

MANAGEMENT REPORT on the Activity of the ELEKTROBUDOWA SA GROUP

for the six month ended 30 June 2014

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

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1. STRUCTURE OF THE ELEKTROBUDOWA SA GROUP

1.1 The Parent, ELEKTROBUDOWA SA

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

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

The business activity of ELEKTROBUDOWA SA includes:

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

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

- **Power Generation Division (RWE)**

Its organisational units are located partly in Katowice at 12, Porcelanowa Street and in Jaworzno at 51, Promienna Street. The Power Generation Division conducts its operations on the whole territory of Poland and also in other countries. The domestic operations of the Division are carried out by organised, permanent facilities, located in Tychy, Opole, Koźienice, Bełchatów, Rybnik and Częstochowa. The Power Generation Division also registered its branches (permanent establishments) outside Poland, through which it conducts its business in Finland, Luxembourg, Germany and the Netherlands.

- 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. Tax registration number: FI2176143-1. 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. Tax registration number: LU24442127. The contract for building services in respect of extension of the Vianden Water Power Plant, unit 11 in a new cavern was completed in H1 2013. ELEKTROBUDOWA SA has started the procedure of deregistrating its Luxembourg branch as the VAT and corporate income tax payer.

- 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.

- **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 all over in Poland.

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

The company has its registered office at 12, Porcelanowa Str., 40 -246 Katowice.

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

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

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

The company has its registered office in Gliwice, 44 B Chorzowska Str., 44-100 Gliwice.

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

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

1.4 A subsidiary - ELEKTROBUDOWA UKRAINE Ltd.

The company has its registered office in Zaporizhia, Pivnichne Shose 69-A, 69006 Zaporizhia Oblast, Ukraine.

The General Meeting of Shareholders of the limited liability company ELEKTROBUDOWA UKRAINE held on 31 March 2014 passed a resolution about changing the registered office address, which was so far 9901 Sevastopol, General Petrov Street, Bldg 20, office 7, Ukraine, and submitting the documents required for registration of the change pursuant to the applicable regulations. The new registered address of the entity, city of Zaporizhia, Pivnichne Shose 69-A, 69006 Zaporizhia Oblast, Ukraine, was entered in the Ukrainian Unified State Register of Legal Entities and Individual Entrepreneurs, series AD, No. 152280 on 4 April 2014.

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

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

1.5 An associate – the Electrotechnical Company VECTOR Ltd.

The company has its registered office in Votkinsk, at 2, Pobiedy Str., the Autonomic Republic of Udmurtia of the Russian Federation.

ELEKTROBUDOWA SA holds 49% of VECTOR's capital. As at 30 June 2014, the percentage of ELEKTROBUDOWA's stake in the equity of VECTOR was equal to the percentage of voting rights in its General Meeting of Shareholders. ELEKTROBUDOWA SA exerts significant influence on the associate's financial and economic policies.

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

1.6 An associate - SAUDI ELEKTROBUDOWA LLC

The company has its registered office in Riyadh, Al. Sittin, P.O. Box 3936 11481 Riyadh, the Kingdom of Saudi Arabia.

As at 30 June 2014, ELEKTROBUDOWA SA held 33% of shares which represent 33% of the share capital of SAUDI ELEKTROBUDOWA, equal to the percentage of voting rights in the General Meeting of Shareholders. ELEKTROBUDOWA SA has significant influence on the associate's financial and economic policies.

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

1.7 Changes in the composition of the group and their consequences

As at 30 June 2014, compared with the situation as at 31 December 2013, composition of the ELEKTROBUDOWA SA group did not change.

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

2.1 Sales revenues - principal products and services

The H1 2014 revenues, generated by the ELEKTROBUDOWA SA group from sales of goods, services and materials, amounted to 442 342 thousand PLN and were by 59 499 thousand PLN (15.5%) higher than in H1 2013. Major part of sales revenues (80.8%) was generated by the basic business activities of the group, that is electrical installation services. Volume of the sales generated by this core business amounted to 357 371 thousand PLN.

Export sales in H1 2014 earned 32 342 thousand PLN and were by 74.4% lower than the exports realized by the group in H1 2013. The drop of revenue from exports concerned mainly the sales to Finland, Russia, Turkey, Saudi Arabia, Germany and Luxembourg.

In H1 2014 the group increased sales to other foreign markets: to Switzerland (supply of finished products and services), Ukraine (supply of finished products) and the Czech Republic (supply of services).

The table below presents the structure of net revenue from the sales of products, goods and materials in H1 2014 and H1 2013.

	H1 2014		H1 2013		Change
	PLN'000	%	PLN'000	%	PLN'000
Revenue from sales of products, merchandise and materials	442 342	100.0	382 843	100.0	59 499
construction and erection services	357 371	80.8	276 361	72.2	81 010
electrotechnical products	75 233	17.0	94 611	24.7	(19 378)
other services	7 554	1.7	8 937	2.3	(1 383)
materials	2 184	0.5	2 934	0.8	(750)

The ELEKTROBUDOWA SA group specializes in providing electric installation services and in manufacturing of equipment used for transmission and distribution of electric energy. In H1 2014, sales volume of this equipment decreased by 20.5%, compared with H1 2013. The sales of electricity transmission and distribution equipment accounted for 17.0% of total sales revenue earned in these six months of 2014. A substantial part of the products, through internal sales, is transformed to external sales within provided installation services. Maintaining the position of a leading supplier of medium-voltage switchgear on the Polish market is one of the key strategic goals of the group.

In H1 2014 the group sold industrial products for the sum of 96 964 thousand PLN. In this amount 21 731 thousand PLN fell to internal sales realised by the erection units, whereas direct (external) sales reached the value of 75 233 thousand PLN. The presented sales volumes of finished goods account for consolidation exclusions within the group.

Production of principal products by volume and value in the years in H1 2014 and in H1 2013 was as follows:

- by volume:

Type of Product	Unit of measure	Quantity	
		H1 2014	H1 2013
Low voltage switchgear	panel	338	317
Medium voltage switchgear	panel	948	1 017
Containerized substations SKP	set	27	40
Low voltage busducts	m	387	1 136
Medium voltage busducts	m	43	83
Cable trays	ton	2	18
High-current busducts type ELPO, ELPE, PELPO	set	22	46
Electricity distribution and control devices	pcs	92	51
Measuring and monitoring devices (recorders)	pcs	8 791	8 518
Peripheral devices (separators, converters, controllers)	pcs	109	161

- By value

Product	H1 2014		H1 2013	
	Value (PLN'000)	(%)	Value (PLN'000)	(%)
Low voltage switchgear	12 359	8.9	10 137	6.2
Medium voltage switchgear	61 778	44.4	53 668	33.1
Containerized substations SKP	2 984	2.1	5 230	3.2
Low voltage busducts	843	0.6	1 874	1.2
Medium voltage busducts	231	0.2	497	0.3
Cable trays	14	0.0	121	0.1
Semi-finished products for switchgear and SKP	32 474	23.4	48 420	29.9
High-current busducts type ELPO, ELPE, PELPO	12 220	8.8	25 489	15.7
Electricity distribution and control devices	1 196	0.9	613	0.4
Measuring and monitoring devices (recorders)	3 385	2.4	3 706	2.3
Peripheral devices (separators, converters, controllers)	162	0.1	132	0.1
Other products	11 414	8.2	12 248	7.5
Total	139 060	100.0	162 135	100.0

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

Total value of contracts and orders obtained in H1 2014 by the parent amounted to 373.1 million PLN, which, compared with the same period of the previous year, when the orders received totalled 1 475.3 million PLN, indicates a drop by 74.7%. It must be remembered that the substantial value of orders received in H1 2013 was attributed to the contracts for:

- construction of the heating unit for TAURON Ciepło S.A., contract price 592.5 million PLN,
- extension and modernization of 220/110kV electrical substation Skawina for PSE S.A., contract price 218.3 million PLN,
- extension and modernization of the electrical substation Byczyna for PSE S.A., contract price 215.0 million PLN

Aggregate amount of the above contracts equaled 1 025.8 million PLN. The contracts constitute a substantial portion of the company's H1 2014 order backlog. This was, to a large extent a factor that conditioned the level of new orders that the company intended to receive in that period.

As at 30 June 2014 the parent had a 1 783 million PLN worth order backlog. Compared with the backlog as at 30 June 2013 it was 5.2% smaller.

The biggest contracts were concluded by the parent.

Sales invoiced in H1 2014 were principally related to performance of big contracts for the supply of electrical installation services and supply of electrical equipment, and included:

- construction of a new heat generation unit with fluidized bed boiler, heating and condensing turbine and associated plants in TAURON Ciepło SA Zakład Wytwarzania Tychy for TAURON Ciepło Spółka Akcyjna PLN 28.4m
- turnkey delivery of items of infrastructure dedicated for the new Flue Gas Desulfurization (FGD) plant being constructed in the heat and power plant located in the PKN ORLEN SA production facility in Płock, for PKN ORLEN SA PLN 28.3m
- works, delivery and installation of cables and all other associated works at the construction of Line 2 of the Warsaw underground, commissioning and start-up of the installed equipment and systems, for AGP Metro Polska. ASTALDI Sp.p.A., Gülermak Ağır Sanami İnşaat ve Taahhüt A. Ş., Przedsiębiorstwo Budowy Dróg i Mostów Sp. z o.o." spółka cywilna PLN 18.4m
- "design and build" execution of the project "construction of the 400kV electrical station Łomża" for Polskie Sieci Elektroenergetyczne Operator S.A. PLN 16.0m
- "design and build" execution of the project „Extension of the Słupsk 400/110kV Substation” – Stage 1 and 2 in order to connect Słupsk 240MW wind farm, Potęgowo 320MW wind farm, including installation of 400/110kV autotransformer to the ENERGA - OPERATOR S.A. grid, for PSE Operator S.A. PLN 15.9m

- 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 13.9m
- overall supply of the electrical system for the project: "Construction of a Power Unit acc. to the formula of Turnkey construction of Facility for Przyjaźń Coking Plant", for ENERGOINSTAL S.A. PLN 11.6m
- supply, installation and commissioning of Frequency Converters, Unit 4, 5 and 6 for the FGD plant in Turów, for Babcock Noell GmbH PLN 10.7m
- supply, erection and commissioning of electrical and I&C components and systems for the Nuclear Power Plant Olkiluoto Finland for AREVA NP GmbH PLN 8.4m
- modernization of the supply of electrolyzers – electrical part, including engineering, delivery, installation and commissioning of the electrical supply of the new electrolyzer system in the manufacturing facility of ANWIL S.A. in Włocławek, for ANWIL S.A. PLN 8.1m

Main items of the consolidated statement of comprehensive income for H1 2014 and H1 2013

	H1 2014		H1 2013		Change
	PLN'000	%	PLN'000	%	PLN'000
Net sales revenues	442 342	100.0	382 843	100.0	59 499
Cost of products, goods and materials sold	(421 465)	95.3	(366 596)	95.8	(54 869)
Gross profit on sales	20 877	4.7	16 247	4.2	4 630
Selling costs	(1 314)	0.3	(2 316)	0.6	1 002
General administrative expenses	(8 668)	2.0	(8 183)	2.1	(485)
Other operating income	6 883	1.6	5 272	1.4	1 611
Other operating expenses	(13 287)	3.0	(9 115)	2.4	(4 172)
Operating profit	4 491	1.0	1 905	0.5	2 586
Finance income	56	0.0	46	0.0	10
Finance costs	(673)	0.1	(539)	0.1	(134)
Share in profit of associates	(505)	0.1	213	0.0	(718)
Profit before income tax	3 369	0.8	1 625	0.4	1 744
Income tax	(1 335)	0.3	(768)	0.2	(567)
Net profit for the period	2 034	0.5	857	0.2	1 177

Relations between sales and costs and their impact on the profit amount are described by sales profitability ratios. Gross profit margin rose by 0.4 percentage point, whereas the operating profit margin rose by 0.3 percentage point.

In H1 2014, a favourable change was noted in the gross profitability of sales, which rose by 4 630 thousand PLN, i.e. by 28.5%. Faster, by 0.5 percentage points, rate of growth of sales revenues than the growth of costs of products, goods and materials sold, resulted in the increase of gross profit on sales, from 4.2% to 4.7% in the comparable periods.

Selling costs in H1 2014 amounted to 1 314 thousand PLN and were by 1 002 thousand PLN lower than in H1 2013. In consecutive years the level of selling costs was correlated with the level of sales revenue. In H1 2014, the selling costs had a 0.3% share in the sales revenue, whereas in H1 2013 it was 0.6%. Transport services were the main item of selling costs of the parent, which dropped by 939 thousand PLN in the comparable periods.

The general administrative expenses incurred in H1 2014 amounted to 8 668 thousand PLN and rose by 485 thousand PLN, i.e. by 5.9% on H1 2013. Within the general administrative expenses of the parent, the biggest increase, compared with the six months of the previous year, was recorded in advisory and consulting services – by 424 thousand PLN. The general administrative expenses had a 2.0% share in the H1 2014 sales revenues, while in H1 2013 they accounted for 2.1% of the sales revenues. The share of general expenses in revenues did not significantly differ in the comparable reporting periods.

In H1 2014, other operating income totalled 6 883 thousand PLN and was by 1 611 thousand PLN higher than in the same period of the previous year, which is a 30.6% increase.

Main items of other income:

- penalties and compensations	3 950	thousand PLN
- interest for delayed payments	1 070	thousand PLN
- recognized non-current assets (land)	957	thousand PLN
- interest on cash in bank accounts	207	thousand PLN
- received compensation from insurance policies	211	thousand PLN
- court costs	326	thousand PLN
- currency exchange differences	26	thousand PLN

In H1 2014, other operating expenses totalled 13 287 thousand PLN and was by 4 172 thousand PLN higher than in the same period of the previous year, which is a 45.8% increase.

Main items of other operating expenses:

- provision for impairment of receivables	5 089	thousand PLN
- legal fees and penalties	3 266	thousand PLN
- commissions and charges	3 181	thousand PLN
- loss on disposal of non-current assets	311	thousand PLN
- damage repair cost	299	thousand PLN
- inventory write-offs	259	thousand PLN
- donations	101	thousand PLN

Provisions for impairment of receivables, mentioned earlier, constituted the main item of other operating expenses. Deteriorated financial condition of the contractors, their problems with liquidity, as well as declared bankruptcies of a few cooperating companies triggered the necessity to create provisions for impairment of receivables in the amount of 10 099 thousand PLN in H1 2014. In the comparable period of 2013 the amount of provisions for impairment of receivables was 7 678 thousand PLN.

As at 30 June 2014 the impairment provision of receivables amounted to 28 076 thousand PLN and rose by 6 061 thousand PLN, i.e. by 27.5%, compared with their amount as at 30 June 2013. Out of the amount of the provisions as at 30 June 2014, 13 915 thousand PLN concerned trade receivables, while 14 161 thousand PLN other receivables. The provisions for impairment of other receivables included:

- penalties relating to performance of construction services	5 808 thousand PLN,
- debt of entities under bankruptcy procedure	5 370 thousand PLN,
- court receivables (including interests)	2 596 thousand PLN,
- retentions not returned when due	387 thousand PLN.

The group's entities monitor overdue trade and other debts on a current basis and assess the risk that that would not be paid. Actions taken by the group in connection with the overdue debts:

- monitoring of business entities by a specialized credit reference agency,
- constant monitoring, issuing request for payment,
- attempts to solve the problems amicably (agreement between parties, settlements in court),
- litigations concerning debt payment, debt enforcement proceedings,
- releasing instruments securing payment of receivables: guarantees, bills, assignment of receivables.

Operating profit generated by the group for the six months of 2014 amounted to 4 491 thousand PLN, while the return on operating profit was 1.0%. Compared with the six months of 2013, the profitability of operating activity rose by 0.5 percentage point.

The financial income of H1 2014 amounted to 56 thousand PLN and were by 10 thousand PLN (21.7%) higher than in H1 2013. The financial income included a dividend received in respect of the shares in Energotest – Diagnostyka Sp. z o.o. held by the subsidiary ENERGETEST sp. z o.o.

The financial costs of H1 2014 amounted to 673 thousand PLN and were by 134 thousand PLN (24.9%) higher than in H1 2013. They included interests on credit in the amount of 657 thousand PLN and interests on lease in the amount of 16 thousand PLN

In H1 2014, a loss on financial investments associated with the interest held in the associates amounted to 505 thousand PLN, against 213 thousand PLN gains of H1 2013. The loss incurred by the group in the reporting period resulted from negative results of the associates: the Power Equipment Production Plant VECTOR Ltd. and SAUDI ELEKTROBUDOWA LLC.

The pre-tax profit for H1 2014 amounted to 3 369 thousand PLN and was by 1 744 thousand PLN (107.3%) better than for H1 2013.

The economic and financial results of the reporting period closed with net profit of 2 034 thousand PLN, it was fluctuating in the past years. Compared with H1 2013, the net profit rose by 1 177 thousand PLN (by 137.3%) and dropped by 1 704 thousand PLN (by 45.6%) on H1 2012.

Business segments performance in H1 2014

	Power Generation Division	Industry Division	Power Distribution division	Automation Division	All other segments	Total Group
Sales revenue	179 424	113 123	150 135	25 757	5 458	473 897
of which:						
- revenue from external customers	178 580	113 100	128 084	21 575	1 003	442 342
- inter-segment sales	844	23	22 051	4 182	4 455	31 555
Operating profit	6 623	(16 019)	12 322	100	1 465	4 491
Financial activities result	0	(100)	(573)	56	0	(617)
Share in net profit of entites measured acc. to equity method	0	0	(505)		0	(505)
Profit before taxes	6 623	(16 119)	11 244	156	1 465	3 369
Income tax	(1 894)	3 017	(2 262)	(75)	(121)	(1 335)
Net profit of the period	4 729	(13 102)	8 982	81	1 344	2 034

The amount of net profit was decisively influenced by unprofitable contracts made by the Industry Division and, further, created provisions for receivables, described in detail below. The net loss recognized in the Industry Division in H1 2014 amounted to 13 102 thousand PLN. The H1 2014 net result of the Division accounts for provisions for expected losses associated with performance of contractual work, in the amount of 4 426 thousand PLN.

Recognised losses in the reportable period have been principally generated by the following contracts:

Contract title	Provisions as at 31.12.2013	Provisions created in H1 2014	Release of provisions in H1 2014	Provisions as at 30.06.2014
Civil works and other services required for the completion of the project - construction of the Franowo tram depot in Poznań for MPK w Poznaniu Sp. z o.o.	5 030	1 161	4 058	2 133
Overall engineering and construction of the investment project related to the Integrated Transport Centre at the site of Poznań central station for Poznan City Center Sp. z o.o.	758	1 729	1 225	1 262
Supply, installation, testing and putting to operation of electrical services at the site of Złota 44 Tower, Warsaw for INSO Sistemi per le Infrastrutture Sociali S.p.A.	0	480	70	410
Civil works relating to modernization of railway Line 9, section from KM184,800 to KM 236.920 in the area of Local Control Centre LCS Iława for BUDIMEX S.A	218	0	80	138
Construction of the Kaufland shopping facility on the plot located in Gryfice for Kaufland Polska Markety Sp. z o.o. Sp. K.	571	339	791	119

In 2014 the company continued the implementation of recovery measures introduced in 2013 in its Industry Division segment, which in previous years generated substantial loss on the operating activity in result of performance of several unprofitable projects carried out on a general contracting basis. At the stage of preparing the 2014 budget and performance forecast the company assumed that the existing unprofitable contracts left from that period and pending completion will be completed and settled during the first half of 2014. The company has updated the budgets of those contracts by accounting for extra performance costs in the form of provisions, taking into consideration the fact that several of those contracts were not yet completed or finally settled as at the balance sheet date. The projects are either in the final stage of completion or settlement with the purchasers.

In the scope of its market activity, the Industry Division segment is currently focused on being awarded and performing contracts in the area in which it has developed and will be further developing its key competence, that is overall supply of electrical installations, small current systems, automation and control systems in buildings. An assumption has been made that the gradual recovery that is being observed in the industrial investment market, both in the area of new investments and also in the area of extension and modernization of the existing industrial plant, will create possibilities of soon return to a satisfying level of revenues from the market segment which provides much higher margins than residential or commercial building industry. This creates opportunities for the Industry Division

segment, for which industrial construction is to be the main source of income, to obtain projects with such material and financial scope that will allow higher margins and benefit from the effect of synergy with the other segments, particularly in the scope of automation systems and equipment manufactured by the Power Distribution Division, Power Generation Division and ENERGOTEST sp. z o.o.

As at 30 June 2014 the Industry Division had an order backlog amounting to 197 350 thousand PLN, while in the same period of the previous year it amounted to 225 096 thousand PLN (a drop by 12.3%). Within the six months of this year the Industry Division received orders for the amount of 66 544 thousand PLN, whereas in the same period of the previous year the orders received amounted to 117 587 thousand PLN (a drop by 43.4%).

The net loss incurred by the Industry Division in the first six months of 2014 in the amount of 13 102 thousand PLN accounts for the change in the amount of provisions for expected increase of costs to perform contractual services. As at 30 June 2014 provisions for the unprofitable contracts, concluded by the Industry Division, amounted to 4 426 thousand PLN. The main items of recognized and accounted losses on contracts performed by the Industry Division are principally connected with significant postponement of completion dates of two projects, "Turnkey Site Engineering and Construction of the Integrated Transport Centre at Poznań Główny Railway Station" for Poznań City Center Sp. z o.o. and "Civil Works and Other Services Required for the Completion of Project - Construction of the Franowo Tram Depot in Poznań" for Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu Sp. z o.o. The works still continued on these projects are in their final stage and include the acceptance and financial settlement of works, but the deadlines are repeatedly postponed, what substantially increases fixed costs which are not sure to be collectable from the investor.

Industrial construction sector is marked with grater reliability and financial strength of investors. In previous years the Industry Division faced considerable problems concerning payment gridlocks relating to the orders carried out for the customers, investors or general contractors in the civil building industry and developers. Financial condition of companies in this segment is still bad and is the reason of delays in payment for the performed works. As at 30 June 2014 overdue receivables of the Industry Division segment amounted to 26 875 thousand PLN, compared to 21 800 thousand PLN in the comparable period of the previous year (23.3% increase). In H1 2014 the company created the 5 177 thousand PLN provision for impairment of receivables owed to the Industry Division, which is 2.1% less, compared to 5 288 thousand PLN in H1 2013. Provisions for receivables created by the Industry Division segment in the reportable period accounted for 51.3% of total provisions created by the company in H1 2014. As at 30 June 2014 the amount of provisions for impairment of the Industry Division receivables was 16 976 thousand PLN, while total impairment provisions of the group amounted to 28 076 thousand PLN. The Industry Division had a 60.4% share in total impairment provisions of the group.

Modification of the organisational structure of the Industry Division, mentioned earlier, covers the actions associated with formation and development of competence of teams responsible for implementation of projects and also review and modification of processes to streamline the organizational structure of the Division.

Liquidation of one of the organizational levels (project realization offices) should lead to significant decrease of indirect expenses. The first financial effects of the cost-cutting measures are planned to be seen as early as in the end of Q2 and beginning of Q3 2014, the target result should be achieved in the fourth quarter of the year. The above measures are correlated with the parallel measures focused on processes to support operational activity across the whole company, including centralization of selected functions, first of all within logistics, human resources and finance management and also modification of tools applied in managing the flow of information and controlling.

The measure presented above will help the Industry Division, as estimated by the Management of the parent, to earn gross profit for the 2nd half of 2014, what should partly reduce the gross loss recognized for the H1 2014 and to recover permanent profitability in the next years.

2.3 Financial analysis

As at the end of H1 2014, the group's balance sheet total rose by 158.1 million PLN compared with its value in the same period of the previous year. The current assets recorded a growth (by 160.8 million PLN) and the non-current assets a drop (by 2.7 million PLN).

On the side of current assets there was a growth in accounts receivable for construction contract works by 138.6 million PLN, cash by 42.1 million PLN and other non-finance assets by 14.8 million PLN. In the non-current asset the growth was recorded only in the intangible assets, by 5.9 million PLN, long-term receivables by 4.2 million PLN and long-term prepayments by 0.4 million PLN.

On the equity and liabilities side, the relation of liabilities to equity increased. In H1 2014, compared with the previous year, the increase in liabilities by 153.3 million PLN was accompanied by the 4.8 million PLN increase in equity. The increase in liabilities was generally caused by the increase in short-term trade and other payables by 139.3 million PLN, credits, borrowings and debt securities by 21.2 million PLN, amounts due to customers for construction contract work by 4.1 million PLN, corporate income tax liability by 2.3 million PLN, current provisions by 2.3 million PLN and other long-term payables by 1.6 million PLN. The growth of equity is principally attributed to the increase in retained earnings by 48.1 million PLN and currency exchange differences from translation of financial data of foreign branches, by 1.3 million PLN.

The group maintained the policy of financing its operations from its own funds, partly supported by borrowing capital in the form of liabilities and also by the released overdraft facility in current accounts and the working capital loan in the amount of 45 677 thousand PLN.

Selected ratios describing the company economic and financial position:

	H1 2014	H1 2013	H1 2012
I. Profitability ratios			
1. Net profit margin <i>net profit / sales revenues</i>	0.5%	0.2%	0.9%
2. Gross profit margin <i>profit before taxes / sales revenues</i>	0.8%	0.4%	0.9%
3. operating profit margin <i>operating profit / sales revenues</i>	1.0%	0.5%	0.3%
4. Return on equity (ROE) <i>net profit / average equity capital</i>	0.6%	0.3%	1.2%
5. Return on assets (ROA) <i>net profit / average assets</i>	0.3%	0.1%	0.6%
	H1 2014	H1 2013	H1 2012
II. Liquidity ratios			
1. Current ratio <i>average current assets / average (current liabilities + prepaids)</i>	1.3	1.4	1.5
2. Quick ratio <i>average (current assets – inventories - prepaids) / average (current liabilities + prepaids)</i>	1.1	1.2	1.3
III. Turnover ratios			
1. Receivables turnover ratio (days) <i>average short-time trade debtors x 360 days / sales revenues</i>	83	108	92
2. Accounts payable turnover ratio (days) <i>average trade creditors x 360 days / sales revenues</i>	77	87	80
3. Inventory turnover (days) <i>average inventories x 360 days / sales revenues</i>	25	29	26
4. Assets turnover <i>sales revenues / average total assets</i>	0.6	0.6	0.7
IV. Debt ratios			
1. Debt-equity ratio <i>average borrowed capital / average total equity</i>	60.6%	51.7%	51.5%

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

Profitability ratios define the ability of sales to generate earnings. Within the last few years return on sales ratios have been fluctuating. Their changes mainly reflect changes in net profit generated by the group within recent years. In H1 2014 the net profit margin was 0.5%. It increased by 0.3 percentage point on H1 2013 but decreased by 0.4 percentage point on H1 2012. Gross profit margin was 0.8%, it increased by 0.4 percentage point on H1 2013 and decreased by 0.1 percentage point on H1 2012. Analysis of sales profitability ratios indicate that the profit margin improved in H1 2014 compared with the period of six months of the previous year.

The return on assets ratio (ROA), which indicates ability to generate net earnings by all assets used in the company was 0.3% in the reporting period and was by 0.2 percentage point higher than in H1 2013 and by 2.5 percentage point lower than in H1 2012. The growth of ROA in H1 2014 indicates the effective use of assets employed.

The return on equity (ROE) was 0.6% for H1 2014 and rose by 0.3 percentage point on H1 2013, but dropped by 0.6 percentage points on H1 2012. The increase in the return on equity ratio in the reporting periods was bigger than the increase in the return on assets ratio.

As far as liquidity ratios are concerned, in H1 2014 the current ratio had the value of 1.3, while the quick ratio 1.1. The liquidity ratios showed a 0.1 point drop period-on-period. 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 lower. Levels of liquidity ratios indicate good financial credibility of the group. Liquidity ratios provide information about the short-time financial security of the group; their values should be correlated with the level of the turnover ratio.

The collection period for trade receivables was 83 days in H1 2014. It was by 25 days shorter than in H1 2013 and by 9 days shorter than in H1 2012. A decrease in the receivables turnover ratio informs that the period for which the group provided trade credit to its customers has shortened.

As at 30 June 2014 the overdue trade receivables, amounting to 58 148 thousand PLN (compared with 48 563 thousand PLN as at 30 June 2013) were impaired in the amount of 13 915 thousand PLN (17 155 thousand PLN in H1 2013). In H1 2014 the amount of provisions for impairment of receivables dropped by 18.9% compared with H1 2013.

According to the balance sheet data, payables are settled within 77 days. Maturity dates for payables vary from 14 days to 60 days. Within the analysed period, accounts payable turnover ratio shortened by 10 days compared with H1 2013 and by 3 days on H1 2012. The turnover period for payables was shorter than in the case of receivables, which indicates that the group more often extends trade credit to its customers than utilizes such credit from its suppliers.

Inventories turnover period, which was 25 days, provides information on the length of process of transforming the inventories into finished products sold. In H1 2013 the inventories turnover period was by 4 days shorter than in the prior year and by 1 day shorter than in H1 2012. Considering the decrease in sales of electro-technical products in the comparable reporting periods (by 20.5%), it indicates that the volume of stock is suitably adjusted to the demand for the group's products. Furthermore, the period in which the resources are engaged in financing the inventories corresponds to monthly settlement cycles of most services provided by the group. The length of inventories turnover cycle indicates efficiency of managing the material resources of current assets.

The company's activity is assessed by the assets turnover ratio, which measures the ability of assets, being at the group's disposal, to generate sales. The assets turnover was 0.6 and did not change compared with H1 2013. It means that each engaged 1 zloty earns an income of 0.6 zloty. The asset turnover ratio decreased by 0.1 percentage point on H1 2012. The level of the ratio in the analysed periods indicates balanced growth of sales revenues and the assets and therefore the efficient use of resources owned by the group.

Debt-equity ratio indicates what proportion of debt the group is using to finance its assets. In H1 2014 the debt-equity ratio was 60.6% and rose by 8.9 percentage point on H1 2013 and by 9.1 percentage point on H1 2012. Growth of the ratio informs about the increase of share of borrowed capital in financing the company's assets. In H1 2014 the company was utilizing its lines of credits in banks and also had the working capital loans available up to the aggregate ceiling of 195 200 thousand PLN. As at 30 June 2014 the used amount of overdraft and the working capital loan totalled 45 677 thousand PLN and rose by 21 259 thousand PLN (that is 87.1%) compared with H1 2013. Trade credit was another form of crediting the business operations conducted by the group, it also contributed to the increase of the debt-equity ratio.

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

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

2.4 Financial resources management

In H1 2014 the ELEKTROBUDOWA SA group maintained the policy of financing its operations from its own funds, partly supported by borrowing capital in the form of liabilities which were provisionally at the group's disposal, and also by the released overdraft facilities in current accounts and the working capital loan.

In H1 2014, the group entities had overdraft facilities in the current accounts (58.8 million PLN) and the working capital loan limit (137.0 million PLN) available up to the total amount of 195.0 million PLN. As at 30 June 2014, total debt amounted to 45.7 million PLN, of which the amount due to using the credit line was 19.5 million PLN and due to using the working capital loan 26.2 million PLN.

Cooperation with several banks ensures even distribution of committed sources of financing and maintaining suitable level of funds for working capital.

The group's activity relating to foreign exchange transactions is determined by the exchange rates of basic currencies, EUR and USD. In H1 2014 the group did not conclude any forward contracts to hedge the exchange rates. Generally, the group enjoys natural hedging of foreign exchange risk, by offsetting proceeds and expenses realized in foreign currencies.

In H1 2014 the ELEKTROBUDOWA SA group maintained wide cooperation with banks and insurance companies with respect to guarantees which is reflected in the guarantee lines granted to the company for contract guarantees such as 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.

Dominant in the agreements with banks are guarantee lines granted within multipurpose limits up to the total amount of 680.0 million PLN (of which 195.0 million PLN for loans and 485.0 million PLN for guarantees). As at 30 June 2014 they were utilized in the amount of 449.9 million PLN as guarantees and 45.7 million PLN as overdraft in the current account and working capital loan.

In H1 2013 the limit available under agreements with banks amounted to 517.7 million PLN, of which credit facility 51.0 million PLN and guarantee line 466.7 million PLN. As at 30 June 2013 the multipurpose limits were utilized in the amount of 423.9 million PLN for bank guarantees and the amount of 24.4 million PLN as current account overdraft and working capital loan.

The group, within the frame of cooperation with insurance companies, had an aggregate limit of 89.3 million PLN in respect of guarantees of which 59.1 million PLN was utilized as at 30 June 2014.

In H1 2013, total limit granted the group entities for contract bonds amounted to 54.9 million PLN, of which 41.8 million PLN was used as at 30 June 2013.

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 the second half of 2014 and also its current operating activity, with no risk of destabilizing the financial liquidity.

2.5 Human capital management

In H1 2014 average monthly employment in the group was 2032 job equivalents and was about 5.2% lower than in H1 2013. Out of the average number of employees, 1047 job equivalents fell to direct labour, whereas 985 job equivalents to white-collar staff. Compared with H1 2013, the number of manual workers was 6.2% lower, while employment of non-manual workers decreased by 4.1 %. That is attributed to reduction of personnel on foreign project and employment restructuring in the parent,s Industry Division.

As at 30 June 2014, the end-of-period employment was 2035 people. Compared with the level of employment as at the end of H1 2013, the number of employees dropped by 75 persons (by 3.6%).

In respect of employment structure by education, the number of personnel with higher education, mainly engineering, regularly increases. At the end of June 2014 the number of employees with degrees accounted for 40% of total, against 37% at the end of June 2013.

The H1 2014 productivity of employment, calculated as the relation of sales revenues and average monthly employment amounted to 218 thousand PLN. Profitability of employment, calculated as the relation of gross profit and average monthly employment, was 2 thousand PLN. Compared with the same period of 2013, the indexes dropped: productivity by 39 thousand PLN and profitability by 1 thousand PLN.

In the period from 1 January to 30 June 2014 together 95 new people were employed in different trade groups, from direct labour through specialist in various areas to managerial posts. It means a growth in the number of the newly employed by 8 persons, that is by 9.2%.

In H1 2014, there were no group redundancies in the entities of the group. Only in a few cases the provision of the act regulating the so called group redundancies were applied to individual dismissals for the reasons not attributable to employees.

In the reporting period of 2014, average gross monthly pay was 5 132 PLN and decreased by about 12.9%, compared with the same period of 2013. The decrease of average monthly pay concerned wages of manual workers and was the consequence of cutting the employment on foreign projects.

The group consequently implements a benefit programme to support the process of recruiting and retaining employees and to increase the level of motivation and effective work.

Development of employee's qualifications and competence is a key for the development of the group. Therefore, as in previous periods, in H1 2014 the group maintained its training policy in conformity with the Procedure for Personnel Training and Development which is a part of the ISO system in place 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 H1 2014 the group invested 712 thousand PLN in training of its personnel, which gives an average of 350 PLN per one employee. Training expenses accounted for 1.1% of the total 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, active in the group entities, was very good in the six months of 2014. There were no labour disputes or collective bargaining with the trade union organisations. Like in previous years, the entities 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.

Since 1 December 2010 the parent, ELEKTROBUDOWA SA has been a member of the Global Compact. The UN Global Compact is a unique, powerful platform for skill-sharing, implementation and disclosure of sustainability and social governance policies and practices. It has over 12 000 corporate participants and other stakeholders from over 145 countries.

Aware of environmental impact of its activity the group 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 the group, 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.

2.6 Occupational Health and Safety Management

As at 30 June 2014 the parent, ELEKTROBUDOWA SA had the following certificates:

- 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 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 2014 the above systems were recertified by DET NORSKE VERITAS for conformity with the standards. The parent, ELEKTROBUDOWA SA fulfils the requirements in the scope of recertification.

As at 30 June 2014 the subsidiary, ENERGOTEST sp. z o.o. had the following certificates:

- PN-N-18001:2004 - the occupational health and safety management system;
- BS OHSAS 18001:2007 - occupational health and safety management systems – Requirements.

In the period of six months of 2014 the lost time incident rate reached the lowest level in the history of the group. In H1 2014 there were no instances of an occupational illness.

The main task in the second half of 2014 for the parent, ELEKTROBUDOWA SA in respect of OHS Management Systems is the improvement of the Systems and attaining better standards of occupational safety and health.

2.7 Quality System Management

The group is focused on the continual improvement of product quality, with respect to the environment. The entities in the group are permanently involved in quality issues through the certified quality systems.

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

The Quality Management System has been supplemented with:

- the NATO requirements defined in the document AQAP-2110,
- quality assurance requirements during construction of nuclear power stations, acc. to NSQ 100,
- the requirements for welding - according to PN-EN ISO 3834-2
- quality requirements for designing and manufacturing of steel constructions defined in the PN – EN 1090-1 standard.

The switchgear manufacturing facility in Konin additionally meets the quality requirements during manufacture of switchgear panels in flameproof enclosure, dedicated for mining.

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

The subsidiary, ENERGOTEST sp. z o. o. has certificates for conformity to:

- EN ISO 9001:2008 - Quality management system;
- PN-EN 14001:2005 - Environmental management system, requirements and guidelines.

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 documentation, common auditing of the management systems, setting goals and targets. The key objective of the above systems is constant improvement of quality of products provided by the group's entities, with care for environment by preventing and mitigating adverse environmental impacts and with fulfilling the OHS requirements.

Essential events that occurred in the group in the six months of 2014 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 (in a smaller scope for direct labour and administrative personnel), discussing the cases of nonconforming with environmental regulations and quality requirements for products and services, supplemented with the OHS training,
- issuing a revision of the IMS Manual and new IMS policy,
- in April 2014 - recertification audit of the quality systems based on PN - EN ISO 9001, and AQAO 2012 standards, and of the environmental management system, the audit had positive result,
- internal audits of the integrated quality and environmental management system with the purpose of preventing occurrences of nonconformity and taking relevant corrective or preventive actions in the case of such occurrences;
- developing a program of improvement activities after the audit of supervision – the program is being implemented with no time delays in respect of the scheduled dates of implementing the auditors' recommendations in their report,
- continuation of documentation review and amending some documents in result of organizational changes in the parent's Industry Division;
- an audit was carried in the subsidiary, ENERGOTEST sp. z o.o. to check the conformity with the implemented standards – with positive result.

Plans for the second half of 2014 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, and the environmental responsibilities of ELEKTROBUDOWA SA;
- continuation of review of the system documents, introducing necessary adjustments and changes following the organizational changes in the parent's Industry Division;
- preparing the materials for training and lectures for ACEDAMY OF AUDITORS 2014,
- implementation of the planned corrective actions in the subsidiary ENERGOTEST sp. z o.o.

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

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

Growth of the ELEKTROBUDOWA SA group to a large extent depends on customers representing the following branches: power industry, building and petrochemical industries, mining, metallurgy, retail sector and the defence. Each of the foregoing branches has specific requirements in the area of services and products involved with generation, transmission and use of electric energy; they differ in ways of conducting business and have different economic situation.

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

- favourable economic situation in the power, chemical, metallurgic and building trades,
 - price level of electrical materials and equipment as well as metallurgic products,
 - 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 and the resulting complications associated with receivables inflow.
- Some customers have already applied prolonged payment terms and introduced more and more complicated payment methods, what makes them difficult to accept as early as on the stage of analysing an inquiry and frequently makes the contractors to withdraw from bidding.

Like in previous years, the sales offer of the ELEKTROBUDOWA SA group 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. General execution of investments, including public utility facilities, retail centres, industrial facilities.
3. Turnkey supply of automation and electrical systems.
4. Manufacture of automation devices for power industry.
5. Manufacture and installation of high-current busducts (ELPO, ELPE, PELPO).
6. Manufacture of indoor medium and low voltage switchgear assemblies.
7. LV, MV, HV stations.
8. Turnkey supply of electrical substations and high and extra high voltage lines for distribution and industrial operators.
9. Commissioning and start-up.
10. Design of equipment.
11. Servicing.
12. Conceptual work and consulting.
13. Property management.

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

In reporting period of six months ended 30 June 2014 the entities in the group continued to improve their competitive advantage by:

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

The ELEKTROBUDOWA SA group thoroughly analyses the market on which it operates and identifies segments prospective for its business development. It is reflected in the financial forecasts of the group. 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 investments in renewable sources of energy seem prospective as well.

A boom is expected in the construction industry since 2014 when projects from the new EU financial perspective will be launched. Many investments included in the new European budget for 2014 – 2020 will enter their execution stage. Implementation of new infrastructure projects, concerning both roads and railway system, will be covered by this financing.

As at 30 June 2014 the parent had four branches (permanent establishments) registered in other countries, through which it provides services in Finland, Luxembourg, Germany and the Netherlands. Through the operation of its associates the company introduces its products in the markets of Russia, Ukraine and Saudi Arabia.

Sales to Saudi Arabia are realized by the group through exports of the products manufactured by the Busduct Factory in Tychy and Power Distribution Division in Konin. The Tychy factory supplies high-current isolated phase busducts (ELPE) and non-segregated phase busducts (ELPO) including supervision over their installation.

Uncertain formal situation of SAUDI ELEKTROBUDOWA LLC, in result of governmental restrictions of regulations and requirements for foreign companies in Saudi Arabia, followed by the announcement of further restrictions, causes certain disadvantage for the group's exports

In Russia, an associate the Power Equipment Production Plant VECTOR Ltd has been active for five years, while in Ukraine a subsidiary ELEKTROBUDOWA SA UKRAINE Ltd has been operating, the companies supply their local markets with the goods manufactured by ELEKTROBUDOWA SA. The containerized substations type SKP provided with MV switchgear as well as medium voltage switchgear for indoor operation will remain the basic products exported to Russia and Ukraine.

The volume of exports to the Eastern Europe was greatly affected by recent political changes in this region. The changes caused significant freezing of new investments by the companies from the power sector and also substantially slowed down performance of projects in progress. Current modification of the strategy of long- and short-planned development of electric power industry as well as general political uncertainty in this country will be a key element to describe the volume of accomplished sales plans of the subsidiary, VECTOR, and the export sales of the parent, ELEKTROBUDOWA SA. The first symptoms of stabilization of economy in the region can be noticed, although a risk of change in the general political and economic situation has remained. Economic sanctions against Russia do not apply to the entities that ELEKTROBUDOWA SA cooperates with in this region.

According to the information from the suppliers of electric power equipment the reduction of purchases in the energy sector was estimated 30-50%. In the second half of the year a slight increase (10-20% on the first six months) in orders from this geographical area can be expected. The Management of the parent is monitoring the development of political and economical situation in Russia and Ukraine as well as the risks of limiting the sales of goods to the associates by the parent.

In the opinion of Management, political situation in Russia, despite its lack of stability, will not significantly influence the operations of VECTOR, as the company operating mainly in the Russian market. It is expected that the restrictions against Russia will induce the increase in demand for products supplied by the Russian companies.

The ELEKTROBUDOWA SA group 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 observable 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 quarters of the year it will be difficult to improve profitability, as some contracts have been and will be obtained in the period of tough competition.

One of major challenges that the group has to face 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 is the only criterion for selection keeps 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.

It is becoming a common practice to transfer the risk of financing projects during their execution to a contractor, by invoicing at long intervals, extended payment terms or increasing requirements for financial security of project execution.

In performing its business operations the group 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 Note 4 of the additional information to the consolidated financial statements for H1 2014.

Risk management is a process of identification, evaluation, management and control of potential occurrences or situations, aiming at provision of reasonable assurance that organisation's objectives

will be accomplished. Risk management is focused on limiting the risks and protecting against their impact. The Management of the parent establishes the general rules for risk management and policies for specific risk areas.

3. MARKET SITUATION - SALES AND PROCUREMENT

3.1 Sales destinations

The activity of the group is concentrated on winning new customers in the Polish market and in foreign markets. Because of difficulties encountered by the construction industry in recent years and deteriorating economic situation in the Polish market the group focused on building up its competitiveness in foreign markets and on systematic increase of exports.

Export sales in H1 2014, which included inter-community supplies and the supplies to the countries outside the European Union, generated the revenue of 32 342 thousand PLN, which accounted for 7.3% of total revenue from sale of products, goods and materials. In H1 2013 the group's exports amounted to 126 529 thousand PLN and constituted 33.0% of total revenues.

Itemized below are sales revenues generated by the ELEKTROBUDOWA SA group, categorized according to business sectors which were the recipients of the product and materials in H1 2014 and H1 2013:

Business areas	H1 2014		H1 2013	
	Value (PLN'000)	%	Value (PLN'000)	%
Power generation	233 996	52.9	91 322	23.9
Chemical industry	80 753	18.2	30 495	8
Mining	39 642	9.0	46 039	12.0
Transport	21 652	4.9	21 114	5.5
Metallurgy	10 826	2.4	3 441	0.9
Industrial automation	4 896	1.1	3 945	1.0
Retail facilities	4 454	1.0	6 484	1.7
Paper & pulp	4 012	0.9	3 999	1.0
Power distribution	2 953	0.7	5 291	1.4
Environmental protection facilities	1 210	0.3	56	0.0
Building materials	360	0.1	659	0.2
Food industry	298	0.1	160	0.1
Automotive industry	529	0.1	28	0.0
Housing and public utility construction	0	0.0	25 425	6.6
Sports facilities	0	0.0	366	0.1
Other areas	4 429	1.0	17 490	4.6
Export of products and materials	32 342	7.3	126 529	33.0
Total	442 342	100.0	382 843	100.0

Traditionally, power generating sector was the biggest source of the group's income also in H1 2014 (52.9% in the sales breakdown by industries) where the group is present with its products and comprehensive range of electric installation works in all newly erected, extended or modernized power stations. Sales revenue from this industry rose by 142 674 thousand PLN compared with the same period of 2013, while its percentage share by 29 percentage points. The biggest project executed by the group for this sector is the contract construction of a new heat generation unit with fluidized bed boiler, heating and condensing turbine and associated plants in TAURON Ciepło SA Zakład Wytwarzania Tychy for TAURON Ciepło Spółka Akcyjna, which has the 16.4% share in the sales revenues.

Another significant area of the group's activity in H1 2014 was the chemical industry, which share in the structure of sales by industries substantially increased, up to 18.2%. Compared with H1 2013, its share in the revenue earned by the group rose by 10.2 percentage points. The biggest revenue generated in this sector concerned the turnkey delivery of items of infrastructure dedicated for the new Flue Gas Desulfurization (FGD) plant being constructed in the heat and power plant located in the PKN ORLEN SA production facility in Płock, for PKN ORLEN SA (5.3% share in total revenue).

Other market segments, responsible for 21.6% share in the revenue from sales of products, goods and materials, and the export of goods and materials (7.3%) allowed the group to considerably supplement its sales outside the above basic industries.

The destinations and structure of exports are presented below:

	H1 2014		H1 2013	
	Value (PLN'000)	%	Value (PLN'000)	%
Finland	8 431	26.1	60 444	47.8
Ukraine	7 878	24.4	6 856	5.4
Turkey	4 429	13.7	12 245	9.7
Russia	4 267	13.2	16 542	13.1
Switzerland	2 405	7.4	304	0.2
Saudi Arabia	2 006	6.2	9 671	7.6
France	1 130	3.5	645	0.5
Belarus	646	2.0	1 502	1.2
Kazakhstan	614	1.9	2 914	2.3
Germany	267	0.8	5 808	4.6
Luxembourg	146	0.4	4 494	3.6
The Czech Republic	62	0.2	1	0.0
Republic of South Africa	54	0.2	2 362	1.9
The Netherlands	0	0.0	622	0.5
Greece	0	0.0	1 069	0.8
Estonia	0	0.0	781	0.6
The USA	0	0.0	222	0.2
Other countries	7	0.0	47	0.0
Total export sales	32 342	100.0	126 529	100.0

Export sales generally concerned installation services provided in the Nordic countries market. Sales revenues were generated mainly on the contract for electrical and I&C systems for the NPP OLKILUOTO 3 in Finland. The value of works performed at this site, invoiced in H1 2014, amounted to 8.4 million PLN, corresponding to 26.1% of total export sales revenues.

the following countries were also significant for the group's export sales for H1 2014:

- **Ukraine**, where the sales earned 7.9 million PLN revenue, accounting for 24.4% of total group's exports. Most of the goods were sold in the Ukrainian market by the group through the subsidiary, ELEKTROBUDOWA UKRAINE Ltd. which promotes goods manufactured by its parent, ELEKTROBUDOWA SA in the local market (in H1 2014 the sales generated by the subsidiary amounted to 7.6 million PLN revenue, 23.4% in the export sales structure);
- **Turkey**, where the sales earned 4.4 million PLN revenue, accounting for 13.7% of total group's exports. In H1 2014 the sales to Turkey included finished products (mainly high-current busducts) in the value of 4.3 million PLN (13.4% of the export sales) and other services for the amount of 0.1 million PLN (0.3% of the export sales);

- **Russia**, where the sales earned 4.3 million PLN revenue, accounting for 13.2% of total group's exports. Exports to the Russian market were realized through the associate, the Power Equipment Production Plant VECTOR Ltd.;
- **Switzerland**, where the sales earned 2.4 million PLN revenue, accounting for 7.4% of the export sales. In H1 2014 the sales included finished products (mainly high-current busducts and the busduct elements), and earned 2.3 million PLN (7.1% of the export sales) and other services for the amount of 0.1 million PLN (0.3% of the export sales) and other services for the amount of 0.1 million PLN (0.3% of the export sales);
- **Saudi Arabia**, where the sales earned 2.0 million PLN revenue, accounting for 6.2% of the export sales. In H1 2014 the sales included mainly high-current busducts and busduct elements manufactured by the Busduct Factory in Tychy which earned 1.1 million PLN (3.3% of the export sales), and the switchgear manufactured in the Konin factory, 0.6 Million PLN (1.9% of the export sales);
- **France**, where the sales had the value of 1.1 million PLN and a 3.5% share in the structure of the group's export. The subsidiary ENERGOTEST sp. z o.o. supplied its services for the value of 0.9 million PLN (3% of the export sales) and the parent delivered aluminium constructions for the value of 0.2 million PLN (0.5% of the export sales).

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

3.2 Dependence on one or more customers

In the reporting period the group was not dependant on a single customer with the share in sales revenue exceeding 10% of total sales revenues generated by the group. In H1 2014, the revenue earned the group from two customers accounted for 16.6% of its total revenue. The customers were the recipients of services provided by two business segments: the Industry Division (9.4% of the group's revenue) and the Power Generation Division (7.2% of the group's revenue).

3.3 Sources of supply

In H1 2014 the sources of supply did not change much, compared with previous years. However, keeping in mind the necessity of cutting costs the group is looking for new suppliers of materials who would offer more favourable purchasing conditions.

As at 30 June 2014 the group did not depend on a single supplier, whose share in sales revenues would exceed 10%. In H1 2014 the purchases realized by the group in respect of two customers constituted 13.4% of total sales revenues generated by the group. The purchases were associated with the activities of two business segments: Power Generation Division (9.0% of the group's revenue) and Industry Division (4.4% of the group's revenue).

4. SIGNIFICANT AGREEMENTS

4.1 Construction contracts and contracts for supply of goods

The biggest contracts obtained by the group were concluded by the parent.

The awarded contracts included:

- supply, installation and commissioning of Frequency Converters, Unit 4, 5 and 6 for the FGD plant in Turów, for Babcock Noell GmbH 32.5 million PLN,
- supply of works, delivery and installation of cabling and other associated activities on the site of construction of the station of line 2 of Warsaw underground, including commissioning and start-up of the installed equipment and installations for AGP Metro Polska. ASTALDI Sp.p.A., Gülermak Ağır Sanayi İnşaat ve Taahhüt A. Ş., Przedsiębiorstwo Budowy Dróg i Mostów Sp. z o.o. spółka cywilna 21.0 million PLN,
- 6kV electrical supply system for the Flue Gas Desulfurization Plant in Enea Wytwarzanie (Kozienice Power Plant) comprising the works of all type: electrical, protection, control and automation, civil works and erection, including testing, commissioning and start-up of the system, specifications and operating instructions for ENEA Wytwarzanie SA , 17.5 million PLN,
- Modernization of substation in the EDF Group 2014 – 2015 for Zespół Elektrociepłowni Wrocławskich KOGENERACJA SA, for EDF Polska SA oddział Wybrzeże w Gdańsku – Elektrociepłownia Gdańska EC2; the contract was made with EDF Polska S.A. 15.5 million PLN,
- Construction of the facility in the Commercial Centre within the project "Commercial Centre Facility including associated infrastructure" for DL PROJECT MANAGEMENT S.A. 12.6 million PLN,

- Delivery, installation and commissioning of switchgear, site preparation, relocation of cables, cable ducts and external cable trays on the bridges, within the contract for: "Construction of cogeneration fluidized bed boiler CFB 75MW in EC Zofiówka in SEJ S.A." for ENERGOINSTAL s.a. 13.3 million PLN,
- Construction of a new 110kV switchyard in the place of the existing one, within the contract for civil works "110/15kV station Pakość – overall modernization of the station" for ENEA Operator Sp. z o.o. 10.5 million PLN,
- Civil works and execution design engineering, obtaining required permits, civil works acc. to the developed design approved by the Purchaser, for the project: "Construction of the GPZ Krzywiń including connection of the MV line" for ENEA OPERATOR Sp. z o.o. 10.4 million PLN,
- Reconstruction of the technical infrastructure in the electrical part, after the fire of the 8TB transformer in Unit 8 in EDF Polska S.A. Oddział w Rybniku, including dismantling of the damaged elements and mounting new equipment, for EDF Polska S.A. 9.9 million PLN,
- Replacement of supply cables for the transformers T0 GPZ1; T1 and T2R-6; T1 and T3 GPZ-2. modernization of the differential protection for the system: line – transformer of supply units T0 GPZ1; T1 and T3 GPZ-2 for ANWIL S.A. 9.4 million PLN

4.2 Insurance contracts

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

- a) Powszechny Zakład Ubezpieczeń Spółka Akcyjna w Warszawie;
- b) Towarzystwo Ubezpieczeń i Reasekuracji „WARTA” S.A. w Warszawie;
- c) AVIVA Towarzystwo Ubezpieczeń SA;
- d) Sopotkie Towarzystwo Ubezpieczeń Ergo Hestia SA;
- e) AIG Europe Limited Sp. z o.o. Branches in Warsaw and Ukraine;
- f) UNIQA Towarzystwo Ubezpieczeń S.A.;
- g) GOTHAER Towarzystwo Ubezpieczeń S.A.;
- h) Towarzystwo Ubezpieczeniowe Allianz Polska S.A. w Warszawie;
- i) ING Nationale Nederlanden Polska S.A.;
- j) Towarzystwo Ubezpieczeniowe AIG Ukraina;
- k) Towarzystwo Ubezpieczeniowe AXA Ubezpieczenia Ukraina.

The scope of agreements made with the above institutions included:

- comprehensive car insurance,
- all-risks contractor's / erection insurance,
- business civil liability insurance, property liability insurance and product liability insurance,
- architects', designers' and construction supervision inspectors' liability insurance,
- corporate property insurance,
- cargo insurance,
- electronic equipment insurance,
- collective personal accident insurance during performance of activities relating to contract execution,
- collective personal accident insurance for employees in business trips abroad,
- managers' civil liability insurance,
- group life term insurance.

5. INVESTMENTS

5.1 Investments carried out in H1 2014

Total investment outlay incurred by the group in H1 2014 amounted to 7 395 thousand PLN, of which 6 861 thousand PLN was spent by the parent, and 534 thousand PLN by the subsidiaries, including : 502 thousand PLN by ENERGETEST sp. z o.o., 26 thousand PLN by ELEKTROBUDOWA UKRAINE Ltd. and 6 thousand PLN by KONIP Sp. z o.o.

The investment outlay incurred by the group in H1 2014 included:

- outlay on fixed assets 2 139 thousand PLN,
 - outlay on intangible assets 5 256 thousand PLN,
- of which:
- o outlays for R&D 4 411 thousand PLN.

Outlay for research and development in H1 2014 concerned mainly implementation of manufacture of a new product developed by the parent, high voltage switchgear type OPTIMA 145. Relevant costs incurred in H1 2014 amounted to 3 853 thousand PLN, while the expenses since the beginning of the project until the reporting date totalled 16 697 thousand PLN.

A considerable part of the outlay for 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 295 thousand PLN and concerned the following facilities:

- modernization of social and office building and areas in Konin, 146 thousand PLN,
- outdoor draining system along the office and social building in Tychy: 48 thousand PLN,
- 0.4kV cable line for electrical supply of SF6 bay in Mikołów: 50 thousand PLN.

In H1 2014 the equipment to streamline the production and assembly processes was bought for the sum of 444 thousand PLN. Main items of the purchased machinery and equipment include:

- ten social and office containers and warehouse containers: 119 thousand PLN,
- 6 pcs. electrohydraulic shears: 90 thousand PLN,
- 2 pcs. low resistance meter: 45 thousand PLN,
- 4 pcs. multi-function calibrator: 42 thousand PLN,
- 2 pcs. insulation resistance meter: 40 thousand PLN.

Furthermore, the replacement of worn and obsolete computer hardware was continued, for which the amount of 373 thousand PLN was earmarked. The expenses for modern software, licences and trademarks amounted to 845 thousand PLN.

Outlays for vehicles amounted to 1 027 thousand PLN and included the purchase of personal cars, light commercial vehicles, trucks, a fork-lift and a battery electric truck.

The H1 2014 investments were financed from the funds owned by the group entities and only a small part of those resources came from selling of some tangible assets.

5.2 Investment plan for the second half of 2014

Investment outlays planned by the group in the second half of 2014 amount to 19.1 million PLN. They mostly concern replacement and modernization of machinery park, technical equipment and immovable property for production and warehouse space.

A part of investment outlays planned for the second half of 2014 will be earmarked for further improvement of modern workplace organisation, including purchase of hardware and software.

Implementation of investment plans

Taking into account the financial standing of the group described in item 2.2 of this report, stable liquidity ratios and order backlog for the second half of 2014, it is evident that realization of the investment plans, including capital investments is not at risk. As in the previous period, the group is going to finance the investments from its own funds, which finds confirmation in the gathered funds and owned financial assets.

6. MAJOR TECHNICAL DEVELOPMENT WORKS

In H1 2014 the group carried out R&D works in respect of the offered product portfolio, by introducing new products or improvement of those already in the offer. The works included the following, in particular:

- engineering design for new panels of OPTIMA-24 switchgear,
- a prototype of an indoor 17.5kV, 1250A disconnecter,
- a prototype assembly of D-17P switchgear for nominal voltage 17.5kV and short-circuit current 50kA/3 s – type testing has been started,
- inspection documentation and a prototype of a variant of PREM-GO4 switchgear with 4 functional compartments – fully compartmented design,
- technical documentation for the traction rectifier unit for 660VDC,
- development of construction design and making a prototype of a variant of PREM-GO switchgear with 4 functional compartments – fully compartmented version;
- designing a new type of inspection manhole,
- launching the production of silicone products,
- completion of works on the protection concentrator PSE.

Major R&D plans of the company for the second half of 2014 include:

- completion of type tests of the D-17P switchgear for nominal voltage 17.5kV and short-circuit current 50kA/3 s,
- type testing of PREM-GO4 switchgear,
- type testing of OPTIMA-24 switchgear for the level of 2000A,
- technical documentation for the traction rectifier unit for 3300VDC,
- construction of a new variant of RT1 traction switchgear provided with GERAPID circuit breaker,
- testing the possibility of application of fabric compensators,
- research on launching own production of slide washers,
- monitoring for HV transformers,
- modernization of processor card of RZ-40 recorder.

7. RELATED PARTY TRANSACTIONS

In H1 2014 all transactions entered into by the group's entities with the related parties were typical, arm-length transactions carried out within normal current operating activity.

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

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

	period 01.01.2014 - 30.06.2014	period 01.01.2013 - 30.06.2013
a) sales:		
- sales of goods – the Power Equipment Production Plant VECTOR Ltd.	4 003	16 008
- sales of materials - the Power Equipment Production Plant VECTOR Ltd.	264	535
b) purchase:		
- purchase of services – the Power Equipment Production Plant VECTOR Ltd.	1	0
- purchase of services – KRUELTA Ltd.	0	17
- purchase of services - SAUDI ELEKTROBUDOWA LLC	0	57

Mutual balances were the following:

	as at 30.06.2014	as at 31.12.2013
- payables of ELEKTROBUDOWA SA to the Power Equipment Production Plant VECTOR Ltd.	0	9
- receivables of ELEKTROBUDOWA SA from the Power Equipment Production Plant VECTOR Ltd.	2 932	4 242
- receivables of ELEKTROBUDOWA SA from SAUDI ELEKTROBUDOWA LLC	0	241
- downpayment by ELEKTROBUDOWY SA to SAUDI ELEKTROBUDOWA Sp. z o.o.	138	0

As at 30 June 2014, the parent, ELEKTROBUDOWA SA created a provision for the default receivables from SAUDI ELEKTROBUDOWA LLC in the amount of 80 thousand USD (100% of unpaid debt).

In respect of other associates, costs relating to doubtful or bad debts associated with the transactions with related parties were not recognized. Unsettled balances of receivables and payables are not collateralized and will be settled in cash in their due payment dates.

The parent, ELEKTROBUDOWA SA did not provide any guarantees or sureties to the associates.

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

8.1 Credit contracts as at 30 June 2014

	Bank	Type of loan	Contract validity	Limit of credit
1.	ING Bank Śląski w Katowicach	overdraft facility	30.01.2016	17.0 million PLN
		working capital credit	30.01.2016	85.0 million PLN
2.	Bank Handlowy S.A. w Warszawie	overdraft facility	14.10.2014	15.0 million PLN
		working capital credit	31.12.2017	52.0 million PLN
		limit for credit cards		0.2 million PLN
3.	Bank PEKAO S.A. w Krakowie	overdraft facility	30.04.2015	10.0 million PLN
4.	PKO BP S.A. w Warszawie	overdraft facility	20.02.2015	5.0 million PLN
5.	mBank SA w Warszawie	overdraft facility	30.09.2014	10.0 million PLN
6.	BNP PARIBAS Bank Polska S.A.	overdraft facility	13.08.2014	1.0 million PLN

In H1 2014 the ELEKTROBUDOWA SA group was provided with the limit of overdraft in current accounts and working capital loans up to the amount of 195.0 million PLN. As at 30 June 2014, the amount of 19.5 million PLN the credit line in the current accounts was used, of which:

- w ING Bank Śląski S.A. 7.9 million PLN,
- in Bank Handlowy S.A. 5.1 million PLN,
- in Bank PEKAO S.A. 2.6 million PLN,
- in mBank S.A. w Warszawie 3.9 million PLN.

Na dzień 30.06.2014 the working capital loan was utilized up to 26.2 million PLN, of which:

- in ING Bank Śląski S.A. 11.0 million PLN,
- in Banku Handlowy S.A. 15.2 million PLN.

8.2 Other loan agreements

In H1 2014 the entities of the ELEKTROBUDOWA SA group neither were granted nor did themselves extend any loans.

8.3 Guarantees and bills

As at 30 June 2014 the ELEKTROBUDOWA SA group extended contract bonds issued by banks and insurance companies for the total amount of 508.9 million PLN, of which the parent 504.2 million PLN (99.0% of total amount of guarantees provided by the group) and ENERGOTEST sp. z o.o. 4.7 million PLN (1.0% of total amount of guarantees provided by the group). The guarantees included contract bonds such as bid bonds, advance payment bonds, performance bonds, warranty bonds, and also guarantees to secure claims against the group's entities pursued in court and guarantees to secure timely payment of debt.

In the period from 1 January to December 2014 the group provided security in the form of guarantees in the total amount of 88.5 million PLN.

In H1 2014 the parent, ELEKTROBUDOWA SA provided guarantees whose total amount concerning one customer exceeded 10% of the equity, for ANWIL S.A. Total amount of guarantees provided for that entity amounted 41.2 million PLN, of which:

- advance payment bond 39.3 million PLN,
- performance bond 1.4 million PLN,
- latent defect liability bond 0.5 million PLN.

The group also uses promissory notes to secure performance of contracts and contract payments, The bills issued by the group also secure credit lines and guarantees provided by banks or insurance companies. As at 30 June 2014 the amount of bills issued by the group totalled 20.7 million PLN.

8.4 Sureties

In 2013 the group entities did not receive or extended any sureties.

9. H1 2014 PERFORMANCE AGAINST THE PUBLISHED FORECAST FOR 2014

9.1 Results for H1 2014 against the forecast for 2014 concerning the parent

After the six months of 2014 the parent, ELEKTROBUDOWA SA generated a net profit amounting to 7 871 thousand PLN, while the sales revenues amounted to 421 267 thousand PLN. The budget of ELEKTROBUDOWA SA, published on 14.04.2014, assumes that the annual sales revenues will be realized on the level of 1 180 376 thousand PLN and the net profit will amount to 23 578 thousand PLN. The value of orders budgeted for 2014 is 1 001 492 thousand PLN. The company enters the second half of the year with a considerable order backlog worth 1 783 464 thousand PLN, whereas the value of orders received during the first six months of 2014 amount to 373 085 thousand PLN.

In the opinion of the Management, realization of the announced budget is not at risk.

9.2 Results for H1 2014 against the forecast for 2014 concerning the group

After the six months of 2014 the ELEKTROBUDOWA SA group generated a net profit amounting to 2 034 thousand PLN (of which 2 115 thousand PLN is attributable to the shareholders of ELEKTROBUDOWA SA), while the sales revenues amounted to 442 342 thousand PLN. The budget of the ELEKTROBUDOWA SA group, published on 14.04.2014, assumes that the annual sales revenues will be realized on the level of 1 233 806 thousand PLN and the net profit will amount to 22 976 thousand PLN, of which 22 986 thousand PLN should be attributable to the shareholders of ELEKTROBUDOWA SA.

In the opinion of the Management of the parent, realization of the announced budget is not at risk.

10. BASIS FOR PREPARATION

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

The consolidated financial statements of ELEKTROBUDOWA SA group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, according to the same principles both for the current period and comparable periods.

The present consolidated financial statements have been prepared under the historical cost convention (adjusted by the effects of hyperinflation on equity), with the exception of revaluation of some non-current assets and financial instruments which are shown at fair value.

11. STATEMENT OF THE PARENT ON CHOICE OF AN AUDITOR

The Management Board of ELEKTROBUDOWA SA confirms that ERNST & YOUNG Audyt Polska sp. z o.o. sp. k having their registered office in Warsaw was chosen to audit the consolidated financial statements of the ELEKTROBUDOWA SA group for the years 2014 to 2017 and to review the interim consolidated financial statements for the periods of six months ended 30 June for the years 2014 to 2017 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 six months ended 30 June of the years 2104 to 2017 as well as the annual financial statements of ELEKTROBUDOWA SA and the Consolidated Financial Statements of the ELEKTROBUDOWA SA group for the years 2014 to 2017 was concluded with ERNST & YOUNG Audyt Polska sp. z o.o. sp. k having their registered office in Warsaw on 08.08.2014.

The remuneration for the review and auditing of the above mentioned statements for 2014 was agreed as 113 in thousands of PLN, VAT excluded.

The review of the interim financial statements for the period from 01.01.2013 to 30.06.2013 and the audit of 2013 annual financial statements of ELEKTROBUDOWA SA and the Consolidated Financial Statements of the ELEKTROBUDOWA SA group were performed by Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. z based in Warsaw.

The remuneration for the review and auditing of the above mentioned statements for 2014 was agreed as 125 in thousands of PLN, VAT excluded.

Information on the liabilities to the entities related to the auditor

In March 2014 ELEKTROBUDOWA SA paid the invoice dated 25 February 2014 for the amount 420 thousand PLN for an advisory service provided by ERNST & YOUNG sp. z o.o. based in Warsaw.

12. A LIST OF SHAREHOLDERS OF THE PARENT ELEKTROBUDOWA SA

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

Shareholders of ELEKTROBUDOWA SA as at 30 June 2014:	Numbers of shares = number of votes	Percentage
AVIVA OFE AVIVA BZ WBK SA	625 454	13.17
ING OFE (Open-end Pension Fund)	472 405	9.95
OFE PZU „Złota Jesień”	454 446	9.57
AXA OFE	446 553	9.41
PKO BP Bankowy OFE	362 730	7.64
PTE Allianz Polska SA *	299 730	6.31
Amplico OFE	289 369	6.10
Generali OFE	241 640	5.09
Free float	1 555 281	32.76
Total number of shares in the share capital	4 747 608	100.00

* according to the notification by PTE Allianz Polska SA dated 27.05.2014, received by ELEKTROBUDOWA SA on 2 June 2014.

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.

Shares in ELEKTROBUDOWA SA held by the managing persons:

As at 30 June 2014:	Shares in ELEKTROBUDOWA SA
Jacek Faltynowicz President	-
Ariusz Bober Member of the Management Board	-
Janusz Juszczak Member of the Management Board	-
Arkadiusz Klimowicz Member of the Management Board	-
Adam Świąłski Member of the Management Board	-
Sławomir Wołk Member of the Management Board	35

As of 30 June 2014 the key executives did not hold any shares in entities related to ELEKTROBUDOWA SA.

As of 30 June 2014 the supervisory persons did not hold shares in ELEKTROBUDOWA SA or its related companies.

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

13.1 The Management Board of the parent

The Management Board consists of 3 to 7 people appointed by the Supervisory Board for a joint three-year term of office. At present there are 6 members of the Management Board.

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.

As at 30 June 2014 the Management Boards of the parent had the composition:

Faltynowicz Jacek	- President
Bober Ariusz	- Member
Juszczak Janusz	- Member
Klimowicz Arkadiusz	- Member
Świgulski Adam	- Member
Wołek Sławomir	- Member

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

The Management Board shall manage the affairs of the company and represents the company. The Management Board holds meetings presided by its President. President of the Management Board is also 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.

13.2 The Supervisory Board of the parent

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.

The composition of the Supervisory Board of ELEKTROBUDOWA SA from 1 January 2014 to 22 May 2014 was as follows:

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

As the term of office of the Supervisory Board elapsed, the General Meeting of ELEKTROBUDOWA SA convened for 22 May 2014 appointed the Supervisory Board of ELEKTROBUDOWA SA for the next term of office, in the following composition: Jacek Dreżewski, Eryk Karski, Artur Małek, Tomasz Mosiek, Ryszard Rafalski, Paweł Tarnowski, Karol Żbikowski.

The composition of the Supervisory Board of ELEKTROBUDOWA SA on 30 June 2014 was as follows:

Żbikowski Karol	-	Chairman
Karski Eryk	-	Vice-Chairman
Dreżewski Jacek	-	Member
Małek Artur	-	Member
Mosiek Tomasz	-	Member
Rafalski Ryszard	-	Member
Tarnowski Paweł	-	Member

All members of the Supervisory Board submitted to the company their 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.

13.3 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 H1 2014: 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.

13.3.1 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.

In the period from 1 January 2014 to 22 May 2014 the Audit Committee was composed of:

Tomasz Mosiek – Chairman of the Committee,

Eryk Karski – Member,

Paweł Tarnowski – Member.

The Supervisory Board, appointed pursuant to the resolution of the General Meeting of ELEKTROBUDOWA SA dated 22 May 2014, elected the following Audit Committee:

Tomasz Mosiek – Chairman of the Committee,

Eryk Karski – Member,

Artur Małek – Member,

Paweł Tarnowski – Member.

As at 30 June 2014 the Audit Committee was composed of the above persons.

13.3.2 The Nominating and Remuneration Committee

The Nominating and Remuneration Committee is composed of two or more members. At least one of them should be independent of the company and entities which are related with the company in an essential way. The Committee appoints its Chairperson out of its members.

In the period from 1 January 2014 to 22 May 2014 the Nominating and Remuneration Committee was composed of:

Ryszard Rafalski – Chairman of the Committee,

Agnieszka Godlewska – Member,

Karol Żbikowski – Member.

The Supervisory Board, appointed pursuant to the resolution of the General Meeting of ELEKTROBUDOWA SA dated 22 May 2014, elected the following Nominating and Remuneration Committee:

Ryszard Rafalski – Chairman of the Committee,

Jacek Dreżewski – Member,

Karol Żbikowski – Member.

As at 30 June 2014 the Nominating and Remuneration Committee was composed of the above persons.

14. REPRESENTATION ON OBSERVING THE CORPORATE GOVERNANCE RULES BY THE PARENT

The Management Board of the parent, ELEKTROBUDOWA SA represent that in H1 2014 ELEKTROBUDOWA SA and its bodies fully observed the corporate governance rules contained in the document “Code of Best Practice for WSE Listed Companies”. Details of corporate governance rules are available on the web page of ELEKTROBUDOWA SA: www.elbudowa.com.pl.

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

In H1 2014 applied the provisions covered in the corporate governance rules except of Chapter I Principle 12, and Chapter IV Principle 10 point 2) of the Code of Best Practices of WSE Listed Companies. ELEKTROBUDOWA SA informs that it implements point 1 Principle 10 Chapter IV, and ensures real-life broadcast of General Meetings, and after the Meeting closes, uploads its script on the company’s webpage.

Pursuant to Chapter I Principle 12 “A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means” and according to Chapter IV Principle 10 “A company should enable its shareholders to participate in a General Meeting using electronic

communication means through real-life broadcast of General Meetings, real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.”

In the opinion of the company, execution of the above mentioned principles (Chapter I Principle 12 and Chapter IV Principle 10 point 2)) can increase the exposure to risks of technical and legal nature, which may have impact on correct and undisturbed course of General Meetings.

The company does not exclude the possibility to apply the relevant principles in future.

15. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 22 July 2014 an Amendment to the loan agreement in the form of multi-purpose credit limit, with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna based in Warsaw was signed.

By this Amendment the limit of the multipurpose credit facility was increased up to the amount of 307 194 thousand PLN.

Within the limit, PKO BP SA has provided the lender a possibility to use:

- overdraft in the current account up to the amount of 25 000 thousand PLN to finance current liabilities resulting from the company's business operations,
- bank guarantees provided in national and foreign markets, against applications for guarantee issue or based on trade contracts, up to the amount of 120 000 thousand PLN,
- documentary letters of credit in national and foreign markets, up to the amount of 5 000 thousand PLN to secure commercial transactions and the concluded contracts,

furthermore, within the Limit, the Bank has issued two guarantees in the national market, whose beneficiary is TAURON Ciepło SA, based on the contract for “Construction of a New Heating Unit in EC Tychy”, up to the amount of 182 194 thousand PLN.

The multi-purpose limit shall be available until 20 February 2015.

No other events, except for the above, after the balance sheet date, not disclosed in the consolidated financial statements, have occurred.

16. STATEMENT OF CONFORMITY WITH LEGISLATION

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

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