activities	41 987	46 776	10 022	11 207
Net cash flows from financing activities	15 203	172 960	3 629	41 439
Net increase/decrease in cash and cash equivalents	155 978	(112 940)	37 232	(27 059)
Total assets*	2 468 769	2 291 641	591 846	552 575
Non-current liabilities*	504 869	270 551	121 034	65 237
Current liabilities*	1 943 477	2 020 164	465 916	487 115
Equity*	20 423	926	4 896	223
Issued capital*	58 695	58 695	14 071	14 153
Number of shares registered as at the statement of financial position date of 31.03.2014 and 31.12.2013/ 31.03.2013	1 467 368 290	1 333 974 588	-	-
Weighted average number of ordinary shares used to compute earnings per share	1 379 657 363	1 333 974 588	-	-
Earnings per share (in PLN/EUR) out of (net) profit/ (loss) for the period	(0.02)	0.05	0.00	0.01
Diluting potential ordinary shares as at the statement of financial position date of 31.03.2014 and 31.12.2013 / 31.03.2013	273 165 435	364 926 591	-	-
Weighted average number of ordinary shares used to compute diluted earnings per share	1 652 822 798	1 698 901 179	-	-
Diluted earnings per share (in PLN/EUR) out of (net) profit/ (loss) for the period	(0.02)	0.04	0.00	0.01
Book value per ordinary share registered as at the statement of financial position date (in PLN/ EUR)*	0.01	0.00	0.00	0.00
Diluted book value per ordinary share as at the statement of financial position date (in PLN/ EUR)*	0.01	0.00	0.00	0.00
(*) Selected financial data relating to the statement of financial position are presented as at 31.03.2014 and as at 31.12.2013. - individual items of assets and equity and liabilities of the statement of financial position were translated at the exchange rate of 4.1713 (for data as at 31.03.2013) and at 4.1472 (for data as at the end of 2013), which were published by the National Bank of Poland for a given statement of financial position date, - individual items of the income statement and the statement of cash flows were translated at the exchange rate of 4.1894 (for data for the 1st quarter of 2014) and at 4.1738 (for data for the 1st quarter of 2013), which are an arithmetic mean of average exchange rates published by the National Bank of Poland on the last day of each month covered by the presented data.				

CONDENSED INCOME STATEMENT

for the three months ended 31 March 2014 (in PLN thousands)

		For 3 months ended 31 March 2014 <i>unaudited</i>	For 3 months ended 31 March 2013 <i>unaudited</i>
Continuing operations	Note		
Revenue from sales		290 778	382 150
Sale of goods		56 289	90 702
Rendering of services		232 741	288 526
Rental income		1 748	2 922
Cost of sales		304 835	350 567
Gross profit / (loss)		(14 057)	31 583
Other operating income	1	9 716	30 222
Selling costs		3 387	4 977
Administrative expenses		11 547	18 415
Other operating expenses	2	7 424	2 104
Profit/ loss on operating activities		(26 699)	36 309
Finance income	3	9 832	57 655
Finance costs	4	12 175	14 263
Gross profit/(loss)		(29 042)	79 701
Income tax	6	(2 366)	(7 219)
Net profit/loss from continuing operations		(31 408)	72 482

Earnings per share (in PLN):

- number of shares registered at the statement of financial position date	1 467 368 290	1 333 974 588
- weighted average number of ordinary shares used to compute earnings per share	1 379 657 363	1 333 974 588
- basic, for net profit/loss from continuing operations for the reporting period	(0.02)	0.05
Diluted earnings per share (in PLN)		
- number of shares	1 467 368 290	1 333 974 588
-diluting potential ordinary shares	273 165 435	364 926 591
- weighted average number of ordinary shares used to compute diluted earnings per share	1 652 822 798	1 698 901 179
- diluted, for net profit/loss for the reporting period	(0.02)	0.04

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the three months ended 31 March 2014 (in PLN thousands)

	For 3 months ended 31 March 2014 <i>unaudited</i>	For 3 months ended 31 March 2013 <i>unaudited</i>
Net profit/(loss)	(31 408)	72 482
Items that may not be transferred to the income statement in the later periods		
Changes arising from measurement of financial assets	62 855	-
Deferred tax relating to items that may not be transferred to the income statement in the later periods	(11 950)	-
Other comprehensive income, net of tax	50 905	-
Total comprehensive income	19 497	72 482

CONDENSED STATEMENT OF FINANCIAL POSITION
as at 31 March 2014 (in PLN thousands)

	Note	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
ASSETS			
Non-current assets		1 072 455	1 013 713
Property, plant and equipment	7	420 106	430 522
Investment property		5 792	2 513
Intangible assets	8	9 871	10 660
Financial assets		423 616	361 637
Non-current receivables		64 225	45 220
Deferred tax assets		148 845	163 161
Current assets		1 333 341	1 196 986
Inventories	9	47 639	58 337
Trade and other receivables	10	792 970	679 242
Prepaid expenses		7 442	8 068
Cash and cash equivalents		475 408	319 430
Financial assets		9 882	131 909
Current assets available for sale		62 973	80 942
TOTAL ASSETS		2 468 769	2 291 641
EQUITY AND LIABILITIES			
Equity		20 423	926
Issued capital		58 695	58 695
Share premium		1 184 044	1 184 044
Supplementary capital		618 552	618 552
Other capital		(444 924)	(444 924)
Reserve capital		32 086	32 086
Revaluation reserve		128 363	77 458
Retained earnings / Accumulated losses		(1 556 393)	(1 524 985)
Non-current liabilities		504 869	270 551
Interest bearing bank loans and borrowings		15 860	8 975
Provisions	11	59 047	41 390
Other liabilities		429 962	220 186
Current liabilities	12	1 943 477	2 020 164
Trade and other payables		1 043 746	1 094 611
Short-term debentures		128 074	126 890
Current portion of interest-bearing bank loans and borrowings		650 330	644 315
Accruals		16 287	20 709
Provisions		105 040	133 639
Total liabilities		2 448 346	2 290 715
TOTAL EQUITY AND LIABILITIES		2 468 769	2 291 641

CONDENSED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2014 (in PLN thousands)
unaudited

	Issued capital	Share premium	Unregistered share issue	Other capital	Reserve capital	Supplementary capital	Revaluation reserve	Retained earnings / Accumulated losses	Total equity
As at 1 January 2014	58 695	1 184 044	-	(444 924)	32 086	618 552	77 458	(1 524 985)	926
Profit for the period	-	-	-	-	-	-	-	(31 408)	(31 408)
Other comprehensive income for the period	-	-	-	-	-	-	50 905	-	50 905
Comprehensive income for the period	-	-	-	-	-	-	50 905	(31 408)	19 497
As at 31 March 2014 (unaudited)	58 695	1 184 044	-	(444 924)	32 086	618 552	128 363	(1 556 393)	20 423

CONDENSED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2013 (in PLN thousands)
unaudited

	Issued capital	Share premium	Unregistered share issue	Other capital	Reserve capital	Supplementary capital	Revaluation reserve	Retained earnings / Accumulated losses	Total equity
As at 1 January 2013	20 846	738 237	412 500	(444 924)	32 086	618 552	27	(1 363 385)	13 939
Profit for the period	-	-	-	-	-	-	-	72 482	72 482
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
Comprehensive income for the period	-	-	-	-	-	-	-	72 482	72 482
Registration of share issue	32 513	429 987	(412 500)	-	-	-	-	-	50 000
As at 31 March 2013 (unaudited)	53 359	1 168 224	-	(444 924)	32 086	618 552	27	(1 290 903)	136 421

CONDENSED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2014 (in PLN thousands)

	3 month period ended 31 March 2014 <i>unaudited</i>	3 month period ended 31 March 2013 <i>unaudited</i>
Cash flows from operating activities		
Gross profit/(loss)	(29 042)	79 701
Adjustments for:	127 830	(412 377)
Depreciation / Amortisation	10 862	12 616
Interest and dividend, net	(1 870)	876
(Gain)/loss from investing activities	(7 973)	(101 259)
(Increase)/ decrease in receivables	(30 084)	90 291
(Increase)/ decrease in inventories	10 698	(2 987)
Increase/ (decrease) in payables except for loans and borrowings	160 935	(342 301)
Change in accruals and prepaid expenses	(3 796)	(637)
Change in provisions	(10 942)	(68 976)
Net cash flows from operating activities	98 788	(332 676)
Cash flows from investing activities		
Sale of property, plant and equipment and intangibles	26 707	27 297
Purchase of property, plant and equipment and intangibles	(5 410)	(3 075)
Sale of financial assets	-	22 553
Purchase of financial assets	-	-
Dividends and interest received	14 357	-
Repayment of loans granted	6 333	1
Loans granted	-	-
Net cash flows from investing activities	41 987	46 776
Cash flows from financing activities		
Proceeds from issue of shares	-	50 000
Proceeds from issue of debentures	-	-
Expenses for redemption of debentures	-	(1 000)
Finance lease liabilities (payment of liabilities)	(315)	(1 393)
Proceeds from loans and borrowings	9 992	151 054
Repayment of loans and borrowings	(3 107)	(24 535)
Interest paid	(172)	(1 645)
Other	8 805	479
Net cash flows from financing activities	15 203	172 960
Net increase/decrease in cash and cash equivalents	155 978	(112 940)
Net foreign exchange difference	106	287
Cash and cash equivalents at the beginning of the period	319 430	162 235
Cash and cash equivalents at the end of the period	475 408*	49 295
*of which: restricted access cash	435 967	

3.1. Review of the financial results of Polimex-Mostostal S.A. in the 1st quarter 2014

In the period of 1st quarter 2014, Polimex-Mostostal S.A. generated sales revenue in the amount of PLN 290,778 thousand (a decrease of 23.9% as against comparative data for the period of 1st quarter 2013). The volume of sales in the 1st quarter 2014 was affected by: (i) delays in completion of power engineering contracts (power engineering works did not enter the revenue generating stage), (ii) reduction of orders in the scope of industry services connected with plant maintenance, repairs and maintenance, emergency works, overhaul and modernization works, assembly of steam and water boilers as well as condensation, heat and industrial turbines together with ancillary machinery and with regulation of industrial automation systems, (iii) deterioration of the financial standing of Polimex-Mostostal S.A., which resulted in the limitation of production capacity and withdrawals from contracts both by ordering parties and by subcontractors.

The net loss for the 1st quarter 2014 amounted to PLN 31,408 thousand (as compared to the profit of PLN 72,482 thousand for the 1st quarter 2013). Operating activity resulted in the loss of PLN 26,699 thousand (as against the profit of PLN 36,309 thousand for the 1st quarter of 2013). The value of EBITDA amounted to PLN -15,837 thousand (as against the EBITDA of PLN 48,925 thousand for the 1st quarter of 2013).

The results of the Polimex-Mostostal S.A. in the 1st quarter 2014 are presented below:

PLN thousands	31.03.2014r.	31.03.2013r.	Change
Revenue from sales	290 778	382 150	-23.9%
Cost of sales	-304 835	-350 567	-13.0%
Gross profit/loss	-14 057	31 583	-144.5%
Other operating income	9 716	30 222	-67.9%
Selling costs	-3 387	-4 977	-31.9%
Administrative expenses	-11 547	-18 415	-37.3%
Other operating costs	-7 424	-2 104	252.9%
Profit/loss on continuing operations	-26 699	36 309	-173.5%
Finance income	9 832	57 655	-82.9%
Finance costs	-12 175	-14 263	-14.6%
Profit/ loss before tax	-29 042	79 701	-136.4%
Income tax	-2 366	-7 219	-67.2%
Net profit/loss	-31 408	72 482	-143.3%
EBITDA	-15 837	48 925	-132.4%

In the 1st quarter 2014 Polimex-Mostostal S.A. reported results lower than in the analogous period of the previous year. The main reasons for the generated results were as follows:

- deterioration of the financial standing which resulted in the reduced production capacity and withdrawing from contracts both by the ordering parties and by subcontractors,
- heavy competition on the market for construction and assembly services resulting in the decrease of margin on performed contracts,
- implementation of correction actions which are aimed at regaining financial stability in the Company, which still is in a difficult economic position. An important issue is reduction of costs of functioning of the Company,
- conducted operating restructuring aimed at simplification of the organizational structure and reduction of costs of the Company's functioning. A reduction of employment, which is to be adjusted to the current economic position of the Company, also contributed significantly.

The **total assets** of Polimex-Mostostal S.A. as at 31.03.2014 amounted to PLN 2,468,769 thousand (an increase of 7.7% as against comparative data as at 31.12.2013). As at 31.03.2014 non-current assets amounted to PLN 1,072,455 thousand (an increase of 5.8% as against comparative data at 31.12.2013), and current assets amounted to PLN 1,333,341 thousand (an increase of 11.4% as against comparable data at 31.12.2013). Financial assets were the largest item in fixed assets structure constituting 17.2% of total assets. Trade and other receivables constituting 32.1% of total assets were the largest item of current assets.

Equity of Polimex-Mostostal S.A. as at 31.03.2014 amounted to PLN 20,423 thousand (as against the equity of PLN 926 thousand as at 31.12.2013) and liabilities amounted to PLN 2,448,346 thousand (an increase of 6.9% as against the comparative data as at 31.12.2013). The share premium, constituting 48.0% of total equity and liabilities, and the supplementary capital, constituting 25.1% of total equity and liabilities, were the largest items in equity structure. Current liabilities constituting 78.7% of total liabilities and equity were the largest item of liabilities.

In the 1st quarter 2014 at Polimex-Mostostal S.A. there was a net increase of cash and cash equivalents in the amount of PLN 155,978 thousand. **Cash** and cash equivalents at the end of 31.03.2014 amounted to PLN 475,408 thousand. Cash includes the amount of advance payment obtained in connection with the "Kozienice" and "Opole" contract, which constitutes the security to the contract performance bonds in the amount of PLN 275,302 thousand and PLN 160,665 thousand respectively. It will be made available to the Company as the contract advances. Net cash from operating activities amounted to PLN 98,788 thousand. Net cash from investing activities amounted to PLN 41,987 thousand and net cash from financing activities was PLN 15,203 thousand.

Current and quick **liquidity ratios** of Polimex-Mostostal S.A. were 0.7 and 0.7 respectively, i.e. at the similar level as for the comparative period. A decrease in EBITDA margin and net profit margin was

the result of the higher loss from continuing activity and the net loss as against comparative period. Nowadays the major objectives of the Company include improving liquidity by means of disposal of developer's assets and divestment, which eventually should result in the decrease of interest debt.

Ratios	31.03.2014	31.12.2013
Current liquidity ratio (current assets : current liabilities)	0.7	0.6
Quick ratio ((current assets - inventories - prepaid expenses) : current liabilities)	0.7	0.6
Debt ratio ((total equity and liabilities - equity) : total assets)	99.2%	100.00%
	31.03.2014	31.03.2013
Net profit margin (net profit of equity holders of the parent : revenue from sales)	-10.8%	19.0%
EBITDA margin (EBITDA : revenue from sales)	-5.4%	12.8%
Earnings per share (net profit : weighted average number of shares)	-0.02	0.05
Amortisation/ depreciation	10 862	12 616
EBITDA	-15 837	48 925

4. ADDITIONAL INFORMATION TO THE CONDENSED FINANCIAL STATEMENTS

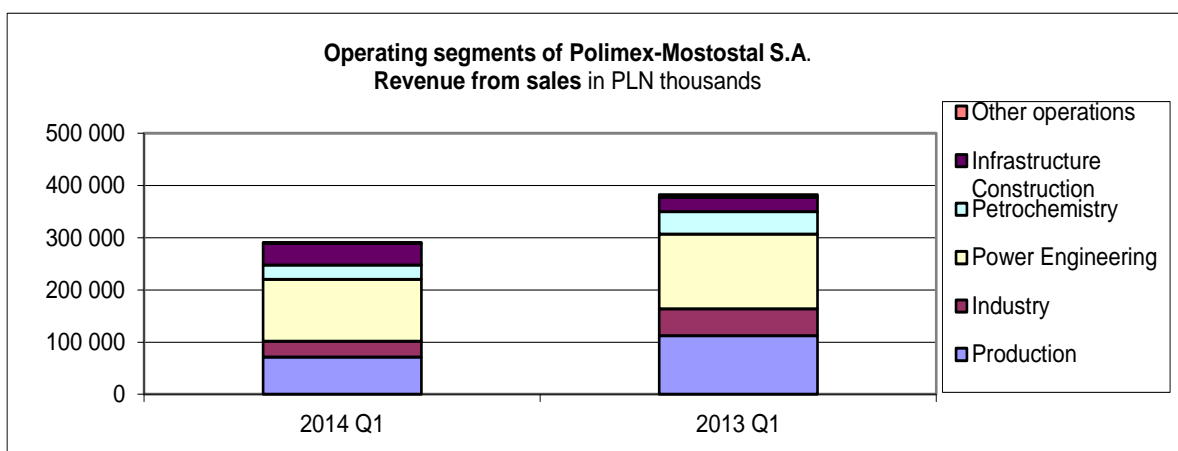
4.1. Operating segments and geographic information

In the 1st quarter 2014 **the operating segments** of Polimex-Mostostal S.A. contributed to sales as follows:

Segment	Change 2014 Q1 / 2013 Q1	PLN thousands			
		2014 Q1		2013 Q1	
		value	share	value	share
Production	-36.6%	71 273	24.5%	112 330	29.4%
Industry	-40.7%	30 777	10.6%	51 914	13.6%
Power Engineering	-17.2%	118 295	40.7%	142 950	37.4%
Petrochemistry	-36.1%	27 206	9.4%	42 585	11.1%
Infrastructure Construction	51.5%	41 584	14.3%	27 443	7.2%
Other operations	-66.7%	1 643	0.6%	4 928	1.3%
Total revenue from sales	-23.9%	290 778	100.0%	382 150	100.0%

The largest share in sales was attributed to the Power Engineering Segment – 40.7% (a decrease in sales of 17.2% as against comparative data for 1st quarter 2013), followed by Production – 24.5% (a decrease in sales of 36.6% as against comparative data for 1st quarter 2013), Infrastructure Construction – 14.3% (an increase in sales of 51.5% as against comparative data for 1st quarter

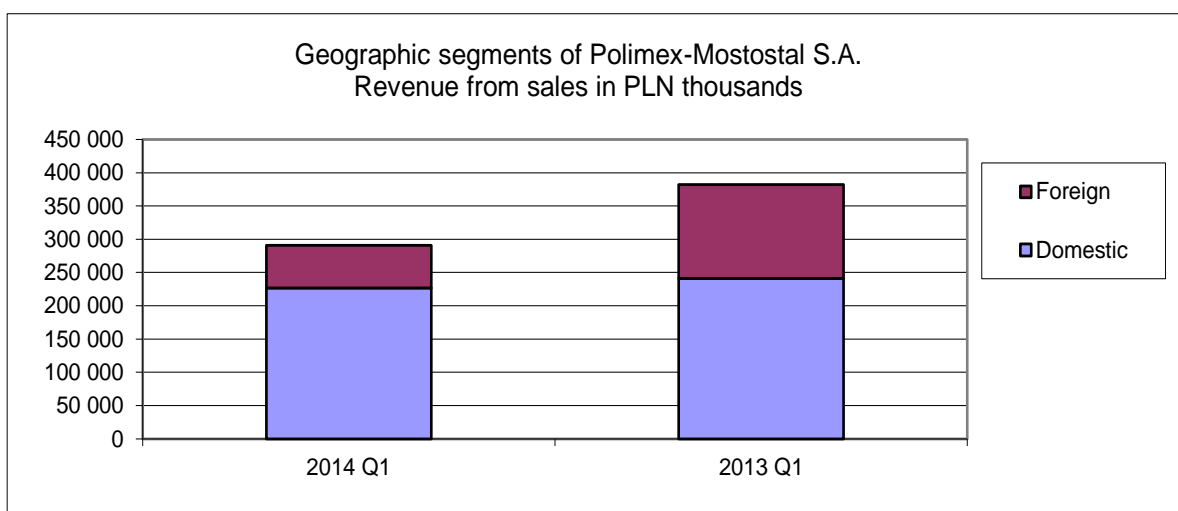
2013), Industry – 10.6% (a decrease in sales of 40.7% as against comparative data for 1st quarter 2013) and Petrochemistry – 9.4% (a decrease in sales of 36.1% as against comparative data for 1st quarter 2013).



The value and geographic structure of the sales of Polimex-Mostostal S.A. in the 1st quarter 2014 was as follows:

Market	Change 2014 Q1 / 2013 Q1	2014 Q1		2013 Q1	
		value	share	value	share
		PLN thousands			
Domestic	-6.0%	226 744	78.0%	241 095	63.1%
Foreign	-54.6%	64 034	22.0%	141 055	36.9%
Total revenue from sales	-23.9%	290 778	100.0%	382 150	100.0%

The domestic market, where 78.0% of revenue from total sales was generated, was the main market for Polimex-Mostostal S.A in the 1st quarter 2014.



4.2. Significant ongoing construction contracts at Polimex-Mostostal S.A.

In the 1st quarter 2014 the Issuer generated the highest revenue from the execution of the following contracts:

PROJECT NAME	Revenue recognised in the income statement in 1st quarter 2014	Operating segment
Construction of a power block at Koźienice Power Plant	49 146	Power Engineering
System for denitrifying and dedusting of combustion gases at PKN Orlen S.A.	19 472	Power Engineering
Modernisation of main pipelines at the Bełchatów Power Plant	17 977	Power Engineering
A-1 Stryków Tuszyn motorway	15 354	Infrastructure Construction
Reconstruction of the Gdańsk-Cieszyn national road	14 811	Infrastructure Construction
Modernisation of a reactor in the fluid catalytic cracking system for PKN Orlen	10 889	Petrochemistry
A4 Rzeszów-Jarosław Motorway	9 911	Infrastructure Construction
IOS IV combustion gas desulphurization system Babcock-Hitachi	8 553	Power Engineering
Lublin University of Technology	8 168	Industry
The European Centre for Solidarity	7 972	Industry
Total	162 253	

4.3. Selected other explanatory notes to the condensed financial statements (in PLN thousands)

Note 1

	For three months ended 31 March 2014 <i>unaudited</i>	For three months ended 31 March 2013 <i>unaudited</i>
Other operating income		
Gain on disposal of non-financial fixed assets	8 014	21 841
Accrued liquidated damages	1 456	-
Reversed provision for future expenses	-	3 750
Recovered damages payments and fines	246	2 451
Other	-	2 180
Other operating income, total	9 716	30 222

Note 2

	For three months ended 31 March 2014 <i>unaudited</i>	For three months ended 31 March 2013 <i>unaudited</i>
Other operating expenses		
Court expenses	949	657
Damages and fines	2 888	1 059
Provisions	2 609	-
Other	978	388
Total other operating expenses	7 424	2 104

Note 3	For	For
	three months ended	three months ended
	31 March 2014	31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Finance income		
Interest	9 494	1 146
Revenue from measurement and exercise of derivative instruments	-	-
Foreign exchange gains	225	3 475
Gain on sale of financial assets	-	51 223
Other	113	1 811
Total finance income	9 832	57 655
Note 4	For	For
	three months ended	three months ended
	31 March 2014	31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Finance costs		
Interest	9 634	11 799
Debenture commissions and interest	1 183	41
Bank commissions and charges	-	2 186
Revaluation of financial assets	488	-
Other	870	237
Total finance costs	12 175	14 263
Note 5	For	For
	three months ended	three months ended
	31 March 2014	31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Costs by type		
Depreciation / Amortisation	10 862	12 616
Materials and energy	86 780	125 576
External services	162 764	177 510
Taxes and charges	3 631	5 022
Employee benefits expenses	88 298	142 158
Other costs by type	2 776	3 852
Total costs by type	355 111	466 734
Note 6	For	For
	three months ended	three months ended
	31 March 2014	31 March 2013
	<i>unaudited</i>	<i>unaudited</i>
Income tax		
Current income tax	-	-
Deferred income tax	(2 366)	(7 219)
Total income tax	(2 366)	(7 219)
Note 7	31 March 2014	31 December 2013
	<i>unaudited</i>	<i>audited</i>
Property, plant and equipment		
Land, buildings and structures	247 531	254 108
Plant and machinery	136 996	142 324
Motor vehicles	21 607	23 065
Other property, plant and equipment	13 972	11 025
<i>of which: Fixed assets under construction and advance payments to fixed assets under construction</i>	4 389	2 852
Total property, plant and equipment, net	420 106	430 522

	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 8		
Intangible assets		
Software	8 853	9 608
Other	1 018	1 052
Total intangible assets, net	9 871	10 660
	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 9		
Inventories		
Raw materials	28 160	38 625
Semi-finished goods and work in progress	9 014	8 904
Finished goods	7 582	10 782
Goods for resale	29	26
Raw materials advance payments	2 854	-
Total inventories, net	47 639	58 337
	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 10		
Current receivables		
Trade receivables	763 171	648 881
Other receivables	29 799	30 361
Total current receivables, net	792 970	679 242
	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 11		
Non-current provisions		
Provisions for employee benefits	5 108	5 675
Other provisions	53 939	35 715
Total non-current provisions	59 047	41 390
	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Note 12		
Current liabilities		
Trade payables	934 726	955 839
Current portion of interest-bearing loans and borrowings	650 330	644 315
Other tax liabilities, ZUS (Social Insurance Institution)	31 258	43 434
Financial liabilities (including short-term discount debentures)	130 088	138 989
Other liabilities	75 748	83 239
Accruals	16 287	20 709
Provisions	105 040	133 639
Total current liabilities	1 943 477	2 020 164

4.4. Operating segments and geographic information

The tables below present data on revenue of individual operating segments and geographic information of the Company for the three months ended 31 March 2014, for the three months ended 31 March 2013 (in PLN thousands).

Operating segments

Period ended 31 March 2014 (unaudited)	Continuing operations							Total Operations
	Production	Industry	Power Engineering	Petrochemistry	Infrastructure Construction	Other operations	Eliminations	
Revenue								
Sales to external customers	71 273	30 777	118 295	27 206	41 584	1 643	-	290 778
Inter-segment sales	7 837	26	-	1 375	-	15	(9 253)	-
Total segment revenue	79 110	30 803	118 295	28 581	41 584	1 658	(9 253)	290 778

Period ended 31 March 2013 (unaudited)	Continuing operations							Total Operations
	Production	Industry	Power Engineering	Petrochemistry	Infrastructure Construction	Other operations	Eliminations	
Revenue								
Sales to external customers	112 330	51 914	142 950	42 585	27 443	4 928	-	382 150
Inter-segment sales	9 130	604	2 844	150	-	-	(12 728)	-
Total segment revenue	121 460	52 518	145 794	42 735	27 443	4 928	(12 728)	382 150

Geographic information

	Domestic	Foreign	Eliminations	TOTAL
The three month period ended 31 March 2014 (unaudited)				
Revenue				
Sales to external customers	226 744	64 034	-	290 778

	Domestic	Foreign	Eliminations	TOTAL
The three month period ended 31 March 2013 (unaudited)				
Revenue				
Sales to external customers	241 095	141 055	-	382 150

4.5. Off-statement of financial position items

as at 31 March 2014 (in PLN thousands)

	31 March 2014 <i>unaudited</i>	31 December 2013 <i>audited</i>
Contingent receivables	773 969	689 549
From related and other parties (arising from)	773 969	689 549
- guaranties and sureties received	332 549	335 754
- legal claims	441 420	353 795
Contingent liabilities	1 903 393	1 445 387
To related and other parties (arising from)	1 903 393	1 445 387
- guaranties and sureties granted	1 642 572	1 173 709
- promissory notes	42 181	42 297
- legal claims	212 527	223 372
- other	6 113	6 009
Other (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	2 791 985	2 249 559

In connection with concluded loan and (both bank and insurance) guarantee contracts, also in the scope of liabilities arising from debentures, and in particular in connection with the Agreement of 24 July 2012 on refraining from enforcement of liabilities, the Agreement of 21 December 2012 on Regulations of Debt Servicing as further amended and the Agreement of 21 December 2012 on New Guarantee Facility as further amended and the attached revolving credit facility as further amended, the Company established mortgages, pledges, temporary ownership titles, assignments, issued promissory notes and accepted sureties of certain subsidiaries to secure the debt relating to the above mentioned instruments. Total commitment of the Company on account of the above mentioned instruments amounted to approx. PLN 2,321 million as at 31 March 2014.

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

Warsaw, 12th May 2014.