

Directors' Report on the Activities  
of  
ELEKTROBUDOWA SA  
for the 2011 Financial Year

*This document is a translation from the original Polish version. In case of discrepancies between the Polish and English version, the Polish version shall prevail.*

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## 1. GENERAL INFORMATION

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 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: building industry.

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.

ELEKTROBUDOWA SA is an enterprise consisting of several divisions, including the Head Office and three production divisions which are not subject to disclosure in the National Court Register:

### - **Power Generation Division (RWE)**

Some of its administrative units are located in Katowice at 12, Porcelanowa Street and some in Jaworzno at 51, Promienna Street. The Power Generation Division conducts its operations on the whole territory of Poland and also in other countries. The domestic operations of the Division are carried out by organised facilities located in Tychy, Opole, Kozienice, Bełchatów, Rybnik and Częstochowa. The Power Generation Division registered its permanent establishments (branches) also outside Poland where it conducts its business: in Finland, Luxembourg and Estonia.

The branch in Finland was registered on 19 March 2008 in the Commercial Register maintained by the National Board of Patents and Registration of Finland, Helsinki. The registration address is: TVO Olkiluoto 3, Construction Site f, 27160 EURAJOKI. Tax identification number is FI2176143-1. The branch still exists in operation.

The permanent establishment in Luxembourg was registered in the Trade and Companies Register in Luxembourg on 21 December 2010 at the address: 41, Boulevard Prince Henri, L-1724 Luxembourg. The entry is in force for indefinite time. Tax identification number is LU24442127.

The activity of ELEKTROBUDOWA SA in Estonia was registered by the Northern Tax and Customs Centre, registration code 60149969. The permanent establishment in Estonia has had a status of VAT tax payer since 16 August 2011, with registration number EE101471004. The establishment's address is Roosikrantsi 2, Tallinn, 10119 Estonia.

- **Industry Division (RP)**

Organisational units of the Division are located partly in Katowice at 12, Porcelanowa Street and in Płock at 42, Zglenickiego Street. The Industry Division carries out its operations on the whole territory of Poland, through its organised, permanent facilities, generally in Płock, Katowice, Warsaw, Konin and Gdańsk.

- **Power Distribution Division (RDE)**

The production facility and administration units of the Division are located in Konin at 156, Przemysłowa Street. The Power Distribution Division conducts business in Poland through its organised, permanent facilities in Konin, Wrocław and Katowice. A significant part of products manufactured by the Division is sold to foreign markets.

## **2. PRESENT AND ANTICIPATED FINANCIAL POSITION. KEY ECONOMIC AND FINANCIAL FIGURES**

### ***2.1 Sales revenues - principal products and services***

The 2011 revenues from sales of goods, services and materials of ELEKTROBUDOWA SA amounted to 902 458 thousand PLN. Major part of sales revenues was generated by the basic operations of the company, that is electrical installation services. These services earned 757 134 thousand PLN for the company, which represented 83.9% of total sales revenues.

The 2011 sales rose by 149 958 thousand PLN on 2010, which is the increase by 19.9% over the previous year's revenues.

The year 2011 was another financial year when ELEKTROBUDOWA SA recorded a growth in export sales, which includes supplies of goods and services within the EU. Export sales amounted to 158 788 thousand PLN and were by 28.3% higher than in 2010. The increase concerns mainly supply of construction and erection services, principally to the Netherlands, and sales of electro-technical products to Ukraine.

The company treats as priority all actions aimed at boosting its competitiveness in the foreign markets and increasing exports. Following such policy, ELEKTROBUDOWA SA with its products and services has entered new markets: the United States of America, Uzbekistan, Luxembourg, Estonia and substantially increased the volume of export sales by selling to Finland, the Netherlands, Ukraine and Saudi Arabia.

The table below presents the structure of net revenue from the sales of products, goods and materials in 2011 and 2010.

	2011		2010		Change
	PLN'000	%	PLN'000	%	PLN'000
<b>Revenue from sales of products, merchandise and materials</b>	<b>902 458</b>	<b>100.0</b>	<b>752 500</b>	<b>100.0</b>	<b>149 958</b>
construction and erection services	757 134	83.9	578 911	76.9	178 223
electrotechnical products	125 384	13.9	156 248	20.8	(30 864)
other services	16 675	1.8	11 957	1.6	4 718
merchandise and materials	3 265	0.4	5 384	0.7	(2 119)

ELEKTROBUDOWA SA specializes in providing electric installation services and in manufacturing of equipment used for transmission and distribution of electric energy. Sales of this equipment accounted for 13.9% of total 2011 sales revenue. Furthermore, a substantial part of the products through internal sales is transformed to external sales within provided installation services. Maintaining the position of a leading supplier of medium-voltage switchgear on the Polish market is one of the key strategic goals of the company.

In 2011 the company sold industrial products for the sum of 198 249 thousand PLN. From this amount 72 865 thousand PLN falls to sales realised by the erection units, whereas direct (external) sales reached the value of 125 384 thousand PLN.

Production of principal products by volume and value in 2010 – 2011 was as follows:

- By volume:

Type of Product	Unit of measure	Quantity	
		2011	2010
Medium voltage switchgear	panels	2 502	2 483
Low voltage switchgear	segments	1 052	3 101
Mobile substations	sets	81	130
Busducts	m	4 985	2 647
Cable trays	tons	46	62

- By value:

Product	2011		2010	
	Value (PLN'000)	Percentage share (%)	Value (PLN'000)	Percentage share (%)
Medium voltage switchgear	97 228	49.0	71 581	33.9
Low voltage switchgear	28 062	14.1	32 445	15.4
Mobile substations	42 345	21.3	78 173	37.1
Busducts	17 958	9.0	15 014	7.1
Cable trays	349	0.2	508	0.2
Other products	12 604	6.4	13 208	6.3
<b>Total</b>	<b>198 546</b>	<b>100.0</b>	<b>210 929</b>	<b>100.0</b>

## **2.2 Financial result and basic factors or untypical events which impact its amount**

Poland was the only country in Central Europe where the building industry did not suffer a drop both in 2009 and in 2010. The first four months of 2010 provided serious problems due to severe weather conditions. However, further months brought a recovery and the results gave grounds for cautious optimism. Since then the building industry was in a constant growth and reached the 3.5% rise of building output in the whole 2010.

In 2011 the construction sector was the most rapidly growing sector of economy. The sales of its production rose by 16.1%. Favourable changes of workload and building and construction output were recorded. The end of 2011 witnessed a downturn, its effects are most strongly suffered by small and medium sized enterprises. Forecast for future growth of Polish building industry is not optimistic. Companies still see certain limitations to growth possibilities. The main barriers in conducting current building and construction activity were related to employment costs, strong competition, cost of material and heavy regulatory liabilities.

Rising labour costs resulted from the demand for experienced workers and execution of contracts in other countries where remuneration conditions have to conform to local regulations. Strong market competition, soliciting new orders in tenders, where lowest bidders win - keep margins on a low level. Furthermore, execution of orders won in tenders is bound with the risk of change in prices of building materials, what consequently can worsen contract profitability.

The middle of the season faced growing problems with overdue payments in the civil construction industry. Growth in the construction output did not involve improvement of payment behaviours of building companies. Considering the growth of building and construction output in Poland it may be concluded that most of it was generated on credit, actually borrowed not from the financial institutions but from the contractors and suppliers of building materials and finished products. Arrears in payments to building companies make them pay their liabilities late, and that further deteriorates their financial situation.

General business climate in the building industry in 2011 is reflected in the level of the company's financial data.

The economic and financial results of the reporting period closed with the 40 689 thousand PLN net profit, which in the last years was decreasing. The net profit dropped by 8 906 thousand PLN on 2010 and by 17 724 thousand PLN on 2009.

The biggest decline in profit, both gross and net, was recorded in the business segment – Power Distribution. During the first four months of 2011 there were difficulties in obtaining new orders, while execution of existing order backlog did not guarantee generation of planned revenues. In the sales structure of the Power Distribution division there was a decline in revenues on sale of low voltage switchgear systems and mobile substations, which are principal products of this business segment of the company. At the same time, there was a distinct accumulation of sales of high voltage stations on turnkey basis, where margins were substantially lower. Also, deteriorating commercial and pricing

terms resulted in approximately 5% increase of costs of materials, which involved worse profitability of products sold.

Financial results of this segment had an essential impact on the company's efficiency. After a hard beginning of the year for the Power Distribution division, in the second half of the year this business segment recovered and a dynamic growth in orders was recorded. The present situation in the Power Distribution business segment allows for favourable forecasts for performance of budget assumptions made for the next fiscal year.

Priorities for the coming months include: improvement of business efficiency and operating efficacy, streamlining of project management process and optimisation of purchasing process. Factors that at present help conducting business in the Polish building market are the qualities as: reliability, professionalism, fairness, good references and experience. In the economic slowdown it is important for the companies to have good business relations, particularly long-lasting, good relations with purchasers, investors and also with subcontractors.

Improving situation in the market where ELEKTROBUDOWA SA operates resulted in growth in orders received both in home and foreign markets. Value of contracts and orders concluded in 2011 amounted to 1 098.8 million PLN, which means an increase by 48.7% as compared with the same period of the previous year.

Order backlog of ELEKTROBUDOWA SA as at 31 December 2011 amounted to 852.4 million PLN and rose by 37.8% as compared with the level at 31 December 2010. Although sales invoiced in 2011 mostly came from orders received in prior years, the volume of sales was also the effect of significant increase in orders received in 2011. Furthermore, the weather conditions last winter in Poland were much more favourable for the building industry than in the previous year. In effect, since the second quarter 2011 sales revenues were constantly growing. Comparing other quarters, the biggest volume of sales was earned in the fourth quarter 2011. It amounted to 318.3 million PLN, 35.3% of total revenues generated by the company and rose by 38.6% on the third quarter and by 46.7% on the second quarter.

Sales revenues generated by ELEKTROBUDOWA SA in 2011 were amounted to 902.5 million PLN and were by 150.0 million PLN higher than in 2010, which means the 19.9% rise.

Sales invoiced in 2011 were generated principally on big contracts for supply of electrical installation services and electrical equipment, which include:

- National Stadium in Warsaw including associated infrastructure for the Consortium  
ALPINE Construction Polska Sp. z o.o. and Hydrobudowa  
Polska S.A. PLN 72.2m
- Supply, erection and precommissioning of electrical and I&C components  
and systems for NPP OLKILUOTO 3 in Finland for AREVA NP GmbH PLN 64.7m
- Building works for the project "Sky tower" – electrical installation of the facility  
for LC Corp Sky Tower Sp. z o.o. PLN 28.1m

- Electrical and automation services for the project HYCO 4 in Rotterdam, the Netherlands for Air Products Nederland BV PLN 20.8m
  
- Turnkey reconstruction and revitalization of the building of former chain store, Powszechny Dom Towarowy "Okraglak" and adjacent office building "Kwadraciak" with the purpose of obtaining commercial and office space for Okraglak Development sp. z o.o. PLN 17.9m
  
- Modernization of the control and surveillance system including electrical, for Unit 6 in the Belchatow Power Station for Emerson Process Management and Water Solutions Sp. z o.o. PLN 16.2m
  
- Civil and other works relating to the project of building the Franowo tramway depot, Poznan for Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu Sp. z o.o. PLN 15.1m
  
- Supply of electrical and I&C services including associated civil and installation works for the project "Reconstruction of the Refinery Cooling Towers 1, 3, 4" for the scope of BWR 1 for Polski Koncern Naftowy ORLEN S.A. PLN 14.4m
  
- Supply of services and all legal formalities related to the construction of Wind Park for Megawat Kanin Sp. z o.o. PLN 13.6m
  
- Construction of the 110kV overhead line between main substations: GPZ Wartkowo and GPZ Karścino, construction of the GPZ Wartkowo station including a power transformer and extension of the line bay in the GPZ Karścino station, extension of the GPZ Karścino, execution drawings for GPZ Wartkowo and GPZ Karścino stations for Przedsiębiorstwo Budownictwa Drogowo – Inżynieryjnego S.A. PLN 13.4m

The main items of the statement of comprehensive income in 2011 and 2010 are as follows:

	2011		2010		Change
	PLN'000	%	PLN'000	%	PLN'000
Net sales revenues	902 458	100.0	752 500	100.0	149 958
Cost of products, goods and materials sold	(845 573)	93.7	(679 983)	90.4	(165 590)
<b>Gross profit on sales</b>	<b>56 885</b>	<b>6.3</b>	<b>72 517</b>	<b>9.6</b>	<b>(15 632)</b>
Selling costs	(3 962)	0.4	(4 470)	0.6	508
Administration expenses	(9 418)	1.0	(9 111)	1.2	(307)
Other operating expenses	(3 186)	0.4	(6 034)	0.8	2 848
Other gains / losses - net	5 555	0.6	(182)	0.0	5 737
<b>Operating profit</b>	<b>45 874</b>	<b>5.1</b>	<b>52 720</b>	<b>7.0</b>	<b>(6 846)</b>
Finance income / costs – net	5 050	0.5	6 799	0.9	(1 749)
<b>Profit before income tax</b>	<b>50 924</b>	<b>5.6</b>	<b>59 519</b>	<b>7.9</b>	<b>(8 595)</b>
<b>Net profit for the period</b>	<b>40 689</b>	<b>4.5</b>	<b>49 595</b>	<b>6.6</b>	<b>(8 906)</b>

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

The 2011 profitability ratios dropped as compared with 2010. Gross profit margin fell by 2.3 percentage point, whereas the operating profit margin by 2.1 percentage point. The decrease of profit margin in 2011 is the result of growing costs of products, goods and materials sold which was higher than the growth rate of net sales revenues. A 24.4% growth in sold cost of products, goods and materials was accompanied by the 19.9% growth in net sales revenues. Higher growth rate of costs, as compared with revenues, by 4.5 percentage point resulted in the decrease of gross profit on sales by 15 632 thousand PLN, that is by 21.6% on the earnings in the previous year. The decline in return on sales is the consequence of growing competition in the market of construction services for the power industry on the level of ultimate supplier. Contractors strive at winning orders at all costs, to secure their turnover and inflow of cash; they accept orders for the price below costs, assuming beforehand that the problem will be shifted to others – subcontractors or suppliers.

In the conditions of weak European market, building companies from the Czech Republic, Slovakia, Romania, Serbia are trying to enter the Polish market with their services. Strong competition with foreign and domestic companies involved the reductions in prices for the performed services and thus the reduction of margins on executed contracts.

Selling costs in 2011 amounted to 3 962 thousand PLN and were by 508 thousand PLN lower than in 2010. The level of selling costs was correlated with the level of sales revenue in consecutive years. The share of selling costs in sales revenue was 0.4% in 2011 and 0.6% in 2010.

The 2011 general administration costs amounted to 9 418 thousand PLN and were by 307 thousand PLN higher than in 2010. General administration costs were growing slower than the sales revenues and the percentage share in total 2011 and 2010 sales revenues was 1.0% and 1.2% respectively.

Other operating costs in 2011 amounted to 3 186 thousand PLN. The costs included charges and fees paid for contract bonds issued by banks and insurance companies (2 184 thousand PLN) and legal fees and penalties (1 002 thousand PLN). In 2011, as compared with 2010 there was an increase in the total amount of charges and fees associated with contract bonds by 682 thousand PLN (a 45.4% growth). It is related with the dynamic growth of value of contract bonds securing the advance payments, contract performance and warranty repairs. Overall amount of provided guarantees was 239 877 thousand PLN as at 31 December 2011 and rose by 94 373 thousand PLN, i.e. by 64.9% on the year 2010. In 2011 the company's total legal charges and fees were by 3 530 thousand PLN lower. Total other operating costs dropped by 2 848 thousand PLN, i.e. by 47.2%.

In 2011 other income exceeded the amount of other expenses by 5 555 thousand PLN. In 2010 it was the opposite: other expenses exceeded other income by 182 thousand PLN. In both comparable periods the financial result was influenced mainly by currency translation differences. In 2011 there was an excess of positive currency translation differences over negative differences by 5 008 thousand PLN, while in 2010 negative currency translation differences exceeded positive differences by 1 223 thousand PLN.

Main items of other income:

- positive currency differences	5 008	thousand PLN
- gains from disposal of financial assets	4 864	thousand PLN
- interest	1 535	thousand PLN
- reversal of provision for impairment of receivables	976	thousand PLN
- received compensation	396	thousand PLN
- gains from disposal of non-finance fixed assets	185	thousand PLN

Main items of other expenses:

- negative valuation of forward	7 185	thousand PLN
- provision for impairment of receivables	2 260	thousand PLN
- damage repair cost	330	thousand PLN
- donations	172	thousand PLN

Operating profit generated by the company in 2011 reached 45 874 thousand PLN while the return on operating profit was 5.1%, by 1.9 percentage point lower than in 2010.

The Company recorded 5 050 thousand PLN gains from financial activities. The financial income included dividends received from shares held in the related parties:

- from ENERGOTEST sp. z o.o.	3 206	thousand PLN
- from KONIP Sp. z o.o.	97	thousand PLN
- from the Electro-Technical company VECTOR Ltd.	1 489	thousand PLN

and from other entities the amount of 258 thousand PLN.

Income from financial investments due to shares in incorporated companies 1 749 thousand PLN lower in 2011 than in the previous year.

The company's 2011 gross profit before income tax amounted to 50 924 thousand PLN, whereas net profit 40 689 thousand PLN, by 8 906 thousand PLN lower than in 2010.

The level of net profit in 2011 was influenced by the drop in the return on sales, as the result of strong price competition (low profitability of projects).

### **2.3 Financial analysis**

The 2011 year-end company's balance sheet total increased by 82.4 million PLN as compared with the previous year.

On the asset side the non-current assets fell by 32.2 million PLN while current assets recorded a growth by 114.6 million PLN. The following current assets items rose significantly: trade and other receivables by 49.9 million PLN, amounts due for construction contract work by 32.1 million PLN and inventories by 31.7 million PLN. In non-current assets there was a substantial, 32.8 million PLN drop,

in available-for-sale assets (disposal of units in the Open-End Investment Funds), in long-term receivables by 2.5 million PLN and in deferred income tax assets by 1.7 million PLN.

On the equity and liabilities side, the relation of liabilities to equity was increased.

In 2011, as compared with 2010, the increase in equity by 10.3 million PLN was accompanied by the increase in liabilities by 72.1 million PLN. The growth in equity is principally attributed to the increase of supplementary capital by 21.1 million PLN, following the 2010 profit distribution. The increase in liabilities was generally caused by the increase in short-term trade and other payables by 78.1 million PLN, and derivative financial instruments by 7.2 million PLN.

The company implemented the policy of financing its operations from its own funds, partly 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:

	2011	2010	2009
<b>I. Profitability ratios</b>			
1. Net profit margin <i>net profit / sales revenues</i>	4.5%	6.6%	8.8%
2. Gross profit margin <i>profit before taxes / sales revenues</i>	5.6%	7.9%	11.2%
3. operating profit margin <i>operating profit / sales revenues</i>	5.1%	7.0%	11.1%
4. Return on equity (ROE) <i>net profit / average equity capital</i>	12.4%	16.3%	22.1%
5. Return on assets (ROA) <i>net profit / average assets</i>	6.6%	9.5%	12.9%
<b>II. Liquidity ratios</b>			
1. Current ratio <i>average current assets / average current liabilities</i>	1.5	1.7	1.7
2. Quick ratio <i>average (current assets – inventories – accruals) / average current liabilities</i>	1.3	1.6	1.7
<b>III. Turnover ratios</b>			
1. Receivables turnover ratio (days) <i>average trade debtors x 360 days / sales revenues</i>	99	95	96
2. Accounts payable turnover ratio (days) <i>average trade creditors x 360 days sales revenues</i>	77	62	52

3. Inventory turnover (days) <i>average inventories x 360 days / sales revenues</i>	16	7	2
4. Assets turnover <i>sales revenues /average total assets</i>	1.5	1.4	1.5

#### IV. Debt ratios

1. Borrowed capital ratio <i>borrowed capital / total assets</i>	49.4%	43.9%	38.7%
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The presented ratios reflect, in a synthetic form, the measurement of management effectiveness in the company, which should be assessed as good.

Profitability ratios define the ability of sales to generate earnings. Within the last few years return on sales ratios were gradually falling. Their changes reflect changes in net profit generated by the company within recent years. In the reporting period the net profit margin was 4.5% and fell by 2.1 percentage point on 2010 and by 4.3 percentage point on 2009. The gross profit margin was 5.6% and fell by 2.3 percentage point on 2010 and by 5.5 percentage point on 2009.

The return on assets ratio (ROA), which indicates ability to generate earnings after taxes by all assets used in the company was 6.6% in the reporting year and was by 2.9 percentage point lower than in 2010 and by 6.3 percentage point lower than in 2009. Although ROA has been in the falling trend during the analysed periods, its levels indicate the effective use of assets employed. The return on equity (ROE) was 12.4% in 2011 and dropped by 3.9 percentage point as compared with 2010, and by 9.7 percentage point on 2009. The decrease in ROE in the analysed years means that the growth in own capital was greater than the growth in profits. This growth in equity strengthened the company's financial position, as its share in covering the assets increased.

Liquidity ratios changed slightly in the reporting year. The 2011 current ratio was by 0.2 lower than in 2010 and in 2009. The quick ratio dropped by 0.3 on 2010 and by 0.4 on 2009. 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. Levels of the liquidity ratios in 2010 indicate good financial credibility of the company. 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 2011 was 99 days and was longer than in the comparable periods: by 4 days on 2010 and by 3 days on 2009. The rise in the receivables turnover ratio in the recent financial year indicates that the period for which the company gave trade credit to his customers has been extended. Overdue trade receivables were impaired in the amount of 11 631 thousand PLN (11 582 thousand PLN in 2010). The impairment covered the awarded debt, debt under enforcement proceedings, receivables submitted to bankruptcy proceedings or that were due over 180 days ago. The impairment provisions did not substantially change within the comparable periods.

According to the balance sheet data, payables are settled within 77 days. Maturity dates for payables vary from 14 days to 60 days. Within the analysed period accounts payable turnover ratio grew by 15 days on 2010 and by 25 days on 2009. Although the period in which the company paid its debt got longer, the turnover period for payables was shorter than in the case of receivables, which indicates that ELEKTROBUDOWA SA more often extends trade credit to its customers than utilizes such credit from its suppliers.

Inventories turnover period, which was 16 days, provides information on the length of process of transforming the inventories into finished, sold products. In 2011 the inventories turnover period was by 9 days longer than in 2010 and by 14 days longer than in 2009. Inventories turnover period was gradually growing within the analysed years. Considering the increase in revenue on sales of products, goods and materials recorded in the consecutive reporting periods, the growth indicates that the volume of stock is suitably adjusted to the demand for the company's products. The length of inventories turnover cycle indicates efficiency of managing the material resources of current assets.

A company's activity is assessed by the assets turnover ratio, which measures the ability of assets owned by the company to generate sales. In the years 2011 – 2009 asset turnover maintained the same level of 1.5. It indicates balanced growth of sales revenues and the company's assets and therefore efficient use of property owned by ELEKTROBUDOWA SA.

Borrowed capital ratio rose in 2011, by 5.5 percentage point as compared with 2010 and by 10.7 percentage point on 2009. The relations between the company's assets and its liabilities show that the company attained considerable financial stability.

Levels of liquidity ratios, inventories turnover ratio and assets turnover allow for a positive opinion of the financial situation of the company and its financial strategy. The company's payables are fully secured by the assets owned and equity gathered. The analysis shows that the company has maintained its sound financial position achieved within recent years.

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 under the going concern assumption.

## ***2.4 Financial resources management***

In 2011 ELEKTROBUDOWA SA implemented the policy of financing its operations from its own funds and had full capacity to fulfil its financial obligations.

The company did not use any bank loans or borrowings in the reporting period.

Cooperation with several banks ensured even distribution of committed sources of financing and to maintain suitable level of funds for working capital.

In its business activity the company rationally utilized various products offered by banks, such as daily balancing the accounts, automatic overnight deposits for cash surplus, negotiated interest on deposits, negotiated exchange rates, financial market transactions – derivative instruments (forward).

Owing to such behaviour it was possible to minimise financial costs and optimize management of financial liquidity.

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 Polish zloty against these currencies, ELEKTROBUDOWA SA concluded forward contracts to hedge the exchange rates. The company enjoys, however, natural hedging of foreign exchange risk, as its imports are made in foreign currencies.

In its financial policy the company consequently avoided using foreign currency options or any other risky financial instruments.

ELEKTROBUDOWA SA has maintained wide cooperation with banks and insurance companies with respect of contract bonds, confirmed by granted revolving lines to secure: bid bonds, advance payment bonds, performance bonds and warranty bonds.

Favourable contractual terms of bank and insurance guarantees were a strong competitive advantage and enable the company to bid actively in tender procedures. The company maintained credit and guarantee limits on a stable level and was able to maintain a good position in tender procedures (necessity to prove credit quality).

Because of high financial liquidity the company did not utilize its opened credit facilities (the limit is up to 16 million PLN).

Agreements with banks concerned mainly guarantee lines, utilized up to the amount of 193.8 million PLN as at 31 December 2011. The company was also granted insurance guarantees limit which was utilized up to 46.1 million PLN as at 31 December 2011.

Assessing the funds owned and the amounts of expected inflows and expenses it must be pointed out that the resources will allow the company to finance both the investments planned for 2012 and its current operating activity, with no risk of destabilizing the financial liquidity.

## ***2.5 Human capital management***

In 2011 average monthly number employed was 1 967 job equivalents and was about 7.8% higher than in 2010. Out of average number of employees, 1218 job equivalents fell to direct labour, whereas 749 to white-collar staff. In both groups there was an increase on 2010, with bigger growth in the group of non-manual workers (8.4% rise), whereas the number of manual workers rose by 7.4%.

As at the end of December 2011 the company had 1993 employees which was 45 more than at the end of 2010.

In respect of employment breakdown by education, the number of personnel with higher education, mainly engineering, regularly increases. At the end of 2011 the number of employees with degrees accounted for 29% of total.

The 2011 productivity of employment, calculated as the relation of sales revenues and average monthly employment amounted to 458.8 thousand PLN. Profitability of employment, calculated as the relation of gross profit and average monthly employment, was 25.9 thousand PLN in 2011.

In the period from 1 January to 31 December 2011 together 489 new people were employed in different trade groups, 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 foreign contracts in Finland (OLKILUOTO 3) and the Netherlands (HYCO – 4).

No bigger problems with job terminations were recorded.

Average monthly pay in 2011 was 5 849 PLN, by 8.8% higher on the previous year. Growth of average monthly remuneration is principally attributed to systematic extending the group of employees covered by the incentive system which ties the remuneration with economic performance. The increase

of average monthly pay is also attributed to foreign contracts, where the company maintains the level of guaranteed salaries required by regulations of local collective labour agreements.

The company consequently developed the non-financial incentives programmes to support the process of retaining and recruitment of employees and to increase the level of motivation and effective work.

Development of employee's qualifications and competence is a crucial issue in the development of the company. So, as in previous years, in 2011 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 the issues of enhancing professionalism of work teams, particularly managerial skills and language skills.

In 2011 the company invested 1 790 thousand PLN in training of its personnel, which gives an average of 910 PLN per one employee. Training costs accounted for 1.3% of the total 2011 remuneration fund. The implemented development programmes not only contribute to the increased professionalism of acting and professional development of employees but also complement the applied incentive systems and plans.

Cooperation with the trade union organisations acting in the company was harmonious. There were no labour disputes, or collective bargaining with the trade union organisations acting in the company.

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.

Since 1 December 2010 ELEKTROBUDOWA SA has been a member of Global Compact. The UN Global Compact is a unique, powerful platform for skill-sharing, implementation and disclosure of

sustainability and social governance policies and practices. It has 8700 corporate participants and other stakeholders from over 130 countries.

In 2011 the Management of the company verbalized the “Sustainable Development Strategy”, which puts special attention to environmental aspects, labour policy, social commitment, transparency of the activity as well as business ethics and counteracting corruption practices. The company also created its Code of Ethics, a set of values governing the company and its employees. In December 2011 the first report on implementation of Global Compact 10 rules was announced.

Aware of the environmental impacts of the company’s business activity, ELEKTROBUDOWA SA evaluated its economic, social and environmental impact on local environment. The Management Board of ELEKTROBUDOWA SA appointed a Representative whose duties comprise representing and coordinating the company’s activities in the sphere of Corporate Social Responsibility (CSR).

ELEKTROBUDOWA SA was included together with several dozen of WSE-listed companies in Respect Index, the first in Central and Eastern Europe stock exchange index which includes listed companies – leaders in considering social issues in their strategies.

## ***2.6 Occupational Health and Safety Management***

On 14 June 2011 ELEKTROBUDOWA SA obtained a certificate of the Occupational Safety Management System according to the requirements of SHE Checklist Contractors, SCC\*\*2008/5.1 applicable in all European countries except Finland. The system was certified by DET NORSKE VERITAS (DNV). The company also has certificates issued by DNV for the conformity of the Occupational Safety Management System with PN-N-18001:2004 and OHSAS-18001:2007 standards in the scope of engineering, production, erection and service of power installations and automation systems as well as building industry investment project management.

In 2011 there was one incident of occupational illness – hearing impairment.

No claims were raised against ELEKTROBUDOWA SA due to non-observance of safety requirements or due to accidents at work.

## ***2.7 Quality System Management***

The key issue in the operations of ELEKTROBUDOWA SA is the continual improvement of product quality, with respect to the environment. The company is permanently involved in quality issues through the certified quality systems.

ELEKTROBUDOWA SA applies the Quality Management System according to EN ISO 9001, and the Environmental Management System based on the model presented in the EN ISO 14001 standard. The Quality System has been supplemented with:

- the NATO requirements defined in the document AQAP-2110,

- quality assurance requirements in nuclear power stations - acc. to KTA 1401,
- the requirements for welding - according to PN-EN ISO 3834-2.

The Busduct Factory also meets the quality requirements for manufacture of pressure equipment for conformity with Pressure Equipment Directive 97/23/EC.

All the above systems, including supplements, are regularly audited and recertified to the relevant standard.

Essential events that occurred in ELEKTROBUDOWA SA in 2011 which affect the assessment and functioning of the integrated quality and environmental management systems:

- trainings for contract managers and supervision staff on cases of non-observing the environmental regulations and quality requirements for manufactured products and supplied services, with particular attention to risk management and the company's obligations towards the environment;
- survey research focused on the knowledge of the Integrated Management System, whose results will be used for preparation of trainings in the areas where the knowledge is below the expected level;
- training of internal auditors within the frame of the Academy of Auditors 2011;
- an internal audit of the integrated quality and environmental management system;
- recertification audit of the quality and environmental management systems;
- review of the management systems by the Top Management and indicating the areas which need improving.

Plans for H1 2012 include:

- trainings for contract managers and supervision staff on cases of non-observing the environmental regulations and quality requirements for manufactured products and supplied services, with particular attention to risk management and the company's obligations towards the environment;
- gradual reducing the number of system documents;
- continuation of reviewing system documentation and introducing necessary corrections and changes following the amendments of legal acts and changes in the structure of company divisions occurred recently, i.e. in the second half of 2011;
- preparation and conducting the management systems reviews, preparation of plans and programmes for 2012.

Positive results of internal and external audits as well as records in the review reports prove, that the systems applied by the company function correctly and that ELEKTROBUDOWA SA supplies products and services in compliance with the relevant contracts for supplies and services and fulfils its obligations towards the environment.

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

Polish building industry was the fastest growing sector of economy in 2011. The sold output of the industry rose by 16.3% during the year. Companies recorded growth in order backlog, securing work against signed contracts for at least 10 months to follow. The situation of the company in 2011 reflected the general economic tendencies in the Polish building industry.

The order backlog as at 31 December 2011 amounted to 852.4 million PLN and rose by 37.8% on the previous year. The orders received by the company in 2011 totalled 1 098.8 million PLN and exceeded the volume of orders received in 2010 by 359.7 million PLN, i.e. by 48.7%. It is yet another year when the company recorded growth both in orders received and order backlog.

In 2011 the company recognized growth in sales revenue by 150.0 million PLN (by 19.9%) as compared with the previous year.

Positive changes in the volume of orders received and generated revenues were possible to achieve owing to:

- building competences for General Realization of Investments;
- diversifying the order range;
- consistent building of territorial customer service network;
- continual increase of export share.

The managers attach considerable significance to strengthening the company's competitive advantage in foreign markets and to growth of exports. The company actively seeks new market for its products and boosts its export sales in its traditional areas. ELEKTROBUDOWA SA operates three foreign permanent establishments, which provide its services in Finland, Luxembourg and Estonia. In 2012 a new permanent establishment was registered, which will provide services in Germany.

Furthermore, in 2011 the company developed new export destinations, sending its products or providing services in the Republic of South Africa, the USA, Uzbekistan, Luxembourg and Estonia. Further contracts are expected in Iraq, Germany and Peru. The company also tries to enter Asian markets, such as Georgia, Armenia, Azerbaijan.

The sales offer of ELEKTROBUDOWA SA in 2011, similar as in previous years was not significantly changing and still was 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 and installation of medium voltage busducts (IPB and NSPB).
2. Manufacture of indoor medium and low voltage switchgear assemblies.
3. Supply of LV, MV, HV stations.
4. Commissioning tests and start-up.
5. Equipment designing.
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 were 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.

In 2011 ELEKTROBUDOWA SA launched a new products, high voltage switchgear type OPTIMA 145. This is the first Polish gas-insulated high-voltage switchgear prepared for large-scale production. OPTIMA 145 is an exceptional technical achievement in the scale of the whole country and also Europe, it can introduce ELEKTROBUDOWA SA to the narrow circle of manufacturers having advanced, cutting-edge technology of switchgear manufacturing.

The OPTIMA 145 switchgear was first shown in the International Bielsko-Biała Power Fair ENERGETAB on 13 – 16 September 2011. Production of gas-insulated high-voltage switchgear will allow ELEKTROBUDOWA SA to win new areas in the power industry in Poland and Europe.

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; they differ in manner of conducting business and have different 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.

Polish building market of recent years was strongly stimulated by EU funds and choosing Poland as a host of EURO 2012. These two factors had the greatest influence on market trends. The resources, however, are depleting and the construction companies are seeking new markets. In the nearest few years power industry will be a motor force of the Polish industrial building sector, the industry which urgently needs substantial investment in new production facilities and networks within the coming years.

Also, planned gas investments look perspective. Many new power units are planned as gas-fuelled; furthermore, prospecting and production of shale gas is another potential investment.

Production plants are another crucial investment group in the industrial building. Growing trend in building permits for industrial buildings will encourage new investments in special industrial zones, where most new industrial facilities are located.

Applicable European standards concerning environmental protection create good prospects for development of waste handling and sewage treatment projects.

Because of budget restrictions, we can expect stagnation in public works and governmental building. This does not concern execution of central investments, most of which will be commenced in 2012 as they are co-financed from the EU funds which have already been granted.

It is expected that within 2012 – 2013 the industrial building sector will maintain positive growth trend which should get stronger in 2014. The acceleration will be boosted mainly by intensive execution of first contracted power units.

ELEKTROBUDOWA SA has appropriate human and financial resources to participate in future investments in the power, gas and production industries.

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 chapter 4 of additional information to the financial statements for the year 2011.

Risk management is a process of identification, evaluation, management and control of potential occurrences or situations, aiming at provision of reasonable assurance that the company's objectives will be accomplished. Risk management is focused on limiting the risks and protecting against their impact. The Management establishes the general rules for risk management and policies for specific risk areas.

### **3. MARKET SITUATION - SALES AND PROCUREMENT**

#### ***3.1 Sales destinations***

The activity of ELEKTROBUDOWA SA is concentrated mainly in the Polish market. Because of problems of the construction industry the company focused on building up its competitiveness in foreign markets and systematic increase of exports. Export sales in 2011 which included supplies within the EU and to the countries outside the Union generated the revenue of 158 788 thousand PLN, which accounted for 17.6% of total sales revenues, as compared to 16.4% share in 2010. The company's exports are in the constant growth trend in recent years.

Presented below is an itemization of sales revenues of ELEKTROBUDOWA SA according to business sectors to which sales were made in 2011 and 2010.

Business areas	2011		2011	
	Value (PLN'000)	%	Value (PLN'000)	%
Power generation industry	336 256	37.3	247 005	32.8
Sports facilities	97 865	10.8	61 345	8.2
Retail facilities	77 623	8.6	48 886	6.5
Chemical industry	60 262	6.7	93 723	12.5
Transport	42 296	4.7	8 476	1.1
Housing and public utility building	38 814	4.3	38 549	5.1
Mining	34 568	3.8	69 393	9.2
Building materials	9 173	1.0	3 635	0.5
Electronic industry	7 204	0.8	915	0.1
Metallurgy	7 006	0.8	6 908	0.9
Automotive industry	4 602	0.5	6 561	0.9
Food industry	4 034	0.5	109	0.0
Environmental protection plants	3 929	0.4	11 164	1.5
Paper & pulp	3 738	0.4	11 992	1.6
Power distribution industry	735	0.1	2 065	0.3
Industrial automation	0	0.0	142	0.0
Export of products and materials	158 788	17.6	123 717	16.5
Other areas	15 565	1.7		
<b>Total</b>	<b>902 458</b>	<b>100.0</b>	<b>752 500</b>	<b>100.0</b>

As in previous years, power generating sector was the biggest source of the company's income in 2011 (37.3% 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. Major project performed by ELEKTROBUDOWA SA for this industry was "Performance of works and all associated legal acts relating to the construction of Wind Park" for Megawat Kanin Sp. z o.o. which had the 2.2% share in the sales revenues.

A significant share of the company's 2011 sales belonged to works performed at the sites of sports facilities. Those services were responsible for 10.8% of sales revenue. The major contract concerned execution of the investment project at the Warsaw National Stadium. Revenue on the contract had 8.5% share of total revenue generated by the company. The project was executed together with QUMAK - SEKOM S.A. and Przedsiębiorstwo "AGAT" S.A. against the consortium agreement.

Another significant area of ELEKTROBUDOWA SA activity was the sector of retail facilities construction, which made up 8.6% of total revenue. The supplies for this sector included equipment and services performed for new and modernized retail centres: hypermarkets and retail chains, such Dom Towarowy Okrągłak in Poznań (3.5%) or Sky Tower in Wrocław (2.5%). Contracts of this type have been successfully performed by ELEKTROBUDOWA SA for several years.

Chemical industry had a substantial share in the breakdown by industry. The sales to chemical industry in 2011 made up 6.7% of total revenue and basically concerned PKN ORLEN S.A. The biggest contract with this customer concerned the supply of electrical and I&C services including associated civil and installation works for the project "Reconstruction of the Refinery Cooling Towers /BRW/ 1, 3, 4" for the scope of BWR 1 (1.6%).

In 2011 the volume of services provided for transport sector recorded a growth. The share of this sector in total company's revenues was 4.7%. The main contract concerned building the Franowo tramway depot in Poznań for Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu Sp. z o.o. which accounted for 2.6% of total sales revenues.

Services for housing construction and public utility construction had an important, 4.3% share in total revenue earned by the company in 2011. The biggest contract in this group was performed at construction of a concert hall for the Stanisław Moniuszko Koszalin Filharmonic, for the Koszalin municipality (1.1%).

The share of mining industry in the company's sales revenues has dramatically dropped: from 9.2% in 2010 to 3.8% in 2011. ELEKTROBUDOWA SA provided supplies and services generally for lignite mines, coal mines and copper mines. The biggest amount was earned from the sales of mobile substations for the ADAMÓW SA Lignite Mine.

The company also provides installations for environmental protection projects, which share in the 2011 sales structure by industries was 0.4%. The biggest share belonged to the contract for design and construction of the Waste Neutralization Plant in Gdańsk Szadółki, for Korporacja Budowlana DORACO Sp. z o.o., Gdańsk (0.2%)

Other market segments, with 23.4% share in revenue on sales of products, goods and materials, allowed the company to supplement its sales outside the forenamed basic industries.

The destinations and structure of exports are presented below:

	2011		2010	
	Value (PLN'000)	%	Value (PLN'000)	%
Finland	70 626	44.5	59 081	47.7
Russia	23 920	15.1	38 168	30.8
The Netherlands	21 098	13.3	740	0.6
Ukraine	14 193	8.9	7 389	6.0
Estonia	11 216	7.1	0	0.0
Saudi Arabia	7 304	4.6	1 174	0.9
Turkey	2 373	1.5	4 207	3.4
Belarus	2 288	1.4	4 013	3.2

Uzbekistan	1 919	1.2	0	0.0
Switzerland	1 096	0.7	7	0.0
Hungary	920	0.6	2 328	1.9
Luxembourg	851	0.5	0	0.0
Australia	470	0.3	0	0.0
Sweden	237	0.1	16	0.0
Trinidad & Tobago	164	0.1	1 089	0.9
Lithuania	86	0.1	0	0.0
Israel	0	0	3 177	2.6
Austria	0	0	2 175	1.8
Belgium	0	0	70	0.1
Bosnia-Herzegovina	0	0	29	0
Other countries	27	0	54	0.1
<b>Total export sales</b>	<b>158 788</b>	<b>100,0</b>	<b>123 717</b>	<b>100.0</b>

Export sales generally concerned installation services provided in the Scandinavian market. Export of services to Finland in 2011 amounted to 70.6 million PLN, which constituted 44.5% of the company's total export sales. Sales revenues were generated mainly on the contract for electrical and I&C systems for the NPP OLKILUOTO 3 in Finland, which contract price was € 52.1m and the completion time is scheduled for 30 June 2012. The invoiced value of works performed at this site in 2011 amounted to 64.7 million PLN, corresponding to 40.7% of total export sales revenues.

Although 2011 exports to Russia dropped by 37.3% as compared with 2010, sales of the company's equipment and services to Russia still had important, second position in total export revenue and amounted to 23.9 million PLN with the 15.1% share in total exports of the company. The company sold its products and services on the Russian market through its associate, VECTOR Ltd.

In the developing Ukrainian market the company sells its products through its subsidiary, ELEKTROBUDOWA UKRAINE Ltd. The subsidiary promotes ELEKTROBUDOWA's equipment and services in the local market. Exports to the Ukrainian market have been constantly growing. The 2011 revenue on sales in Ukraine amounted to 14.2 million PLN and rose by nearly a 100% on the previous year.

To Russia and Ukraine the company mainly sold the D-12P and D-12PT switchgear panels, one of the best designs meeting the requirements of the most demanding Russian customers. Other exported products included 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.

Revenues earned by services performed by the company in Holland were marked by particular growth rate. Export sales to this country generated 21.1 million PLN in 2011 and rose by 20.4 million PLN on 2010. The biggest share belonged to the electrical and automation services for HYCO 4 project in Rotterdam for Air Products Nederland BV (13.1%).

In 2011 ELEKTROBUDOWA SA entered the Estonian market and carried out activity through its permanent establishment there. Sales revenue earned by the establishment amounted to 11.2 million PLN, equivalent to 7.1% of total exports. In Estonia the company performed building and construction services including electrical and I&C works at the site of Bituminous Shale Deoiling Plant, for OUTOTEC GmbH.

In 2011 there was also a sizeable growth of exports to Saudi Arabia (4.6% of total sales). The export covered mainly the equipment manufactured by the Power Distribution Division segment. Especially for this market, a withdrawable switchgear type D-17P with forced cooling in the incoming and coupling units was designed. The switchgear was ordered by ENERGY & POWER CONTRACTING CO. LTD. The D-17P switchgear was also sold to Saudi Arabia through Al – Almaiah Technical Corp. company. The company also exported thereto frames for a generator circuit breaker manufactured by the Power Generation Division segment. The investment in SAUDI ELEKTROBUDOWA LLC allowed ELEKTROBUDOWA SA to enter, with its products and services, the Saudi Arabian market, which is very hard to win.

In 2011 ELEKTROBUDOWA SA together with its products entered new markets such as the South Africa, the USA, Uzbekistan, Luxembourg, Estonia, and some other, less significant for the company's export sales.

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

In the reporting year 2011 ELEKTROBUDOWA SA recorded its highest sales income on execution of the contract for: "Overall electrical, data & communication, and BMS automation systems of Stage 2 construction of the National Stadium, Warsaw" for the consortium of ALPINE Construction Polska Sp. z o.o. and Hydrobudowa Polska SA. Value of works invoiced in 2011 at this project was 72.2 million PLN and accounted for 8.0% of the sales revenue earned in the period. The share of ELEKTROBUDOWA SA in the consortium earnings was 35.7 million PLN, which is 4.0% of the company's revenue.

A significant part of sales revenues earned by the company fell to the contract for the erection of electrical and I&C systems carried out at the site of NPP OLKILUOTO 3 in Finland. Value of works performed for this project in the reporting year was 64.7 million PLN, which constituted 7.2% of the company's revenues generated in this period.

In the reporting period ELEKTROBUDOWA SA was not dependent on one customer who would have more than 10% share in the company's annual revenue. Income on two biggest customers accounted for 15.6% of total 2011 revenue. The customers were the recipients of services provided by two business segments: the Industry Division (8.0% of the company's revenue) and Power Generation Division (7.6% of total revenue).

### **3.3 Sources of supply**

In 2011 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.

## **4. SIGNIFICANT AGREEMENTS**

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

Total value of orders received in 2011 by ELEKTROBUDOWA SA amounted to 1 098.8 million PLN.

The awarded contracts included:

- Civil and other works relating to the project of building the Franowo tramway depot, Poznań for Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu Sp. z o.o.
- Participation in turnkey construction of a new 45MWe, 40MWt Steam& Gas Unit in KGHM Polska Miedź S.A. in Głogów for KGHM Polska Miedź S.A.
- Modernization and repairs of control and surveillance system, including electrical system of units 7 to 12 in PGE Elektrownia Bełchatów for Emerson Process Management, Power and Water Solutions Sp. z o.o.
- Turnkey reconstruction and revitalization of the building of a former chain store, PDT "Okraglak" and adjacent office building "Kwadraciak" with the purpose of obtaining commercial and office space for Okraglak Development sp. z o.o.
- Participation in turnkey construction of a new 45MWe, 40MWt Steam& Gas Unit in KGHM Polska Miedź S.A. in Polkowice for KGHM Polska Miedź S.A.
- Building works including delivery of equipment and accessories for the project "Construction of a multi-function warehouse" in Łask airfield for the 12th Territorial Airfield Infrastructure Unit in Warsaw.
- Turnkey supply, including equipment, installation and commissioning, of electrical part for the FGD plant of units 1 and 2 in PGE GiEK SA, Elektrownia Bełchatów SA Branch for Rafako SA.
- Extension of the scope of contract for the construction of the Warsaw National Stadium, for the Consortium of ALPINE Construction Polska Sp. z o.o. and Hydrobudowa Polska S.A.
- Supply of services and all legal formalities related to the construction of Wind Park for Megawat Kanin Sp. z o.o.
- Complete execution, including start-up, of the project "Construction of the cogeneration bio-gas plant in Łebcz for CIRBUS Sp. z o.o.

## **4.2 Insurance contracts**

ELEKTROBUDOWA SA cooperates with the following financial institutions in the scope of property and personal insurance:

- a) Towarzystwo Ubezpieczeniowe HDI ASEKURACJA SA in Warsaw:
  - comprehensive car insurance;
- b) Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" SA in Warsaw:
  - all-risks contractor's / erection insurance;
  - business civil liability insurance, including insurance of property and launching a new product;
  - professional indemnity insurance for architects, designers and supervisors in building industry.
- c) Towarzystwo Ubezpieczeniowe Allianz Polska S.A. in Warsaw :
  - Insurance of company property;
  - Cargo insurance.
- d) Chartis Europe S.A. Branch in Poland, Warsaw
  - group personal accident insurance for employees in business trips abroad.
- e) UNIQA Towarzystwo Ubezpieczeń S.A. w Łodzi:
  - insurance of electronic equipment.
- f) Leadenhall Polska S.A. (Lloyd's coverholder) in Warsaw:
  - civil liability insurance for company managers.

## **5. INVESTMENTS**

### **5.1 Investments carried out in 2011**

Total investment expenditure in 2011 amounted to 16 763 thousand PLN, of which:

- equity investment 2 thousand PLN,
  - expenditure on fixed assets 10 424 thousand PLN,
  - expenditure on intangible assets 6 337 thousand PLN,
- of which:
- outlays for R&D 5 602 thousand PLN.

The amount of 2 thousand PLN for equity investments concerned acquisition of shares in the subsidiary, ELEKTROBUDOWA UKRAINE Ltd.

A considerable part of the expenditure on non-financial fixed assets was earmarked for further modernization and current reproduction of fixed tangible assets in the company and for erection of new structures. The expenditure in the group of buildings and structures amounted to 2 921 thousand PLN.



Major modernization works concerned the following facilities:

- erection of a new backup facility in Płock, 1 342 thousand PLN,
- exhaust ventilation of welding stands in shop no. 3 in Konin, 497 thousand PLN,
- switching station for the air-conditioning system in Katowice office building, 335 thousand PLN,
- construction of the Busduct Factory in Tychy, 310 thousand PLN,
- modernization of LAN network in Katowice, 160 thousand PLN,
- cable line to supply air-conditioning system in the office building in Katowice, 134 thousand PLN.

New equipment to streamline the production and assembly processes was bought for the total sum of 4 684 thousand PLN. Main items of the purchased machinery and equipment include:

- Dimeco sheet metal levelling and cutting line, 854 thousand PLN,
- two welding sets, 235 thousand PLN,
- two milling machines FWF 32JU2, 228 thousand PLN.
- two pipe bending machines DB 622, 220 thousand PLN,
- a set of orbital welding machines for Busduct Factory in Tychy, 211 thousand PLN,
- Polysoude set for orbital welding, 196 thousand PLN,
- hydraulic press brake Hydraul Trumpf CNC TruBend for Tychy Factory, 134 thousand PLN.

Furthermore, the replacement of physically worn and economically depreciated computer hardware was continued, for which the amount of 904 thousand PLN was earmarked, outlays were made on purchase of modern software in the amount of 531 thousand PLN and of a licence in the amount of 204 thousand PLN.

Outlays for transport means amounted to 1 915 thousand PLN, the fleet of vans and motors cars was enlarged.

The 2011 year investments were financed from the company's own funds, only a small part of those resources came from selling of some tangible assets.

## ***5.2 Investment plan for the first half of 2012***

Planned investment outlays for non-finance fixed assets for the first half of 2012 amount to 16.7 million PLN and include:

- modernisation of technical building in Konin,
- adaptation of the production bay for manufacture of GIS in Konin,
- siding of the assembly shop no. 2 in Konin,
- erection of a new backup facility in Płock,
- air-conditioning system in the office building in Katowice,
- fire escape route with infrastructure in Katowice,
- modernisation of the server room in the office building in Katowice,
- rainwater system in Katowice.

Modernisation of machine fleet will be continued. Purchase plans include: EHRT machine for busbar fabricating, TruPunch 300 cutter, motor operated hoisting device up to 15m, multi-function lifting device "Manitou", a set for orbital welding with a close head and power supply, cable termination tools (press, shear).

Part of investment outlays planned for 2012 will be earmarked for further improvement of modern workplace organisation, including purchase of computer hardware and software.

As far as the 2012 financial investments are concerned, ELEKTROBUDOWA SA plans to spend about 460 thousand PLN for acquisition of shares in the increased capital of SAUDI ELEKTROBUDOWA LLC registered in Riyadh in the Kingdom of Saudi Arabia. After capital increase ELEKTROBUDOWA SA will hold a controlling interest in equity of SAUDI ELEKTROBUDOWA LLC. Having taken control over the company ELEKTROBUDOWA SA will be able to exercise influence over its financial and operating policies and thus earn profits from its business activity.

### **Implementation of investment plans**

Taking into account good financial standing of the company described in item 2.2 of this report, stable liquidity ratios and order backlog for 2012, 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 funds.

## **6. RELATED PARTY TRANSACTIONS**

In 2011 all ELEKTROBUDOWA's transactions with the related parties were typical, arm-length transactions carried out within normal current operating activity of the company.

In the reporting period ELEKTROBUDOWA SA carried out the following transactions with the related parties:

- sales of goods – the Electrotechnical Company VECTOR Ltd.	22 588	thous PLN
- sales of services – the Electrotechnical Company VECTOR Ltd.	118	thous PLN
- sales of materials - the Electrotechnical Company VECTOR Ltd.	1 214	thous PLN
- sales of services – SAUDI ELEKTROBUDOWA LLC	1 282	thous PLN
- sales of services – KONIP Sp. z o.o.	89	thous PLN
- sales of goods – ENERGOTEST sp. z o.o.	1	thous PLN
- sales of services – ENERGOTEST sp. z o.o.	1 601	thous PLN
- sales of goods - ELEKTROBUDOWA UKRAINE Ltd.	11 664	thous PLN

The sales realized by related parties for ELEKTROBUDOWA SA:

- purchases of services – KONIP Sp. z o.o.	936	thous PLN
- purchases of services – ENERGOTEST sp. z o.o.	4 018	thous PLN
- purchases of materials – ENERGOTEST sp. z o.o.	2 663	thous PLN

Year-end balances between the companies were as at 31 December 2011:

- payables of ELEKTROBUDOWA SA to KONIP Sp. z o.o.	85	thous PLN
- payables of ELEKTROBUDOWA SA to ENERGETEST sp. z o.o.	4 195	thous PLN
- payables of ELEKTROBUDOWA SA to SAUDI ELEKTROBUDOWA LLC	68	thous PLN
- payables of ENERGETEST sp. z o.o. to ELEKTROBUDOWA SA	34	thous PLN
- payables of ELEKTROBUDOWA UKRAINE Ltd. to ELEKTROBUDOWA SA	705	thous PLN
- payables of SAUDI ELEKTROBUDOWA LLC to ELEKTROBUDOWA SA	45	thous PLN
- payables of the Electrotechnical Company VECTOR Ltd. to ELEKTROBUDOWA SA	5 300	thous PLN

The unsettled balances of receivables and payables with the associates are unsecured and will be settled in cash in the agreed payment dates.

The parent, ELEKTROBUDOWA SA did not extend any guarantees to the associates for securing contract bonds.

In the reporting period costs of doubtful receivables from transactions with related parties were not recognized. ELEKTROBUDOWA SA did not create provisions for unsettled balances with the related parties as at balance sheet date.

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

### 7.1 Credit contracts as at 31 December 2011

	Bank	Type of loan	Contract validity	Limit of credit
1.	ING Bank Śląski S.A. w Katowicach	overdraft	24.03.2012	1.0 million PLN
2.	Bank PEKAO S.A. w Krakowie	overdraft	30.04.2012	10.0 million PLN
3.	PKO BP S.A. w Warszawie	overdraft	23.02.2012	5.0 million PLN

In 2011 ELEKTROBUDOWA SA did not utilize open credit lines.

As at 31 December 2011 the company did not have any liabilities due to bank loans or borrowings.

### 7.2 Other loan agreements

In 2011 ELEKTROBUDOWA SA neither received nor extended any loans.

### **7.3 Guaranties and Sureties**

As at 31 December 2011 ELEKTROBUDOWA SA extended contract bonds issued by banks and insurance companies for the total amount of 240 million PLN. The bonds included bid bonds, performance bonds and warranty bonds but also bonds to secure claims against the parent pursued in court. The company also uses promissory notes to secure performance of contracts and contract payments, whose amount totalled 15 million PLN last year. The promissory notes issued by the company also secure credit lines and guarantees issued by banks or insurance companies.

In 2011 the company did not extend any sureties.

## **8. DIFFERENCES BETWEEN 2011 PERFORMANCE AND THE PUBLISHED FORECAST**

In the report announced on 20 October 2011, ELEKTROBUDOWA SA presented an adjusted forecast for the end of 2011, which assumed that the annual sales revenues would amount to 889 961 thousand PLN while the net profit would reach 40 714 thousand PLN. Previous budget disclosed on 11 February 2011 assumed that the annual sales revenues would amount to 748 055 thousand PLN while the net profit would reach 44 904 thousand PLN.

After the twelve months of 2011 the company obtained the net result amounting to 40 689 thousand PLN on the 902 458 thousand PLN sales revenues. The company enters the year 2012 with an impressive order backlog of 852 433 thousand PLN (by 38% bigger than in the previous year).

Generated bigger sales revenue than assumed in the initial budget result from the increased volume of orders received. Orders received in 2011 reached the level of 1 098 845 thousand PLN as compared with 710 861 thousand PLN assumed for the initial budget.

Earning smaller net profit than assumed was caused by a drop in margins on sales of goods and services and the change of sales structure. And this is the result of competition which gets stronger in the present economic downturn.

## **9. 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.

## 10. MAJOR TECHNICAL DEVELOPMENT WORKS

In 2011 development works were implemented in the following scope:

- Complementary tests of D-17P switchgear performed by KEMA, a recognised research institute in Arnhem, Holland. Such switchgears were sold by the Power distribution Division to Saudi Arabia.
- Testing of the explosion-proof switchgear type PREM-GO was completed. A model panel was built and tested in the Electrotechnical Institute in Warsaw and in the State Mining Authority – Experimental Mine Barbara.

Two types of explosion-proof insulators were designed: bushing – busbar insulator type IZP-12 and bushing – contact insulator type IZM-12. After the insulators are tested, certification of a complete switchgear will be possible.

- Continuation of works on the medium voltage SF6-insulated switchgear, which is intended to complement the series of types of MV switchgear designed for distribution of electrical energy in 17.5V and 24 kV network. A model of basic outgoing panel was built for the 1250A current, a number of constructional tests have been performed.
- A new variant of busbar trunking system PONTIS was tested and certified.
- A prototype of 12kV switchgear with double busbar system, for high rated currents: rated continuous 4000A and short-circuit 1s withstand 63kA was constructed and built. The prototype was type tested in the Electrotechnical Institute in Warsaw and KEMA in Prague, the Czech Republic.
- A seal of approval was obtained for new MV switchgear with double busbar system. The D-24-2S switchgear has the following technical parameters: rated voltage 24kV, rated continuous current 2000A, rated short-circuit 3s withstand current 25kA.
- A new variant of UNIPANEL switchgear provided with imported SF6 insulated disconnectors was developed, tested and implemented.
- Development of construction drawings and technological design, implementation of a new variant of heavy current D-12P switchgear, provided with AREVA-Schneider Electric HVX circuit breakers for short-circuit 3s withstand current 31.5kA and rated continuous current 4000A (forced cooling).
- Development of construction drawings and technological design, implementation of a new variant of D-12P switchgear provided with SIEMENS circuit breakers type 3AH5.
- Development of construction drawings and technological design, implementation of a new variant of D-12-2S switchgear provided with SIEMENS circuit breakers type 3AH5g.
- Development of construction drawings and technological design, implementation of a new variant of PREM-G1dM switchgear provided with ROLLARC contactors.
- Development of construction drawings and technological design, implementation of a new variant of a mobile SKP substation – easy to assemble module substation dedicated for work in KGHM underground mines.
- Construction drawings and technological design of a medium voltage generator panel provided with Schneider Electric VAH circuit breaker.

Major R&D plans for the first half of 2012:

- Completion of works relating to the explosion-proof switchgear PREM-GO. Certification, approval for use.
- Completion of construction works on the basic design of medium voltage SF6-insulated switchgear. Approval tests for the following parameters: 24kV;  $I_n=1250A$ ;  $I_{3s}=25$ . Panel width: 600mm, stored energy – spring circuit breaker.
- Development of complete specification and implementation of D-12-2S switchgear: 12kV; 4000A;  $I_{1s}=72kA$ . This design will need re-testing in KEMA, Prague as the buyer has increased the value of short-circuit current.
- Complete specification for and implementation of the withdrawable switchgear type D-12-2S with double busbar system: 12kV; 2500A;  $I_{3s}=40kA$ .
- Construction and testing of small-dimension switchgear D-24-2S.
- Development of construction drawings and technological design of a new variant of D-12P switchgear, provided with Schneider Electric HVX circuit breakers for high short-circuit current 50kA/1s.
- Development of construction drawings and technological design of a new variant of D-12P switchgear, provided with Schneider Electric VAH circuit breakers for very high short-circuit current 63kA/1s.
- Introducing the software for busduct calculations.
- Research on technology of busduct with forced cooling system;
- Implementation of the CDN XL – SYSKLASS system in Tychy Busduct Plant to streamline management.

## **11. STATEMENT ON CHOICE OF AN AUDITOR**

The Management Board of ELEKTROBUDOWA SA confirms that Deloitte Audyt Sp z o.o. 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 2011 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 01.01-30.06.2011 and for auditing the 2011 annual Financial Statements of ELEKTROBUDOWA SA and the 2011 annual Consolidated Financial

Statements of the ELEKTROBUDOWA SA group was concluded on 7 July 2011 with Deloitte Audyt Sp. z o.o., having their registered office in Warsaw.

Deloitte Audyt Sp. z o.o. has reviewed the interim financial statements and audited the financial statement of ELEKTROBUDOWA SA and the consolidated financial statement of the ELEKTROBUDOWA SA group for three consecutive times.

The remuneration for the above review and auditing of the above mentioned statements is as follows:

	2011	2010
- review of the half-year financial statements of ELEKTROBUDOWA SA and consolidated financial statements of the ELEKTROBUDOWA SA group	55	55
- audit of the annual financial statements of ELEKTROBUDOWA SA and consolidated financial statements of the ELEKTROBUDOWA SA group	90	90
- review of the financial statements of the subsidiary, ELEKTROBUDOWA UKRAINE Ltd.	30	30
<b>Total review and auditing the financial statements</b>	<b>175</b>	<b>145</b>

The remuneration does not include VAT.

In 2011 the parent entered into contract with Deloitte Doradztwo Podatkowe Sp. z o.o. based in Warsaw for tax consulting services in respect of preparing transfer price records for transactions entered into by ELEKTROBUDOWA SA with related parties. The payment for the performed work was established as 48 thousand PLN and will be increased by VAT.

In 2011 Deloitte Doradztwo Podatkowe Sp. z o.o. or Deloitte Audyt Sp. z o.o. did not provide any additional services for the company.

## 12. STATEMENT ON OBSERVING THE CORPORATE GOVERNANCE RULES

### ***12.1 Information about the set of corporate governance rules applying to the issuer and about the place where its text is available for the public***

The Management Board of ELEKTROBUDOWA SA declares that in 2011 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](http://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.

## **12.2 Presentation of major characteristics of the internal control and risk management systems applied in preparing and the consolidated financial statements**

Internal control comprises all and any actions taken by the Management Board, the Supervisory Board, middle managers and other employees in order to improve risk management and increase the probability of accomplishing the set objectives and tasks. Internal control is an instrument supporting the executives in the process of managing and taking decisions, and also in preventing and detecting faults, abuse or any irregularities.

ELEKTROBUDOWA SA maintains a multistage internal control and risk management systems, interconnected and complementing one another:

- self-control or functional control: actions initiated by an employee in order to disclose and immediate correction of unwanted occurrences, resulting from the type of performed work, workstation instructions – elements of quality assurance system procedures;
- preliminary, preventive control, to prevent unlawful or uneconomical actions or actions inconsistent with the plan;
- current control: during processes and projects, consisting in current control of their flow;
- institutional oversight by a separate organisational unit, Systems Management; in the way ensuring separate and independent acting as well as easy flow of information;
- financial control: financial section of the company (Finance Director and his subordinate units) is a fundamental cell in the internal control. Chief Accountant as a person supervising work of accounting department, controls other organisational units in respect with correctness and fairness of accounting documents. Personnel in the financial and accounting department and the controlling staff, through initial and current control, and through reporting current financial information, have impact on all aspects of internal control in the company.

One of 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.

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 the functions of units responsible for their authorization, settlement and preparing information on valuation of those transactions. Such organizational structure, which follows global best practices of risk management, enables the control of business transacting process and elimination of transactions not authorized by the governing bodies.

Risk areas to which the company is exposed, are described in detail in item 4 of the additional information to the financial statements for the year ended 31 December 2011.

In the opinion of the Management Board, internal system control in ELEKTROBUDOWA SA is correct, is continually monitored and improved.

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.

### **12.3 Information on shareholders with qualifying holdings, direct or indirect**

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:

<b>Shareholders as at 31 December 2011:</b>	<b>Numbers of shares = number of votes</b>	<b>% of votes and % equity</b>
1. AVIVA OFE AVIVA BZ WBK SA	721 094	15.19
2. ING OFE (Open-end Pension Fund)	472 405	9.95
3. Generali OFE	466 433	9.82
4. OFE PZU „Złota Jesień”	401 733	8.46
5. AXA OFE	395 723	8.34
6. Amplico OFE	268 343	5.65
7. Free float	2 021 877	42.59
<b>Total number of shares in the share capital</b>	<b>4 747 608</b>	<b>100.00</b>

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.

Members of the Management Board did not hold any shares in ELEKTROBUDOWA SA as at 31 December 2011.

As of 31 December 2011 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.

#### ***12.4 Rules of appointing and dismissing the managing persons and their rights, particularly the right to decide on issuance or redemption of shares***

##### ***12.4.1 The Management Board***

The Management Board consists of 3 to 7 persons appointed by the Supervisory Board for a joint three-year term of office.

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. A Member or the whole Management Board may be dismissed by the Supervisory Board before the end of the term of office. A Management Board Member may be dismissed or suspended also by the General Meeting.

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.

##### ***12.4.2 Rules for amending the Articles of ELEKTROBUDOWA SA***

Amending the Company's Articles requires a resolution adopted by the General Meeting of ELEKTROBUDOWA SA, on the motion of the Management Board submitted together with a written opinion of the Supervisory Board or on the motion of shareholders representing at least 5% of the share capital, approved by the Management Board and the Supervisory Board; the amendments are then entered in the National Court Register.

Resolutions of the General Meeting on amendments to the Articles are adopted by majority of votes pursuant to the rules specified in the Polish Commercial Companies Code and in the Company's Articles.

#### ***12.4.3 Operations and rights 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.

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 are held in Katowice or Warsaw.

Annual General Meeting 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 a written request of the Supervisory Board, its Chairman, any three members of the Supervisory Board or on 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 a relevant request. The right to convene a General Meeting serves the Supervisory Board, its Chairman or any three members if it is not convened by the Management Board within 14 days after a relevant request has been filed. 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. The Supervisory Board, its Chairman or any three members, 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 shareholders and represented shares present at the Meeting, unless provisions of the Law or the Articles provide otherwise. Each share shall give the right to one vote at the General Meeting. Resolutions at the General Meeting are adopted by absolute majority of votes unless provisions of the Law or the 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 fourths 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 or 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, 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 infringement 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 restructuring 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, surety 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.

Acquisition or disposal of real property, right of perpetual usufruct of or share in a real property do not require a resolution by the General Meeting.

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 a 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 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.

## ***12.5 Composition of and changes made in 2011 in the company's managing and supervising bodies and their competences***

### ***12.5.1 The Management Board of the company***

Composition of the Management Board of ELEKTROBUDOWA SA as at 1 January 2011 was as follows:

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

In 2011 there was a change in the composition of the Management Board. Mr Stanisław Rak submitted a resignation from the post of the Board's Member following his decision to retire. He was the Board Member until 30 June 2011. The Supervisory Board appointed Mr Janusz Juszczuk as a member of the Management Board of ELEKTROBUDOWA SA with the effect from 1 July 2011.

Composition of the Management Board of ELEKTROBUDOWA SA as at 31 December 2011:

Jacek Faltynowicz	-	President
Jarosław Tomaszewski	-	Board Member
Ariusz Bober	-	Board Member
Tomasz Jaźwiński	-	Board Member
Janusz Juszczuk	-	Board Member
Arkadiusz Klimowicz	-	Board Member

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 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 a 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.

#### **12.5.2 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 as at 1 January 2011:

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

As the term of office for the Supervisory Board elapsed, the General Assembly of Shareholders convened for 19 April 2011 appointed a Supervisory Board for a new term of office in the following composition, valid as at 31 December 2011:

Dariusz Mańko	-	Chairman
Karol Żbikowski	-	Vice-Chairman
Agnieszka Godlewska	-	Member
Eryk Karski	-	Member
Tomasz Mosiek	-	Member
Ryszard Rafalski	-	Member
Paweł Tarnowski	-	Member

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 Management Board report on activities of the company and the financial statements 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 to the General Meeting the annual written report on the results of the examination of the Management Board report on activities of the company and the financial statements 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,
- 4) to appoint and dismiss members of the Management Board,
- 5) to suspend, for important reasons, individual or all members of the Management Board,
- 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 USD 100 000 (one hundred thousand) established 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 or purchase 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 inventories 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 sureties 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 USD 10 000 (ten thousand) fixed according to average exchange rate for USD published by the NBP on the day of concluding the contract. A close person is a spouse, a parent, siblings or children (also adopted) and persons cohabiting in the same household (common-law marriage);
- 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 USD 100 000 (one hundred thousand) established 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 the 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 issuers 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, arm's length transactions within the operating activity carried out by the company with a related party in which the company has majority interest.

## ***12.6 The Audit Committee and the Nominating and Remuneration Committee***

Two committees were operating in the Supervisory Board of ELEKTROBUDOWA SA in 2011: the Audit Committee and the Nominating and Remuneration Committee. Operations of the Committees are based on Regulations, annexed to the By-Laws of the Supervisory Board.

The Supervisory Board appoints permanent committees, its advising and opinion-making bodies.

The Committees are appointed by the Supervisory Board from among its members.

Operations of a Committee are supervised by its Chairperson. The chairperson supervises preparation of agendas, distribution of documents and writing minutes of meetings, using the company's resources for these purposes.

Manner of convening the Committees' meetings and adopting resolutions is governed by relevant rules for manners of convening meetings and adopting resolutions by the Supervisory Board.

### **12.6.1 The Audit Committee**

From among its members the Supervisory Board appoints an Audit Committee, composed of at least three members, of whom at least one shall be independent of the company and entities significantly related to the company and be competent in finances and accounting.

As at 1 January 2011 the Audit Committee worked in the following composition:

Dariusz Wojda – Chairman of the Committee,

Aleksander Chłopecki – Member,

Tomasz Mosiek – Member,

Ryszard Rafalski – Member.

The above composition was changed after the Annual General Assembly of ELEKTROBUDOWA SA gathered on 19 April 2011 appointed the Supervisory Board of a new term of office. On the Supervisory Board Meeting of 19 April 2011 a new Audit Committee was appointed.

As at 31 December 2011 the Audit Committee worked in the following composition:

Tomasz Mosiek – Chairman of the Committee,

Eryk Karski – Member,

Paweł Tarnowski – Member.

### **12.6.2 The Nominating and Remuneration Committee**

The Nominating and Remuneration Committee is composed of at least two members. The Committee appoints its Chairperson out of its members.

As at 1 January 2011 the Nominating and Remuneration Committee worked in the following composition:

Ryszard Rafalski – Chairman of the Committee,

Aleksander Chłopecki – Member,

Karol Żbikowski – Member.

The above composition was changed after the Annual General Assembly of ELEKTROBUDOWA SA gathered on 19 April 2011 appointed the Supervisory Board of a new term of office.

On the Supervisory Board Meeting of 19 April 2011 a new Nominating and Remuneration Committee was appointed.

Composition of the new Nominating and Remuneration Committee valid as at 31 December 2011:

Ryszard Rafalski – Chairman of the Committee,

Agnieszka Godlewska – Member,

Karol Żbikowski – Member.

### **13. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE**

On 17 January 2012 the Finnish Electrical Workers' Trade Union filed a motion to the District Court in Satakunta to supplement the lawsuit relating to payment of employee wages, started on 8 August 2011. In the supplement of earlier claim the plaintiff requested that the District Court obligated ELEKTROBUDOWA SA to pay to the Finnish Trade Union, to which the employees assigned their receivables, a total amount of EUR 3 305 376.20, together with due interests. The amount of earlier claim was EUR 2 704 906.67.

On 17 January 2012 the Finnish Electrical Workers' Trade Union filed another lawsuit against ELEKTROBUDOWA SA for payment of EUR 1 420 267.71. Subject of the lawsuit was the request to award payment by ELEKTROBUDOWA SA to the Finnish Trade Union representing further 85 employees of the company employed at the site of Olkiluoto Nuclear Power Plant of additional amounts to the remuneration for work performed in the period from January 2009 to August 2011. The Trade Union petitioned to adjudicate the case together with the earlier lawsuit filed against ELEKTROBUDOWA SA as it was based on the same legal grounds.

Currently, total amount of the claim lodged by the Finnish Trade Union is EUR 4 725 643.91 and concerns 185 workers. ELEKTROBUDOWA's officials believe that they have strong arguments that will allow the company to dismiss a substantial part of the claim (within 90 – 95% of the total amount).

Except the described above, no other events have occurred after the balance sheet date which could significantly impact the financial position of the company or its financial result.

### **14. 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.