Consolidated Annual Report RS 2005

year

(Pursuant to § 86 item 2 and of the Decree of the Minister of Finance of 19 October 2005 Journal of Laws No 209 item 1744)
for issuers of securities with the business profile of production, construction, trade or service

for the financial year **2005** period from 2005-01-01 to 2005-12-31

including the consolidated financial statements according to IFRS

currency PLN (Polish zloty)

date submitted: 2006-03-31

Elektrobudowa Spółka Akcyjna

(issuer's full name)

Elbudowa (issuer's abridged name)

Service - construction (business sector acc. to the WSE classification)

40-246 (postal code)

Katowice (place)

Porcelanowa (street)

12 (number)

(32) 25 90 100 (telephone)

(32) 25 90 216 (fax)

elbudowa@elbudowa.com.pl (e-mail)

www.elbudowa.com.pl (www)

634-01-35-506 (Tax Identification Number - NIP)

271173609 (REGON)

PricewaterhouseCoopers

(Chartered Auditor)

SELECTED FINANCIAL DATA	in thousands of PLN		in thousands of EURO	
	2005	2004	2005	2004
I. Sales	344 918	285 553	85 730	63 201
II. Operating profit	12 958	10 967	3 221	2 427
III. Profit before taxation	12 781	8 686	3 177	1 922
IV. Net profit	10 095	5 919	2 509	1 310
V. Net profit attributable to the Company shareholders	9 280	5 690	2 306	1 259
VI. Net profit attributable to minority holders	815	229	203	51
VII. Cash flows from operating activities	17 273	10 782	4 293	2 386
VIII. Cash flows from investing activities	-5 521	-645	-1 372	-143
IX. Cash flows from financing activities	-10 721	-7 851	-2 665	-1 738
X. Net increase in cash	1 031	2 286	256	505
XI. Total assets	180 194	172 525	46 684	42 296
XII. Liabilities	108 601	107 106	28 136	26 258
XIII. Non-current liabilities	8 715	4 490	2 258	1 101
XIV. Current liabilities	99 886	102 616	25 878	25 157
XV. Equity	71 593	65 419	18 548	16 038
XVI. Equity attributable to Company shareholders	70 086	64 755	18 158	15 875
XVII. Minority interest	1 507	664	390	163
XVIII. Share capital	24 821	24 821	6 431	6 085
XIX. Number of shares (pcs)	3 971 000	3 971 000	3 971 000	3 971 000
XX. Book value per share (in PLN / EUR)	18.03	16.47	4.67	4.04

Dear Shareholders

On behalf of the Management Board of Elektrobudowa SA I am pleased to submit the first consolidated financial statements of the Elektrobudowa SA Group for the year ended 31 December 2005r.
The present financial statements are prepared in accordance with the International Financial Reporting Standards.

The Group is composed of three companies:

Elektrobudowa SA, the Parent company, and its subsidiaries:
Kruelta Spółka z o.o. with its registered Office in St Petersburg (Russia)
Konip Spółka z o.o. with its registered Office in Katowice.

Owing to restructuring the main area of marketing activity and providing comprehensive offers for execution of projects the Group has been able, despite fierce competition, to maintain its dominant position in the electrical installation services market and to appear in new market segments.

The Group specializes in rendering electrical installation services and manufacture of electric power equipment.
Value of the Group is mainly created by the assets of the Parent. The share of assets of the subsidiaries in total assets of the Group did not exceed 5% in 2005.

Efficient and competent management in the entities of the Group contributed to good financial result achieved by the Group in 2005. The Group's sales revenues rose by over 20% and net profit by 70% on the previous year, which proves that the Group adopted the right growth strategy.

One of the most important moves of the Elektrobudowa SA Group is the plan of further development of KRUELTA, which supplies Elektrobudowa's equipment for the Russian clients and by now generates as high a profit as PLN 1.7m.

Our further goal is to win orders from West European markets. The companies of the Group will make all possible efforts to ensure that their decisions will increase their performance in next years.

Compliance with corporate governance rules defined in the document "Best Practices of Public Companies" and the title of "Trustworthy Company" awarded to the Parent are an assurance for investors, shareholders, customers and employees for efficiency of operations both of Elektrobudowa SA and the Group.

I strongly believe that satisfaction of Shareholders of Elektrobudowa SA grows systematically and that good performance of the Group will have positive impact on prices of shares of Elektrobudowa SA quoted on the Warsaw Stock Exchange.

27 March 2006

Jacek Faltynowicz
President

THE ELEKTROBUDOWA SA GROUP

Consolidated Financial Statements

For the financial year ended 31 December 2005

Index to the consolidated financial statements

all amounts in PLN thousands unless otherwise stated)

Consolidated balance sheet

	Note	at 31 December 2005	2004
ASSETS			
Fixed assets		**48 654**	**47 118**
Property, plant and equipment	6	30 142	29 835
Intangible assets	7	2 207	2 094
Available-for-sale financial assets	9	879	879
Trade and other receivables	11.1	9 707	10 311
Deferred income tax assets	20.1	5 227	3 503
Non-current accruals	11.3	492	496
Current asssets		**131 540**	**125 407**
Inventories	12	6 197	12 321
Trade and other receivables	11.2	94 146	97 791
Derivative financial instruments	10	181	0
Current accruals	14	262	95
Amount due from construction contracts	24.1	20 650	6 127
Cash and cash equivalents	13	10 104	9 073
Total assets		**180 194**	**172 525**
EQUITY		**71 593**	**65 419**
Share capital	15	24 821	24 821
Reserve capital	16	58 282	57 170
Foreign currency translation differences of subsidiaries		-82	-110
Prior years' profit (loss)		-22 215	-22 816
Net profit (loss)	17	9 280	5 690
Total equity attributable to the Company's shareholders		**70 086**	**64 755**
Minority interest		**1 507**	**664**
LIABILITIES			
Non-current liabilities		**8 715**	**4 490**
Deferred income tax liabilities	20.2	4 786	2 095
Retirement benefit obligations	21	2 040	1 251
Trade and other payables	18.1	1 889	1 144
Current liabilities		**99 886**	**102 616**
Trade and other liabilities	18.2	65 577	70 341
corporate income tax obligations		1 359	1 492
Loans, borrowings and debt securities	19	16 415	21 483
Provisions	21	634	36
Accrued expenses	22	3 224	868
Amounts due to construction contracts customers	24.2	12 677	8 396
Total liabilities		**108 601**	**107 106**
Total equity and liabilities		**180 194**	**172 525**

all amounts in PLN thousands unless otherwise stated)

Consolidated income statement

	Note	2005	2004
Sales	23	344 918	285 553
Cost of goods sold	25	-319 437	-257 586
Gross profit (loss) on sales		**25 481**	**27 967**
Selling costs		-2 068	-1 311
Administrative expenses		-8 489	-8 355
Other gains (losses) - net	26	-1 966	-7 334
Operating profit		**12 958**	**10 967**
Finance cost (income) - net	27	-177	-2 281
Profit before tax		**12 781**	**8 686**
Income tax expense	28	-2 686	-2 767
Profit for the year		**10 095**	**5 919**
of which:			
attributable to equity holders of the Company		**9 280**	**5 690**
minority interest		**815**	**229**

	Note	2005	2004
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in PLN per share)			
- basic	29	**2,34**	**1,43**
- diluted	29	**2,30**	**1,42**

all amounts in PLN thousands unless otherwise stated)

Consolidated statements of changes in equity

	Share capital	Reserve capital from share premium	Other reserve capital	Prior years' profit (loss)	Net profit (loss)	Foreign currency translation differences of subsidiaries	Attributable to minority interest	Total equity
Balance at 1 January 2005	**24 821**	**10 369**	**46 801**	**-17 126**	**0**	**-110**	**664**	**65 419**
currency translation differences						28	28	56
net profit					9 280		815	10 095
Total recognised income for 2005	0	0	0	0	9 280	28	843	10 151
profit distribution			1 112	-1 112				0
dividend paid				-3 971				-3 971
dividend servicing expense				-6				-6
Balance at 31 December 2005	**24 821**	**10 369**	**47 913**	**-22 215**	**9 280**	**-82**	**1 507**	**71 593**

	Share capital	Reserve capital from share premium	Other reserve capital	Prior years' profit (loss)	Net profit (loss)	Foreign currency translation differences of subsidiaries	Attributable to minority interest	Total equity
Balance at 1 January 2004	**24 821**	**10 369**	**46 449**	**-20 473**		**10**	**229**	**61 405**
currency translation differences						-120	-117	-237
net profit					5 690		229	5 919
Total recognised income for 2004	0	0	0	0	5 690	-120	112	5 682
profit distribution			1 077	-1 077				0
coverage of loss			-725	725				0
paid-up share capital							323	323
dividend paid				-1 991				-1 991
Balance at 31 December 2004	**24 821**	**10 369**	**46 801**	**-22 816**	**5 690**	**-110**	**664**	**65 419**

all amounts in PLN thousands unless otherwise stated)

Consolidated cash flow statement

	Note	Year ended 31 December 2005	2004
Cash flows from operating activities			
Net profit (loss)		9 280	5 690
Depreciation and amortisation		815	229
Gains (losses) from currency translation differences		5 063	5 934
Interest and share in profit (dividends)		1 674	1 940
Gains (loss) from investing activities		-185	-854
Movement in deferred income tax assets		966	512
Movement in inventories		6 141	-5 062
Movement in trade and other receivables	31	3 884	-12 853
Movement in liabilities, except loans and borrowings	31	-435	19 930
Tax paid		-1 492	-1 831
Movement in current accruals		2 188	-808
Movement in non-current accruals		4	6
Movement in settlements of construction contracts		-10 242	-1 156
Other adjustments	31	-388	-895
Net cash flows rom operating activities		**17 273**	**10 782**
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment and intangible assets		890	2 459
Proceeds from sale of financial assets		0	88
Purchase of property, plant & equipment and intangible assets		-6 411	-3 561
Purchase of financial assets		0	369
Net cash flows from investing activities		**-5 521**	**-645**
Cash flows from financial activities			
Issuance of debt securities		7 964	
Dividends and other payments to equity holders		-3 971	-1 985
Other than payments to equity holders, profit distribution expenses		-6	-6
Repayments of loans and borrowings		-13 031	-3 920
Payment of financial lease commitments		-42	-65
Interest		-1 635	-1 875
Cash flows from financial activities		**-10 721**	**-7 851**
Net decrease /increase in cash and bank ovedrafts		1 031	2 286
Cash at beginning of period		9 073	6 787
Cash and bank ovedrafts at end of period	31	**10 104**	**9 073**

Notes to the consolidated financial statements (continued)

1. General information

1.1. Composition of the Group and its principal activity

The Elektrobudowa SA Group is composed of three entities:

The Parent - Elektrobudowa SA with its registered office in Katowice, ul. Porcelanowa 12, 40-246 Katowice.
Elektrobudowa SA is a joint stock company established and acting according to the Polish law. The joint stock company was created through transformation of the state-owned company named Przedsiębiorstwo Montażu Elektrycznego "Elektrobudowa" based in Katowice.

The transformation act was made on 9 January 1992 in the form of a notary deed (Repertory No. 225/95) by the Notary Office no.18 in Warsaw run by the notary public Paweł Błaszczak.

The Company was entered in Division B under number 7682 to the Commercial Register of the District Court, X Register Department Katowice, on the basis of valid decision by this Court issued on 3 February 1992 (Ref. number RHB 7682 VII G.Rej. H 248/92).
At present the court of registration for the Company is the District Court in Katowice, Business Department of the National Court Register, with the reference number KRS 000007425.

Principal activity of the Company according to the Polish Classification of Activities (PKD 4531 A) is executing of electrical installations in building and structures.

A sector according to the Warsaw Stock Exchange classification: building.

The business activity of Elektrobudowa SA includes:
- Comprehensive electrical installation works as provided in all newly built, extended and modernized power stations and industrial facilities,
- Supply of electric power equipment, mainly the energy transmission and distribution equipment,
- Designing, engineering, testing and commissioning services.

A subsidiary - KRUELTA Sp. z o. o. (Ltd.) with its registered office at d 13, Mineralnaya Street in Sankt Petersburg.

Elektrobudowa SA holds 51% interest in KRUELTA Sp. z o.o., which represents 51% of KRUELTA equity.

According to the company Articles certain resolutions of the Annual General Meeting has to be adopted unanimously, and passing others requires not less than 2/3 of the total number of votes. The requirement has been introduced to secure Elektrobudowa SA against decisions unfavourable for them, which otherwise might be taken by the Russian partner, Tavrida.
ELEKTROBUDOWA SA has a significant influence on the operating and financial policy of Kruelta, as:
- Chairman of the Supervisory Board is elected from candidates indicated by Elektrobudowa SA,
- the Supervisory Board of Kruelta consists of two representatives of Elektrobudowa and two representatives of Tavrida,
- in the case of an equal number of votes, the chairman of the Supervisory Board has the casting vote.

Notes to the consolidated financial statements (continued)

In the opinion of the Management Board of Elektrobudowa SA the conditions presented above are decisive for consolidation of Elektrobudowa SA and Kruelta by the full method.

Principal business of KRUELTA is the assembly and sales of medium voltage switchgears in the Russian market. This offer is to be completed with the sale of low voltage switchgears and mobile containerized substations.

A subsidiary - KONIP Sp. z o.o. (Ltd) with its registered office in Katowice, 12, Porcelanowa St. , 40 -246 Katowice.

Elektrobudowa SA holds 100% interest in the equity of KONIP Sp. z o.o.

KONIP Sp. z o.o. administers the real property owned by Elektrobudowa S.A. or in perpetual usufruct by the Parent. The scope of their business particularly includes maintenance and administration of building and structures, renting the useful areas, fire protection services, cleaning the rooms and area as well as industrial protection, providing telecommunication services, maintaining the Parent’s archives and the reception service.

1.2 Going concern concept

The entities in the Group will continue in operational existence for the unspecified time. The consolidated financial statements have been prepared with the assumption of continuation of business operations in the foreseeable future by the entities of the Group and that there are no circumstances indicating that the continuation of operations by the entities of the Group is at risk.
Among the estimates done as at the balance sheet date there are no such estimates which could imply a significant risk of involving material corrections of balance sheet values of assets and liabilities during the next financial year.
If, after preparation of the annual financial statements an entity of the Group is informed about events which have substantial effect on this report, or which make the assumption of business continuation by the entity unjustified, the Management Board of Elektrobudowa SA will be entitled to introduce adjustments to the financial statements up to the moment of their approval by the Annual General Meeting. This does not rule out the possibility of introducing retrospective changes to the financial statements related to adjustment of errors, or changes in accounting policies as per IAS 8 in the later periods.
In the opinion of the Management Board of Elektrobudowa SA there are no circumstances threatening the continuity of business operations.

Notes to the consolidated financial statements (continued)

2. Summary of significant accounting policies

2.1 Compliance with legislation

The annual report of Elektrobudowa SA Group is prepared in conformity with the Regulation of the Minister of Finance of 19 October 2005 on current and periodical information provided by issuers of securities.

2.2. Basis of preparation

These financial statements are the first annual report prepared by the Company in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union.

Until the end of 2004 Elektrobudowa SA had not prepared consolidate financial statements in accordance with Art. 56 and Art. 58 of the Accounting Act of 29 September 1994.

1 January 2004 is the date of adopting the IFRS by the Group and the date of the opening balance. The comparative data for 2004 has been presented in accordancw with IFRS.

The present financial statements have been prepared under the historical cost convention, with the exception of revaluation of certain financial assets and liabilities (including derivative instruments) shown at fair value.

Some key accounting estimates are required for preparing the statements in compliance with IFRS. The Management has to take a number of subjective decisions concerning the application of the accounting policies. More complicated areas, areas which require a subjective judgment or areas in which the assumptions and appraisals are significant for the financial statements as a whole, have been described in additional comments to the financial statements (Notes 9,11.2 ,15, 21, 24)

2.3 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights in the company governing bodies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.
Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In the Group there are no entities excluded from consolidation.

The purchase method of accounting is used to account for the investment in subsidiaries in separate financial statements.

Notes to the consolidated financial statements (continued)

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Separate financial statements of the related parties subject to consolidation have been prepared in accordance with the unified accounting standards.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The parent's and other consolidated entities' share of the subsidiaries, with that portion of net assets of subsidiaries, measured at their fair value, which reflects the parent's and other consolidated entities' share in the related parties, at the date of taking control by the Group, is eliminated.

2.4 Foreign currency translation

a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency"). The consolidated financial statements are presented in thousands of Polish zlotys. Polish zloty (PLN) is the functional and presentation currency both of ELEKTROBUDOWA SA and the Elektrobudowa SA Group.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions as follows:

- disposal of foreign currency and repayment of receivables transactions are translated at the buying rate applied by the bank used by the Group:
- purchase of foreign currency and repayment of payables transactions are translated at the selling rate applied by the bank used by the Group:
- other transactions are translated at average exchange rate for each currency announced by the National Bank of Poland, unless customs documents quote another exchange rate;
- assets and liabilities at the balance sheet date are translated at the average Exchange rate for each currency announced by the National Bank of Poland.

Gains and losses from such transactions and from the translation at the year-end of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except where hedge accounting is applied.

Notes to the consolidated financial statements (continued)

c) Translation of balance sheet items and income statement items
The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities foe each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rate for each currency, which is the arithmetic mean of average rates on the last day of each month of the reporting period, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions;

- all resulting exchange differences are recognized as a separate component of equity.

2.5 Property, plant and equipment

All property, plant and equipment is show at cost less subsequent depreciation and impairment). Depreciation on assets is calculated using the straight-line method according to rates which reflect their estimated useful life.

Applied depreciation rates:

Buildings	25-40 years
Plant and machinery	3-15 years
Vehicles	5-7 years
Other	4-10 years

Subsequent expenses are recognised in the carrying amount of each item or included as a separate asset (as appropriate), only when it is probable that the Company will gain future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

At each balance sheet date the value of each item is reviewed in order to estimate if it is not greater than its recoverable amount (if it is greater, the asset's carrying amount is written down to its recoverable amount. The review also covers the adopted depreciation method and establishing whether the depreciation period is adequate for the estimated distribution in time of economic benefits from the asset.
Property, plant and equipment under construction are measured according to costs incurred.

Notes to the consolidated financial statements (continued)

2.6 Intangible assets

Intangible assets are measured at purchase cost or cost of their production.

- Costs incurred on development projects relate to the design and testing of new or improved products, when it is probable that the project will be a success, considering the commercial and technological feasibility and costs can be measured reliably. Development costs that have a final useful life are amortised on a straight-line basis over the period of 3 to 5 years.

- Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use. Costs are amortised on a straight-line basis over 2 years. Costs associated with maintaining computer software programmes are recognized as an expense as incurred;

- Other property rights are recognized at costs of acquiring and amortised on a straight-line method over the estimated useful life (up to 5 years).

2.7 Impairment of assets

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.
The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8 Investments

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans given and receivables, investments held to maturity and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this classification at every reporting date.

Financial assets and liabilities at fair value through profit or loss
The category falls into two sub-categories: financial assets held for trading and those shown at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of reselling in the short term or if so designated by the Management Boards of the Group's entities. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group directly provides the client with money, goods or services with no intention to trade with the receivables. They are included in current assets, with separate recognition of those items which maturities are greater than 12 months after the balance sheet date. Loans and receivables are included in trade and other receivable in the balance sheet.

Notes to the consolidated financial statements (continued)

Investments held to maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are classified as non-current assets except those items which maturity is shorter than 12 months after the balance sheet date and classified as current assets.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified elsewhere. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Granted loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and also for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions reference to other instruments that are substantially the same, and discounted cash flow analyses and option valuation models refined to reflect the issuer's specific circumstances. If the fair value of investment, for which there is no active market, is not possible to establish in a reliable way, the investment is valued according to its purchase price.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In determining whether the securities are impaired, a significant or prolonged decline in the fair value of the security below the cost is considered. If any such evidence exists, the difference between the acquisition cost and the current fair value of those assets is recognized in the income statement.

Notes to the consolidated financial statements (continued)

2.9 Leasing

The Group is a party to lease agreements against which another party's property, plant and equipment is taken over for use against charge or for taking proceeds through the agreed time

In case of financial lease where the substantially the whole risk and rewards from the leased assets are assigned to the leasee, the lease is recognised in fixed assets at present value of minimum lease payments established for the lease's inception.

Lease payments are allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Financial cost is recognized directly in the income statement.

The property, plant and equipment acquired under leases is depreciated over the shorter of the asset's estimated useful life and the lease term.

Lease payments under agreements which do not meet the requirements for finance lease, are recognised in the income statement on a straight-line basis over the period of the lease.

The right of perpetual usufruct of land is classified as operating lease and is recognised in non-current accruals. The purchase price paid for this right is depreciated over the lease period according to the way of spreading in time the rewards from this right.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value using the first-in, first-out (FIFO) method.

Finished goods are measured at cost not higher than net realizable value.

Work in progress is measured at cost of direct raw materials and labour as well as justified portion of related production overheads, established basing on normal operating capacity.
The above cost does not comprise borrowing costs.

2.11 Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Group uses the „percentage of completion method" to determine The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

The Group presents as an asset the amount due from customers for contract work for all contracts in Progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress

Notes to the consolidated financial statements (continued)

billings. Progress billings not yet paid by customers and retention are included within „trade and other receivables".

The Group presents as a liability the amount due to customers for contract work for all contracts in Progress for which Progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.12 Trade receivables

Trade receivables are recognised initially at fair value (current realisable value) and then they are measured at amortised purchase price (amortised cost) using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Non-current receivables comprise receivables from guarantee security deposits and receivables from the disposal of property, plant and equipment with deferred maturity date.
Current value of non-current receivables (except bank security deposits) as at balance sheet date is established by revaluation of future cash flows using the effective interest rate, based on the interest rate WIBOR–1Y.

2.13 Cash and cash equivalents

Cash and cash equivalents are shown in the balance sheet at their cost. They include cash in hand and at bank, deposits in banks, other short-term investments, highly liquid investments with original maturities of three months or less since they were deposited, received, acquired or issued. Bank overdrafts are shown within "Loans, borrowings and debt securities" on the balance sheet.

2.14 Fixed assets held for trading and discontinued operations

Fixed assets (or groups of assets) for disposal are classified as assets held for trading and recognised at carrying value not greater than their fair value less cost to sell, if the carrying amount is to be recovered mainly as result of the sale transaction and not due to use.

Notes to the consolidated financial statements (continued)

2.15 Share and reserve capital

Share capital is recognised in the balance sheet at the value specified in the Articles and entered in the court register, with consideration to effects of capital restatement due to hyperinflation as per provisions of IAS 29.

In case of buy back the payment for shares charges the equity and is recognized in the balance sheet item “treasury shares”.

Additional costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax. Additional costs directly attributable to the issue of new shares or options with the intent to take over the company are shown at cost as part of purchase price.

Reserve capital is established as provided by the Articles from retained earnings and by transfer from other reserves. Furthermore, differences between fair value of payment received and nominal value of shares are recognized in the share premium reserve capital, with consideration to the effect of capital restatement due to hyperinflation as per provisions of IAS 29.

Where any Group company purchases the Company’s equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company’s equity holders until the shares are cancelled, reissued or disposed of.

Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

2.16 Borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred.

Later the borrowings are stated at adjusted purchase price (amortised cost) and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Income taxes

Income tax on gain or loss for the financial year comprises current and deferred portion. Income tax is recognized in the income statement, except for amounts related to items shown directly in the equity, in which case the income tax is recognized in equity.

Current portion of the income tax is the expected tax on taxable income for the year established basing on tax rates valid at the balance sheet date, inclusive of all prior years’ tax adjustments.

Notes to the consolidated financial statements (continued)

Provision for deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than business combination, that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

In connection with the temporary differences between the value of assets and liabilities shown in the books and their value for tax purposes, tax loss and investment reliefs deductible in the future, deferred income tax assets are established. Deferred income tax assets are recognized to the extent that is probable that future taxable profit will be available against which the temporary differences, tax losses and investment reliefs, deductible in future, can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Current deferred income tax assets and liabilities are offset if there are enforceable laws permitting such offset and if the parties intend to settle their account net or at the same time realize an asset and settle a liability.

Deferred income tax assets and liabilities offset if they relate to settlements in the same country to the extent the actual payments and proceeds from income tax may be settled net and either concern the same company of the Group or different entities which are able and intend to settle their accounts net.

2.18 Employee benefits

a) Pension and retirement obligations
The Group operates a pension and retirement benefits scheme. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.
The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension or retirement benefit liability.

b) Share-based plans
Share options awarded before 7 November 2002 are not subject to cost. Shares are recognized when the options are exercised and the proceeds gained are credited to share capital and share premium.
The Group does not operate share option scheme awarded after 7 November 2002.

c) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Notes to the consolidated financial statements (continued)

d) bonus plans
The Group recognises a liability and an expense for bonuses defined in objective cards which are annexed to employment contracts. Provision for bonuses is established (expense recognized on a time-proportion basis) and recognised in accrued expenses.

2.19 Provisions

Provisions for restructuring costs and legal claims are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of the Group's resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2.20 Trade and other payables

Trade and other payables other than financial obligations are recognised at amounts due and subsequently measured at amortised cost.
Non-current liabilities are discounted to their present values at the effective interest rate based on the interest rate WIBOR–1Y.

2.21 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating intra-group sales.

a) Sales of goods are recognised when significant part of risks and rewards from ownership of products and goods have been passed on the customer.

b) Revenue from long-term construction contracts are recognised according to the rules presented in item 2.11.

c) Sales of services are recognised in the accounting period in which the services are rendered, when:
   - the amount of revenue can be reliably estimated,
   - the entity is likely to gain financial profit from the transaction,
   - stage of completion of the transaction on the balance sheet date can be reliably determined.

d) Interest income is recognised on a time-proportion basis using the effective interest method.

Notes to the consolidated financial statements (continued)

e) Dividend income is recognized when the right to receive payment is established. Financial costs cover interest on loans and borrowings and the amount of settled discount. Interests related to borrowings are charged in the income statement at the moment they were incurred and are recognized in financial costs.

2.22 Method of establishing the financial result

Financial result is established using the following methods:

- Time-proportion (accruals) method, according to which all business operations concerning the reporting period in the books of Companies in the Group and in the consolidated financial statements, disregarding the fact whether they were paid as at the balance sheet date.

- Proportion of costs to revenues method, according to which the financial result has been measured basing on total revenues in the reporting period and costs of obtaining revenue for this period, other net gains or losses or net financial costs.
  Revenues are recognised in the amount for which it is probable that the Company will obtain economic benefits which can be reliably measured.

Financial costs include interest on loans and borrowings and the amount of discount to be settled. Any interest is charged in the income statement at the moment it is incurred and is recognized in financial costs.

2.23 Financial risk management

Interest rate risk

As the business operations of companies in the Group are partly financed by bank loans, the Group is exposed to the risk of interest rate fluctuations. The level and fluctuations of interest rates and also the fact that the Group does not have long-term loans did not cause the necessity to use any hedging instruments.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from commercial transactions. The risk arises when the Group purchases for a currency which is not its functional currency. As the Group is exposed to foreign currency risk connected with its operating activities, the company takes measures to limit the risk. The risk management policy consists in securing the selling prices against the drop of foreign currency exchange rate, which adversely affects the prices. Forward contracts are used to manage their foreign exchange risk.

Credit risk

Customers of the Group, who wish to be credited undergo the preliminary verification procedure. The level of debt is continually monitored. Trade credit is characterized by significant diversification of risk, as they are granted to a large number of customers. The Group is not exposed to high risk of significant concentration of credited sales.

Notes to the consolidated financial statements (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and guarantee lines.

2.24 Segment reporting

The Group's business activity is categorised by industries.
A segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Segment costs are identified by costs comprising cost of sales to external customers and cost of transactions with other segments which result from operating activity of the segment and can be directly attributed to the segment.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.25 New accounting standards and IFRIC interpretations

Listed below are newly published standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2006. Presented is also the opinion of the Management Boards of the Group companies on the effect of new standards and interpretations on the financial situation of the Group.

a) IFRS 6 Exploration for and Evaluation of Mineral Resources

The Company does not have any assets connected with the exploration for and evaluation of mineral resources. Provisions of this standards do not effect the financial statements of the Group.

b) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and to IFRS 6 Exploration for and Evaluation of Mineral Resources

Amendments to IFRS 1 and IFRS 6 have been issued in order to explain the IASB intentions related to the exclusions foreseen for those first-time adopters of IFRS who decide to adopt IFRS 6 earlier. The amendments do not affect the financial statements of the Group.

c) IFRIC 4 Determining Whether an Arrangement Contains a Lease

IFRIC 4 is for the first time applied to annual periods beginning on 1 January 2006. The Interpretation provides guidelines to whether the arrangements which do not have a legal form of a lease agreement shall be recognized according to IAS 17 Leasing. The Group did not take a decision of earlier adopting the IFRIC 4. This interpretation and its transitional provisions will be applied in the financial statements for the year ended 31 December 2006. It means that the Group will apply IFRIC 4 basing on facts and circumstances as at 1 January 2005. The Company executives are just estimating the effect of IFRIC 4 on the Group's operations.

Notes to the consolidated financial statements (continued)

d) IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Elektrobudowa SA does not hold any interests in funds established to reimburse decommissioning, restoration and Environmental rehabilitation. The Interpretation will not affect the financial statements of the Group.

e) Amendment to IAS 39 Financial Instruments: Recognition and Measurement. Fair Value Option.

The amendment defines the financial instruments measured at fair value with profits or losses through the income statement and restricts the use of the option to those instruments which meet the specified conditions. The amendment also provides that if a contract contains an embedded derivative the fair value option may be applied, if this can significantly limit the incoherence of assets and liabilities valuation. The entities which prepare their financial statements according to IFRIC can, owing to the amendments, measure any previously recognized liabilities or financial assets at fair value not later as at 1 September 2005. The Group decided not to measure its assets and financial liabilities at fair value.

f) Amendment to IAS 39 Financial Instruments: Recognition and Measurement. Cash Flow Hedges of Forecast Intragroup Transactions.

The amendment applies to annual periods beginning on or after 1 January 2006. It permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge in consolidated financial statements. No effect of this interpretation on the change of accounting standards applied to any contract that has been concluded so far by the Group.

g) Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS Insurance Contracts. Financial Guarantee Contracts.

The Amendment applies to financial guarantee contracts and requires the issuers of financial guarantees to recognize liabilities arising from such contracts in the balance sheet. Provisions of this standard will not affect the financial statements of the Group.

h) IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment.

IFRIC 6 clarifies when certain producers of electrical goods are required to recognise a liability for the cost of waste management relating to the decommissioning of waste electrical and electronic equipment supplied to private households. This interpretation will not affect the Group's financial statements.

i) IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 7 provides guidelines for application of IAS 29 in the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency when the economy has not been hyperinflatory in the prior period, so the entity is required to restate its financial statements according to IAS 29. This interpretation does not affect the Group's financial statements.

Notes to the consolidated financial statements (continued)

j) IFRIC 8 Scope of IFRS 2

IFRIC 8 was issued on 12 January 2006 to clarify that IFRS 2 *Share-based Payment* applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. This interpretation will not affect the Group's financial statements.

k) IFRS 7 Financial Instruments: Disclosures

IFRS 7 was issued on 18 August 2005 together with an additional amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. IFRS 7 is effective for annual periods beginning on or after 1 January 2007 It introduces new requirements for disclosure of financial instruments and replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and certain requirements of IAS 32 Financial Instruments: Disclosure and Presentation. The Group will apply these new requirements for disclosure.

l) Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures

The amendment is effective for annual periods beginning on or after 1 January 2007. It is a further development of IFRS 7 Financial Instruments: Disclosures and adds the requirements for requirements for disclosures of:
- the entity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital;
- whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

The Group will apply these new requirements for disclosure.

m) Amendment to IAS 19 Employee Benefits

The amendment allows another option of recognising actuarial gains and losses. It can also impose additional requirements for recognizing multi-employer plans, where not enough information is available to apply defined benefits accounting. The amendment also prescribes new requirements for the disclosure of information. The interpretation will not have any effect on the financial statements of the Group.

In the opinion of the Management Boards of the Group's entities, newly published standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2006, will not substantially affect the Group's financial statements or its financial standing.

Notes to the consolidated financial statements (continued)

3. Adopting the IFRS for the first time

The Group adopted IFRS for the first time in its financial statements for the first quarter ended 31 March 2005 with the date of transition to IFRS as 1 January 2004. The financial statements as at 31 December 2005 will be the Group's first consolidated financial statements that comply with IFRS.

Changes to the 2004 balance sheet items, income statement items and cash flow statement items due to adopting the IFRS are shown in the separate financial statements of Elektrobudowas SA (Note 3).

In preparing these financial statements for the year 2005 all mandatory exemptions have been applied and the following other exemption from full application of IFRS:

Fair value as deemed cost exemption
Opening balance of certain property, plant and equipment items as at 1 January 2004 was prepared basing on IFRS 1 which allows for fair value as the acquisition price.

As at 31 December 2005, following the transition to IFRS, presentation of certain balance sheet and the income statement items for the year ended 31 December 2004 was changed compared with the data for the same period recognised in the interim financial statement for H1 of 2005.

4. Operations discontinued in the reporting period or to be discontinued in the next period

In 2005 no operation was discontinued by the entities of the Group and no such discontinuation is planned for the following period.

5. Segment information

Primary reporting format – business segments

At 31 December 2005, the Group is organised into four business segments, which are subject to different kinds of risks and gains:

- The segment: Power Generation Division provides services for power and heat generating stations, heavy industry, particularly metallurgy and mining together with processing facilities. The services include electrical installation works, commissioning and start up of electrical plant and equipment, and also manufacture and installation of high-current busducts.

- The segment: Industry Division renders services for broadly understood public sector, trade (hypermarkets) and industry, particularly petrochemical, paper & pulp, road building. The services include electrical installation, commissioning and start-up and general contracting for investments.

- The segment: Power Distribution Division provides overall services for the power distribution sector and supplies of products manufactured by the Division. The core business of the segment is the production and sale of low and medium voltage equipment, particularly low and medium voltage switchgears and mobile substations, manufacture and sale of steel cable trays and supports, manufacture and sale of control and signalling equipment, the supply of complete distribution substations and general contracting for power transmission and distribution projects.

- The segment: Other services provides other material and not material services for external customers

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Business segment results in 2005

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
Gross sales revenue	108 831	124 158	165 538	7 536	406 063
Inter-segment sales*	1 629	914	53 948	4 654	61 145
Net sales	107 202	123 244	111 590	2 882	344 918
Operating profit	1 395	3 766	7 885	-88	12 958
Financial activities result					-176
Taxable profit					12 781
Income tax					-2 686
Net profit					10 095
Minority profit - net					815
Net profit of the Company shareholders					9 280

Other segment information through the income statement for the year ended 31 December 2005

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
depreciation	673	383	1 210	1 793	**4 059**
amortisation	144	98	634	123	**999**

* inter-segment transactions are based on market prices

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Business segments results for the year ended 31 December 2005

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
Gross sales revenue	110 260	88 242	138 963	8 069	**345 534**
Inter-segment sales*	5 433	1 754	47 773	5 021	**59 981**
Net sales	104 817	86 488	91 190	3 058	**285 553**
Operating profit	4 119	3 517	7 499	-4 168	**10 967**
Financial activities result					**-2 281**
Taxable profit					**8 686**
Income tax					**-2 767**
Net profit					**5 919**

Minority profit - net	229
Net profit of equity holders of Elektrobudowa S.A.	5 690

Other segment information through the income statement for the year ended 31 December 2004

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
depreciation	915	415	933	2 066	**4 329**
amortisation	218	168	968	253	**1 607**

* inter-segment transactions are based on market prices

Assets and liabilities of segments as at 31 December 2005

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
Assets	45 928	58 722	39 775	35 769	**180 194**
Liabilities	18 885	49 181	32 199	8 336	**108 601**
Capital expenditure	1 101	791	2 065	1 849	**5 806**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Assets and liabilities of segments as at 31 December 2004

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
Assets	47 831	33 826	56 077	34 791	**172 525**
Liabilities	29 807	30 177	39 491	7 631	**107 106**
Capital expenditure	615	510	3 349	440	**4 914**

Impairment of receivables by segments

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
as at 31 December 2005	9 541	2 891	3 476	4 583	20 491
as at 31 December 2004	10 940	5 636	3 982	4 653	25 211

Secondary reporting format – geographical segments

The ELEKTROBUDOWA SA Group operates in the domestic market and in foreign markets.

	year ended 31 December	
	2005	**2004**
Sales		
domestic	311 174	259 293
export	5 125	14 003
sales of the subsidiary in the Russian Federation	28 619	12 257
	344 918	**285 553**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

6. Property, plant and equipment

	at 31 December 2005	at 31 December 2004
Tangible fixed assets, of which:	29 716	28 372
- buildings, facilities, civil engineering structures	20 483	20 664
- plant and machinery	5 793	5 511
- vehicles	2 524	1 684
- other assets	916	513
Tangible fixed assets under construction	426	1 463
	30 142	**29 835**

Property, plant and equipment are mortgaged to secure bank loans and extended guarantees:

a) ING Bank Śląski headquartered in Katowice, up to PLN 2,000,000.00.
b) ING Bank Śląski headquartered in Katowice, up to PLN 1,660,000.00.
c) PKO BP headquartered in Warsaw, up to PLN 6,300,000.00.
d) BPH SA headquartered in Katowice, up to PLN 8,516,615.00.
e) Bank Handlowy headquartered in Warsaw, up to PLN 2,100,000.00.

Property, plant and equipment are subject to a pledge by registration to secure repayment of borrowings and guarantees extended by:
a) ING Bank Śląski headquartered in Katowice up to PLN 2,440,600.00.
b) BPH SA headquartered in Katowice up to PLN 1,680,495.59.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	- buildings, facilities, civil engineering structures	- plant and machinery	- vehicles	- other fixed tangible assets	Total fixed tangible assets
Gross value of fixed tangible assets at 1 January 2005	21 842	24 635	6 707	5 088	58 272
Additions (of which):	985	2 594	1 532	637	5 748
- purchase	0	913	1 532	637	3 082
- take over from investment	985	1 681	0	0	2 666
Reductions (of which):	-189	-1 028	-197	-108	-1 522
- selling	-185	-815	-197	-11	-1 208
- liquidation	-4	-213	0	-97	-314
Gross value of fixed tangible assets at 31 December 2005	22 638	26 201	8 042	5 617	62 498
Accumulated depreciation at 1 January 2005	-1 178	-19 124	-5 023	-4 575	-29 900
Depreciation for the period (of which):	-977	-1 284	-495	-126	-2 882
- current depreciation	-997	-2 149	-680	-233	-4 059
- not depreciated assets, liquidated, scrapped or sold	20	865	185	107	1 177
Accumulated depreciation at 31 December 2005	-2 155	-20 408	-5 518	-4 701	-32 782
Net tangible fixed assets at 31 December 2005	**20 483**	**5 793**	**2 524**	**916**	**29 716**

The Group does not have any substantial property, plant and equipment used against a lease contract.
Property, plant and equipment is recognised at purchase price (manufacture cost). Land and buildings were measured at fair value at the date of transition to IFRS.
Fair value of land and buildings at 1 January 2004 was measured using the investment method and simple capitalisation technique in the middle of 2004 by external independent valuers and amounted to 475 thousand zlotys.
The valuation covered buildings, premises and civil engineering facilities shown in the Group's assets at 1 January 2004.
The estimation surveys from the valuations are kept by the Parent company.
Net carrying value of fixed tangible assets, without consideration to fair value, is 30,286 thousand zloty at 31 December 2005 and 28,967 thousand zloty at 31 December 2004
The Company does not have any property plant and equipment with restricted right of use.
The Parent does not have any substantial property, plant and equipment used against a lease contract.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	- buildings, facilities, civil engineering structures	- plant and machinery	- vehicles	- other fixed tangible assets	Total fixed tangible assets
Gross value of fixed tangible assets at 1 January 2004	22 311	24 479	6 172	4 967	57 929
Additions (of which):	194	1 662	1 002	287	3 145
- purchase	0	1 326	1 002	252	2 580
- take over from investment	194	326	0	0	520
- valuation of stock-taking differences	0	10	0	35	45
Reductions (of which):	-663	-1 506	-467	-166	-2 802
- selling	-663	-657	-401	0	-1 721
- liquidation	0	-849	-66	-166	-1 081
Gross value of fixed tangible assets at 31 December 2004	21 842	24 635	6 707	5 088	58 272
Accumulated depreciation at 1 January 2004	0	-18 370	-4 802	-4 352	-27 524
Depreciation for the period (of which):	-1 178	-754	-221	-223	-2 376
- current depreciation	-1 178	-2 137	-655	-359	-4 329
- not depreciated assets, liquidated, scrapped or sold	0	1 387	434	161	1 982
- valuation of stock-taking differences	0	-4	0	-25	-29
Accumulated depreciation at 31 December 2004	-1 178	-19 124	-5 023	-4 575	-29 900
Net tangible fixed assets at 31 December 2004	**20 664**	**5 511**	**1 684**	**513**	**28 372**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	at 31 December 2005	at 31 December 2004
Depreciation of property, plant and equipment is charged to the income statement:		
cost of goods sold	3 624	3 887
administrative expenses	435	441
other operating expenses	0	1
	4 059	**4 329**

	at 31 December 2005	at 31 December 2004
Property, plant and equipment by ownership		
owned	29 616	28 241
leased	100	131
	29 716	**28 372**

	at 31 December 2005	at 31 December 2004
Off-balance sheet property, plant and equipment		
perpetual use of land received free of charge	710	746

Off-balance sheet asset comprise the value of land in perpetual use, measured on the basis of annual fees paid by the Group. Percentage rate of the annual fee of most lands is 3%; the fee is calculated by multiplying the rate and the value of land. Total fees are included in invoices issued by relevant governmental bodies which administer the lands owned by the State Treasury, or by executive bodies of a commune, a county or voivodship in case of land owned by them.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

7. Intangible assets

	at 31 December 2005	at 31 December 2004
Cost of finished development works	765	1 046
Acquired concessions, patents, licences and similar	684	1 029
Cost of unfinished development works	758	19
	2 207	**2 094**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	cost of finished development works	concessions, patents, licenses and software	other intangible assets	cost of unfinished development works	Intangible assets, total
Gross value of intangible assets at 1 January 2005	4 300	4 084	1 734	19	10 137
Additions, of which:	165	208	0	739	1 112
- purchase	0	208	0	0	208
- internally generated	0	0	0	904	904
- finished development works charged into costs	165	0	0	-165	0
Gross value of intangible assets at 31 December 2005	4 465	4 292	1 734	758	11 249
Accumulated amortisation at 1 January 2005	-3 254	-3 055	-1 734	0	-8 043
Amortisation for the period, of which:	-446	-553	0	0	-999
- current amortisation	-446	-553	0	0	-999
Accumulated amortisation at 31 December 2005	-3 700	-3 608	-1 734	0	-9 042
Net intangible assets at 31 December 2005	**765**	**684**	**0**	**758**	**2 207**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	cost of finished development works	concessions, patents, licenses and software	other intangible assets	cost of unfinished development works	Intangible assets, total
Gross value of intangible assets at 1 January 2004	3 583	4 847	1 734	209	10 373
Additions, of which:	717	189	0	-190	716
- purchase		189	0	0	189
- internally generated	0	0	0	527	527
- finished development works charged into costs	717	0	0	-717	0
Reductions, of which:	0	-952	0	0	-952
- derecognised totally impaired software	0	-578	0	0	-578
- withdrawal from a licence contract	0	-374	0	0	-374
Gross value of intangible assets at 31 December 2004	4 300	4 084	1 734	19	10 137
Accumulated amortisation at 1 January 2005	-3 049	-2 952	-1 387	0	-7 388
Amortisation for the period, of which:	-205	-103	-347	0	-655
- current amortisation	-205	-891	-347	0	-1 443
- derecognised totally impaired software	0	578	0	0	578
- withdrawal from a licence contract - amortisation	0	-164	0	0	-164
- withdrawal from a licence contract - liquidation	0	374	0	0	374
Accumulated amortisation at 31 December 2004	-3 254	-3 055	-1 734	0	-8 043
Net intangible assets at 31 December 2004	**1 046**	**1 029**	**0**	**19**	**2 094**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	year ended 31 December	
	2005	2004
Amortisation of intangible assets has been recognised in the income statement in items:		
cost of goods sold	877	1 194
administrative expenses	122	249
other operating costs	0	164
	999	**1 607**

No borrowings or other liabilities of the Group are secured on intangible assets.

No property is secured on intangible assets. The Group does not have any intangible assets with unlimited time to use.

8. Joint ventures

In 2005 the Group did not enter in any joint ventures.

9. Available-for-sale financial assets

	at 31 December	
	2005	2004
Shares	879	879

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	at 31 December 2005	2004
Movements in available-for-sale financial assets by category:		
Beginning of period	879	620
Additions, of which:	0	339
- reversal of impairment provisions	0	339
Reductions, of which:	0	-80
- disposal of shares in POLNORD - ENERGOBUDOWA	0	-80
End of period	**879**	**879**

	at 31 December 2005	2004
Available-for-sale financial assets by negotiability:		
With unrestricted negotiability, not listed in regulated market (carrying amount)	879	879
Shares (carrying amount):	879	879
- impairment provision	-1 221	-1 221
- value according to acquisition price	2 100	2 100
Carrying amount, total	**879**	**879**

Shares have been valued at purchase price with consideration to impairment, as it was impossible to reliably establish their fair value.
Available-for-sale financial assets include shares in BIPROHUT (not related party).

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Details of BIPROHUT at 31 December 2005

Name and legal form	registered office	business activity	carrying amount of shares	total assets	the company's equity, of which:	- share capital	profit	liabilities and reserves for liabilities	interest in share capital	% of votes in the general meeting
BIPROHUT	Gliwice	design engineering	879	10 249	5 150	3 301	1 492	5 099	22,54	20,93

Details of BIPROHUT at 31 December 2004

Name and legal form	registered office	business activity	carrying amount of shares	total assets	the company's equity, of which:	- share capital	profit	liabilities and reserves for liabilities	interest in share capital	% of votes in the general meeting
BIPROHUT	Gliwice	design engineering	879	5 487	3 909	3 301	976	1 578	22,18	19,85

In September 2005 Biprohut bought back and cancelled 167 of its shares. In result of redemption the percentage of votes of Elektrobudowa SA in the AG M of Biprohut rose from 19.85% to 20.93%, which in the opinion of the Management Board did not have effect on Elektrobudowa's possibility to influence the operating and financial policy of Biprohut. Elektrobudowa SA has only one representative in the Supervisory Board of Biprohut, composed of five members, so it cannot significantly influence the company's operating and financial policy. Basing on the above and on provisions of IAS 28 Elektrobudowa SA does not classify the entity as associate to be consolidated by the equity method.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

10. Derivative financial intruments

	at 31 December	
	2005	2004
Derivative financial instruments		
Forward contracts		
- transactions which are not suitable as hedges	181	0

Derivative financial instruments are recognised at fair value and the remaining gains or losses from valuation are released to the income statement.

11. Trade and other receivables

Gross trade and other receivables recognised in non-current assets		11 111 tys.zł.
Gross trade and other receivables recognised in current assets		114 637 tys.zł.
Total receivables		**125 748** tys.zł.
of which:		
- receivables vindicated in court	488 tys.zł.	
- trade overdue debtors	17 337 tys.zł.	

Receivables vindicated in court include:

- receivables due from supplies, works and services 488

Provision for impairment was created for the whole amount of receivables vindicated in court.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

11.1 Trade and other receivables recognized in non-current assets

	at 31 December 2005	at 31 December 2004
Non-current trade and other receivables		
of which due from:		
- disposal of property, plant and equipment	2 423	2 301
- bank and guarantee security deposits	7 284	8 010
Non-current trade and other receivables - net	**9 707**	**10 311**
Discount of receivables	1 404	2 704
Non-current trade and other receivables - gross	**11 111**	**13 015**

Recognised bank and guarantee security deposits secure contracts executed by the Company
Present value of non-current receivables as at balance sheet date is measured thrOugh revaluation of future cash flows using the effective interest rate based on WIBOR - 1 Y (Warsaw Interbank Offered Rate).
Non-current receivables at balance sheet date are measured by revaluation of discount amount.

	at 31 December 2005	at 31 December 2004
Movements in trade and other receivables - by items		
Beginning of period	10 311	9 650
Additions (of which):	8 066	7 015
- bank and guarantee security deposits	6 746	7 015
- discount revaluation	1 300	0
- reversal of balance sheet valuation of bank security deposits	20	
Reductions (of which):	-8 670	-6 354
- reclassification of receivables	-4 181	-2 850
- bank and guarantee security deposits	-4 489	-3 143
- balance sheet valuation of bank security deposits	0	-20
- discount revaluation	0	-341
End of period	**9 707**	**10 311**

Notes to the consolidated financial statements (continued)

	at 31 December 2005	at 31 December 2004
Trade and other receivables - by currency		
in Polish currency	9 584	9 635
in foreign currencies (by currencies and translated to PLN)	123	676
in thousands / EUR	32	166
as translated into thousands of PLN	123	676
	9 707	**10 311**

The fair value of trade and other receivables approximates their carrying amounts.
Trade and other receivables recognised in non-current assets are paid within 4 years at average

11.2 Trade and other receivables recognized in current assets

	at 31 December 2005	at 31 December 2004
Current trade and other receivables		
of which:		
- from supplies and services	90 656	96 509
- due to taxes, grants, duties, social and medical security and other benefits	0	554
- other	3 490	728
Total trade and other receivables - net	**94 146**	**97 791**
Impairment of receivables	20 491	25 211
Total trade and other receivables - gross	**114 637**	**123 002**

Notes to the consolidated financial statements (continued)

	at 31 December 2005	2004
Trade and other receivables - by currency		
in Polish currency	107 908	117 914
in foreign currencies (by currencies and translated to PLN)	6 729	5 088
in thousands of EUR	695	211
as translated into thousands of PLN	2 683	861
in thousands of USD	5	374
as translated into thousands of PLN	15	1 121
in thousands of RUB	35 516	28 842
as translated into thousands of PLN	4 031	3 106
	114 637	**123 002**

The fair value of trade and other receivables approximates their carrying amounts

In the opinion of the Management Board of Elektrobudowa S.A. based on the information submitted by Kruelta, there is not necessity for impairment of Kruelta's receivables fro Jukos Service, as the debtor began to repay his debt in February. Kruelta is in continuous operating contact with Jukos Service and monitors its debtor on a current basis.

Impairment of receivables has only been done by the parent, Elektrobudowa S.A.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Provisions for impairment of receivables as at 31 December 2005 amount to 20,491 thousand zloty and refer to receivables:

- under arrangement with debtors	2 869	of which interest:	310
- in bankruptcy proceedings	10 608	of which interest:	1 034
- vindicated in court	488	of which interest:	44
- from other overdue debtors	6 526	of which interest:	1 533

of which provisions for impairment of receivables and interest, created in 2005, amount to 4,007 thousand zloty

- for claim under arrangement with debtors	354
- for claim in bankruptcy proceedings	19
- for claim vindicated in court	66
- for bad debts	3 638

Provisions for impairment of receivables as at 31 December 2004 r. amount to 25,211 thousand zloty and refer to receivables:

- under arrangement with debtors	3 316	of which interest:	313
- in bankruptcy proceedings	11 668	of which interest:	1 246
- vindicated in court	502	of which interest:	44
- from other overdue debtors	9 725	of which interest:	2 249

of which provisions for impairment of receivables and interest, created in 2004, amount to 7,461 thousand zloty

- for claim under arrangement with debtors	2 731
- for claim in bankruptcy proceedings	961
- for claim vindicated in court	119
- for bad debts	3 650

	at 31 December	
	2005	**2004**
Provisions for impairment of trade and other receivables		
Provisions for impairment at the beginning of period	25 211	20 873
Creating the provision	4 077	7 461
Reversal of provision		0
utilisation	8 797	3 123
of which:		
- paid	694	794
- amortisation of receivables	5 639	1 069
- interest paid or amortised	2 464	1 260
Provisions for impairment at the end of period	**20 491**	**25 211**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

11.3 Non-current prepayments and accrued income

	at 31 December	
	2005	2004
purchase of the right to perpetual usufruct of land, recognised as operating leasing	492	496

Non-current accruals are recognised only in the parent company, Elektrobudowa S.A.

12. Inventories

	at 31 December	
	2005	2004
materials	3 604	7 254
semi-finished products and work in progress	939	2 204
finished products	1 654	2 863
	6 197	**12 321**

In 2005 a provision for impairment of inventories of materials was created for the amount of 173 thousand zloty and utilised in the amount of 176 thousand zloty
In 2005 a provision for impairment of inventories of materials was created for the amount of 176 thousand zloty.

13. Cash and cash equivalents

	at 31 December	
	2005	2004
cash in hand and in banks	10 104	9 073

Notes to the consolidated financial statements (continued)

	at 31 December 2005	at 31 December 2004
Cash in banks		
overdraft	9 586	7 414
bank deposits	513	1 651
	10 099	**9 065**

Average effective interest rate for bank deposits in 2005 was 2.78% (2004: 4.3%).
Average due time: 1 - 10 days.

	at 31 December 2005	at 31 December 2004
Cash and cash equivalents - by currency		
in Polish currency	3 624	5 149
in foreign currencies (by currencies and translated to PLN)	6 480	3 924
in thousands of USD	915	223
as translated into thousands of PLN	2 985	667
in thousands of EUR	181	47
as translated into thousands of PLN	700	190
in thousands of RUB	24 627	28 475
as translated into thousands of PLN	2 795	3 067
	10 104	**9 073**

14. Current prepayments and accrued income

	at 31 December 2005	at 31 December 2004
Prepayments	262	95
- expenses concerning future periods (subscriptions, fees concerning next financial year)	262	95
	262	**95**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

15. Share capital

Share capital (structure)

Series / issue	Type of shares	Type of shares preference	Type of shares restrictions	Number of shares	Value of series / issue at par on shares	Terms of acquisition	Date of registration	Dividend rights (since)
A	ordinary bearer shares	unpreferred	none	3 248 750	6 497	against cash	1995-06-07	1995-01-01
B	ordinary bearer shares	unpreferred	none	722 250	1 953	against cash	1995-12-11	1995-01-01
Total number of shares				3 971 000				

Par value (PLN)	2,00
Registered share capital	8 450
Revaluation due to hyperinflation	16 371
	24 821

In 2000 the Parent bought back and cancelled 254,037 own shares. Following the regulations in force in 2000 no changes to the court register were entered. Compared to 31 December 2004 number of shares did not change

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

As required by IAS 29, Elektrobudowa S.A. restated share premium of its share capital and reserve capital, as this portion of capital was gained in the conditions of hyperinflation.
The subsidiaries did not carry out business operations in an hyperinflatory economy.

Capital was restated as follows:

Applied ratios:

Period	Ratio
Feb -Dec 1992	34,30%
1993	37,60%
1994	29,50%
1995	21,60%
1996	18,50%

Effect of restatement:

	Before reststement	After restatement
Share capital	8 450	24 821
Reserve capital from series B share premium	8 750	10 369

Shareholdings as at 28 February 2006:

		number of shares equal to number of votes	%
1.	Powszechny Zakład Ubezpieczeń S.A.	346 245	8,72
2.	Otwarty Fundusz Emerytalny Nationale Nederlanden Polska	459 828	11,58
3.	Otwarty Fundusz Emerytalny PZU Złota Jesień	322 421	8,12
4.	Generali Otwarty Fundusz Emerytalny	350 000	8,81
5.	Credit Suisse Life &Pensions Otwarty Fundusz Emerytalny	200 000	5,04
6.	Commercial Union Otwarty Fundusz Emerytalny	224 543	5,65
7.	AIG Otwarty Fundusz Emerytalny	211 968	5,34
8.	Other shareholders	1 855 995	46,74

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

16. Reserve capital

	at 31 December 2005	2004
Share premium	8 234	8 234
Created as required by law	2 999	2 999
Created acc. to the Articles, over (minimum) value required by law	39 772	38 756
Other (by type)	7 277	7 181
- transferred from reserve capital	5 562	5 562
- share in profit of KONIP	96	0
- restatement due to hyperinflation	1 619	1 619
	58 282	**57 170**

17. Net profit netto

	year ended 31 December 2005	2004
Net profit		
Net profit of the Parent	8 735	5 270
Net profit of subsidiaries	918	335
Consolidation adjustments	-373	85
	9 280	**5 690**

18. Trade and other payables

18.1 Non-current payables

	at 31 December 2005	2004
Deferred income tax payables	4 786	2 095
Pension benefits	2 040	1 251
Trade and other payables	1 889	1 144
	8 715	**4 490**

Notes to the consolidated financial statements (continued)

	at 31 December 2005	at 31 December 2004
Non-current trade payables - by titles		
retentions from subcontractors	1 889	1 144

Present value of non-current payables as at balance sheet date is measured through amortised cost using the effective interest rate based on WIBOR - 1 Y (Warsaw Interbank Offered Rate). Fair value of those payables approximate their carrying amounts.
Non-current trade payables are recognized only by the parent, Elektrobudowa SA.

	at 31 December 2005	at 31 December 2004
Non-current trade payables - by currency		
in Polish currency	1 794	1 115
in foreign currencies (by currencies and translated to PLN)	95	29
in thousands of EUR	25	7
as translated to PLN	95	29
	1 889	**1 144**

The carrying amount of non-current payables approximate their fair values.
Trade and other payables are paid usually within 5 years.

Notes to the consolidated financial statements (continued)

18.2 Current liabilities

	at 31 December 2005	2004
Trade payables	44 482	52 792
Prepayments from customers	5 389	368
Tax, duties, insurance and other benefits	12 378	12 324
Remunerations	2 137	2 138
Rezerwy	1 191	2 719
Other (by titles)	865	1 659
- acquisition of fixed assets	38	36
- payables to employees	51	97
- leasing commitments	214	208
- deductions from payroll	23	719
- other	**65 577**	**70 341**

Trade payables are realised within 60 days at average.
Tax and social security payables in 2005 amount to 13,737 thousand zlotys, of which:

	at 31 December 2005	2004
- personal income tax	588	565
- corporate income tax	1 359	1 492
- Value Added Tax	8 740	8 796
- social security	2 988	2 904
- PFRON	62	59
	13 737	**13 816**

Fair value of trade and other payables approximates their carrying amounts.

	at 31 December 2005	2004
Current trade payables - by currency		
in Polish currency	38 312	47 258
in foreign currencies (by currencies and translated to PLN)	6 170	5 534
in thousands of EUR	338	639
as translated into thousands of PLN	1 305	2 605
in thousands of USD	3	0
as translated into thousands of PLN	10	0
in thousands of RUB	42 775	27 193
as translated into thousands of PLN	4 855	2 929
	44 482	**52 792**

Notes to the consolidated financial statements (continued)
19. Loans and borrowings

Current borrowings as at 31 December 2004

Lender	Registered office	Amount of loan as per contract				Amount to be repaid				Effective interest rate	Maturity	Security
		in PLN'000	in foreign currency	unit	currency	in PLN'000	in foreign currency	unit	currency			
BRE BANK S.A. overdraft	Warszwa	3 000		thousand	PLN			thousand	PLN	WIBOR 1M + 1,50%	30 September 2006	1 blank bill - debt assignment enforeceable up to 3,600,000 PLN
BANK HANDLOWY ovedraft	Warszwa	6 130		thousand	PLN	3 575		thousand	PLN	WIBOR T/N + 0,60%	renewable every 7 days	debt assignment enforceable up to PLN 7,356,000.00, mortgage- secured, incl. policy assignment up to PLN 2,100,000.00
ING BANK ŚLĄSKI ovedraft	Katowice	8 000		thousand	PLN	4 876		thousand	PLN	WIBOR 1M + 0,70%	30 May 2006	mortgage- secured, incl. policy assignment up to PLN 2,000,000.00, enforcement title up to PLN 12,000,000.00 debt assignment
ING BANK ŚLĄSKI foreign currency loan	Katowice		410	thousand	EUR			thousand	EUR	WIBOR 1M + 1,50%	10 July 2006	enforcement title up to EUR 876,000.00; cash security up to EUR 136,750.00; debt assignment
BANK BPH S.A. ovedraft	Kraków	8 000		thousand	PLN			thousand	PLN	WIBOR 1M + 0,80%	19 April 2006	enforcement title up to PLN 35,880,320.00, debt assignment, 6 blank bills, motgage secured incl. policy assignment up to PLN 8,516,615.00
BANK BPH S.A.* issuance of debt securities	Kraków	30 000		thousand	PLN	7 964		thousand	PLN	WIBOR 1M + 0,65%	5 January 2006	
PKO BP operating loan	Warszwa	5 000		thousand	PLN			thousand	PLN	WIBOR 1M + 1,00%	19 May 2006	mortgage secured, incl. Policy assignment up to PLN 6,300,000.00, enforcement title up to PLN 10,000,000.00, debt assignement
PKO BP ovedraft	Warszwa	5 000		thousand	PLN			thousand	PLN	WIBOR 1M + 1,00%	19 May 2006	blank promissory note, enforcement title up to PLN 10,000,000.00, debt assignment
						16 415						

* Debt securities have been issued in order to diversify sources of financing of the parent.
As at 31 December 2005 the receivables subject to assignments amount 78 531 thousand zloty.

Notes to the consolidated financial statements (continued)

Current borrowings as at 31 December 2005

Lender	Registered office	Amount of loan as per contract				Amount to be repaid				Effective interest rate	Maturity	Security
		in PLN'000	in currency	unit	currency	in PLN'000	in currency	unit	currency			
BRE BANK S.A. ovedraft	Warszwa	3 000		thousand	PLN	366		thousand	PLN	WIBOR 1M+1,5%	30 September 2006	1 blank bill, debt assignment up to PLN 3,600,000.00
BANK HANDLOWY ovedraft	Warszwa	6 130		thousand	PLN	3 466		thousand	PLN	WIBOR T/N+0,6%	renewable every 7 days	debt assignment up to PLN 10,800,000.00
ING BANK ŚLĄSKI ovedraft	Katowice	11 000		thousand	PLN	3 255		thousand	PLN	WIBOR 1M+0,7%	1June 2005	debt assignment up to PLN 18,000,000.00; mortgaged by real property in Mikolow, policy assignment up to PLN 3,000,000.00.
BANK BPH S.A. ovedraft	Kraków	8 000		thousand	PLN	4 396		thousand	PLN	WIBOR 1M+0,8%	20 April 2005	5 blank bills, debt assignment up to PLN 8,000,000.00; mortgage secured up to PLN 7,999,424.00 with policy assignment
PKO BP ovedraft		10 000		thousand	PLN	10 000		thousand	PLN	WIBOR 1M+1,0%	21 May 2005	1 blank promissory note debt assignment up to PLN 20,000,000.00; mortgaged by real property in Katowice up to PLN 12,800,000.00, accounts receivable insurance policy assignment
						21 483						

Effective interest rates of borrowings approximate nominal rates; fair value of borrowings (for their short-term nature) approximate their carrying amounts.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

20. Deferred income tax

	at 31 December 2005	2004
Deferred income tax recognised in the income statement		
reductions (additions) due to origination and reversal of temporary differences	967	508

20.1 Deferred income tax assets

	at 31 December 2005	2004
Movement in deferred tax assets		
Deferred tax assets at the beginning of period, of which:	3 503	4 635
Additions - due to negative temporary differences :	4 375	3 377
- credited to the income statement for the period	4 375	3 377
- revaluation of assets	457	635
- provisions for unused holidays	117	50
- interests charged on receivables	3	26
- amounts due from construction contracts customers	2 409	2 330
- provisions for pension and other benefits	121	0
- provisions for future commitments	1 232	184
- exchange differences at balance sheet date	36	152
Reductions - due to negative temporary differences :	-2 651	-4 509
- charged to the income statement for the period	-2 651	-4 499
- revaluation of assets	-421	-1 903
- provisions for unused holidays	-50	-34
- provisions for pension and other benefits	-10	-39
- interests charged on receivables	-29	0
- amounts due from construction contracts customers	-1 595	-2 090
- provisions for future commitments	-136	-362
- exchange differences at balance sheet date	-146	-22
- currency translation differences	0	0
- prior years' tax losses	-17	-48
- doscount of receivables	-247	-11
The movement credited / charged to the income statement	1 724	-1 132
Deferred tax assets at the end of period, of which:	**5 227**	**3 503**
credited / charged to the income statement	5 227	3 503

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	at 31 December 2005 up to 12 months	at 31 December 2005 over 12 months
Deferred tax assets in the period		
of which:		
- interests on liabilities	8	0
- balance sheet valuation of exchange differences	35	0
- revaluation of assets	609	203
- provisions for pension benefits	3	349
- accounts payable due to construction contracts	2 409	0
- provisions for bonuses	401	0
- provisions for unused holidays	117	0
- provisions for not paid remunerations and social security	656	0
- provisions for future commitments	170	0
- due to discount of non-current receivables	0	267
	4 408	**819**

No deferred tax asset has been originated on the differences, which in the opinion of the Company cannot reduce the tax base in future periods. The differences amount to PLN 2,435 (taxable amount).

	at 31 December 2005 up to 12 months	at 31 December 2005 over 12 months
Deferred tax assets in the period		
of which:		
- interests on liabilities	42	0
- balance sheet valuation of exchange differences	146	0
- revaluation of assets	596	180
- provisions for pension benefits	7	233
- accounts payable due to construction contracts	1 595	0
- provisions for bonuses	69	0
- provisions for unused holidays	50	0
- provisions for not paid remunerations and social security	8	0
- prior years' tax loss	17	0
- provisions for future commitments	46	0
- due to discount of non-current receivables	0	514
	2 576	**927**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

20.2 Provision for deferred income tax

	at 31 December 2005	at 31 December 2004
Movement in provision for deferred income tax		
Provision for deferred income tax at the beginning of period - reflected in the income statement	2 095	2 716
Additions - reflected in the income statement for the period, due to positive temporary differences, of which:	4 040	1 308
- amounts due fro construction contracts	3 924	1 298
- FORWARD contract valuation	34	
- discount of liabilities	70	
- balance sheet valuation of exchange differences	12	10
Reductions - reflected in the income statement for the period, due to positive temporary differences, of which:	-1 349	-1 929
- interest charged on overdue debt	0	-832
- reversal of investment relief provision	-175	-244
- balance sheet valuation of exchange differences	-10	0
- amounts due from construction contracts	-1 164	-840
- court fees paid	0	-13
Total provisions for deferred income tax at the end of period - reflected in the income statement	**4 786**	**2 095**

	at 31 December 2005 within 12 months	at 31 December 2005 over 12 months
Provision for deferred income tax in the period, of which:		
- amounts due from construction contracts	3 924	0
- FORWARD contract valuation	34	
- discount of liabilities valuation	0	70
- exchange differences	12	0
- investment relief	175	571
	4 145	**641**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	at 31 December 2005 within 12 months	at 31 December 2005 over 12 months
Provision for deferred income tax in the period, of which:		
- amounts due from construction contracts	1 164	0
- exchange differences	10	0
- investment relief	175	746
	1 349	**746**

21. Provisions for liabilities and other charges

	at 31 December 2005	2004
Movement in non-current provisions - by titles		
Beginning of period	1 251	1 277
Additions (due to)	820	22
- creating the provision	820	22
Utilisation (due to)	-31	-40
- payment of pension benefits	-31	-40
Reversal (due to)	0	-8
- actuarial valuation	0	-8
End of period	**2 040**	**1 251**

Main actuarial assumptions adopted for establishing pension benefits are following:

	at 31 December 2005	2004
discount rate	4,7%	6,3%
forecasted inflation	2,5%	2,5%
forecasted increase in salaries	3,5%	3,5%
mobility rate	9,8%	9,5%

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	at 31 December 2005	at 31 December 2004
Movement in current provisions - by titles		
Beginning of period	36	159
Additions, of which:	620	16
- actuarial valuation	0	16
- creating the provision for pension benefits	0	0
- provision for correction works	620	0
Utilisation (due to)	-22	-10
- payment of pension benefits	-22	-10
Reversal (due to)	0	-129
- change in the remuneration system (since 1 January 2004 jubilee rewards are not paid)	0	-129
End of period	**634**	**36**
of which:		
current provisions for correction works	620	0
current provisions for retirement benefits	14	36

The entities in the Group create provisions for future payables which maturities or amounts are not certain.
Particularly, a provision is recognised for correction works and warranty repairs, as the contracts for the supply of electrical installation services and equipment require trade guarantees provided for the customers. Generally, a provision of 0.5% of contract price is made for warranty repairs. Provisions for retirement benefits are estimated by an actuary

22. Accrued expenses

	at 31 December 2005	at 31 December 2004
payments for not taken holidays	617	263
annual bonuses	2 112	362
services	200	201
auditing the financial statements	75	42
grant received	220	0
	3 224	**868**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

23. Sales

	year ended 31 December	
	2005	**2004**
Net sales		
construction and installation services	238 148	195 634
electrotechnical products	93 890	76 896
other services	8 022	9 531
materials sold	4 858	3 492
	344 918	**285 553**

	year ended 31 December	
	2005	**2004**
Net sales		
domestic	311 174	259 293
export	5 125	14 003
sales by a subsidiary in the Russian Federation	28 619	12 257
	344 918	**285 553**

Export sales are carried out by the Power Distribution and Power Generation segments.

	year ended 31 December	
	2005	**2004**
Sales of construction and installation services	238 148	195 634
movement in revenues calculated according to accrual basis	-10 242	-1 156
discount of non-current receivalbes	199	
realised positivie differences	-21	
invoiced sales	228 084	194 478
costs incurred	226 542	184 265
recognised profit net of losses	1 542	10 213

Other entities of the Group did not carry out long-term construction contracts.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

24. Construction contracts

Accounts receivable from the customers and accounts payable to the customers are recognised only in the parent company.

24.1 Amounts due from customers for contract work

	at 31 December 2005	at 31 December 2004
Amounts due from construction contracts	20 650	6 127

The Parent presents as an asset the gross amount due from customers for contract work for all contracts in progress for which the aggregate amount of costs incurred and recognized profits (less recognized losses) exceeds progress billings, except retentions which are included in non-current assets within “trade and other receivables”,

The Management Board of the parent uses a contract budget, the stage of completion and ability to continue the works to estimate the outcome of a contract.

24.2 Amounts due to customers for contract work

	at 31 December 2005	at 31 December 2004
Long-term construction contracts	12 677	8 396

The Parent presents as a liability the gross amount due to customers for contract work for all contracts in Progress for which Progress billings exceed costs incurred plus recognised profits (less recognised losses).

The Management Board of the parent uses a contract budget, the stage of completion and ability to continue the works to estimate the outcome of a contract.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

25. Expenses by nature

	year ended 31 December	
	2005	**2004**
Expenses by nature		
Depreciation and amortisation	5 058	5 772
Materials and electricity	162 808	138 393
Third party services	87 654	63 565
Taxes and charges	2 421	2 117
Salaries and wages	43 642	42 190
Social security and benefits	11 394	10 415
Other expenses by nature, of which:	6 947	5 294
representative and advertising expenses	984	1 036
business travels	2 778	2 147
property and personal insurance	1 117	652
other	2 068	1 459
Total expenses by nature	**319 924**	**267 746**
Movement in inventories, products and accrued expenses	6 633	-3 488
Cost of products manfactured for own needs (negative value)	-1 151	-397
Distribution expenses (negative value)	-2 068	-1 311
General administrative expenses (negative value)	-8 488	-8 354
Cost of material sold	4 587	3 390
	319 437	**257 586**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

26. Other gains (losses) – net

	year ended 31 December	
	2005	**2004**
Other gains (losses) - net		
Proceeds from disposal of non-finance non-current assets	141	278
Provisions for pension and similar benefits	-639	121
Provisions for debt collection expenses	0	581
Donations	-87	-128
Impairment	-1 629	-4 587
Interest charged and received on overdue payments	613	331
Impairment of receivables	-170	-1 506
Unjustified indirect costs	-162	-490
Payments other than remuneration	-152	-372
Exchange differences	565	-596
FORWARD contract valuation	181	0
Commission and fees	-563	-628
Legal charges	-263	-130
Revenue from secured foreign currency transactions	110	0
Other	89	-208
	-1 966	**-7 334**

27. Finance income (expenses) – net

	year ended 31 December	
	2005	**2004**
Finance gains (costs) - net		
Interest on borrowings	-1 663	-1 920
Discount of non-current receivables	1 498	-341
Other	-12	-20
	-177	**-2 281**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

28. Income tax

Current income tax	**at 31 December 2005**	**2004**
Gross profit before consolidation differences	13 154	8 601
Consolidation differences	-373	85
Gross profit (loss) after consolidation differences	12 781	8 686
Differences between profit (loss) before taxation and income tax basis (by titles)	-4 665	3 173
a) expenses and losses, which in accordance with the regulations are permanently not deductible for tax purposes	2 782	4 425
b) expenses and losses, which in accordance with the regulations are temporarily not deductible for tax purposes	-7 447	-1 252
- calculated and not paid interests on liabilities	-18	-89
- provision for debt collection costs	0	-581
- provisions for unused holidays	354	83
- debt revaluation write-off	-2 234	-792
- provision on settlement of long-term contracts	-10 242	-1 156
- foreign exchange differences due to balance-sheet valuation	-590	596
- - tangible assets depreciation due to investment relief for 1995-1999	922	1 281
- unpaid remunerations	2 153	-56
- provision for auditing the accounts	33	-4
- provision for annual bonuses	1 750	-258
- provision for unnecessary or difficult-to-sell inventories	-37	79
- provision for correction works	620	0
- provision for pension benefits and similar	586	-172
- National Security benefits payable by the taxpayer	1 314	0
- discount of receivables	-1 300	340
- discount of liabilities	-369	0
- reversal of share revaluation write-down	0	-339
- prior years' balance sheet amortisation	-5	0
- depreciation of tangible fixed assets revaluation to fair value	127	299
- interest on overdue debt	-256	-298
- FORWARD contract valuation	-181	0
- deferred tax on tax loss	-74	-185
Tax base	8 116	11 859
Income tax	**1 719**	**2 259**
Current income tax recognised in tax declaration for the period, of which:		
- charged to the income statement	1 719	2 259
Deferred income tax	967	508
	2 686	**2 767**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Profit before taxation	12 781	8 686
Tax calculated according to rates applied to income in the countries of the entities	2 609	1 665
Expenses not deductible for tax purposes	471	841
Tax losses for which no deferred income tax asset was recognised		0
Movement in other temporary differences of which no deferred income tax assets were recognised	-394	261
Income tax	**2 686**	**2 767**

Tax authorities carried out a tax inspection for the years 1997 and 1998: no essential tax corrections were requested.

Tax authorities may inspect the books and tax documents of the Company within 5 years after the year in which tax declarations were submitted and charge the Company with additional tax including interest and penalties. In the opinion of the Management Board there are no circumstances indicating the possibility of any related essential liabilities to arise

Income tax of the consolidated entities

	year ended 31 December 2005		
	Income tax	**Current portion**	**Deferred portion**
ELEKTROBUDOWA SA	2 130	1 181	949
KRUELTA SP. Z O.O.	526	508	18
KONIP SP.Z O.O.	30	30	0
	2 686	**1 719**	**967**

	year ended 31 December 2004		
	Income tax	**Current portion**	**Deferred portion**
ELEKTROBUDOWA SA	2 597	2 133	464
KRUELTA SP. Z O.O.	147	103	44
KONIP SP.Z O.O.	23	23	0
	2 767	**2 259**	**508**

The above figures represent the amounts in the income tax item lines of income statements of the entities in the Group, which include charged income tax reduced or enlarged by the change in provision for deferred tax.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

29. Earnings per share

Calculation of diluted earnings per ordinary share for the year ended 31 December 2005 was based on:

average market price of shares in 2005	29,60
option exercise price	21,10

	Earnings	Shares	Earnings per share
net profit for the period (in PLN)	9 279 796		
weighted average number of shares		3 971 000	
earnings per share			2,34
weighted average number of shares (option plan)		249 096	
weighted average number of shares to be issued at average market price		-177 565	
diluted earnings per share	9 279 796	4 042 531	2,30

Calculation of diluted earnings per ordinary share for the year ended 31 December 2004 was based on:

average market price of shares in 2004	25,92
option exercise price	21,10

	Earnings	Shares	Earnings per share
net profit for the period (in PLN)	5 690 322		
weighted average number of shares		3 971 000	
earnings per share			1,43
weighted average number of shares (option plan)		249 096	
weighted average number of shares to be issued at average market price		-202 775	
diluted earnings per share	5 690 322	4 017 321	1,42

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

30. Dividend per share

In 2004 ELEKTROBUDOWA S.A. (the parent company) paid the dividend for 2003 of 50 groszy (0.5 zloty) per share; dividend for 2004 paid in 2005 was 1 zloty per share.

The Management Board of Elektrobudowa SA proposes to pay dividend for 2005 in the amount of 1.50 zloty per share.

31. Cash flow statement

Cash recognized in the cash flow statement means monetary assets in the form of domestic currency and foreign currencies.

	at 31 December	
	2005	**2004**
Cash structure for cash flow statement		
Cash at bank and in hand	10 104	9 073

<u>Division of activities assumed in the cash flow statement.</u>

Operating activities cover business operations defined in the Company Articles which is performed with the objective to generate revenues from sales. They also include other operations (except investing and financial activities) which effect the income.

Investing activities cover purchases or disposals of property, plant and equipment or current financial assets and all cash expenses and gains related to them.

Financing activities cover all operations related to gaining or losing sources of finance (movements in volume and relations between equity and borrowed capital) all cash expenses and gains related to them.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Explaining the differences between balance sheet changes incertain items and changes in those items recognised in the cash flow statement

	at 31 December	
	2005	**2004**
Change of trade and other receivables		
balance sheet change of receivables, of which:	4 250	-11 900
- balance sheet change of trade and other receivables recognised in non-current assets	605	-661
- balance sheet change of trade and other receivables recognised in current assets	3 645	-11 239
change in net receivables from disposal of non-current assets	-366	-953
	3 884	**-12 853**

	at 31 December	
	2005	**2004**
Movement in trade and other payables		
balance sheet change in trade and other payables	1 495	14 857
blanace sheet change in payables due to bank loans and debt securities	5 068	3 920
blanace sheet change in payables due to construction contracts	-4 281	-1 263
paid income tax	1 492	1 831
changes in deferred tax payables	-2 691	620
interest on borrowings not paid	-39	-65
change in accrued expenses	-2 356	762
payment for shares in KRUELTA	0	340
change in net investing expenditure	834	-1 009
repayment of lease commitments	43	-63
	-435	**19 930**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	at 31 December	
	2005	**2004**
Other adjustments		
tangible fixed assets made in the company	-248	-20
finished development works	19	-743
translation differences	22	5
other adjustments	0	-137
FORWARD contract valuation	-181	0
	-388	**-895**

32. The Management Board and the Supervisory Board

Composition of the Boards of the parent company

Supervisory Board

Dariusz Mańko	**-**	**Chairman**
Michał Wnorowski	**-**	**Vice-chairman**
Michał Boni	**-**	**Board member**
Arkadiusz Julke	**-**	**Board member**
Roman Zalewski	**-**	**Board member**
Dariusz Wojda	**-**	**Board member**

Management Board

Jacek Faltynowicz	**-**	**President**
Jarosław Tomaszewski	**-**	**Board member**
Ariusz Bober	**-**	**Board member**
Tomasz Jaźwiński	**-**	**Board member**
Stanisław Rak	**-**	**Board member**

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Aggregate amount of remuneration (including performance related bonus) and rewards (in cash and in kind), paid to the members of the Management Board and the Supervisory Board by the parent company

Members of the Management Board and the Supervisory Board do not receive benefits other than short-term employee benefits.

Key management compensation paid or due in 2005 and 2004 was:

	year ended 31 December 2005			year ended 31 December 2004		
	Basic salary paid	**Bonuses**	**Total payments**	**Basic salary**	**Bonuses paid for 2004**	**Total payments**
Management Board	**1 556**	**0**	**1 556**	**1 540**	**413**	**1 953**
Faltynowicz Jacek	400		400	400	109	509
Tomaszewski Jarosław	357		357	360	68	428
Bober Arkadiusz	259		259	240	128	368
Jaźwiński Tomasz	300		300	300	63	363
Rak Stanisław	240		240	240	45	285
Supervisory Board	**300**	**0**	**300**	**308**	**0**	**308**
Boni Michał	46		46	45		45
Julke Arkadiusz	46		46	45		45
Mańko Dariusz	61		61	49		49
Sołdek Andrzej	0		0	20		20
Stulgis Grzegorz	0		0	27		27
Wnorowski Michał	55		55	53		53
Wojda Dariusz	46		46	24		24
Zalewski Roman	46		46	45		45

Provision in the amount of 860 thousand zloty for bonuses to be paid to the Management Board members of Elektrobudowa SA was created in 2005 costs.

Members of the Management Board participate in the programme of issuance of bonds convertible to series C shares. In 2005 they paid and were allotted 212 000 bonds. Issue price of series C shares was established at PLN 21.10.
Market price of Elektrobudowa’s shares was PLN 36.80 at 31 December 2005 (PLN 26.70 at 31 December 2004).

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

Disclosures on the amount of advances, loans, borrowings and guarantees extended to the members of the Boards of the Parent and not yet repaid

As at 31 December 2005 the Group did not extend any guarantees or borrowings to the members of the Boards.

33. Polish zloty exchange rates

Polish zloty exchange rates in the periods covered by the consolidated financial statements and the comparative consolidated financial figures

In the consolidated financial statements and the separate financial statements of Elektrobudowa S A for the year ended 31 December 2005 profit and loss items in the table "Selected Financial Data" have been translated according to the rate being the arithmetic mean of average EURO rates announced by the National Bank of Poland at the end of each month of 2005, i.e. 4.0233.

Average EURO rates over 2005

Date of announcement	EURO rate	Table
31.01.2005	4.0503	21/A/NBP/2005
28.02.2005	3.9119	41/A/NBP/2005
31.03.2005	4.0837	63/A/NBP/2005
29.04.2005	4.2756	83/A/NBP/2005
31.05.2005	4.1212	103/A/NBP/2005
30.06.2005	4.0401	125/A/NBP/2005
29.07.2005	4.0758	146/A/NBP/2005
31.08.2005	4.0495	168/A/NBP/2005
30.09.2005	3.9166	190/A/NBP/2005
31.10.2005	3.9893	211/A/NBP/2005
30.11.2005	3.9053	231/A/NBP/2005
30.12.2005	3.8598	252/A/NBP/2005
01.01 - 31.12.2005	**48.2791 : 12 = 4.0233**	

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

34. Related party transactions

In 2005 both ELEKTROBUDOWA SA and its subsidiaries entered only into typical, routine transactions made on an arm's length basis between the related parties and resulting from day-to-day business operations of the entities in the Group.

Balances with the parent

Transactions carried out by Elektrobudowa SA with related parties in the reporting period:

- sales of products to Kruelta	18.416 thousand zlotys
- sales of products to Konip	86 thousand zlotys

Sales realized by the subsidiaries to Elektrobudowa SA:
- KRUELTA 19 thousand zlotys
- KONIP 777 thousand zlotys

Year-end balances:	512 thousand zlotys

of which:

payables of Kruelta to Elektrobudowa SA	448 thousand zlotys
payables of Elektrobudowy SA to Konip	64 thousand zlotys

Financial data relating to the subsidiaries

Mutual settlements
Exclusions from consolidation, considering the internal settlements within the Group, were made for the amount of 1,545 thousand zlotys.

Internal sales
Exclusions from consolidation were made for the amount of 19,297 thousand zlotys, which considered the sales between entities subject to consolidation.

Exclusion of unrealised gains
Adjustments of unrealised gains were made for the amount of 4 thousand zlotys.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

35. Financial instruments

Financial instrument information
Receivables
Proceeds from interest (charge and realised) on receivables amount to 773 thousand zloty in 2005 (in 2004: 814 thousand zloty).

Available-for-sale financial assets
Carrying amount of interest in BIPROHUT at 31 December 2005 and at 31 December 2004 was 879 thousand zloty.

Derivative financial instruments

In order to reduce the risk of drop in exchange rate which could have and adverse effect on the level of selling prices, the Parent company used forward contracts as cash flow hedges. Proceeds from hedged transactions in 2005 amounted to 110 thousand zloty and the valuation of contract as at 31 December 2005 charged to other net income was 181 thousand zloty.

36. Investments

	at 31 December	
	2005	**2004**
Investments at the beginning of period	1 482	76
Expenditure in the reporting period	5 806	4 914
of which:		
- cost of own manufacture	248	39
- cost of third party works	2 244	2 082
- cost of purchased machines, equipment and services	3 314	2 793
Investments recognised in fixed tangible assets	6 104	3 508
of which:		
- leasing		128
Investments at the end of period	**1 184**	**1 482**
of which:		
investments related to tangible fixed assets	426	1463
investments related to intangible assets	758	19

Only the parent Company realised the investments which were still in progress at the balance sheet date.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

37. Contingencies

a) guarantees

NAs at 31 December 2005 only the parent company, ELEKTROBUDOWA SA, provided performance bonds and warranty bonds through:

T.U ALLIANZ POLSKA S.A.	**PLN**	**14 685 359.26**
BPH S.A.	**PLN**	**3 600 726.29**
BRE Bank S.A.	**PLN**	**6 993 813.27**
Bank Handlowy S.A.	**PLN**	**483 595.12**
Gerling Towarzystwo Ubezpieczeniowe S.A.	**PLN**	**7 554 842.74**
ERGO HESTIA S.A.	**PLN**	**1 167 008.15**
ING Bank Śląski S.A.	**PLN**	**3 265 238.57**
TOTAL	**PLN**	**37 750 583.40**

b) Bills and promissory notes

As at 31 December 2005 ELEKTROBUDOWA SA issued promissory notes for the total amount of PLN **7,182,367.32**
and also:

1. 16 BILLS OF EXCHANGE ISSUED IN FAVOUR OF BRE BANK S.A. O/KATOWICE AS SECURITY FOR THE BANK GUARANTEES
2. 5 BILLS OF EXCHANGE WITH "WITHOUT PROTEST" RESTRICTION AS SECURITY FOR RECOURSE CLAIM OF ERGO HESTIA S.A.
3. 10 BLANK BILLS OF EXCHANGE AS SECURITY FOR INSURANCE GUARANTEE CLAIM OF T.U. ALLIANZ POLSKA S.A.
4. 5 BLANK BILLS OF EXCHANGE AS SECURITY FOR THE LOAN FROM BANK BPH S.A.
5. 5 BLANK BILLS OF EXCHANGE "WITHOUT PROTEST" IN FAVOUR OF GERLING POLSKA T.U. S.A.AS SECURITY FOR BANK GUARANTEES
6. 1 BLANK BILL OF EXCHANGE AS SECURITY FOR THE CREDIT FROM BANK PKO BP S.A.

c) Investment relief

Following the Regulation of the Council of Ministers of 25 January 1994 on deducting investment expenditure from the income and on income tax reductions, as well as the corporate income tax law of 15 February 1992 (as amended), in 1994-1999 the parent company exercised its right to relief in the amount of PLN 24,302 thousand.

In 1995-2000 the parent company made a deduction of investment premium, payable on capital expenditure, in the amount of PLN 10,628 thousand.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

The relief is of contingent nature. Provisions of the above mentioned law stipulate that the right to investment relief or investment premium may be lost if one of the following circumstances occurs within 3 years:

a) a taxpayer has fallen into arrears in payment of taxes which are income for the Budget or of national insurance contributions, which arrears, separately for each title (of which separately for each kind of tax) are greater than 3 % of amounts due for these years,
b) taxpayers will transfer – in any form – ownership of those property items which were subject to income deductions or tax reductions; it does not apply, however, to transfer of ownership due to change of legal form, merger or division of business entities,
c) circumstances ceased to exist which had allowed for recognising the items of fixed tangible assets, used against payment on the grounds of lease, rent or similar agreements, in taxpayer's property,
d) a taxpayer is forced to go into liquidation or his bankruptcy has been declared,
e) a taxpayer has received any kind of return of investment expenditure.

The act on amendment to a law on corporate income tax of 20 November 1998 provides that in the appraisal of a loss of the right to deductions for reasons specified in a) above it is assumed that the loss of the right does not occur if the taxpayer submits a correction of the tax declaration and pays the arrears together with due interest in the time provided by the act or within 14 days since the receipt of decision issued by the body of first instance specifying the tax obligations.

As at 31 December 2005 the parent company fulfilled all requirements to enjoy the right to the described deductions.

d) Rental commitments

Current rental agreements have been concluded for 2 years.
Total agreed rent in this period will amount to 1,962 thousand zloty.

38. Events after the balance sheet date

On 5 January 2006 the Parent repaid the second tranche of debt securities issue in the amount of 7,964 thousand zloty.

Further issues took place:

5 January 2006	amount:	4,975 thousand zloty	(repayment: 8 February 2006)
8 February 2006	amount:	4,981 thousand zloty	(repayment: 8 March 2006)
8 March 2006	amount:	3,981 thousand zloty	(repayment: 8 April 2006)

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

39. Employment

Total average number of employees in the entities of the Group

Description	Average number of employees in 2005	Average number of employees in 2004
Total	1 184	1 109
of which:		
Manual workers	713	673
Other employees	465	430
Persons on child care and unpaid leaves	6	6

40. Transition to IFRS

Changes of the applied accounting standards

Up to 31 December 2004 Elektrobudowa SA did not prepare consolidated financial statements as required by Articles 56 and 58 of the Accounting Act of 29 September 1994.
Beginning with 1 January 2005 the consolidated financial statements of the Group are prepared in accordance with IFRS, with 1 January as the transition date.

Estimates and judgments by the management during the process of implementation and application of IFRS.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Significant estimates and assumptions are discussed below.

In the course of introducing the IFRS, in the situation when the IFRS permit two accounting treatments for like transactions and events, the Management Board decided to select and apply the benchmark treatment, except valuation of some property, plant and equipment items which were valued at fair value and that value was used as the assumed cost established for the valuation date.

Judgments by management were applied in estimating the effect of hyperinflation on the amount of share capital and reserves (details in Note 15), in estimating the amount of provisions for warranty works (details in Note 21) and in estimating receivables and payables due to non-current construction contracts (details in Note 24).
Information on Elektrobudowa's influence on the operating and financial policy of Biprohut is disclosed in Note 9, and the opinion of the Management Board of Elektrobudowa SA on impairment of Kruelta receivables in Note 11.2.

all amounts in PLN thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

41. Additional notes

Distribution of profit for 2004

Following the Resolution No. 15 of the Supervisory Board of Elektrobudowa SA adopted on 27 April 2005 the net profit of the parent company for 2004 in the amount of PLN 5,016,025.05 was distributed in the following way:

a)	dividend payment	PLN 3,971,000.00
b)	servicing of dividend	PLN 29,000.00
c)	reserve capital	PLN 1,016,025.05

Information on implementation of the resolution 100/III/2002 of the Supervisory Board of Elektrobudowa SA

To implement the resolution 100/III/2002 of the Supervisory Board dated 23 May 2002, in July 2005 the Management Board adopted a resolution to grant to the selected group of Elektrobudowa's employees the convertible bonds with the right to subscribe for 249,096 series C shares for the price of 21.10 zlotys per share. The right will be exercised between 1 and 30 September 2006. There are no other conditions required for granting the shares.

Comparability of the consolidate financial statements

The comparable data have been presented according to the same standards as were adopted for preparing the separate financial statements for the year ended 31 December 2005.

Material error adjustments

No adjustments of material fault in the financial statements for prior periods were made in 2005. No such faults occurred.

Legal claims against the parent company and the subsidiaries

There are no essential legal claims against the parent company or the subsidiaries In the opinion of the Management there are no circumstances indicating any substantial obligations to arise.

Notes to the consolidated financial statements (continued)

Amounts due to the Budget or local government for obtaining the right to buildings or structures.

As at 31 December 2005 the Group had not had any debt towards the Budget or local government due to obtaining the right to buildings or structures.

Significant events from previous years disclosed in the financial statements for the current period

At 31 December 2005 there were no significant events concerning prior years, which should be disclosed in the 2005 report.

Investment expenditure and off-balance sheet commitments due to the acquisition of fixed tangible assets

The Group's investment expenditure in 2005 amounted to 5.806 thousand zlotys.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Forename and surname	Post/ Function	Date	Signature
Jacek Faltynowicz	President	27.03.2006	
Jarosław Tomaszewski	Board Member	27.03.2006	
Ariusz Bober	Board Member	27.03.2006	
Stanisław Rak	Board Member	27.03.2006	
Tomasz Jaźwiński	Board Member	27.03.2006	

SIGNATURE OF THE PERSON RESPONSIBLE FOR MAINTAINING THE COMPANY ACCOUNTS

Forename and surname	Post/ Function	Date	Signature
Danuta Tomaszewska	Chief Accountant	27.03.2006	

DIRECTOR'S REPORT

THE ELEKTROBUDOWA SA GROUP

YEAR ENDED 31 DECEMBER 2005

1. Structure of the Elektrobudowa SA Group.

1.1. Parent company - Elektrobudowa SA with its registered office in Katowice, ul. Porcelanowa 12
40-246 Katowice.

The basic object of Company activity, according to Polish Classification of Activity (PKD 4531 A) is the execution of electrical installations in buildings and structures. According to classification of the Warsaw Stock Exchange – building industry.

The business activity of Elektrobudowa SA includes:

- Execution of a full range of wiring works required in all newly erected, developed and modernized power stations as well as in industrial objects,
- Delivery of electric power equipment, especially equipment designed for the transmission and distribution of energy
- Performing services in the field of designing, post-assembly measurements and start-up.

1.2. Subsidiary company - KRUELTA Sp. z o.o. with registered office in St Petersburg, Mineralnaya Street d 13 .

- ELEKTROBUDOWA SA holds 51% shares in the subsidiary company KRUELTA Sp. z o. o. that represent 51% of KRUELTA Company capital.

Basic activity of KRUELTA Company concentrates on the assembly and sale of medium-voltage switchgear on the Russian market. This offer is supplemented by the sale of low-voltage switchgear and mobile container stations.

1.3. Subsidiary entity KONIP Sp. z o.o. with registered office in Katowice, ul. Porcelanowa 12
40-246 Katowice.

- ELEKTROBUDOWA SA has 100% shares in the company capital.

KONIP Sp. z o. o. deals with administration of real property belonging to Elektrobudowa SA or property which is held by it in perpetual usufruct, and in particular with technical maintenance and administration of buildings and structures, hire of free usable areas, fire-fighting service, cleaning of premises and area as well as protection of property, rendering telecommunication services, keeping archives and reception services.

The Elektrobudowa Group did not in previous years (2003 and 2004) draw up any consolidated Financial Statement by virtue of Article 56 and 58 of 29th September, 1994, Accountancy Act.
As from 2005 Consolidated Financial Statements are being drawn up in conformity with International Financial Reporting Standards (IFRS).

2. Current and anticipated financial situation. Basic economic and financial figures.

2.1. Receipts from sales. Basic Products and Services.

In 2005 receipts from the sale of products, services and materials of the ELEKTROBUDOWA Group amounted to 344,918 thousand PLN.

Income from basic Group activity, i.e. performance of building and assembly services in the field of electric installation works made up the biggest share in sales. These sales amounted to 238,148 thousand PLN and constituted 69.0 % of all sales income.

The table below presents the net income structure from the sale of products, goods and materials in 2005 and 2004.

	2005		2004		Change
	PLN'000	%	PLN'000	%	PLN'000
Net income from sale of products, goods and materials	**344,918**	**100.0**	**285,553**	**100.0**	**+ 59,365**
Building and assembly services	238,148	69.0	195,634	68.5	+ 42,514
Electrotechnical products	93,890	27.3	76,896	26.9	+ 16,994
Other services	8,022	2.3	9,531	3.4	- 1,509
Materials and goods	4,858	1.4	3,492	1.2	+ 1,366

ELEKTROBUDOWA SA Group specializes in the production of equipment used for the transmission and distribution of electric energy; it made up 27.3% share in the sales income in 2005. One of the main strategic objectives of the Group is to maintain the position of principal supplier on the Polish market of medium-voltage switchgear.

In 2005 industrial products for the sum of 131,537 thousand PLN were sold. This sale amount was shared by assembly units – 37,647 thousand PLN and direct (external) sales which amounted 93,890 thousand PLN. These figures include sales effected in Russia by the subsidiary entity KRUELTA in the amount of 28,619 thousand PLN.

Production quantities of the most important products.

Type of Product	***Unit of measure***	***Quantity***	
		2005	***2004***
Medium voltage switchgear	cubicle	2,032	1,483
Low voltage switchgear	segment	700	984
Bus bar bridges (busways)	m	842	920
Cable constructions	tons	106	99
Container stations	sets	96	127

Value of manufactured products.

Type of product	***2005***		***2004***	
	Value (PLN'000)	*Structure (%)*	*Value (PLN'000)*	*Structure (%)*
Medium voltage switchgear	67,385	51.2	43,555	35.5
Low voltage switchgear	10,816	8.2	20,772	16.9
Busduct	4,356	3.3	6,452	5.2
Cable constructions	645	0.5	589	0.5
Container stations	43.253	32.9	45,327	36.9
Other products	5,082	3.9	6,127	5.0
TOTAL	**131,537**	**100.0**	**122,822**	**100.0**

2.2 Financial result and basic factors as well as untypical events affecting its value

In 2005 receipts from sales of the Elektrobudowa SA Group increased by as much as 20,8% as compared with the same period of the preceding year. After several years of crisis the building industry, and in particular building and assembly production, noted a considerable growth in sales in 2005. There exists a big chance that this tendency will continue during the years to come.

According to GUS (Chief Statistical Office), GNP increased by 4.2% as compared with the same period of the year before. Nevertheless, more important than the rate of growth itself is the fact that enterprise investments in 2005 had the biggest rate of growth in years.

A considerable increase in the level of industrial and infrastructural investments can be expected in the nearest future which in consequence should bring about a considerable increase in demand for the services of building companies.

The main items in the Income Statement for 2005 and 2004 are as follows:

	2005				**Change**	
	PLN'000	**%**	**PLN'000**	**%**	**PLN'000**	**%**
Net income from sale of products, goods and materials	344,918	100.0	285,553	100.0	+ 59,365	+ 20.8
Cost of sold products, Goods and materials	319,437	92.6	257,586	90.2	+ 61,851	+ 24.0
Costs of sale	2,068	0.6	1,311	0.5	+ 757	+ 57.7
Overheads	8,489	2.5	8,355	2.9	+ 134	+ 1.6
Other net profit (loss)	- 1,966	- 0.6	- 7,334	- 2.6	- 5,368	- 73.2
Profit on operating activity	12,958	3.8	10,967	3.8	+ 1,991	+ 18.1
Gross profit	12,781	3.7	8,686	3.0	+ 4,095	+ 47.1
Net profit	10,095	2.9	5,919	2.1	+ 4,176	+ 70.6
Profit attributable to Company shareholders	9,280	2.7	5,690	2.0	+ 3,590	+ 63.1
Profit attributable to minority interest	815	0.2	229	0.1	+ 586	+ 355.9

In 2005 the Group made 12,958 thousand PLN profit on operating activity, which exceeded by 1,991 thousand PLN the profit derived in 2004.

The rate of return on operating profit amounted to 3,8 % and was on the same level as in 2004.
A decided reduction of loss on other net profit (loss) was the effect of making lower than in 2004 revaluation deductions of receivables for deliveries and services by the Parent.

The necessity of making revaluation deductions of receivables occurred above all in the Parent.
Already in 2004 Elektrobudowa SA began an intensive process of putting overdue receivables in order. In 2005, basically only the receivables that had been difficult to collect were put in order. In result of these actions the circulation of accounts receivable was reduced by another 15 days as compared to the year 2004 and amounted to 98 days. This index level is lower than the average indexes for the "building" industry.

Current revaluation deductions in the Parent will still take place because the financial standing of some customers of the Company's is not too good, but then deductions should not reach the level of previous years.

Gross profit generated by the Group for 2005 amounted to 12,781 thousand PLN, whereas net profit to 10,095 thousand PLN and was higher than net profit derived in 2004 by 4,176 thousand PLN. Return of sales on the level of net profit amounted to 2.9 % and was higher than return on sales for 2004 by 0.8%.

2.3. Financial Analysis

In 2005 the balance sheet sum of the Group increased by 7,669 thousand PLN as compared with 2004, that is by 4.4%.
On the assets side the increase mainly took place in fixed assets under item “assets on account of deferred income tax” which is directly connected with the amount of deferred income tax formed on the Group’s liability amounts on account of building contracts. At the same time there was a considerable drop in short-term receivables for deliveries and services whereas their circulation index dropped from 113 to 101 days.
On the liabilities side the balance sheet sum increased mainly due to the increase of deferred income tax, especially in connection with increased deferred income tax on sums payable to contractors for the performance of building works.

At the same time, on the liabilities side, there was a drop in short-term liabilities which resulted from reduced indebtedness on account of credits and debenture bonds as well as a drop in liabilities an account of deliveries and services simultaneously accompanied by shortened average time of their payment from 57 to 51 days.

Among all the assets held by subsidiary entities of the Group the Parent has the biggest influence on the value of the whole Group.
In the structure of assets of the Group the assets of Elektrobudowa SA prevail. The assets share of subsidiary entities as on 31.12.2005 amounted to 8,789 thousand PLN making up 4.9 % of the assets structure.

Elektrobudowa SA

Results and description of Elektrobudowa SA activity can be found in the individual annual Financial Statements of the Company.

KRUELTA sp. z o.o.

In 2005 there was a dynamic growth of receipts from sales in KRUELTA Company. Income from sale for 2005 amounted to 28,619 thousand PLN and was higher than the income derived in 2004 by 16,381 thousand PLN. The increased sales income also caused increased profit on operating activity, which for 2005 amounted to 2,190 thousand PLN and was higher than that in 2004 by 1,695 thousand PLN.
Net profit of the Company KRUELTA for 2005 amounted to 1,664 thousand PLN and was higher than net profit for 2004 by 1,197 thousand PLN.
Net profit of KRUELTA Company for 2005 amounted to 1,664 thousand PLN and was higher than net profit for 2004 by 1,197 thousand PLN.
The rate of return on the level of net profit reached by the Company for 2005 amounted to 5.8% and increased by 52.6% as compared with 2004.

KONIP sp. z o.o.

Income from sales in KONIP Company for the year 2005 amounted to 782 thousand PLN and dropped by 7.4% as compared with 2004, which is the outcome of the policy adopted by Elektrobudowa SA in the area of reducing operating costs, among other things lowering the costs of real property administration, which lies within the competence scope of the KONIP Company. In result of these steps the net profit for 2005 derived by the Company amounted to 70 thousand PLN (97 thousand PLN in 2004), whereas the rate of return on the level of net profit amounted to 8.9% (2004 – 11.5%).

		2005	2004
I.	**Rates of return**		
1.	Net rate of return on sales *Net profit (loss) net / income from sales*	2.93%	2.07 %
3.	Rate of return on operating activity *Operating profit (loss) / income from sales*	3.76%	3.84 %
4.	Return on equity (ROE) *Net profit (loss) / equity capital average*	14.74%	9.33 %
5.	Return on assets (ROA) *Net profit (loss) / average assets*	5.72%	3.63 %
II.	**Liquidity ratios**		
1.	Current liquidity ratios *Working assets / (short-term liabilities + prepayments and accruals)*	1.27	1.21
2.	Rapid liquidity ratio *(working assets - stocks – prepayments and accruals)/*	1.04	1.05
III.	**Circulation indexes**		
1.	Circulation of receivables for deliveries and services in days *Average receivables for deliveries and services x 360 days / income from sales*	98	113
2.	Circulation of liabilities for deliveries and services in days *Average receivables for deliveries and services x 360 days / income from sales*	51	57
3.	Circulation of stocks in days *Average stocks x 360 days / income from sales*	10	12
4.	Assets circulation ratio *Income from sales /average total assets*	1.96	1.75
IV.	**Rate of indebtedness**		
1.	Rate of general indebtedness *Foreign capital / total assets*	60.27%	62.08 %

The presented ratios reflect in synthetic form the measurement of management effectiveness in the Group, which should be assessed as good.

In 2005 Group entities continued implementing the programme of cutting costs, and in particular fixed costs. The programme will consequently be applied during future years.

The rates of return of the Group show a growing tendency in the last few years, especially in result of net profit derived by the Group, increasing from year to year.
Liquidity ratios in 2005 and 2004 have actually remained on a unchanged satisfactory level.

The definite drop in the circulation rate of short-term receivables for deliveries and services in 2005, which dropped from 113 days in 2004 to 98 days in 2005 should be considered a very positive feature. At the same time, the circulation rate of short-term liabilities for deliveries and services dropped from 57 days in 2004 to 51 days in 2005.

In consequence the disproportion between time limits for settling receivables and liabilities dropped in 2005 as compared with 2004, thus causing a drop in the Group's demand for working capital.
The stocks circulation ration dropped in 2005 to 10 days (2004 – 12 days), which proves that the stocks were managed effectively.

2.4. Financial Resources Management.

In 2005 the Elektrobudowa SA Group was fully capable of discharging itself of financial obligations both in relation to its suppliers and subcontractors as well as financial institutions.
The Group's financial activity in 2005 was conducted on the ground of its own funds and credit line opened in banks, which gave the Group full power to discharge itself of the contracted obligations.
Significant dangers which may have effect on the Group's activity is the economic situation, delay of investment decisions as well as delays or lack of privatization decisions.

Two factors affected the financial activity of the Group in 2005: level of interest rate and rates of exchange. The drop in interest rates had considerable influence on the quality of co-operation with banks, possibility of enjoying credit lines, whereas foreign exchange fluctuations which strengthened Polish currency in 2005, on one hand contributed to a lower level of income from export which was partly compensated by lower expenses involved with import and transactions securing foreign exchange fluctuations (forward).

Keeping in mind the diversification of source of financing of activity, in July 2005 the Parent signed an Agreement for a Bond Issue Programme for the sum up to 30.0 million PLN, which resulted in the reduction of contracted credit levels, thus reducing the financial costs involved.

In 2005 the entire activity of the Parent was aimed at negotiating with banks such credit line granting conditions that would secure the risk of banks and allow the Company to fully take advantage of the possibilities resulting from products offered by the banks.

During that time cooperation with insurance companies in the area of insurance guarantees developed significantly.

These activities were reflected by:

- the very good credit situation of the Group,
- discontinuous increase of lines for bank and insurance securities,
- flexible use of all sources of financing, making use of about half the potential possibilities of the Group in that area.

The Group closely monitors the contracting parties from the point of view of assessing their financial possibilities, which form the basis for the decision before concluding the contract. The current financial situation of the Group allows it to effect its obligations on time and gives it the possibility of conducting investment activity.

2.5. Human Capital Management

In 2005 average employment in the Group was 1,184 full-time jobs and was higher by 6.8% than in the year 2004.

Total employment at the end of 2005 amounted to 1,168 persons and was by 1.5% lower than at the end of 2004.

Among the total number of employees 713 persons were employed in worker positions, whereas 461 persons were employed in other non-worker positions.

Both the quantity as well as the competence and skills of employed personnel ensured to the Group performance of its current tasks and development works resulting from the implemented strategy and financial plans for 2005 and the years to come.

Change of the Company's Collective Labour Contract carried out by the Parent as from 1st January, 2004, considerably simplified the remuneration system which had been in effect in Elektrobudowa SA and tied the wages with economic effectiveness.

Concerning employment efficiency and output level in 2005 the Group noted a significant growth of these indexes as compared with 2004. Employment efficiency which shows the level of income from sales per one employee in 2005 was on the level of 291,3 thousand PLN and was higher by about 13.2% than in 2004.

Remuneration effectiveness shows an even higher growth; it shows the amount of income generated by each złoty spent on remuneration of workers. In 2005 on the scale of the whole Group this amounted to 7.9; it was higher than in 2004 by about 16.2%.

The development of workers' qualifications and competence is a crucial problem in the development of the Group. Hence in 2005 training policy was being implemented as planned.

In total the Parent spent on training 437.9 thousand PLN, i.e. about 13 % more than in 2004.

In 2005 no conflicts with trade unions had been noted. Co-operation with social partners is developing in a constructive way with mutual respect of the partners' rights.

In 2005 the Group supported and respected generally accepted human rights as well as observed worker standards in the scope of the right of association and collective negotiations and counteracting discrimination practices.

2.6. Prospects for the Group activity development - significant risk factors and dangers.

In the opinion of the entities belonging to the Group the year 2005 was definitely a more favourable year than the previous ones when its comes to business activity.

The Elektrobudowa Group in 2005 not only noted increased receipts from sales but also obtained a record number of orders, which as on 31st December, 2005, amounted to 229.4 million PLN in the Parent, whereas the value of orders received in 2005 amounted to 376.1 million PLN.

The sale offer of the Elektrobudowa Group in 2005, similar as in previous years consisted of a whole range of already existing products and new items which complement the offer, making it more attractive. It consisted of the following groups of products:

1. Low, medium and high-voltage power networks
2. Power and lighting wiring systems
3. Wiring systems for endangered zones
4. Low, medium and high-voltage substations
5. Measurements and start-up
6. Designing of equipment specified under items 1-4
7. Technical maintenance services
8. General execution of investment works
9. Conceptual work and consulting

The Customer is offered complex performance of the project, starting with designing and prefabrication of equipment through delivery, assembly, start-up together with operation during the trial period and ending with guarantee and post-guarantee service. The potential possessed by the Group allows it to implement the majority of complex projects on its own.

Depending on the sector of economy the intensity of activity of competitive companies varies. In some the Company is an unquestioned leader and in others it is just beginning to build its position.

Development of the Group to a large extent depends on the customers of particular entities belonging to the Group, that represent the following branches: power, building, petrochemical, mining, metallurgic industries, commerce and the army. Each of the foregoing branches has specific requirements in the area of services and products involved with the generation, transmission and use of electric energy and differs in its method of functioning as well as in its economic situation.

Until 2004 the building branch was characterized by distinct recession. Having dealt with the recession on the market of investments, one can expect full reversion of the falling tendency during the years to come.

Future income of the Group will undoubtedly depend on such factors as:

- favourable business conditions in the power, chemical, metallurgic and building industries,
- price level of electric and power materials and equipment as well as metallurgic products,
- intensification of canvassing activities, particularly on the markets of Central and Eastern Europe,
- course of privatization processes, especially in the power industry,
- reduction of the Group operating costs.

One should keep in mind however that the necessity of adapting to European Union requirements will delay investment growth in power industry by several years, whereas the expected inflow of EU funds will cause considerable increase of investments in infrastructure, which can be expected already in 2007 and the years that follow.

3. Market situation - sales and supplies.

3.1 Directions of Sale.

The activity of the ELEKTROBUDOWA Group mainly concentrates on the Polish market. Export in 2005 amounted to 5,125 thousand PLN, which made up 1.5 % income from the sale of products and was mainly limited to the export of electrotechnical products manufactured by the Group.

Sales to the power generating industry by the subsidiary entity KRUELTA in Russia amounted to 28,619 thousand PLN and made up 8.4% of the Group's income.

As compared with the year 2004 income from sales in KRUELTA Company increased more than twice (2004 - 12,257 thousand PLN).

Presented below is an itemization of income from sales of products of the Elektrobudowa Group according to branches of economy to which the sales were made in the year 2005.

Areas of activity	***2005***		***2004***	
	Value (PLN'000)	***Structure %***	*Value (PLN'000)*	***Structure %***
Power generation industry	107,958	31.7	96,343	34.2
Power distribution industry	18,420	5.4	20,086	7.1
Chemical industry	43,350	12,7	43,089	15.3
Housing and utility building	19,554	5.8	11,604	4.1
Shopping facilities	48,524	14.3	27,879	9.9
Building materials industry	2,410	0.7	133	-
Mining industry	55,809	16.4	47,269	16.7
Food industry	4,727	1.4	193	0.1
Metallurgic industry	8,444	2.5	6,235	2.2
Environmental protection objects	8,279	2.4	1,791	0.6
Paper industry	5,669	1.7	2,292	0.8
Transport	1,180	0.4	1,894	0.7
Export of products	5,125	1.5	13,667	4.9
Other areas	10,611	3.1	9,586	3.4
Total	**340,060**	**100.00**	**282,061**	**100.00**

Traditionally, the power generating sector was the biggest source of income in 2005 (37.5% in the branch structure of sales) where the ELEKTROBUDOWA Group was present with its products and full range of electric installation works on all newly erected, developed and modernized professional power industry buildings and structures. The Group also makes installations connected with environmental protection (2.4% in the branch sales structure).

The market, second in size, in which the Group conducts its activity is the mining industry. The share of income from this branch of industry in the total income amounted to 16.4% in 2005. This area included lignite mines, coal mines and copper mines.

In 2005 supplies and works performed in new and modernized commercial buildings, i.e. supermarkets and chains of stores KAUFLAND, Hypernova, Biedronka and LIDL had a significant share in the total income of the Group, amounting to 14.3%. The specific type of works performed in shopping facilities is a new area of activity for the Group.

The chemical industry was a market next in size for the Group activity in 2005. The volume of sales to the chemical industry in 2005 made up 12.7% of the total sales and mainly concerned PKN ORLEN S.A. in Płock.

The remaining market segments allowed the Group to considerably supplement its sales beyond the forenamed basic branches of the economy.

Directions and structure of income from export sales of products and materials of the Group have been presented below:

	2005		2004	
	Value in thousand PLN	%	*Value in thousand PLN*	%
Belarus	2,567	50.1	6,374	45.5
Lithuania	1,121	21.9	5,819	41.6
Germany	147	2.9	841	6.0
Croatia	179	3.5	672	4.8
Turkey	582	11.3	158	1.1
Finland	159	3.1	139	1.0
Virgin Islands	289	5.6		
Other (Spain, Bulgaria)	81	1.6		
Total income from export sales	**5,125**	**100.00**	**14,003**	**100.00**

Smaller income from the Group's export sales in 2005 as compared with the year 2004 was the outcome of finishing deliveries to the Byelorussian company Inosat and fulfilling the final part of the contract for the Lithuanian contracting party.

3.2 Dependence on one or more customers

None of the contracts performed in 2005 exceeded 10% of income from the Group sales achieved during that period.
In 2005 the Group noted its highest income from the performance of contract GPZ-1 and GPZ-2 in PKN ORLEN in Płock. The value of performed works on this contract amounted to 24.2 million PLN.

3.3 Sources of supply

During the period 1st January – 31st December, 2005, the sources of supply did not change much as compared with previous years. The ELEKTROBUDOWA Group does not depend on one or several suppliers, whose share in relation to sales would exceed 10%. However, having in mind the necessity of cutting costs we are looking for new suppliers of materials who can offer more favourable conditions of purchase.

4. Important contracts

4.1. Contracts for building and assembly works and delivery of products.

PKN Orlen
- modernization GPZ – 1 and GPZ - 2

ST PROJEKT Wrocław
- commercial and service building in Bolesławiec

EC Żerań
- delivery, assembly and start-up

Hydrobudowa - 6 S.A.
- office building DOM BETA in Warszawa (Warsaw)

Unimex Warszawa
- commercial and service building Hypernova in Tczew

STOEN Warszawa
- station Młynów

4.2 Insurance contracts

a/ TRYG Polska Towarzystwo Ubezpieczeniowe S.A :
- third-party and Casco insurance contract for means of transport;

b/ Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" SA w Warszawie
contracts for:
- all-risk insurance of building and assembly production,

c/ AIG Polska Towarzystwo Ubezpieczeń S.A. Warszawa
- third-party insurance of members of the Management Board, Signing Clerks and Supervisory Board of the Company.

d/ Towarzystwo Ubezpieczeniowe Alianz Polska S.A. w Warszawie
- Insurance of property against fire and other events;
- Insurance of cash against theft and burglary;
- Insurance of cargo during railway transport;

e/ Towarzystwo Ubezpieczeniowe Gerling S.A.
- Third-party insurance on account of conducting business activity;

5. Investments

Investments implemented in 2005

Total investment outlays in 2005 amounted to **5,806 thousand PLN**. (this includes intangible assets in the sum of 1,112 thousand PLN).

The basic part of expenditures was earmarked for further modernization and current reproduction of tangible assets of the Group.

Within the framework of further modernizing the production plant in Konin modernization of the technical services building was continued, as well as modernization of the powder paint shop, widening of the internal asphalt road and building of strengthened warehouse racks, allowing more rational use of storage space use for storing sheet metal. Moreover, the roof of Skawina Hall in Mikołów had undergone modernization.

We made purchases of equipment for improving the production process and assembly technology in the sum of 786 thousand PLN, as well as continued the replacement of computer hardware and purchase of modern software (in the sum of 691 thousand PLN)

The company bought , among other things, control and measuring apparatuses, equipment for bus bar dressing, pneumatic and hydraulic riveting machines, pin welding machines, cable hoists, hammers and percussion drills, hydraulic cutting machine for reinforced cables, presses for cable ends, rail benders, semi-automatic welder. The company also purchased two multimedia projectors and six modern digital copying machines with the purpose of improving further the organization of office work.

In order to improve transport twenty-three estate cars and motors cars were purchased as well as a diesel fork-lift truck with 4 ton hoisting capacity.

The 2005 year investments were financed from the company's own funds, including to a lesser degree, from receipts obtained from the sale of tangible components.

Investment plan for 2006

Planned investment outlays of the Group in 2006 amount to **18,480 thousand PLN**, this including in:

- Elektrobudowa SA 7,080 thousand PLN
- KONIP Company 24 thousand PLN
- KRUELTA Company 11,376 thousand PLN

Investment requirements of 2006 result from the necessity of continuing to modernize the Group's tangible assets in order to achieve higher and higher efficiency of the production process.
We are planning, among other things, to further modernize the technical services building in Konin, build a roofed connecting building between bays No. 1 and 2, which will integrate the nearly 6 thousand metre production area (3.2 million PLN).

We will still continue to modernize the machine stock. The sum of 6.8 million PLN has been assigned for the purchase of machines and equipment.

Part of the outlays planned for 2006 will be allocated to the organization of modern workstations and to the purchase of computer equipment. Planned outlays for the purchase of software amount to 0.8 million PLN.

Moreover, we are planning to build a new Kruelta Company industrial-office building which will house the full production process of switchgear types D-12P and D-12PT. The expenditures on this account in 2006 will amount to 7.7 million PLN.

In order to finance this undertaking the shareholders have decided to raise the basic capital of Kruelta by 2 million USD.

Fulfilment of the plan will be financed from the company's own funds.

6. Transactions with related companies.

In 2005 the Elektrobudowa Group entities concluded only typical and routine transactions with each other on market conditions and which resulted from the operating activity conducted by the Company.
Elektrobudowa SA transactions with its subsidiaries amounted to 18,502 thousand PLN, this including:

- sale of products to KRUELTA Company 18,416 thousand PLN
- sale of products to KONIP Company 86 thousand PLN.

Subsidiary companies effected sales to Elektrobudowa SA in the following amounts :

- KRUELTA 19 thousand PLN
- KONIP 777 thousand PLN.

Mutual balances as on 31.12.2005 amounted to 512 thousand PLN. This amount consisted of KRUELTA'a liabilities towards Elektrobudowa in the sum of 448 thousand PLN and Elektrobudowa's liabilities towards KONIP in the amount of 64 thousand PLN.

In 2005 consolidation exclusions inside the Group were made in the sum of 1,545 thousand PLN.

7. Information on negotiated credits, credit agreements, securities and guarantees.

7.1. List of Credit Agreements as on 31.12.2005

Item	Name of Bank	Type of credit	Date of payment	Limit amount
1.	BRE BANK S.A. Warszawa	overdraft	30.09.2006	3.0 million PLN
2.	ING Bank Śląski	overdraft	30.05.2006	8.0 million PLN
3.	Bank Handlowy w Warszawie S.A.	overdraft	Renewable every 7 days	6.1 million PLN
4.	PKO BP S.A. w Warszawie	Turnover	19.05.2006	5.0 million PLN
5.	PKO BP w Warszawie	overdraft	19.05.2006	5.0 million PLN
6.	BPH S.A. w Krakowie	Issue of debenture bonds	05.01.2006	up to 30.0 million PLN
7.	BPH S.A. w Krakowie	overdraft	19.04.2006	8.0 million PLN
8	ING Bank Śląski	foreign currency loan	10.07.2006	410 thousand EUR

The credit agreements specified under Item 1-5 and 7 were extended in 2005 with annexes to the earlier concluded agreements. Also it was only Elektrobudowa SA that issued debenture bonds.

7.2. Loan agreements

In 2005 the Elektrobudowa Group did not take, nor grant any loans and guarantees beside the ones mentioned in Note 38 of the Consolidated Financial Statement of the Group.

7.3. Guarantees.

In 2005 the Group did not receive, nor grant any guarantees.

8. List of shareholders holding at least 5% of the total number of votes at the General Meeting of Shareholders of ELEKTROBUDOWA SA (the Parent) on 28th February, 2006

	%	Number of shares equalling the number of votes
Powszechny Zakład Ubezpieczeń S.A.	8.72	346,245
OFE Nationale Nederlanden Polska	11.58	459,828
OFE PZU Złota Jesień	8.12	322,421
Generali (formerly Zurich) (Open Pension Fund) Otwarty Fundusz Emerytalny	8.81	350,000
Credit Suisse Life Pensions (Open Pension Fund) Otwarty Fundusz Emerytalny	5.04	20,.00
Commercial Union (Open Pension Fund) Otwarty Fundusz Emerytalny	5.65	224,543
AIG (Open Pension Fund) Otwarty Fundusz Emerytalny	5.34	211,963

The Group does not have any knowledge of agreements which could contribute in future to a change in the proportion of shares held by existing shareholders.

10. Basis for preparation

The Consolidated Financial Statements for 2005 are the first annual Financial Statement of the Elektrobudowa Group drawn up in conformity with the International Financial Reporting Standards (IFRS), approved by the European Union. Until the year 2004 inclusive Elektrobudowa SA did not prepare any Consolidated Financial Statements pursuant to Art. 56 and Art. 58 of 29th September, 1994, Accounting Act. The IFRS Group introduced such an obligation on 1st January, 2004, and it was then that the Group drew up its opening Balance Sheet. Comparative data for 2004 was presented in conformity with IFRS.

These Consolidated Financial Statement for 2005 were drawn up in conformity with the historical cost principle, except the revaluation of assets and financial liabilities (including derivative instruments) which are shown in their fair value. Preparation of the financial statements in conformance with IFRS requires the application of certain key accounting estimates. The Management has to take a number of subjective decisions concerning the application of the accounting standards. Areas which are more complex or require a subjective judgement, and also those areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in additional information to the financial statements, in Notes 9, 11.2, 16, 21 and 24.

11. More important technical development works conducted 2005.

The development works programme was conducted by the parent company, Elektrobudowa SA in 2005. As in the previous year the development programme concentrated on extending the assortment range of medium and low-voltage switchgear.

In connection with requirements of the Russian market the following works were conducted:

- the type-series of D-40P switchgear fields mounted in container stations was extended and
- D-12P switchgear design was prepared with LF1, LF2 and LF3 circuit breakers as well as a retrofit solution with LF2 switch.

Moreover the following works were conducted in 2005 within the framework of development works:

- a double system D-12-2S switchgear for rated current In =2500 A with disconnecting switch motor drives was designed. A drive system allowing their remote control was designed for the switchgear. These solutions were successfully applied in Janina Coal Mine, metal plant in Guinea in Africa, ZGE Sobieski and Central Station in Cracow.
- a new variant of switchgear type PREMEG II with VF switches was prepared, which allowed us to obtain the contract with the Kozienice thermal-electric power station,
- taking into consideration the often difficult conditions in which the container stations operate a double reinforced roof was prepared and due to market requirements additional station depths were introduced,
- we carried out tests of compact mining switchgear type PREM GJ designed for mounting in mine headings. Owing to the innovatory nature of proposed solutions we obtained the possibility of an earmarked project financed by the Polish Academy of Sciences,
- we worked out and introduced to production a resistor-contactor starter designed for mounting in container stations.

Plans for the next year.

1. Continuation of the earmarked project of compact switchgear type PREM-GJ .
2. Elaboration and certification of switchgear D-12P with 3AH5 switches.
3. Completion of works on the „System of low-voltage solid conductors up to 6000 A".
4. Extension of NGWR low-voltage switchgear current parameters.
5. Designing of Unipanel switchgear with BB TEL circuit breaker (mainly for the Russian market).

12. Statement of conformity with legislation

All information required by the regulation of the Minister of Finance dated 19 October 2005 on current and periodical information provided by the issuers of securities were included in these consolidated financial statements of the Elektrobudowa Group, except those which do not occur in the Group.

The Management Board of Elektrobudowa declares that according to their best knowledge the consolidated financial statements and the comparable data have been prepared in accordance to the accounting principles which are in force and that they reflect in true, fair and clear way the material and financial situation of the Group and its financial result, and also that the report from the Group's operations presents a true picture of development, achievements and situation of the Group, including the description of basic risks and threats.

13. Statement on the choice of the auditing company

The Management Board of Elektrobudowa SA declares that PricewaterhouseCoopers Sp. z o.o with registered office in Warsaw pl. Armii Ludowej 14 Warszawa , which carried out the audit of the Financial Statements of Elektrobudowa SA and the Consolidated Financial Statements of the Elektrobudowa Group for the year 2005 was chosen after a survey had been carried out in conformity with provisions of the law.

The forenamed Company and Chartered Accountants who carried out the audit of the forenamed Statements fulfilled the conditions of expressing an unbiased and independent opinion of the audit, conformable with relevant regulations.

Information pertaining to the contract concluded with the Chartered Accountant

A contract for the audit of interim Financial Statements of Elektrobudowa SA and the Group for the period from 01.01-30.06.2005 as well as an audit of the Financial Statements of Elektrobudowa SA and Consolidated Financial Statements of the Elektrobudowa Group for 2005 was concluded with the Company PricewaterhouseCoopers Sp. z o.o. with registered office in Warsaw on 16th June, 2005.
The remuneration for surveying and auditing the forenamed Statements was fixed for the sum of 100 thousand PLN.

Elektrobudowa SA did not prepare consolidated financial statements for the year ended 31 December 2004.

The review of the interim financial statement of Elektrobudowa SA for the six months ended 30 June 2004 and auditing of the financial statements of ElektrobudowaSA for the year 2004 were performed by the auditing company BDO Polska Sp. z o.o. with registered office in Warsaw, against the agreement concluded on 20 April 2004.

The established remuneration for reviewing and auditing the forenamed Statements was 98 thousand PLN.

14. Statement on observing the corporate governance rules

The Management Board declares that the Company fully observes the corporate governance rules resolved by the Warsaw Stock Exchange Board and Management, contained in the document "Best Practices in Public Companies 2005" in a way defined in the "Statement" accepted and published by the Company.

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Forename and surname	Post/Function	Date	Signature
Jacek Faltynowicz	Chairman of the Management Board	27.03.2006	
Ariusz Bober	Member of the Management Board	27.03.2006	
Tomasz Jaźwiński	Member of the Management Board	27.03.2006	
Stanisław Rak	Member of the Management Board	27.03.2006	
Jarosław Tomaszewski	Member of the Management Board	27.03.2006	