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Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Mostostal Warszawa S.A.

Report on the Audit of the Annual Separate Financial Statements

Qualified Opinion

We have audited the accompanying annual separate financial statements of Mostostal Warszawa S.A. (the "Entity"), which comprise:

- the separate statement of financial position as at 31 December 2018,
- and, for the period from 1 January to 31 December 2018:
- the separate statement of profit or loss;
 - the separate statement of comprehensive income;
 - the separate statement of changes in equity;
 - the separate statement of cash flows;
- and
- notes comprising a summary of significant accounting policies and other explanatory information

(the "separate financial statements").

In our opinion, except for the effects of matter described in the Basis for Qualified

Opinion section, the accompanying separate financial statements of the Entity:

- give a true and fair view of the unconsolidated financial position of the Entity as at 31 December 2018 and of its unconsolidated financial performance and its unconsolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Entity's articles of association;
- have been prepared, in all material respects, on the basis of properly maintained accounting records in accordance with chapter 2 of the accounting act dated 29 September 1994 (Official Journal from 2019, item 351) (the "Accounting Act").

Our audit opinion on the separate financial statements is consistent with our report to the Audit Committee dated 12 April 2019.



Basis for Qualified Opinion

The Entity has applied IFRS 15 using the cumulative effect method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of equity at 1 January 2018. Therefore, as allowed by that standard, the Entity continues to apply IAS 11 to the corresponding figures. Pursuant to IAS 11, claims against customers are included in contract revenue only when, among other things, negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. While in the prior reporting periods the Entity recognized revenue with respect to such claims against certain customers, in our view, the above condition of IAS 11 was not met in those periods. Had the Entity not recognised the above mentioned claims in contract revenue in prior years, contract assets would be decreased by PLN 69 092 thousand, deferred tax assets would be increased by PLN 13 127 thousand and retained earnings would be decreased by PLN 55 965 thousand as at 31 December 2017. Our opinion on the separate financial statements for the year ended 31 December 2017 was qualified accordingly. Our opinion on the current period's separate financial statements is also qualified because of the effects of this matter on the comparative figures, as well as its effects on the initial-application-

Independence and Ethics

We are independent of the Entity in accordance with the Code of Ethics for Professional Accountants ("IFAC Code") issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in

related disclosures and related explanations, as required by IFRS 15.

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the "NSA"); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the "Act on certified auditors"); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 from 27 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the "EU Regulation"); and
- other applicable laws.

Our responsibilities under those standards are further described in the Auditor's Responsibility for the audit of the separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditors and the audit firm remained independent of the Entity in accordance with requirements of the Act on certified auditors and the EU Regulation.

the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section of our report we have determined the following key audit matters:

Accounting for construction contracts

Revenue from construction contracts for 2018: PLN 784 617 thousand (2017: PLN 876 010 thousand); Trade receivables and other receivables as at 31 December 2018: PLN 320 863 thousand (31 December 2017: PLN 311 211 thousand); Contract Assets as at 31 December 2018: PLN 347 777 thousand (31 December 2017: PLN 332 978 thousand); Long term provisions and short term provisions as at 31 December 2018: PLN 8 924 thousand and PLN 25 289 thousand, respectively (31 December 2017: PLN 10 204 thousand and PLN 41 570 thousand, respectively); Contingent liabilities as at 31 December 2018: PLN 520 903 thousand (31 December 2017: PLN 362 022 thousand);

Reference to the separate financial statements: note 4.3.1 Critical judgements in applying accounting policies, note 4.3.2 Significant accounting estimates, note 4.23.1 Revenue from contracts with customers, note 6.1 Long-term construction contracts, note 22 Trade receivables and other receivables (long term and short term), note 27 Provisions, note 33 Contingent liabilities and note 35 Litigations.

Key audit matter

The Entity derives most of its revenues from construction contracts that are accounted for by applying the percentage-of-completion ('POC') method. The Entity determines the stage of completion of its contracts based on an input measure of the percentage of contract costs incurred in relation to total estimated contract costs. The application of the POC method of accounting involves the use of management's significant judgment and estimates, including estimates of the progress towards completion, total contract revenues and contract costs. Significant judgment is also required in assessing whether circumstances exist where total contract costs exceed total contract revenues which would result in the expected loss being recognized as an expense immediately.

In addition, changes in circumstances in the course of the contract performance may result in cost overruns with resulting disputes with customers and/or subcontractors. Claims may also arise from customer- or subcontractor- caused delays, poor quality of services provided, errors in specifications or design and disputed variations in contract work. Therefore in the normal course of the Entity's business, exposures arise from numerous legal claims both in relation to subcontractors and customers. There is an inherent significant uncertainty associated with the assessment of the risks associated with litigations and claims, which may result in the recognition of additional revenue arising from the claim, recognition of an impairment loss on disputed receivables, or recognition of a claim provision or disclosure of a related contingent liability.

Our response

Our procedures included, among others:

- Evaluating the appropriateness of the selection of accounting policies based on the requirements of the new standard IFRS 15, our business understanding and industry practice;
- Testing internal controls over contract accounting, including those over budgeting, recognition and allocation of contract costs and revenues, and estimating the stage of completion, as well as the controls over monitoring of contract-related litigation, claims and assessments;
- Assessing the quality of the management's project budgeting by comparing the final outcomes of completed contracts during the year to those estimated in the prior year, and to original estimates for those contracts;
- Testing, on a sample basis, the accuracy and existence of incurred project costs by tracing them to source documentation such as related invoices, measurement protocols;
- For a sample of contracts in progress as at 31 December 2018, selected using both quantitative and qualitative factors:
 - Inquiring of the Management Board, project managers and head of controlling department about the performance of those contracts, including estimated costs to completion, the recognition of variation orders, the adequacy of probable contingency provisions and their assessment of potential contractual penalties for behind-schedule contracts,
 - Assisted by our own engineering specialist, assessing the reasonableness of the key assumptions applied in the project budgets. This included, but was not limited to, assessing whether key contract terms and

Since 1 January 2018 the Entity measures and recognises revenue in accordance with an updated accounting policies based on the requirements of the new IFRS 15.

Due to the above factors, as well as the magnitude of the amounts involved, we considered this area to be our key audit matter.

conditions, including contract duration, contracted amount, and scope of work, had all been appropriately reflected in the Entity's estimates of revenue and costs to complete, by inspecting a sample of contracts with customers and subcontractors, correspondence with customers and subcontractors, and by considering historical outcomes for similar contracts,

- Assessing whether for those contracts where it is probable that total contract costs would exceed total contract revenue, the expected loss had been recognized as an expense immediately,
 - Assessing, on a sample basis, the project progress against the agreed timetables and the Entity's respective progress estimates by conducting site visits to observe the development of individual contracts and inquiries of the relevant contract managers;
 - Assisted by our own engineering specialist, critically assessing the Entity's assumptions and estimates in respect of claims recognized in contract revenue, provisions recognized or contingent liabilities disclosed, and assessing the recoverability of recognized receivables in dispute by:
 - Inspecting relevant correspondence, contract documentation, documentation related to legal proceeding such as lawsuits, responses to lawsuits, legal and expert opinions, court verdicts, and
 - Assessing responses received to the attorney letters about the status of ongoing litigation, actual or potential claims and disputes, and inquiry with the Management Board and legal counsel regarding the basis for their best estimate of provisions and allowances recognized or contingent liabilities disclosed;
 - Evaluating the accuracy and the completeness of the Entity's disclosures in respect of contract accounting, including those relating to revenue recognition as well as those relating to significant legal proceedings, and contingent liabilities.
 - Evaluating the completeness, accuracy and appropriateness of the IFRS 15 transition disclosures.
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Responsibility of the Management Board and Supervisory Board of the Entity for the separate financial statements

The Management Board of the Entity is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Entity's articles of association and for such internal control as the Management Board of the Entity determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Management Board of the Entity is responsible for assessing the Entity's ability to

continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Entity either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, the Management Board and members of the Supervisory Board of the Entity are required to ensure that the separate financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Entity are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibility for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

The scope of audit does not include assurance on the future viability of the Entity or on the efficiency or effectiveness with which the Management Board of the Entity has conducted or will conduct the affairs of the Entity.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Entity;
- conclude on the appropriateness of the Management Board of the Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the separate financial statements to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the

separate financial statements. However, future events or conditions may cause the Entity to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Entity with a statement that we have complied with relevant ethical requirements regarding

independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Entity, we determine those matters that were of most significance in the audit of the separate financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the separate financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the report on activities

Other Information

The other information comprise:

- the letter of the President of the Management Board;
- the selected financial data;
- the report on activities of the Entity for the year ended 31 December 2018 (the "Report on activities"), including the corporate governance statement, which is a separate part of the Report on activities;
- the separate report on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act;
- the statement of the Management Board regarding the preparation of the separate financial statements and Report on activities;

- the Management Board's information regarding the appointment of the audit firm;
- the statement of the Supervisory Board regarding the Audit Committee;
- the statement of the Management Board of the Entity and the opinion on the Supervisory Board regarding the qualified opinion included in the Auditor's Report; and
- the Supervisory Board's assessment of the separate financial statements and the Report on activities;

(together the "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Entity are required to

ensure that the Report on activities, including the corporate governance statement and the report on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.



Auditor's Responsibility

Our opinion on the separate financial statements does not cover the Other information.

In connection with our audit of the separate financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with

applicable laws and the information given in the Report on activities is consistent with the separate financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Entity included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the separate financial statements and to inform whether the Entity prepared a separate report on non-financial information.

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the separate financial statements, in our opinion, except for the effects of matter described in the Basis for Qualified Opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the separate financial statements.

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2018, item 757) (the "decree").

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the separate financial statements.

Information about the statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that the Entity has prepared a separate report on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act.

We have not performed any assurance procedures in relation to the separate report on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

Statement on Other information

Furthermore, based on our knowledge about the Entity and its environment obtained in the audit of the separate financial statements, we

have not identified material misstatements in the Report on activities and the Other information.

Report on other legal and regulatory requirements

Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second

subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Appointment of the audit firm

We have been appointed for the first time to audit the annual separate financial statements of the Entity by resolution of the Supervisory Board dated 5 May 2017 and reappointed in the following years, including the resolution dated 9 May 2018, to audit the annual

separate financial statements for the year ended 31 December 2018. Our period of total uninterrupted engagement is 2 years, covering the periods ended 31 December 2017 to 31 December 2018.

On behalf of audit firm

KPMG Audyt Sp. z o.o.
Registration No. 458

Signed on the Polish original

Zbigniew Libera

Key Certified Auditor
Registration No. 90047
Director

Warsaw, 15 April 2019

Signed on the Polish original

Bartłomiej Lachowicz

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