

MANAGEMENT REPORT
on the Activities of
ELEKTROBUDOWA SA

for the year ended 31 December 2012

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1. GENERAL INFORMATION

ELEKTROBUDOWA SA with registered office in Katowice, at 12 Porcelanowa Street, 40-246 Katowice is a joint stock company established and operating according to the Polish law. The company is registered in the National Court Register (KRS) in the District Court Katowice-Wschód in Katowice, 8th Business Department under KRS entry no. 0000074725.

Principal activity of the Company according to the Polish Classification of Activities (PKD 4321Z) is executing of electrical installations in buildings and structures. A sector according to the Warsaw Stock Exchange classification: 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.

A branch in the Netherlands was entered in the Register of Businesses of the Dutch Chamber of Commerce on 1 October 2012 under number 56499272 with the registration address Synerieweg 1, 9979XD Eemshaven. Postal address of the establishment is Postbus 1170, 2260BD Leidschendam, its VAT registration number NL823363375.

- **Industry Division (RP)**

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

- **Power Distribution Division (RDE)**

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

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

2.1 Sales Revenues - Principal Products and Services

The revenues from sales of goods, services and materials generated by ELEKTROBUDOWA SA in 2012 amounted to 985 421 thousand PLN. Major part of sales revenues was generated by the basic operations of the company, that is electrical installation services, and amounted to 764 285 thousand PLN, which was 77.5% of the company's total sales.

The 2012 sales rose by 82 963 thousand PLN on 2011 which means the increase by 9.2%.

The year 2012 is another fiscal year when ELEKTROBUDOWA SA recorded further increase in export sales, which also includes supplies of goods and services within the EU. Export sales amounted to 212 061 thousand PLN and were by 33.5% higher than in 2011. The fast growth concerned the supply of construction and installation services, principally to Finland, Estonia, Germany and the Netherlands and sale of power equipment to Russia and Ukraine.

The company treats as priority all actions aimed at boosting its competitiveness in the foreign markets and increasing exports. Following such policy ELEKTROBUDOWA SA renewed its business contacts in Iraq and France and entered a new market, the Czech Republic with its products.

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

	2012		2011		Change
	PLN'000	%	PLN'000	%	PLN'000
Revenue from sales of products, merchandise and materials	985 421	100.0	902 458	100.0	82 963
construction and erection services	764 285	77.5	757 134	83.9	7 151
electro-technical products	200 763	20.4	125 384	13.9	75 379
other services	13 775	1.4	16 675	1.8	(2 900)
materials	6 598	0.7	3 265	0.4	3 333

ELEKTROBUDOWA SA 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 by 60.1% compared with the previous year. 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 20.4% of total 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 company.

In 2012 the company sold industrial products for the sum of 266 744 thousand PLN. In this amount 65 981 thousand PLN falls to internal sales realised by the erection units, whereas direct (external) sales reached the value of 200 763 thousand PLN.

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

- By volume:

Type of Product	Unit of measure	Quantity	
		2012	2011
Medium voltage switchgear	panel	3 321	2 502
Low voltage switchgear	panel	1 290	1 052
Mobile substations	set	135	81
MV busducts type NGW-M, PONTIS	set	115	66
High-current busducts type ELPO, ELPE, PELPO	set	30	61
Cable trays	ton	57	46

- By value

Product	2012		2011	
	Value (PLN'000)	(%)	Value (PLN'000)	(%)
Medium voltage switchgear	131 870	45.3	97 228	49.0
Low voltage switchgear	33 724	11.6	28 062	14.1
Mobile substations	80 776	27.7	42 345	21.3
MV busducts type NGW-M, PONTIS	9 594	3.3	4 062	2.1
High-current busducts type ELPO, ELPE, PELPO	16 012	5.5	13 973	7.0
Cable trays	438	0.1	349	0.2
Other products	18 880	6.5	12 527	6.3
Total	291 294	100.0	198 546	100.0

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 near the end of 2011. In December 2012 the economic climate indicator reached minus 35, while in the comparable period it was minus 23. The building and construction output, including new investments and repair work, for the whole country in December 2012 was by 24.8% lower than a year before, when a 14.6% growth was recorded. A drop in output was recorded in all sectors of the building industry. In the period between January and December 2012 the building and construction output was by 1.0% lower than in 2011.

Forecasts for the economic climate of the building industry are more and more pessimistic. Number of invitations to tender has dramatically decreased. The problem of payment gridlocks continues to be severe. Strong market competition still remains an important barrier which limits the activity of the building industry sector. Winning new orders 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 company's employees must conform to local regulations

Increasing 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 company.

The economic and financial results of the reporting period closed with the 35 986 thousand PLN net profit which in the last years it was fluctuating. The net profit dropped by 4 703 thousand PLN on 2011 profit and by 13 609 thousand PLN on 2010.

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

On 11 June 2012 the District Court Poznań – Stare Miasto in Poznań, 11th Commercial Department for Bankruptcy and Recovery Issues declared HYDROBUDOWA POLSKA S.A. bankrupt, allowing the possibility to conclude an arrangement with creditors. Following that decision, the purchaser withdrew 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 (HYDROBUDOWA POLSKA S.A. and ALPINE Construction Polska Sp. z o.o.). Currently the evidence is being collected to substantiate the claim. Recovery of sums due to the consortium and ELEKTROBUDOWA SA, would cover the loss. 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, on 29 June 2012 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.

On 30 August 2012 Narodowe Centrum Sportu Sp. z o.o. (NCS) carried out final acceptance of works performed by the consortium, the acceptance certificate was a basis for invoicing the works for the total amount of 14.4 million PLN, of which 5.0 million PLN is owed to ELEKTROBUDOWA SA.

As at 31 December 2012 overdue payments for the completed works amounted to 18.8 million PLN, including the amount of 6.4 million PLN owed to ELEKTROBUDOWA SA.

On 19 December 2012 an agreement before the court was reached with NCS concerning the overdue receivables in the amount of 7.4 million PLN. Pursuant to the agreement on 27 December the consortium received a payment in the amount and on the terms specified in the agreement of 19 December 2012. The consortium members provided NCS with a blank bill of exchange agreement concluded on 19 December 2012. The bill is a security for recovery of payments if it is ascertained by a judgment with force of law that the amounts paid to the consortium were not due on the date of payment, because of defects in performance of works, earlier payment by the General Contractor, time-bar of the claim or for other reasons.

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 company did not impair the amount of pursued claim as at 31 December 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 ELEKTROBUDOWA SA 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 company in 2012 amounted to 911.2 million PLN which means a decrease by 17.1% on the comparative period of the previous year. The company's order backlog as at 31 December 2012 amounted to 803.5 million PLN and its volume was by 5.7% smaller than on 31 December 2011. Although the sales invoiced by ELEKTROBUDOWA SA in 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 favourable for the construction sector. Consequently, sales revenue generated by the company in the second quarter of 2012 rapidly increased. Comparing consecutive quarters of the year, the biggest sales were realized in Q4 of 2012, when the value of 313.9 million PLN was reached, which constitutes 31.9% of total 2012 revenue.

In 2012 revenues on sales of products, goods and materials earned by ELEKTROBUDOWA SA amounted to 985.4 million PLN and were by 83.0 million PLN higher than in 2011, which is equivalent to a 9.2% growth.

Sales invoiced in 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 77.0m
- 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 42.9m
- 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 27.9m
- Supply of electrical and I&C services at the site of Bituminous Shale Deoiling Plant, for OUTOTEC GmbH. PLN 23.8m
- National Stadium in Warsaw including associated infrastructure for the Consortium ALPINE Construction Polska Sp. z o.o. and Hydrobudowa Polska S.A. PLN 22.6m
- Participation in the turnkey supply of a new, gas-fuelled, combined heat and power unit, 45MWe electric power and 40MWt thermal power in KGHM, Głogów for KGHM Polska Miedź S.A. PLN 22.0m
- Turnkey supply, erection and commissioning of electrical systems of FGD plant of Units 1, 2 PGE GiEK Oddział Elektrownia Bełchatów S.A. for RAFAKO S.A. PLN 21.7m

- 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 20.2m
- Participation in the turnkey supply of a new, gas-fuelled, combined heat and power unit, 45MWe electric power and 40MWt thermal power in KGHM, Głogów for KGHM Polska Miedź S.A. PLN 19.0m

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

	2012		2011		Change
	PLN'000	%	PLN'000	%	PLN'000
Net sales revenues	985 421	100.0	902 458	100.0	82 963
Cost of products, goods and materials sold	(925 556)	93.9	(845 573)	93.7	(79 983)
Gross profit on sales	59 865	6.1	56 885	6.3	2 980
Selling costs	(5 953)	0.6	(3 962)	0.4	(1 991)
Administration expenses	(10 085)	1.0	(9 418)	1.0	(667)
Other operating expenses	(3 941)	0.4	(3 186)	0.4	(755)
Other gains / losses - net	(1 961)	0.2	5 555	0.6	(7 516)
Operating profit	37 925	3.9	45 874	5.1	(7 949)
Finance income / costs – net	4 667	0.4	5 050	0.5	(383)
Profit before income tax	42 592	4.3	50 924	5.6	(8 332)
Net profit for the period	35 986	3.7	40 689	4.5	(4 703)

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 2012 profitability ratios slightly dropped as compared to 2011.

Gross profit margin fell by 1.3 percentage point, whereas the operating profit margin by 0.8 percentage point. The decrease of profit margins was substantially caused by the growth of expenses of other operating activity. Deteriorated financial situation of business partners, problems with liquidity and declared bankruptcies of a few co-operators made it necessary to write down the receivables by 12 993 million PLN. The impairment of receivables is the main item of other operating expenses and they rose by 10 623 thousand PLN compared with the year 2011.

Gross profitability of sales showed a slight decline as well. By 0.4 percentage point higher growth rate of costs of products, goods and materials sold as compared to revenues, resulted in the decrease of gross profit on sales by 0.2% on the earnings in the same period of the previous year. The decline in return on sales of the company 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 any cost, 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. 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 2012 amounted to 5 953 thousand PLN and were by 1 991 thousand PLN higher than in 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 2012 and 2011 amounted to 0.6% and 0.4%, respectively. The 0.2 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 general administrative costs incurred in 2012 amounted to 10 085 thousand PLN and rose by 667 thousand PLN, i.e. by 7.1% compared with 2011. Their relation to the sales revenues remain on the same level and accounted for 1.0% both in 2012 and 2011.

Other operating costs incurred in 2012 amounted to 3 941 thousand PLN and included:

- charges and fees paid for contract bonds issued by banks, 2 011 thousand PLN,
- bank commission on advanced loans 398 thousand PLN,
- legal fees and penalties, 1 532 thousand PLN.

In 2012, compared with 2011, total value of charges and fees relating to the contract bonds rose by 49 thousand PLN (by 2.5%). This is due to bigger amount of guarantees provided by the company, including contract bonds: advance payment bonds, performance bonds, warranty bonds, and also provided as security for debt payment. Also, costs of loans were bigger, and amounted to 176 thousand PLN (a growth by 79.3%). In 2012 the company used current account overdraft facility and a working capital loan to finance its day-to-day operations, what increased the amount of bank commission. The amount of loans used by the company in 2012 totalled 11 201 thousand PLN. In 2011 the company did not utilize loans to fund its operations.

In 2012 ELEKTROBUDOWA SA incurred expenses relating to legal fees and penalties which were by 530 thousand PLN higher than in the comparable period.

Total other operating costs rose by 755 thousand PLN, that is by 23.7%.

In 2012 other expenses exceeded the amount of other income higher by 1 961 thousand PLN, while in 2011 there was a reverse situation: there was a surplus of other income over expenses in the amount of 5 555 thousand PLN. Negative result of other operating activity in 2012 was generally attributable to the impairment of receivables.

Main items of other income:

- reversal of forward contract valuation	7 185	thousand PLN
- penalties and compensation	4 379	thousand PLN
- reversal of provision for impairment of receivables	2 598	thousand PLN
- interest	2 336	thousand PLN
- received compensation	575	thousand PLN
- legal fees	127	thousand PLN
- discount of receivables	94	thousand PLN
- gains from realized forward contracts	51	thousand PLN
- gains from disposal of non-finance fixed assets	22	thousand PLN

Main items of other expenses:

- provision for impairment of receivables	12 883	thousand PLN
- loss on realized forward contracts	2 472	thousand PLN
- interest	1 642	thousand PLN
- damage repair cost	509	thousand PLN
- negative exchange differences	264	thousand PLN
- donations	171	thousand PLN
- depreciation and amortisation	124	thousand PLN
- inventories write-down	117	thousand PLN

Operating profit generated by the company for 2012 amounted to 37 925 thousand PLN while return on operating profit was 3.9%. Compared with 2011, the profitability of operating activity dropped by 1.2 percentage point.

ELEKTROBUDOWA SA recorded 4 667 thousand PLN gains from financial activities, which dropped by 383 thousand PLN, that is by 7.6% in relation to the year 2011.

The financial income includes 5 551 thousand PLN of dividend received on its shareholding:

- in PI Biprohut Sp. z o. o., 497 thousand PLN
- in KONIP Sp. z o.o., 54 thousand PLN
- in ENERGOTEST sp. z o.o., 5 000 thousand PLN

The gains were decreased by finance expenses in the amount of 884 thousand PLN which consists of:

- interest on credit 310 thousand PLN,
- interest on leases 3 thousand PLN,
- impairment of shares in KRUELTA Ltd. 571 thousand PLN.

The 2012 pre-tax profit amounted to 42 592 thousand PLN and was by 8 332 thousand PLN, i.e. by 16.4% smaller than the profit generated by the company in 2011.

The 2012 net profit was earned in the amount of 35 986 thousand PLN and was by 4 703 thousand PLN, i.e. 11.6%, lower than in 2011.

2.3 Financial analysis

As at the end of 2012 the balance sheet total rose by 34.1 million PLN compared with its value in 2011.

The growth was recorded both in non-current assets (by 25.4 million PLN) and current assets (by 8.7 million PLN). A significant growth was recorded in the following non-current assets: long-term receivables by 15.0 million PLN, intangible assets by 6.7 million PLN and property, plant and equipment by 3.4 million PLN. On the side of current assets there was a growth in accounts receivable for construction contract works by 32.2 million PLN, short-term prepayments by 3.5 million PLN and cash by 3.2 million PLN.

On the equity and liabilities side, the relation of liabilities to equity increased. In 2012, compared with 2011, the increase in equity by 11.9 million PLN was accompanied by the 22.2 million PLN increase in liabilities. The growth in equity is principally attributed to the increase of supplementary capital by 21.7 million PLN further to distribution of 2011 profit. The increase in liabilities was generally caused by the increase in loans, borrowings and debt securities by 11.2 million PLN, short-term trade and other payables by 6.6 million PLN, current accruals by 4.5 million PLN, current trade and other payables by 3.7 million PLN and other long-term payables by 2.7 million PLN.

The company implemented the policy of financing its operations from its own funds, partly supported by borrowing capital in the form of liabilities which were provisionally in the company's disposal and also by overdraft facility and working capital loan in the amount of 11 201 thousand PLN.

Selected ratios describing the company economic and financial position:

	2012	2011	2010
I. Profitability ratios			
1. Net profit margin <i>net profit / sales revenues</i>	3.7%	4.5%	6.6%
2. Gross profit margin <i>profit before taxes / sales revenues</i>	4.3%	5.6%	7.9%
3. operating profit margin <i>operating profit / sales revenues</i>	3.9%	5.1%	7.0%
4. Return on equity (ROE) <i>net profit / average equity capital</i>	10.6%	12.4%	16.3%
5. Return on assets (ROA) <i>net profit / average assets</i>	5.3%	6.6%	9.5%

II. Liquidity ratios

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

III. Turnover ratios

1. Receivables turnover ratio (days)	95	99	95
<i>average trade debtors x 360 days / sales revenues</i>			
2. Accounts payable turnover ratio (days)	85	77	62
<i>average trade creditors x 360 days sales revenues</i>			
3. Inventory turnover (days)	19	16	7
<i>average inventories x 360 days / sales revenues</i>			
4. Assets turnover	1.5	1.5	1.4
<i>sales revenues / average total assets</i>			

IV. Debt ratios

1. Debt-equity ratio	50.2%	49.4%	43.9%
<i>average borrowed capital / average total equity</i>			

The presented ratios in a synthetic form reflect the measurement of the company's management effectiveness, 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 company within recent years. In 2012 the net profit margin was 3.7% and dropped by 0.1 percentage point on 2011 and by 1.8 percentage point on 2010. Gross profit margin was 4.3% and dropped by 1.3 percentage point on 2011 and by 3.6 percentage point on 2010. Worsening of the ratio means that the company has to realize bigger volume of sales to generate a certain amount of profit.

The return on assets ratio (ROA), which indicates ability to generate earnings after taxes by all assets used in the company was 5.3% in the reporting fiscal year and was by 1.3 percentage point lower than in 2011 and by 4.2 percentage point lower than in 2010. Although ROA has been in the falling trend during the analysed periods, its levels indicate the effective use of assets employed. Each 1 zloty used for financing the assets earned 0.05 zloty net in 2012.

The return on equity (ROE) was 10.6% for 2012 and dropped by 1.8 percentage point compared with 2011 and by 5.7 percentage point on 2010. The decrease of ROE in the analysed years means that equity rose quicker than profit. The value of ROE at the level of 10.6% when the 2012 inflation rate was 3.7% guarantees not only maintaining but even growth of real value of equity.

In 2012, liquidity ratios, both current and quick, did not change compared to the previous year and maintained the level of 1.5 and 1.4, respectively. They slightly dropped on 2010, current ratio by 0.2 and quick ratio by 0.3 point. 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 company. Liquidity ratios provide information about the short-time financial security of the company; their values should be correlated with the level of the turnover ratio.

The collection period of trade receivables in 2012 was 95 days. It was by 4 days shorter than in 2011 but the same as in 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 company has shortened.

Overdue trade receivables were impaired in the amount of 12 348 thousand PLN (11 631 thousand PLN in 2011). The impairment covered the trade receivables for which the company has a warrant of execution by the bailiff, that are within the estate in bankruptcy, or that were due over 180 days ago. In 2012, compared with 2011, the amount of impairment of trade receivables rose by 6.2%.

According to the balance sheet data, payables are settled within 85 days. Maturity dates for payables vary from 14 days to 60 days. Within the analysed 6 months accounts payable turnover ratio grew by 8 days on 2011 and by 23 days on 2010. Although the period in which the company paid its debt got longer, the turnover period for payables was shorter than in the case of receivables, which indicates that ELEKTROBUDOWA SA more often extends trade credit to its customers than utilizes such credit from its suppliers.

Inventories turnover period, which was 19 days, provides information on the length of process of transforming the inventories into finished products sold. In 2012 the inventories turnover period was by 3 days longer than in the prior year and by 12 days longer than in 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 company'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 ELEKTROBUDOWA SA. The length of inventories turnover cycle indicates efficiency of managing the material resources of current assets.

The company's activity is assessed by the assets turnover ratio, which measures the ability of assets owned by the company to generate sales. In the comparable reporting periods asset turnover maintained the same level of 1.5 which means that each 1 zloty engaged by the company generates 1.5 zloty of sales revenues. The level of the ratio in the analysed periods indicates balanced growth of

sales revenues and the company's assets and therefore efficient use of property owned by the company.

Debt-equity ratio is the ratio between borrowed capitals on the one hand and owned capital on the other. In 2012 the debt-equity ratio rose by 1.6% on 2011 and by 14.4% on 2010. Growth of the ratio informs about higher share of borrowed capital in financing the company's equity. In 2012 the company was utilizing its lines of credits in banks. As at 31 December 2012 the amount of used overdraft and working capital loan totalled 11 201 thousand PLN.

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

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

2.4 Financial resources management

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

In 2012 the company maintained overdraft facility in the current accounts up to the total amount of 50.0 million PLN. The overdraft limit is 10 million PLN. As of 31 December 2012 the amount of debit was 11.2 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 company 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 to optimize management of financial liquidity risk.

The company'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 company concludes forward contracts to hedge the exchange rates. Most often, however, the company enjoys natural hedging of foreign exchange risk, as the imports are realized in foreign currencies.

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

ELEKTROBUDOWA SA maintains 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 and to guarantee timely payment of debt.

Favourable contractual terms for guarantees are a strong competitive advantage and allow the company to take part in all tenders. In 2012 ELEKTROBUDOWA SA substantially increased the limit of loans and guarantees what allows it to maintain a good position in tender procedures (necessity to prove credit quality).

Agreements with banks concerned mainly guarantee lines granted within multipurpose limits up to the total amount of 299.5 million PLN (of which 50.0 million PLN for loans and 249.5 million PLN for guarantees). As at 31 December 2012 they were utilized in the amount of 171.7 million PLN as guarantees and 11.2 million PLN as overdraft in the current account and working capital loan. In 2011 the allowed limit of bank products was 261.5 million PLN, of which credit facility 16.0 million PLN and guarantee line 245.5 million PLN.

The company extended its cooperation with insurance companies in respect of guarantees. Total limit granted the company for contract bonds amounts to 115.0 million PLN, of which 41.2 million PLN was used as of 31 December 2012. The limit of insurance guarantees granted in 2011 amounted to 50.0 million PLN.

Assessing the funds owned and the amounts of expected inflows and expenses it must be pointed out that the resources will allow the company to finance both the investments planned for 2013 and also its current operating activity, with no risk of destabilizing the financial liquidity.

2.5 Human capital management

In 2012 average monthly employment was 2014 job equivalents and was about 2.4% higher than in 2011. Out of the average number of employees, 1 196 job equivalents fell to direct labour, whereas 818 job equivalents to white-collar staff. The number of manual workers decreased by 1.8% compared with 2011, accompanied by the growth in the company of non-manual workers (9.2% rise).

The year-end average employment was 2017 employees in 2012. Compared with the year-end employment in 2011 the number of employees rose by 24 persons.

In respect of employment structure by education, the number of personnel with higher education, mainly engineering, regularly increases. At the end of December 2012 the number of employees with degrees accounted for 32% of total, while as at the end of June 2011 it was 29%.

The 2012 productivity of employment, calculated as the relation of sales revenues and average monthly employment amounted to 489.3 thousand PLN. Profitability of employment, calculated as the relation of gross profit and average monthly employment, was 21.1 thousand PLN. Compared with the year 2011 the productivity index rose by 30.5 thousand PLN while the profitability index fell by 4.8 thousand PLN.

In the period from 1 January to 31 December 2012 together 335 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 company's activity personnel were recorded during the six reporting months. There were only a few cases of termination for the reasons attributable to the employer.

Average gross monthly pay was 5 640 PLN in 2012. Its amount, which is much higher than average monthly salary in Poland, is principally attributed to the company's foreign contracts, where the company maintains the level of guaranteed pay applicable according to the local collective agreements. In 2012 average monthly number of employees at the site in Finland was 276 job equivalents, compared with 337 in 2011. Reduction of employment at the contract involved the reduction of average monthly pay in the company in 2012 by about 3.6% compared with the prior year.

The company consequently implements an incentive programme targeted at increase of profit margins and performance and develops non-pay methods of motivation 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 company. So, as in previous periods, in 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 parent. 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 2012 the company invested 1354 thousand PLN in training of its personnel, which gives an average of 672 PLN per one employee. Training costs accounted for 1.0% of the total 2012 remuneration fund. The implemented development programmes not only contribute to the increased professionalism of employees and development of their skills but also complement the applied incentive systems and plans.

Cooperation with the trade union organisations was very good in the whole year 2012. There were no labour disputes in the company, or collective bargaining with the trade union organisations acting in the companies. Like previous years, the company 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 ELEKTROBUDOWA SA 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. The company was also awarded an honourable distinction for increasing standards of work of young mothers in the 5th edition of "Mum at Work 2012" competition organized by the daily "Rzeczpospolita", St. Nicolas Foundation and MiiwardBrown SMG/KRC.

Since 1 December 2010 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 its activity the company 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.

ELEKTROBUDOWA SA was included, together with several dozen of WSE-listed companies, both in the 4th and the 5th edition of 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

In 2012 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.

The number of accidents rose from 8 in 2011 to 12 in 2012, while the employment rose from 2183 to 2211 employees, respectively.

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

2.7 Quality System Management

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

ELEKTROBUDOWA SA applies the Quality Management System according to EN ISO 9001 and the Environmental Management System based on the model presented in the EN ISO 14001 standard.

The Quality Management System has been supplemented with:

- the NATO requirements defined in the document AQAP-2110,
- quality assurance requirements in nuclear power stations - acc. to KTA 1401,
- the requirements for welding - according to PN-EN ISO 3834-2.

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

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

The quality management system is integrated with the environmental management and occupational safety management systems. Integration generally consists in development of common systemic documentation, common auditing of the management systems, setting goals and targets. The key objective of the above systems is constant improvement of quality of our products, with care for environment by preventing and mitigating adverse environmental impacts and with fulfilling the OHS requirements.

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

- a series of courses for Erection Supervisors and supervision staff to present cases of nonconforming with environmental regulations and quality requirements for products and services was extended by the training in quality costs account as a significant tool for improvement of management systems;
- internal auditors' training within Academy of Auditors 2012, extended by the topics of product liability in the light of applicable EC directives, particularly the directive concerning the control circuits of electrical machines;
- internal audits of the integrated quality and environmental management system, actions aiming at prevention of nonconformity occurrence and taking relevant corrective actions;
- audit of the supervision of the quality and environmental management systems completed with positive result,
- 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,
- certification audit by the auditors from the State Mining Authority, covering the quality assurance system for implementing a new product, switchgear in flameproof enclosure; positive result.

Plans for the first half of 2013 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, quality costs account and the environmental responsibilities of the company;
- training concerning the amendment to the law on wastes which comes into force on 23 January 2013 and will introduce new definitions and requirements in the scope of waste management;
- professional training on requirement which will probably come into force in the first half of 2013 and will concern qualifications of electrical personnel and safety of work at electrical equipment;
- continuation of review of the system documents, introducing necessary corrections and amendments following the amendments of law, changes in the structure of the parent's divisions in the first half of 2013;
- preparation and implementation of management systems reviews, development of plans and programmes for 2013.

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

2.8. Prospects for business development and significant risks or threats

In 2012 the Polish building and construction output was by 1.0% smaller than a year before when it rose by 16.3%. Forecasts for economic climate in the building industry are more and more pessimistic, the same is with financial situation forecasts. It is generally predicted that the building works order backlog will shrink both in the domestic market and foreign markets. It is also expected that the prices of construction and erection works will fall. 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 31 December 2012 the order backlog of ELEKTROBUDOWA SA amounted to 803.5 million PLN and dropped by 5.7% on the comparable period of 2011. In 2012 the amount of orders received by the company reached the value of 911.2 million PLN and decreased by 187.6 million PLN, i.e. by 17.1%, compared with the previous year.

The sales revenues generated by the company in 2012 amounted to 985.4 million PLN and recorded a growth by 83.0 million PLN (by 9.2%) on 2011.

Growth in the value of generated revenues in the consecutive fiscal year was possible owing to:

- diversification of order portfolio;
- consistent development of customer service network;
- increasing share of export.

The management of ELEKTROBUDOWA SA attaches considerable significance to strengthening the company's competitive advantage in foreign markets and to growth of exports. The company actively seeks new market for its products and boosts its export sales in its traditional areas. It has five foreign permanent establishments registered, through which it provides services in Finland, Luxembourg, Estonia, Germany and the Netherlands. Through the operation of its associates the company introduces its products in the markets of Russia, Ukraine and Saudi Arabia.

Like in previous years, the sales offer of ELEKTROBUDOWA SA in 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. Manufacture and installation of high-current busducts (ELPO, ELPE, PELPO).
3. Manufacture of indoor medium and low voltage switchgear assemblies.
4. LV, MV, HV stations.
5. Turnkey supply of electrical substations and high and extra high voltage lines for distribution and industrial operators.
6. Commissioning tests and start-up.
7. Design of equipment.
8. Servicing.
9. General execution of investments, including public utility facilities, retail centres, industrial facilities.
10. Conceptual work and consulting.
11. 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 company's potential allows it to put into effect the majority of complex projects on its own.

Growth of ELEKTROBUDOWA SA 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 company 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 and in Saudi Arabia,
- course of privatization processes, especially in the power industry,
- consistent reducing administration costs,
- increasing requirements for financial security of projects in the segment of power industry construction,
- financial situation of investors.

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.

ELEKTROBUDOWA SA constantly undertakes intensive efforts to increase the volume of exports. The company 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 ELEKTROBUDOWA SA presented its products in the following events:

- 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 the company to win new areas of the power market in Poland and Europe.
- SAUDI ENERGY 2012 fair where SAUDI ELEKTROBUDOWA L.L.C. presented a wide range of Elektrobudowa's products.

For a few years the ELEKTROBUDOWA SA is successful in offering its products in Saudi Arabia. Two segments of the company, Power Generation Division and Power Distribution Division are involved independently. ELEKTROBUDOWA SA 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. Principal products offered and sold in the Saudi market include D-17P switchgear for 13.8kV system and D-40P for 33kV system. The company is of the opinion that this country is also a big potential market for busducts. In 2012 an order was received by the Power Generation Division for the delivery of busducts to Shoaiba II Power Station. For the busduct manufacturing factory in Tychy signing the contract for delivery of generator busducts for 18 power units of the Saudi Quarayyah Power Station was a particular success.

ELEKTROBUDOWA SA is going to continue to strengthen its position in the Russian and Ukrainian markets. Mobile substations type SKP equipped with medium voltage switchgear and indoor MV switchgear will remain principal goods exported to Russia and Ukraine. Their range will be extended and will include recent solutions developed in 2012 – the SKP mobile substations with double system switchgear type D-12-2S to be used as mobile generator distribution of low and medium power. The offered switchgear range will be extended and will include the solution with double system of busbars applied in medium and high power generator switchgear, flame-proof switchgear PREM-GO dedicated for underground mines where there are methane and coal dust explosion hazards, and medium voltage SF6 insulated switchgear panels.

ELEKTROBUDOWA SA thoroughly analyses the market on which it operates and identifies segments prospective for its business development.

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.

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

ELEKTROBUDOWA SA has suitable human capital and financial resources to involve in future projects planned by the power and gas industries and renewable energy sources. 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 company in the year 2013. Forecasts prepared by ELEKTROBUDOWA SA account for deteriorating market conditions in the sector where the company operates.

One of major challenges that the company has to meet is maintaining financial liquidity. It is of particular importance in the context of decreasing number of orders and growing problems with payment gridlocks.

Deteriorating financial situation of investors is the cause of frequent changes of investment plans and considerable uncertainty about projects being executed. Strong competition inside the branch and insufficient demand are essential barriers which restrict the activity of the company and which directly translate into lower margins on projects. Winning new orders 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. Instead of introducing provisions which would improve organization of the procurement market, more restrictions are introduced to regulations, which increase the existing overbalance to the advantage of investors.

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 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 establishes the general rules for risk management and policies for specific risk areas.

3. MARKET SITUATION - SALES AND PROCUREMENT

3.1 Sales destinations

The activity of ELEKTROBUDOWA SA is concentrated mainly in the Polish market. Because of 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 2012 which included supplies within the EU and to the countries outside the Union generated the revenue of 212 061 thousand PLN, which accounted for 21.5% of total sales revenues, whereas 2011 exports generated 17.6% of total revenues. The company's exports have been in the constant growth trend in recent years.

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

Business areas	2012		2011	
	Value (PLN'000)	%	Value (PLN'000)	%
Power generation	295 879	30.0	336 256	37.3
Mining	119 101	12.1	34 568	3.8
Transport	76 499	7.8	42 296	4.7
Chemical industry	64 219	6.5	60 262	6.7
Retail facilities	60 554	6.1	77 623	8.6
Housing and public utility construction	36 156	3.7	38 814	4.3
Paper & pulp	33 950	3.5	3 738	0.4
Automotive	18 037	1.8	4 602	0.5
Sports facilities	11 360	1.2	97 865	10.8
Metallurgy	9 768	1.0	7 006	0.8
Environmental protection plants	4 934	0.5	3 929	0.4
Power distribution	2 278	0.2	735	0.1
Building materials	2 199	0.2	9 173	1.0
Food industry	1 382	0.2	4 034	0.5
Industrial automation	344	0.0	0	0.0
Electronic industry	0	0.0	7 204	0.8
Other areas	36 700	3.7	15 565	1.7
Export of products and materials	212 061	21.5	158 788	17.6
Total	985 421	100.0	902 458	100.0

Like in previous years, power generating sector was the biggest source of the company's income in 2012 (30.0% in the sales breakdown by industries) where ELEKTROBUDOWA SA is present with its products and comprehensive range of electric installation works in all newly erected, extended or modernized power stations. The biggest project for this sector executed by the company concerned provision 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 2.1%. Performing this contract the company 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 company's sales revenues and accounted for 12.1% of the income. Compared with 2011 this share rose by 8.3 percentage point. ELEKTROBUDOWA SA 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 for KGHM Polska Miedź S.A. electrical capacity 45MWe and thermal capacity 40MWt in CHP Głogów (4.0% of total sales revenues) and in CHP Polkowice (2.2% of total sales revenues generated by the company).

In 2012 the volume of services provided for transport sector recorded a growth. This sector had a 7.8% share in total revenues generated by the company which rose by 3.1 percentage point compared with 2011. The main contract concerned building the Franowo tramway depot in Poznań for MPK w Poznaniu Sp. z o.o. which accounted for 6.9% of total sales revenues.

Another area of the company's activity was the chemical industry (6.5%). The volume of sales to the chemical industry principally concerned two projects:

- turnkey supply, including engineering, delivery and erection, of infrastructure for the planned installation of flue gas cathalytic denitrogenizing (SCR), dedusting (EF) plants and a part of infrastructure for desulfurization (FGD) plant in the scope of GPR-EC station in the purchaser's factory in Płock within the framework of the project "Construction of SCR/EF Installation Including Infrastructure" for Polski Koncern Naftowy ORLEN SA (2.8% share in sales revenues);
- supply of services related to site preparation for construction of the Flue Gas Desulfurization (FGD) plant within the framework of the project: "Adjustment of the Heat & Power Plant in Płock to the Emmission Standards Applicable from 1 January 2016 – Site Preparation for Construction of the FGD Plant" for Polski Koncern Naftowy ORLEN SA (1.7% share in sales revenues).

Another significant area of the activity of ELEKTROBUDOWA SA was the sector of retail facilities construction, which had 6.1% share of total revenue, by 2.5 percentage point smaller than in 2011. The supplies for this sector included equipment and services provided for new and modernized retail centres: hypermarkets and retail chains, such as Sky Tower in Wrocław (2.2%), chain store Dom Towarowy Okrągłak in Poznań (1.9%) or EUROPA CENTRALNA in Gliwice (1.7%). Contracts of this type have been successfully performed by the company for several years.

Services for residential and public utility building had a 3.7% share in total revenue earned by the company in 2012, which fell by 0.6 percentage point compared with 2011. The biggest contracts in this

branch was performed at construction of a concert hall for the Stanisław Moniuszko Koszalin Filharmonic, for the Koszalin municipality (0.9%), construction of a complex of three multi-family houses together with underground and surface car parks and internal infrastructure, for Na Skraju Lasu Sp. z o.o. (0.6%) and construction of a new seat of the Silesian Museum in Katowice (0.5%).

In 2012 the company earned the revenue of 34.0 million PLN from contracts with purchasers in the paper&pulp industry. The amount constituted 3.5% of the company's total sales and this share rose by 3.1 percentage point compared with 2011. The sales principally concerned the supply of equipment and services for the industrial and building electrical installations for STORA ENSO Narew Sp. z o.o., responsible for 2.9% of the company's total sales.

Other market segments, responsible for 30.3% share in the revenue on sales of products, goods and materials, allowed the company to considerably supplement its sales outside the above basic industries.

The destinations and structure of exports are presented below:

	2012		2011	
	Value (PLN'000)	%	Value (PLN'000)	%
Finland	82 350	38.8	70 626	44.5
Russia	54 188	25.6	23 920	15.1
Estonia	23 837	11.2	11 216	7.1
Ukraine	22 697	10.7	14 193	8.9
Saudi Arabia	6 684	3.2	7 304	4.6
Germany	5 433	2.6	16	0.0
Luxembourg	4 672	2.2	851	0.5
Belarus	2 849	1.3	2 288	1.4
Turkey	2 579	1.2	2 373	1.5
The Netherlands	2 433	1.1	21 098	13.3
Sweden	1 389	0.7	237	0.1
Lithuania	1 225	0.6	86	0.1
Iraq	504	0.2	0	0.0
Switzerland	335	0.2	1 096	0.7
France	273	0.1	0	0.0
The USA	244	0.1	11	0.0
Trinidad & Tobago	159	0.1	164	0.1
Uzbekistan	130	0.1	1 919	1.2
Australia	0	0.0	470	0.3
Hungary	0	0.0	920	0.6
Other countries	80	0.0	0	0.0
Total export sales	212 061	100.0	158 788	100.0

Export sales generally concerned installation services provided in the Scandinavian market. Export of services to Finland in 2012 amounted to 82.4 million PLN, which constituted 38.8% of the company's total export sales. Sales revenues were generated mainly on the contract for electrical and I&C systems for the NPP OLKILUOTO 3 in Finland, which initial contract price was €46m. The invoiced value of works performed at this site in 2012 amounted to 77.0 million PLN, corresponding to 36.3% of total export sales revenues.

Sales of equipment and services to Russia still have an important position in total export revenues. In 2012 ELEKTROBUDOWA SA sold its products and services on the Russian market for the amount of 38.7 million PLN that had a 25.6% share in total exports realized by the company. 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. 10.7% share in export revenues. The company sold its goods through the subsidiary, ELEKTROBUDOWA UKRAINE Ltd. which promotes products offered by ELEKTROBUDOWA SA in the local market. The revenue earned in 2012 from the sales to ELEKTROBUDOWA UKRAINE Ltd. amounted to 22.6 million PLN, which constituted a 10.6% share in 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. Mobile substations type SKP equipped with medium voltage switchgear, and indoor MV switchgear had major share in 2012 exports to Russia.

The company entered the Belorussian 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 1.3% share in total 2012 exports.

In the geographical structure of exports sales in 2012, a high position belonged to the Estonian market, which was responsible for 11.2% of total company's exports. ELEKTROBUDOWA SA sold its services to Estonia through its permanent establishment. Sales generated by the establishment amounted to 23.8 million PLN and concerned the supply of electrical and I&C systems at the site of Bituminous Shale Deoiling Plant for OUTOTEC GmbH.

A significant, 3.2% share in export sales fell to Saudi Arabia. The 2012 exports to Saudi Arabia principally concerned equipment manufactured by the Power Distribution Division. The company earned 3.3 million PLN on the sales of medium voltage switchgear panels type D-17P and D-40P (1.5% 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 3.4 million PLN (1.6% share in exports).

The next in the structure of exports were the sales to Germany (2.6%). The biggest income was generated from the export of finished products for Voith Hydro GmbH & Co. KG: 2.1 million PLN (1.0% in the structure). Sales in the German market were realized also through the company's permanent establishment. The establishment earned 3.1 million of revenues, which is equivalent to a 1.5% share in the export structure.

Revenues earned by services performed by the company through the establishment in Luxembourg were marked by a dynamic growth. Export sales to this country generated 4.7 million PLN in 2012, with 2.2% share in total exports, and concerned services for the extension of the existing Water Power Plant Unit 11 in a new cavern.

ELEKTROBUDOWA SA constantly looks for new markets. Intensive actions are being taken to promote its 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 company strives at changing its local perspective into global one. ELEKTROBUDOWA SA penetrates foreign markets in order to meet its future partners and to acquaint with the specifics of local trade.

3.2 Dependence on one or more customers

In 2012 ELEKTROBUDOWA SA 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 77.0 million PLN, which constituted 7.8% of the company's revenues generated in this period.

In the reporting period ELEKTROBUDOWA SA was not dependent on one customer who had more than 10% share in the sales revenue. The 2012 income on two customers accounted for 13.9% of total revenue. The customers were the recipients of services provided by two business segments: the Power Generation Division (8.4% of the company's revenue) and the Industry Division (5.5% of total company's revenue).

3.3 Sources of supply

In 2012 the sources of supply did not change much as compared with previous years. The company does not depend on one or several suppliers, whose share in sales revenues would exceed 10%. However, keeping in mind the necessity of cutting costs the company is looking for new suppliers of materials who would offer more favourable purchasing conditions.

4. SIGNIFICANT AGREEMENTS

4.1 Construction contracts and contracts for supply of goods

Total value of orders received in 2012 by the parent amounted to 911.2 million PLN.

The awarded contracts included:

- turnkey supply, including engineering, delivery and erection, of infrastructure for the planned installation of flue gas cathalytic denitrogenizing (SCR), dedusting (EF) plants and a part of infrastructure for desulfurization (FGD) plant in the scope of GPR-EC station in the purchaser's factory in Plock within the framework of the project "Construction of SCR/EF Installation Including Infrastructure" for Polski Koncern Naftowy ORLEN SA
- "design and build" contract for "Extension of the 400/110kV Substation Słupsk" – Stage 1 and 2, to connect a Słupsk 240MW wind farm, Potęgowo 320MW wind farm, including installation of the 400/110kV auto-transformer to connect the network owned by ENERGA - OPERATOR S.A., for PSE Operator S.A.;
- "Design and 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 Plock 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.,
- Turnkey electrical systems for "Turnkey Construction of a Power Unit for Przyjaźń Coking Plant" for ENERGOINSTAL S.A.;
- 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.
- Execution of project „Construction of SŁAWNÓ 110/15 kV station and the 110 kV overhead line" for PGE Dystrybucja Spółka Akcyjna,

4.2 Insurance contracts

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

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

5. INVESTMENTS

5.1 Investments carried out in 2012

Total investment expenditure incurred by ELEKTROBUDOWA SA in 2012 included:

- expenditure on fixed assets 12 339 thousand PLN,
- expenditure on intangible assets 8 102 thousand PLN,
of which:
- outlays for R&D 6 798 thousand PLN.

Capital expenditure for research and development in 2012 concerned mainly implementation of manufacture of a new product developed by ELEKTROBUDOWA SA, high voltage switchgear type OPTIMA 145. Related costs incurred in 2012 amounted to 3 966 thousand PLN while the expenses since the beginning of the project until the reporting day totalled 6 582 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 6 962 thousand PLN and concerned the following facilities:

- construction of new backup facilities in Płock: 3 439 thousand PLN,
- adaptation of a production bay to the requirements of GIS switchgear in Konin: 2 030 thousand PLN,
- fire escape route in Katowice: 1 076 thousand PLN,
- modernization of server room in Katowice: 316 thousand PLN.

In 2012 the equipment to streamline the production and assembly processes was bought for the sum of 2 206 thousand PLN. Main items of the purchased machinery and equipment include:

- air-conditioning system in the office building in Katowice, 372 thousand PLN,
- shelving for warehouse: 156 thousand PLN,
- installation tester Artes 440II: 148 thousand PLN,
- hydraulic machine for cutting and flanging of sheets: 136 thousand PLN,
- electro-hydraulic cable pressing machines (5 pcs): 119 thousand PLN,
- Jungherinrich 435 fork lift truck: 104 thousand PLN,
- HPG 50H testing set: 50 thousand PLN,
- electro-hydraulic cable shears (3 pcs): 45 thousand PLN,
- type 20 storage containers (4 pcs): 44 thousand PLN.

Furthermore, the replacement of physically and morally worn computer hardware was continued, for which the amount of 1 357 thousand PLN was earmarked. The expenses for modern software, licences and trademarks amounted to 1 631 thousand PLN

Outlays for vehicles amounted to 1 814 thousand PLN, the fleet of vans and motors cars was enlarged.

The 2012 investments were financed from the funds owned by the company and only a small part of those resources came from selling of some tangible assets.

5.2 Investment plan for the first half of 2013

Planned capital expenditure for non-finance fixed assets in the first half of 2013 amount to 16.1 million PLN and include the following investment:

- continuation of adapting the production bay to the requirements of GIS switchgear in Konin,
- modernization of the warehouse, including social and office areas, in konin,
- modernization of site backup facility in Kozienice,
- continuation of building a new backup facility in Płock,
- modernisation of elevation of Hall 2 in Konin.

Modernisation of machine fleet will be continued. Purchase plans include: TruPunch 3000 punching machine, portable, motor operated machines for processing copper bars, osmosis device for water demineralization, 3-phase system of switchgear heating, SF6 testing transformer for commissioning testing of 420 GIS (HEAFLEY), HV/MV circuit breaker tester (ACTAS 24 manufactured by COCOS), multi-function hoist "Manitou", MV cable diagnostics equipment, an endoscope with a head, cutting-off machine, a fork lift truck, cable termination tools (crimping tools, shears).

A part of investment outlays planned for the first half of 2013 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 first half of 2013 ELEKTROBUDOWA SA plans to spend the sum of 410 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 ELEKTROBUDOWA SA described in item 2.2 of this report, stable liquidity ratios and order backlog for the first half of 2013 it is evident that realization of the investment plans, including capital investments is not at risk. As in the previous year, the company is going to finance the investments from its own funds, which finds confirmation in the gathered funds and owned financial assets.

6. RELATED PARTY TRANSACTIONS

In 2012 all transactions entered into by ELEKTROBUDOWA SA with the related parties were typical, arm-length transactions carried out within normal current operating activity.

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

a) sales:

- sales of goods – the Electrotechnical Company VECTOR Ltd.	52 057	thous PLN
- sales of services – the Electrotechnical Company VECTOR Ltd.	92	thous PLN
- sales of materials - the Electrotechnical Company VECTOR Ltd.	2 039	thous PLN
- sales of services – KONIP Sp. z o.o.	88	thous PLN
- other sales – KONIP Sp. z o.o.	2	thous PLN
- sales of goods – ENERGOTEST sp. z o.o.	1 302	thous PLN
- other sales – ENERGOTEST sp. z o.o.	4	thous PLN
- sales of goods - ELEKTROBUDOWA UKRAINE Ltd.	22 618	thous PLN
- other sales - ELEKTROBUDOWA UKRAINE Ltd.	1	thous PLN

b) purchases:

- purchase of services – KONIP Sp. z o.o.	943	thous PLN
- purchase of services – ENERGOTEST sp. z o.o.	7 245	thous PLN
- purchases of materials – ENERGOTEST sp. z o.o.	2 814	thous PLN

Year-end balances as at 31 December 2012:

- payables of ELEKTROBUDOWA SA to KONIP Sp. z o.o.	84	thous PLN
- payables of ELEKTROBUDOWA SA to ENERGOTEST sp. z o.o.	5 895	thous PLN
- payables of ELEKTROBUDOWA SA to VECTOR Ltd.	2	thous PLN
- payables of ENERGOTEST sp. z o.o. to ELEKTROBUDOWA SA	86	thous PLN
payables of ELEKTROBUDOWA UKRAINE Ltd. to ELEKTROBUDOWA SA	3 267	thous PLN
- payables of VECTOR Ltd. to ELEKTROBUDOWA SA	3 420	thous PLN
- downpayment by ELEKTROBUDOWA SA to SAUDI ELEKTROBUDOWA LLC	261	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.

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

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

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

7.1 Credit contracts as at 31 December 2012

	Bank	Type of loan	Contract validity	Limit of credit
1.	ING Bank Śląski w Katowicach	Overdraft and working capital loan	18.12.2015	25.0 million PLN
2.	Bank PEKAO S.A. w Krakowie	overdraft facility	30.04.2014	10.0 million PLN
3.	PKO BP w Warszawie	overdraft facility	23.02.2015	5.0 million PLN
4.	BRE BANK SA w Warszawie	overdraft facility	30.09.2013	10.0 million PLN
5.	BNP PARIBAS Bank Polska S.A.	overdraft facility	15.08.2013	1.0 million PLN

In 2012 ELEKTROBUDOWA SA was provided with the limit of overdraft in current accounts up to the amount of 50.0 million PLN. As at 31 December 2012, the amount of 6.2 million PLN of the limit of overdraft in the current accounts was utilized, while the working capital loan was utilized up to 5.0 million PLN, of which:

- in ING Bank Śląski S.A. 5.0 million PLN,
- in Banku PKO BP S.A. 3.6 million PLN,
- in BRE BANK S.A. 2.6 million PLN.

7.2 Other loan agreements

In 2012 ELEKTROBUDOWA SA neither was granted nor extended any loans.

7.3 Guarantees and Sureties

As at 31 December 2012 ELEKTROBUDOWA SA extended contract bonds issued by banks and insurance companies for the total amount of 212.9 million PLN. The guarantees included bid bonds, advance payment bonds, performance bonds, warranty bonds, and also guarantees to secure claims against the company pursued in court and guarantees to secure timely payment of debt.

The company also uses promissory notes to secure performance of contracts and contract payments, which amount totalled 21.8 million PLN last year. The promissory notes issued by the company also secure credit lines and guarantees issued by banks or insurance companies.

In 2012 the company did not extend any sureties.

8. 2012 PERFORMANCE AND THE PUBLISHED FORECAST FOR 2012

Published on 28 March 2012, the 2012 budget of ELEKTROBUDOWA SA, assumed that annual sales revenues would reach the level of 963 508 thousand PLN and net profit 35 301 thousand PLN. Actually, the net profit of the company after the twelve months of 2012 amounted to 35 986 thousand PLN, while sales revenues reached 985 421 thousand PLN, so the budget assumptions were accomplished.

The company enters the year 2013 with an impressive order backlog of 803 485 thousand PLN.

9. BASIS FOR PREPARATION

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

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

10. MAJOR TECHNICAL DEVELOPMENT WORKS

The 2012 development works were implemented by the company in the following scope:

- R&D works relating to the outdoor, gas insulated switchgear for voltage up to 145kV, up to the stage of:
 - preparation of complete construction and technological specification,
 - successfully completed type test, except switching test for 40kA parameters which will be performed in 2013,

- 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),
- construction and manufacture of a prototype of MV, SF6 insulated switchgear consisting of two panels,
- preparation of construction and technological specification, 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 LIMITER-1s,
- certification of flame-proof switchgear PREM-GO and flame-proof bushings,
- successful tests of D-12P, D-17P and D-24P for higher level of arc protection: 31.5kA in 1 s,
- tests of DC switchgear RT-3 with BWS circuit breaker,
- modification of software for busduct calculations.

Major R&D plans of the company for the first half of 2013 include:

- construction of a new variant of D-12-2P switchgear fitted for mounting ROLLARC contactors and motor controlled earthing switch and withdrawable part,
- preparation of specification and implementation for production of the mobile substation consisting of 6 containers, designed for a Russian customer: 31 m length, 6.5 m width – the substation will be equipped with specially modernized double system switchgear D-12-2S,
- approval tests of SF6 insulated switchgear for the values: 24kV: $I_n=1250A$, $I_{3s}=25kA$, panel width 600mm, stored energy – spring circuit breaker,
- testing the models of 24kV circuit breaker with electromagnetic drive, whose design is suitable for application in SF6 insulated switchgear panels,
- research on technology of production of flexible connectors of busduct enclosures,
- starting the production of busduct aluminum supporting structures.

11. STATEMENT ON CHOICE OF AN AUDITOR

The Management Board of ELEKTROBUDOWA SA confirms that Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. (former Deloitte Audyt Sp z o.o.) with registered office at 19, Jana Pawła Str. 00-854 Warsaw was chosen to review the 2012 financial statements of ELEKTROBUDOWA SA 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 on 29 June 2012 with Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. (former Deloitte Audyt Sp. z o.o.), having their registered office in Warsaw.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. has reviewed the interim financial statements and audited the financial statement of ELEKTROBUDOWA SA and the consolidated financial statement of the ELEKTROBUDOWA SA group for the fourth time in succession.

The remuneration for the review and auditing of the above mentioned statements for 2012 was agreed in the amount of 130 thousand PLN, split as follows:

	2012	201
- review of the half-year 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
Total review and auditing the financial statements	130	175

The remuneration is VAT excluded.

In 2012 ELEKTROBUDOWA SA entered into contract with Deloitte Doradztwo Podatkowe Sp. z o.o. based in Warsaw for tax consulting services in respect of preparing transfer price records for transactions entered into by ELEKTROBUDOWA SA with related parties. The payment for the performed work was established as 16 thousand PLN and will be increased by VAT.

12. STATEMENT ON OBSERVING THE CORPORATE GOVERNANCE RULES

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

The Management Board of ELEKTROBUDOWA SA declares that in 2012 the company and its bodies fully observed the corporate governance rules contained in the document "Code of Best Practice for WSE Listed Companies". Details of corporate governance rules are available on the web page of ELEKTROBUDOWA SA: www.elbudowa.com.pl.

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

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

12.2 Presentation of major characteristics of the internal control and risk management systems applied by the company for preparing the separate and consolidated financial statements

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

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

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

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

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

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

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

Accounting policy concerning financial reporting which is implemented by the company, is applied both in budgeting and forecasting process and in periodical management accounting, which means that the company uses coherent accounting principles in presenting its financial data in the annual and interim financial statements as well as other reports provided to the shareholders.

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

Risk areas to which the company is exposed, are described in detail in item 4 of the additional information to the financial statements for the year ended 31 December 2012.

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

Efficiency of the applied risk control and management procedures is reflected in preparing the financial statements, contributing to their high quality, acknowledged by the auditors' opinions issued so far and appreciated by the persons to whom the statements are addressed.

12.3 Information on shareholders with qualifying holdings, direct or indirect

To the best of their knowledge ELEKTROBUDOWA SA discloses a list of shareholders with qualifying holdings, indicating the number of shares held, their percentage in the share capital, number of voting rights attached to them with the percentage of the total vote in the general meeting:

Shareholders as at 31 December 2012:	Numbers of shares = number of votes	%
1. AVIVA OFE AVIVA BZ WBK SA	721 094	15.19
2. ING OFE (Open-end Pension Fund)	472 405	9.95
3. Generali OFE	466 189	9.82
4. AXA OFE	446 553	9.41
5. Amplico OFE	289 369	6.10
6. OFE PZU „Złota Jesień”	287 369	6.06
7. Free float	2 064 067	43.47
Total number of shares in the share capital	4 747 608	100.00

ELEKTROBUDOWA SA has not issued any securities with special controlling rights for their holders.

No restrictions exist for exercising the voting right from the company's securities.

No restrictions exist on transferring the right of ownership of ELEKTROBUDOWA's securities.

Members of the Management Board of the parent did not hold any shares in ELEKTROBUDOWA SA as at 31 December 2012.

As of 31 December 2012 the key executives did not hold any shares in entities related to ELEKTROBUDOWA SA; the supervisory persons did not hold shares in ELEKTROBUDOWA SA or its related companies.

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

12.4.1 The Management Board

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

The rules of appointing and dismissal of the managing persons have not changed. President is appointed by the Supervisory Board. Members of the Board are appointed by the Supervisory Board on President's motion. A Member or the whole Management Board may be dismissed by the Supervisory Board before the end of the term of office. A Management Board Member may be dismissed or suspended also by the General Meeting.

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

12.4.2 Rules for amending the Articles of ELEKTROBUDOWA SA

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

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

12.4.3 Operations and rights of the General Meetings

The rules for activity of the General Meeting and its essential powers together with the rights of shareholders and how they are exercised are presented in the Articles of the Company and in the By-Laws of the General Meeting.

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

Annual General Meeting shall be convened by the Management Board of the company. Annual General Meeting shall be held within six months of the end of each financial year. Extraordinary General Meeting shall be convened by the Management Board of the company on its own initiative, on a written request of the Supervisory Board, its Chairman, any three members of the Supervisory Board or on a written request of shareholders representing at least 5% (ten percent) of the share capital. Extraordinary General Meeting shall be convened within 14 (fourteen) days from the date of filing a relevant request. The right to convene a General Meeting serves the Supervisory Board, its Chairman or any three members if it is not convened by the Management Board within 14 days after a relevant request has been filed. Extraordinary General Meeting can also be convened by shareholders representing at least a half of the share capital or at least half of the total number of votes in the company.

General Meeting may adopt resolutions only in matters included in the agenda, unless the entire share capital is represented at the Meeting and no person present objected to holding the Meeting or placing specific matters in the agenda. The agenda is determined by the subject convening the General Meeting. The Supervisory Board, its Chairman or any three members, as well as shareholders representing at least 5% (ten percent) of the share capital may demand that specific matters are placed in the agenda of the nearest General Meeting. If such a demand is filed after the convening of the General Meeting, it shall be treated as a request for convening Extraordinary General Meeting. General Meeting is valid and may adopt resolutions irrespective of the number of shareholders and represented shares present at the Meeting, unless provisions of the Law or the Articles provide otherwise. Each share shall give the right to one vote at the General Meeting.

Resolutions at the General Meeting are adopted by absolute majority of votes unless provisions of the Law or the Articles provide otherwise. In the situation specified in art.397 of the Code of Commercial Companies, a resolution of liquidation of the company shall be adopted by a majority of three fourths of votes.

A resolution of abandoning to consider the matter placed on the agenda can be passed only for important reasons. A relevant motion shall be substantiated in detail. Voting shall be open. A secret ballot shall be ordered in the case of election and on motions to remove members of authorities or liquidators of the company, or to hold such persons liable, and in matters concerning personal issues. Furthermore, a secret ballot shall be ordered at the request of at least one shareholder from among those present or represented at the General Meeting. Resolutions concerning a substantial change in the objects of the company shall always be taken in an open voting by roll call.

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

- 1) examination and approval of the Management Board report on activities of the company and financial statements for the previous financial year,
- 2) acknowledgement of the fulfilment of duties by members of authorities of the company,
- 3) decisions concerning claims for redressing damage inflicted upon formation of the company or exercising management or supervision;
- 4) disposal or lease of the business enterprise or an organized part of it, or establishment of a property right thereon,
- 5) issue of convertible bonds or bonds with priority right,
- 6) acquisition of own shares, which are to be offered to employees or persons that were employed at the company or a company related to it during the period of at least three years,
- 7) adopting a resolution on division of profits or covering losses,
- 8) changes in the objects of activities of the company,
- 9) amendments to the Articles of the company,
- 10) increase or decrease of the share capital,
- 11) redemption of shares (except of immediate redemption: of shares acquired with infringement of provisions of Art. 362 §1 and §2 of the CCC, which were not disposed of within a year after they had been acquired by the company and the remaining part of company's own shares which exceeds 10% of the share capital, not disposed of within two years since acquisition),
- 12) merging, dividing or restructuring of the company,
- 13) dissolution and liquidation of the company,
- 14) fixing the date of acquiring rights to dividend and the date of payment of dividends,
- 15) conclusion by the company of a contract of credit, loan, surety or other similar agreements with a member of the Management Board, the Supervisory Board, auditing committee, proxy, liquidator or for the benefit of any of those persons,
- 16) specifying remuneration for members of the Supervisory Board,
- 17) concluding an agreement with a subsidiary, which provides for managing the subsidiary or transferring the profit by such entity.

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

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

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

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

12.5 Composition and competences of the managing and supervising bodies, changes made in 2012

12.5.1 The Management Board

Composition of the Management Board of ELEKTROBUDOWA SA as at 1 January 2012:

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

As the term of office of the Management Board elapsed on 26 April 2012, the Supervisory Board, basing on the Recommendation by the Nominating and Remuneration Committee resolved to appoint Mr Jacek Faltynowicz as President of the Management Board of ELEKTROBUDOWA SA for the next term of office.

As the term of office of the Management Board elapsed, following the motion by the President of the Management Board of 26 April 2012, the Supervisory Board appointed the following persons as Members of the Management Board of ELEKTROBUDOWA SA for the next term of office:

Ariusz Bober
Tomasz Jaźwiński
Janusz Juszczuk
Arkadiusz Klimowicz
Jarosław Tomaszewski

Composition of the Management Board of ELEKTROBUDOWA SA as appointed by the Supervisory Board on 26 April 2012 was the same on 31 December 2012.

Regulations for the Management Board activity are defined in the Articles and the By-Laws of the Management Board approved by the Supervisory Board.

The Management Board shall manage the affairs of the company and represents the company. The Management Board holds meetings presided by its President. President of the Management Board is also Managing Director of the company. Resolutions of the Management Board are adopted by absolute majority of votes. In case of equal number of votes President of the Management Board has got a casting vote. All matters that are not reserved for General Meeting or the Supervisory Board fall within the competence of the Management Board. Two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy are authorized to represent the company. The Management Board may grant a proxy with prior consent of the Supervisory Board.

Proxies acting independently within their authorizations may be appointed for performing actions of specific character or kind.

The Management Board Members' remuneration policy and rules, with the amounts of remuneration, rewards or benefits (in cash, in kind or in any other form) are presented in Note 43 of the consolidated financial statements for 2012.

12.5.2 The Supervisory Board

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

Composition of the Supervisory Board of ELEKTROBUDOWA SA as at 1 January 2012:

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

The composition of the Supervisory Board did not change in 2012. As at 31 December 2012 the composition was as above

All members of the Supervisory Board made representations that they are independent members.

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

Apart from powers and duties of the Supervisory Board stipulated the Code of Commercial Companies and other provisions of these Articles, the following matters fall within special competence of the Supervisory Board:

- 1) to examine the Management Board report on activities of the company and the financial statements for the previous business year for their compatibility with the books and documents and the actual state of affairs,
- 2) to assess motions of the Management Board concerning division of profit or covering a loss,
- 3) to submit to the General Meeting the annual written report on the results of the examination of the Management Board report on activities of the company and the financial statements for the previous business year for their compatibility with the books and documents and the actual state of affairs as well as motions of the Management Board concerning division of profit or covering a loss,
- 4) to appoint and dismiss members of the Management Board,
- 5) to suspend, for important reasons, individual or all members of the Management Board,

- 6) to assign member or members of the Supervisory Board, for the period not longer than three months, to perform temporarily the duties of those members of the Management Board who have been dismissed, have resigned or who are unable to perform their duties for other reasons,
- 7) to approve the regulations of the Management Board of the company,
- 8) to approve annual budgets and strategic plans of the company,
- 9) to appoint certified auditor for examination of financial statement
- 10) to represent the company in agreements concluded between the company and Members of the Management Board, as well as in disputes with them,
- 11) to determine remuneration for members of the Management Board.

- and to grant consent to:

- a) making commitments by the company or expenditures concerning one transaction or a series of related transactions in the amount exceeding the equivalent of USD 100 000 (one hundred thousand) established according to average exchange rate for USD published by NBP on the day preceding the day of request for approval made by the Management Board to the Supervisory Board, not planned in the approved budget and outside ordinary management of the company,
- b) acquisition or purchase of interest or shares in other companies,
- c) joining other legal persons and sale of assets of the company, the value of which exceeds 10% (ten percent) of net value of fixed assets, with the exclusion of those, which constitute inventories marketable in the course of normal operation of the company,
- d) taking credits and loans with the period of repayment over one year not planned in the approved budget, other than trade credits taken by the company within the scope of ordinary management,
- e) granting guaranties or sureties by the company not planned in the approved budget and charging the assets of the company with obligations not planned in the budget,
- f) concluding agreements between the company and a close person of Member of the Management Board or in any way related to him – in each case, and between the company and the employees of the company who report directly to the Members of the Management Board - in the case of one contract or a series of related contracts for the amount exceeding USD 10 000 (ten thousand) fixed according to average exchange rate for USD published by the NBP on the day of concluding the contract. A close person is a spouse, a parent, siblings or children (also adopted) and persons cohabiting in the same household (common-law marriage);
- g) employing (on employment contracts or civil law contracts) advisers and other people from outside the Company, especially as consultants, lawyers, agents, if annual total costs of employing a person mentioned above would exceed the equivalent of USD 100 000 (one hundred thousand) established according to average exchange rate for USD published by the NBP on the day preceding the day of request for approval made by the Management Board to the Supervisory Board,
- h) making advance payments against future dividend,
- i) acquisition and disposal of real property or a share in a real property.
- j) as long as the company remains a listed company and subject to representing the company in agreements between the company and the Management Board Members and also in disputes with them – giving consent to entering into agreement with related parties in the meaning of the Regulation

of the Minister of Finance on current and interim information provided by the issues of securities and the condition of equivalence of the information required by the laws of a non-member country or another legal act which will replace this Regulation. Consent is not required in respect of typical, arm's length transactions within the operating activity carried out by the company with a related party in which the company has majority interest.

The Supervisory Board Members' remuneration policy and rules, with the amounts of remuneration, rewards or benefits (in cash, in kind or in any other form) are presented in Note 43 of the consolidated financial statements for 2012.

12.6 The Audit Committee and the Nominating and Remuneration Committee

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

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

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

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

12.6.1 The Audit Committee

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

As at 1 January 2012 the Audit Committee worked in the following composition:

Tomasz Mosiek – Chairman of the Committee,

Eryk Karski – Member,

Paweł Tarnowski – Member.

The above composition did not change in 2012 and was the same as above on 31 December 2012.

12.6.2 The Nominating and Remuneration Committee

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

As at 1 January 2012 the Nominating and Remuneration Committee composed of:

Ryszard Rafalski – Chairman of the Committee,

Agnieszka Godlewska – Member,

Karol Żbikowski – Member.

The above composition did not change in 2012 and was the same as above on 31 December 2012.

13. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date which could significantly impact the financial position of the company or its financial result.

14. STATEMENT OF CONFORMITY WITH LEGISLATION

The financial statements 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 financial statements, except those which do not apply to the company.