

**MANAGEMENT REPORT**  
**on the Activities of**  
**the ELEKTROBUDOWA SA GROUP**

**for the six months ended 30 June 2012**

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## 1. STRUCTURE OF THE ELEKTROBUDOWA SA GROUP

### 1.1 The Parent, ELEKTROBUDOWA SA

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: construction.

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)**

Its organisational units are located partly in Katowice at 12, Porcelanowa Street and 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, permanent facilities, located in Tychy, Opole, Kozienice, Bełchatów, Rybnik and Częstochowa. The Power Generation Division also registered its facilities (branches) outside Poland, through which it conducts its business in Finland and Luxembourg.

The permanent establishment in Finland was registered on 19 March 2008 under number 2176143-1 of 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. The branch still exists in operation.

The establishment in Luxembourg was registered in the Trade and Companies Register in Luxembourg on 21 December 2010 under the number B157469 ,at the address: 41, Boulevard Prince Henri, L-1724 Luxembourg. The entry is in force for indefinite time.

Elektrobudowa's business in Estonia was registered by the Northern Tax and Duty Centre, registration code 60149969. The branch in Estonia has had the status of a tax payer since 16 August 2011, tax registration number EE101471004. The address of the establishment: Roosikrantsi 2, Tallin, 10119 Estonia.

In April 2012 ELEKTROBUDOWA SA registered a permanent establishment in Germany in Tax Office Oranienburg under number 053/657/21353. Since 15 May 2012 the Establishment has had the Tax Number DE282474251. The registered address of the branch is Straße des 17 Juni 106, 10623 Berlin.

- **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.

**1.2 A subsidiary KONIP Sp. z o.o. (Ltd)**

with its registered office at 12, Porcelanowa Str., 40 -246 Katowice.

ELEKTROBUDOWA SA holds a 100% stake in KONIP Sp. z o.o. representing 100% of the company's equity.

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

**1.3 A subsidiary - ENERGOTEST sp. z o.o.**

with registered office in Gliwice, 44 B Chorzowska Str., 44-100 Gliwice.

ELEKTROBUDOWA SA holds 100% share in the equity of the company, representing 100% votes in the General Meeting of Shareholders.

Basic activity of ENERGOTEST comprises services related to construction, modernization and operation of power generating facilities, production of data processing devices, electrical switching and control devices, installation, repairs and maintenance of switchgear and controlgear, also tests and technical surveys.

#### **1.4. A subsidiary - ELEKTROBUDOWA UKRAINE Ltd.**

with registered office in Sevastopol, in General Petrov Street, Bldg 20 office 7, 9901 Sevastopol, Ukraine.

ELEKTROBUDOWA SA holds a 62% stake in ELEKTROBUDOWA UKRAINE Ltd.

The objects of ELEKTROBUDOWA UKRAINE Ltd. comprise selling of high, medium and low voltage electrical systems, including switchgear panels and distribution substations, in the Ukrainian market, assembly of electrical equipment, switching and control devices, maintenance and repairs of electrical distribution and control devices.

#### **1.5 An associate - KRUELTA Ltd.**

with its registered office at 17A, Magnitogorska Street, St Petersburg, the Russian Federation.

As at 30 June 2012 ELEKTROBUDOWA SA holds 49% shares of KRUELTA's representing 49% of its equity and has significant influence on the associate's financial and economic policies.

Principal business of KRUELTA is the assembly and selling of medium voltage switchgear systems in the Russian market. This offer is complemented with low voltage switchgear and mobile containerized substations.

On 5 April 2012 the General Meeting of Partners of the limited liability company "KRUELTA" adopted a unanimous resolution to wind up the company KRUELTA Ltd. The General Meeting approved the procedure and date of liquidation in accordance with the applicable laws of the Russian Federation and authorized the liquidator to take any necessary actions relating to winding up.

In the opinion of the Management of the parent, the decision to liquidate KRUELTA Ltd. does not have impact on the scope of business activity of the group. Ordinary activities of the limited liability company KRUELTA has been easily transferred to KRUELTA, a branch of the Power Equipment Production Plant VECTOR Ltd. The branch KRUELTA not only has taken over the market of customers of KRUELTA Ltd. but also purchased its fixed assets and employed its skilled and experienced staff in order to provide the base for the acquired area of operations and ensure undeteriorated conditions for business continuation.

#### **1.6 An associate – the Electrotechnical Company VECTOR Ltd.**

with registered office in Votkinsk, at 2, Pobiedy Str., an Autonomic Republic of Udmurtia of the Russian Federation.

ELEKTROBUDOWA SA holds 49% of VECTOR's capital. As at 30 June 2012 the percentage of ELEKTROBUDOWA's stake in the equity of VECTOR is equal to the percentage of voting rights in its General Meeting of Shareholders. ELEKTROBUDOWA SA has significant influence on the associate's financial and economic policies.

Principal business activity of VECTOR comprises manufacturing of electrical and radio components, parts for electrical vacuum devices, and also providing construction works and wholesale of electrical production facilities, including communication devices.

KRUELTA – a branch of the Power Equipment Production Plant VECTOR Ltd., registered at 20 A, Repishcheva Street, Sankt Petersburg, the Russian Federation continues ordinary activities of the liquidated KRUELTA Ltd., focusing on the assembly and sales of the medium voltage switchgear for the Russian market. The sales offer of KRUELTA branch includes also low voltage switchgear and mobile transformer and distribution stations.

### **1.7 An associate - SAUDI ELEKTROBUDOWA LLC**

with registered office in Riyadh, Al. Sittin, P.O. Box 3936 11481 Riyadh, the Kingdom of Saudi Arabia. As at 30 June 2012 ELEKTROBUDOWA SA holds 33% of shares which represent 33% of the share capital of SAUDI ELEKTROBUDOWA, equal to the percentage of voting rights in the General Meeting of Shareholders. ELEKTROBUDOWA SA has significant influence on the associate's financial and economic policies.

Business scope of SAUDI ELEKTROBUDOWA includes offering low, medium and high voltage electrical systems, including switchgear and distribution panels and electrical substations as well as installation, repair and maintenance services for energy control and distribution systems.

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

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

The revenues from sales of goods, services and materials of ELEKTROBUDOWA SA group generated in the six months of 2012 amounted to 450 151 thousand PLN. Major part of sales revenues was generated by the basic operations of the group, that is electrical installation services. These services earned 343 586 thousand PLN for the group, which was 76.3% of its total sales revenues.

The H1 2012 sales rose by 77 652 thousand PLN on H1 2011 which is the increase by 20.8%.

The first half of 2012 is another reporting period when the ELEKTROBUDOWA SA group recorded further increase in export sales, which also includes supplies of goods and services within the EU. Export sales amounted to 117 714 thousand PLN and were by 111.7% higher than in H1 2012. The fast growth concerned the supply of construction and installation services, principally to Finland, Estonia and the Netherlands and sale of power equipment to Russia and Ukraine.

The group treats as priority all actions aimed at boosting its competitiveness in the foreign markets and increasing exports. Following such policy the ELEKTROBUDOWA SA group renewed its business contacts in the Czech Republic, where it sold its products in 2010. Furthermore, the group substantially increases the volume of export sales by selling its services and products to Sweden and Belarus.

The table below presents the structure of net revenue from the sales of products, goods and materials in H1 2012 and H1 2011.

	H1 2012		H1 2011		Change
	PLN'000	%	PLN'000	%	PLN'000
<b>Revenue from sales of products, merchandise and materials</b>	<b>450 151</b>	<b>100.0</b>	<b>372 499</b>	<b>100.0</b>	<b>77 652</b>
construction and erection services	343 586	76.3	320 347	86.0	23 239
electro-technical products	94 594	21.0	39 962	10.7	54 632
other services	8 589	1.9	10 253	2.8	(1 664)
materials	3 382	0.8	1 937	0.5	1 445

The ELEKTROBUDOWA SA group specializes in providing electric installation services and in manufacturing of equipment used for transmission and distribution of electric energy. Sales volume of this equipment rose nearly one and a half times as compared with H1 2011. A dynamic growth of sales revenues was recorded both in respect of domestic market and foreign markets. Sales of electricity transmission and distribution equipment accounted for 21.0% of total H1 2012 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 group.

In H1 2012 the group sold industrial products for the sum of 136 329 thousand PLN. From this amount 41 735 thousand PLN falls to internal sales realised by the erection units, whereas direct (external) sales reached the value of 94 594 thousand PLN. The presented sales volumes of finished goods account for consolidation exclusions within the group.

Production of principal products by volume and value in the six months of 2012 and 2011 was as follows:

- By volume:

Type of Product	Unit of measure	Quantity	
		H1 2012	H1 2011
Medium voltage switchgear	panel	1 559	851
Low voltage switchgear	segment	637	636
Mobile substations	set	72	17
Busducts	m	2 834	1 650
Cable trays	ton	9	35
Electricity distribution and control devices	pce	66	61
Measuring and monitoring devices (recorders)	pce	7 970	6 434
Peripheral devices (separators, converters, controllers)	pce	217	109



- By value

Product	H1 2012		H1 2011	
	Value (PLN'000)	percentage (%)	Value (PLN'000)	percentage (%)
Medium voltage switchgear	59 519	39.6	36 293	49.1
Low voltage switchgear	17 092	11.4	14 223	19.3
Mobile substations	40 909	27.2	7 919	10.7
Busducts	8 296	5.5	7 153	9.7
Cable trays	69	0	268	0.4
Electricity distribution and control devices	1 096	0.7	859	1.2
Measuring and monitoring devices (recorders)	3 585	2.4	3 483	4.7
Peripheral devices (separators, converters, controllers)	126	0.1	53	0.1
Other products	19 745	13.1	3 576	4.8
<b>Total</b>	<b>150 437</b>	<b>100.0</b>	<b>73 827</b>	<b>100.0</b>

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

Poland was the only Central European country where the construction sector did not suffer a drop either in 2009 or 2010. In 2011 the construction industry was the fastest growing sector of economy. Building output rose by 16.1% during the year. Downturn of the building industry started by the end of 2011. In the first half of 2012 the building and construction output of the whole country was by 8.0% higher than a year before. In the same period of the previous year it recorded a 20.8% growth and in the 1st quarter of this year a 14.9% growth. Systematically slowing down rate of growth announces deterioration of performance in the second half of the year. In June 2012, for the first time since May 2010 the building and construction output dropped (by 5.1% as compared to the 6.2% growth a month before). It is noticed that payment gridlocks of the last few months contribute to the downturn in the construction sector. However, it may be assumed that a significant part building and production output was generated on credit –received *de facto* not from financial institutions but granted by the contractors and suppliers of building materials and finished products.

Strong market competition and participation in tender procedures where the most-favourable-price bids are successful keep the profit margins on a low level. Furthermore, execution of awarded orders is bound with the building materials price risk, as price changes may have adverse influence on contract profitability.

High indebtedness of building companies, low margins achieved on the projects and still strong competition which will result on low profitability, also of new orders – they are the main factors contributions to deterioration of the situation in building industry. Beside strong competition, high labour costs, high prices of building materials and bureaucracy are still major growth barriers.

The increase in labour cost was related to the demand for experienced professionals and contracts carried out in other countries where terms of payment for the group's employees must conform to local regulations

The increase in significance of the barrier relating to uncertainty of overall economic situation caused that the building companies forecasts of further growth have changed and a drop of profitability of building output is expected.

General business climate in the building industry of the year 2012 is reflected in the performance of the group.

The economic and financial results of the reporting period closed with the 10 972 thousand PLN net profit which in the last years it was fluctuating. The net profit rose by 94 thousand PLN on H1 2011 and dropped by 10 450 thousand PLN on H1 2010.

The most serious decline in profits, both gross and net, was suffered by the Industry Division business segment of the group. Financial performance of the segment had substantially contributed to the reduction of the group's profitability level.

A negative result of the Industry Division segment was generated principally due to execution of the project "The supply of overall electrical, small current, automation and BMS installations for Stage 2 of Construction of the National Stadium, Warsaw" for the consortium of HYDROBUDOWA POLSKA S.A., ALPINE Construction Polska Sp. z o.o. The contract was concluded on 21 December 2009, its initial price was 91 000 thousand PLN. The parent, ELEKTROBUDOWA SA executed the contract works in the consortium with QUMAK – SEKOM S.A. and Przedsiębiorstwo "AGAT" S.A. ELEKTROBUDOWA SA as the consortium leader in the remuneration had a 37 221 thousand PLN share in the contract price. The completion of project was scheduled at 4 May 2011. During the execution of project, because of ordered additional works agreed in the form of addenda to the contract, the price was increased up to 138 478 thousand PLN (with 66 318 thousand share of ELEKTROBUDOWA SA) and the final completion date was prolonged to 30 April 2012. Extension of the contract realization period generated extra fixed costs both for ELEKTROBUDOWA SA as for other consortium partners. Covering of costs of contract extension was guaranteed by the Investor in an Addendum No. 3 signed on 28 June 2011. In March 2012 the Consortium submitted to the purchaser a claim for payment of costs incurred due to contract extension, which included detailed itemization of those costs for total amount of 13.2 million PLN, in which ELEKTROBUDOWA SA has a 4.4 million PLN share. Furthermore, another claim was made in that time concerning:

- impedimentation of execution of works caused by design changes in the amount of 3.7 million PLN;
- necessity to carry out operation and maintenance of installations and equipment including warranty overhauls in the amount of approx. 3.9 million PLN;
- financial claims of supplies and subcontractors relating to overdue payments and costs of crediting the activity in the amount of 2.0 million PLN;

- reimbursement of costs of remedying the effects of theft and damages in the amount of 1.3 million PLN.

Total amount of the consortium's claim based on the above titles is approx. 10.9 million PLN, in which ELEKTROBUDOWA SA has 1/3 share. The claim does not arise directly from the signed contracts and contract amendments, therefore they are subject to significant correction. Because of conclusion of a contract for participation in stage 2 of the construction of the Warsaw National Stadium the consortium and consequently ELEKTROBUDOWA SA, is exposed to price risk and credit risk.

The Management of the parent will take every possible step to recover the due payments, but the process may take a few years. Maximum total amount of the above claims is 24.1 million PLN, of which about 8.0 million PLN falls to ELEKTROBUDOWA SA.

The above claims have been duly documented and delivered. As the purchaser had withdrawn from negotiations carried in order to reach an agreement to satisfy the above claims, in July 2012 the consortium decided to file a relevant lawsuit against the purchaser. Currently the evidence is being collected to substantiate the claim. Recovery of sums due to the consortium and ELEKTROBUDOWA SA, will enable closing the contract with the planned margin, and additional income would cover the loss incurred by the Industry Division segment in the first half of 2012.

The parent, ELEKTROBUDOWA SA as a consortium leader has started the proceedings to secure overdue payments for works performed against the main contract and two additional contracts. In effect, an Agreement was signed with Narodowe Centrum Sportu Sp. z o.o. (Investor) representing the State Treasury. The Agreement defines the procedure which should lead to final acceptance of all works completed by the consortium, which has not taken place for the reasons beyond the control of ELEKTROBUDOWA SA as a leader. As at 30 June 2012, total value of works pending acceptance (signing the acceptance certificate) amounted to 17.9 million PLN, of which 7.0 million PLN for ELEKTROBUDOWA SA.

As at 30 June 2012 payments not received for the completed works amounted to 7.5 million PLN, including the amount of 2.6 million PLN owed to ELEKTROBUDOWA SA. Until the date of preparing the financial statements all the debt became overdue.

On 23 April 2012 the parent, ELEKTROBUDOWA SA filed a claim to the court for payment of receivables in the amount of 1.2 million PLN of which 0.6 million PLN is the debt owed to ELEKTROBUDOWA SA. In consequence of Agreement on 27 June 2012 a request for voluntary arrangement was made with respect to overdue debt in the amount of 7.5 million PLN which should result in payment of the amount according to the terms of the Agreement. The Agreement defines the procedures enabling settlement and payment of further due amounts which will become mature. ELEKTROBUDOWA SA as the consortium leader has no influence on the date of the court proceedings. The parent will consequently strive at fulfilling all provisions of the Agreement by Narodowe Centrum Sportu Sp. z o.o. In the opinion of the Management of the parent a risk of nonpayment by Narodowe Centrum Sportu Sp. z o.o. is small, therefore the group did not impair the amount of pursued claim as at 30 June 2012.

The priorities of the coming months include further improvement of business efficiency and operational effectiveness, improvement of project management process and optimization of purchase processes. The strengths that at present help the companies to operate in the Polish construction market are: reliability, professionalism, good track record and references, experience. In the time of slowdown in the economy business contacts, primarily stable, good relations with purchasers, investors and subcontractors are of particular value.

Situation in the markets where the ELEKTROBUDOWA SA group operates resulted in growth in value of orders received both in Polish market and foreign markets. Total value of contracts, orders and purchase orders received by the parent in H1 2012 amounted to 494.7 million PLN which means the increase by 10.1% on the comparative period of the previous year. Forecasts on future period order backlog is not promising, both in respect of domestic and foreign orders. The parent's order backlog as at 30 June 2012 amounted to 931.0 million PLN and its volume was by 11.3% higher than on 30 June 2011.

Although the sales invoiced by the group in H1 2012 were mostly the effect of orders received in prior years, significant increase in orders received in the reporting period contributed to their volume. Also, weather conditions during last winter in Poland were also favourable for the construction sector. Consequently, sales revenue generated by the group in the second quarter of 2012 rapidly increased and reached the value of 265.3 million PLN, which constitutes 58.9% of total H1 2012 revenue. As compared to the first quarter of 2012 the revenue grew by 43.5%.

In H1 2012 revenues on sales of products, goods and materials earned by the ELEKTROBUDOWA SA group amounted to 450.2 million PLN and were by 77.7 million PLN higher than in H1 2011, which is equivalent to a 20.8% growth.

Sales invoiced in H1 2012 were generated principally on big contracts for the supply of electrical installation services and supply of electrical equipment, such as:

- supply of erection & precommissioning of electrical and I&C components and systems for NPP OLKILUOTO 3 in Finland PLN 35.9m
- 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 24.2m
- Turnkey supply, erection and commissioning of electrical systems of the FGD plant of Units 1, 2 PGE GiEK Oddział Elektrownia Belchatów S.A. for RAFAKO S.A. PLN 21.1m
- Supply of electrical and I&C services at the site of Bituminous Shale Deoiling Plant, for OUTOTEC GmbH. PLN 18.7m
- Civil works and other services required for the completion of project - construction of the Franowo tramway depot in Poznań for Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu Sp. z o.o. PLN 17.6m

- Supply of electrical equipment and services relating to the biomass-fueled boiler for the Green Unit in Połaniec Power Station, for FOSTER WHEELER ENERGIA POLSKA Sp. z o.o. PLN 12.9m
- Modernisation of electrical substations for EDF Group (EC Kraków) for EDF Polska CUW Sp. z o.o. PLN 8.9m  
Supply of the 110/15kV transformer station in the Gronowo Main Substation
- including connection to the 110 overhead line in Gronowo Górne for ENERGA – OPERATOR Spółka Akcyjna PLN 8.8m
- National Stadium in Warsaw including associated infrastructure for the Consortium ALPINE Construction Polska Sp. z o.o. and Hydrobudowa Polska S.A. PLN 8.1m
- Modernization of the control and surveillance system including electrical, for Unit 6 in the Bełchatów Power Station for Emerson Process Management and Water Solutions Sp. z o.o. PLN 6.8m

The biggest contracts of the group were received by the parent. 94.5% of total group's revenues were generated by the parent, ELEKTROBUDOWA SA whereas the subsidiary, ENERGOTEST sp. z o.o. was responsible for 4.3% share in the revenues and ELEKTROBUDOWA Ukraine Ltd. had a 1.2% share in the revenues.

The main items of the statement of comprehensive income for H1 2012 and H1 2011:

	H1 2012		H1 2011		Change
	PLN'000	%	PLN'000	%	PLN'000
Net sales revenues	450 151	100.0	372 499	100.0	77 652
Cost of products, goods and materials sold	(428 549)	95.2	(350 289)	94.0	(78 260)
<b>Gross profit on sales</b>	<b>21 602</b>	<b>4.8</b>	<b>22 210</b>	<b>6.0</b>	<b>(608)</b>
Selling costs	(3 678)	0.8	(1 407)	0.4	(2 271)
Administration expenses	(7 789)	1.8	(6 977)	1.9	(812)
Other operating expenses	(1 913)	0.4	(1 330)	0.3	(583)
Other gains / losses - net	2 161	0.5	60	0.0	2 101
<b>Operating profit</b>	<b>10 383</b>	<b>2.3</b>	<b>12 556</b>	<b>3.4</b>	<b>(2 173)</b>
Finance income / costs – net	478	0.1	268	0.0	210
Share in profit of associates	2 095	0.5	(540)	0.1	2 635
<b>Profit before income tax</b>	<b>12 956</b>	<b>2.9</b>	<b>12 284</b>	<b>3.3</b>	<b>672</b>
<b>Net profit for the period</b>	<b>10 972</b>	<b>2.4</b>	<b>10 878</b>	<b>2.9</b>	<b>94</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 H1 2012 profitability ratios slightly dropped as compared to H1 2011. Gross profit margin fell by 0.4 percentage point, whereas the operating profit margin by 0.5 percentage point. The decrease of profit margin in H1 2012 is the result of slightly higher growth of costs of products, goods and materials sold than the growth rate of net sales revenues. Growth in cost of sold products, goods and materials by 22.3% was accompanied by the 20.8% growth in net sales revenues. Higher growth rate of costs as compared to revenues by 1.5 percentage point resulted in the decrease of gross profit on sales by 608 thousand PLN, that is by 2.7% on the earnings in the same period of the previous year. The decline in return on sales of the group 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 obtaining orders at all costs, in order to provide turnover and resources for their companies, and accept order with a zero or even negative margin, assuming beforehand that the problem will be offloaded on others – subcontractors or suppliers.

In the conditions of weak European market, building companies from other countries are trying to enter the Polish market with their services. There is a threat of potentially new competitors, principally from Western companies that have much more favourable sources of financing and great experience in big projects. In effect, strong competition with foreign and domestic companies enforced reductions in prices for the performed services and thus the reduction of margins on executed contracts.

Selling costs in the first half of 2012 amounted to 3 678 thousand PLN and were by 2 271 thousand PLN higher than in the first half of 2011. The level of selling costs was correlated with the level of sales revenue in consecutive years. The share of selling costs in sales revenue in H1 2012 and H1 2011 amounted to 0.8% and 0.4%, respectively. The 0.4 percentage point growth of the share of selling costs in the sales revenues was directly caused by higher transport expenses of finished products, mainly to Russia. The five-time rise in revenues from sales to Russia in the first half of 2012 was accompanied by about two-and-a-half time growth of selling costs.

The general administrative costs incurred in H1 2012 amounted to 7 789 thousand PLN and rose by 812 thousand PLN as compared to H1 2011. Their growth was slower than that of sales revenues and their percentage share in total sales was 1.8% in H1 2012 and 1.9% in H1 2011.

Other operating costs incurred by the group in H1 2012 amounted to 1 913 thousand PLN and included charges and fees paid for contract bonds issued by banks and insurance companies (1 356 thousand PLN) and legal fees and penalties (557 thousand PLN). In the first half of 2012 as compared with the same period of 2011 total value of charges and fees relating to the contract bonds provided by the group rose by 99 thousand PLN (by 7.9%). This is due to dynamically growing rising volume of bonds provided by the group such as: advance payment guarantees, performance guarantees and warranty repair guarantees. Total amount of contract bonds as at 30 June 2012 was 242 045 thousand PLN and was by 39 845 thousand PLN, i.e. by 19.7% higher than in the comparable period of 2011. In H1 2012 the group incurred higher expenses relating to legal fees and

penalties, by 484 thousand PLN higher than in the comparable period. Total other operating costs incurred by the group rose by 583 thousand PLN, i.e. by 43.8%.

Both in H1 2012 and H1 2011 other income exceeded the amount of other expenses, by 2 161 thousand PLN and by 60 thousand PLN respectively. Positive result of other operating activity in H1 2012 was generally attributable to the reversal of valuation of forward contracts.

Main items of other income:

- reversal of forward contract valuation	7 185	thousand PLN
- penalties received and charged	1 873	thousand PLN
- interest	1 072	thousand PLN
- gains from disposal of financial assets	738	thousand PLN
- received compensation	414	thousand PLN
- reversal of provision for impairment of receivables	376	thousand PLN
- release of provision for impairment of receivables	103	thousand PLN

Main items of other expenses:

- provision for impairment of receivables	3 975	thousand PLN
- loss on forward exchange transactions	2 472	thousand PLN
- negative currency translation differences	819	thousand PLN
- negative valuation of forward	815	thousand PLN
- damage repair cost	311	thousand PLN
- donations	94	thousand PLN

Operating profit generated by the group for H1 2012 amounted to 10 383 thousand PLN while return on operating profit was 2.3%. The profitability of operating activity dropped by 1.1 percentage point as compared with H1 2011.

The group recorded 478 thousand PLN gains from financial activities. The gains include 497 thousand PLN of dividend received by the parent on its interest in PI Biprohut Sp. z o. o.. less interest on credit and lease in the amount of 19 thousand PLN.

Gains from financial investment in shares of associates amounted to 2 095 thousand PLN in H1 2012 and were by 2 635 thousand higher than in the same period of the previous year.

Gains on other operating and financial activities earned in the first half of 2012 positively effected the level of gross and net profit of the group.

The H1 2012 pre-tax profit amounted to 12 956 thousand PLN whereas net profit was earned in the amount of 10 972 thousand PLN and was by 94 thousand PLN higher than in H1 2011.

### **2.3 Financial analysis**

As at the end of June 2012 the group's balance sheet total rose by 73.1 million PLN as compared to the first half of 2011.

The growth was recorded both in non-current assets (by 3.1 million PLN) and current assets (by 70.0 million PLN). A significant growth was recorded in the following current assets items: accounts receivable for construction contract works by 40.1 million PLN, inventories by 19.6 million PLN, cash by 14.2 million PLN, short-term prepayments by 1.3 million PLN and trade and other receivables by 1.2 million PLN. In non-current assets there was a growth in long-term receivables by 15.4 million PLN, intangible assets by 7.2 million PLN, interest in associates by 3.1 million PLN and deferred income tax assets by 1.9 million PLN.

On the equity and liabilities side, the relation of liabilities to equity increased. In H1 2012, as compared to H1 2011, the increase in equity by 14.7 million PLN was accompanied by the increase in liabilities by 58.4 million PLN. The growth in equity is principally attributed to the increase of supplementary capital by 21.1 million PLN further to distribution of 2011 profit. The increase in liabilities was generally caused by the increase in short-term trade and other payables by 35.2 million PLN, amounts due to contractors for construction contract works by 13.8 million PLN, current accruals by 6.8 million PLN, long-term liabilities by 4.0 million PLN and loans, borrowings and debt securities by 1.6 million PLN.

The group 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:

	H1 2012	H1 2011	H1 2010
<b>I. Profitability ratios</b>			
1. Net profit margin <i>net profit / sales revenues</i>	2.4%	2.9%	6.9%
2. Gross profit margin <i>profit before taxes / sales revenues</i>	2.9%	3.3%	8.4%
3. operating profit margin <i>operating profit / sales revenues</i>	2.3%	3.4%	8.4%
4. Return on equity (ROE) <i>net profit / average equity capital</i>	3.4%	3.5%	7.3%
5. Return on assets (ROA) <i>net profit / average assets</i>	1.7%	1.9%	4.5%



## II. Liquidity ratios

1. Current ratio	1.5	1.6	1.9
<i>average current assets / average current liabilities</i>			
2. Quick ratio	1.3	1.4	1.7
<i>(average current assets – inventories) / (average current liabilities)</i>			

## III. Turnover ratios

1. Receivables turnover ratio (days)	98	105	99
<i>average trade debtors x 360 days / sales revenues</i>			
2. Accounts payable turnover ratio (days)	82	73	52
<i>average trade creditors x 360 days sales revenues</i>			
3. Inventory turnover (days)	25	18	9
<i>average inventories x 360 days / sales revenues</i>			
4. Assets turnover	0.7	0.7	0.7
<i>sales revenues / average total assets</i>			

## IV. Debt ratios

1. Debt-equity ratio	49.5%	45.6%	37.2%
<i>average borrowed capital / average total equity</i>			

The presented ratios in a synthetic form reflect the measurement of management effectiveness in the entities of the group, 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 gradually decreased. Their changes reflect changes in net profit generated by the group in the last years. In H1 2012 the net profit margin was 2.4% and dropped by 0.5 percentage point on H1 2011 and by 4.5 percentage point on H1 2010. Gross profit margin was 2.9% and dropped by 0.4 percentage point on H1 2011 and by 5.5 percentage point on H1 2010. Worsening of the ratio means that the company has to realize bigger volume of sales to generate a certain amount of profit. In H1 2012, in order to keep the results on the level comparable to H1 2011 the group increased its sales revenues by 20.8% as compared with the same period of the previous year.

The return on assets ratio (ROA), which indicates ability to generate earnings after taxes by all assets used in the group was 1.7% in the reporting period and was by 0.2 percentage point lower than in H1 2011 and by 2.8 percentage point lower than in H1 2010. 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 3.4% for H1 2012 and dropped in by 0.1 percentage point as compared to H1 2011 and by 3.9 percentage point on H1 2010. The decrease in ROE in the analysed periods means that the growth in equity was greater than the growth in profits. The value of ROE at the level of 3.4% when the 2012 forecast inflation rate is 2.8% guarantees not only maintaining but even growth of actual value of equity.

Liquidity ratios dropped insignificantly in the first half of 2012. Both current and quick ratio in H1 2012 were by 0.1 point lower as compared to H1 2011 and by 0.4 point lower than in H1 2010. In the case of current ratio it is assumed that its optimal value should remain between 1.5 and 2.5, while the quick ratio should approximate one or be slightly higher. Levels of liquidity ratios indicate good financial credibility of the group. Liquidity ratios provide information about the short-time financial security of the group; their values should be correlated with the level of the turnover ratio.

The collection period of trade receivables in H1 2012 was 98 days and was by 7 days shorter than in H1 2011 and by 1 day shorter than in H1 2010. A drop in the length of the collection period in the last half of the year indicates that the period of trade credit allowed to its customers by the group has shortened.

Overdue trade receivables were impaired in the amount of 13 826 thousand PLN (11 391 thousand PLN in H1 2011). The impairment covered the trade receivables for which the group's has a warrant of execution by the bailiff, that are within the estate in bankruptcy, or that were due over 180 days ago. In H1 2012 as compared with H1 2011 the amount of impairment of trade receivables rose by 21.4%.

According to the balance sheet data, payables are settled within 82 days. Maturity dates for payables vary from 14 days to 60 days. Within the analysed 6 months accounts payable turnover ratio grew by 9 days on H1 2011 and by 30 days on H1 2010. Although the period in which the group paid its debt got longer, the turnover period for payables was shorter than in the case of receivables, which indicates that the ELEKTROBUDOWA SA group more often extends trade credit to its customers than utilizes such credit from its suppliers.

Inventories turnover period, which was 25 days, provides information on the length of process of transforming the inventories into finished products sold. In H1 2012 the inventories turnover period was by 7 days longer than in the prior year and by 16 days longer than in H1 2010. 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 group's products. Furthermore, the period in which the resources are engaged in financing the inventories corresponds to monthly settlement cycles of most services provided by the group. The length of inventories turnover cycle indicates efficiency of managing the material resources of current assets.

The group's activity is assessed by the assets turnover ratio, which measures the ability of assets owned by the group to generate sales. In the comparable reporting periods asset turnover maintained the same level of 0.7 which means that each 1 zloty engaged by the group generates 0.70 PLN of sales revenues. It indicates balanced growth of sales revenues and the group's assets and therefore efficient use of property owned by the ELEKTROBUDOWA SA group.

Debt-equity ratio is the ratio between borrowed capital on the one hand and owned capital on the other. In H1 2012 the debt-equity ratio rose on H1 2011 by 8.6% and by 33.1% on H1 2010. Growth of the ratio informs about higher share of borrowed capital in financing the group's equity.

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

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

## **2.4 Financial resources management**

In H1 2012 the ELEKTROBUDOWA SA group implemented the policy of financing its operations from its own funds and had full capacity to fulfil its financial obligations.

Because of increasing payment gridlocks, particularly severely affecting companies in the construction sector, in order to secure current financing of its operations, the parent released a current account credit in Bank PEKAO S.A. The overdraft limit is 10 million PLN; as of 30 June 2012 the amount of debit was 1 586 thousand PLN. Cooperation with several banks ensured even distribution of committed sources of financing and to maintain suitable level of funds for working capital.

The group rationally utilizes 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).

Such behaviour allows to minimise financial costs and optimize management of financial liquidity risk.

The group's activity relating to foreign exchange transactions is determined by the exchange rates of basic currencies, EUR and USD. Because of the unstable position of PLN against these currencies, the parent concludes forward contracts to hedge the exchange rates. Most often, however, ELEKTROBUDOWA SA enjoys natural hedging of foreign exchange risk, as the company's imports are realized in foreign currencies.

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

The group companies maintain wide cooperation with banks and insurance companies with respect of contract bonds and signed agreements for contract bonds within the extended guarantee lines to secure: bid bonds, advance payment bonds, performance bonds and warranty bonds and also to secure claims pursued in court

Favourable contractual terms for guarantees are a strong competitive advantage and give the group a good position in tender procedures (necessity to prove credit quality).

Agreements with banks concerned mainly guarantee lines and current account overdraft granted within multipurpose limits up to the total amount of 282.5 million PLN. As at 30 June 2012 the multipurpose limits were utilized in the amount of 189.6 million PLN for contract bonds and guarantees and 1.6 million PLN for credit in the current account.

The group extended its cooperation with insurance companies in respect of guarantees. Total limit granted the group for contract bonds is 121.0 million PLN, of which the amount of 52.5 million PLN was used by the group companies as of 30 June 2012.

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

## **2.5 Human capital management**

In H1 2012 average monthly employment was 2192 job equivalents and was about 3.3% higher than in H1 2011. Out of the average number of employees, 1 212 job equivalents fell to direct labour, whereas 980 job equivalents to white-collar staff. In both groups there was an increase on H1 2011, with bigger growth in the group of non-manual workers (7.1% rise), whereas the number of manual workers rose by 0.5%.

At 30 June 2012 the group had 2231 employees. The number of employees rose by 18 persons as compared with the first half of 2011.

In respect of employment structure by education, the number of personnel with higher education, mainly engineering, regularly increases. At the end of June 2012 the number of employees with degrees accounted for 34% of total, while as at the end of June 2011 it was 31%.

The H1 2012 productivity of employment, calculated as the relation of sales revenues and average monthly employment amounted to 205.4 thousand PLN. Profitability of employment, calculated as the relation of gross profit and average monthly employment, was 5.9 thousand PLN. As compared with the first half of 2011 both productivity and profitability indices rose by 29.8 thousand PLN and 0.1 thousand PLN respectively.

In the period from 1 January to 30 June 2012 together 207 new people were employed in different trade groups, from direct labour through specialist in various areas to managerial posts.

No bigger problems with job terminations by key for the group's activity personnel were recorded during the six reporting months.

Average gross monthly pay in the group in H1 2012 was 5 679 PLN, by about 1.1% lower than in the same period of the previous year. Decrease of average monthly remuneration is principally attributed to reduction of number of employees at the project in Finland (by 31 job equivalents), where the group maintains the level of guaranteed wages required by local collective labour agreements.

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

Development of employee's qualifications and competence is a key for the development of the group. So, as in previous periods, in H1 2012 training policy was being implemented as planned, basing on the Procedure for Personnel Training and Development which is included in the ISO system valid in the group. 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 H1 2012 the group invested 813 thousand PLN in training of its personnel, which gives an average of 371 PLN per one employee. Training costs accounted for 1.0% of the total remuneration fund in H1 2012. 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 was very good in the six months of 2012. There were no labour disputes in the group companies, or collective bargaining with the trade union organisations acting in the companies.

As in previous years the group's companies supported and respected generally accepted human rights as well as observed standards in the scope of the employee right of association and collective negotiations, and counteracting discrimination practices.

In May 2012 the parent obtained a title of "Equal Opportunities Company" within the project: "Corporate Social Responsibility in the aspect of equality of men and women in the employment market" implemented by the Regional Industry and Trade Chamber in Gliwice.

Since 1 December 2010 the parent, ELEKTROBUDOWA SA has been a member of the 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 over 10 000 corporate participants and other stakeholders from over 135 countries.

Aware of environmental impact of the group's activity the parent actively participates in shaping its positive impact on local environment in the area of broadly understood Corporate Social Responsibility. All CSR activities provide many advantages for ELEKTROBUDOWA SA, including:

- greater legitimization of conducted business,
- demonstrating a leadership position in the issue of responsibility towards the communities,
- increased level of employee satisfaction,
- better reputation and increased brand value for customers, investors and employees, particularly in the context of changing social expectations,
- ensuring the Company's responsibility and transparency in communication with the publics.

The parent, ELEKTROBUDOWA SA for the fourth consecutive time 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 the parent, ELEKTROBUDOWA SA obtained the certificate of the Occupational Health and Safety Management System according to the requirements of SHE Checklist Contractors, SCC\*\*2008/5.1 valid throughout Europe with the exception of Finland. The system was certified by DET NORSKE VERITAS (DNV). The parent also has the certificates issued by DNV for conformity of the Occupational Health and Safety Management System to the PN-N-18001:2004 and OHSAS 18001:2007 standards in the scope of design, manufacture, erection and service of power and automation systems, building investment projects management.

In March and June 2012 the Occupational Safety System Management was audited according to PN-N-18001:2004 and OHSAS-18001:2007 standards and the requirements of SHE Checklist Contractors, SCC\*\*2008/5.1. Audits were performed by DET NORSKE VERITAS and their results were positive.

During H1 2012 there was one instance of occupational illness – hearing damage.

Also, no claims were raised against any of the ELEKTROBUDOWA SA group companies 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 the group is the continual improvement of product quality, with respect to the environment. The entities in the group are permanently involved in quality issues through the certified quality systems.

the parent, 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 subsidiary, ENERGOTEST sp. z o. o. has implemented a quality system certified to ISO 9001:2008 in the scope: "Development, production and control of electric power automation equipment. Services in the scope of designing, testing and start-up of power equipment and systems". In H1 2012 the company completed the process of integrating the existing quality system with the systems referenced to the requirements of ISO 9001:2008, PN-N 18001:2004, OHSAS 18001:2007 (ready for certification in 2013).

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

Essential events that occurred in the group in H1 2012 and which affect the assessment and functioning of the integrated quality and environmental management systems:

- audit of the supervision of the quality and environmental management systems, with positive results,
- reviews of the Integrated Management System by key managers, carried out on the basis of audit reports, customer complaints and other documents necessary for assessment of effectiveness of realised processes,
- internal audits of the integrated quality and environmental management system,
- in-company training on the system requirements, to refresh the participants' knowledge of fundamental principles of the existing management systems, the employees environmental obligations and requirements to fulfill quality standards; the training is provided together with obligatory OHS training and cover direct labour, supervisory staff and office personnel.
- inspection audit for conformity to PN-EN 9001:2009 standard, with positive result.

Plans for the second half of 2012 include:

- further training, meetings with contract managers and supervision staff in order to eliminate cases of non-observing the environmental regulations and quality requirements for manufactured products and supplied services, with particular attention to risk management;
- gradual reducing the number of system documents;
- development and implementation of documents relating to quality cost account, an important tool of quality system management improvement;
- continuation of 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;
- developing a programme of regular training, Academy of Auditors 2012, provided for internal auditors;
- commencement of implementation of the environmental management system in ENERGOTEST sp. z o.o.

Positive results of internal and external audits, records in the review reports prove that the systems applied by the group function correctly and that the group companies supply products and services in compliance with the relevant contracts for supplies and services. Auditors' comments included in their reports provide valuable information for improvement of the management systems in place.

## **2.8. Prospects for business development of the ELEKTROBUDOWA SA group and significant risks or threats**

In H1 2012 national building and construction output was by 8.0% higher than a year before, which means that the growth rate was slower than in the comparable period of the previous year by 12.8 percentage point and by 6.9 percentage point on the first quarter of 2012. Systematically, month by month slowing down growth rate allows to predict that the situation may deteriorate in the second half of the year. Average period in which Polish building companies have work assignment, owing to signed contracts, has shortened to 7.7 months (against 10 months in the prior year). Level of uncertainty is relatively high, so reliable forecasts with respect to sales is difficult to be made for a period longer than one year.

As at 30 June 2012 the order backlog of the parent amounted to 931.0 million PLN and rose by 11.3% on the comparable period of 2011. In H1 2012 the amount of orders received by the parent, ELEKTROBUDOWA SA reached the value of 494.7 million PLN and decreased by 55.3 million PLN, i.e. by 10.1% as compared with the first half of the previous year.

The sales revenues generated by the group in H1 2012 amounted to 450 151 thousand PLN and recorded a growth by 77.7 million PLN (by 20.8%) on H1 2011.

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

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

The management of the parent, ELEKTROBUDOWA SA attaches considerable significance to strengthening the group's competitive advantage in foreign markets and to growth of exports. The group actively seeks new market for its products and boosts its export sales in its traditional areas. The parent registered four foreign permanent establishments through which it performs services in Finland, Luxembourg, Estonia and Germany. Registering of a permanent establishment in Holland is underway.

Like in previous years, the sales offer of the ELEKTROBUDOWA SA group in H1 2012 did not significantly change and was still 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. Supply of complete automation and electrical systems.
3. Manufacture and installation of isolated phase and non-segregated phase busducts.
4. Manufacture of indoor medium and low voltage switchgear assemblies.
5. LV, MV, HV stations.



6. Commissioning tests and start-up.
7. Design of equipment.
8. Manufacture of electrical automation devices.
9. Servicing.
10. General execution of investments, including public utility facilities, retail centres, industrial facilities.
11. Conceptual work and consulting.
12. Property management.

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 group's potential allows it to put into effect the majority of complex projects on its own.

Growth of the ELEKTROBUDOWA SA group 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 ways of conducting business and have different economic situation.

Future income of the group 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 group's administration costs.

Polish construction market of recent years was strongly stimulated by EU funds and choosing Poland as a host of 2012 UEFA European Football Championship. These two factors had the greatest influence on market trends. In the first half of 2012 the facilities required for EURO 2012 were completed under pressure of time, but in further months the situation in infrastructure construction is expected to deteriorate. A specific geographical situation of Poland and the development of trade routes to developed countries are the advantage for development of export.

The group constantly undertakes intensive efforts to increase the volume of exports. The parent, in cooperation with other group's companies recognises the needs of foreign markets through participation in symposia and conferences and promotes its products and services in trade fairs and exhibitions.

In 2012 the group presented its products:

- in the ELOM Kijów 2012 fair, where ELEKTROBUDOWA SA and ELEKTROBUDOWA UKRAINE Ltd. for the first time presented abroad SF6 insulated high voltage switchgear OPTIMA 145 (Polish debut was in September 2011 in the International Bielsko-Biała Power Fair ENERGETAB) This is the first Polish gas-insulated high-voltage switchgear prepared for large-scale production. Presentation of the cutting-edge product created by the constructors from Konin met with enormous interest from customers from other countries, who are waiting for the product to be manufactured on an industrial scale.  
Production of the gas insulated high-voltage switchgear will help ELEKTROBUDOWA SA win new areas of the power market in Poland and Europe.
- in the SAUDI ENERGY 2012 fair where SAUDI ELEKTROBUDOWA L.L.C. presented a wide range of Elektrobudowa's products.

The parent estimates that in result of extensive marketing of the last few years the growth trend of exports of medium voltage switchgear to Saudi Arabia will continue. This country is also a big potential market for busducts manufactured by the group. In H1 2012 an order was received for the delivery of busducts to Shoaiba II Power Station, quotations for further supplies are being prepared.

In the years to come the power industry will be the main driving force of the Polish industrial building sector which badly needs substantial investment in generating facilities and network.

The planned gas projects look prospective as well. New power generating units will be built in combine cycle technology, 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.

The ELEKTROBUDOWA SA group has suitable human capital and financial resources to involve in future projects planned by the power, gas and industrial sectors. However there is a serious fear that the observed downturn in building industry and worsened financial situation of Polish companies will considerably contribute to delays of new projects. Difficulties that companies have to face will be related with insufficient demand both from the public and the private sector. In the nearest months it will be difficult to improve profitability, as orders will be won in the period of tough competition and probably concluded under unfavourable terms imposed by the purchasers. The forecasted wave of bankruptcies of companies and arrangement bankruptcies results from the scale of downturn in the building industry and will spread to cooperating industries. For many companies it will cause the necessity of write-offs, particularly in the case of agreement bankruptcy.

The described situation of the building industry will surely affect the operations of the group in the second half of 2012. Forecasts prepared by the parent account for deteriorating market conditions in the sector where the group operates.

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 six months of 2012.

Risk management is a process of identification, evaluation, management and control of potential occurrences or situations, aiming at provision of reasonable assurance that organisation's objectives will be accomplished. Risk management is focused on limiting the risks and protecting against their impact. The Management of the parent 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 the group is concentrated mainly in the Polish market. Because of difficulties encountered by the construction industry in recent years and deteriorating economic situation in the Polish market the company focused on building up its competitiveness in foreign markets and systematic increase of exports. Export sales in H1 2012 which included supplies within the EU and to the countries outside the Union generated the revenue of 117 714 thousand PLN, which accounted for 26.1% of total sales revenues, whereas H1 2011 exports generated 14.9% of total revenues. The group's exports are in the constant growth trend in recent years.

Presented below is an itemization of sales revenues of the ELEKTROBUDOWA SA group according to business sectors to which sales were made in H1 2012 and H1 2011.

Business areas	H1 2012		H1 2011	
	Value (PLN'000)	%	Value (PLN'000)	%
Power generation	156 135	34.7	153 332	41.2
Mining	39 010	8.7	7 288	2.0
Retail facilities	35 785	7.9	29 224	7.8
Transport	30 515	6.8	10 879	2.9
Chemical industry	12 140	2.7	29 928	8.0
Housing and public utility construction	11 928	2.6	14 818	4.0
Paper & pulp	10 322	2.3	859	0.2
Automotive	10 181	2.3	1 714	0.5
Sports facilities	5 207	1.1	42 753	11.5
Industrial automation	3 456	0.8	2 887	0.8
Environmental protection plants	2 959	0.7	6 636	1.8
Power distribution	2 488	0.5	1 153	0.3
Building materials	1 790	0.4	3 592	1.0
Metallurgy	824	0.2	4 183	1.1
Food industry	729	0.2	1 032	0.3
Electronic industry	0	0	868	0.2
Other areas	8 968	2.0	5 761	1.5
Export of products and materials	117 714	26.1	55 592	14.9
<b>Total</b>	<b>450 151</b>	<b>100.0</b>	<b>372 499</b>	<b>100.0</b>

As in previous years, power generating sector was the biggest source of the company's income in the six months of 2012 (34.7% in the sales breakdown by industries) where the group is present with its products and comprehensive range of electric installation works in all newly erected, extended or modernized power stations. The biggest project for this sector executed by the group concerned the supply of electrical equipment and services relating to the biomass-fueled boiler for the Green Unit in Połaniec Power Station, for FOSTER WHEELER ENERGIA POLSKA Sp. z o.o., which share in the sales revenues was 3.3%. Performing this contract the group participates in the construction of the world's biggest unit that uses biomass as the fuel, with capacity of 205MW.

Mining industry had the second biggest share in the group's sales revenues and accounted for 8.7% income. As compared with the first half of 2011 this share rose by 6.7 percentage point. The group provided supplies and services generally for lignite mines, hard coal mines and copper mines. The biggest amount was earned from the turnkey supply, as a General Contractor, of a new Combined Cycle Unit of electrical capacity 45MWe and thermal capacity 40MWt in EC Głogów for KGHM Polska Miedź S.A. which accounts for 2.3% of total sales revenues.

Another significant area of the activity of ELEKTROBUDOWA SA group was the sector of retail facilities construction, which made up 7.9% of total revenue. The supplies for this sector included equipment and services performed for new and modernized retail centres: hypermarkets and retail chains, such as Dom Towarowy Okrągłak in Poznań (4.1%) or Sky Tower in Wrocław (2.7%). Contracts of this type have been successfully performed by the group for several years.

In H1 2012 the volume of services provided for transport sector recorded a growth. This sector had a 6.8% share in total revenues generated by the group. The main contract concerned building the Franowo tramway depot in Poznań for MPK w Poznaniu Sp. z o.o. which accounted for 5.8% of total sales revenues.

Another area of the group's activity was the chemical industry (2.7%). The volume of sales to the chemical industry dropped by 59.4% on H1 2011. The biggest contract in this sector concerned the replacement of Fuel Oil collector for PKN ORLEN S.A., with the 0.8% share in sales revenues.

Services for housing construction and public utility construction had a 2.6% share in total revenue earned by the group in H1 2012. The biggest contract in this branch was performed at construction of a concert hall for the Stanisław Moniuszko Koszalin Filharmonic, for the Koszalin municipality (0.9%) and construction of a complex of three multi-family houses together with underground and surface car parks, internal infrastructure, for Na Skraju Lasu Sp. z o.o. (0.4%).

Other market segments, responsible for 10.5% share in revenue, allowed the company to considerably supplement its sales outside the forenamed basic industries.

The destinations and structure of exports are presented below:

	H1 2012		H1 2011	
	Value (PLN'000)	%	Value (PLN'000)	%
Finland	40 512	34.4	34 789	62.6
Russia	38 675	32.9	7 709	13.9
Estonia	18 738	15.9	0	0.0
Ukraine	5 697	4.8	1 644	3.0
Saudi Arabia	3 413	2.9	5 250	9.4
Germany	2 602	2.2	0	0.0
The Netherlands	2 433	2.1	287	0.5
Sweden	2 021	1.7	0	0.0
Luxembourg	1 900	1.6	310	0.5
Belarus	1 139	1.0	399	0.7
The USA	250	0.2	11	0.0
Uzbekistan	130	0.1	1 919	3.4
Trinidad & Tobago	124	0.1	87	0.2
Turkey	0	0.0	2 275	4.1
Hungary	0	0.0	231	0.4
Switzerland	0	0.0	432	0.8
Other countries	80	0.1	249	0.5
<b>Total export sales</b>	<b>117 714</b>	<b>100.0</b>	<b>55 592</b>	<b>100.0</b>

Export sales generally concerned installation services provided in the Scandinavian market. Export of services to Finland in H1 2012 amounted to 40.5 million PLN, which constituted 34.4% of the group'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 €46m and the completion time is scheduled for 30 December 2012. The invoiced value of works performed at this site in H1 2012 amounted to 35.9 million PLN, corresponding to 30.5% of total export sales revenues.

Sales of equipment and services to Russia still have an important position in total export revenues. In H1 2012 the group sold its products and services on the Russian market for the amount of 38.7 million PLN that had a 32.9% share in total exports realized by the group. The products and services were sold in the Russian market through the associate, the Power Equipment Production Plant VECTOR Ltd.

Also the sales to Ukraine had a substantial i.e. 4.8% share in export revenues. The group sold its goods through the subsidiary, ELEKTROBUDOWA UKRAINE Ltd. which promotes ELEKTROBUDOWA's goods in the local market. The sales revenue earned by ELEKTROBUDOWA UKRAINE Ltd. in the six months of 2012 amounted to 5.6 million PLN, which was 4.7% of total exports.

Exports to Russia and Ukraine principally concerned the air insulated D-12P, D-12PT, D-40, PREM-G medium voltage switchgear panels and low voltage switchgear type NGWR and RNM-2, one of the best designs meeting the requirements of the most demanding foreign customers. Other exported products were mobile substations SKP 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.

The group entered the Belarus market with the medium voltage switchgear type PREM-1G-1d dedicated for underground mines, and this way extended the range of exported products. Exports to Belarus had a 1.0% share in total H1 2012 exports.

In the geographical structure of exports sales of the first half of 2012 a high position belonged to sales in the Estonian market, which constituted 15.9% of total group's exports. The group sold its services to Estonia through a permanent establishment registered by the parent. Sales of the establishment earned 18.7 million PLN income and concerned the supply of electrical and I&C systems at the site of Bituminous Shale Deoiling Plant for OUTOTEC GmbH.

A significant, 2.9% share fell to Saudi Arabia. In H1 2012 exports to Saudi Arabia principally concerned equipment manufactured by the Power Distribution Division. The group earned 2.9 million PLN on the sales of medium voltage switchgear panels type D-17P and D-40P (2.5% of total export revenues). Other products exported to Saudi Arabia included Isolated-Phase Busducts, busbars and services provided by the Power Generation Division whose total value was 0.5 million PLN (0.4% share in exports).

The next in the structure of export sales were the sales to Germany (2.2%). The biggest income was generated from the export of finished products for Voith Hydro GmbH & Co. KG – 2.1 million PLN (1.8% in the structure). Sales in the German market were realized also through the parent's permanent establishment. The establishment earned 0.5 million of revenues, which is 0.4% share in the export structure.

Revenues earned by services performed by the group in Holland were marked by a dynamic growth. Export sales to this country generated 2.4 million PLN in H1 2012, with 2.1% share in total exports, and concerned electrical and automation services for HYCO 4 project in Rotterdam for Air Products Nederland BV.

The ELEKTROBUDOWA SA group constantly looks for new markets. Intensive actions are being taken to promote the groups goods and services, both in developed countries and in emerging markets who are in the stage of developing their infrastructure. Taking advantage of a specific geographical situation of Poland and the development of trade routes to developed countries the group strives at changing its local perspective into global one. The parent penetrates foreign markets in order to meet its future partners and the specifics of local trade.

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

I

n the reporting six months of 2012 the group recorded its highest sales income on performance of 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 35.9 million PLN, which constituted 8.0% of the group's revenues generated in this period.

In the reporting period the group was not dependent on one customer who had more than 10% share in the sales revenue. The H1 2012 income on two customers accounted for 13.4% of total revenue. The customers were the recipients of services provided by two business segments: the Power Generation Division (8.0% of the group's revenue) and the Industry Division (5.4% of total revenue).

### **3.3 Sources of supply**

In H1 2012 the sources of supply did not change much as compared with previous years. The group 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 group 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 2012 by the parent amounted to 494.7 million PLN.

The awarded contracts included:

- design- build delivery of "Łomża 400kV substation" for Polskie Sieci Elektroenergetyczne Operator S.A.,
- Works related to preparation for the construction of the Flue Gas Desulfurization system within the project no. 17539 called: „Adaptation of the Heat and Power Plant in Płock to the emission standards to be in force since 1 January 2016 – Preparation of area for the construction of the FGD system" for PKN ORLEN Spółka Akcyjna,
- Delivery of equipment and erection of industrial and civil electrical systems for STORA ENSO Narew Sp. z o.o.,
- Design engineering and construction of the 110/15kV - RPZ 11 station together with the associated 110 kV overhead line in Białystok for PGE Dystrybucja Spółka Akcyjna ,



- Modernization of mill and rotating fans of the air heaters for units 4, 6, 3, 1 and 5, TAURON Wytwarzanie Spółka Akcyjna - Oddział Elektrownia Jaworzno III for fan manufacturer FAWENT Spółka Akcyjna,
- Supply of electrical equipment and services relating to the biomass-fueled boiler for the Green Unit in Połaniec Power Station, for FOSTER WHEELER ENERGIA POLSKA Sp. z o.o.
- Extension of the scope of contract for the National Stadium in Warsaw including associated infrastructure for the Consortium ALPINE Construction Polska Sp. z o.o. and Hydrobudowa Polska S.A.
- Turnkey supply of power facilities according to the order „Preparation of the technical specifications and construction of 110kV line Gołdap - Olecko” for PGE Dystrybucja Spółka Akcyjna,
- Execution of project „Construction of SŁAWNO 110/15 kV station and the 110 kV overhead line” for PGE Dystrybucja Spółka Akcyjna,
- Building and construction works for the project: Construction of Car Parts Factory in Wałbrzych for the employer, Halla Engineering & Construction in Poland, for Polimex - Mostostal S.A.

#### **4.2 Insurance contracts**

The group maintains the property and personal insurance policies in the following scope:

- comprehensive car insurance;
- all-risks contractor's / erection insurance;
- business civil liability insurance, property liability insurance and product liability insurance,
- architects', designers' and construction supervision inspectors' liability insurance,
- corporate property insurance,
- cargo insurance;
- foreign business trip casualty insurance;
- collective casualty and hospitalization insurance for the employees working in Finland,
- electronic equipment insurance
- group life term insurance;
- managers' civil liability insurance,
- group life term insurance.

The entities of the group cooperate with Towarzystwo Ubezpieczeń HDI ASEKURACJA S.A. in Warsaw, Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" S.A. in Warsaw, Towarzystwo Ubezpieczeń Allianz Polska S.A., Chartis Europe Spółka Akcyjna Branch in Poland nad Branch in Ukraine, UNIQA Towarzystwo Ubezpieczeń S.A. in Łódź, ING Nationale Nederlanden Polska SA, Towarzystwo Ubezpieczeń HDI Gerling Polska S.A. and PZU S.A. Branch in Ukraine.

## 5. INVESTMENTS

### 5.1 Investments carried out in H1 2012

The group's investment outlays amounted to 8 132 thousand PLN in H1 2012, of which 7 733 thousand PLN was spent by the parent and 399 thousand PLN by the subsidiaries: 324 thousand PLN by ENERGOTEST sp. z o.o., 2 thousand PLN by KONIP Sp. z o. o. and 73 thousand PLN by ELEKTROBUDOWA UKRAINE Ltd.

Total investment expenditure incurred by the group in H1 2012 included:

- expenditure on fixed assets 4 279 thousand PLN,
- expenditure on intangible assets 3 853 thousand PLN,  
of which:
- outlays for R&D 3 409 thousand PLN.

A considerable part of the expenditure on non-financial fixed assets was earmarked for further modernization and current reproduction of fixed tangible assets of the company and for erection of new structures. The expenditure in the group of buildings and structures amounted to 2 562 thousand PLN and concerned the following facilities:

- construction of new backup facilities in Płock, 2 022 thousand PLN,
- fire escape route in Katowice, 303 thousand PLN,
- adaptation of a production bay to the requirements of GIS switchgear in Konin, 110 thousand PLN.

In the reporting period of 2012 the equipment to streamline the production and assembly processes was bought for the sum of 718 thousand PLN. Main items of the purchased machinery and equipment include:

- air-conditioning system in the office building in Katowice, 372 thousand PLN,
- four type 20 storage containers, 44 thousand PLN,
- two MS-SB1 office containers, 33 thousand PLN,
- two electro-hydraulic cable pressing machines, 33 thousand PLN,
- Z3-X500 testing stand, 20 thousand PLN,
- diamond drilling machine Hilei DD 200BL, 18 thousand PLN,
- Minarting welding unit, thousand PLN.

Furthermore, the replacement of physically and morally worn computer hardware was continued, for which the amount of 701 thousand PLN was earmarked, and modern software and a licence was purchased for the sum of 444 thousand PLN

Outlays for vehicles amounted to 298 thousand PLN: the fleet of vans and motors cars was enlarged.

The H1 2012 investments were financed from the funds owned by the group's entities, only a small part of those resources came from selling of some tangible assets.

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

Planned capital expenditure for non-finance fixed assets in the second half of 2012 amount to 15.3 million PLN and include the following investment:

- continuation of building a new backup facility in Płock,
- continuation of works on fire escape route, incl. infrastructure in Katowice,
- continuation of adapting the production bay to the requirements of GIS switchgear in Konin,
- modernisation of server room in Katowice.

Modernisation of machine fleet will be continued. Purchase plans include: TruPunch 300 punching machine, ban-saw with a device for angle cutting, Amanda tool grinding machine, CutFix cable cutter, a set for orbital welding, pressure testing unit, Falcon sheet metal cutting tool, a fork lift, cable termination tools (crimping tools, shears), Artes 440 protection devices tester.

A part of investment outlays planned for the second half of 2012 will be earmarked for further improvement of modern workplace organisation, including purchase of computer hardware and software.

As far as financial investments are concerned, in the second half of 2012 the parent 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 group described in item 2.2 of this report, stable liquidity ratios and order backlog for the second half of 2012 it is evident that realization of the investment plans, including capital investments is not at risk. As in the previous year, the group is going to finance the investments from its own funds, which finds confirmation in the gathered funds and owned financial assets.

## **6. RELATED PARTY TRANSACTIONS**

In H1 2012 all transactions entered into by the group's entities with the related parties were typical, arm-length transactions carried out within normal current operating activity.

Transactions between the parent and its subsidiaries, who are the related parties for ELEKTROBUDOWA SA, were eliminated in the consolidation.

In the reporting period the parent, ELEKTROBUDOWA SA carried out the following transactions with associates:

- sales of goods – the Power Equipment Production Plant VECTOR Ltd.	37 317	thous PLN
- sales of services – the Power Equipment Production Plant VECTOR Ltd.	92	thous PLN
- sales of materials - the Power Equipment Production Plant VECTOR Ltd.	1 266	thous PLN

Mutual balances between the parent and its associates as at 30 June 2012:

payables of the Power Equipment Production Plant VECTOR Ltd. to	
- ELEKTROBUDOWA SA	9 661 thous PLN

The unsettled balances of receivables and payables with the associates are not secured and will be settled in cash in the agreed payment dates.

None of companies in the ELEKTROBUDOWA SA group extended 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 associates as at balance sheet date.

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

### **7.1 Credit contracts as at 30 June 2012**

	Bank	Type of loan	Contract validity	Limit of credit
1.	BRE BANK SA w Warszawie	overdraft	28.09.2012	10.0 million PLN
2.	ING Bank Śląski w Katowicach	overdraft	22.03.2013	1.0 million PLN
3.	Bank PEKAO S.A. w Krakowie	overdraft	30.04.2014	10.0 million PLN
4.	PKO BP w Warszawie	overdraft	23.02.2015	5.0 million PLN
5.	BNP PARIBAS Bank Polska S.A.	overdraft	6.07.2012	1.0 million PLN
<b>TOTAL</b>				<b>27 million PLN</b>

In H1 2012 the group was provided with the limit of overdraft up to the amount of 27 million PLN. As at 30 June 2012 the limit of overdraft in current account in PEKAO S.A. was utilized in the amount of 1 586 thousand PLN.

### **7.2 Other loan agreements**

In H1 2012 the entities of the ELEKTROBUDOWA SA group neither were granted nor did themselves extend any loans.

### **7.3 Guarantees and Sureties**

As at 30 June 2012 the ELEKTROBUDOWA SA group extended contract bonds issued by banks and insurance companies for the total amount of 242 million PLN. The bonds included bid bonds, advance payment bonds, performance bonds and warranty bonds, and also guarantees to secure claims against the parent pursued in court. The group also uses promissory notes to secure performance of contracts and contract payments, whose amount totalled 16 million PLN last year. The promissory notes issued by the group also secure credit lines and guarantees issued by banks or insurance companies.

In H1 2012 the group companies did not extend any sureties.

## **8. H1 2012 PERFORMANCE AND THE PUBLISHED FORECAST FOR 2012**

Basing on the performance of the reporting six months of 2012 the Management Board are of the opinion that the realisation of the announced budget is not at risk.

The 2012 consolidated budget of the ELEKTROBUDOWA SA group, published on 28 March 2012, assumed that annual consolidated sales revenues would reach the level of 1 009 584 thousand PLN and net profit 38 543 thousand PLN (of which 38 281 thousand PLN is attributable to the company's shareholders). The consolidated performance of the group after the six months of 2012 were: 450 151 thousand PLN of the sales revenue and 10 972 thousand PLN net profit, of which 11 033 thousand PLN is attributable to the company's shareholders. In the same period of the previous year profit attributable to the company's shareholders amounted to 10 929 thousand PLN while sales revenues totalled 372 499 thousand PLN (a 21% growth).

The above figures show that after the first half of the year sales revenues were realized in 45% while net profit in 28%.

## **9. BASIS FOR PREPARATION**

These consolidated financial statements have been prepared under the assumption that the group 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 consolidated 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

H1 2012 development works were implemented by the entities of the group in the following scope:

- tests and certification of a new variant of busbar trunking system PONTIS dedicated for 5500A DC supply systems,
- implementation to production the D-12-2S AC 400A switchgear with double busbar system, for rated continuous 4000A and short-circuit 1s withstand 72kA which has undergone supplementary testing in KEMA, the Czech Republic (short circuit current was raised from 63 to 72kA),
- prototypes, type testing and implementation to production of a new variant of heavy current D-12P switchgear provided with Areva – Schneider Electric circuit breakers type HVX for 40kA and 50kA 3s short-circuit current and rated continuous current 3150A, provided also with fault current limiter type Is-LIMITER,
- implementation of software for busduct calculations,
- implementation of the CDN XL – SYSKLASS system in Tychy Busduct Plant to streamline management,
- development and implementation of technique of synchrophasors estimation acc. to C37.118 standard,
- implementation of digital regulator DX369 software,
- implementation of recording and analysis system.

### Major R&D plans of the group for the second half of 2012:

- approval tests of SF6 insulated switchgear for the values: 24kV:  $I_n=1250A$ ,  $I_{3s}=25kA$ , panel width 600mm, stored energy – spring circuit breaker,
- construction and testing of D-24-2S switchgear with reduced width of distribution panels,
- construction of a new variant of D-12-2P switchgear fitted for mounting the medium voltage contactors and motor controlled earthing switch and withdrawable part,
- testing the D-17P switchgear for higher level of arc protection: 31.5kA in 1 second,
- research on technology of production of busduct with a forced cooling system,
- continuation of implementing the CDN XL – SYSKLASS system in Tychy Busduct Plant to streamline management,
- continuation of development and implementation of technique of synchrophasors estimation acc. to C37.118 standard,
- continuation of implementing digital regulator DX369 software,
- continued implementation of recording and analysis system.

## 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 review the H1 2012 consolidated financial statements of the ELEKTROBUDOWA SA group in conformity with law provisions. The audit company and chartered accountants who reviewed 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 01.01-30.06.2012 and for auditing the 2012 annual Financial Statements of ELEKTROBUDOWA SA and the 2012 annual Consolidated Financial Statements of the ELEKTROBUDOWA SA group was concluded with Deloitte Audyt Sp. z o.o., having their registered office in Warsaw, on 29 June 2012.

The agreed remuneration for the above review and auditing of the above mentioned 2012 financial statements includes:

	2012	2011
- review of the half-year condensed financial statements of ELEKTROBUDOWA SA		
and consolidated financial statements of the ELEKTROBUDOWA SA group	40	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.	0	30
<b>Review and auditing of the financial statements</b>	<b>130</b>	<b>175</b>

The above remuneration is net of the goods and services tax.

Under Resolution 1/2012 of 30 May 2012 The Extraordinary General Meeting of KONIP Sp. z o.o. appointed Deloitte Audyt Sp. z o.o. to audit the company's financial statements for 2012.

A relevant agreement is being prepared and the date shall be signed on 6 August 2012. The agreed remuneration for auditing the subsidiary is 10 thousand PLN.

As in 2011 Deloitte Audyt Sp. z o.o. was appointed to review the interim financial statements for the period from 1 January 2012 to 30 June 2012 and to audit the 2012 annual financial statements of ENERGOTEST sp. z o.o. A relevant agreement was signed on 28 May 2012 and the price for auditing the subsidiary includes (in PLN'000):

	<b>2012</b>	<b>2011</b>
- review of the half-year financial statements	12	15
- Audit of the annual financial statements	8	10
<b>Review and auditing of the financial statements</b>	<b>20</b>	<b>25</b>

The remuneration is net of the goods and services tax.

## 12. SHAREHOLDERS OF THE PARENT, ELEKTROBUDOWA SA

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 30 June 2012:</b>	<b>Numbers of shares = number of votes</b>	<b>% of votes and % equity</b>
AVIVA OFE AVIVA BZ WBK SA	721 094	15.19
Generali OFE	466 433	9.82
ING OFE	450 000	9.48
OFE PZU „Złota Jesień”	400 000	8.43
AXA OFE	395 723	8.34
Amplico OFE	250 000	5.27
Free float	2 064 358	43.47
<b>Total</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 parent's Management Board did not hold shares in ELEKTROBUDOWA SA as at 30 June 2012.

As of 30 June 2012 the key executives did not hold any shares in entities related to ELEKTROBUDOWA SA; the supervising persons did not hold shares either in ELEKTROBUDOWA SA or its related companies.



### **13. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE PARENT**

#### **13.1 The Management Board of the parent**

Composition of the Management Board of ELEKTROBUDOWA SA in H1 2012 was as follows:

Jacek Faltynowicz	-	President
Jarosław Tomaszewski	-	Board Member
Ariusz Bober	-	Board Member
Tomasz Jaźwiński	-	Board Member
Janusz Juszczak	-	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.

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.

#### **13.2 The Supervisory Board of the parent**

The Supervisory Board is composed of 5 to 7 members appointed by a General Meeting for a joint three years' term of office.

Composition of the Supervisory Board of ELEKTROBUDOWA SA in H1 2012 was as follows:

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.

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

Two committees were operating in the Supervisory Board of ELEKTROBUDOWA SA in H1 2012: 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.

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 of 30 June 2012 the following persons were the members of the Audit Committee:

- Tomasz Mosiek – Chairman of the Committee
- Eryk Karski – Member
- Paweł Tarnowski – Member

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

As of 30 June 2012 the following persons were the members of the Nominating and Remuneration Committee:

- Ryszard Rafalski – Chairman of the Committee
- Agnieszka Godlewska – Member
- Karol Żbikowski – Member

## **14. STATEMENT ON OBSERVING THE CORPORATE GOVERNANCE RULES**

The Management Board of ELEKTROBUDOWA SA declares that in H1 2012 ELEKTROBUDOWA SA 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.

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

There were no significant events occurred after the balance sheet date which should be disclosed in the consolidated financial statements for the first half of 2012.

## **16. STATEMENT OF CONFORMITY WITH LEGISLATION**

The financial statements of the group 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 group's Financial Statements, except those which do not apply to the group.

## **SIGNATURES OF THE MANAGEMENT BOARD MEMBERS**

<b>Name and surname</b>	<b>Position / Function</b>	<b>Date</b>	<b>Signature</b>
Jacek Faltynowicz	President	30.08.2012	
Jarosław Tomaszewski	Board Member	30.08.2012	
Ariusz Bober	Board Member	30.08.2012	
Tomasz Jaźwiński	Board Member	30.08.2012	
Janusz Juszczuk	Board Member	30.08.2012	
Arkadiusz Klimowicz	Board Member	30.08.2012	

## **SIGNATURE OF THE PERSON IN CHARGE OF ACCOUNTING BOOKS**

<b>Name and surname</b>	<b>Position / Function</b>	<b>Date</b>	<b>Signature</b>
Sylwia Wojtas	Chief Accountant	30.08.2012	