**ELEKTROBUDOWA SPÓŁKA AKCYJNA**
**KATOWICE, UL. PORCELANOWA 12**

# FINANCIAL STATEMENTS FOR THE 2009 FINANCIAL YEAR WITH AUDITOR'S OPINION AND AUDIT REPORT

# ELEKTROBUDOWA SA

Independent Registered Auditor’s Opinion

Report Supplementing the Opinion on the Audit of the Financial Statements

The Financial Statements

The Report on the Activities of ELEKTROBUDOWA SA

**for the financial year from 1 January to 31 December 2009**

## Contents:

# TABLE OF CONTENTS

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II
00-854 Warszawa
Polska

Tel: +48 22 511 08 11/12
Fax: +48 22 511 08 13
www.deloitte.pl

# AUDITOR'S OPINION

**To the Shareholders and Supervisory Board of ELEKTROBUDOWA SA**

We have audited the attached financial statements of ELEKTROBUDOWA SA with its registered office in Katowice, ul. Porcelanowa 12, including:

– statement of financial position prepared as of 31 December 2009, with total assets and liabilities plus equity of PLN 468,327 thousand;

– statement of comprehensive income for the period from 1 January to 31 December 2009, disclosing a net profit of PLN 58,413 thousand and a total comprehensive income of PLN 59,096 thousand;

– statement of changes in equity for the period from 1 January to 31 December 2009, disclosing an increase in equity of PLN 44,833 thousand;

– statement of cash flows for the period from 1 January to 31 December 2009, showing a cash inflow of PLN 32,633 thousand;

– notes, including information on the adopted accounting policy and other explanatory notes.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of the underlying accounting records.

The financial statements of the Company for the financial year ended 31 December 2008 were audited by another certified auditor, who on 23 March 2009 issued an unqualified opinion on these financial statements.

Our opinion is limited to the financial statements for the financial year ended 31 December 2009.

Our audit was planned and performed in accordance with:

– section 7 of the Accounting Act of 29 September 1994 (Dz. U. of 2009 No. 152, item 1223 with subsequent amendments);

– auditing standards issued by the National Council of Statutory Auditors in Poland;

in such a way as to obtain a reasonable and sufficient basis for expressing an opinion as to whether the financial statements were free of material misstatements. Our audit included in particular examining, largely on a test basis, the accounting evidence and records supporting the amounts and disclosures in the financial statements, assessment of the accounting principles (policy) applied and material estimates made by the Management Board, as well as evaluation of the overall presentation of the financial statements.

We believe that our audit provides a sufficient basis for our opinion.

In our opinion, the financial statements of ELEKTROBUDOWA SA for the 2009 financial year were prepared in all material respects based on accounting records kept in accordance with the Accounting Act of 29 September 1994, they are consistent with the adopted accounting principles (policy) and present fairly and clearly all the information required to evaluate the economic and financial position of the Company as well as its financial profit/loss for the 12-month period ended 31 December 2009 in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The Report on the activities of the Company in the 2009 financial year is complete within the meaning of Article 49 clause 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and the conditions for recognizing as equivalent information required by the laws of a non-member state, and consistent with the underlying information disclosed in the audited financial statements.

| | |
|---|---|
| ............................. | .................................................... |
| Joanna Sklarz- Snopek<br>Certified auditor<br>no. 10781 | represented by |
| | ..................................................... |
| | entity authorized to audit<br>financial statements entered under<br>number 73 on the list kept by the<br>National Council of Statutory Auditors |

Warsaw, 22 March 2010

***The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.***

# REPORT SUPPLEMENTING THE OPINION ON THE AUDIT OF THE FINANCIAL STATEMENTS OF ELEKTROBUDOWA SA FOR THE 2009 FINANCIAL YEAR

## I. GENERAL INFORMATION

### 1. Details of the audited entity

The Company operates under the name of ELEKTROBUDOWA SA. Its registered office is located in Katowice, ul. Porcelanowa 12.

The Company operates as a joint stock company incorporated by a notarized deed on 9 January 1992 prepared by Paweł Błaszczak, notary public, in Notary Office No. 18 in Warsaw (Repertory No. 225/92).
The Company was registered in the commercial register kept by the District Court in Katowice, the Business Registry Division, under number 0000074725, based on a decision of 29 December 2001. Currently, the Company is recorded in the Register of Entrepreneurs kept by the District Court in Katowice – Wschód in Katowice, VIII Business Division under number KRS 0000074725. The tax identification number (NIP) assigned t it by the Head of First Śląski Tax Office in Sosnowiec is 634-01-35-506. The REGON number assigned to the Company by the Statistical Office is 271173609.

The Company operates based on the provisions of the Code of Commercial Companies.

According to its By-laws, in the audited period the Company's core business included:

- assembly of electric installations;
- supplies of energy devices;
- providing services involving design, assembly measurement and startup related to the above activities.

As of 31 December 2009, the Company’s share capital equaled PLN 26,375 thousand and was divided into 4,747,608 ordinary shares with the nominal value of PLN 2 each. As of 31 December 2009, the Company’s shareholders included:

- ING Otwarty Fundusz Emerytalny – 16.84% of shares,
- AVIVA OFE AVIVA BZ WBK SA (former CU) – 13.07% of shares,
- ING TFI SA – 8.21 % of shares,
- Otwarty Fundusz Emerytalny PZU Złota Jesień – 9.78% of shares,
- AXA OFE – 7.21% of shares,
- AMPLICO OFE ( former AIG Otwarty Fundusz Emerytalny) – 6.67% of shares,
- Other – 38.22 % of shares.

No changes in the Company’s share capital took place during the financial year.

No changes in the Company's share capital took place after the balance sheet date.

As of 31 December 2009, the Company's equity amounted to PLN 287,271 thousand.

The Company's financial year is the calendar year.

The Company has the following related parties:

– Energotest sp. z o.o. - a 100% subsidiary;
– Konip sp. z o.o. - a 100% subsidiary;
– Zakład Elektrotechniczny Wektor sp. z o.o. - a 49% subsidiary;
– Kruelta sp. z o.o. - a 49% associate;
– Saudi Elektrobudowa sp. z o.o. - a 33% associate.

As of the opinion date, the composition of the Company's Management Board was as follows:

– Jacek Faltynowicz - Chairman of the Board;
– Stanisław Rak - Member of the Board;
– Ariusz Bober - Member of the Board;
– Jarosław Tomaszewski - Member of the Board;
– Tomasz Jaźwiński - Member of the Board;
– Arkadiusz Klimowicz - Member of the Board.

On 1 February 2009, Arkadiusz Klimowicz was appointed a new member of the Management Board.
The above changes were filed and registered in the competent court register.

**2. Information on the financial statements for the previous financial year**

The activities of the Company in 2008 resulted in a net profit of PLN 56,319 thousand. The financial statements of the Company for the 2008 financial year were audited by a certified auditor. The audit was performed by authorized entity PricewaterhouseCoopers Sp. z o.o. On 23 March 2009, the certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting approving the financial statements for the 2008 financial year was held on 24 April 2009. The General Shareholders' Meeting decided on the following distribution of 2008 net profit:

– supplementary capital – PLN 42,047 million;
– dividend for shareholders – PLN 14,243 thousand;
– costs of dividend payment handling by National Deposit of Securities – PLN 30 thousand.

The financial statements for the 2008 financial year were submitted in accordance with the law to the National Court Register on 29 April 2009 and for publication in Monitor Polski B on 29 April 2009. They were published in Monitor Polski B No. 1258 on 3 August 2009.

**3. Data identifying the entity authorized to audit financial statements and the certified auditor acting on its behalf**

The audit of the financial statements was performed based on the agreement of 1 June 2009 concluded between ELEKTROBUDOWA SA and Deloitte Audyt Sp. z o.o. with its registered office in Warsaw, Al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit was conducted under the supervision of a certified auditor Joanna Sklarz-Snopek (no. 10781) during the period from 27 July to 31 July 2009 and from 1 February to 8 February 2010 including from 1 to 5 February 2010 in the registered office of the Company.

The authorized entity was appointed by the Supervisory Board based on a resolution of 24 April 2009.

Deloitte Audyt Sp. z o. o. and the certified auditor Joanna Sklarz-Snopek confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self- governing bodies, entities authorized to audit financial statements and public supervision (Dz. U. of 2009, No. 77, item 649) to express an unbiased and independent opinion on the financial statements of ELEKTROBUDOWA SA.

## 4. Availability of data and management representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the certified auditor, as confirmed in a written representation of the Management Board of the Company of 22 March 2010.

## 5. Economic and financial position of the Company

Presented below are the main items from the statement of comprehensive income as well as financial ratios describing the Company's profit/loss as well as its financial and economic position as compared to previous years.

| Main items from the statement of comprehensive income (in PLN '000) | 2009 | 2008 (*) | 2007(*) |
|---|---|---|---|
| Sales revenue | 661,788 | 786,221 | 664,004 |
| Operating expense | (595,241) | (721,920) | (620,831) |
| Other operating expense | (1,902) | (2,004) | (2,539) |
| Other net profit (expense) | (284) | 3,771 | 679 |
| Net financial profit (expense) | 8,876 | 3,830 | 1,071 |
| Income tax | (14,824) | (13,579) | (8,515) |
| Net profit (loss) | 58,413 | 56,319 | 33,869 |
| Total comprehensive income | 59,096 | 56,112 | 34,869 |

| Profitability ratios | 2009 | 2008 | 2007 |
|---|---|---|---|
| - gross profit margin | 10% | 8% | 6% |
| - net profit margin | 9% | 7% | 5% |
| - net return on equity | 26% | 30% | 45% |
| Effectiveness ratios | | | |
| - assets turnover ratio | 1.41 | 1.80 | 1.97 |
| - receivables turnover in days | 96 | 87 | 92 |
| - liabilities turnover in days | 57 | 55 | 65 |
| - inventory turnover in days | 2 | 5 | 9 |
| Liquidity/Net working capital | | | |
| - debt ratio | 39% | 44% | 68% |
| - equity to fixed assets ratio | 61% | 56% | 32% |
| - net working capital (PLN '000) | 148,619 | 116,389 | 57,723 |
| - current ratio | 1.86 | 1.63 | 1.26 |
| - quick ratio | 1.84 | 1.61 | 1.19 |

(*) The financial statements for the year 2008 and 2007 were audited by another certified auditor.

The analysis of the above figures and ratios identified the following trends in 2009:

- an increase in gross and net sales margin;
- a decrease in the net return on equity;
- a decrease in the assets turnover ratio;
- an increase in receivables and liabilities turnover in days;
- a decrease in inventory turnover in days;
- a decrease in the debt ratio with a simultaneous increase in the equity to fixed assets ratio;
- an increase in the net working capital;
- an increase in liquidity ratios.

## II. DETAILED INFORMATION

### 1. Evaluation of the accounting system

The Company has valid documentation describing the accounting principles (policy) applied, including in particular: definition of the financial year and the reporting periods thereof, methods of measurement of assets and liabilities, and determination of the financial profit/loss, method of keeping the accounting records and the system of data and file protection. The documentation of the accounting policy was developed in line with the Accounting Act and with respect to the measurement of assets and liabilities plus equity as well as presentation of the financial statements – in line with the International Financial Accounting Standards as endorsed by the European Union and it was approved for use effective from 1 January 2005 based on resolution no. 53/38/2004 adopted by the Management Board on 26 November 2004. The accounting policy is updated on an ongoing basis. Basic accounting principles of assets and liabilities and measurement of the financial profit/loss are presented in the explanatory notes.

The Company uses the JD Edwards computerized accounting system, which allows it to record all business transactions. The JD Edwards system is password protected against unauthorized access and has functional access controls. The description of the IT system complies with the requirements of Article 10 clause 1 point 3 letter c) of the Accounting Act.

The opening balance resulting from the approved financial statements for the previous financial year was properly introduced into the accounting records of the audited period.

In the part we have audited, the documentation of business transactions, the accounting records and the relationships between the accounting entries, financial documents and financial statements comply with the requirements of section 2 of the Accounting Act.

The accounting records and vouchers, the documentation of the accounting system and the approved financial statements of the Company are stored in compliance with section 8 of the Accounting Act.

The Company performed a physical count of assets and liabilities within the scope and deadlines, and with the frequency provided for in the Accounting Act. The identified differences were recorded and settled in the accounting records for the audited period.

### 2. Information on the audited financial statements

The audited financial statements were prepared as of 31 December 2009 and include:

- statement of financial position prepared as of 31 December 2009, with total assets and liabilities plus equity of PLN 468,327 thousand;
- statement of comprehensive income for the period from 1 January to 31 December 2009, disclosing a net profit of PLN 58,413 thousand and a total comprehensive income of PLN 59,096 thousand;
- statement of changes in equity for the period from 1 January to 31 December 2009, disclosing an increase in equity of PLN 44,833 thousand;
- statement of cash flows for the period from 1 January to 31 December 2009, showing a cash inflow of PLN 32,633 thousand;
- notes, including information on the adopted accounting policy and other explanatory notes.

The structure of assets and liabilities as well as items affecting the financial profit/loss is correctly presented in the financial statements.

## 3. Information on selected material items of the financial statements

Property, plant and equipment

The Company's property, plant and equipment include:

- fixed assets of PLN 50,001 thousand;
- fixed assets under construction of PLN 8.,35 thousand.

Notes correctly describe changes in fixed assets and fixed assets under construction, including disclosure of any revaluation write-downs on such assets.

Shares in subsidiaries

The item includes shares in entities consolidated in line with the full method in the amount of PLN 47,523 thousand.
The notes correctly describe changes in investments during the financial year.

Structure of inventory

The structure of inventory is correctly presented in the note explaining this item of the statement of financial position.

Structure of receivables

The ageing analysis of trade receivables is correctly presented in the respective explanatory note.

Key items of the Company's liabilities include:

- trade and other liabilities of PLN 175,349 thousand;
- amounts due arising from construction contracts of PLN 39,225 thousand.

The audited sample did not include expired or cancelled receivables.

Liabilities

The ageing analysis of liabilities and liabilities by type is correctly presented in the respective explanatory note.

Key items of the Company's liabilities include:

- trade liabilities of PLN 99,265 thousand;
- amounts due arising from construction contracts of PLN 33,208 thousand;
- customs, tax and insurance liabilities of PLN 15,644 thousand.

The audited sample did not include expired or cancelled liabilities.

Prepayments, accruals and provisions for liabilities

The structure of prepayments, accruals and provisions for liabilities is correctly presented in the respective notes. Expense and revenue recognized over time is correctly classified in relation to the audited financial period. Provisions for liabilities were determined in reliably estimated amounts. These items are recognized completely and correctly in all material respects in relation to the financial statements as a whole.

## 4. Completeness and correctness of drawing up the additional information and explanations as well as the report on the activities of the entity

The Company confirmed the validity of the going concern principle followed while drawing up the financial statements. The explanatory notes give a correct and complete description of measurement principles applied to assets and liabilities, financial profit/loss as well as the method of preparation of the financial statements.

Limitations imposed on individual assets disclosed in the balance sheet arising from pledges granted to creditors have been described.
The explanatory notes fully describe the reporting items and present the remaining data required by the IFRS in a clear manner.

The financial statements are supplemented with the Management Board's Report on the activities of the Company in the 2009 financial year. The Report includes the information required under Article 49 clause 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and the conditions for recognizing as equivalent information required by the laws of a non-member state. We have audited the Report with respect to the disclosed information derived directly from the audited financial statements.

## 5. Final information and findings

Management Board's Representations

Deloitte Audyt Sp. z o.o. and the certified auditor received a representation letter from the Management Board of the Company in which the Board stated that the Company complied with the laws in force.

..........................
Joanna Sklarz- Snopek
Certified auditor
no. 10781

..................................................
represented by

..................................................
entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 22 March 2010

Dear Shareholders,

Acting on behalf of the Management Board of ELEKTROBUDOWA SA, I am pleased to provide the Consolidated Annual Report which is summing up the performance and operations of ELEKTROBUDOWA SA in the year 2009.

The past year undoubtedly was a tough one, we all suffered from the global crisis, economic slowdown and cut down investment in the sectors for which the group provides its products and services. However, for ELEKTROBUDOWA SA it was also a period of consistent implementation of the its policy, development of its potential and continual improvement. We concentrated on streamlining our resources their and effective use, with the focus on diversification of the activity, not only building up new competencies but applying our established expertise and experience in new markets. ELEKTROBUDOWA SA successfully adapted to the market changes, consolidated its established position, which is reflected in the performance results for 2009.

The company generated sales revenues in the amount of 661.8 million PLN, whereas the 2009 net earnings amounted to 58.4 million PLN, by 4% exceeding the prior year's profit.

Our satisfaction from the attained results is justified, as we managed to combine the execution of tight business activity with the implementation of the idea to build a strong and firm company, a trademark recognised worldwide, which would offer cutting edge solutions, balanced capital base, security and highly competitive, comprehensive range of services.

Implementing the decision, taken in previous years, of combining the subsidiaries ENERGOTEST sp. z o.o. and ENERGOEFEKT Sp. z o.o., in 2009 we focused on restructuring and consolidation of those entities. It is our target to build a strong group of entities, supported by our own resources, acting in the automation market, with the focus on the supply of protection automation systems for power projects, that would provide strong support for and supplementation of engineering offer. We have successfully completed the construction of the Electrotechnical Plant VECTOR Ltd. located in the Russian Federation. Its core business is the manufacture of medium voltage switchgear systems, and also the supply of civil works.

We are aware that building a competitive advantage in the global market is not possible without investing in innovative solutions. Therefore, ELEKTROBUDOWA SA, utilizing the proceeds from share issue, started the erection of a new, modern factory for the production of busducts in one of the towns of the Silesian municipality. We believe that the new location and increased production capacity will contribute to the increased market share of those niche products for the company.

The past year was the time of recognition of the company's accomplishments. ELEKTROBUDOWA SA was awarded in the most prestigious ranking of Polish companies – Pearls of Polish Economy, organized since seven years by the editors of POLISH MARKET magazine and the Institute for Economic Sciences at the Polish Academy of Sciences. ELEKTROBUDOWA's involvement in environmental, social, ethical and corporate governance issues was acknowledged – the company has been chosen to the group of 16 listed companies quoted in the new index in the Warsaw Stock Exchange, Respect Index.

Following the dividend policy which has been implemented for several years, the company also in this year intends to pay the dividend for 2009 to its Shareholders.

I am convinced that the company is successfully overcoming the drawbacks of economic slowdown and associated risks, with optimism looking ahead to its objective, establishing its position of a leader setting new business quality.

Last years' accomplishments of the company will not be possible without the commitment of its employees. Their knowledge, creativity and drive contributed to the success and dynamic growth of the company.

I am also grateful to our Shareholders for their support for all activities performed by the company, to our customers and business partners for the fruitful cooperation, trust they put in us and loyalty for the trademark ELEKTROBUDOWA SA.

Jacek Faltynowicz

President
Chief Executive Officer

Katowice, March 2010

# ELEKTROBUDOWA SA

# Financial Statements

**For the financial year from 1 January to 31 December 2009**

## Index to the financial statements

***all amounts in PLN thousands unless otherwise stated)***

## Statement of Financial Position

| | Note | as at 31 December 2009 | as at 31 December 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **146 791** | **135 411** |
| Property, plant and equipment | 7 | 58 036 | 47 648 |
| Intangible assets | 8 | 3 463 | 4 672 |
| Investments in associates | 10.1 | 23 184 | 15 473 |
| Interest in subsidiaries | 10.2 | 47 523 | 47 456 |
| Available-for-sale financial assets | 11.1 | 2 890 | 2 100 |
| Non-current receivables | 13.1 | 8 543 | 10 135 |
| Deferred income tax assets | 22 | 1 751 | 6 768 |
| Non-current prepayments | 14 | 1 401 | 1 159 |
| **Current asssets** | | **321 536** | **300 714** |
| Inventories | 15 | 3 330 | 4 546 |
| Trade and other receivables | 13.2 | 175 349 | 183 102 |
| Available-for-sale financial assets | 11.1 | 250 | 196 |
| Held-to-maturity financial assets | 11.2 | 0 | 19 861 |
| Current prepayments | 17 | 2 183 | 2 051 |
| Amounts due from construction contract work | 26.1 | 39 225 | 22 432 |
| Cash and cash equivalents | 16 | 101 199 | 68 526 |
| **Total assets** | | **468 327** | **436 125** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | **287 271** | **242 438** |
| Share capital | 18 | 26 375 | 26 375 |
| Supplementary capital | 19.1 | 218 916 | 176 865 |
| Capital from valuation of available-for-sale investment | 19.2 | 1 548 | 865 |
| Prior years' loss | | (17 981) | (17 986) |
| Retained earnings | | 58 413 | 56 319 |
| **Liabilities** | | | |
| **Non-current liabilities** | | **8 139** | **9 362** |
| Employee benefit obligations | 23 | 2 537 | 2 194 |
| Other liabilities | 20.1 | 5 602 | 7 168 |
| **Current liabilities** | | **172 917** | **184 325** |
| Trade and other payables | 20.2 | 130 131 | 136 830 |
| Corporate income tax liabilities | | 257 | 1 831 |
| Derivative financial instruments | 12 | 147 | 0 |
| Loans, borrowings and debt securities | 21 | 0 | 0 |
| Provisions | 23 | 435 | 1 167 |
| Accrued expenses | 24 | 8 739 | 11 047 |
| Amounts due to customers for construction contract work | 26.2 | 33 208 | 33 450 |
| **Total liabilities** | | **181 056** | **193 687** |
| **Total equity and liabilities** | | **468 327** | **436 125** |

***all amounts in PLN thousands unless otherwise stated)***

## Statement of Comprehensive Income

| | Note | year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Continuing operarations** | | | |
| Revenue on sales of products, goods and materials | 27 | 661 788 | 786 221 |
| Cost of products, goods and materials sold | 29 | (581 789) | (707 744) |
| **Gross profit on sales** | | **79 999** | **78 477** |
| Selling costs | | (4 061) | (5 124) |
| Administrative expenses | | (9 391) | (9 052) |
| Other operating expenses | 30 | (1 902) | (2 004) |
| Other gains (losses) - net | 31 | (284) | 3 771 |
| **Operating profit** | | **64 361** | **66 068** |
| Finance income (costs) - net | 32 | 8 876 | 3 830 |
| **Gross profit before income tax** | | **73 237** | **69 898** |
| Income tax expense | 33 | (14 824) | (13 579) |
| **Net profit from continuing operations for the year** | | **58 413** | **56 319** |
| **Discontinued operations** | | | |
| **Net profit (loss) from discontinued operations for the period** | | **0** | **0** |
| **Net profit for the period** | | **58 413** | **56 319** |
| **Other comprehensive income, total** | | | |
| available-for-sale investments | | 844 | (256) |
| deferred tax relating to available-for-sale investments | | (161) | 49 |
| **Total other comprehensive income** | | **683** | **(207)** |
| **Total comprehensive income** | | **59 096** | **56 112** |

| **Earnings (loss) per share from continuing and discontinued operations (in PLN per share)** | Note | 2009 | 2008 |
|---|---|---|---|
| - basic | 34 | 12,30 | 11,94 |
| - diluted | 34 | 12,30 | 11,94 |

***all amounts in PLN thousands unless otherwise stated)***

## Statement of Changes in Equity

| | Share capital | Supplementary capital from share premium | Other supplementary capital | Capital from valuation of available-for-sale investment | Prior years' profit (loss) | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **note** | **18** | **19.1** | **19.1** | **19.2** | | | |
| **1 January 2009** | **26 375** | **100 840** | **76 025** | **865** | **38 333** | **0** | **242 438** |
| *net profit* | | | | | | *58 413* | *58 413* |
| *valuation of available-for-sale-investments* | | | | *844* | | | *844* |
| *deferred tax on valuation of available-for-sale investments* | | | | *(161)* | | | *(161)* |
| **total comprehensive income** | | | | **683** | | **58 413** | **59 096** |
| distribution of profit | | | 42 047 | | (42 047) | | 0 |
| dividend payment | | | | | (14 243) | | (14 243) |
| other changes | | | 4 | | (24) | | (20) |
| **31 December 2009** | **26 375** | **100 840** | **118 076** | **1 548** | **(17 981)** | **58 413** | **287 271** |

***all amounts in PLN thousands unless otherwise stated)***

| | Share capital | Supplementary capital from share premium | Other supplementary capital | Capital from valuation of available-for-sale investment | Prior years' profit (loss) | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **note** | **18** | **19.1** | **19.1** | **19.2** | | | |
| **1 January 2008** | **25 320** | **12 992** | **54 034** | **1 072** | **15 890** | **0** | **109 308** |
| *net profit* | | | | | | *56 319* | *56 319* |
| *valuation of available-for-sale-investments* | | | | *(256)* | | | *(256)* |
| *deferred tax on valuation of available-for-sale investments* | | | | *49* | | | *49* |
| **total comprehensive income** | | | | **(207)** | | **56 319** | **56 112** |
| distribution of profit | | | 21 980 | | (21 980) | | 0 |
| issuance of series D shares | 1 055 | 88 622 | | | | | 89 677 |
| issue costs | | (774) | | | | | (774) |
| dividend payment | | | | | (11 869) | | (11 869) |
| other changes | | | 11 | | (27) | | (16) |
| **31 December 2008** | **26 375** | **100 840** | **76 025** | **865** | **(17 986)** | **56 319** | **242 438** |

***all amounts in PLN thousands unless otherwise stated)***

## Statement of Cash Flow

| | Note | year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Gross profit before taxes | | 73 237 | 69 898 |
| Depreciation and amortisation | 36 | 9 203 | 7 423 |
| Gains/losses from currency translation differences | | (40) | (1 836) |
| Interest and share in profit (dividends) | | (8 876) | (3 864) |
| Profit from/loss on sale of property, plant and equipment (PPE) | 36 | (78) | (57) |
| Change in inventories | | 1 216 | 10 288 |
| Change in available-for-sale financial assets | | 0 | 28 |
| Change in financial assets held to maturity | | 19 861 | (19 861) |
| Change in trade and other receivables | 36 | 9 244 | 16 410 |
| Change in liabilities, except loans and borrowings | 36 | (7 292) | (27 612) |
| Income tax paid | 36 | (12 046) | (16 332) |
| Change in current prepayments and accrued expenses | | (2 440) | 3 013 |
| Change in non-current prepayments and accrued expenses | | (242) | 1 015 |
| Change in settlements of construction contracts | | (17 035) | 18 843 |
| Other adjustments | 36 | 147 | 1 480 |
| **Net cash generated from operating activities** | | **64 859** | **58 836** |
| | | | |
| **Cash flows from investing activities** | | | |
| Sale of intangible assets and PPE | | 977 | 1 523 |
| Dividend and share in profits | | 8 876 | 3 982 |
| Purchase of intangible assets and PPE | | (20 039) | (18 564) |
| Purchase of shares in subsidiaries and associates | | (7 777) | (54 732) |
| **Net cash used in investing activities** | | **(17 963)** | **(67 791)** |
| | | | |
| **Cash flows from financial activities** | | | |
| Net proceeds from issuance of shares | | 0 | 88 903 |
| Issuance of debt securities | | 0 | 5 968 |
| Repayment of loans and borrowings | | 0 | (4 598) |
| Dividend and other payments to the owners | | (14 243) | (11 869) |
| Redemption of debt securities | | 0 | (11 932) |
| Interests | | 0 | (118) |
| Other outflows | | (20) | (16) |
| **Net cash used in/generated from financial activities** | | **(14 263)** | **66 338** |
| | | | |
| **Net increase in cash and bank ovedrafts** | | 32 633 | 57 383 |
| **Balance sheet change in cash and bank overdrafts** | | 32 673 | 59 219 |
| Change in cash due to currency translation differences | | 40 | 1 836 |
| Cash and bank ovedrafts at beginning of year | | 68 526 | 9 307 |
| **Cash and bank ovedrafts at end of year** | | **101 199** | **68 526** |

## **Notes to the consolidated financial statements** (continued)

## Additional information

### 1. General information

### 1.1. Principal activity

ELEKTROBUDOWA SA with registered office in Katowice, at 12 Porcelanowa Street, 40-246 Katowice is a joint stock company established and operating according to the Polish law. The 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. 225/92) 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, 10th Register Department Katowice, on the basis of a legally binding decision issued by the said Court on 3 February 1992 (File no. RHB 7682 VII of the Central Commercial Register 48/92).
At present the company is registered in the National Court Register (KRS) in the District Court Katowice-Wschód in Katowice, 8th Business Department under KRS entry no. 0000074725.

Principal activity of the Company according to the Polish Classification of Activities (PKD 4321Z) is executing of electrical installations in buildings and structures.

A sector according to the Warsaw Stock Exchange classification: construction.
Shares of the company are listed on the Warsaw Stock Exchange.
The business activity of ELEKTROBUDOWA SA includes:

- comprehensive electrical installation works in newly built, extended and modernized power plants and industrial facilities;
- supply of electric power equipment, mainly the electricity transmission and distribution equipment;
- design engineering, testing, commissioning and start-up of electrical installations.

### 1.2 Going concern concept

ELEKTROBUDOWA SA will continue in operational existence for the unspecified time. The financial statements have been prepared with the assumption of continuation of business operations in the foreseeable future.
If, after preparation of the annual financial statements, the entity 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. 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 indicating that the continuity of business operations is at risk.

# **Notes to the consolidated financial statements** (cont'd)

## 2. Summary of significant accounting policies

### 2.1 Compliance with legislation

The 2009 annual report of ELEKTROBUDOWA SA has been prepared in conformity with the Regulation of the Minister of Finance dtd 19 February 2009 on current and interim information provided by issuers of securities and with the conditions of acknowledging the equivalence of information required by laws of a non-member country.

### 2.2. Basis of preparation

The financial statements of ELEKTROBUDOWA SA have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union according to the same principles for the current period and comparable periods.
The present financial statements have been prepared under the historical cost convention (modified by the effects of hyperinflation on equity), with the exception of revaluation of some non-current assets and financial instruments which are shown at fair value.
Key accounting principles applied by the company are described below.

### 2.3 Foreign currency translation

1. Functional and presentation currency

   The present financial statements are presented in Polish zloty (PLN). Polish zloty is the functional and presentation currency of ELEKTROBUDOWA SA. Data in the financial statements of the company are expressed in thousands of Polish zlotys, unless in some specific situations they are disclosed with greater accuracy.

2. 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 company;
   - purchase of foreign currency and repayment of payables transactions are translated at the selling rate applied by the bank used by the company;
   - 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.

## **Notes to the consolidated financial statements** (cont'd)

Gains and losses resulting from the settlement of such transactions and from the translation at the year-end of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

### 2.4 Property, plant and equipment

Property, plant and equipment comprise fixed tangible assets and costs of the assets under construction, which the entity is going to use in its operations and for administrative purposes within the period longer than one year, and which will gain future economic benefits for the entity.

The borrowing costs which can be directly associated with purchase, construction or manufacture of the asset that takes a substantial period of time to get ready for its intended use or sale are capitalised until they are released for use. The borrowing costs are capitalised according to IAS 23.

The fixed tangible assets and assets under construction are initially recognized in their purchase costs or manufacture cost.

Depreciation of fixed tangible assets is calculated according to rates which reflect their estimated useful life. The estimated useful lives are reviewed annually. For the purpose of depreciation the straight-line method is applied.

Economic useful lives of groups of the assets are as follows:

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

Land owned by the company is not depreciated. Costs of purchase of rights of perpetual usufruct of land on the secondary market (from other entities) are recognized as long-term accruals and impaired for the permanent loss of value within the period of their use.

Tangible fixed assets and assets under construction are tested for impairment if there are reasons indicating their loss of value; in the case of tangible fixed assets under construction their possible impairment is measured at each balance sheet date.

As at the date of the statement of financial position, tangible fixed assets other than land or tangible fixed assets under construction are calculated according to cost less recognized depreciation write-downs and impairment write-offs, if any. Tangible fixed assets under construction are shown in the statement of financial position at manufacture cost less impairment losses.

## **Notes to the consolidated financial statements** (cont'd)

### 2.5 Intangible assets

The intangibles of the company include those assets of the company which are not physical in nature but are identifiable as separate items, can be reliably measured and which will gain future economic benefits for the company. The intangible assets are recognized initially 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. The 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).

Intangibles are tested annually for impairment if there are reasons indicating the possibility of loss in value; in the case of intangible assets in the period of their realization their possible impairment is measured at each balance sheet date.

As at the date of the statement of financial position, the intangible assets are calculated according to cost less recognized impairment loss and possible amortization write-off.

### 2.6 Impairment of property, plant and equipment and of the intangible assets except goodwill

As at each balance sheet day the company reviews the carrying amounts of its fixed assets and intangible assets in order to decide whether the reasons for their impairment exist. If their existence has been confirmed, the recoverable amount of an asset item is measured in order to establish an amount of potential write-off. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If an asset's recoverable amount is smaller than its carrying amount of, the carrying amount is written down to its recoverable amount.
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

### 2.7 Interest in the subsidiaries and associates

**Subsidiaries**
Subsidiaries are all entities controlled by the parent company. The control is understood as the power to govern the financial and operating policies of a subsidiary in order to benefit from its operations, which generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.
Investments in subsidiaries are recognised at acquisition price.

## **Notes to the consolidated financial statements** (cont'd)

**Associates**
An associate is an entity over which the company has significant influence and which is neither a subsidiary nor a jointly controlled venture of the parent. Significant influence is understood as capacity to participate in establishing the financial and operating policies of an associate without independent or joint control over it, which generally accompanies a shareholding of 20-50% of the voting rights.
Investments in associates are recognised at acquisition price.

### 2.8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value as at each balance sheet date. Changes in the fair value of any these derivative instruments are recognized in the statement of comprehensive income within "Other gains/losses – net". The company does not designate any derivatives as hedges and treats all derivative instruments as financial assets recognized at fair value through profit and loss.

### 2.9 Financial assets

#### a) Classification:

The Company classifies its financial assets as: financial assets at fair value through profit and loss, granted loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. The classification depends on the nature and purpose for which they were acquired and is defined at initial recognition.

***Financial assets at fair value through profit and loss***

Financial assets and liabilities at fair value through profit and loss are the assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of reselling in the short term. Assets in this category are classified as current.

***Granted loans and receivables***

Trade receivables for supplies and services, loans and other receivables with fixed or determinable payments, which are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except those items which maturities are greater than 12 months after the balance sheet date, those items are classified as non-current assets.

***Held-to-maturity financial assets***

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. If the company sells other than insignificant number of held-to-maturity financial assets, the whole category should be marked and reclassified as available-for-sale. Financial assets which are held to maturity are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

## **Notes to the consolidated financial statements** (cont'd)

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are designated in this category and 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 – such assets are classified as current.

**b) Recognition and measurement:**

Purchases and sales of financial assets are recognized on trade date, the date on which the company 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 and loss.

Financial assets at fair value through profit and loss are initially recognized at their fair value; transaction costs are shown in the income statement as cost for the period. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value with changes reflected in the statement of comprehensive income are subsequently carried at fair value.

Granted loans, receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate.

Shares owned by the company are classified as available-for-sale financial assets and shown at fair value. Changes in fair value of available-for-sale financial assets are recognized directly in equity.

The fair values of listed investments are based on current bid prices. If the market for a financial asset is not active (and also for unlisted securities), the company 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, discounted cash flow analyses and option valuation models, using maximum data from the market and minimum data from the company. When assets classified as available-for-sale are sold, the accumulated value recognized in equity in connection with the measurement of those assets to fair value is transferred to the profit and loss account for the period.

The company assesses at the balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available-for-sale, their impairment is indicated by a significant or prolonged decline in the fair value of the security below the acquisition cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account – is removed from the revaluation capital and transferred to the profit and loss account. Impairment losses on equity instruments recognized in the income statement are not reversed through the income statement.

## **Notes to the consolidated financial statements** (cont'd)

### 2.10 Inventories

Inventories of materials and goods 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 direct cost of 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.
The impairment of inventories, based on the prudence principle, and the impairment of dead stock, as well as their reversal, are charged into other operating cost.

### 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 company uses the "percentage of completion method" to determine the amount to be recognized in a given period. 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 company 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 billings. Progress billings not yet paid by customers and retention amounts are included within "non-current receivables" and current receivables".
The Company 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 adjusted 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 company will not be able to collect all amounts due according to the original terms of the contracts. 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 statement of comprehensive income.
Non-current receivables comprise receivables from contract bonds and receivables from the disposal of property, plant and equipment with deferred payment term. The deferred receivable is not considered by the company as trade receivable generated in the operating cycle.
Current value of non-current receivables as at balance sheet date is established by revaluation of discount amount due to lapse of time, using the effective interest rate method.
If, based on the documentation and after all measures to assert its rights have been exhausted, the company ascertains that a receivable is not recoverable, it is written off through comprehensive income statement and derecognised from the books.

## **Notes to the consolidated financial statements** (cont'd)

### 2.13 Cash and cash equivalents

Cash and cash equivalents 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 statement of financial position.

### 2.14 Fixed assets held for trading and discontinued operations

Fixed assets (or groups of assets) held 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 continued use.

### 2.15 Share and supplementary capital

Share capital is recognised in the statement of financial position 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 statement of financial position in the 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.
Supplementary 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.

### 2.16 Loans and borrowings

Bank 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 statement of comprehensive income over the period of the loan agreement using the effective interest method.
Loans and borrowings are classified as current liabilities unless the company 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 for the financial year consists of a current portion and a deferred portion. Income tax is recognized in the profit and loss account, except for amounts related to items shown directly in the equity, in which case the income tax is also recognized directly in equity.

## **Notes to the consolidated financial statements** (cont'd)

Current tax charge is measured basing on the tax result (tax base) for the relevant financial year. A tax profit (loss) is different from the accounting gain (loss) because of exclusion of tax-free revenue and expenses not deductible for tax purposes and also those expense and income items which will never be subject to tax. Tax charges are recognized using the tax rates valid in the respective financial year.
A deferred tax is measured using the balance sheet approach as the tax to be paid or recovered in future basing on the difference between the carrying amounts of assets and liabilities and their corresponding tax amounts used for measurement of the tax base.

A provision for deferred income tax is created on all taxable temporary differences, while the deferred tax asset is recognized to the amount for which it is probable that future tax gains can be reduced by recognized negative temporary differences and tax losses or tax relief that the company is allowed to use. An asset or a provision for deferred tax is not accounted for if the temporary difference arises from initial recognition of goodwill or from initial recognition of another asset or liability in a transaction that affects neither accounting profit nor taxable profit.

The deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability becomes mature.
Deferred tax assets and deferred tax provision should be offset only if the entity has the enforceable right to offset its current income tax receivables and liabilities, and if the deferred income tax assets and provisions refer to the income tax imposed by the same tax authority.

### 2.18 Employee benefits

**a) Pension and retirement obligations**

The company 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 State Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or retirement benefit liability.
Actuarial gains and losses are recognized in whole amount in the profit and loss account.

**b) 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 company 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 the date of the statement of financial position are discounted to present value.

**c) Bonus plans**

The company recognises a liability and an expense for bonuses defined in the scorecards which are annexed to employment contracts. Provision for bonuses is established (expense recognized on a time-proportion basis) and recognised in accrued expenses.

## **Notes to the consolidated financial statements** (cont'd)

### 2.19 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is likely that an outflow of resources that reflect economic gains will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Increase in provisions due to passage of time is recognized as interest expense.

### 2.20 Trade and other payables

Trade and other payables other than financial obligations are recognised at fair value and subsequently measured at amortised cost.
Non-current liabilities are discounted to their present values at balance sheet date by revaluing the discount amount due to lapse of time by using the effective interest rate method.
For the company the deferred liabilities are not liabilities generated in the normal cycle of operations.

### 2.21 Revenue recognition

Sales revenues cover fair value of the revenues from received otr due payment for goods and services sold, less value-added tax, rebates and discounts and after eliminating sales between the divisions.

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

b) Revenues from construction contracts are recognised according to the procedure 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.

e) Dividend income is recognized when the right to receive payment is established.

### 3. Critical accounting estimates and judgments

Preparing the financial statements the company makes estimates and assumptions concerning the future.
Judgments by management were applied in estimating the effect of hyperinflation on the amount of share capital and supplementary capital (details in Notes 19 and 20), in estimating the amount of provisions for warranty repair works (details in Note 24) and in estimating receivables and payables related to the long-term construction contracts (details in Note 28).
Information on ELEKTROBUDOWA's influence on the operating and financial policy of Biprohut is disclosed in Note 12.

## **Notes to the consolidated financial statements** (cont'd)

The company verifies annually the useful lives of its plant and equipment. They are reviewed in order to ascertain the correctness of the assumed periods of useful lives, and the following is assessed:

- normal wear and tear
- functional depreciation
- intensity of past use
- intensity of present and estimated use
- availability of spare parts and consumables.

Furthermore, consultations are carried out with persons responsible for the use of fixed assets in the company's divisions, with the users and industrial experts. The results of the review show that the useful lives of fixed assets were correctly established and no fixed assets were identified for which the depreciation rates should be changed as at 1 January 2009.

### 4. Financial risk management

The Company's activities are exposed to financial risks:

- market risk (including foreign exchange risk, fair value or cash flows interest-rate risk and price risk);
- credit risk;
- liquidity risk.

Risk management covers identification and evaluation of risk and defines relevant procedures for managing risk.
The Management Board of the company provides general principles for overall risk management as well as policies covering specific areas, use of derivative financial instruments and investing excess liquidity.

### 4.1 Foreign exchange risk

The Company is exposed to foreign exchange risk arising from buying and selling transactions carried in various currencies. In the case of exports in EUR carried out by the company there is a natural hedging, as most of imports are also carried out in EUR.
An essential element of the company's operations exposed to foreign exchange risk is export in US$ and those contracts carried out in Poland which are concluded in EUR but settled in PLN.
The analysis of present currency structure of sales revenues shows that the foreign currency translation risk is not particularly significant; the revenue earned in foreign currencies is 13.0% of total revenues gained by the company in 2009.

In the trade receivables, amounts of receivables in foreign currencies constitute 8.7%, in the structure of payables amounts of payables in foreign currencies constitute 2.9% and in the structure of cash – foreign currencies constitute 11.5%.
From the analysis of the impact of movement in currency/PLN exchange rates against the rates announced by the National Bank of Poland as at 31 December 2009 it may be expected that:

– if the USD exchange rate had strengthened or weakened by 10%, the net profit would have been 426 thousand PLN higher or lower, as a result of positive or negative differences on translation of receivables, payables and cash, whereas the 25% rise or fall of the exchange rate would result in 1065 thousand PLN increase or decrease in the net profit.
– if the EUR exchange rate had strengthened or weakened by 10%, the net profit would have been 1631 thousand PLN higher or lower, as a result of positive or negative differences on translation of receivables, payables and cash, whereas the 15% rise or fall of the exchange rate would result in 2447 thousand PLN increase or decrease in the net profit

## **Notes to the consolidated financial statements** (cont'd)

The company's exposure to foreign exchange risk in the current period fell with respect to transactions denominated in USD, while it rose with respect to transactions in EUR. This is bound with the decline in trade receivables denominated in USD and growth of EUR-denominated receivables.

Measurement:

| | **year ended 31 December 2009** | | **year ended 31 December 2008** | |
|---|---|---|---|---|
| | **currency** | | **currency** | |
| | **USD** | **EUR** | **USD** | **EUR** |
| - amount in foreign currency (receivables and cash less payables) (USD'000 / EUR'000) | 1 846 | 4 902 | 5 890 | 1 768 |
| - exchange rate at 31 December 2009 | 2.8503 | 4.1082 | 2.9618 | 4.1724 |
| - receivables, payables and cash at 31 December 2009 (PLN'000) | 5 262 | 20 138 | 17 445 | 7 376 |
| **- exchange rate accounting for 10% change** | **3.1353** | **4.5190** | **3.2588** | **4.5896** |
| - receivables, payables and cash with exchange rates change considered | 5 788 | 22 152 | 19 190 | 8 113 |
| - change in profit before taxes (PLN'000) | 526 | 2 014 | 1 745 | 737 |
| - change in net profit (PLN'000) | 426 | 1 631 | 1 413 | 597 |
| **- exchange rate accounting for 25%change of USD and 15% change of EUR** | **3.5629** | **4.7244** | **3.7023** | **4.7977** |
| - receivables, payables and cash with exchange rates change considered | 6 577 | 23 159 | 21 807 | 8 482 |
| - change in profit before taxes (PLN'000) | 1 315 | 3 021 | 4 362 | 1 106 |
| - change in net profit (PLN'000) | 1 065 | 2 447 | 3 533 | 896 |

### 4.2 Interest rate risk

Owing to the level and fluctuations of interest rates and also due to the fact that the company did not have long-term borrowings it was not necessary to hedge the interest rate risk.

Net profit of the company was not affected by changes in interest rates, as in 2009 the company did not utilise any bank loans.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 4.3 Credit risk

The entities with whom the company enters into deposit transactions operate in the financial sector. These are banks registered in Poland. The company's facility registered in Finland is serviced by Nordea Bank Finland PLC based in Finland. All those institutions have suitable equity and strong, stable market position.
As at 31 December 2009 maximum share of one bank in respect of resources deposited by the company was 54%.
Taking into account the above and the short term nature of investment it is considered that the cash and bank deposits credit risk is low.

Cash in bank and on hand:

| | at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| - BRE BANK SA | 9 444 | 26 959 |
| - BANK HANDLOWY w Warszawie SA | 14 327 | 7 612 |
| - PKO BP SA | 10 997 | 13 142 |
| - Bank PeKaO SA | 54 398 | 8 644 |
| - ING BANK ŚLASKI SA | 9 000 | 11 218 |
| - NORDEA BANK FINLAND PLC | 3 024 | 946 |
| - Cash on hand | 9 | 5 |
| **TOTAL** | **101 199** | **68 526** |

Credit risk is also the risk of unfulfilling the contractual obligations by a customer, which can result in financial losses for the company.
The company has always cooperated with a big number of customers in various industries and various geographical locations. Vast majority of sales is destined for the domestic market and East-European market. The company is regularly monitoring its trade credit on the basis of the condition of receivables. The policy of current monitoring of customers consisting in assessment of their ability to settle financial liabilities allows verifying the related credit exposure, both at the stage of quotations and at the stage of project realization.
The company has hedged some of its receivables with promissory notes, contract bonds and mortgage.
Provision for impairment of trade receivables is made when there is objective evidence that the company 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 carrying amount and the present value of estimated future cash flows.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

The table below presents the aging analysis of past due trade receivables as of 31 December 2009 as compared with the same period of the previous year:

| **Current trade receivables** | | **at 31 December** | |
|---|---|---|---|
| | | **2009** | **2008** |
| 1. | current | 159 232 | 140 972 |
| 2. | overdue: | | |
| | a) up to 1 month | 8 171 | 21 434 |
| | b) over 1 month up to 3 months | 5 368 | 12 762 |
| | c) over 3 months up to 6 months | 51 | 5 666 |
| | d) over 6 months up to 1 year | 27 | 0 |
| **TOTAL** | | **172 849** | **180 834** |

Trade receivables are not impaired if in the opinion of the company they are not uncollectible, taking into account current financial position of the customers and past experience of the company.

The overdue receivables shown in the table are not impaired.
Amounts of impairment provisions are:

- as of 31 December 2009 10 805 thousand PLN,
- as of 31 December 2008 10 635 thousand PLN.

In 2009 a provision for impairment of receivables was created in the amount of 1540 thousand PLN), while the provision established in 2008 amounted to 1165 thousand PLN.

### **4.4 Financial 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.
These are manifested by:
- diversification of sources of funding – cooperation with nine banks,
- various methods of funding – operating loan, bank overdrafts, issuance of bonds,
- use of various bank products, like balancing of accounts on a day-to-day basis, overnight deposits, certificates of deposits, derivative instrument transactions, negotiated exchange rates,
- versatile cooperation with insurance companies in the scope of insurance guarantees.

Essential from the point of view of liquidity is also the use of trade credit allowed by suppliers, with extended payment terms.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

The table shows the breakdown of undiscounted financial liabilities of the company into relevant maturity groupings based on the remaining period from the balance sheet to the contractual maturity date:

| Undiscounted trade and other receivables as at: | 1 month or less | 1 -3 months | 3-6 months | over 1 year | Total |
|---|---|---|---|---|---|
| **31 December 2009** | 91 530 | 30 534 | 8 067 | 6 598 | **136 729** |
| **31 December 2008** | 87 373 | 34 656 | 14 801 | 8 792 | **145 622** |

As at 31 December 2009 the company had credit lines on current accounts available up to 22,130 thousand zloty, but the amount was not utilized. As at 31 December 2008 credit availability on current accounts was on the same level. Both in 2009 and in the comparable period, owing to positive cash flows from operating activities and significant amounts of cash balance, the company' external sources of financing were limited to trade credit. Investing the free resources depends on contractual maturity dates for payables, in order to mitigate the liquidity risk as much as possible.
If the market condition deteriorate and the necessity of additional financing of operations or refinancing of debt through borrowings appear, liquidity risk may increase.

### 4.5 Price risk

The Company is exposed to price risk which arises from current economic situation in the power industry, chemical, building and metallurgy sectors, mainly from prices of electrical materials and equipment and steel products.
Adequate policy, organisational structure and procedures as well as actions related to risk management support the process of negotiating and establishing prices at optimum level.
Period of executing a trade contract, from order acceptance to contract completion, is not long (1 year at average), so adequate selling prices formation is possible.

### 4.6 Fair value change risk

The company is exposed to the risk of change in fair value of its available-for-sale financial assets. The risk is not significant, as the total amount of available-for-sale financial assets is 3 140 thousand PLN, which is 0.7% of the company's total assets. It is only an estimate, subject to change, as:

- fair value of non-current financial assets available for sale was determined both by using a method of discounted cash flows (income method) and net assets method with the prudence principle, as since long there has not been any market offer to buy shares;
- fair value of current financial assets which are available for sale was determined according to current quotation on the stock exchange in respect to listed securities and basing on present bid price in case of unlisted securities.

## **Notes to the consolidated financial statements** (cont'd)

**Available-for-sale financial assets include:**

1. Carrying amount of shares in PI Biprohut Sp. z o.o. based in Gliwice was 2890 thousand PLN at 31 December 2009 and 2100 thousand PLN at 31 December 2008. The fair value of shares was measured by an independent expert with the use of the Swiss method.

2. The company received ordinary shares in Mostostal Zabrze S.A. in result of conversion of debt after arrangement with creditors. As of the date of acquisition the fair value of the received shares was recognised in the asset item "Available-for-sale financial assets". The shares were remeasured as at 31 December 2009 according to the WSE quotation price of the shares of Mostostal Zabrze S.A. on the day of measurement. The 2009 year-end carrying amount of shares in Mostostal Zabrze was 203 thousand PLN, while at 31 December 2008 it was 154 thousand PLN. The Management Board of the company decided to sell the shares of Mostostal Zabrze S.A.

3. Ordinary shares in Famak SA based in Kluczbork in the quantity of 5 450 (nominal value of 1 share = 10 PLN) were received in result of conversion of debt after arrangement with creditors. The shares of Famak are not quoted on the stock exchange. Their fair value was measured as of 31 December 2008, basing on the purchase price offered to ELEKTROBUDOWA SA for the purchase of shares. As of 31 December 2009 it was established that fair value of those shares had not changed and amounted to 24 thousand PLN. ELEKTROBUDOWA SA is recognizing the market in order to find a buyer for the shares of Famak.

4. The company received ordinary shares in Energoaparatura S.A. based in Katowice in result of conversion of debt in arrangement with creditors. As of the date of acquisition the fair value of received shares was recognised in the asset item "Available-for-sale financial assets". The shares were measured as at 31 December 2009 according to the WSE quotation price of the shares of Energoaparatura on the day of measurement. After the measurement of fair value as of 31 December 2009 the carrying amount of the shares in Energoaparatura was 23 thousand PLN, while at 31 December 2008 it was 18 thousand PLN. The Management Board of the company decided to sell the shares of Energoaparatura S.A.

The shares of Mostostal Zabrze S.A. and Energoaparatura SA are quoted on the WSE, which is bound with increased market risk, as their quotations are frequently changing.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

**Structure of the financial assets held to maturity:**

Treasury bills:

| | | |
|---|---|---|
| - | purchase date | 15.10.2008 |
| - | redemption date | 08.02.2009 |
| - | transaction value at the day of purchase (discounted) | 19 594 020 PLN |
| - | total nominal value | 20 000 000 PLN |
| - | carrying amount as at 31 December 2008 | 19 861 020 PLN |
| - | purchase date | 19.02.2009 |
| - | redemption date | 08.07.2009 |
| - | transaction value at the day of purchase (discounted) | 19 639 800 PLN |
| - | total nominal value | 20 000 000 PLN |
| - | carrying amount as at 30 June 2009 | 19 987 780 PLN |
| - | disposal of treasury bills in 2009 | (39 848 800) PLN |
| - | carrying amount as at 31 December 2009 | 0 PLN |

### 4.7 Capital risk management

The Company's objective when managing the capital is to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistently with others in the industry, the Company monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total trade liabilities and bank borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The Company's strategy for 2009, like in the comparable period, was to maintain the gearing ratio on the level not exceeding 30%.

The gearing ratios in the reportable periods were as follows:

| | **2009** | **2008** |
|---|---|---|
| trade and other payables | 135 733 | 143 998 |
| bank borrowings | 0 | 0 |
| cash and cash equivalents | (101 199) | (68 526) |
| net financial debt | 34 534 | 75 472 |
| equity | 287 271 | 242 438 |
| total capital | 321 805 | 317 910 |
| gearing ratio (effective debt ratio) | 11% | 24% |

## **Notes to the consolidated financial statements** (cont'd)

### 5. New accounting standards and IFRIC interpretations

***Standards and Interpretations applied for the first time in 2009***

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU came into force in 2009 and have been effective for the period ended 31 December 2009:

**IFRS 8 "Operating Segments"** published by IASB on 30 November 2006, adopted by the EU on 21 November 2007 (effective for annual periods beginning on or after 1 January 2009); the Standard replaces IAS 14 "Segment Reporting" and among others requires that operating segments are defined in line with internal reports on components of a business entity subject to periodic review by a member of management in charge of operating decisions for the purpose of resource allocation and performance evaluation.

**Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of investment in a subsidiary, jointly-controlled entity or associate,** published by IASB on 22 May 2008, adopted by the EU on 23 January 2009 (effective for annual periods beginning on or after 1 January 2009); the revised IFRS 1 allows recognizing investments in subsidiaries, jointly controlled entities and associates measured at costs, according to the 'deemed cost' method. First-time adopters of IFRS may choose measurement method for each investment, so that some may be measured in line with general principles of IAS 27, while some other at deemed cost. The deemed cost may be measured at fair value, in line with IAS 39 approach, or at book value resulting from previously applied accounting methods. For investments measured at deemed cost, the choice between their fair value and the carrying value calculated in line with previous accounting methods is made individually for each investment. The Board removed the requirement of separate recognition of dividend before acquisition and dividend after acquisition from the definition of measurement at cost included in IAS 27. The Standard now applies the general requirements of IAS 18 "Revenue" and requires that dividends received from subsidiaries, jointly controlled entities and associates be recognised in profit or loss when the entity's right to receive the dividend is established.

**Amendments to IFRS 4 "Insurance contracts" and IFRS 7 "Financial Instruments: Disclosures" - Improving disclosures about financial instruments** -published by IASB on 5 March 2009, adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 January 2009). The amendments to IFRS 7 introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

## **Notes to the consolidated financial statements** (cont'd)

**IFRS (2008) "Amendments to International Financial Reporting Standards" - a**mendments to various standards and interpretations resulting from the Annual quality improvement project published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording. Adopted by the EU on 23 January 2009 (most of the amendments are effective for annual periods beginning on or after 1 January 2009), the revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) classification of asset and liabilities of a subsidiary as held for sale when the parent is obliged to plan the sale of controlling interest but is going to hold the non-controlling interest; (ii) reclassification of property, plant and equipment previously held for lease to inventory when the assets are not subject to lease and are held for sale, and recognizing inflows from their disposal in revenue; (iii) recognition of state grants resulting from loans with interest below the market level; (iv) classification of fixed assets under construction held for investment as investment property in line with IAS 40 resulting in their measurement at fair value if compliant with the entity's accounting principles and their fair value can be reliably measured.

**Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable financial instruments and obligations arising on liquidation -** published by IASB on 14 February 2008 and adopted by the EU on 21 January 2009 (effective for annual periods beginning on or after 1 January 2009). The revisions regard issuers of financial instruments: (1) with selling option or (2) instruments or their components, which oblige the entity to transfer proportional share in the entity's net assets to the other party only in the case of its liquidation. Under revised IAS 32, provided the specified criteria are met, these instruments are classified as equity. Prior to the revision, they were classified as financial liabilities. Under the revised IAS 32, some financial instruments with the selling option and those obliging the issuer to transfer to the holder proportional share in the entity's net assets upon its liquidation are classified as equity. Revisions refer to each type of instruments separately and determine detailed criteria to be met in order to be able to present an instrument in equity.

**Amendments to IAS 39 Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Reclassification of financial assets -** published by IASB on 13 October 2008 and adopted by the EU on 15 October 2008 (effective from 1 July 2008).They permit, in some circumstances, reclassification of some financial assets out of the 'fair value through profit or loss'-category and out of the 'available-for-sale'-category as defined in IAS 39. The amendments introduce into IFRSs the same possibility of reclassifications that is already permitted under US GAAP in certain circumstances. Reclassifications made under the amendment require additional disclosures in accordance with IFRS 7.

**Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Reclassification of financial assets, effective date and transition -** published by IASB on 27 November 2008 and adopted by the EU on 9 September 2009 (effective from 1 July 2008). The Board explains issues regarding the effective date of the Standard and the transitional provisions for IAS 39 revised in October 2008. For reclassifications effected prior to 1 November 2008, the effective date regarding financial assets is 1 July 2008 (but not earlier) or any date after that deadline, not later, though, than 31 October 2008. The assets must be recognized and documented prior to 1 November 2008. Any reclassifications effected on or after 1 November 2008 (regardless of the reporting period beginning date) are effective from the reclassification date, i.e. reclassification is effected as at the moment of actual reclassifying of the assets.

## **Notes to the consolidated financial statements** (cont'd)

**IAS 1 (revised) "Presentation of Financial Statements" – A revised presentation** - published by IASB on 6 September 2007 and adopted by the EU on 17 December 2008 (effective for annual periods beginning on or after 1 January 2009).The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

**IAS 23 (revised) "Borrowing costs" -** published by IASB on 29 March 2007 and adopted by the EU on 10 December 2008 (effective for annual periods beginning on or after 1 January 2009). IAS 23 revised requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed.

**Amendment to IFRS 2 "Share-based Payment" - Vesting conditions and cancellations** - published by IASB on 17 January 2008 and adopted by the EU on 16 December 2008 (effective for annual periods beginning on or after 1 January 2009).The amendment limits vesting conditions to service conditions and performance conditions. Other features of a share-based payment agreement, except service conditions and performance conditions, are not vesting conditions.

**Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" -Embedded Derivatives** - published by IASB on 12 March 2009 and adopted by the EU on 30 November 2009 (effective for annual periods beginning on or after 1 January 2009). They clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements.

**IFRIC Interpretation 11 "IFRS 2 – Group and Treasury Share Transactions" -** published by IASB on 30 November 2006 and adopted by the EU on 1 June 2007 (effective for annual periods beginning on or after 1 March 2008). The Interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity- settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent. It also addresses the accounting for share-based payment transactions involving two or more entities within one group.

**IFRIC Interpretation 13 "Customer Loyalty Programmes"** - published by IASB on 28 June 2007 and adopted by the EU on 16 December 2008 (effective for annual periods beginning on or after 1 January 2009). The Interpretation addresses accounting by the entity that grants award credits to its customers and requires an entity to account for award credits as a separately identifiable component of the sales transaction in which they are granted. The fair value of the consideration received or receivable shall be allocated between the award credits and the other components of the sale.

## **Notes to the consolidated financial statements** (cont'd)

**IFRIC Interpretation 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" -** published by IASB on 5 July 2007 and adopted by the EU on 16 December 2008 (effective for annual periods beginning on or after 1 January 2009). The Interpretation provides guidance on available to the entity refunds or reductions in future contributions according to IAS 19; it also explains how the economic benefits may be affected by the statutory or contractual minimum funding requirements, as the reductions in future contributions or origination of a liability.

***Standards and Interpretations issued by IASB and adopted by the EU but not yet effective***

At the date of authorisation of these financial statements the company has not applied the following standards, their revisions and interpretations which were published and adopted by the EU but not yet effective:

**IFRS 1 (revised) "First-time Adoption of IFRS" -** published by IASB on 27 November 2008, adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010). The revisions included reorganising the contents and moving to appendices most of the Standard's numerous exceptions and exemptions. The Board has removed out-of-date transitional provisions and made some minor wording amendments.

**IFRS 3 (revised) "Business Combinations" -** published by IASB on 10 January 2008, adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009). The revised IFRS 3 requires recognition of acquisition costs in the period expenses. Revisions to IFRS 3 and the related changes to IAS 27 limit application of acquisition accounting principles only to the moment of control takeover; in consequence, goodwill is calculated as at that date only. IFRS 3 shifts more focus to fair value as at the acquisition date, providing details of its recognition. The change to the standard allows measurement of non-controlling interest (before amendment minority interests) in the acquiree at fair value or proportionally to its share in the identifiable net assets of the acquiree. The revised standard requires measurement of consideration related to the acquisition at fair value as at the acquisition date. The same principle applies to fair value of any contingent consideration due. IFRS 3 allows very few adjustments to measurement at initial recognition of the combination account and only if they result from additional information obtained with regard to facts and circumstances existing as at the acquisition date. Any other changes are recognized in profit/loss. The Standard defines impact on the acquisition accounting if the acquirer and acquiree were parties to a previous relation. IFRS 3 states that an entity has to classify all contractual terms as at the acquisition date with two exceptions: leases and insurance contracts. The acquirer applies its accounting standards and makes decisions in such a way as if the contractual relationship were taken over regardless of the business combination.

**Amendments to IAS 27 "Consolidated and Separate Financial Statements" (revised) -** issued by IASB on 10 January 2008, adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009). In specific conditions, early application is permitted. According to the revised standard, changes in the acquiree's interest in its subsidiary that do not result in a loss of control are accounted for in equity as transactions with owners in their capacity as owners. For such transactions, no financial profit/loss is recognized or goodwill remeasured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

## **Notes to the consolidated financial statements** (cont'd)

The Standard defines accounting procedures to be applied by the parent if control of a subsidiary is lost. Amendments to IAS 28 and IAS 31 extend requirements regarding accounting for loss of control. If therefore an investor has lost significant impact on its associate, the entity should be derecognized and the difference between the total of cash inflows and the preserved interest in fair value and the carrying value of investment in the associate as at the date of losing the significant impact recognized in the profit/loss. A similar approach is required if an investor loses control over a jointly controlled entity.

**Amendments to IAS 32 "Financial Instruments: Presentation" - Accounting for rights issues -** published by IASB on 8 October 2009, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2011). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

**Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible hedged items -** published by IASB on 31 July 2008, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009). The revised Standard explains two hedge accounting issues: identifying inflation as a hedged risk or its portion; and hedging with options. The amendments make clear that inflation may only be hedged in the instance where changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged. The revised IAS 39 permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item. An entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk).

**IFRIC 12 "Service Concession Arrangements" -** published by IASB on 30 November 2006, adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009). The Interpretation provides guidance for operators in service concession arrangements between the public and private sector with regard to accounting recognition of these arrangements. IFRIC 12 applies to arrangements where concessionaire controls or regulates services to be provided by the operator with the use of specific infrastructure, as well as a material remaining share in the infrastructure as at the end of arrangement delivery.

**IFRIC 15 "Agreements for the Construction of Real Estate" -** published by IASB on 3 July 2008, adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010). IFRIC 15 deals with two (related) issues: determines whether a construction contract is subject to IAS 11 "Construction Contracts" or IAS 18 "Revenue" and when revenues from the construction of real estate are to be recognized. The Interpretation provides additional guidance on the distinction between 'construction contracts' (falling within the scope of IAS 11) and other agreements for the construction of real estate (falling within the scope of IAS 18). Agreements involving construction of real estate need to be examined carefully to determine whether they should be accounted for in accordance with IAS 11 or IAS 18. Entities most affected are likely to be those that undertake construction of multiple-unit developments. For agreements falling within the scope of IAS 18 and involving the supply of goods, the Interpretation has introduced a new concept, i.e. that IAS 18's revenue recognition criteria may be met 'continuously as construction progresses'. In such circumstances, revenue is recognised by reference to the stage of completion of construction, using the percentage of completion method.

## **Notes to the consolidated financial statements** (cont'd)

**IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" -** published by IASB on 3 July 2008, adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009). The Interpretation determines: (i) currency risk qualifying for the hedge and the amount that can be hedged; (ii) where to maintain a hedging instrument within the group; (iii) what amount should be recognized in the income statement if a foreign operation is sold.

**IFRIC 17 "Distributions of Non-Cash Assets to Owners" -** published by IASB on 27 November 2008, adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The most significant conclusion reached by the IFRIC is that the dividend should be measured at the fair value of the assets distributed, and that any difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. The Interpretation does not apply to non-cash assets if distribution does not result in a change of control.

**IFRIC 18 "Transfers of Assets from Customers" -** published by IASB on 29 January 2009, adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009). This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of property, plant and equipment (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to a network or to provide ongoing access to supply of goods/services.

The company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The company anticipates that the adoption of these standards, revisions and interpretations would have no material impact on the financial statements of the company if they were applied as at the balance sheet date.

### ***Standards and Interpretations issued by IASB but not yet adopted by the EU***

The IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2009:

**IFRS 9 "Financial Instruments" -** published by IASB on 12 November 2009 (effective for annual periods beginning on or after 1 January 2013). Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

## **Notes to the consolidated financial statements** (cont'd)

**IFRSs (2009), "Amendments to International Financial Reporting Standards" -** amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009. (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording (most of changes are effective for annual periods beginning on or after 1 January 2010). The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) scope of IFRS 2 and revised IFRS 3, (ii) disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations, (iii) disclosure of information about segment assets, (iv) current/non-current classification of convertible instruments, (v) classification of expenditures on unrecognised assets, (vi) classification of leases of land and buildings, (vii) determining whether an entity is acting as a principal or as an agent in customer loyalty programmes, (viii) unit of accounting for goodwill impairment test, (ix) additional consequential amendments arising from revised IFRS 3; and measuring the fair value of an intangible asset acquired in a business combination, (x) treating loan prepayment penalties as closely related embedded derivatives; scope exemption for business combination contracts; cash flow hedge accounting, (xi) scope of IFRIC 9 and revised IFRS 3, (xii) amendment to the restriction on the entity that can hold hedging instruments.

**Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party** - published by IASB on 4 November 2009 (effective for annual periods beginning on or after 1 January 2011). The amendments provide a partial exemption for government-related entities. Until now, if a government controlled, or significantly influenced, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. The IASB has also simplified the definition and removed inconsistencies.

**Amendments to IFRS 1 "First-time Adoption of IFRS"-** published by IASB on 23 July 2009 (effective for annual periods beginning on or after 1 January 2010). The amendments: (1) exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets, (2) exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 Determining whether an Arrangement contains a Lease when the application of their national accounting requirements produced the same result.

**Amendments to IFRS 1 "First-time Adoption of IFRS" - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters** - published by IASB on 28 January 2010 (effective for annual periods beginning on or after 1 January 2010). This amendment relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to IFRS 7).

**Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions -** published by IASB on 18 June 2009 (effective for annual periods beginning on or after 1 January 2010). The amendments clarify: (1) the scope of IFRS 2. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash, (2) the interaction of IFRS 2 and other standards. The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2—Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.

## **Notes to the consolidated financial statements** (cont'd)

**Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement -** published by IASB on 26 November 2009 (effective for annual periods beginning on or after 1 January 2011). According to the former version of the interpretation, in some circumstances entities were not permitted to recognise as an asset some minimum funding requirements. The amendments correct this problem.

**IFRIC 19 "Extinguishing Liabilities with Equity Instruments" -** published by IASB on 26 November 2009 (effective for annual periods beginning on or after 1 July 2010). The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

The company anticipates that the adoption of these standards, revisions and interpretations would have no material impact on the financial statements of the company if they were applied as at the balance sheet date.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the entity's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"**, would not significantly impact the financial statements, if applied as at the balance sheet date.

### 6. Operations discontinued in the reporting period or to be discontinued in the next period

None operation was discontinued by the Company in 2009 and no such discontinuation is planned for the following period.

## **Notes to the consolidated financial statements** (cont'd)

### 7. Segmental information

#### Primary reporting format – business segments

IFRS 8, *Operating Segments*, issued by International Accounting Standards Board on 30 November 2006, replaced IAS 14, *Segment Reporting* and is effective for reporting periods beginning on or after 1 January 2009.

The IFRS 8 requires that operating segments are defined in line with internal reports on components of the company subject to periodic review by a person in charge of operating decisions for the purpose of resource allocation and performance evaluation.
The Company's business activity is primarily categorised by industries.
The operations of business segments consist in providing construction and installation services and manufacturing of electrical equipment.
The company's reporting segments are its strategic divisions, identified in the company's organizational structure and offering different products and services. They are separately managed, as the operations of each require different production technology and different marketing strategy. The company is organized into four reportable segments:

- The segment: Power Generation Division provides services for power and heat generating plants, heavy industry, particularly metallurgy and mining together with processing facilities. The services include electrical installation and erection, 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 (retail centres) and industry, including petrochemical, paper & pulp, road building, etc. The services include electrical installation, commissioning and start-up and general realization of 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 selling of low and medium voltage equipment, particularly low and medium voltage switchgear systems and mobile substations, manufacture and sale of steel cable trays and supports, development and selling of control and signalling equipment, the supply of complete distribution substations and turnkey contracts for power transmission and distribution projects.

- The segment: Automation Division supplies control, supervision and automation systems for electrical substations and distribution boards. Services rendered by the division include also monitoring, control and overall automation systems for manufacturing and processing industries. Also the electrical, instrumentation and control services are provided for water treatment and environmental protection facilities. Automation solutions are also provided for construction industry, power sector and heat-generating industry.

- Other items include other material and not material services provided for external customers.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

Identification of the reportable segments depends directly on the actual organizational structure and the company's management structure.
The company introduced a change in its organizational structure from 1 July 2009 and wound up the Automation Division. The works performed by the division to that date were transferred to the Power Generation Division or the Industry Division for execution or contracted out to the subsidiary - Przedsiębiorstwo Usług Elektroenergetycznych ENERGOTEST sp. z o. o.
The accounting principles applied to the segments are the same as described in the presentation of the significant accounting standards.
Inter-segment transfers or transactions are entered into under the normal commercial terms, as available also to third parties.

Presented below is the analysis of revenues and results of the company's reportable segments:

### Business segment results for 2009

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Sales revenue | 219 383 | 231 729 | 248 592 | 3 536 | 7 875 | **711 115** |
| of which: | | | | | | |
| Revenue on external customers | 217 678 | 224 783 | 213 889 | 2 988 | 2 450 | **661 788** |
| Inter-segment sales | 1 705 | 6 946 | 34 703 | 548 | 5 425 | **49 327** |
| **Operating profit** | **23 140** | **9 494** | **28 659** | **(558)** | **3 626** | **64 361** |
| Financial activities result | 0 | 0 | 2 014 | 0 | 6 862 | **8 876** |
| **Profit before income tax** | **23 140** | **9 494** | **30 673** | **(558)** | **10 488** | **73 237** |
| Income tax expense | (4 800) | (1 930) | (6 176) | 88 | (2 006) | **(14 824)** |
| **Net profit from continuing operations for the period** | **18 340** | **7 564** | **24 497** | **(470)** | **8 482** | **58 413** |
| **Discontinued operations** | | | | | | |
| **Net profit (loss) from discontinued operations for the period** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net profit for the period** | **18 340** | **7 564** | **24 497** | **(470)** | **8 482** | **58 413** |

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| depreciation | 2 657 | 1 316 | 1 792 | 78 | 1 554 | **7 397** |
| amortisation | 144 | 118 | 1 357 | 133 | 51 | **1 803** |

***all amounts in PLN thousands unless otherwise stated)***

# **Notes to the consolidated financial statements** (cont'd)

### Business segment results for 2008

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Sales revenue | 277 321 | 299 300 | 287 722 | 7 853 | 7 100 | **879 296** |
| Revenue on external customers | 272 903 | 294 555 | 210 480 | 5 846 | 2 437 | **786 221** |
| Inter-segment sales | 4 418 | 4 745 | 77 242 | 2 007 | 4 663 | **93 075** |
| **Operating profit** | **23 020** | **18 901** | **22 972** | **(1 012)** | **2 187** | **66 068** |
| Financial activities result | (24) | (30) | 3 887 | (3) | 0 | **3 830** |
| **Profit before income tax** | **22 996** | **18 871** | **26 859** | **(1 015)** | **2 187** | **69 898** |
| Income tax expense | (4 155) | (3 705) | (5 371) | 179 | (527) | **(13 579)** |
| **Net profit from continuing operations for the period** | **18 841** | **15 166** | **21 488** | **(836)** | **1 660** | **56 319** |
| **Discontinued operations** | | | | | | |
| **Net profit (loss) from discontinued operations for the period** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net profit for the period** | **18 841** | **15 166** | **21 488** | **(836)** | **1 660** | **56 319** |

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| depreciation | 1 846 | 1 001 | 1 528 | 151 | 1 398 | **5 924** |
| amortisation | 157 | 149 | 1 058 | 69 | 63 | **1 496** |

***all amounts in PLN thousands unless otherwise stated)***

# **Notes to the consolidated financial statements** (cont'd)

### Assets and liabilities of business segments as at 31 December 2009

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| Assets | 107 726 | 114 152 | 62 392 | 1 | 184 056 | **468 327** |
| Liabilities | 58 975 | 83 911 | 41 681 | 464 | (3 975) | **181 056** |
| Capital expenditure | 4 553 | 845 | 2 276 | 40 | 11 707 | **19 421** |

### Assets and liabilities of business segments as at 31 December 2008

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| Assets | 114 702 | 100 165 | 86 448 | 51 932 | 82 878 | **436 125** |
| Liabilities | 60 773 | 49 969 | 53 999 | 3 120 | 25 826 | **193 687** |
| Capital expenditure | 7 195 | 2 888 | 4 354 | 767 | 4 172 | **19 376** |

### Impairment of receivables by business segments

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| as at 31 December 2009 | 1 658 | 1 152 | 3 956 | 0 | 4 039 | **10 805** |
| as at 31 December 2008 | 1 560 | 992 | 4 023 | 3 | 4 057 | **10 635** |

### Provisions for impairment of receivables by business segments

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| in 2009 | 432 | 497 | 608 | 0 | 3 | **1 540** |
| in 2008 | 38 | 336 | 787 | 3 | 1 | **1 165** |

### Reversal and use of provisions for impairment of receivables by business segments

| | Power Generation Division | Industry Division | Power Distribution Division | Automation Division | All Other Segments | Total |
|---|---|---|---|---|---|---|
| in 2009 | 334 | 337 | 675 | 3 | 21 | **1 370** |
| in 2008 | 4 489 | 527 | 58 | 1 | 41 | **5 116** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### Secondary reporting format – geographical segments

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

The geographical division corresponds to the locations of final customers and is as follows:

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Revenue on sales of products, goods and materials** | | |
| - domestic market | 575 756 | 714 640 |
| - East-European market | 45 016 | 59 352 |
| - Skandinavian market | 24 932 | 6 348 |
| - Turkish market | 7 133 | 2 253 |
| - Southwestern Asia | 169 | 1 234 |
| - Australian market | 489 | 540 |
| - Western Europe | 2 028 | 1 854 |
| - Central America | 1 714 | 0 |
| - other markets | 4 551 | 0 |
| | **661 788** | **786 221** |

In 2009 the company operated principally in the domestic market (87% of the sales revenues), East-European markets (7%) and the Scandinavian market (4%).

### Information about key customers

Of the 2009 revenues for the sale of products, goods and materials generated by the company the revenue from a single customer did not exceed 10% of the total.

The revenue for the direct sales generated by the Industry Division in the amount of 224.8 million PLN (294.6 million PLN in 2008) includes the 34.1 million PLN revenue for the contract with the biggest customer (in 2008 it was 46.8 million PLN). The revenue accounted for 5.1% of total revenues in 2009 and 6.0% in 2008.

*all amounts in PLN thousands unless otherwise stated)*

## Notes to the consolidated financial statements (cont'd)

### 8. Property, plant and equipment

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Property, plant and equipment** | | |
| - land | 2 746 | 0 |
| - buildings, facilities | 25 126 | 22 509 |
| - machinery and technical equipment | 9 673 | 9 932 |
| - vehicles | 9 571 | 10 138 |
| - other fixed assets | 2 885 | 2 897 |
| - fixed assets under construction | 8 035 | 2 172 |
| | **58 036** | **47 648** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | **land** | **buildings, facilities** | **machinery and technical equipment** | **vehicles** | **other fixed assets** | **fixed assets under construction** | **Property, plant & equipment** |
|---|---|---|---|---|---|---|---|
| Gross value of fixed tangible assets at 1 January 2009 | 0 | 27 123 | 30 990 | 18 074 | 8 177 | 2 172 | 86 536 |
| Additions (of which): | 3 000 | 4 077 | 2 483 | 2 461 | 918 | 5 863 | 18 802 |
| - purchase | 0 | 0 | 2 483 | 2 461 | 918 | 7 330 | 13 192 |
| - manufactured in the company | 0 | 0 | 0 | 0 | 0 | 5 370 | 5 370 |
| - takeover from investment | 3 000 | 4 077 | 0 | 0 | 0 | (7 077) | 0 |
| - other | 0 | 0 | 0 | 0 | 0 | 240 | 240 |
| Reductions (of which): | (254) | (331) | (850) | (1 389) | (313) | 0 | (3 137) |
| - selling | (254) | 0 | (435) | (1 372) | (42) | 0 | (2 103) |
| - liquidation | 0 | 0 | (415) | (17) | (271) | 0 | (703) |
| - other | 0 | (331) | 0 | 0 | 0 | 0 | (331) |
| Gross value of fixed tangible assets at 31 December 2009 | 2 746 | 30 869 | 32 623 | 19 146 | 8 782 | 8 035 | 102 201 |
| Accumulated depreciation at 1 January 2009 | 0 | (4 614) | (21 058) | (7 936) | (5 280) | 0 | (38 888) |
| Current depreciation for the period | 0 | (1 220) | (2 480) | (2 794) | (906) | 0 | (7 400) |
| Reduction due to selling, liquidation | 0 | 0 | 588 | 1 155 | 289 | 0 | 2 032 |
| Other reductions | | 91 | | | | | 91 |
| Accumulated depreciation at 31 December 2009 | 0 | (5 743) | (22 950) | (9 575) | (5 897) | 0 | (44 165) |
| **Net tangible fixed assets at 31 December 2009** | **2 746** | **25 126** | **9 673** | **9 571** | **2 885** | **8 035** | **58 036** |

The group does not have any property plant and equipment with restricted right of use.
As at 31 December 2009 bank borrowings and guarantees were secured on property, plant and equipment for the value 126 065 thousand PLN and a pledge by registration was made for the value 2 441 thousand PLN.
As at 31 December 2009 as well as at 31 December 2008 there were no provisions for impairment of property, plant and equipment.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | land | buildings, facilities | machinery and technical equipment | vehicles | other fixed assets | fixed assets under construction | Property, plant & equipment |
|---|---|---|---|---|---|---|---|
| Gross value of fixed tangible assets at 1 January 2008 | 0 | 26 237 | 26 763 | 13 049 | 7 150 | 380 | 73 579 |
| Additions (of which): | 0 | 1 842 | 5 659 | 6 135 | 1 329 | 1 792 | 16 757 |
| - purchase | 0 | 239 | 5 443 | 6 135 | 1 329 | 3 445 | 16 591 |
| - take over from investment | 0 | 1 603 | 50 | 0 | 0 | (1 653) | 0 |
| - disclosure | 0 | 0 | 166 | 0 | 0 | 0 | 166 |
| Reductions (of which): | 0 | (956) | (1 432) | (1 110) | (302) | 0 | (3 800) |
| - selling | 0 | (791) | (349) | (1 083) | 0 | 0 | (2 223) |
| - liquidation | 0 | (165) | (1 083) | (27) | (291) | 0 | (1 566) |
| - disclosure | 0 | 0 | 0 | 0 | (11) | 0 | (11) |
| Gross value of fixed tangible assets at 31 December 2008 | 0 | 27 123 | 30 990 | 18 074 | 8 177 | 2 172 | 86 536 |
| Accumulated depreciation at 1 January 2008 | 0 | (3 886) | (20 276) | (6 910) | (4 842) | 0 | (35 914) |
| Current depreciation for the period | 0 | (1 061) | (2 033) | (2 093) | (740) | 0 | (5 927) |
| Reduction due to selling, liquidation of fixed tangible assets | 0 | 333 | 1 404 | 1 067 | 291 | 0 | 3 095 |
| Disclosures | 0 | 0 | (153) | 0 | 11 | 0 | (142) |
| Accumulated depreciation at 31 December 2008 | 0 | (4 614) | (21 058) | (7 936) | (5 280) | 0 | (38 888) |
| **Net tangible fixed assets at 31 December 2008** | **0** | **22 509** | **9 932** | **10 138** | **2 897** | **2 172** | **47 648** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Depreciation of property, plant and equipment is charged to the income statement in:** | | |
| - cost of products, goods and material sold | 7 110 | 5 683 |
| - administrative expenses | 287 | 241 |
| - other losses - net | 3 | 3 |
| | **7 400** | **5 927** |

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Fixed tangible assets by ownership** | | |
| - owned | 57 470 | 47 648 |
| - investment in third party fixed tangible assets | 566 | 0 |
| | **58 036** | **47 648** |

### 9. Intangible assets

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Intangible assets** | | |
| - cost of finished development works | 2 379 | 2 319 |
| - acquired concessions, patents, licences and similar | 1 031 | 1 271 |
| - cost of unfinished development works | 53 | 1 082 |
| | **3 463** | **4 672** |

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Amortisation of intangible assets is recognised in the profit and loss account in items:** | | |
| - cost of sold products, goods and materials | 1 752 | 1 433 |
| - administrative expenses | 51 | 63 |
| | **1 803** | **1 496** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | Cost of finished development works | Concessions, patents, licenses and software | Other intangible assets | Cost of development works in progress | Intangible assets, total |
|---|---|---|---|---|---|
| Gross value of intangible assets at 1 January 2009 | 6 495 | 6 445 | 1 734 | 1 082 | 15 756 |
| Additions, of which: | 1 265 | 383 | 0 | (1 029) | 619 |
| - purchase | 0 | 383 | 0 | 0 | 383 |
| - internally generated | 0 | 0 | 0 | 236 | 236 |
| - transfer to the cost of unfinished development works | 1 265 | 0 | 0 | (1 265) | 0 |
| Reductions (of which) | 0 | (49) | 0 | 0 | (49) |
| - liquidation | 0 | (49) | | | (49) |
| Other | 0 | 0 | 0 | 0 | 0 |
| Gross value of intangible assets at 31 December 2009 | 7 760 | 6 779 | 1 734 | 53 | 16 326 |
| Accumulated amortisation at 1 January 2009 | (4 176) | (5 174) | (1 734) | 0 | (11 084) |
| Current amortisation | (1 205) | (598) | 0 | 0 | (1 803) |
| Reduction due to selling, liquidation of intangible assets | 0 | 24 | 0 | | 24 |
| Accumulated amortisation at 31 December 2009 | (5 381) | (5 748) | (1 734) | 0 | (12 863) |
| **Net intangible assets at 31 December 2009** | **2 379** | **1 031** | **0** | **53** | **3 463** |

The company does not have bank loans or any other liabilities secured against intangible assets.
The company does not have any intangible assets with restricted right of use.
As at 31 December 2009 as well as at 31 December 2008 there were no provisions for impairment of intangible assets.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | Cost of finished development works | Concessions, patents, licenses and software | Other intangible assets | Cost of development works in progress | Intangible assets, total |
|---|---|---|---|---|---|
| Gross value of intangible assets at 1 January 2009 | 4 900 | 5 264 | 1 734 | 1 387 | 13 285 |
| Additions, of which: | 1 909 | 1 181 | 0 | (305) | 2 785 |
| - purchase | 0 | 1 181 | 0 | 0 | 1 181 |
| - internally generated | 0 | 0 | 0 | 1 604 | 1 604 |
| - transfer to the cost of unfinished development works | 1 909 | 0 | 0 | (1 909) | 0 |
| Reductions (of which) | (314) | 0 | 0 | 0 | (314) |
| - liquidation | 0 | 0 | 0 | 0 | 0 |
| - received subsidy | (314) | 0 | 0 | 0 | (314) |
| Gross value of intangible assets at 31 December 2008 | 6 495 | 6 445 | 1 734 | 1 082 | 15 756 |
| Accumulated amortisation at 1 January 2008 | (3 359) | (4 495) | (1 734) | 0 | (9 588) |
| Current amortisation | (817) | (679) | 0 | 0 | (1 496) |
| Reduction due to selling, liquidation of intangible assets | 0 | 0 | 0 | 0 | 0 |
| Accumulated amortisation at 31 December 2008 | (4 176) | (5 174) | (1 734) | 0 | (11 084) |
| **Net intangible assets at 31 December 2008** | **2 319** | **1 271** | **0** | **1 082** | **4 672** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 10. Capital expenditure

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| Commenced investments at beginning of period | 3 254 | 1 767 |
| Expenditure during the reporting period | 19 421 | 19 376 |
| of which: | | |
| - costs of internal manufacture | 5 606 | 1 604 |
| - third party costs | 6 461 | 4 604 |
| - cost of purchased machines, equipment and services | 7 354 | 13 168 |
| Investments transferred to fixed tangible assets and intangible assets | (14 587) | (17 889) |
| **Commenced investments at end of period** | **8 088** | **3 254** |
| of which: | | |
| - commenced investments relating to fixed tangible assets | 8 035 | 2 172 |
| - commenced investments relating to intangible assets | 53 | 1 082 |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 11. Interest in associates

#### 11.1 Investment in associates

| | Vector Ltd. Votkinsk Russia | Kruelta Ltd. Sankt Petersburg Russia | Saudi ELEKTROBUDOWA L.L.C. Riyadh Saudi Arabia |
|---|---|---|---|
| - % interest held as at 31 December 2009 | 49% | 49% | 33% |
| - % interest held as at 31 December 2008 | 49% | 49% | 33% |
| - purchase price | 13 805 | 1 571 | 97 |
| - Share capital increase in 2009 | 7 711 | 0 | 0 |
| - investment in associates as of 31 December 2009 | 21 516 | 1 571 | 97 |
| - value of assets | 47 647 | 13 614 | 228 |
| - liabilities | 6 791 | 4 926 | 214 |
| - revenues from sale of products, goods and materials | 4 916 | 63 934 | - |
| - profit / loss - net | (3 692) | 6 586 | (388) |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 11.2 Interest in subsidiaries

| | Konip Sp. z o.o. Katowice | ENERGOTEST sp. z o.o. Gliwice | ENERGOEFEKT Sp. z o.o. Ruda Śląska |
|---|---|---|---|
| - % interest as at 31 December 2009 | 100% | 100% | - |
| - % interest as at 31 December 2008 | 100 % | 100% | 100% |
| - purchase price | 70 | 36 601 | 10 852 |
| - interest in subsidiaries as of 31 December 2009 | 70 | 47 453 * | - |
| - value of assets | 662 | 34 978 | - |
| - liabilities | 93 | 9 146 | - |
| - revenues from sale of products, goods and materials | 991 | 52 029 | - |
| - profit / loss - net | 160 | 3 295 | - |

* On 18 August 2009 ENERGOTEST Gliwice took over ENERGOEFEKT Ruda Śląska. The acquisition was affected by a transfer all assets of ENERGOEFEKT to ENERGOTEST, accompanied by the increase of share capital of the acquiring company, through issuance of the shares to ELEKTROBUDOWA SA which has a 100% interest in ENERGOEFEKT – according to the conditions set in the Draft Terms of Merger dated 26 November 2008.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 12. Financial assets

#### 12.1 Available-for-sale financial assets

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Available-for-sale financial assets** | | |
| - non-current | 2 890 | 2 100 |
| - current | 250 | 196 |
| | **3 140** | **2 296** |

Non-current financial assets available for sale include shareholding in PI Biprohut Sp. z o.o. based in Gliwice, which fair value, as the market for those shares is not active, has been measured by using a mixed method – Swiss method. The Swiss method measurement is based on weighted average of results obtained from the measurements by discounted cash flows (an income method) and by adjusted net assets value (asset based method).
As of 31 December 2009 ELEKTROBUDOWA SA has 22.57% share in total voting rights in the General Meeting of Biprohut, while at 31 December 2008 it was 22.53%.
The strategic investor of Biprohut as at 31 December 2009 held 62.1% stake which entitled him to 51.44% of voting rights in the general meeting of shareholders; the remaining shares were held by individual shareholders. Considering the investor relations of Biprohut, ELEKTROBUDOWA SA does not have significant influence on operating and financial policy of Biprohut and does not control the entity. Following the above and basing on the assumptions of IAS 28 the Management Board of ELEKTROBUDOWA SA does not classify this entity as an associate which should be consolidated by equity method.

As of 31 December 2009 the carrying amount of shareholdings in the above mentioned company recognized in non-current assets available for sale is:

| | **PI Biprohut Sp. z o.o. Gliwice** |
|---|---|
| Available-for-sale financial assets at 1 January 2009 | 2 100 |
| Measurement as of 31 December 2009 recognized in equity | 790 |
| Available-for-sale financial assets at 31 December 2009 | 2 890 |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

Fair value of current assets available for sale has been measured according to the quotation price, on the active market for securities, of shares in Mostostal Zabrze S.A. and Energoaparatura S.A. Katowice, and basing on the present offered purchase price for shares in Famak S.A., Kluczbork.

As of 31 December 2009 the carrying amounts of shareholdings in the above mentioned companies recognized in the current assets available for sale are:

| | **Mostostal Zabrze S.A.** | **FAMAK S.A. Kluczbork** | **Energoaparatura S.A. Katowice** | **Total** |
|---|---|---|---|---|
| - Available-for-sale financial assets at 1 January 2009 | 154 | 24 | 18 | 196 |
| - Measurement at 31 December 2009 recognized in equity | 49 | 0 | 5 | 54 |
| - Available-for-sale financial assets at 1 January 2009 | 203 | 24 | 23 | 250 |

### 12.2 Held-to-maturity financial assets

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Held-to-maturity financial assets** | | |
| Treasury bills | | |
| - nominal value | 0 | 20 000 |
| - transaction value at purchase date | 0 | 19 594 |
| - calculated interest (measurement) charged to other net profit | 0 | 267 |
| - carrying value | **0** | **19 861** |

The financial assets held to maturity, as at 31 December 2008 were presented in the current asssets.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 12.3 Classification of assets by groups of financial instruments

| Type of financial instrument | method of measurement as at 31.12.2009 | at 31.12.2009 | at 31.12.2008 | the amount charged to revaluation capital in 2009 |
|---|---|---|---|---|
| **1. Extended loans and own receivables** | | **183 749** | **193 237** | **0** |
| a) long-term receivables from sale of fixed assets | amortized cost | 1 929 | 1 821 | 0 |
| b) long-term receivables from contract bonds | amortized cost | 207 | 104 | 0 |
| c) long-term receivables with deferred payment | amortized cost | 6 407 | 8 210 | 0 |
| d) short-term trade receivables | amortized cost | 172 849 | 180 834 | 0 |
| e) short-term other receivables | amortized cost | 2 357 | 2 268 | 0 |
| **2. Assets held to maturity** | | **0** | **19 861** | **0** |
| a) treasury bills | amortized cost | 0 | 19 861 | 0 |
| **3. Available-for-sale financial assets** | | **3 140** | **2 296** | **844** |
| a) shares in PI Biprohut Sp. z o.o. | fair value | 2 890 | 2 100 | 790 |
| b) shares in Mostostal Zabrze S.A. | fair value | 203 | 154 | 49 |
| c) shares in Famak S.A. | fair value | 24 | 24 | 0 |
| d) shares in Energoaparatura S.A. | fair value | 23 | 18 | 5 |
| **Total financial assets** | | **186 889** | **215 394** | **844** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 13. Derivative financial instruments

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Forward contracts in foreign currencies - negative valuation of fair value** | 147 | 0 |

The forward contract refers to the disposal of foreign currency in the amount of 1200 thousand EUR and is not qualified as hedging. The derivative financial instruments as at 31 December 2009 are presented in the company's current liabilities.

### 14. Trade and other receivables

### 14.1 Receivables recognised in non-current assets

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Long-term receivables** | | |
| of which from: | | |
| - disposal of property, plant and equipment | 1 929 | 1 821 |
| - contract bonds | 207 | 104 |
| - receivables with deferred payments | 6 407 | 8 210 |
| **Long-term receivables - net** | **8 543** | **10 135** |
| Discount of receivables | 1 137 | 1 678 |
| **Long-term receivables - net** | **9 680** | **11 813** |

The disclosed retentions are the security deposits required by the customers in relation to contracts executed by the Company.
As at the balance sheet date the current value of long-term receivables is measured by revaluation of discount amount due to passage of time.

# **Notes to the consolidated financial statements** (cont'd)

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Non-current receivables - by currency** | | |
| - in f in Polish zloty | 7 639 | 10 135 |
| - in f in foreign currencies (by currencies and translated to PLN) of which: | 904 | 0 |
| a) in EUR'000 | 220 | 0 |
| as translated to PLN'000 | 904 | 0 |
| | **8 543** | **10 135** |

Long-term receivables recognised in non-current assets will be paid within 6 years.

### 14.2 Receivables recognised in current assets

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Current trade and other receivables** | | |
| of which: | | |
| - for supplies and services | 172 849 | 180 834 |
| - other | 2 500 | 2 268 |
| **Total trade and other receivables, net** | **175 349** | **183 102** |
| Receivables impairment charge | 10 805 | 10 635 |
| **Total trade and other receivables, gross** | **186 154** | **193 737** |

Average collection period for trade receivables is 30 days. The balance of receivables for the supply of products and services includes past due receivables which carrying value amounts to 13 617 thousand PLN (39 862 thousand PLN in 2008), impaired by the amount of 10 805 thousand PLN (10 635 thousand PLN in 2008). The impairment amount of doubtful receivables includes the receivables due from customers declared bankrupt where the company is in the possession of final judgement, also the debt under enforcement proceedings and the receivables past due for at least 180 days.
The carrying amounts of current receivables approximate their fair values.

## **Notes to the consolidated financial statements** (cont'd)

| | as at 31 December 2009 | as at 31 December 2008 |
|---|---|---|
| **Current trade and other receivables - by currency** | | |
| - in Polish currency | 170 199 | 182 576 |
| - in foreign currencies (by currencies and translated to PLN) | 15 955 | 11 161 |
| of which: | | |
| a) in thousands of EUR | 3 431 | 1 377 |
| as translated into thousands of PLN | 14 095 | 5 745 |
| b) in thousands of USD | 634 | 1 759 |
| as translated into thousands of PLN | 1 807 | 5 210 |
| c) in thousands of AUD | 19 | 100 |
| as translated into thousands of PLN | 49 | 206 |
| e) in thousands of SAR | 5 | 0 |
| as translated into thousands of PLN | 4 | 0 |
| | **186 154** | **193 737** |

| | year ended 31 December 2009 | year ended 31 December 2008 |
|---|---|---|
| **Provision for impairment of trade and other receivables** | | |
| Provision for impairment of receivables at beginning of period | 10 635 | 14 586 |
| Creating the provision | 1 540 | 1 165 |
| Use | (1 370) | (5 116) |
| of which: | | |
| - paid | (953) | (588) |
| - written off receivables | (20) | (4 489) |
| - payment and redemption of interests | (397) | (39) |
| **Provision for impairment of receivables at end of period** | **10 805** | **10 635** |

The impairment amounts of receivables are recognized in "other gains / losses – net" in the income statement and the statement of comprehensive income.

***all amounts in PLN thousands unless otherwise stated)***

# **Notes to the consolidated financial statements** (cont'd)

## 15. Non-current prepayments

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Non-current prepayments** | | |
| - purchase of the right to perpetual usufruct of land | 1 144 | 1 159 |
| - other | 257 | 0 |
| | **1 401** | **1 159** |

## 16. Inventories

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Inventories** | | |
| - materials | 1 264 | 896 |
| - semi-finished products and work in progress | 1 242 | 2 890 |
| - finished products | 824 | 760 |
| | **3 330** | **4 546** |

The company does not have any bank loans or other liabilities hedged by inventories.
As at 31 December 2009 the company did not identify any inventories which value was lower than the purchase cost or realizable value.

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Inventory write-down at the beginning of period** | | |
| Write-down at the beginning of period | 131 | 298 |
| Created | 23 | 29 |
| Used | (154) | (196) |
| **Inventory write-down at the end of period** | **0** | **131** |

The impairment amounts of inventories of materials are recognized in “other gains / losses – net” in the statement of comprehensive income.

# **Notes to the consolidated financial statements** (cont'd)

## 17. Cash and cash equivalents

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| Cash at bank and on hand | 32 744 | 36 367 |
| Other cash | 22 425 | 32 101 |
| Other financial assets with maturities up to 3 months since acquisition | 46 030 | 58 |
| **Total cash and cash equivalent** | **101 199** | **68 526** |

Other financial assets with maturities up to 3 months since acquisition principally include deposits in the amount of 46 030 thousand PLN, of which 30 thousand PLN is the security for contract bonds.

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Cash and cash equivalents - by currency** | | |
| - in F in Polish currency | 89 570 | 40 001 |
| - in f in foreign currencies (by currencies and translated to PLN) of which | 11 629 | 28 525 |
| a) in thousands / EUR | 1 953 | 2 866 |
| as translated into thousands of PLN | 8 023 | 11 958 |
| b) in thousands / USD | 1 265 | 5 593 |
| as translated into thousands of PLN | 3 606 | 16 567 |
| | **101 199** | **68 526** |

Average effective interest rate for bank deposits was 2% in 2009 and 3.5% in 2008.
Components of cash and cash equivalents are identical in the statement of cash flow and in the statement of financial position.

## 18. Current prepayments

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Current prepayments** | | |
| - future periods expenses (subscriptions, fees) | 480 | 884 |
| - prepayments for supplies | 1 703 | 1 167 |
| | **2 183** | **2 051** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 19. Share capital

#### Share capital (structure) – as at 31 December 2009

| Series / issue | Type of shares | Type of preference | Type of shares restrictions | Number of shares | Value of series/ issue at par on shares | Type of contribution | Date of registration | Right to dividend (since) |
|---|---|---|---|---|---|---|---|---|
| A | bearer ordinary | unpreferred | none | 3 248 750 | 6 497 | cash | 1995-06-07 | 1995-01-01 |
| B | bearer ordinary | unpreferred | none | 722 250 | 1 953 | cash | 1995-12-11 | 1995-01-01 |
| C | bearer ordinary | unpreferred | none | 249 096 | 499 | cash | 2006-12-06 | 2006-01-01 |
| D | bearer ordinary | unpreferred | none | 527 512 | 1 055 | cash | 2008-01-23 | 2008-01-01 |
| **Total number of shares** | | | | **4 747 608** | | | | |

| | |
|---|---|
| Par value of 1 share (PLN) | 2,00 |
| Issued share capital | 10 004 |
| Revaluation of capital due to hyperinflation | 16 371 |
| | **26 375** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### Share capital (structure) – as at 31 December 2008

| Series / issue | Type of shares | Type of preference | Type of shares restrictions | Number of shares | Value of series/ issue at par on shares | Type of contribution | Date of registration | Right to dividend (since) |
|---|---|---|---|---|---|---|---|---|
| A | bearer ordinary | unpreferred | none | 3 248 750 | 6 497 | cash | 1995-06-07 | 1995-01-01 |
| B | bearer ordinary | unpreferred | none | 722 250 | 1 953 | cash | 1995-12-11 | 1995-01-01 |
| C | bearer ordinary | unpreferred | none | 249 096 | 499 | cash | 2006-12-06 | 2006-01-01 |
| D | bearer ordinary | unpreferred | none | 527 512 | 1 055 | cash | 2008-01-23 | 2008-01-01 |
| **Total number of shares** | | | | **4 747 608** | | | | |

| | |
|---|---|
| Par value of 1 share (PLN) | 2,00 |
| Issued share capital | 10 004 |
| Revaluation of capital due to hyperinflation | 16 371 |
| | **26 375** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

As required by IAS 29, ELEKTROBUDOWA SA restated its share capital and supplementary capital in their share premium portion, as this capital was gained in the conditions of hyperinflation.

The capital was restated as follows:

Ratios applied:

| Period | Ratio |
|---|---|
| Feb-Dec 1992 | 34.30% |
| 1993 | 37.60% |
| 1994 | 29.50% |
| 1995 | 21.60% |
| 1996 | 18.50% |

The effect of restatement:

| | Before restatement | After restatement |
|---|---|---|
| Share capital | 8 450 | 24 821 |
| Supplementary capital from series B share premium | 8 750 | 10 369 |

The ordinary shares, all of which are fully paid, with a par value of 2.00 zł per share, have one vote at the Annual General Meeting of shareholders attached to each of them and have the right to dividend. All shares were acquired for cash consideration.

| **Shareholders as at 31 December 2009:** | **Numbers of shares = number of votes** | **% of votes and % equity** |
|---|---|---|
| 1. ING OFE (Open-end Pension Fund) | 799 394 | 16.84 |
| 2. AVIVA OFE AVIVA BZ WBK SA | 620 453 | 13.07 |
| 3. Otwarty Fundusz Emerytalny PZU „Złota Jesień” | 464 588 | 9.78 |
| 4. ING TFI SA | 389 705 | 8.21 |
| 5. AXA OFE | 342 443 | 7.21 |
| 6. Amplico Open-end Pension Fund | 316 572 | 6.67 |
| 7. Free float | 1 824 453 | 38.22 |
| **Total number of shares in the share capital** | **4 747 608** | **100.00** |

***all amounts in PLN thousands unless otherwise stated)***

# **Notes to the consolidated financial statements** (cont'd)

## 20. Other capital

### 20.1 Supplementary capital

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Supplementary capital:** | | |
| - share premium | 100 840 | 100 840 |
| - created as required by law | 2 999 | 2 999 |
| - created acc. to the Articles, over (minimum) value required by law | 107 896 | 65 845 |
| - other (by type) | 7 181 | 7 181 |
| a) transferred from reserve capital | 5 562 | 5 562 |
| b) restatement due to hyperinflation | 1 619 | 1 619 |
| | **218 916** | **176 865** |

According to the Polish commercial companies code "the use of the supplementary capital shall be determined by the general assembly; however, the part of the supplementary capital equal to 1/3 of the share capital may only be applied to finance loss shown in the financial statements". The remaining part of the supplementary capital may be used according to the decision of the company as provided in the Articles. The funds gathered in the supplementary capital may be used particularly for dividend payment, however the dividend may only be paid from the earned profits.

### 20.2 Capital from valuation of available-for-sale investments

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Capital from valuation of available-for-sale investments** | | |
| - valuation of available-for-sale investments | 1 912 | 1 068 |
| - deferred tax related to investment valuation | (364) | (203) |
| | **1 548** | **865** |

The capital from measurement of the available-for-sale investments is created by restatement of available-for-sale financial assets. When a restated item of the financial assets is revalued, the effectively realized part of the capital associated with this item is recognized in the statement of comprehensive income.

# **Notes to the consolidated financial statements** (cont'd)

## 21. Trade and other payables

### 21.1 Non-current trade and other payables

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Long-term liabilities** | | |
| - employee benefits | 2 537 | 2 194 |
| - other | 5 602 | 7 168 |
| **Long-term liabilities, net** | **8 139** | **9 362** |
| Discount of liabilities | 996 | 1 624 |
| **Long-term liabilities,gross** | **9 135** | **10 986** |

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Non-current trade liabilities by titles** | | |
| - retentions from subcontracts | 5 602 | 7 168 |

Present value of non-current payables as at the balance sheet date is measured through revaluation of discount due to passage of time.

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Non-current other payables - by currency** | | |
| - in Polish currency | 5 602 | 7 088 |
| - in foreign currencies (by currencies and translated to PLN) | 0 | 80 |
| of which | | |
| a) in thousands of CHF | 0 | 29 |
| as translated into thousands of PLN | 0 | 80 |
| | **5 602** | **7 168** |

The fair values of non-current payables reflect their carrying amounts.

## **Notes to the consolidated financial statements** (cont'd)

### 21.2 Current trade and other payables

| | as at 31 December 2009 | 2008 |
|---|---|---|
| **Short-term trade and other payables** | | |
| - for supplies and services | 99 265 | 90 769 |
| - prepayments from customers | 8 067 | 14 801 |
| - taxes, duties, insurance and other contributions | 15 644 | 17 115 |
| - remunerations | 5 500 | 4 725 |
| - Other (by titles) | 1 655 | 9 420 |
| of which: | | |
| a) acquisition of fixed assets | 1 157 | 2 253 |
| b) payables to employees | 12 | 12 |
| d) deductions from payroll | 381 | 335 |
| e) purchase of shares in subsidiaries | 0 | 6 556 |
| f) other | 105 | 264 |
| | **130 131** | **136 830** |

Trade payables are realized within 60 days at average.

| | as at 31 December 2009 | 2008 |
|---|---|---|
| **Current trade and other payables - by currency** | | |
| - in Polish currency | 96 230 | 75 956 |
| - in foreign currencies (by currencies and translated to PLN) | 3 035 | 14 813 |
| of which: | | |
| a) in thousands of EUR | 702 | 2 475 |
| as translated into thousands of PLN | 2 884 | 10 327 |
| b) in thousands of USD | 53 | 1 462 |
| as translated into thousands of PLN (prepayments) | 151 | 4 332 |
| c) in thousands of DKK | 0 | 229 |
| as translated into thousands of PLN | 0 | 128 |
| d) in thousands of CHF | 0 | 9 |
| as translated into thousands of PLN | 0 | 26 |
| | **99 265** | **90 769** |

The fair values of current trade and other payables reflect their carrying amounts.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

**Taxes, duties, social insurance and other charges.**

| | at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| - personal income tax | 1 391 | 1 008 |
| - Value Added Tax | 10 621 | 14 306 |
| - social insurance | 4 992 | 4 072 |
| - income tax on licence | 0 | 14 |
| - State Fund for Rehabilitation of the Disabled PFRON | 111 | 90 |
| | **17 115** | **19 490** |

# **Notes to the consolidated financial statements** (cont'd)

## 22. Loans, borrowings and debt securities

### Current borrowings and debt securities as at 31 December 2009

| Lender | Registered office | Contractual loan amount | | Amount to be repaid | | Effective interest rate | Contract validity | Security |
|---|---|---|---|---|---|---|---|---|
| | | in PLN'000 | currency | in PLN'000 | currency | | | |
| BANK HANDLOWY overdraft | Warszawa | 6 130 | PLN | 0 | | WIBOR T/N + 0.8% | renewable every 7 days to 15 Jan 2010 | assignment of accounts receivable up to 7356 thousand PLN, blank mortgage-backed promissory note enforceable up to 2100 thousand PLN - KW 65708 (Mikołów, Kolejowa Str.) incl. assignment of rights in a policy |
| ING BANK ŚLĄSKI overdraft | Katowice | 1 000 | PLN | 0 | | WIBOR 1M + 0.7% | until 28 March 2010 | assignment of accounts receivable at least 1500 PLN, real estate mortgage KW 56388 ( Mikołów,Kolejowa Str.) up to 1000 thousand PLN incl. assignment of rights in a policy, enforcement title up to 1500 thousand PLN |
| BANK PEKAO S.A. overdraft | Kraków | 10 000 | PLN | 0 | | WIBOR 1M + 0.75% | until 30 April 2010 | debt assignment at least 25 000 thousand PLN, real estate mortgage - KW 13390 up to 11,504.88 thousand PLN (Konin Gosławice, 156 Przemysłowa Str.), 7 blank promissory notes, enforcement title up to 81,200 thousand PLN |
| PKO BP overdraft | Warszawa | 5 000 | PLN | 0 | | WIBOR 3M + 2% | until 23 Feb 2012** | real estate mortgage - KW 43349 ( Katowice, 12 Porcelanowa Str.) up to 109,800,000.00 PLN incl. assignement of rights in a policy enforcement title up to 10,000,000.00 PLN, 1 blank promissory note up to 5,000,000.00 PLN, enforcement title up to 180,000,000.00 PLN, a blank promissory note, assignment of receivables - at least 45,000,000.00 PLN |

** *Short-term loans without fixed maturity date; the dates quoted above are the dates of contracts validity.*

## **Notes to the consolidated financial statements** (cont'd)

### Current borrowings and debt securities as at 31 December 2008

| Lender | Registered office | Contractual loan amount | | Amount to be repaid | | Effective interest rate | Contract validity | Security |
|---|---|---|---|---|---|---|---|---|
| | | in PLN'000 | currency | in PLN'000 | currency | | | |
| BRE BANK S.A. overdraft | Warszawa | 1 000 | PLN | 0 | | WIBOR 1M + 0.7% | 23 Sept 2009 | 1 blank promissory note with assignment of accounts receivable up to 90 000 thousand PLN |
| BANK HANDLOWY overdraft | Warszawa | 6 130 | PLN | 0 | | WIBOR T/N + 0.45% | renewable every 7 days to 16 Jan 2009 | assignment of accounts receivable up to 7 356 thousand PLN, blank mortgage-backed promissory note enforceable up to 2 100 thousand PLN - KW 65708 (Mikołów, Kolejowa Str.) incl. assignment of rights in a policy, enforcement title up to 26 400 thousand PLN |
| ING BANK ŚLĄSKI overdraft | Katowice | 1 000 | PLN | 0 | | WIBOR 1M + 0.70% | 28 March 2009 | assignment of accounts receivable at least 1 500 thousand PLN, real estate mortgage KW 56388 ( Mikołów,Kolejowa Str.) up to 1 000 thousand PLN incl. assignment of rights in a policy, enforcement title up to 1 500 thousand PLN, assignment of accounts receivable - at least 18 000 thousand PLN, real estate mortgage KW 18183 (Dąbrowa Górnicza, Laski Str.) up to 1 660 thousand PLN, incl. rights in a policy, registered pledge up to 2 440.6 thousand PLN - enforcement title up to 18 000 thousand PLN |
| BANK BPH S.A. overdraft | Kraków | 10 000 | PLN | 0 | | WIBOR 1M + 0.75% | 30 April 2010** | debt assignment at least 25 000 thousand PLN, real estate mortgage - KW 13390 up to 11 504.88 thousand PLN (Konin Gosławice, 156 Przemysłowa Str.), 7 blank promissory notes, enforcement title up to 81 200 thousand PLN |
| PKO BP overdraft | Warszawa | 10 000 | PLN | 0 | | WIBOR 1M + 0.80% | 23 Feb 2009** | real estate mortgage - KW 43349 ( Katowice, 12 Porcelanowa Str.) up to 115 200 thousand PLN incl. assignement of rights in a policy enforcement title up to 62 500 thousand PLN, 1 blank promissory note up to 10 million PLN, enforcement title up to 80 000 thousand PLN, a blank promissory note, assignment of accounts receivable - at least 45 000 thousand PLN |

** *Short-term loans without fixed maturity date; the dates quoted above are the dates of contracts validity.*

***all amounts in PLN thousands unless otherwise stated)***

# **Notes to the consolidated financial statements** (cont'd)

## 23. Deferred income tax

| | as at 31 December 2009 | as at 31 December 2008 |
|---|---|---|
| **Deferred income tax assets** | **10 043** | **12 555** |
| - to be recovered after more than 12 months | 972 | 968 |
| - to be recovered within 12 months | 9 071 | 11 587 |
| - related to the acquisition of subsidiaries | **(8 292)** | **(5 787)** |
| **Deferred income tax liabilities** | (589) | (740) |
| - to be recovered after more than 12 months | (7 703) | (5 047) |
| - to be recovered within 12 months | **1 751** | **6 768** |

### Structure of the deferred income tax:

| Year ended 31 December 2009 | | Construction contracts | Provisions and accrued expenses | Fixed tangible assets | Revaluation of assets | Other | Total |
|---|---|---|---|---|---|---|---|
| Assets | **beginning of period** | **6 355** | **4 438** | **232** | **354** | **1 176** | **12 555** |
| | -credited/charged to the income statement | (45) | (1 728) | 42 | (170) | (611) | **(2 512)** |
| | **end of period** | **6 310** | **2 710** | **274** | **184** | **565** | **10 043** |
| Liabilities | **beginning of period** | **(4 262)** | **0** | **(432)** | **(251)** | **(842)** | **(5 787)** |
| | -credited/charged to the income statement | (3 191) | 0 | 32 | 233 | 582 | **(2 344)** |
| | - changes credited/charged to equity | 0 | 0 | 0 | (161) | 0 | **(161)** |
| | **end of period** | **(7 453)** | **0** | **(400)** | **(179)** | **(260)** | **(8 292)** |
| **End of period, total** | | **(1 143)** | **2 710** | **(126)** | **5** | **305** | **1 751** |

| Year ended 31 December 2008 | | Construction contracts | Provisions and accrued expenses | Fixed tangible assets | Revaluation of assets | Other | Total |
|---|---|---|---|---|---|---|---|
| Assets | **beginning of period** | **5 441** | **4 165** | **251** | **180** | **600** | **10 637** |
| | -credited/charged to the income statement | 914 | 273 | (19) | 174 | 576 | **1 918** |
| | **end of period** | **6 355** | **4 438** | **232** | **354** | **1 176** | **12 555** |
| Liabilities | **beginning of period** | **(6 928)** | | **(492)** | **(300)** | **(581)** | **(8 301)** |
| | -credited/charged to the income statement | 2 666 | 0 | 60 | 0 | (261) | **2 465** |
| | - changes credited/charged to equity | 0 | 0 | 0 | 49 | 0 | **49** |
| | **end of period** | **(4 262)** | **0** | **(432)** | **(251)** | **(842)** | **(5 787)** |
| **End of period, total** | | **2 093** | **4 438** | **(200)** | **103** | **334** | **6 768** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 24. Provisions for and liabilities and other charges

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Change in non-current provision for employee benefits** | | |
| At beginning of period | 2 194 | 1 964 |
| Additions (of which) | 493 | 318 |
| - creating a provision (actuarial valuation) | 493 | 318 |
| Used (for) | (150) | (88) |
| - payment of pension benefits | (150) | (88) |
| **At end of period** | **2 537** | **2 194** |

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Movement in current provisions** | | |
| At beginning of period | 1 167 | 974 |
| Additions (of which) | 62 | 434 |
| - creating a provision for employee benefits | 32 | 39 |
| - creating a provision for warranty repairs | 30 | 395 |
| Used (for) | (794) | (241) |
| - payment of employee benefits | (52) | (35) |
| - incurred cost of warranty repairs | (742) | (206) |
| **At end of period** | **435** | **1 167** |
| of which: | | |
| current provisions for employee benefits | 32 | 52 |
| current provision for warranty repairs | 403 | 1 115 |

ELEKTROBUDOWA SA creates provisions for future payables which maturities or amounts are not certain. Particularly, a provision is recognised for corrective 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 0.43% of contract price is made for warranty repairs.
Provisions for retirement benefits are estimated with the use of an actuarial method.

*all amounts in PLN thousands unless otherwise stated)*

## **Notes to the consolidated financial statements** (cont'd)

### Main actuarial assumptions adopted for establishing pension benefits are following:

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| discount rate | 5,9% | 5,9% |
| expected inflation | 2,5% | 2,5% |
| expected salary increases | 3,5% | 3,5% |
| mobility rate | 11,2% | 11,1% |

### Long-term and short-term employee benefit obligations:

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Employee benefit obligations at beginning of period** | **2 246** | **2 012** |
| - interest cost | 132 | 113 |
| - current service cost | 252 | 224 |
| - benefits paid | (202) | (120) |
| - actuarial gains/losses on the obligation | 141 | 17 |
| **Employee benefit obligations at end of period** | **2 569** | **2 246** |

The provision for employee benefits is charged in operating expenses.

### 25. Accrued expenses

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Accrued expenses due to:** | | |
| - unused holidays | 1 669 | 1 222 |
| - annual bonuses | 6 845 | 9 175 |
| - services | 132 | 550 |
| - auditing the financial statements | 93 | 100 |
| | **8 739** | **11 047** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 26. Classification of financial instruments recognized as liabilities

| Type of financial instrument | method of measurement as at 31.12.2009 | at 31.12.2009 | at 31.12.2008 |
|---|---|---|---|
| **1. Financial liabilities held for trading** | | **147** | **0** |
| a) forward contracts in foreign currencies | fair value | 147 | 0 |
| **2. Other financial liabilities** | | **115 261** | **118 404** |
| a) long-term contract bonds from subcontractors | amortised cost | 5 602 | 7 168 |
| b) short-term payables for supplies and services | amortised cost | 99 265 | 90 769 |
| c) other short-term payables | amortised cost | 1 655 | 9 420 |
| d) accrued expenses | amortised cost | 8 739 | 11 047 |
| **Financial instruments recognised in liabilities - total** | | **115 408** | **118 404** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 27. Net gains / losses on financial instruments – by categories

| | 2009 | 2008 |
|---|---|---|
| Net gains or losses on financial assets at fair value through profit and loss, of which relating to: | (147) | (195) |
| a) derivative financia linstruments (forward) | (147) | (462) |
| b) financial assets held to maturity | 0 | 267 |
| Net gains or losses on trade receivables and trade payables | 913 | (172) |
| Gains / losses on cash | 9 | 5 148 |
| **Total net gains or losses on the financial instruments** | **775** | **4 781** |

### 28. Sales revenues

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Revenue on sales of products, goods and materials** | | |
| - construction & erection services | 479 008 | 592 205 |
| - electrotechnical products | 169 562 | 180 065 |
| - other services | 9 215 | 10 175 |
| - materials | 4 003 | 3 776 |
| *of which: export* | *652* | *67* |
| | **661 788** | **786 221** |

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| Revenue from sales of construction & erection services | 479 008 | 592 205 |
| *of which from contracts continuing at balance sheet date* | *340 597* | *336 274* |
| Change in revenue calculated on accruals basis | (17 035) | 18 842 |
| Discount of non-current receivables | (495) | 263 |
| Invoiced sales | 461 478 | 611 310 |
| Costs incurred | 437 997 | 551 066 |
| Net profit amount | 23 481 | 60 244 |

Costs of contracts opened as at the balance sheet date, increased by recognised gains and reduced by incurred losses, amounted to 318 899 thousand PLN in 2009 and 298 790 thousand PLN in 2008.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 29. Construction contracts

Amounts due from customers and amounts owed to customers for construction contracts in progress.

The Management Board estimates a contract performance basing on a contract budget, work progress and capability of its further execution.

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Amounts due from customers for contract work** | 39 225 | 22 432 |

The company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, except retention which is included in non-current assets within the "receivables" item.

| | as at 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Amounts due to customers for contract work** | 33 208 | 33 450 |

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

***all amounts in PLN thousands unless otherwise stated)***

# **Notes to the consolidated financial statements** (cont'd)

## 30. Cost of products, goods and materials sold

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Expenses by nature** | | |
| - depreciation and amortisation | 9 200 | 7 420 |
| - materials and energy | 242 175 | 318 299 |
| - third party services | 213 932 | 278 573 |
| - taxes and charges | 2 933 | 2 719 |
| - salaries and wages | 96 362 | 81 831 |
| - social security and benefits | 23 244 | 20 582 |
| - other expenses by nature, of which: | 10 278 | 6 911 |
| a) - representative and advertising expenses | 1 280 | 888 |
| b) - business travels | 6 260 | 4 510 |
| c) - property and personal insurance | 1 274 | 1 374 |
| d) - other | 1 464 | 139 |
| **Total expenses by nature** | **598 124** | **716 335** |
| Movements in inventories of products and accrued expenses | (911) | 3 953 |
| Cost of products manufactured for own needs (negative value) | (5 606) | (1 604) |
| Selling costs (negative value) | (4 061) | (5 124) |
| General administrative expenses (negative value) | (9 391) | (9 052) |
| Cost of materials sold | 3 634 | 3 236 |
| **Manufacture costs of products sold** | **581 789** | **707 744** |

## 31. Other operating expenses

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Other operating expenses** | | |
| - commission and fees | (1 401) | (1 364) |
| - legal charges and penalties | (501) | (640) |
| | **(1 902)** | **(2 004)** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 32. Other gains (losses) – net

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Other gains/(losses) - net** | | |
| - income from disposal of non-finance fixed assets | 33 | 414 |
| - donations | (119) | (92) |
| - impairment | (204) | (17) |
| - interests | 1 863 | 2 925 |
| - currency translation differences | (520) | 1 844 |
| - forward contract valuation | (147) | (1 495) |
| - revenue from forward contracts | 0 | 1 033 |
| - compensations and other | (1 190) | (841) |
| | **(284)** | **3 771** |

### 33. Finance income (costs) – net

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Net finance gains (costs)** | | |
| - dividends and share in profits | 8 876 | 3 948 |
| - interests | 0 | (118) |
| | **8 876** | **3 830** |

### 34. Income tax

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Income tax shown in the tax declaration for the period, of which:** | | |
| - current tax shown in the statement of comprehensive income | 9 799 | 17 962 |
| - deferred tax shown in the statement of comprehensive income | 4 856 | (4 383) |
| - paid in Finland | 169 | 0 |
| | **14 824** | **13 579** |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **The income tax:** | | |
| Profit before tax | 73 237 | 69 898 |
| Tax calculated at Polish 19% tax rate | 13 915 | 13 281 |
| Tax calculated on permanent differences in tax basis | 807 | 1 178 |
| Tax on other temporary differences for which no deferred income tax asset was recognized | (11) | (880) |
| Tax on other temporary differences on valuation of shares into equity | (56) | 0 |
| Income tax paid in Finland | 169 | 0 |
| Income tax | **14 824** | **13 579** |

According to Polish regulations 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 amount of 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.

### 35. Earnings per share

**Calculation of (diluted) earnings per ordinary share in 2009 was based on:**

| | **Earnings** | **Shares** | **Earnings per share** |
|---|---|---|---|
| Net profit for the period (in PLN) | 58 413 268 | | |
| Weighted average number of shares | | 4 747 608 | |
| Basic earnings per share (in PLN) | | | 12,30 |
| Diluted earnings per share (in PLN) | | | 12,30 |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

**Calculation of (diluted) earnings per ordinary share in 2008 was based on:**

| | Earnings | Shares | Earnings per share |
|---|---|---|---|
| Net profit for the period (in PLN) | 56 319 459 | | |
| Weighted average number of shares | | 4 718 782 | |
| Basic earnings per share (in PLN) | | | 11,94 |
| Diluted earnings per share (in PLN) | | | 11,94 |

| | | | |
|---|---|---|---|
| Calculation of weighted average number of shares: | | | |
| - number of shares until 20 January 2008 | 4 220 096 * | 20 days = | 84 401 920 |
| - number of shares since 21 January 2008 | 4 747 608 * | 346 days = | 1 642 672 368 |
| | | 366 days | 1 727 074 288 |
| | 1 727 074 288 / | 366 days = | 4 718 782 |

### 36. Dividend per share

2008 dividend paid by ELEKTROBUDOWA SA in August 2009 amounted to 14 242 824 PLN, that is 3.00 PLN per share.
The Management Board of ELEKTROBUDOWA SA proposes to pay dividend from the 2009 profit in the amount of 16 616 628 PLN, that is 3.50 PLN per share.

### 37. Statement of cash flow

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Amortisation** | | |
| - expenses by nature | 9 200 | 7 420 |
| - other operating costs | 3 | 3 |
| **Amortisation in the statement of cash flow** | **9 203** | **7 423** |

***all amounts in PLN thousands unless otherwise stated)***

## Notes to the consolidated financial statements (cont'd)

### Explanation of differences between balance sheet changes in certain items and changes in those items recognized in cash flow statement:

| | year ended 31 December 2009 | 2008 |
|---|---|---|
| **Gains /loss on disposal of property, plant and equipment** | | |
| - acc. to the statement of comprehensive income | (33) | (414) |
| a) grants | 0 | 314 |
| b) VAT tax adjustment of fixed tangible assets sold | (22) | 0 |
| c) costs related to disposal of fixed tangible assets | (23) | 43 |
| **- acc. to the statement of cash flow** | **(78)** | **(57)** |

| | year ended 31 December 2009 | 2008 |
|---|---|---|
| **Movement in trade and other receivables** | | |
| - balance sheet change of receivables, of which: | 9 345 | 16 866 |
| a) balance sheet change of trade and other receivables recognised in non-current assets | 1 592 | (1 859) |
| b) balance sheet change of trade and other receivables recognised in current assets | 7 753 | 18 725 |
| - change in net receivables due to disposal of non-current asset items | (101) | (456) |
| **Change reflected in the statement of cash flow** | **9 244** | **16 410** |

| | year ended 31 December 2009 | 2008 |
|---|---|---|
| **Movement in trade and other payables** | | |
| - Balance sheet change of payables, of which: | (8 654) | (20 244) |
| a) balance sheet change of long-term payables | (1 223) | 3 058 |
| b) balance sheet change of short-term payables | (6 699) | (23 495) |
| c) balance sheet change in provisions | (732) | 193 |
| - change in net liabilities due to investment expenditure | 857 | (812) |
| - purchase of shares in subsidiaries | 0 | (6 556) |
| - income tax in Finland | 505 | 0 |
| **Change in liabilities reflected in the statement of cash flow** | **(7 292)** | **(27 612)** |

***all amounts in PLN thousands unless otherwise stated)***

## Notes to the consolidated financial statements (cont'd)

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Income tax paid** | | |
| - income tax in the statement of comprehensive income | (9 799) | (17 962) |
| - change in liabilities from corporate inclome tax | (1 574) | 1 630 |
| - income tax paid in Finland | (673) | 0 |
| **Income tax paid reflected in the statement of cash flow** | **(12 046)** | **(16 332)** |

| | year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| **Other adjustments** | | |
| - valuation of forward contract | 147 | 1 495 |
| - other | 0 | (15) |
| | **147** | **1 480** |

### 38. Joint venture disclosures

On 15 December 2009 ELEKTROBUDOWA SA entered into a Consortium Agreement with QUMAK – SEKOM S.A. and „AGAT" S.A. with the purpose of cooperation targeted at preparation of a joint quotation for the project called: "The supply of overall electrical, small current, automation and BMS installations for Stage 2 Construction of the National Stadium, Warsaw". As the contract was awarded to the Consortium, the cooperation of its parties concerns also execution of the project. ELEKTROBUDOWA SA was appointed as the Consortium leader who has the right to manage its affairs and represent the Consortium before the Employer and the third parties. The percentage share in the joint venture is as follows:

- ELEKTROBUDOWA SA - 41,09%;
- QUMAK – SEKOM S.A. - 31,61%;
- Przedsiębiorstwo „AGAT" S.A. - 27,30%.

The agreement is in force until the completion of the project, including the warranty period, and expires when all claims arising from the contract expire.
The contract execution has been secured by the performance bond for the amount of 9 100 thousand PLN, valid through 4 August 2011.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 39. Related party transactions

Transactions with related parties were carried out on arm's length basis.

In the reporting period ELEKTROBUDOWA SA carried out the following transactions with subsidiaries and associates:

| | | |
|---|---|---|
| **a) Sales:** | | |
| - sales of goods - KRUELTA Ltd. | 30 782 | thous PLN |
| - sales of materials – KRUELTA Ltd. | 68 | thous PLN |
| - sales of goods – the Electrotechnical Company VECTOR Ltd. | 2 550 | thous PLN |
| - sales of services – the Electrotechnical Company VECTOR Ltd. | 610 | thous PLN |
| - sales of materials - the Electrotechnical Company VECTOR Ltd. | 581 | thous PLN |
| - sales of goods – SAUDI ELEKTROBUDOWA LLC | 5 | thous PLN |
| - sales of services – KONIP Sp. z o.o. | 91 | thous PLN |
| - sales of goods – ENERGOTEST sp. z o.o. | 328 | thous PLN |
| - sales of services – ENERGOTEST sp. z o.o. | 2 041 | thous PLN |
| - sales of materials – ENERGOTEST sp. z o.o. | 96 | thous PLN |
| - sales of tangible fixed asssets and intangible assets – ENERGOTEST sp. z o.o. | 332 | thous PLN |
| **b) Purchases:** | | |
| - purchases of sercices – KRUELTA Ltd. | 29 | thous PLN |
| - purchases of sercices – the Electrotechnical Company VECTOR Ltd. | 154 | thous PLN |
| - purchases of sercices – KONIP Sp. z o.o. | 937 | thous PLN |
| - purchases of sercices – ENERGOTEST sp. z o.o. | 8 132 | thous PLN |
| - purchases of materials – ENERGOTEST sp. z o.o. | 3 212 | thous PLN |
| **c) Commission for services for KONIP Sp. z o.o.** | 34 | thous PLN |

Year-end balances as at 31 December 2009:

| | | |
|---|---|---|
| - payables of ELEKTROBUDOWA SA to the Electrotechnical Company VECTOR Ltd. | 154 | thous PLN |
| - payables of ELEKTROBUDOWA SA to KONIP | 89 | thous PLN |
| - payables of ELEKTROBUDOWA SA to ENERGOTEST | 4 442 | thous PLN |
| - payables of KRUELTA to ELEKTROBUDOWY SA | 219 | thous PLN |
| - payables of the Electrotechnical Company VECTOR Ltd. to ELEKTROBUDOWA SA | 1 473 | thous PLN |
| - payables of SAUDI ELEKTROBUDOWA LLC to ELEKTROBUDOWA SA | 5 | thous PLN |
| - payables of ENERGOTEST sp. z o.o. to ELEKTROBUDOWY SA | 129 | thous PLN |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

The unsettled balances of receivables and payables with the related parties are unsecured and will be settled in cash in the established payment dates. ELEKTROBUDOWA SA extended a guarantee to ENERGOTEST sp. z o.o. in the amount of 13 thousand PLN securing its contract warranty obligations, the guarantee is in force from 13 January 2009 to 26 July 2010.
In the reportable period costs of receivables, collection of which is doubtful or at risk, arising from transactions with related parties, were not recognized. ELEKTROBUDOWA SA did not establish provisions for unsettled balances of receivables from related parties as at balance sheet date.

### 40. Contingencies and contractual obligations

#### a) guarantees

As of 31 December 2009 and 31 December 2008 ELEKTROBUDOWA SA extended contract guarantees, comprising performance bonds and warranty bonds, through:

| | **as at 31 December** | |
|---|---|---|
| | **2009** | **2008** |
| PKO S.A. | 44 526 | 34 543 |
| BRE Bank S.A. | 42 717 | 37 063 |
| T.U. ALLIANZ POLSKA SA | 13 396 | 12 943 |
| BPH S.A. | 9 662 | 7 754 |
| ING Bank Śląski S.A. | 8 122 | 8 454 |
| Bank Handlowy S.A. | 6 527 | 10 837 |
| Gerling Towarzystwo Ubezpieczeniowe S.A. | 1 287 | 2 880 |
| **Total amount of guarantees** | **126 237** | **114 474** |

#### b) Promissory notes

As of 31 December 2009 ELEKTROBUDOWA SA issued promissory notes as security for performance bonds for the total amount of 15 504 thousand PLN, and also:

- 1 promissory note issued in favour of BRE Bank S.A.o/Katowice as security for the facility used for financing of current operations;
- 10 blank promissory notes as security for insurance guarantee claim of T.U. Allianz Polska S.A. from insurance guarantees;
- 7 blank promissory notes as security for bank loan from PKO S.A.;
- 10 blank promissory notes with ''without protest" restriction in favour of Gerling Polska T.U. S.A. as security for the issued bank guarantees;
- 1 blank promissory note as security for the loan provided by the bank PKO BP S.A.;
- 1 blank promissory note as security for the loan provided by Bank Handlowy w Warszawie SA.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

As of 31 December 2008 ELEKTROBUDOWA SA issued promissory notes to secure performance bonds for the total amount of 12 333 thousand PLN, and also:

- 1 promissory note issued in favour of BRE Bank S.A.o/Katowice as security for the facility used for financing of current operations;
- 10 blank promissory notes as security for insurance guarantee claim of T.U. Allianz Polska S.A. from insurance guarantees;
- 7 blank promissory notes as security for bank loan from PKO S.A.
- 5 blank promissory notes with ''without protest" restriction in favour of Gerling Polska T.U. S.A. as security for the issued bank guarantees;
- 1 blank promissory note as security for the loan provided by the bank PKO BP S.A.;
- 1 blank promissory note as security for the loan provided by Bank Handlowy w Warszawie SA.

### c) Sureties

As of 31 December 20089 as well as of 31 December 2008 ELEKTROBUDOWA SA did not grant any sureties.

### d) Rental, lease and similar commitments

Estimated value of rent for the lease of offices will amount to 1 866 thousand PLN in the coming year, while in the period over 1 year to 5 years it will be 7 194 thousand PLN.
The value of rent from the lease of offices resulting from agreements was 2 015 thousand zloty in 2009.
ELEKTROBUDOWA SA keeps the off-balance sheet records of land used under the perpetual usufructury right received free of charge by virtue of law provisions in force. The company's off-balance sheet commitments resulting from the right of, perpetual usufruct of land were estimated on the basis of annual rates, announced in the form of administrative decisions, and the period of use.
Average period of use of land which the company has the right to use free of charge and which the company purchased is 79 years. The estimated payments for the use of land in the present year will amount to 81 thousand PLN, while in the period above 1 year up to 5 years 325 thousand PLN and over 5 years: 5 994 thousand PLN.

## 41. Employment

**Average number of employees by professions (in job equivalents):**

| | **average number of employees in 2009** | **average number of employees in 2008** |
|---|---|---|
| **Total number of employees** | **1 689** | **1 605** |
| of which: | | |
| Manual jobs | 1 025 | 981 |
| White-collar jobs | 656 | 615 |
| Persons on child care leaves or unpaid leaves | 8 | 9 |

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 42. The Management Board and the Supervisory Board

### Composition of the Boards of ELEKTROBUDOWA SA at 31 December 2009

**Supervisory Board**

| | | |
|---|---|---|
| Dariusz Mańko | - | Chairman |
| Karol Żbikowski | - | Vice-Chairman |
| Aleksander Chłopecki | - | Member |
| Jacek Chwałek | - | Member |
| Tomasz Mosiek | - | Member |
| Dariusz Wojda | - | Member |
| Ryszard Rafalski | - | Member |

**Management Board**

| | | |
|---|---|---|
| Jacek Faltynowicz | - | President |
| Jarosław Tomaszewski | - | Member |
| Ariusz Bober | - | Member |
| Tomasz Jaźwiński | - | Member |
| Stanisław Rak | - | Member |
| Arkadiusz Klimowicz | - | Member |

### Aggregate amount of remuneration and rewards (in cash, in kind or in any other form), paid or due to the managing and supervising persons

| | period from 1 January 2009 to 31 December 2009 | | | |
|---|---|---|---|---|
| | Remuneration paid | | | |
| | Base salary | Bonus for 2008 | Total remuneration | Extra benefits * |
| **Management Board** | **1 926** | **1 660** | **3 629** | **86** |
| Faltynowicz Jacek | 480 | 400 | 880 | 37 |
| Tomaszewski Jarosław | 420 | 360 | 780 | 26 |
| Bober Ariusz | 360 | 300 | 660 | 1 |
| Jaźwiński Tomasz | 360 | 300 | 660 | 16 |
| Rak Stanisław | 349 | 300 | 649 | 6 |

** Extra benefits include civil liability insurance premium for members of company's governing bodies, life insurance, tied accommodation benefit and a Christmas voucher.*

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | period from 1 January 2009 to 31 December 2009 | | | |
|---|---|---|---|---|
| | Remuneration paid | | | |
| | **Base salary** | **Bonus for 2008** | **Total remuneration** | **Additional benefits*** |
| **Supervisory Board** | **452** | **0** | **452** | **7** |
| Mańko Dariusz | 80 | 0 | 80 | 1 |
| Żbikowski Karol | 72 | 0 | 72 | 1 |
| Chłopecki Aleksander | 60 | 0 | 60 | 1 |
| Wojda Dariusz | 60 | 0 | 60 | 1 |
| Rafalski Ryszard | 60 | 0 | 60 | 1 |
| Chwałek Jacek | 60 | 0 | 60 | 1 |
| Mosiek Tomasz | 60 | 0 | 60 | 1 |

** additional benefits include civil liability insurance premium for the members of a capital company's governing body.*

As at 31 December 2009 a provision in the expenses was created for 2009 bonuses (including charges) due to the Management Board members in the amount of: 1 646 thousand PLN.
The bonuses will be paid against a Resolution of the Supervisory Board, following the rules for 2009 bonus remuneration for the members of the Management Board – employees of ELEKTROBUDOWA SA.

| | period from 1 January 2008 to 31 December 2008 | | | |
|---|---|---|---|---|
| | Remuneration paid | | | |
| | **Base salary** | **Bonus for 2008** | **Total remuneration** | **Extra benefits *** |
| **Management Board** | **1 740** | **1 660** | **3 400** | **98** |
| Faltynowicz Jacek | 420 | 400 | 820 | 38 |
| Tomaszewski Jarosław | 375 | 360 | 735 | 27 |
| Bober Ariusz | 315 | 300 | 615 | 2 |
| Jaźwiński Tomasz | 315 | 300 | 615 | 15 |
| Rak Stanisław | 315 | 300 | 615 | 16 |

** Extra benefits include civil liability insurance premium for members of company's governing bodies, life insurance, tied accommodation benefit and a Christmas voucher.*

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

| | period from 1 January 2008 to 31 December 2008 | | | |
|---|---|---|---|---|
| | Remuneration paid | | | |
| | Base salary | Bonus for 2008 | Total remuneration | Extra benefits * |
| **Supervisory Board** | | | | |
| Mańko Dariusz | **387** | **0** | **387** | **0** |
| Wnorowski Michał* | 76 | 0 | 76 | 0 |
| Żbikowski Karol | 27 | 0 | 27 | 0 |
| Chłopecki Aleksander | 42 | 0 | 42 | 0 |
| Wojda Dariusz | 34 | 0 | 34 | 0 |
| Zalewski Roman | 57 | 0 | 57 | 0 |
| Rafalski Ryszard | 23 | 0 | 23 | 0 |
| Chwałek Jacek | 57 | 0 | 57 | 0 |
| Mosiek Tomasz | 34 | 0 | 34 | 0 |
| Boni Michał** | 34 | 0 | 34 | 0 |

** Mr Michał Wnorowski was the Supervisory Board Member until 24 April 2008.*
*** Mr Michał Boni resigned from his function in the Supervisory Board as from 17 December 2007.*

According to the non-competition clause in their employment contracts, the members of the Management Board have the right to compensation in the amount of 100% base salary for each month of competition prohibition, within 12 months after termination of the employment contract with ELEKTROBUDOWA SA.

Remuneration of the Supervisory Board members is based on the average salary paid in the sector of enterprises for the last month of previous quarter. Pursuant to the resolution of the Annual General Meeting of ELEKTROBUDOWA SA Shareholders the following remunerations were agreed for the Supervisory Board members:

- Chairman - the above mentioned salary multiplied by 2
- Vice Chairman - the above mentioned salary multiplied by 1.8
- Other members - the above mentioned salary multiplied by 1.5

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

As at 31 December 2009 the company did not extend any guarantees, borrowings or warrants to the members of the Boards.

***all amounts in PLN thousands unless otherwise stated)***

## **Notes to the consolidated financial statements** (cont'd)

### 43. Polish zloty exchange rates

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

In the table "Selected Financial Data" of the financial statements ELEKTROBUDOWA SA, the 2009 and 2008 items have been translated into EUR as follows:

a) asset and liabilities items – according to the rate announced for:
a)

| | |
|---|---|
| - 31 December 2009 | 4.1082 zł / EUR; |
| - 31 December 2008 | 4.1724 zł / EUR; |

b) items in the profit and loss statement and the statement of cash flow - 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 the financial year:

| | |
|---|---|
| - from 01.01.2009 to 31.12.2009 | 4.3406 zł / EUR; |
| - from 01.01.2008 to 31.12.2008 | 3.5321 zł / EUR. |

### 44. Changes in the applied accounting standards

Adopted by the company accounting standards and the methods of establishing the financial result and preparatio of the financial statements are continued in the subsequent fiscal year.

### 45. Changes in presentation of the financial statements

In the statement of cash flow for 2009 the presentation of comparable 2008 data was adjusted as follows:

| | | |
|---|---|---|
| – presentation of foreign exchange gains/losses | | |
| • Foreign exchange gains/losses | (1 836) | thous. PLN |
| • Change in cash due to exchange differences | 1 836 | thous. PLN |
| – presentation of expenditure for development investments in progress | | |
| • Other adjustments | 1 604 | thous. PLN |
| • Purchase of intangible assets and property, plant and equipment | (1 604) | thous. PLN |

## **Notes to the consolidated financial statements** (cont'd)

### 46. Remuneration for the entity authorized to audit the financial statements

A contract for reviewing the interim financial statements of ELEKTROBUDOWA SA and the ELEKTROBUDOWA SA group for the period 01.01-30.06.2009 and for auditing the annual Financial Statements of ELEKTROBUDOWA SA and the annual Consolidated Financial Statements of the ELEKTROBUDOWA SA group for 2009 was concluded with Deloitte Audyt Sp. z o.o., having their registered office in Warsaw 1 June 2009.

The remuneration for the above review and auditing of the 2009 financial statements was as follows (in PLN'000):

| | **2009** |
|---|---|
| - review of the half-year financial statements of ELEKTROBUDOWA SA and consolidated financial statements of the ELEKTROBUDOWA SA group | 65 |
| - Audit of the annual financial statements of ELEKTROBUDOWA SA and consolidated financial statements of the ELEKTROBUDOWA SA group | 90 |
| **Review and auditing of the financial statements** | **155** |

The entity authorized to audit the financial statements did not provide any other services for the company in 2009.

### 47. Additional information

#### Comparability of the financial statements

The comparable data are presented according to the same accounting principles as were applied for preparation of the financial statements for the 1st half of 2009.

#### Legal claims against the Company

In the opinion of the Management Board there are no circumstances indicating any substantial obligations to arise due to claims against the Company.

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

As at 31 December 2009 ELEKTROBUDOWA SA did not have any debt towards the Budget or local government due to obtaining the right to buildings or structures.

## **Notes to the consolidated financial statements** (cont'd)

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

There were no significant events concerning prior years, which should be disclosed in the 2009 report.

**Contractual commitments due to the acquisition of fixed assets**

As at 31 December 2009 and as at 31 December 2008 ELEKTROBUDOWA SA does not have any contractual commitments due to the acquisition of fixed tangible assets or intangible assets.

**Significant events after the balance sheet date**

There have not been any events after the balance sheet date which could significantly impact the financial position of the company or its financial result.

**Statement by the Management Board**

The Management Board of ELEKTROBUDOWA SA declares that on 22 March 2010 they approve the present financial statements of ELEKTROBUDOWA SA for 2009.

## SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

| Name and surname | Position / Function | Date | Signature |
|---|---|---|---|
| Jacek Faltynowicz | President | 22.03.2010 | |
| Jarosław Tomaszewski | Board Member | 22.03.2010 | |
| Ariusz Bober | Board Member | 22.03.2010 | |
| Stanisław Rak | Board Member | 22.03.2010 | |
| Tomasz Jaźwiński | Board Member | 22.03.2010 | |
| Arkadiusz Klimowicz | Board Member | 22.03.2010 | |

## SIGNATURE OF THE PERSON IN CHARGE OF ACCOUNTING BOOKS

| Name and surname | Position / Function | Date | Signature |
|---|---|---|---|
| Sylwia Wojtas | Chief Accountant | 22.03.2010 | |

# Report on the Activities
of
# ELEKTROBUDOWA SA

# in the 2009 financial year

Index to the Report on the Activities

## 1. PRESENT AND ANTICIPATED FINANCIAL POSITION. KEY ECONOMIC AND FINANCIAL FIGURES

### *1.1 Sales Revenues - Principal Products and Services*

In 2009 revenues from sales of goods, services and materials of ELEKTROBUDOWA SA amounted to 661 788 thousand PLN. Major part of sales revenues was generated by the basic operations of the company, that is electrical installation services. These services earned 479 008 thousand PLN for the company, which was 72.4% of total sales revenues.

The 2009 sales dropped by 124 433 thousand PLN on 2008, due to deteriorating economic situation of the market where ElLEKTROBUDOWA SA is present. The company compensates the decrease in volume of orders received in the domestic market by the rise of exports, principally to Russia and Finland.

In 2009 the company recorded an increase of export sales, which include supplies of goods and services within the EU. Revenue from export amounted to 86 032 thousand PLN and was by 20.2% higher than in 2008. The increase of concerns mainly to sales of construction and erection services and electrotechnical products.

The table below presents the structure of net revenue from the sales of products, goods and materials in 2009 and 2008.

| | 2009 | | 2008 | | Change |
|---|---|---|---|---|---|
| | PLN'000 | % | PLN'000 | % | PLN'000 |
| **Revenue from sales of products, merchandise and materials** | **661 788** | **100.0** | **786 221** | **100.0** | **(124 433)** |
| construction and erection services | 479 008 | 72.4 | 592 205 | 75.3 | (113 197) |
| electrotechnical products | 169 562 | 25.6 | 180 065 | 22.9 | (10 503) |
| other services | 9 215 | 1.4 | 10 175 | 1.3 | (960) |
| merchandise and materials | 4 003 | 0.6 | 3 776 | 0.5 | 227 |

ELEKTROBUDOWA SA specializes in providing electric installation services and in manufacturing of equipment used for transmission and distribution of electric energy; these accounted for 72.4% and 25.6% of total 2009 sales revenue respectively. Maintaining the position of a leading supplier of medium-voltage switchgear on the Polish market is one of the key strategic objectives of the company.

In 2008 the company sold industrial products for the sum of 229 521 thousand PLN. From this amount 59 959 thousand PLN falls to the erection units, whereas direct (external) sales reached the value of 169 562 thousand PLN.

Production of principal products by volume and value in 2008 – 2009 was as follows:

- By volume:

| Type of Product | Unit of measure | Quantity | |
|---|---|---|---|
| | | 2009 | 2008 |
| Medium voltage switchgear | panels | 2063 | 3 699 |
| Low voltage switchgear | segments | 1190 | 1 745 |
| Mobile substations | sets | 112 | 187 |
| Busducts | m | 3 394 | 2 379 |
| Cable trays | tons | 71 | 47 |

- By value

| Product | 2009 | | 2008 | |
|---|---|---|---|---|
| | Value (PLN'000) | percentage (%) | Value (PLN'000) | percentage (%) |
| Medium voltage switchgear | 91 859 | 40.1 | 103 402 | 37.4 |
| Low voltage switchgear | 32 109 | 14.0 | 38 843 | 14.1 |
| Mobile substations | 70 741 | 30.9 | 105 102 | 38.0 |
| Busducts | 24 963 | 10.9 | 14 234 | 5.2 |
| Cable trays | 576 | 0.2 | 742 | 0.3 |
| Other products | 8 914 | 3.9 | 13 910 | 5.0 |
| **Total** | **229 162** | **100.0** | **276 233** | **100.0** |

***1.2 Financial result and basic factors of untypical events which impact its amount***

From 2005 to 2008 the construction production volume was in growth trend; not only the construction industry indices rose but the financial results of the companies in this sector improved as well. From 2009 this trend changed, and in the assessment of the economic situation of the construction market, at present the building companies are in the most critical position for over five years. Polish building industry is experiencing a severe downturn in its workload, the construction companies are going through hard times and have to face new hardship. Investment slowdown in the real property market translated into decreasing volume of orders and the stringent credit policy brought about problems with financing current operations. And there are also traditional problems of companies in this sector: high labour and administration cost. To survive this tough period the building companies will have to introduce many changes such as optimization of business efficiency, financing or purchase processes.

Economic fluctuations of 2009 affected the company's performance as well. ELEKTROBUDOWA's sales revenues generated in 2009 were by 124.4 million PLN lower than in 2008, which means the 15.8% drop. The decrease in revenues was to a large extent attributable to suspension and postponing major power industry contracts planned to be awarded in 2009. The invoiced sales in 2009 often concerned past years' backlog of purchase orders executed under better financial terms. Sales revenues were generated principally from the execution of big construction contracts for electrical installation services and supply of electrical equipment, such as:

- 110kV line and electrical system for the MP7 machine (Mondi Świecie S.A.) PLN 34.1m
- Modernization of the low voltage substation in Rafineria Gdańsk (Grupa Lotos S.A.) PLN 18.2m
- Erection of electrical equipment and control & instrumentation system for the 856 Steam Unit in the Bełchatów Power Plant PLN 16.6m
- Construction and erection works for the electrical supply system for the Terephthalic Acid Plant for ANWIL S.A., Włocławek PLN 12.7m
- Construction of a KAUFLAN retail centre in Warsaw PLN 12.6m
- Modernisation of boilers in the Heat&Power Plant Janikowo for Soda Polska Ciech Sp. Z o.o. PLN 12.4m

- Modernization of the main electrical distribution centre GPR5 for PKN ORLEN S.A., Płock — PLN 12.1m
- Construction of a warehouse building with back-up facilities in Teresin for TESCO Polska Sp. z o.o. — PLN 10.7m
- Retrofit of the R15 substation in EC Żerań and EC Siekierki — PLN 10.5m
- Supply, erection, commissioning and start up of the electrical part in EC Żerań — PLN 9.1m

The main profit and loss items for 2009 and 2008 are as follows:

| | ***2009*** | | ***2008*** | | **Change** |
|---|---|---|---|---|---|
| | ***PLN'000*** | ***%*** | ***PLN'000*** | ***%*** | ***PLN'000*** |
| Net sales revenues | 661 788 | 100,0 | 786 221 | 100,0 | (124 433) |
| Cost of products, goods and materials sold | (581 789) | 87,9 | (707 744) | 90,0 | 125 955 |
| **Gross profit on sales** | **79 999** | **12,1** | **78 477** | **10,0** | **1 522** |
| Selling costs | (4 061) | 0,6 | (5 124) | 0,6 | 1 063 |
| Administration expenses | (9 391) | 1,4 | (9 052) | 1,2 | (339) |
| Other operating expenses | (1 902) | 0,3 | (2 004) | 0,3 | 102 |
| Other gains / losses - net | (284) | 0,1 | 3 771 | 0,5 | (4 055) |
| **Operating profit** | **64 361** | **9,7** | **66 068** | **8,4** | **(1 707)** |
| Finance income / costs – net | 8 876 | 1,3 | 3 830 | 0,5 | 5 046 |
| **Profit before income tax** | **73 237** | **11,1** | **69 898** | **8,9** | **3 339** |
| **Net profit for the period** | **58 413** | **8,8** | **56 319** | **7,2** | **2 094** |

Relations between sales and costs and their impact on the profit amount are described by sales profitability ratios. Values of those ratios reflect the sales' ability to generate earnings.

The 2009 profitability ratios rose by 1.8 percentage point on the average on 2008. The biggest growth was recorded in gross profit margin (by 2.2 percentage point), whereas the smallest in operating profit margin (by 1.3 percentage point). The rise of gross profit margin in 2009 is the result of favourable changes between net sales revenues and costs of products, goods and materials sold. The drop in net sales revenues by 15.8% was accompanied by the 17.8% decrease of costs of products, goods and materials sold. Bigger drop in costs as compared with revenues by 2 percentage points resulted in growth of gross profit on sales by 1 522 thousand PLN on the previous year's earnings.

Selling costs in 2009 amounted to 4 061 thousand PLN and were by 1 063 thousand PLN lower than in 2008, which is in lieu with the level of generated revenues. The share of selling costs in the sales revenues remained on the same level during 2008-2009.

The 2009 administration costs amounted to 9 391 thousand PLN and were by 339 thousand PLN higher on 2008, their percentage share in total sales was 1.4% in 2009 and 1.2% in 2008.

Other expenses in 2009 exceeded the amount of other income by 284 thousand PLN, while in 2008 gains on other income and expenses amounted to 3 771 thousand PLN. The 2009 other gains / losses net dropped by 4 055 thousand PLN on 2008, largely due to generated surplus of negative currency translation differences over positive differences.

Operating profit generated by the Company for 2009 reached 64 361 thousand PLN and the operating profit margin was 9.7%, which is by 1.3 percentage point higher than for 2007.

The Company recorded a 8 876 thousand PLN profit on financial activities. The financial gains included dividends received from the related parties:

- from KRUELTA 2 014 thousand PLN
- from ENERGOTEST 6 161 thousand PLN
- from ENERGOEFEKT 249 thousand PLN
- from Biprohut 452 thousand PLN

The company's 2009 profit before income tax amounted to 73 237 thousand PLN whereas net profit was 58 413 thousand PLN, that is by 2 094 thousand PLN higher that in 2008.

***1.3 Financial analysis***

The 2009 year-end company's balance sheet total increased by 32.2 million PLN as compared with 2008. The growth was recorded both in non-current assets (by 11.4 million PLN) and current assets (by 20.8 million PLN). The current assets items rose significantly: cash and cash equivalent by 32.7 million PLN and receivables for construction contract work by 16.8 million PLN, while the growth in non-current assets was attributable mainly to increase of PPE by 10.4 million PLN) and investment in associates by 7.7 million PLN.

On the equity and liabilities side a significant decrease in the relation of the liabilities to equity was recorded. In 2009, as compared with 2008, the increase in equity by 44.8 million PLN was accompanied by the drop in liabilities by 12.6 million PLN. The growth in equity is principally attributed to the increase of supplementary capital 42.1 million PLN, but also to by 2.1 million PLN higher than in 2008 net profit. The decrease in liabilities was caused by the drop in other payables, both long-term and short-term, by 16.8 million PLN and deferred payments and accrued expenses by 2.3 million PLN. The relationship between equity and liabilities indicate that the bigger part of assets is covered by equity.

The company implemented the policy of financing its operations from its own funds, party supported by borrowing capital in the form of liabilities which were provisionally in the company's disposal.

Selected ratios describing the company economic and financial position:

| | | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| **I.** | **Profitability ratios** | | | |
| 1. | Net profit margin<br>*net profit / sales revenues* | 8.8% | 7.2% | 5.1% |
| 2. | Gross profit margin<br>*profit before taxes / sales revenues* | 11.2% | 8.9% | 6.4% |
| 3. | operating profit margin<br>*operating profit / sales revenues* | 11.1% | 8.4% | 6.2% |
| 4. | Return on equity (ROE)<br>*net profit / average equity capital* | 22.1% | 32.0% | 35.2% |

| | | | | |
|---|---|---|---|---|
| 5. | Return on assets (ROA)<br>*net profit / average assets* | 12.9% | 14.6% | 11.4% |
| **II.** | **Liquidity ratios** | | | |
| 1. | Current ratio<br>*average current assets / average current liabilities* | 1.7 | 1.4 | 1.2 |
| 2. | Quick ratio<br>*(average current assets – inventories)/ (average current liabilities* | 1.7 | 1.4 | 1.2 |
| **III.** | **Turnover ratios** | | | |
| 1. | Receivables turnover ratio (days)<br>*average trade debtors x 360 days / sales revenues* | 96 | 87 | 92 |
| 2. | Accounts payable turnover ratio (days)<br>*average trade creditors x 360 days sales revenues* | 52 | 50 | 61 |
| 3. | Inventory turnover (days)<br>*average inventories x 360 days / sales revenues* | 2 | 4 | 9 |
| 4. | Assets turnover<br>*sales revenues /average total assets* | 1.5 | 2.0 | 2.2 |
| **IV.** | **Debt ratios** | | | |
| 1. | Borrowed capital ratio<br>*average borrowed capital /average total assets* | 41.4% | 54.5% | 67.6% |

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

Profitability ratios define the ability of sales to generate earnings. For the last few years return on sales ratios have shown a growth trend, mainly due to year-to-year increase of net profit amount earned by the company. In the reporting period the net profit margin was 8.8% whereas gross profit margin 11.1%. In 2009 the net profit margin rose by 1.6 percentage point on 2008 and 3.7 percentage point on 2007.

The return on assets ratio (ROA), which indicates ability to generate earnings after taxes by all assets used in the company was 12.9% in the reporting year and was by 1.7% lower than in 2008 and by 1,5% higher than in 2007. Although ROA did not significantly change during the nalysed years, it indicates the effective use of assets employed.

The return on equity (ROE) dropped in 2009 by 9.9 percentage point on 2008 and by 13.1 percentage point on 2007. The decrease in ROE in 2009 in the analysed years means that the growth in own capital was greater that the growth in assets. This growth in equity strengthened the company's financial position, as its share in covering the assets increased.

Liquidity ratios, both current and quick, rose in 2009 as compared with 2008 by 0.3 and by 0.5 on 2007. In the case of current ratio it is assumed that its optimal value should remain between 1.5 and 2.0, while the quick ratio should approximate one or be slightly higher.

Liquidity ratios provide information about the short-time financial security of the company; their values should be correlated with the level of the turnover ratio.

The collection period of trade receivables in 2009 was 96 days, by 9 days longer than in 2008 and by 4 days longer than in 2007. During the analysed years the receivables turnover ratio did not significantly vary, which indicates payment disciple of customers and their financial liquidity. dropped in 2008 as compared with 2007 by 5 days. Although most of receivable are paid when due, as of the balance sheet date for some of its trade receivables the company's has a warrant of execution by the bailiff, some are within the estate in bankruptcy, and they are hardly recoverable. These receivables were impaired in the amount of 9 583 thousand PLN.

According to the data in the balance sheet, payables are settled within 52 days. Maturity dates for payables are different, fro m14 days to 60 days. The company pays its debt when due, which is proved by the payables turnover ration calculated for the analysed years. Turnover period for payables was shorter than in the case of receivables, which indicates that the company more often extends trade credit to its customers than utilized such credit from its suppliers.

Inventories turnover in 2009 was 2 days, by 2 days lower than in 2008 and by 7 days lower than in 2007. Shorter inventories turnover cycle indicates improvement of efficiency of managing the material resources of current assets.

The 2009 increase in the company's assets and significant decrease of liabilities resulted in the drop of borrowed capital ratio by 13.1 percentage point on 2008 and by 26.2 percentage point on 2007.

Values of the liquidity ratios and inventories turnover ratio as well as average periods in which the company pays its liabilities allow for a positive opinion of the financial statement of the company and its financial strategy. The company's payables are fully secured by the assets owned and equity gathered.

Presented above key parameters and ratios characterising the economic and financial position of the company and its capital have been calculated basing on the financial statements prepared on the going concern assumption.

### ***1.4 Financial resources management***

The company implemented the policy of financing its operations from its own funds, party supported by borrowed capital in the form of long- and short term liabilities, which was temporarily in the company's disposal. In the reporting period the company did not utilize any bank loans or borrowings.

ELEKTROBUDOWA's cooperation with several banks allows to implement the policy of even credit involvement in particular banks, providing opportunity for reasonable utilization of the whole range of products offered by them, such as balancing the accounts, automatic deposits of cash surplus, negotiated interest on deposits, negotiated exchange rates for payments in foreign currencies, credit lines and guarantees. Such behaviour significantly contributed to lower level of financial cost, generating gains from the company's financial activity, as well as limited credit risk and better management of financial liquidity.

ELEKTROBUDOWA SA has the guarantee lines opened in banks and insurance companies to provide tender deposits, performance bonds and warranty bonds, which increase the company's ability to actively participate in all tender procedures and strengthen its negotiating position, as the company may offer more competitive contract terms.

The Company's activity relating to foreign exchange transactions was determined by the exchange rates of basic currencies, EUR and USD. Because of the unstable position of PLN against these currencies, in 2009 a currency exchange hedging transactions was concluded, which will be realized in 2010. The company is consequent in not using foreign currency options or any other market financial instruments.

In 2009, because of negative effects of the financial crisis, banks tightened their terms of cooperation with customers. Owing to its good financial standing the company did not suffer from the pressure from the banks to renegotiate the terms of revolving credit lines, and maintained the levels of overdraft limits gave the company strong position in public procurement tenders (necessity to prove the crediting ability). Because of high financial liquidity the company did not utilize its opened credit facilities (limit up to 22 million PLN). Prevailing in the contract concluded with banks are the guarantee lines with the limit up to 219 million PLN, utilized in the amount of 112 million PLN as at 31 December 2009.

Assessing the funds owned and the amounts of expected inflows and expenses it must be pointed out that the generated surplus of monetary funds allows the company to finance the investments planned for 2010 and its current operating activity, with no risk of destabilizing the financial liquidity.

### ***1.5 Human capital management***

In 2009 average monthly employment was 1681 job equivalents and was about 5.3% higher than in 2008. At 31 December 2009 the company had 1724 employees of which 449 seasonal workers employed for the realization of specific contracts. The 2009 year-end employment was by 67 persons bigger than as at the end of 2008. Out of the total number of employees, 1025 job equivalents fell to direct labour, whereas 656 job equivalents to white-collar staff. In both groups there was an increase on 2008, with bigger growth in the group of non-manual workers (6.6% rise), and 4% rise the workers' group. In respect of employment structure by education, the number of personnel with higher education, mainly engineering, regularly increases. At the end of 2009 then number of employees with degrees accounted for 27% of total.

The 2009 productivity of employment, calculated as the relation of sales revenues and average monthly employment amounted to 429.7 thousand PLN. Profitability of employment, calculated as the relation of gross profit and average monthly employment was 43.7 thousand PLN in 2009.

In the period from 1 January to 31 December 2009 together 268 new people were employed in different professions, from direct labour through specialist in various areas to managerial posts. This was related with the increasing demand for highly-qualified professionals, having good command of English, and with the contract executed in Finland.

No bigger problems with job terminations were recorded. Redundancies made by the employer, resulting from organisational changes, were not frequent and were the consequence of optimisation of employment in the organisational units of the company. On 30 June 2009, pursuant to Art. 23 [1] of the Labour Code, the personnel of the Automation Division was transferred to the subsidiary, Energotest sp. z o.o., Gliwice.

In 2009 two additional protocols to the Company Collective Labour Agreement were agreed. One, regulating the issues of including bonuses to the base sick pay and the rules for payment of sick pay, was registered on 31 July 2009, the other, limiting the contribution for the Company Social Fund, was registered on 14 January 2010. The changes did not impact the amount of employee benefits.

Average monthly pay in 2009 was 4698 PLN, by 12.4% higher on the previous year. Growth of average monthly remuneration is principally attributed to the contract performed in Finland but also to good economic and financial results in 2009 and the extending the application of the incentive system tying the remuneration with economic performance.

Development of employee’s qualifications and competence is a crucial issue in the development of the company. So, as in previous years, in 2009 training policy was being implemented as planned, basing on the Procedure for Personnel Training and Development which is a part of the ISO system valid in the company. Expenditure on training principally concerned the policy of systematic development of the project management-focused corporate culture and also issues of enhancing professionalism of work teams, particularly managerial skills and language skills. In 2009 the company invested the amount of 1 541 thousand PLN for training of its personnel, which gives an average of 917 PLN per one employee. Training costs accounted for 1.24% of the total remuneration fund in 2009.

Cooperation with the trade union organisations acting in the company was fruitful in 2009. On 24 June 2009 the company and the trade union organisations entered into “*Anti-Crisis Pact*”, which was essentially intentional in nature, but its provisions and agreed terms offer considerable flexibility in employment policies.

As in previous years ELEKTROBUDOWA SA 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.

## ***1.6 Occupational Health and Safety Management***

Due to the level of basic indexes for accidents at work in ELEKTROBUDOWA SA in 2009 and small level of hazards at workplace which were significantly better than average for the whole construction industry, also in this year the accident contribution of the obligatory social insurance was reduced by 20%.

This was achieved owing to:

- systemic approach to quality, environmental and safety management;
- change of processes in order to reduce hazard and to implement new environment friendly technical solutions;
- regular training of personnel in the scope of occupational safety and health, implementing preventive actions and monitoring the existing hazards;
- regular assessment of occupational risk at workplace and in construction sites of performed contracts;
- provision of suitable resources and measures to improve working conditions.

In 2009 there was no incident of occupational illness. Neither was any claim raised against the Company due to accidents at work.

Inspections carried out in 2009 established that OHS rules and labour regulations are respected in ELEKTROBUDOWA SA. The company has obtained the certificate of the Occupational Safety Management for conformity with OHSAS 18001:2007 and PN-N-18001:2004.

## ***1.7 Quality System Management***

The key issue in the company's operations is the continual improvement of product quality, with respect to the environment. The company is permanently involved in quality issues through the Quality Management System according to EN ISO 9001, the Environmental Management System based on the model presented in the EN ISO 14001 standard. The Quality System is supplemented with the NATO requirements defined in the document AQAP-2110 and the requirements referring to: welding - according to PN-EN ISO 3834-2, and quality assurance in nuclear power stations - acc. to KTA1401. The audits carried out in 2009 did not detect any deviations of the management systems in practice from the requirements of the system standards and standardization documents.

Plans for 2010 in respect of quality assurance and environmental protection include:

- further training, meetings with contract managers and supervision staff in the subject of eliminating the cases of nonconforming to the environmental law and quality requirements for manufactured products and provided services;
- implementation of the HAZOP method (Hazard and Operability Study) in the switchgear manufacture process, and consequently defining the reliability features for this product group in respect of safety, environment and quality;
- preparation of documents (instructions, guidelines) supporting the application of methods enhancing the systems in place;
- maintaining and improvement of the above management systems integrated with the OHS management system;
- making necessary amendments in the procedures for risk identification.

## *1.8. Prospects for business development and significant risks and threats*

Economic and financial results of the reporting period closed with the net profit of 58.4 million PLN. It has been in the growth trend for the past few years, the rise as compared to the year 2008 was by 3.7%, whereas as compared to 2007 – by 72.3%. Increasing its earnings the company strengthened its market position, which is reflected by the order backlog regularly growing as at the end of consecutive fiscal years. As at 31December 2009 the order backlog amounted to 591.5 million PLN, by 9.7% higher on the previous year and by 29.8% higher on 2007.

Growing profits and performance of the company were possible to achieve owing to:

- Reducing costs to the level ensuring competitiveness of offers.
- Building competences for General Realization of Investments.
- Diversifying the order range.
- Consistent building of territorial customer service network.
- Continual increase of export share.

The sale offer of ELEKTROBUDOWA SA in 2009, similar as in previous years was not significantly changing and still is based on the following products and services:

1. Overall electric installation in the range of medium and low voltages for new, modernized and retrofitted power generation facilities.
2. Manufacture of indoor medium and low voltage switchgear assemblies.
3. LV. MV, HV stations.
4. Commissioning tests and start-up.
5. Design engineering
6. Servicing.
7. General execution of investments, including public utility facilities, retail centres, industrial facilities.
8. Conceptual work and consulting.
9. Turnkey supply of electrical, I&C and automation projects.

Customers are offered complex (EPC) project performance, starting with designing and prefabrication of equipment through delivery, installation, start-up together with operation during the trial period, and ending with after-sales service. The company's potential allows it to put into effect the majority of complex projects on its own.

ELEKTROBUDOWA's growth to a large extent depends on customers representing the following branches: power industry, building and petrochemical industries, mining, metallurgy, retail sector and the army. Each of the foregoing branches has specific requirements in the area of services and products involved with generation, transmission and use of electric energy and differs in its method of functioning as well as in its economic situation. Future income of ELEKTROBUDOWA SA will undoubtedly depend on such factors as:

- favourable economic situation in the power, chemical, metallurgic and building trades,
- price level of electrical materials and equipment as well as metallurgic products,
- intensification of soliciting activities, particularly on the markets of Central and Eastern Europe,

- course of privatization processes, especially in the power industry,
- consistent reducing the company's administration costs.

In performing its business operations the company is exposed to various risks, such as:

- market risk (including foreign exchange risk, change in fair value or cash flow caused by changes of interest rate and price risk);
- credit risk;
- liquidity risk.

Detailed description of risks is presented in item 3 of the financial statements for the year 2009.

Risk management includes risk identification and evaluation processes and defines the methods of risk handling. The Management establishes the general rules for risk management, policies for specific risk areas, use of derivative instruments and ways of investing the liquidity surplus.

## 2. MARKET SITUATION - SALES AND PROCUREMENT

### ***2.1 Sales destinations***

The activity of ELEKTROBUDOWA SA mainly concentrates on the Polish market. Because of deteriorating economic situation in the Polish market the company decided to build up its competitiveness in foreign markets and to increase its exports systematically. Export sales in 2009, which included supplies within the EU and to the countries outside the Union, generated the revenue of 86 032 thousand PLN, which made up 12.5% of the total sales revenues, in 2008 this share was 9.1%.

Presented below is an itemization of sales revenues of ELEKTROBUDOWA SA according to business sectors to which sales were made in 2009 and 2008.

| Business areas | 2009 | | 2008 | |
|---|---|---|---|---|
| | Value (PLN'000) | % | Value (PLN'000) | % |
| Power generation industry | 223 066 | 33.7 | 255 361 | 32.5 |
| Chemical industry | 108 426 | 16.4 | 59 504 | 7.6 |
| Export of products | 86 032 | 13.0 | 71 581 | 9.1 |
| Retail facilities | 59 527 | 9.0 | 128 709 | 16.4 |
| Mining | 58 298 | 8.8 | 97 571 | 12.4 |
| Paper & pulp | 42 853 | 6.5 | 5 372 | 0.7 |
| Housing and utility building | 17 339 | 2.6 | 40 267 | 5.1 |
| Metallurgy | 16 700 | 2.5 | 23 919 | 3.0 |
| Environmental protection plants | 13 835 | 2.1 | 3 843 | 0.5 |
| Automotive | 12 964 | 1.9 | 8 940 | 1.1 |
| Other areas | 9 262 | 1.4 | 25 076 | 3.2 |
| Electronic industry | 6 599 | 1.0 | 16 728 | 2.1 |
| Building materials | 3 276 | 0.5 | 8 450 | 1.1 |
| Power distribution industry | 1 897 | 0.3 | 6 265 | 0.8 |
| Transport | 1 262 | 0.2 | 32 114 | 4.1 |
| Food industry | 452 | 0.1 | 535 | 0.1 |
| Industrial automation | 0 | 0 | 1 986 | 0.2 |
| **Total** | **661 788** | **100.0** | **786 221** | **100.0** |

Traditionally, the power generating sector was the biggest source of income in 2009 (33.7% in the sales breakdown by industries) where ELEKTROBUDOWA SA is present with its products and comprehensive range of electric installation works in all newly erected, extended or modernized power stations.

The second biggest area of ELEKTROBUDOWA SA activity in 2009 was the chemical industry. The sales to the chemical industry in 2009 which made up 16.4% of the total revenues, basically concerned PKN ORLEN S.A. in Płock and Grupa LOTOS S.A..

A substantial share in total sales, 9%, had supplies and works performed in new and modernized retail centres, i.e. supermarkets, chains of stores such as TESCO or KAUFLAND. This type of contracts have been performed successfully by ELEKTROBUDOWA SA for several years.

ELEKTROBUDOWA SA still has significant customers for its products and services in mining industry, among them lignite mines, coal mines and copper mines. Proceeds from this industry had a 8.8% share in 2009 total sales.

Another significant area of the company's 2009 operations was paper industry. Sales to this sector generated 6.5% of total income and referred mainly to Mondi Świecie S.A. with 5.2% share in revenues.

Other market segments, responsible for 12.6% share in sales, allowed the company to considerably supplement its sales outside the forenamed basic industries.

The destinations and structure of exports are presented below:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Value (PLN'000)** | **%** | **Value (PLN'000)** | **%** |
| Russia | 35 809 | 41,6 | 52 729 | 73.7 |
| Finland | 24 553 | 28,5 | 6 348 | 8.9 |
| Turkey | 7 133 | 8,3 | 2 253 | 3.1 |
| Lithuania | 4 995 | 5,8 | 0 | 0 |
| Slovenia | 3 626 | 4,2 | 0 | 0 |
| Ukraine | 2 346 | 2,7 | 4 871 | 6.8 |
| Belarus | 1 866 | 2,2 | 1 752 | 2.4 |
| Trinidad | 1 714 | 2,0 | 0 | 0 |
| Belgium | 1 157 | 1,4 | 1 639 | 2.3 |
| Other countries | 806 | 0,9 | 215 | 0.3 |
| France | 747 | 0,9 | 0 | 0 |
| Bosnia | 627 | 0,7 | 0 | 0 |
| Australia | 489 | 0,6 | 540 | 0.7 |
| Iraq | 160 | 0,2 | 690 | 1.0 |
| Saudi Arabia | 4 | 0 | 544 | 0.8 |
| **Total export sales** | **86 032** | **100,0** | **71 581** | **100.0** |

Export to Russia has the biggest share in total export revenue (41.6%). The 2009 revenues from sales to Russia amounted to 35.8 million PLN, and though the income dropped nearly by 49% on 2008, the Russian market is the most significant in the company's export sales. ELEKTROBUDOWA SA sells its products and services on the Russian market through its associates, KRUELTA and VECTOR, having 49% interest in each. Export to these companies consisted mainly of D-12P and D-12PT switchgear panels, which are one of the best designs meeting the requirements of the most demanding Russian customers. Other exported products are mobile substations which can be equipped with switchgear panels or other power equipment, providing the possibility of constructing electric power facilities in any configuration for voltages between 0.4kV to 35kV.

Substantial growth was recorded in the execution of electrical installation services provided in the Scandinavian market. They mostly concern the performance of contract for the erection of electrical and I&C works for the Nuclear Power Plant OLKILUOTO 3 in Finland, which contract price is € 33.6m and the completion time is scheduled for 2011. The invoiced value of works performed at this site in 2009 was 22.5 million PLN, corresponding to 26.2% of total export sales revenues.

In 2009 ELEKTROBUDOWA SA substantially increased its export of products and services to Turkey, which had 8.3% share in total exports and rose by 5.2 percentage point on 2008. Export transactions concerned generally supplies of products for the total value of 6 827 thousand PLN, being 7.94% of total export sales. Provided services were connected with supplied busducts and concerned supervision over their erection.

In 2009 ELEKTROBUDOWA SA with its products entered new markets such has Lithuania, Slovenia, Trinidad, Bosnia and Herzegovina and some others, which are less significant for the company's export sales.

### ***2.2 Dependence on one or more customers***

In 2009 the Company noted its highest sales income on performance of the contract: Supply of 110kV line and electrical system for the MP7 machine for Mondi Świecie S.A. Value of works performed for this project in the reporting year was 34.1million PLN, which constituted 5.2% of the company's revenues generated in this period.

### ***2.3 Sources of supply***

In 2009 the sources of supply did not change much as compared with previous years. The company does not depend on one or several suppliers, whose share in sales revenues would exceed 10%. However, keeping in mind the necessity of cutting costs the company is looking for new suppliers of materials who would offer more favourable purchasing conditions.

## 3. SIGNIFICANT AGREEMENTS

### ***3.1 Construction contracts and contracts for supply of goods***

- Electrical, teletechnical and BMS installations in the scope of construction of the Warsaw National Stadium.
- Erection of equipment and electrical and I&C installations for the 858MW steam unit for the Bełchatów Power Plant.
- Construction of the office building for the Distric Court in Konin.
- Modernisation of the control and supervision system including the electrical system for Unit 5, Bełchatów Power Plant.

- Modernisation of the control and supervision system including the electrical system for Unit 6, Bełchatów Power Plant.
- Reconstruction of the Refinery Water Units 1, 2, 3 Stage I – BWR4 for PKN ORLEN S.A.
- Supply of 16 switchgear assemblies SDN for PGE KWB Bełchatów S.A.
- Construction of the chain store Kaufland including drinks market in Warsaw.
- Supply of plant for production of terephthalic acid (PTA), capacity 600 thousand tonnes/year – Infrastructure for PKN ORLEN S.A.
- Turnkey supply of the 110/15kV Station Przemyśl – Głęboka for PGE Dystrybucja sp. z o.o.

### ***3.2 Insurance contracts***

a/ Towarzystwo Ubezpieczeniowe HDI ASEKURACJA SA in Radom:

- car insurance;

b/ Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" SA w Warszawie

contracts for:

- all-risks contractor's insurance;
- business civil liability insurance,
- casualty insurance for employees delegated abroad.

c/ Towarzystwo Ubezpieczeniowe Allianz Polska S.A. w Warszawie

- Insurance of property against fire and other events;
- Insurance of cash against theft and burglary;
- Cargo insurance.

d/ AIG Europe S.A. Warsaw

- Third party insurance for the Members of the Management Board, Proxies and the Supervisory Board.

## 4. INVESTMENTS

### ***4.1 Investments carried out in 2009***

Total capital expenditure in 2009 amounted to 27 198 thousand PLN, of which:

- investment in equity 7 777 thousand PLN,
- expenditure on fixed assets 18 802 thousand PLN,
- expenditure on intangible assets 619 thousand PLN,

of which:

- outlays for development 236 thousand PLN.

The expenditure on non-current financial assets in 2009 amounted to 7 777 thousand PLN and was incurred to accomplish the main targets of issuance of series D shares of ELEKTROBUDOWA SA. Equity investments constituted 29% of total investment expenditure and concerned the increase in share in

VECTOR in the amount of 7 711 thousand PLN and additional costs (tax on civil law actions) related to the purchase of shares in ENERGOTEST sp. z o.o in the amount of 66 thousand PLN.

A considerable part of the expenditure on non-financial fixed assets was earmarked for further modernization and current reproduction of fixed tangible assets of the company. The expenditure on modernization of buildings and structures amounted to 6 281 thousand PLN, whereas the expenses associated with the construction of the Busduct Factory in Tychy amounted to 5 167 thousand PLN. Major modernization works concerned the following facilities:

- Warehouse and assembly bay between bays 3 and 4 in Konin,
- superstructure on the Bay 4 - social facilities in Konin,
- modernization of the umbrella roof of warehouse 22 in Dąbrowa Górnicza,
- epoxide floors in bay 1 in Konin.

In 2009 the equipment to streamline the production and assembly processes was bought for the sum of 4 662 thousand PLN, which included:

- cutting machine Byjet L 6030 - 1 231 thousand PLN,
- double-floor container set consisting of 10 modules – 2 sets – 416 thousand PLN,
- hydraulic guillotine shears Amada – 275 thousand PLN,
- equipment for painting room – 236 thousand PLN,
- engraving tools – 2 sets – 224 thousand PLN,
- bending machine Stierli-Bieger 300CNC – 215 thousand PLN,
- fork-lift truck OMG NEOS 25 – 183 thousand PLN.

Furthermore, the replacement of computer hardware was continued for the amount of 680 thousand PLN, and modern software was purchased for the sum of 383 thousand PLN

Outlays for transport means amounted to 2 012 thousand PLN, the fleet of vans and motors cars was enlarged.

The 2009 year investments were financed from the company's own funds, only a small part of those resources came from selling of some tangible assets.

### ***4.2 Investment plan for 2009***

Planned investment outlays for non-finance fixed assets of the first half of 2010 amount to 8.9 million PLN and include:

| | | |
|---|---|---|
| - | modernisation of buildings and structures | 2.5 million PLN |
| - | purchase of machines and equipment | 2.6 million PLN |
| - | vehicles and transport equipment | 1.7 million PLN |
| - | computer hardware | 0.7 million PLN |
| - | intangible assets | 0.9 million PLN |
| - | land | 0.5 million PLN |

**Implementation of investment plans**

Taking into account good financial standing of the company described in item 1.2 of this report, stable liquidity ratios and the 2009 order backlog, it is evident that realization of the investment plans, including capital investments is not at risk. As in the previous year, the company is going to finance the investments from its own funds, which finds confirmation in the gathered monetary resources.

**5. RELATED PARTY TRANSACTIONS**

In 2009 all ELEKTROBUDOWA's transactions with the related parties were typical, routine transactions entered into under normal commercial terms, resulting from the current operating activity of the company.
In the reporting period ELEKTROBUDOWA SA carried out the following transactions with the related parties:

| | | |
|---|---|---|
| - sales of goods - KRUELTA Ltd. | 30 782 | thous PLN |
| - sales of materials – KRUELTA Ltd. | 68 | thous PLN |
| - sales of goods – the Electrotechnical Company VECTOR Ltd. | 2 550 | thous PLN |
| - sales of services – the Electrotechnical Company VECTOR Ltd. | 610 | thous PLN |
| - sales of materials - the Electrotechnical Company VECTOR Ltd. | 581 | thous PLN |
| - sales of goods – SAUDI ELEKTROBUDOWA LLC | 5 | thous PLN |
| - sales of services – KONIP Sp. z o.o. | 91 | thous PLN |
| - sales of goods – ENERGOTEST sp. z o.o. | 328 | thous PLN |
| - sales of services – ENERGOTEST sp. z o.o. | 2 041 | thous PLN |
| - sales of materials – ENERGOTEST sp. z o.o. | 96 | thous PLN |
| - sales of tangible fixed asssets and intangible assets – ENERGOTEST sp. z o.o. | 332 | thous PLN |

The sales realized by related parties for ELEKTROBUDOWA SA:

| | | |
|---|---|---|
| - KONIP Spółka z o.o. | 937 | thous PLN |
| - KRUELTA Ltd. | 29 | Thous PLN |
| - Electrotechnical Plant VECTOR Ltd. | 154 | thous PLN |
| - ENERGOTEST sp. z o.o. | 11 344 | thous PLN |

Year-end balances as at 31 December 2009:

| | | | |
|---|---|---|---|
| - | payables of ELEKTROBUDOWA SA to the Electrotechnical Company VECTOR Ltd. | 154 | thous PLN |
| - | payables of ELEKTROBUDOWA SA to KONIP | 89 | thous PLN |
| - | payables of ELEKTROBUDOWA SA to ENERGOTEST | 4 442 | thous PLN |
| - | payables of KRUELTA to ELEKTROBUDOWY SA | 219 | thous PLN |
| - | payables of the Electrotechnical Company VECTOR Ltd. to ELEKTROBUDOWA SA | 1 473 | thous PLN |
| - | payables of SAUDI ELEKTROBUDOWA LLC to ELEKTROBUDOWA SA | 5 | thous PLN |
| - | payables of ENERGOTEST sp. z o.o. to ELEKTROBUDOWY SA | 129 | thous PLN |

## 6. INFORMATION ON CREDITS, LOANS, SECURITIES AND GUARANTEES.

### *6.1 Credit contracts as at 31 December 2009*

| | Bank | Type of loan | Contract validity | Limit of credit |
|---|---|---|---|---|
| 1. | ING Bank Śląski w Katowicach | overdraft | 28.03.2010 | 1.0 million PLN |
| 3. | Bank Handlowy w Warszawie S.A. | overdraft | renewable every 7 days<br>Until 15.01.2010 | 6.1 million PLN |
| 4. | Bank PEKAO S.A. w Warszawie | overdraft | 30.04.2010 | 10.0 million PLN |
| 7. | PKO BP w Warszawie | overdraft | 23.02.2012 | 5.0 million PLN |

In 2009 ELEKTROBUDOWA SA did not use its opened credit lines.
As at 31 December 2009 the Company did not have any liabilities due to loans or borrowings.

### *6.2 Other loan agreements*

In 2009 the company neither was granted nor itself extended any loans.

### *6.3 Guaranties and Sureties*

As at 31 December 2009 ELEKTROBUDOWA SA extended a guarantee securing the tender deposits, performance bods and warranty bonds through banks and insurance companies, for the total amount of 126 million PLN.
Promissory notes issued by the company to secure performance of contracts and payments resulting from the concluded contracts for the total amount of 16 million PLN are also a form of guarantee. The promissory bonds issued by the company also secure credit lines and guarantees issued by banks or insurance companies.
In 2009 the company did not extend any sureties.

## 7. DIFFERENCES BETWEEN 2009 PERFORMANCE AND THE PUBLISHED FORECAST

The 2009 budget announced by ELEKTROBUDOWA SA on 25 March 2009 assumed that annual sales revenues will reach the level of 752 753 thousand PLN and net profit 50 148 thousand PLN. After 12 months of 2009 the company earned net profit in the amount of 58 413 thousand PLN while the revenues amounted to 661 788 thousand.
Both market situation and the performance of the company, the subsidiaries and associates are constantly monitored and assessed by the Management Board. Serious business fluctuations caused that the revenue generated in 2009 was lower than planned. The budgeted sales revenues were realized in 88%, while net profit in 116%.

Much of the sales invoiced in 2009 come from the past years' backlog. Many major power industry contracts planned to be awarded in 2009 were suspended and postponed to later years, which was the reason why the budgeted sales was not accomplished.

Despite business fluctuations and smaller than planned sales value, the net profit earned by the company was greater than provided in the budget. It is the result of execution of contracts awarded in prior years, concluded under more favourable terms (with better margins). Better than planned net result is partly attributed to dividends received from subsidiaries and associates and the dividend from Biprohut Sp. z o.o. received for the first time.

Controlling system functioning in the company keeps the liquidity on a very good level. Earned financial surplus is deposited on favourable terms and has positive effect on the company's financial result.

**8. BASIS FOR PREPARATION**

These financial statements have been prepared under the assumption that the company will be able to continue with its operations in the foreseeable future. As of the day of preparing the statements no circumstances exist which would indicate that the continuation of business is at risk.

The financial statements were prepared under the historical cost convention, with the exception of revaluation of some fixed assets and financial recognised at fair value.

**9. MAJOR TECHNICAL DEVELOPMENT WORKS**

In 2009 development works were implemented in the following scope:

- construction specification of a new variant of DC switchgear RT-1/15 designed for the trolley bus system was prepared;
- PREM-GJm was constructed and type tests completed. Technical parameters of the switchgear were increased:
  - short circuit current from 10kA to 16kA,
  - arcing time was increased from 100 miliseconds to 150 miliseconds;
- PREM-G1dM switchgear was modernized and type tested, internal arc resistance of the switchgear was increased. These parameters are now as follows:
  - for 25kA current the arcing time was extended to 150 miliseconds,
  - for 205kA current the arcing time was extended to 360 miliseconds;
- additional type tests were performed on D-12P switchgear, increasing the short-circuit capacity from 31.5kA in 1s to 31.5kA in 3s;
- additional type tests were performed on D-12PT switchgear, increasing the short-circuit capacity from 25kA in 1s to 25kA in 3s;
- additional type tests were performed on earthing switches of the UM series. The new variant of earthing switches is provided with cheaper components;

- additional type tests were performed on D-12PT switchgear provided with SION circuit breakers from SIEMENS;
- an operator's cage with IP55 degree of protection of the enclosure was constructed;
- two variants of switchgear dedicated for mining, PREM-G1 and PREM-G1dM were constructed and tested, increasing its resistance to internal arcing up to 25kA within a full second;
- construction works on the medium voltage SF6-insulated switchgear were started.

## 10. SETTLEMENT OF PROCEEDS FROM THE ISSUANCE OF SERIES D SHARES OF ELEKTROBUDOWA SA AS OF 31 DECEMBER 2009

| | | | | |
|---|---|---|---|---|
| 1. | Cash inflow from the share issue | | 89 677 | thousand PLN |
| | of which: | | | |
| | - | share capital | 1 055 | thousand PLN |
| | - | supplementary capital | 88 622 | thousand PLN |
| 2. | Equity investment | | 69 065 | thousand PLN |
| | 2.1 | ENERGOEFEKT Sp. z o.o. Ruda Śląska | 10 852 | thousand PLN |
| | 2.2 | ENERGOTEST sp. z o.o. Gliwice | 36 600 | thousand PLN |
| | 2.3 | VECTOR Ltd. Votkinsk, the Russian Federation | 21 516 | thousand PLN |
| | 2.4 | SAUDI ELEKTROBUDOWA LLC the Kingdom of Saudi Arabia | 97 | thousand PLN |
| 3. | Expenditure for the purchase of fixed assets and intangible assets | | 15 848 | thousand PLN |
| 4. | Total investment expenditure as at 31 December 2009 | | 84 913 | thousand PLN |
| 5. | Proceeds from the share issue which were not used as at 31 December 2008 | | 4 764 | thousand PLN |

## 11. STATEMENT OF CONFORMITY WITH LEGISLATION

The financial statements of the company were prepared according to the International Financial Reporting Standards as adopted by the European Union.

The Management Board of ELEKTROBUDOWA declares that all information required by the Regulation of the Minister of Finance dated 19 February 2009 on current and interim information provided by issuers of securities and with the conditions of acknowledging the equivalence of information required by laws of a non-member country were included in the company's Financial Statements, except those which do not apply to the company.

## 12. STATEMENT ON CHOICE OF AN AUDITOR

The Management Board of ELEKTROBUDOWA SA declares that the Deloitte Audyt Sp z o.o. based in Warsaw, with registered office at 19, Jana Pawła Str. 00-854 Warsaw was chosen to carry out the audit of the financial statements of ELEKTROBUDOWA SA for the year 2009 in conformity with provisions of the law. The audit company and chartered accountants who conducted the audit of the statements fulfilled the conditions of expressing an unbiased and independent opinion of the audit, conformable with relevant regulations.

**Information on the contract concluded with the auditor**

A contract for reviewing the interim financial statements of ELEKTROBUDOWA SA and the ELEKTROBUDOWA SA group for the period 01.01-30.06.2009 and for auditing the annual Financial Statements of ELEKTROBUDOWA SA and the annual Consolidated Financial Statements of the ELEKTROBUDOWA SA group for 2009 was concluded with Deloitte Audyt Sp. z o.o., having their registered office in Warsaw 1 June 2009.

The remuneration for the above review and auditing of the 2009 financial statements was as follows (in PLN'000):

| | **2009** |
|---|---|
| - review of the half-year financial statements of ELEKTROBUDOWA SA and consolidated financial statements of the ELEKTROBUDOWA SA group | 65 |
| - Audit of the annual financial statements of ELEKTROBUDOWA SA and consolidated financial statements of the ELEKTROBUDOWA SA group | 90 |
| **Review and auditing of the financial statements** | **155** |

## 13. STATEMENT ON OBSERVING THE CORPORATE GOVERNANCE RULES

### ***13.1 The scope in which the corporate governance rules are applied***

The Management Board of ELEKTROBUDOWA SA declares that in 2008 the company and its bodies fully observed the corporate governance rules contained in the document "Code of Best Practice for WSE Listed Companies". Details of corporate governance rules are available on the web page of ELEKTROBUDOWA SA: www.elbudowa.com.pl.

The company does not implement the corporate governance practices which are not required by the Polish law.

Last year the company applied all provisions covered in the corporate governance rules.

### ***13.2 Rules for operations of the General Meeting***

The rules for activity of the General Meeting and its essential powers together with the rights of shareholders and how they are exercised are presented in the Articles of the Company and in the By-Laws of the General Meeting. As in 2009 the General Meeting introduced certain changes to the Articles to adjust them to the amended Polish Commercial Companies Code, the Managament Board will recommend that suitable changes be introduced to the By-Laws of the General Meeting.

General Meeting of ELEKTROBUDOWA SA can be annual or extraordinary, in compliance with the provisions of the Commercial Companies Code and the Articles, according to the rules specified in the By-Laws of the General Meeting. General Meetings of Shareholders are held in Katowice or Warsaw.

Annual General Meeting of Shareholders shall be convened by the Management Board of the Company. Annual General Meeting shall be held within six months of the end of each financial year. Extraordinary General Meeting shall be convened by the Management Board of the Company on its own initiative, on written request of the Supervisory Board, its Chairman, any three members of the Supervisory Board or at a written request of Shareholders representing at least 5% (ten percent) of the share capital. Extraordinary General Meeting shall be convened within 14 (fourteen) days from the date of filing the said request. Extraordinary General Meeting can also be convened by shareholders representing at least a half of the share capital or at least half of the total number of votes in the company.

General Meeting may adopt resolutions only in matters included in the agenda, unless the entire share capital is represented at the Meeting and no person present objected to holding the Meeting or placing specific matters in the agenda. The agenda is determined by the subject convening the General Meeting of Shareholders. The Supervisory Board, its Chairman, any three members of the Supervisory Board, as well as Shareholders representing at least 5% (ten percent) of the share capital may demand that specific matters are placed in the agenda of the nearest General Meeting. If such a demand is filed after the convening of the General Meeting, it shall be treated as a request for convening Extraordinary General Meeting. General Meeting is valid and may adopt resolutions irrespective of the number of present shareholders and represented shares, unless provisions of the Law or these Articles provide otherwise. Each share shall give the right to one vote at the General Meeting. Resolutions at the General Meeting of Shareholders are adopted by absolute majority of votes unless provisions of the Law or these Articles provide otherwise. In the situation specified in art.397 of the Code of Commercial Companies, a resolution of liquidation of the Company shall be adopted by a majority of three/fourth of votes. A resolution of abandoning to consider the matter placed on the agenda can be passed only for important reasons. A relevant motion shall be substantiated in detail. Voting shall be open. A secret ballot shall be ordered in the case of election and on motions to remove members of authorities or liquidators of the Company, or to hold such persons liable, and in matters concerning personal issues. Furthermore, a secret ballot shall be ordered at the request of at least one shareholder from among those present pr represented at the General Meeting. Resolutions concerning a substantial change in the objects of the Company shall always be taken in an open voting by roll call.

General Meeting is opened by Chairman of the Supervisory Board or a person indicated by him, then from those with the right to vote a Chairman of the General Meeting shall be elected. In case those persons are absent, the General Meeting is opened by President of the Management Board or a person appointed by the Management Board. Resolutions of the General Meeting of Shareholders, apart from matters specified in this section or in the Articles, shall be required for:

1) examination and approval of the Management Board report on activities of the Company and financial statements for the previous financial year,

2) acknowledgement of the fulfilment of duties by members of authorities of the Company,

3) decisions concerning claims for redressing damage inflicted upon formation of the Company or exercising management or supervision;

4) disposal or lease of the business enterprise or an organized part of it, or establishment of a property right thereon,

5) issue of convertible bonds or bonds with priority right,

6) acquisition of own shares, which are to be offered to employees or persons that were employed at the Company or a company related to it during the period of at least three years,

7) adopting a resolution on division of profits or covering losses,

8) changes in the objects of activities of the Company,

9) amendments to the Articles of the Company,

10) increase or decrease of the share capital,

11) redemption of shares (except of immediate redemption: of shares acquired with infringment of provisions of Art. 362 §1 and §2 of the CCC, which were not disposed of within a year after they had been acquired by the company and the remaining part of company's own shares which exceeds 10% of the share capital, not disposed of within two years since acquisition),

12) merging, dividing or liquidation of the Company,

13) dissolution and liquidation of the Company,

14) fixing the date of acquiring rights to dividend and the date of payment of dividends,

15) conclusion by the Company of a contract of credit, loan, guarantee or other similar agreements with a member of the Management Board, the Supervisory Board, auditing committee, proxy, liquidator or for the benefit of any of those persons,

16) specifying remuneration for members of the Supervisory Board.

17) concluding an agreement with a subsidiary, which provides for managing the subsidiary or transferring the profit by such entity.

Competence specified above in points 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 is exercised by the General Meeting as follows:

a/ on a motion of the Management Board of the Company, presented jointly with written opinion of the Supervisory Board,

b/ on a motion of shareholders representing at least 5% (ten percent) of the share capital, with opinions of the Management Board of the Company and the Supervisory Board. If no opinion is received when requested at least 14 (fourteen) days before the General Meeting, it shall be understood as lack of objections.

## ***13.3. Composition and rules for the company's managing and supervising bodies and their committees***

### ***13.3.1 The Management Board of the Company***

The Management Board consists of 3 to 7 people appointed for three-year terms of office.
Composition of the Management Board of ELEKTROBUDOWA SA in 2009 was as follows:

| | | |
|---|---|---|
| Jacek Faltynowicz | - | President – appointed on 24.04.2009 |
| Jarosław Tomaszewski | - | Board Member – appointed 24.04.2009 |
| Ariusz Bober | - | Board Member – appointed 24.04.2009 |
| Tomasz Jaźwiński | - | Board Member – appointed 24.04.2009 |
| Stanisław Rak | - | Board Member – appointed 24.04.2009 |
| Arkadiusz Klimowicz | - | Board Member – appointed 24.04.2009 |

Regulations for the Management Board activity are defined in the Articles and the By-Laws of the Management Board approved by the Supervisory Board.
The Management Board shall manage the affairs of the company and represents the company. The Management Board holds meetings presided by its President. President of the Management Board is also Director of the company. Resolutions of the Management Board are adopted by absolute majority of votes. In case of equal number of votes President of the Management Board has got a casting vote. All matters that are not reserved for General Meeting of Shareholders or the Supervisory Board fall within the competence of the Management Board. Two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy are authorized to represent the company. The Management Board may grant commercial proxy with prior consent of the Supervisory Board. Proxies acting independently within their authorizations may be appointed for performing actions of specific character or kind.

The rules of appointing and dismissal of the managing persons have not changed. President is appointed by the Supervisory Board. Members of the Board are appointed by the Supervisory Board on President's motion.

The managing persons have no powers to take decisions on issuance or redemption of shares, they can only initiate the actions to decide in these issues.

**Agreements between ELEKTROBUDOWA SA and the managing persons**

As at 31 December 2009 no agreements existed, except the non-competition agreements concluded between ELEKTROBUDOWA SA and the managing persons, which would stipulate that a compensation is due in the case their resignation or dismissal with no serious cause, or in the case of their removal or dismissal is in consequence of business combination through acquisition.

***13.3.2 The Supervisory Board***

The Supervisory Board is composed of 5 to 7 members appointed by General Meeting of Shareholders for a joint three years term of office.
Composition of the Supervisory Board of ELEKTROBUDOWA SA in 2009 was as follows:

| | | |
|---|---|---|
| Dariusz Mańko | - | Chairman – appointed 24.04.2008 |
| Karol Żbikowski | - | Vice-Chairman –appointed 24.04.2008 |
| Aleksander Chłopecki | - | Member – appointed 24.04.2008 |
| Jacek Chwałek | - | Member – appointed 24.04.2008 |
| Tomasz Mosiek | - | Member – appointed 24.04.2008 |
| Dariusz Wojda | - | Member – appointed 24.04.2008 |
| Ryszard Rafalski | - | Member – appointed 24.04.2008 |

The Supervisory Board acts on the basis of the Articles and its By-Laws approved by the Supervisory Board. Resolutions of the Supervisory Board are adopted by absolute majority of votes. In case of equal number of votes Chairman of the Supervisory Board has got a casting vote.

Apart from powers and duties of the Supervisory Board stipulated the Code of Commercial Companies and other provisions of these Articles, the following matters fall within special competence of the Supervisory Board:
1) to examine the Directors' Reports provided by the Management Board and financial statement for the previous business year for their compatibility with the books and documents and the actual state of affairs,
2) to assess motions of the Management Board concerning division of profit or covering a loss,
3) to submit the annual written report on the results of the examination of Directors' Report and financial statement for the previous business year for their compatibility with the books and documents and the actual state of affairs as well as motions of the Management Board concerning division of profit or covering a loss to the General Meeting of Shareholders,
4) to appoint and dismiss members of the Management Board,
5) to suspend, for important reasons, individual or all members of the Management Board in the performance of their functions,
6) to assign member or members of the Supervisory Board, for the period not longer than three months, to perform temporarily the duties of those members of the Management Board who have been dismissed, have resigned or who are unable to perform their duties for other reasons,
7) to approve the regulations of the Management Board of the company,

8) to approve annual budgets and strategic plans of the company,

9) to appoint certified auditor for examination of financial statement

10) to represent the company in agreements concluded between the company and Members of the Management Board , as well as in disputes with them,

11) to determine remuneration for members of the Management Board.

- and to grant consent to:

a) making commitments by the company or expenditures concerning one transaction or a series of related transactions in the amount exceeding the equivalent of 100,000 (one hundred thousand) USD fixed according to average exchange rate for USD published by NBP on the day preceding the day of request for approval made by the Management Board to the Supervisory Board, not planned in the approved budget and outside ordinary management of the company,

b) acquisition of interest or shares in other companies,

c) joining other legal persons and sale of assets of the company, the value of which exceeds 10% (ten percent) of net value of fixed assets, with the exclusion of those, which constitute stock marketable in the course of normal operation of the company,

d) taking credits and loans with the period of repayment over one year not planned in the approved budget, other than trade credits taken by the company within the scope of ordinary management,

e) granting guaranties or securities by the company not planned in the approved budget and charging the assets of the company with obligations not planned in the budget,

f) concluding agreements between the company and a close person of Member of the Management Board or in any way related to him – in each case, and between the company and the employees of the company who report directly to the Members of the Management Board - in the case of one contract or a series of related contracts for the amount exceeding 10,000 (ten thousand) USD fixed according to average exchange rate for USD published by the NBP on the day of concluding the contract

g) employing (on employment contracts or civil law contracts) advisers and other people from outside the Company, especially as consultants, lawyers, agents, if annual total costs of employing a person mentioned above would exceed the equivalent of 100,000 (one hundred thousand) USD fixed according to average exchange rate for USD published by the NBP on the day preceding the day of request for approval made by the Management Board to the Supervisory Board,

h) making advance payments against future dividend,

i) acquisition and disposal of real property or a share in a real property.

j) as long as the company remains a listed company and subject to representing the company in agreements between the company and he Management Board Members and also in disputed with them – giving consent to entering into agreement with related parties in the meaning of the Regulation of the Minister of Finance on current and interim information provided by the issues of securities and the condition of equivalence of the information required by the laws of a non-member country or another legal act which will replace this Regulation. Consent is not required in respect of typical transactions entered into on usual market terms within the operating activity carried out by the company with a related party in which the company has majority interest.

Two committees were operating in the Supervisory Board of ELEKTROBUDOWA SA in 2009: the Audit Committee and the Nominating and Remuneration Committee of the Supervisory Board.

**In 2009 the Audit Committee worked in the following composition:**

- Dariusz Wojda – Chairman of the Committee
- Aleksander Chłopecki – Member
- Tomasz Mosiek – Member
- Ryszard Rafalski – Member

**In 2009 the Nominating and Remuneration Committee worked in the following composition** :

- Ryszard Rafalski – Chairman of the Committee
- Aleksander Chłopecki – Member
- Karol Żbikowski – Member

### ***13.4 Presentation of the internal control and risk management systems applied in preparing the financial statements***

The company maintains a multistage internal control and risk management systems. The key roles in them are performed by the governing bodies of ELEKTROBUDOWA SA: its Management Board and Supervisory Board. The duties of the Audit Committee appointed from among the members of the Supervisory Board comprise the streamlining of the Board's work by giving instructions on preparation of decisions to be taken in respect of:

- monitoring the independence of a statutory auditor (external auditor) by complying with mandatory guidelines for the rotation of audit partners and reviewing the character and scope of services other than auditing;
- monitoring the accuracy of financial information presented by the company, by reviewing the applied accounting methods;
- evaluation of internal control and risk management systems, by reviewing the systems in respect of financial risks.

One of the essential elements of control in the process of preparing the financial statements is verification of financial statements by an independent auditor. Tasks of an auditor include in particular: review of the half-year financial statements and preliminary and basic auditing of the annual statements. An auditor is selected by the Supervisory Board in the procedure of quotations, from among prime auditing companies which guarantee high standards of service and required independence.

Preparation of the financial statements, interim reports and current management accounting of the company lies within the responsibilities of departments reporting to the Finance Director. Financial statements are prepared by middle managers and checked by the Finance Director before submitting to the auditors for review. On this stage functional control and identification of risk, if any, with their elimination, are performed.

The Company maintains relevant procedures for preparing its financial statements, which aim at providing completeness and correctness of recognizing all business transactions in the reporting period. These procedures include:

- Accounting Policy and the Company's Plan of Accounts, which conform to requirements of the International Financial Reporting Standards.
- Principles of Balance Sheet Depreciation of Fixed Tangible Assets and Amortization of Intangible Assets,
- Stock-taking Instruction,
- Documentation of the accounting data computer processing system,
- Other procedures related to appropriate internal communication in the company concerning the process of preparing the financial statements, planning all works relating to such preparation and development of detailed plan of action, including assigning responsibilities for specific tasks.

Financial data for financial statements and interim reports come from monthly financial reporting. Middle and top managers, after closing books for the end of each calendar month, together analyse the financial results of the company as a whole and of its units, comparing them with the business assumptions. Any identified errors are corrected at current basis in the company books, according to the adopted accounting policy.

Accounting policy concerning financial reporting which is implemented by the company, is applied both in budgeting and forecasting process and in periodical management accounting, which means that the company uses coherent accounting principles in presenting its financial data in the annual and interim financial statements as well as other reports provided to the shareholders.

Organisation of financial risk management process separates the functions of units responsible for negotiating market transactions from to the functions of units responsible for their authorization, settlement and preparing information on valuation of those transactions. Such organizational structure, which is in keeping with global best practices of risk management, enables the control of business transacting process and elimination of transactions not authorized by the governing bodies.

In result of financial risk management, reducing other operating and finance costs in which the financial risk is actually reflected contributes to improvement of the Company's profitability ratios. On the other hand, efficiency of the applied risk control and management procedures is reflected in preparing the financial statements, contributing to their high quality, acknowledged by the auditors' opinions issued so far and appreciated by the persons to whom the statements are addressed.

Risk areas to which the company is exposed, are described in detail in item 3 of the additional information to the financial statements for the year ended 31 December 2009.

### ***13.5 Information on shareholders***

To the best of their knowledge ELEKTROBUDOWA SA discloses a list of shareholders with qualifying holdings, indicating the number of shares held, their percentage in the share capital, number of voting rights attached to them with the percentage of the total vote in the general meeting:

| **Shareholders as at 31 December 2009:** | **Numbers of shares = number of votes** | **% of votes and % equity** |
|---|---|---|
| 1. ING OFE (Open-end Pension Fund) | 799 394 | 16.84 |
| 2. AVIVA OFE AVIVA BZ WBK SA | 620 453 | 13.07 |
| 3. Otwarty Fundusz Emerytalny PZU „Złota Jesień” | 464 588 | 9.78 |
| 4. ING TFI SA | 389 705 | 8.21 |
| 5. AXA OFE | 342 443 | 7.21 |
| 6. Amplico Open-end Pension Fund | 316 572 | 6.67 |
| 7. Free float | 1 824 453 | 38.22 |
| **Total number of shares in the share capital** | **4 747 608** | **100.00** |

ELEKTROBUDOWA SA has not issued any securities with special controlling rights for their holders. No restrictions exist for exercising the voting right from the company’s securities. No restrictions exist on transferring the right of ownership of ELEKTROBUDOWA’s securities.

**Number and nominal value of shares in ELEKTROBUDOWA SA and shares in the Company’s subsidiaries held by the managing or supervisory persons**

Shares in ELEKTROBUDOWA SA held by its key executives as at 31 December 2009:

| | | |
|---|---|---|
| Jacek Faltynowicz | - | no shares held |
| Stanisław Rak | - | 337 shares |
| Ariusz Bober | - | no shares held |
| Jarosław Tomaszewski | - | no shares held |
| Tomasz Jaźwiński | - | no shares held |
| Arkadiusz Klimowicz | - | no shares held |

As of 31 December 2009 the key executives did not hold any shares in entities related to ELEKTROBUDOWA SA; the supervisory persons did not hold shares in ELEKTROBUDOWA SA or its related companies.

***13.6 Information on employee share plans control system***

The Company does not have any employee share plans.

***13.7 Legal claims against ELEKTROBUDOWA SA***

In the opinion of the Management Board there are no circumstances indicating any substantial obligations to arise due to claims against the Company.
There are not legal proceedings against the Company either in court, arbitration or administrative body in respect of the Company's liabilities or receivables.

**SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS**

| Name and surname | Position / Function | Date | Signature |
|---|---|---|---|
| Jacek Faltynowicz | President | 22.03.2010 | |
| Jarosław Tomaszewski | Board Member | 22.03.2010 | |
| Ariusz Bober | Board Member | 22.03.2010 | |
| Stanisław Rak | Board Member | 22.03.2010 | |
| Tomasz Jaźwiński | Board Member | 22.03.2010 | |
| Arkadiusz Klimowicz | Board Member | 22.03.2010 | |