

**THE DIRECTORS' REPORT**  
on the Operations of  
**ELEKTROBUDOWA SA GROUP**

**H1 2015**

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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 Power Generation Division also registered its branches (permanent establishments) outside Poland through which it conducted its business in Finland and the Netherlands in the six months of 2015.

- **Branch 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.
- **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 Synergieweg 1, 9979XD Eemshaven. Postal address of the establishment is Postbus 1170, 2260BD Leidschendam, its VAT registration number NL823363375. By Resolution No. 41/VIII/2015 of the Management Board of ELEKTROBUDOWA SA passed on 18 February 2015 the company started the winding up procedure, particularly deregistrating the branch from registers therein. The branch was deregistered from the Register of Businesses with the effect from 31 March 2015.

- **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.

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 Power Equipment Production Plant 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 2015, 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 2015, ELEKTROBUDOWA SA held 33% of shares which represented 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 2015, compared with the situation as at 31 December 2014, 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 revenues generated by the ELEKTROBUDOWA SA group from sales of goods, services and materials in the six months ended 30 June 2015 amounted to 592 901 thousand PLN and were 150 559 thousand PLN (34.0%) higher than for H1 2014. Major part of sales revenues (85.6%) was generated by the basic business activities of the group, electrical installation services. Volume of the sales generated by this core business amounted to 507 683 thousand PLN.

Export sales in H1 2015 earned 45 051 thousand PLN revenue and were by 39.3% bigger than the exports realized by the Group in H1 2014. The increase of revenue from exports was mainly contributed to the sales of services to Finland, products to Russia and Angola. In H1 2015 the Group for the first time sold one of its products, isolated-phase busduct type ELPE, to South Korea.

The table below presents the structure of net revenue generated from the sales of products, goods and materials in H1 2015 and in H1 2014.

	H1 2015		H1 2014		Change
	PLN'000	%	PLN'000	%	PLN'000
<b>Revenue from sales of products, merchandise and materials</b>	<b>592 901</b>	<b>100.0</b>	<b>442 342</b>	<b>100.0</b>	<b>150 559</b>
construction and erection services	507 683	85.6	357 371	80.8	150 312
electrotechnical products	76 484	12.9	75 233	17.0	1 251
other services	7 388	1.3	7 554	1.7	(166)
materials	1 346	0.2	2 184	0.5	(838)

ELEKTROBUDOWA SA Group is a provider of electric installation services and a manufacturer of equipment for transmission and distribution of electric energy. 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.

The external sales of electrical equipment in the first half of 2015 generated 76 484 thousand PLN and rose 1.7% on H1 2014. The sales of these products had 12.9% share in total revenue from sale of products, goods and materials generated by the Group in the six months of 2015.

In H1 2015 the Group sold industrial products for the sum of 113 790 thousand PLN. This amount included 37 306 thousand PLN relating to internal sales for the needs of executed construction contracts.

The presented volume of sales of finished products accounts for consolidation exclusions within the Group.

Production of principal products by volume and value in H1 2015 and H1 2014 was as follows:

- by volume:

Type of Product	Unit of measure	Quantity	
		H1 2015	H1 2014
Low voltage switchgear	panel	593	338
Medium voltage switchgear	panel	869	948
High voltage switchgear	panel	5	0
Mobile substations SKP	set	18	27
Low voltage busducts	m	746	387
Medium voltage busducts	m	170	43
Cable trays	ton	2	2
High-current busducts type ELPO, ELPE, PELPO	set	30	22
Electricity distribution and control devices	pcs	98	92
Measuring and monitoring devices (recorders)	pcs	6 533	8 791
Peripheral devices (separators, converters, controllers)	pcs	175	109

- By value

Product	H1 2015		H1 2014	
	Value (PLN'000)	(%)	Value (PLN'000)	(%)
Low voltage switchgear	23 773	12.4	12 359	8.9
Medium voltage switchgear	60 690	31.7	61 778	44.4
High voltage switchgear	2 553	1.3	0	0.0
Mobile substations SKP	2 367	1.2	2 984	2.1
Low voltage busducts	2 121	1.1	843	0.6
Medium voltage busducts	1 175	0.6	231	0.2
Cable trays	18	0.0	14	0.0
Semi-finished products for switchgear and SKP	60 109	31.4	32 474	23.4
High-current busducts type ELPO, ELPE, PELPO	16 370	8.5	12 220	8.8
Electricity distribution and control devices	1 554	0.8	1 196	0.9
Measuring and monitoring devices (recorders)	4 579	2.4	3 385	2.4
Peripheral devices (separators, converters, controllers)	205	0.1	162	0.1
Other products	16 290	8.5	11 414	8.2
<b>Total</b>	<b>191 804</b>	<b>100.0</b>	<b>139 060</b>	<b>100.0</b>

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

Total value of contracts and orders awarded to the parent, ELEKTROBUDOWA SA in the first half of 2015 amounted to 547.5 million PLN, which, compared with the same period of the previous year when the orders received totalled 373.1 million PLN, indicates a growth by 46.7%.

Sales invoiced in H1 2015 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 Sp. z o.o. Zakład Wytwarzania Tychy for TAURON Ciepło Sp. z o.o. PLN 211.7m
- extension and modernization of 220/110kV electrical substation Skawina, including connection of 2x2x400kV line, for PSE S.A., PLN 46.3m
- supply, erection and commissioning of electrical and I&C components and systems for the Nuclear Power Plant Olkiluoto, Finland for AREVA NP GmbH PLN 23.3m
- Civil works and other associated services required for the completion of the project - construction of the Franowo tram depot in Poznań for MPK w Poznaniu Sp. z o.o. PLN 21.0m
- "design and build" execution of the project „Extension of the Słupsk 400/110kV PLN 15.9m



Substation” – Stage 1 and 2 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.

- supply, installation and commissioning of frequency converters, Unit 4, 5 and 6 for the FGD plant in Turów, for Babcock Noell GmbH PLN 12.1m
- 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 9.5m
- Modernization and maintenance of control and supervision systems including electrical installations of units 7-12 in PGE Elektrownia Bełchatów for Emmerson Process Management Power and Water Solutions Sp. z o.o. PLN 9.4m
- erection and installation services – overall supply of electrical and I&C systems for the Innovative plant for production of ultra clean monochloroacetic acid U-P MCAA for PCC MCAA Sp. z o.o. PLN 9.0m
- Rebuilding of the existing peak load/reserve boiler house into a light fuel oil fired boiler, including infrastructure, for EDF Polska S.A. Kraków for EDF Polska S.A. PLN 8.4m

#### Main items of the consolidated statement of comprehensive income for H1 2015 and H1 2014

	H1 2015		H1 2014		Change
	PLN'000	%	PLN'000	%	PLN'000
Net sales revenues	592 901	100.0	442 342	100.0	150 559
Cost of products, goods and materials sold	(539 439)	91.0	(421 465)	95.3	(117 974)
<b>Gross profit on sales</b>	<b>53 462</b>	<b>9.0</b>	<b>20 877</b>	<b>4.7</b>	<b>32 585</b>
Selling costs	(1 631)	0.3	(1 314)	0.3	(317)
General administrative expenses	(9 154)	1.5	(8 668)	2.0	(486)
Other operating income	5 092	0.9	6 883	1.6	(1 791)
Other operating expenses	(11 784)	2.0	(12 746)	2.9	962
<b>Operating profit</b>	<b>35 985</b>	<b>6.1</b>	<b>5 032</b>	<b>1.1</b>	<b>30 953</b>
Finance income	429	0.1	56	0.0	373
Finance costs	(1 833)	0.3	(1 214)	0.2	(619)
Share of profit of associates	268	0.0	(505)	0.1	773
<b>Profit before income tax</b>	<b>34 849</b>	<b>5.9</b>	<b>3 369</b>	<b>0.8</b>	<b>31 480</b>
<b>Income tax</b>	<b>(7 597)</b>	<b>1.3</b>	<b>(1 335)</b>	<b>0.3</b>	<b>(6 262)</b>
<b>Net profit for the period</b>	<b>27 252</b>	<b>4.6</b>	<b>2 034</b>	<b>0.5</b>	<b>25 218</b>

Relations between sales and costs and their impact on the profit amount are described by sales profitability ratios. In H1 2015 gross profit margin was 5.9% and rose 5.1 percentage point on H1 2014. The operating profit margin was 4.6% and rose 4.1 percentage point compared to H1 2014.

Favourable change was noted in the gross profit on sales, which rose by 32 585 thousand PLN in H1 2015, i.e. by 156.1%. In the compared periods, rate of growth of sales revenues (34.0%) was higher than the growth rate of costs of products, goods and materials sold (28.0%), therefore gross profitability of sales increased from 4.7% to 9.0%.

Selling costs for H1 2015 amounted to 1 631 thousand PLN and were 317 thousand PLN (24.1%) higher than in H1 2014. The level of selling costs was correlated with the level of sales revenue in the periods. In the compared periods the selling costs had a 0.3% share in the sales revenue. Transport services were the main item of selling costs (increase by 283 thousand PLN on H1 2014), the second biggest were the costs of participations in fairs and exhibitions (increase by 280 thousand PLN on H1 2014).

The general administrative expenses incurred in H1 2015 amounted to 9 154 thousand PLN and increased by 486 thousand PLN, i.e. by 5.6% compared with H1 2014. Within the general administrative expenses of the parent, the biggest increase, by 361 thousand PLN compared with the same period of the previous year, was recorded in salaries and wages. The general administrative expenses had a 1.5% share in the H1 2015 sales revenues, while in H1 2014 they accounted for 2% of the sales revenues. The share of general expenses in revenues in the comparative periods dropped 0.5 percentage point.

In H1 2015, other operating income totalled 5 092 thousand PLN and was by 1 791 thousand PLN lower than in the comparative period, which is a 26.0% decrease.

Main items of other income:

remission of penalties	1 322	thousand PLN
- interest received for delayed payments	1 208	thousand PLN
- penalties and damages	946	thousand PLN
- gains from settlement of hedged foreign currency transactions	493	thousand PLN
- received compensation from insurance policies	371	thousand PLN
- interest on cash in bank accounts	228	thousand PLN
- court costs	59	thousand PLN
- gains from sale of non-finance fixed assets	55	thousand PLN

In H1 2015, the main item of operating income included remission of penalties in the amount of 1 322 thousand PLN. The liquidated damages charged by Junimex Development sp. z o.o. were remitted, the parent company's debt deducted, after the agreement between parties had been reached on 24 June 2015 before the Arbitration Court at the Polish Chamber of Commerce

In H1 2015, other operating expenses totalled 11 784 thousand PLN and were 962 thousand PLN (7.5%) lower than in the same period of the previous year.

Main items of other operating expenses:

- provision for impairment of receivables	(5 947)	thousand PLN,
- commissions and charges	(2 341)	thousand PLN,
- penalties	(1 961)	thousand PLN,
- donations	(128)	thousand PLN,

- currency translation differences	(823) thousand PLN,
- damage repair cost	(163) thousand PLN,
- employee benefits and compensations	(153) thousand PLN,
- court fees	(124) thousand PLN.

Provisions for impairment of receivables 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 14 674 thousand PLN in H1 2015. In the comparative period the amount of provisions for impairment of receivables was 18 981 thousand PLN, which is a 22.7% decrease.

As 30 June 2015 the impairment provision of receivables amounted to 39 289 thousand PLN and rose 5 284 thousand PLN, that is 15.5%, compared with 34 005 thousand PLN as at 30 June 2014. The impairment provisions as at 30 June 2015 included 25 297 thousand PLN for trade receivables and 13 992 thousand PLN for other receivables.

Impairment of other receivables included:

- retentions not returned when due	6 276 thousand PLN.
- receivables due to penalties and damages	4 374 thousand PLN,
- receivables due to payment of joint and several liability	1 639 thousand PLN,
- debt of entities under bankruptcy procedure	1 093 thousand PLN,
- receivables due to sale of non-current assets	320 thousand PLN,
- receivables vindicated in court (including interests)	187 thousand PLN,
- amounts of liabilities not repaid	103 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. Ways of handling overdue debts by the Group include:

- monitoring of business entities by a specialized business intelligence agency,
- constant monitoring, issuing requests for payment,
- attempts to solve the problems amicably (agreement between parties, conciliation),
- 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 H1 2015 amounted to 35 985 thousand PLN, while the return on operating profit was 6.1%. Compared with the first half of 2014, profitability of operating activity rose by 5.0 percentage point.

The financial income in H1 2015 amounted to 429 thousand PLN and was by 373 thousand PLN higher than in H1 2014. The financial income included 61 thousand PLN received as dividend on the shares in Energotest – Diagnostyka Sp. z o.o. held by the subsidiary ENERGETEST sp. z o.o. and 368 thousand PLN amount of dividend on the shares of PI Biprohut Sp. z o.o. held by ELEKTROBUDOWA SA.

The financial costs of H1 2015 amounted to 1 833 thousand PLN and were by 619 thousand PLN (51.0%) higher than in H1 2014. They included interests on borrowings in the amount of 1 081 thousand PLN (increase by 424 thousand PLN), commission on bank loans 694 thousand PLN (increase by 153 thousand PLN), and interests on leases in the amount of 58 thousand PLN (increase by 42 thousand PLN).

The pre-tax profit for H1 2015 amounted to 34 849 thousand PLN and was by 31 480 thousand PLN bigger than the profit for H1 2014.

The economic and financial results of the reporting period closed with net profit of 27 252 thousand PLN and rose compared with the same period of previous years: it rose by 25 218 thousand PLN on H1 2014 and by 26 395 thousand PLN H1 2013.

### **Business segments performance for H1 2015**

	<b>Power Generation Division</b>	<b>Industry Division</b>	<b>Power Distribution division</b>	<b>Automation Division</b>	<b>All other segments</b>	<b>Total Group</b>
<b>Sales revenue</b>						
of which:						
- revenue from external customers	330 631	92 586	151 236	17 271	1 177	<b>592 901</b>
- inter-segment sales	3 009	3	33 877	8 630	4 499	<b>50 018</b>
- total revenue of segments	333 640	92 589	185 113	25 901	5 676	<b>642 919</b>
<b>Operating profit / loss</b>	<b>22 928</b>	<b>(3 625)</b>	<b>16 451</b>	<b>1 064</b>	<b>(833)</b>	<b>35 985</b>
Financial activities result	(171)	(190)	(1 471)	61	367	<b>(1 404)</b>
Share in net profit of equity accounted companies	0	0	268	0	0	<b>268</b>
<b>Gross profit / loss before tax</b>	<b>22 757</b>	<b>(3 815)</b>	<b>15 248</b>	<b>1 125</b>	<b>(466)</b>	<b>34 849</b>
Income tax	(4 704)	557	(3 348)	(224)	122	<b>(7 597)</b>
<b>Net profit / loss for the period</b>	<b>18 053</b>	<b>(3 258)</b>	<b>11 900</b>	<b>901</b>	<b>(344)</b>	<b>27 252</b>
of which:						
- net profit / loss of shareholders of ELEKTROBUDOWA SA	18 053	(3 258)	11 976	901	(344)	<b>27 328</b>
- non-controlling interest	0	0	(76)	0	0	<b>(76)</b>

The H1 2015 net result accounts for provisions for expected losses associated with performance of contractual work, in the amount of 4 937 thousand PLN.

Recognised losses of the Industry Division have been principally generated by the following contracts:

Contract Title	Provisions as at 31.12.2014	Provisions created in H1 2015	Provisions released in H1 2015	Provisions as at 30.06.2015	Notes
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. (Contract signed 13 July 2011)	707	1 158	264	1 601	Causes of a loss on this contract must be sought in two main sources, one of them is associated with higher than assumed fixed costs due to significant prolongation of the execution period, while the other is related to the underestimation of direct costs of the investment at the stage of preparation of the quotation. The contract was completed in May 2015. Provisions cover the costs to be incurred after project completion as agreed in the contract, projected costs to be settled with the consortium leader and subcontractors (disputes) and planned fixed costs.
Residential building B with underground and ground level car parks (garages), internal infrastructure including entrances and exits, connections and target environment (Stage 3) for Na Skraju Lasu Sp. z o.o. (Contract signed 9 November 2011)	1 110	324	0	1 434	It is the third stage of the investment carried out under the contract concluded in November 2011. The signed contract does not include any indexation formula, what, in confrontation with present prices of materials and labour, involved the necessity to verify the forecast accordingly and create a provision to cover a loss estimated by this forecast.
Residential building C with underground and ground level car parks (garages), internal infrastructure including entrances and exits, connections and target environment (Stage 2) for Na Skraju Lasu Sp. z o.o. (Contract signed: 9 November 2011)	35	633	9	659	The provision in the amount of subcontract price was created for costs of defect removal.
Civil works relating to the modernization of railway Line 9 on the section from KM184,800 to KM 236,920 in the area of LCS Ilawa (Local Control Centre) for BUDIMEX S.A (Contract signed 1 August 2011)	127	425	28	524	The reason behind the decision to conclude the contract was the will to obtain new references and enter the traction market. Postponement in completion caused the increase of fixed costs and the lack of experience in executing contracts of this type involved increase of direct costs. The contract was completed in July 2015. The created provision covers the purchaser's claim due to substitute performance and the payables to subcontractors for performed work. ELEKTROBUDOWA SA is in the last stage of negotiations of final settlement of project costs (signing a settlement agreement).
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. (Contract signed 20 September 2011)	259	12	2	269	The loss on the contract is partly attributed to underestimation of direct costs, but first of all it is caused by stoppages due to the fault of the purchaser and his ultimate withdrawal from the contract in February 2014 in result of Investor's earlier withdrawal from the contract with the purchaser. At present ELEKTROBUDOWA SA is going to file a claim against the purchaser for additional payment and coverage of incurred additional fixed costs.
Complete Works associated with execution of internal electrical installations and the transformer station for the project "Construction of a New Seat of the Silesian Museum in Katowice" for BUDIMEX S.A. (Contract signed 12 September 2011)	227	50	25	252	A cause for the loss on the contract is both postponement in completion (increased fixed costs) and underestimation of labour costs at the stage of quotation. At present, final settlement is negotiated with the Purchaser. Estimated completion: August 2015.

## 2.3 Financial analysis

As at 30 June 2015, the group's balance sheet total decreased by 63.9 million PLN compared with the amount as at 31 December 2014. The non-current assets rose by 4.2 million PLN, while current assets dropped by 68.1 million PLN.

The increase in the non-current assets was attributed to the increase in investment in associates by 2.0 million PLN and increase in fixed tangible assets by 1.0 million PLN.

As far as current assets are concerned, the biggest drop was in trade and other accounts receivable, by 82.7 million PLN., while the biggest increase in cash and cash equivalents, by 49.3 million PLN. The increase in cash balance was attributed to inflows of cash when the trade receivables were paid. Also, the decrease of balance of amounts due for construction contract works by 49.3 million PLN, allowed to generate extra cash flow. Adding the 2.4 million PLN increase in the Group's liabilities due to the received advance payments for supplies, the net cash flow from operating activity in the reporting period ended 30 June 2015 showed a positive value of 116.4 million PLN.

The amounts due from customers for construction contract work are a substantial item of the Group's current assets. As at 30 June 2015 it totalled 225.6 million PLN and compared with 274.9 million PLN as at 31 December 2014 the amount decreased 17.9%.

**The table below presents the construction contracts with substantial amounts of accounts receivable as at 30 June 2015:**

Extension and modernization of Byczyna electrical substation including connection to 400 kV line for PSE S.A.	101.0	million PLN	As circumstances, on which the Contractor could not have control, have occurred during execution of the project, ELEKTROBUDOWA SA requested the Purchaser (PSE SA) to agree to change the Schedule of works and expenditures which is Appendix 3 to the Contract and postpone the completion deadline to 31 July 2017. Despite delay in performance, the works at the site are advanced in 40% of total scope. Many items of the contract scope have been submitted to technical approval, and after positive recommendation ELEKTROBUDOWA SA will apply to PSE S.A. for acceptance of those works. Partial rescheduling of costs should not have influence on the final profit margin. Recently ELEKTROBUDOWA SA has received permits to relocation, including partial damage, of protected habitats; the works are in progress. When the site of 400kV switchgear is prepared, the relevant works can be started in the beginning of September 2015. ELEKTROBUDOWA SA is going to file a request for new decision concerning environmental constraints of the project and expects to receive the relevant decision in February 2016. The presented scenario will allow to have the whole project completed, including final acceptance procedure, by 31 July 2017.
Extension and modernization of Skawina 220/110kV electrical substation including connection to 2x2x400kV line for PSE S.A.	19.7	million PLN	The rate of progress of contractual works meets the Schedule of works and expenditures attached to the contract. As at the reporting date there is no indication that the deadline would not be met. The planned date of issue of the first invoice has been met, completion of the contract is scheduled at 31 December 2017.
"Design and build" execution of the project „Extension of the Słupsk 400/110kV Substation” – Stage 1 and 2 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.	18.1	million PLN	The contract progress reached nearly 97% completion. As determined in the Schedule of works and expenditures, the investment will be settled in two stages. ELEKTROBUDOWA SA received an updated schedule of extension of the Słupsk substation in which it is assumed that the contract should have been completed by 27 July 2015. Present status of completion assumes completion by 30 September 2015. The initial contractual deadline is postponed by 20 months. The postponement is caused by the lack of possibility to disconnect the transmission system between Poland and Sweden and the Northern link, including the Dunowo line, for the period of 45 days which is required by Contractor in order to perform the scheduled scope of works. To shorten the period of disconnecting the Poland – Sweden transmission system to minimum, the specification of transient stages of operation of the Poland – Sweden transmission and the Northern link was drafted. The factor which hinders performance of the contract in the agreed time is the insufficient time of disconnecting the transmission system; shortened period of disconnecting can make the performance of the whole scope of works impossible. In the opinion of the Management, the updated budget of the contract accounts for all costs of delay in completion. The adjusted profit margin covers all risks of extended time for completion identified as at the reporting date.
Design and construction of Resko wind farm, stage 2 for total installed capacity 76MW including generator connection for PGE Energia Odnawialna S.A.	16.6	million PLN	The rate of progress of contractual works meets the Schedule of works and expenditures attached to the contract. As at the reporting date there is no indication that the deadline would not be met. Completion of the contract is scheduled at 30 June 2016.

On the equity and liabilities side, the relation of liabilities to equity decreased. As at 30 June 2015, compared with the data as at 30 June 2014, the decrease in liabilities by 92.9 million PLN was accompanied by the 29.0 million PLN increase in equity.

The drop in liabilities is generally caused by the decreased amounts of loans, borrowings and debt securities by 59.6 million PLN, short-term trade and other payables by 34.6 million PLN and accrued expenses by 2.9 million PLN.

The growth of equity is principally attributed to the increase in supplementary capital by the 29.1 million PLN amount of cumulated profit of the previous year.

The group maintained the policy of financing its operations from its own funds, partly supported by borrowed capital in the form of liabilities and also by the released working capital loan in the amount of 43 420 thousand PLN.

Selected ratios describing the economic and financial position of the Group:

	H1 2015	H1 2014	H1 2013
<b>I. Profitability ratios</b>			
1. Net profit margin <i>net profit / sales revenues</i>	4.6%	0.5%	0.2%
2. Gross profit margin <i>profit before taxes / sales revenues</i>	5.9%	0.8%	0.4%
3. operating profit margin <i>operating profit / sales revenues</i>	6.1%	1.1%	0.6%
4. Return on equity (ROE) <i>net profit / average equity capital</i>	7.7%	0.6%	0.3%
5. Return on assets (ROA) <i>net profit / average assets</i>	3.1%	0.3%	0.1%
<b>II. Liquidity ratios</b>			
1. Current ratio <i>average current assets / average (current liabilities + deferred payments)</i>	1.4	1.3	1.4
2. Quick ratio <i>average (current assets – inventories - prepayments) / average (current liabilities + deferred payments)</i>	1.3	1.1	1.2



	H1 2015	H1 2014	H1 2013
<b>III. Turnover ratios</b>			
1. Receivables turnover ratio (days) <i>average short-time trade debtors x 360 days / sales revenues</i>	83	83	108
2. Accounts payable turnover ratio (days) <i>average trade creditors x 360 days / sales revenues</i>	64	77	87
3. Inventory turnover (days) <i>average inventories x 360 days / sales revenues</i>	18	25	29
4. Assets turnover <i>sales revenues /average total assets</i>	0.7	0.6	0.6
<b>IV. Debt ratios</b>			
1. Debt-equity ratio <i>average borrowed capital /average total equity</i>	56.7%	60.6%	51.7%

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

Profitability ratios define the ability of sales to generate earnings. Their changes mainly reflect changes in net profit generated by the group within recent reporting periods. In the first half of 2015 the net profit margin was 4.6%. It increased 4.1 percentage point on H1 2014 and by 4.4 percentage point on H1 2013.

Gross profit margin was 5.9% as at the end of H1 2015 and rose on the comparative periods by 5.1 percentage point and 5.5 percentage point, respectively.

Analysis of sales profitability ratio indicates that the profit margin improved in H1 2015 compared with comparative two reporting periods.

The return on assets ratio (ROA), which indicates the ability to generate net earnings by all assets used in the group was 3.1% in the reporting period and was higher by 2.8 percentage point than in H1 2014 and by 3.0 percentage point than in H1 2013. The growth of ROA in H1 2015 indicates the effective use of assets employed.

The return on equity (ROE) for H1 2015 was 7.7% and rose on comparative periods by 7.1 percentage point and by 7.4 percentage point, respectively.

In the reporting period the increase in the return on equity ratio was bigger than the increase in the return on assets ratio.

As far as liquidity ratios are concerned, in H1 2015 the current ratio had the value of 1.4, while the quick ratio 1.3. The liquidity ratios maintained the same or approximate level in the comparative periods. 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 (0.8 – 1.2).

The level of liquidity ratios in the reporting period indicates good financial credibility of the Group. Liquidity ratios provide information about the Group's short-time financial security; their values should be correlated with the level of the turnover ratio.

The collection period for trade receivables was 83 days in H1 2015. It was the same as for H1 2014 and by 25 days shorter than in H1 2013. The level of the trade receivables rotation ratio in the compared periods indicates that the period in which the group credited its customers has shortened.

According to accounting data, payables are settled within 64 days. Maturity dates for payables vary from 14 days to 60 days. In the analysed period, accounts payable turnover ratio was 13 days shorter compared with H1 2014 and by 23 days shorter than in H1 2013. 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 18 days, provides information on the length of process of transforming the inventories into finished products sold. In H1 2015 the inventories turnover period was by 7 days shorter than in the comparative period of H1 2014 and by 11 days shorter than in H1 2013. The level of the ratio indicates better adjustment of the volume of stock to the demand for the Group's products. Also, the period in which the cash is employed in financing the inventories corresponds to monthly settlement cycles of most services provided by the Group. The length of inventories turnover cycle indicates efficient management of the material resources of current assets.

On the basis of the three ratios described above the length of cash conversion cycle can be calculated, which was 37 days in H1 2015 for the Group.

The Group's activity is assessed by the assets turnover ratio which measures the ability of assets, being at its disposal, to generate sales. The assets turnover for the Group was 0.7. In the two comparative periods it was 0.1 percentage point lower. The ratio informs that each 1 zloty engaged by the Group earned the revenue of 0.7 zloty. The levels of the ratio in the comparative periods indicate balanced growth of sales revenue and the assets, and therefore the efficient use of resources owned by the Group.

Debt to equity ratio indicates what proportion of debt an entity is using to finance its assets. In H1 2015 the debt-equity ratio for the Group was 56.7%; it dropped 3.9 percentage point compared with H1 2014 and rose 5.0 percentage point on H1 2013. Change in the ratio reflects the change in the share of borrowed capital in financing the Group's assets. In H1 2015 the Group used the amount 43 420 thousand PLN of borrowings to finance its business operations. It was 2 257 thousand PLN less than in H1 2014 but 19 002 thousand PLN more than in H1 2013. The parent company, ELEKTROBUDOWA SA uses working capital loan to finance its two construction contracts for PSE S.A.

Levels of liquidity ratios, inventories turnover ratio and assets turnover ratio allow a positive appraisal of the financial situation of the Group and its financial strategy. The Group's payables were secured both by the assets owned and the equity gathered. The analysis shows that the Group has maintained its sound financial position.

Presented above key parameters and ratios describing the economic and financial position of the ELEKTROBUDOWA SA Group have been measured on the basis of information from the consolidated financial statements prepared under the going concern assumption.

## **2.4 Financial resources management**

In H1 2015 the ELEKTROBUDOWA SA group maintained the policy of financing its operations from its own funds, partly supported by borrowed capital in the form of liabilities, and also by the released overdraft facilities in current accounts and the working capital loan.

As at 30 June 2015, the Group had overdraft facilities in the current accounts (80.7 million PLN), the working capital loan limit (84.0 million PLN) and the limit for credit cards (0.2 million PLN), in the total amount available up to 164.9 million PLN.

As at 30 June 2014, the Group had overdraft facilities in the current accounts (58.0 million PLN), the working capital loan limit (137.0 million PLN) and the limit for credit cards (0.2 million PLN), in the total amount available up to 195.2 million PLN.

Total amounts due to banks as at 30 June 2015 was 43.4 million PLN due to used working capital loan available.

Total amounts due to banks as at 30 June 2014 was 45.7 million PLN, of which 19.5 million PLN due to used overdraft facilities and 26.2 million PLN of working capital loan available.

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

Activity of the Group relating to foreign exchange transactions is determined by the exchange rates of basic currencies, EUR and USD. Because of the unstable position of PLN against these currencies, the Group concludes forward transactions to secure the exchange rates. However, most often the Group enjoys natural hedging of foreign exchange risk, by offsetting proceeds and expenses realized in foreign currencies.

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 entities of the Group for contract guarantees such as bid bonds, advance payment bonds, performance bonds and warranty bonds and also guarantees to secure claims pursued in court and to guarantee timely payment of debt.

The most important agreements with banks relate to guarantee lines within multipurpose limits granted up to the total amount of 647.3 million PLN (of which 164.7 million PLN in credit line, 482.4 million PLN guarantee line and a 0.2 million PLN limit for credit cards). As at 30 June 2015 the guarantee lines were utilized in the amount of 407.4 million PLN as guarantees.

In H1 2014 the limit available under agreements with banks amounted to 680.2 million PLN, of which credit facility 195.0 million PLN, guarantee line 485.0 million PLN and a 0.2 million PLN limit for credit cards. As at 30 June 2014 the multipurpose limits were utilized in the amount of 449.9 million PLN for guarantees.

The ELEKTROBUDOWA SA Group, within the frame of cooperation with insurance companies, had an aggregate limit of 141.7 million PLN in respect of guarantees, of which 81.1 million PLN was utilized as at 30 June 2015.

In H1 2014, total limit granted the Group by insurance companies for contract bonds amounted to 89.3 million PLN, of which 59.1 million PLN was utilized as at 30 June 2014.

Assessing the level of owned funds and the amounts of expected income and expenses, it must be pointed out that the resources will allow the Group to finance both the investments planned for the second half of 2015 and also its current operating activity, with no risk of destabilizing the financial liquidity of the Group.

## **2.5 Human capital management**

In the first half of 2015 average monthly employment was 2 107 job equivalents and was about 3.7% higher than in H1 2014. Out of the average number of employees, 1084 job equivalents fell to direct labour, whereas 1023 job equivalents to white-collar staff. Compared with the first half of 2014, the number of manual workers was 3.5% higher and non-manual workers 3.9% higher. That is attributed to extended scope of activity and increasing demand for labour on the contract in Finland.

As at 30 June 2015, the end-of-period employment was 2 152 people. Compared with the end of H1 2014, the number of employees increased by 117 (5.7%).

In respect of employment structure by education, the number of personnel with higher education, mainly engineering, regularly increases. As at 30 June 2015 the number of employees with degrees accounted for 40.5% of total, against 39.6% at the end of June 2014.

Productivity of employment in H1 2015, calculated as the relation of sales revenues and average monthly employment, amounted to 281.4 thousand PLN which was 63.7 thousand PLN more than in H1 2014, when it amounted to 217.7 thousand PLN. Profitability of employment, calculated as the relation of gross profit and average monthly employment, was 16.5 thousand PLN, that is 14.8 thousand PLN bigger than in H1 2014, when it amounted to 1.7 thousand PLN.

In the period from 1 January to 30 June 2015 together 280 new people were employed, which is by 185 persons more than in the comparative period (by 194.7%).

In the first half of 2015 there were no problems caused by resignations by the group's key personnel. There were only a few cases of termination of employment at the employer's will.

Average gross monthly pay in H1 2015 was 5 658 PLN and increased about 10.3% on H1 2014. The growth of average monthly pay was generally the consequence of managers' bonuses for 2014 paid in the first half of 2015 and the increased employment at the site in Finland, where the Group maintains the level of guaranteed pay regulated by the local collective labour agreements.

The Group consequently implements an incentive programme targeted at increase of profit margins and financial performance and develops non-pay methods of motivation to support the process of recruitment and retaining employees and to increase the level of motivation and effective work.

Development of employee's qualifications and competence is a key for the growth of the Group. In H1 2015 the Group invested 685 thousand PLN in training of its personnel, which gives an average of 325 PLN per one employee. Expenditure on training principally concerned the policy of constant development of the project management-focused corporate culture and also the issues of enhancing professionalism of work teams, particularly managing skills and language skills.

Training expenses accounted for 0.9% of the total remuneration fund of the first half of 2015. The implemented development programmes not only contribute to the increased professionalism of employees and development of their skills but complement the applied incentive systems and plans as well.

Cooperation with the trade union organisations, active in the entities of the Group, was very good in the reporting period. There were no labour disputes or collective bargaining with the trade union organisations.

Like in previous years, the Group supported and respected generally accepted human rights as well as observed standards concerning 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 parent actively participates in shaping its positive impact on local environment in the area of broadly understood Corporate Social Responsibility. Conducting operations focused on stable, good relationships with customers and all parties interested in our activities is an elementary value for the Group.

Within the sustainable development strategy the parent, ELEKTROBUDOWA SA places particular emphasis on:

- environmental aspects,
- employment policy,
- social commitment,
- business environment.

Following the implemented sustainable development strategy the ELEKTROBUDOWA SA Group prepares plans and goals and defines indications to permit constant monitoring of its impact on the environment, employee relationships, social relationships and business environment.

All activities in the scope of broadly understood CSR provide many advantages, including:

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

The parent, ELEKTROBUDOWA SA has been regularly included in RESPECT INDEX together with a few dozens of the WSE-listed companies. RESPECT INDEX is the first stock exchange index in Central and Eastern Europe, an initiative for socially responsible companies.

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

As at 30 June 2015 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 2015 the above systems were recertified by DET NORSKE VERITAS for conformity with the standards. ELEKTROBUDOWA SA fulfilled the requirements in the scope of recertification.

As at 30 June 2015 the subsidiary, ENERGOTEST sp. z o.o. had the following certificates in respect of OHS management:

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

In H1 2015 there were no instances of an occupational illness.

As the incident frequency rate in 2014 was low, the Social Security Institution reduced the amount of interest rate for a contribution for accident insurance to be paid by the parent company in the period from 1 April 2015 to 31 March 2016 to 1.32% (one of the lowest ever paid by ELEKTROBUDOWA SA).

The main task in H1 2015 for the entities of the Group in respect of OHS Management Systems was the improvement of the Systems.

Plans for the second half of 2015 with respect to improvement of occupational health and safety include:

- a) improvement of the Occupational Safety Management Systems,
- b) setting new, higher standards of OHS, with particular emphasis on cable laying works and electrically hazardous works.

## **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 also meets the quality requirements of Directive 94/9/EC on equipment intended for use in potentially explosive atmospheres and the requirements of the standard PN – EN ISO/IEC 80079 - 34.

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 H1 2015 and which affect the assessment and functioning of the integrated quality and environmental management systems in place in ELEKTROBUDOWA SA Group:

- training courses for erection supervisors, supervision staff, direct labour and administrative personnel concerning the management systems in place in ELEKTROBUDOWA SA and to discuss the cases of nonconforming with environmental regulations and quality requirements for products and services, supplemented with the OHS training,
- an audit of the supervision of quality system based on PN - EN ISO 9001 standard and AQAP-2110 and the environmental management system based on PN - EN ISO 14001 standard, performed by Centrum Certyfikacji Jakości [Quality Certification Centre] with positive result,
- development of the plan of improvements in the areas pointed in the audit report (in progress, so far implemented according to the schedule);
- audits carried out by the certification bodies of quality and environmental management systems – positive;
- planned and out-of-schedule 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 occurrence;
- review of system documents and making necessary amendments after the organizational changes in ELEKTROBUDOWA SA;
- in the subsidiary, ENERGOTEST sp. z o.o. an audit was carried out to check the conformity with the implemented standards – with positive result.

Plans for the second half of 2015 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 updates following the amendments of legal acts and organizational changes in the parent's divisions;
- preparation of training materials and lectures for AUDITORS' ACADEMY 2015;
- planned for the second half of 2015 internal audits and audits of present and potential suppliers and subcontractors;



- implementation of the planned corrective actions in the subsidiary ENERGOTEST sp. z o.o.;
- review of elements of information safety in ENERGOTEST sp. z o.o.;
- internal audit of legality of software used by ENERGOTEST sp. z o.o.

Positive results of internal and external audits, records in the review reports in H1 2015 prove that the systems applied by ELEKTROBUDOWA SA Group function correctly and that the entities of Group supply products and services in compliance with the relevant contracts for supplies and services and with legal requirements.

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

The Group's mission is to become a leader setting a new quality of conducting business, providing highest quality products and services for counterparties and growth of shareholder value.

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 and transport. 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,
- forecast growing demand for electricity,
- price level of electrical materials and equipment as well as metallurgic products,
- European environmental requirements,
- course of structural changes, especially in the power industry and mining,
- nuclear plans of the power industry,
- 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 withdraw from bidding,
- political and economic situation in the East-European markets of the partner companies (Russia and Ukraine),
- availability of qualified and experienced engineering staff,
- regular reduction of costs of conducting business incurred by the entities of the Group.

The sales offer of ELEKTROBUDOWA SA Group did not significantly change compared with previous years, and was based on the following products and services:

1. Overall electric installation in the range of medium and low voltages for new, modernized and retrofitted power generation facilities.
2. General execution of investments, including public utility facilities, 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 high, medium and low voltage switchgear.
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 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. The parent, ELEKTROBUDOWA SA has two production facilities, well organized and equipped with modern machinery. The factory in Konin manufactures switchgear panels, mainly for primary distribution, in the whole range of voltages, from low voltage to 145kV. The facility designs, manufactures and supplies distribution panels for 72A short-circuit current, the level achieved by only a few, best global manufacturers. Owing to the second factory, located in Tychy, which manufactures a niche product – high-current busduct (non-segregated phase and isolated phase), ELEKTROBUDOWA SA substantially increases its exports.

Chances of the Group to expand to new areas of the power sector, such as construction of main substations, end-user substations, HV grid stations, have been increased since launching its new product, gas-insulated switchgear OPTIMA 145. GIS is usually the most expensive or a significant cost item of a substation. The high-voltage GIS OPTIMA 145 is technically much more advanced than traditional air insulated switchgear. Development trends in high voltage switchgear imposed by global leaders as well as growing requirements of the customers force continual work on optimization of OPTIMA 145 in respect of technology and cost. To be able to offer GIS switchgear type OPTIMA 145 in Poland and in other markets, the parent company has to optimize the product according to the latest trends. Such tasks involve significant capital expenditure. In H1 2015 the Group's outlays for research and development amounted to 1 967 thousand PLN (4 411 thousand PLN in H1 2014).

The amounts of expenditure earmarked by the ELEKTROBUDOWA SA Group for research and development permits to attain the highest quality of manufactured goods and provided services. In consequence, the Group can participate in the biggest and the most demanding EPC contracts all over the world.

The Group works on upgrading its competitive advantage by:

- balanced growth of its order portfolio;
- gaining experience in the market of new products;
- optimizing the key processes and projects;
- shortening of lead time for supplies;
- providing a complex offer adjusted to needs and requirements of customers;
- consistent development of customer service network;
- constant looking for new trade areas.

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 made by the Group. In the opinion of the Management, in the years to come the power industry should 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 in next years, as the new EU financial perspective has been launched. Many investments included in the new European budget for 2014 – 2020 enter their execution stage. This funding will also cover new infrastructure projects, concerning both road and railway systems.

The group constantly seeks new markets for its products, but at the same time increases turnover in its traditional areas. The entities in the Group recognise the needs of the new markets through participation in symposia and conferences, and promote their products and services in trade fairs and exhibitions.

As at 30 June 2015 the parent had a branch (permanent establishment) registered abroad, through which it provides services in Finland. 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 subsidiary, SAUDI ELEKTROBUDOWA LLC. The sales include mainly products and services of the parent ELEKTROBUDOWA SA. Currently SAUDI ELEKTROBUDOWA LLC has a status of a service company with foreign capital. SAUDI ELEKTROBUDOWA LLC notices a growth of interest in Elektrobudowa's product offer. At present SAUDI ELEKTROBUDOWA is performing a few projects, and obtaining further 6 projects is included in the forecast until the end of the year 2015.

In 2015 and in 2016 SAUDI ELEKTROBUDOWA LLC will render services relating to the installation and commissioning of projects in progress and new orders, representing the interest of the parent company. Beside purely technical tasks, the company will continue sales-related and servicing activity in the local market.

The parent company of the Group has exported its products to the Russian market for a few years, through its associate, Power Equipment Production Plant VECTOR Ltd. Mobile substations type SKP provided with MV switchgear as well as medium voltage switchgear for indoor operation will remain the basic products exported to Russia.

Completion of testing and certification of EV1 circuit breakers for conformity with the Russian GOST standards have enabled the company to offer the devices as part of equipment of medium voltage switchgear for voltages up to 24kV. In June 2015 the works associated with additional testing of high voltage SF6-insulated switchgear type OPTIMA 145 for conformity with GOST standards. When the testing and certification is completed (planned for the end of 2015), the product offer to the Russian market can be extended.

Joint participation of the parent company and VECTOR in the fair in Petersburg contributed to the increased recognisability of new products and trade mark ELEKTROBUDOWA among customers from the Russian Federation and other countries participating in the event. Several promotional meetings with foreign partners from this geographical area are planned.

Performance of H1 2015 indicates that the market position of ELEKTROBUDOWA SA Group and the companies cooperating with the Group in the Russian market has stabilized. The order backlog have allowed for maintaining and even a slight growth of rare design and production qualifications characteristic for this market.

In the opinion of the Management, political situation in Russia will not, in the long run, significantly impact business activity of VECTOR as the company servicing the Russian market. Both manufactured there and imported products have not been put under embargo by any of the parties.

For five years business operations of the Group in Ukraine are conducted by the subsidiary ELEKTROBUDOWA UKRAINE Ltd., the company which supplies the local market with products manufactured by the parent, ELEKTROBUDOWA SA.

Noticeable changes in the economic situation of Ukraine (planned 4% decrease of GDP in 2015) still have negative impact on investing activity in this country and on drop in demand for products offered by ELEKTROBUDOWA SA. The strategy of long-term and short-term development of Ukrainian power sector is constantly modified, due to reduced financial resources available and the growth of costs of obtaining investment loans. Reorganisation of ELEKTROBUDOWA UKRAINE Ltd. caused by the relocation of the company's seat has not been completed yet because of disputable political status of Crimea. Because of this situation it is difficult to use the intellectual resources there. Despite difficult conditions of conducting business by the subsidiary ELEKTROBUDOWA UKRAINE Ltd., its management conducts intensive marketing and awaits its results in the second half of the year.

Despite economic difficulties and political instability in that region, ELEKTROBUDOWA SA intends to continue the ELEKTROBUDOWA – UKRAINE cooperation project, as it assesses that within a few years to come the demand will rise, due to limited investments and reconstruction of destroyed facilities.

The Management monitors the development of political and economic situation in Russia and Ukraine and the risk of restricted sale of finished products to the related companies.

Active marketing of the Power Distribution Division in the first half of 2015 resulted in cooperation with several new significant customers in the Eastern market from the Russian Federation, Belarus, Kazakhstan and Georgia. There is no longer any risk of changes in management and ownership structures as well as in the ways of implementation of the political and investing policies in Belarus, Kazakhstan and Georgia. The companies with which the Group directly cooperates in this region are not subject to any political or economic sanctions.

The ELEKTROBUDOWA SA Group has suitable human capital and financial resources to get involved in future projects in the power industry, renewable energy sources and new infrastructure projects. However, there was 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.

In H1 2015 the situation in the construction sector improved. Growing demand for building services, a big volume of residential and commercial investment and commenced investments in infrastructure, and additionally favourable weather caused that the construction industry was the greatest beneficiary of economic improvement.

Despite the signs of recovery of the construction market, liquidity risk in this sector still exists. The sector still generates big amounts of past due debt and the situation is far from being improved in the nearest future.

One of major challenges that the Group has to face is maintaining its stable financial situation (financial liquidity). It is of particular importance in the context of 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 is an essential barrier which restricts the activity and which directly translates 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. In recent quarters it will be difficult to improve profitability in a significant way, as some of the projects in progress have been awarded in the condition of economic boom.

Furthermore, execution of awarded contracts is bound with the risk of change in prices of building materials, as they may have adverse influence on contract profitability. Instead of introducing provisions which would improve organization of the procurement market, more restrictions are being 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, extending payment terms or increasing requirements for financial security of project execution.

In performing its business operations ELEKTROBUDOWA SA 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 rates, and price risk);
- credit risk;
- liquidity risk.

Detailed presentation of risks is included in Note 5 of the additional information to the interim consolidated financial statements for H1 2015.

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 company 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.

Export sales in H1 2015, which included inter-community supplies and the supplies to the countries outside the European Union, generated the revenue of 45 051 thousand PLN, which accounted for 7.6% of total revenue from sale of products, goods and materials. In H1 2014 the Group's exports sales amounted to 32 342 thousand PLN and constituted 7.3% of total sales revenue. Dynamic development of economic and political situation of the East European countries involved a significant decrease in revenue generated by the Ukrainian subsidiary and reduction in export of finished goods to the Russian partner. In H1 2015 the situation did not change as far as ELEKTROBUDOWA UKRAINE is concerned. As to the Russian market, because of change in ruble exchange rate to other currencies, the actions were resumed to stimulate sales of Elektrobudowa's products in the Russian market. The Management of the parent analyses and assesses the price risk of the Group associated with export of goods to Russian through its associated company, VECTOR Ltd.

Itemized below are sales revenues generated by the ELEKTROBUDOWA SA Group, categorized according to business sectors, the recipients of the product and materials in H1 2015 and in H1 2014:

Business areas	H1 2015		H1 2014	
	Value (PLN'000)	%	Value (PLN'000)	%
Power generation	402 461	67.9	233 996	52.9
Chemical industry	59 953	10.1	80 753	18.2
Mining	22 624	3.8	39 642	9.0
Paper & pulp	15 171	2.6	4 454	1.0
Residential and public utility building	14 610	2.5	0.0	0.0
Industrial automation	8 647	1.5	4 896	1.1
Other areas	7 067	1.2	4 419	1.0
Transport	6 690	1.1	21 652	4.9
Power distribution	4 358	0.7	2 953	0.7
Metallurgy	3 231	0.5	10 826	2.4
Building materials	2 122	0.4	360	0.1
Retail facilities	491	0.1	4 012	0.9
Automotive industry	277	0.0	529	0.1
Environmental protection facilities	148	0.0	1 210	0.3
Food industry	0	0.0	298	0.1
Export of products and materials	45 051	7.6	32 342	7.3
<b>Total</b>	<b>592 901</b>	<b>100.0</b>	<b>442 342</b>	<b>100.0</b>

Traditionally, power generating sector was the biggest source of the Group's income in H1 2015 (67.9% in the sales breakdown by industries) where the Group was present with its products and comprehensive range of electric installation works in newly erected, extended or modernized power stations. Sales revenue from this industry rose by 168.5 million PLN, while its percentage share in total sales by 15.0 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 Sp. z o.o. Zakład Wytwarzania Tychy for TAURON Ciepło Sp. z o.o. In H1 2015 the sales associated with this project amounted to 130.1 million PLN and had the 21.9% share in the sales revenues.

Chemical industry was the second most profitable item in sales by industry (10.1%). Compared with H1 2014, the sales in this segment dropped 20.8 million PLN and their share in the revenue decreased by 8.1 percentage point. The biggest revenue generated in this sector concerned the turnkey delivery of infrastructure facilities dedicated for the new Flue Gas Desulfurization (FGD) plant in the heat and power plant located in the PKN ORLEN SA production facility in Płock, for PKN ORLEN SA (sales amounting to 13.8 million PLN and 2.3% share in total revenue).

Mining was another important segment in the H1 2015 sales by industries; it had 3.8% share in total sales revenue. Compared with H1 2014, sales to this branch of industry dropped by 17.0 million PLN and its share by 5.2 percentage point. The biggest contract in this branch concerned "Replacement of transformer – rectifier units for the tank room of Section P-27 in Głogów Copper Smelter" for KGHM Polska Miedź S.A. (sales: 8.7 million PLN, share in the Group's sales revenues: 1.5%).

The above quoted business sectors have been on the top of the structure of the Group's sales by industries for years.

Other market segments, responsible for 10.6% share in the revenue from sales of products, goods and materials, and the export of goods and materials (7.6%) allowed the Group to considerably supplement its sales outside the above basic industries.

The destinations and structure of exports are presented below:

	H1 2015		H1 2014	
	Value (PLN'000)	%	Value (PLN'000)	%
Finland	23 424	52.0	8 431	26.1
Russia	9 154	20.3	4 267	13.2
South Korea	3 466	7.7	0	0.0
Turkey	3 346	7.4	4 429	13.7
Angola	3 160	7.0	0	0.0
Saudi Arabia	1 107	2.5	2 006	6.2
Republic of South Africa	408	0.9	54	0.2
France	294	0.7	1 130	3.5
Germany	316	0.7	267	0.8
Ukraine	143	0.3	7 878	24.4
Switzerland	139	0.3	2 405	7.4
Belarus	59	0.1	646	2.0
Estonia	35	0.1	0	0.0
Kazakhstan	0	0	614	1.9
Luxembourg	0	0	146	0.4
The Czech Republic	0	0	62	0.2
Lithuania	0	0	6	0.0
Macedonia	0	0	1	0.0
<b>Total export sales</b>	<b>45 051</b>	<b>100.0</b>	<b>32 342</b>	<b>100.0</b>

In H1 2015 the Finland's market was still the most important for exports realized by the Group (23.4 million PLN responsible for 52.0% of the Group's total exports). Compared with H1 2014, the sales in this market rose 15.0 million PLN and their share in exports by 25.9 percentage point. Sales revenues were generated mainly on the contract for electrical and I&C systems for the Nuclear Power Plant OLKILUOTO 3. The value of works performed at this site and invoiced in H1 2015 amounted to 23.3 million PLN, corresponding to 51.8% of total export sales revenues. The remaining revenue concerned the sale of other services for the amount of 0.1 million PLN (0.2% in total exports).



The following markets were also significant for the Group's export sales in H1 2015:

- **Russia**, where the sales earned 9.2 million PLN of revenue and accounted for 20.3% of total Group's exports. Exports to the Russian market were realized through the associate, the Power Equipment Production Plant VECTOR Ltd.
- **South Korea**, where the sales earned 3.5 million PLN of revenue, accounting for 7.7% of total Group's exports. The export concerned the isolated-phase busduct ELPE for DAEWOO E&C Co.Ltd.
- **Turkey**, where the sales earned 3.3 million PLN of revenue, accounting for 7.4% of total exports. The biggest sale in this region concerned the isolated-phase busduct ELPE for GAMA Ltd. for the price of 3.2 million PLN (7.0% of the export sales).
- **Angola**, where the export sales amounted to 3.2 million PLN and accounted for 7.0% of total exports. The group sold isolated-phase busduct ELPE for ELECENOR S.A..
- **Saudi Arabia**, where the sales earned 1.1 million PLN of revenue, accounting for 2.5% of the group's export sales. In H1 2015 the sales included mainly switchgear and busduct elements.

The ELEKTROBUDOWA SA group constantly looks for new markets. Intensive actions are being taken to promote the group's products and services, both in developed countries and in emerging markets which are at the stage of developing their infrastructure. Taking advantage of the specific geographical situation of Poland and the development of trade channels to developed countries, the group strives at changing its local perspective into global one. ELEKTROBUDOWA SA Group 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**

Revenue earned by the ELEKTROBUDOWA SA group in H1 2015 from sale of its products, goods and materials to a single customer exceeded 10% of its total sales revenue.

The invoiced sale to the biggest customer amounted to 211.7 million PLN (in H1 2014 the sale to this customer amounted to 28.4 million PLN). The relevant sales accounted for 35.7% of total revenue generated by the group in H1 2015 and 6.4% of the H1 2014 revenue. The sales concerned a big contract for construction of a new heat generation unit with fluidized bed boiler, heating and condensing turbine and balance of plant in TAURON Ciepło Sp. z o. o. Zakład Wytwarzania Tychy for TAURON Ciepło Sp. z o. o.

The invoiced sales to the second biggest customer amounted to 69.6 million PLN (31.9 million PLN in H1 2014). In H1 2015 the revenue constituted 11.7% of the Group's total revenue from sale of products, goods and materials (7.2% in H1 2014). In H1 2015 the revenue concerned three big contracts awarded to the Power Distribution segment:

- 46.3 million PLN (7.8% of the Group's revenue) - "design and build" execution of the project "Extension of the Słupsk 400/110kV Substation" – Stage 1 and 2 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.

- 15.9 million PLN (2.7% of the Group's revenue) - Extension and modernization of Skawina 220/110kV electrical substation including connection to 2x2x400kV line for PSE S.A.,
- 7.4 million PLN (1.2% of the Group's revenue) – „design and build execution of the project “Construction of Łomża 400 kV electrical station” for Polskie Sieci Elektroenergetyczne S.A.

### 3.3 Sources of supply

In H1 2015 the sources of supply did not change much in comparison with previous periods. However, keeping in mind the necessity of cutting costs, the entities look for new suppliers of materials, who could offer more favourable purchasing conditions.

As at 30 June 2015 the ELEKTROBUDOWA SA Group did not depend on a single supplier whose share in its sales revenues would exceed 10%.

## 4. SIGNIFICANT AGREEMENTS

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

The biggest contracts awarded to the Group in H1 2015 were concluded by the parent and included:

- |  |                    |
|--|--------------------|
| - modernization of 220/110kV station Konin for PSE S.A.  | 114.5 million PLN, |
| - an amendment to the contract for supply, erection and commissioning of electrical and I&C components and systems for the Nuclear Power Plant Olkiluoto, Finland for AREVA NP GmbH  | 100.6 million PLN, |
| - supply and installation of 10kV switchgear and 6kV switchgear including spare parts and specialist maintenance equipment, with supervision of commissioning of the MV switchgear (participation in start-up) for Units 5, 6 in Opole Power Plant, for Polimex – Projekt Opole Sp. z o.o. | 21.5 million PLN,  |
| - engineering and installation of electrical, lighting, maintenance receptacles and other systems for newly built power unit in Jaworzno 3 Power Station - Power Plant 2, for PBG OIL AND GAS Sp. z o.o.   | 19.8 million PLN,  |
| - Supply and installation of MV busduct Package P33 (non-segregated phase type ELPO) for the Units 5, 6 of Opole Power Plant, for Polimex – Projekt Opole Sp. z o.o.   | 19.5 million PLN,  |
| - procurement and construction works for the project “Rebuilding of the fire protection system of cable ducts in the Heat and Power Plant”, for PKN Orlen S.A.   | 18.4 million PLN   |

- development of construction and installation technical specification and drawings, including obtaining necessary permits with a final clause, performance of construction works for the project "Construction of Krobia main substation with a double supply line" for ENEA Operator Sp. z o.o. 14.6 million PLN,
- comprehensive, multi-trade construction of Gypsum Warehouse with reinforced concrete storage area of 2 ha, including technological infrastructure, dedicated for FGD plant, located on the premises of PPPT on the extension of the internal road 7-8, within the project "Engineering, procurement and construction of the Flue Gas Desulfurization System including infrastructure", for PKN Orlen S.A. 12.9 million PLN,
- Supply, erection, commissioning and putting to operation of complete busduct – IPB generator connection of Unit 11 and three-phase busduct for the supply of own needs of Unit 11 in ENEA Wytwarzanie S.A. for Polimex – Mostostal S.A. 12.9 million PLN,
- Supply and installation of Package 10 generator busduct connection (IPB type ELPE) for the Units 5, 6 of Opole Power Plant, for Polimex – Projekt Opole Sp. z o.o. 11.5 million PLN.

#### 4.2 Insurance contracts

The ELEKTROBUDOWA SA group cooperates with the following institutions in the scope of 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) Sopockie 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) ING Nationale Nederlanden Polska S.A.;
- i) Towarzystwo Ubezpieczeniowe Allianz Polska S.A.
- j) 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 and property liability insurance,
- contractor's / erection all-risks insurance pursuant to the requirements of the relevant contracts,

- civil liability insurance pursuant to the requirements of the relevant contracts,
- personal accident insurance of employees pursuant to the requirements of the relevant contracts,
- designers' liability insurance pursuant to the requirements of the relevant contracts,
- architects', designers' and construction supervision inspectors' liability insurance,
- managers' civil liability insurance,
- collective personal accident insurance for employees in business trips abroad,
- electronic equipment insurance,
- corporate property insurance,
- cargo insurance,
- group life term insurance.

## 5. INVESTMENTS

### 5.1 Investments carried out in H1 2015

Total investment outlay incurred by the group in H1 2015 amounted to 6 085 thousand PLN, of which 5 554 thousand PLN was spent by the parent, and 531 thousand PLN by the subsidiaries including: 528 thousand PLN by ENERGETEST sp. z o.o. and 3 thousand PLN by KONIP Sp. z o.o.

The investment outlay incurred by the group in H1 2015 concerned:

- outlay on fixed assets 3 396 thousand PLN,
  - outlay on intangible assets 2 689 thousand PLN,
- of which:
- outlays for R&D 1 967 thousand PLN.

Outlay for research and development incurred in H1 2015 amounted to 1 967 thousand PLN and principally concerned the project "OPTIMA Switchgear – Stage 2" worth 1 118 thousand PLN. As at 30 June 2015, the expenditure of this project totalled 1 914 thousand PLN.

A considerable part of the expenditure for non-financial fixed assets was earmarked for further modernization and current reproduction of fixed tangible assets held by the Group and for erection of new structures. The expenditure in the group of buildings and structures amounted to 1 235 thousand PLN. In the parent company they concerned the following facilities:

- modernization of area rented in Modła Królewska to be adapted for production of low voltage busducts and light switchgear panels: 1 110 thousand PLN,
- modernization of a part of paint storage, including a prototype room for Strategic Projects Development Department in Konin: 58 thousand PLN,
- spiral door for Hall 4 in Konin: 47 thousand PLN,
- monitoring and burglary signalling system for Medium Voltage Switchgear Production Department: 42 thousand PLN.

In H1 2015 the equipment to streamline the production and assembly processes was bought for the sum of 1 449 thousand PLN. Main items of the machinery and equipment purchased by the parent company include:

- heat testing system 3x8kA: 164 thousand PLN,
- Artes 460 protection tester: 147 thousand PLN,
- OPTIMA switchgear exhibit: 127 thousand PLN,
- 3 pcs ESG105L electrohydraulic shears for cables: 57 thousand PLN,
- TL-500A: circular saw: 49 thousand PLN.
- 2 pcs SMO meters: 47 thousand PLN,
- D-12P switchgear exhibit: 9 thousand PLN.

Furthermore, the replacement of worn and obsolete computer hardware was continued, for which the amount of 616 thousand PLN was earmarked. The expenses for modern software, licences and trademarks amounted to 722 thousand PLN.

Outlays for vehicles amounted to 96 thousand PLN.

The investments in H1 2015 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 2015**

Investment expenditure planned by the Group for the second half of 2015 amount to 12.6 million PLN. They include replacement purchases and modernisation of machine fleet, technical equipment and office and production facilities.

A part of investment outlays planned for the second half of 2015 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 present order backlog, it is evident that realization of the investment plans, including capital investments is not at risk. As in the previous periods, the Group intends to finance the investments from its own funds, which finds confirmation in the gathered funds and owned financial assets.

## 6. RELATED PARTY TRANSACTIONS

In H1 2015 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:

	<b>six months ended 30 June 2015 (unaudited)</b>	<b>six months ended 30 June 2014 (unaudited)</b>
<b>a) sale:</b>		
- sale of goods - Power Equipment Production Plant "VECTOR" Ltd.	9 070	4 003
- sale of materials - Power Equipment Production Plant "VECTOR" Ltd.	85	264
<b>b) purchase:</b>		
- purchase of services - Power Equipment Production Plant "VECTOR" Ltd.	1	1
- purchase of services - SAUDI ELEKTROBUDOWA LLC	126	0

Mutual balances between the parent and the associates:

	<b>as at 30 June 2015 (unaudited)</b>	<b>as at 31 Dec. 2014</b>
- payables of ELEKTROBUDOWA SA to Power Equipment Production Plant "VECTOR" Ltd.	0	1
- receivables of ELEKTROBUDOWA SA from Power Equipment Production Plant "VECTOR" Ltd.	1 604	794
- advance paid by ELEKTROBUDOWA SA to SAUDI ELEKTROBUDOWA LLC	215	171

In the six months ended 30 June 2015 no doubtful or bad debt resulting from transactions with the associates was recognized, which should be written off. In the six months ended 30 June 2014 the parent company created a 80 thousand USD impairment provision for past due trade receivables from SAUDI ELEKTROBUDOWA LLC, as at 31 December 2014 the debt was paid.

Unsettled balances of receivables and payables with the related parties are not secured and will be settled in cash when mature.

The entities of the Group did not provide any guarantees or sureties to the associates.

## 7. INFORMATION ABOUT LOANS, BORROWINGS, SECURITIES AND GUARANTEES.

### 7.1 Credit contracts as at 30 June 2015

	Bank	Type of loan	Contract validity	Limit of credit
1.	ING Bank Śląski w Katowicach	overdraft facility	30.01.2016	19.7 million PLN
		working capital loan	Until 31.07.2015 (amendment of 29.07.2015, change of validity date: until 30.11.2015)	32.0 million PLN
2.	Bank Handlowy S.A. w Warszawie	overdraft facility	12.11.2015	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	30.04.2016	10.0 million PLN
4.	PKO BP S.A. w Warszawie	overdraft facility	28.02.2017	25.0 million PLN
5.	mBank SA w Warszawie	overdraft facility	30.09.2015	10.0 million PLN
6.	BNP PARIBAS Bank Polska S.A.	overdraft facility	10.09.2015	1.0 million PLN

In H1 2015 the ELEKTROBUDOWA SA Group was provided with the limit of overdraft in current accounts and working capital loans up to the amount of 164.9 million PLN. As at 30 June 2015 no amount of credit lines in overdraft was used, while the working capital loan was utilized in the amount of 43.4 million PLN, of which:

- in ING Bank Śląski S.A. 32.0 million PLN,
- in Bank Handlowy S.A. 11.4 million PLN.

### 7.2 Other loan agreements

In H1 2015 the entities of the ELEKTROBUDOWA SA group neither were granted nor did themselves extend any other loans.

### 7.3 Guarantees and bills

As at 30 June 2015 the ELEKTROBUDOWA SA Group extended contract bonds issued by banks and insurance companies for the total amount of 488.5 million PLN. 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 30 June 2015 the security in the form of guarantees was provided in the total amount of 136.1 million PLN. (In the period of six months ended 30 June 2014 for the total amount of 88.5 million PLN). The guarantees included:

- contract performance and defect liability bonds 81.2 million PLN,
- bid bonds 12.3 million PLN,
- advance payment guarantee 42.6 million PLN.

In the six months ended 30 June 2015 ELEKTROBUDOWA SA Group provided guarantees, which amount relating to one counterparty exceeded 10% of the Group's equity. The guarantees, provided for Emerson Progress Management Power & Water Solutions sp. z o.o. for the total amount of 60.8 million PLN (16.6% of the Group's equity), concerned:

- contract performance and defect liability bonds 23.6 million PLN,
- advance payment guarantee 37.2 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 2015 the amount of bills issued by the group was 18.8 million PLN (20.0 million PLN as at 30 June 2015).

#### **7.4 Sureties**

In the period of six months ended 30 June 2014 the Group entities did not receive or extended any sureties.

### **8. REPRESENTATION OF THE MANAGEMENT OF THE PARENT ELEKTROBUDOWA SA CONCERNING THE ACCOMPLISHMENT OF FORECAST ANNOUNCED EARLIER**

#### **8.1 The parent, ELEKTROBUDOWA SA**

The 2015 forecast for ELEKTROBUDOWA SA published on 25 February 2015, assumed that the annual sales revenue will be realized on the level of 1 148 868 thousand PLN and the net profit will amount to 42 326 thousand PLN. After the six months of 2015 the Company generated sales revenue on the level of 575 772 thousand PLN and earned the net profit of 29 043 thousand PLN. The order backlog as at 30 June 2015 was 1 686 514 thousand PLN while orders received in the six months 547 509 thousand PLN. Therefore the forecast annual sales revenue should be achieved.

Having considered the performance of the first half of the year, the Management is of the opinion that realization of the published forecast is not at risk. With the results achieved after H1 2015 the Management is inclined to consider a change of the forecast for the closure of the year 2015. Disclosure of the correction of forecast may be possible after the risks associated with the pending litigations detailed in item 1 of Note 38 and in Note 39 of the interim condensed financial statements been assessed.



## **8.2 The ELEKTROBUDOWA SA Group**

The 2015 forecast for ELEKTROBUDOWA SA Group published on 25 February 2015, assumed that the annual sales revenue will be realized on the level of 1 196 862 thousand PLN and the net profit will amount to 45 032 thousand PLN (profit attributable to the shareholders of ELEKTROBUDOWA SA is 44 976 thousand PLN). After the six months of 2015 the Group generated sales revenue on the level of 592 901 thousand PLN and earned the net profit of 27 252 thousand PLN, of which 27 328 thousand PLN is attributable to the shareholders of the parent.

Having considered the performance of the first half of the year, the Management of the parent is of the opinion that realization of the published forecast is not at risk. With the results achieved after H1 2015 the Management is inclined to consider a change of the forecast for the closure of the year 2015. Disclosure of the correction of forecast may be possible after the risks associated with the pending litigations detailed in Note 37.2 and in item 1 of Note 44 of the interim consolidated financial statements been assessed.

## **9. BASIS FOR PREPARATION**

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

The present consolidated financial statements have been prepared under the historic cost convention with the exception of revaluation of some non-current assets and financial instruments which are carried at restated values or at fair value at the end of each reporting period.

## **10. MAJOR TECHNICAL DEVELOPMENT WORKS**

In the six months of 2015 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:

- complete type testing of PREM-GOIV switchgear dedicated for operation in explosive atmospheres – positive certification opinion and approval for use issued by the State Mining Authority WUG,
- successful type testing of OPTIMA-24 switchgear for rated continuous current 2000A,
- successful testing of traction rectifier unit for the voltage level 3.3kVDC,
- successful arc-protection tests of D-17P switchgear panel provided with windows for infra-red testing,
- construction of D-17-2S switchgear with double busbar system with SIEMENS type SION circuit breakers,
- successful testing of 12kV earthing switch, 63kA/3 s, class E0,

- development work on manufacturing process for isolated-phase busduct ELPE with two conductors,
- implementation of modernization of Econtrol system in the subsidiary, ENERGOTEST sp. z o.o.,
- completion of modernization of card of RZ40 processor in the subsidiary, ENERGOTEST sp. z o.o.,
- completion of monitoring of NW voltage transformers in the subsidiary, ENERGOTEST sp. z o.o.

Major R&D plans of the Group for the second half of 2015 include:

- construction of D-12-2S switchgear 63kA and 72kA panels, provided with short-circuit current limiter, Limiter 1s,
- construction and testing of cable connection boxes SZK for 50kA short-circuit current;
- construction of D-12P switchgear panels, provided with a new variant of circuit breaker type HD4, with motor-operated withdrawable part,
- construction of vacuum circuit breaker for application in type OPTIMA-24 switchgear,
- construction of a new (of smaller depth) circuit breaker compartment of the D-40P switchgear and its adaptation to HVX 40.5kV circuit breakers,
- continuation of development work on ELPE busduct with two conductors,
- continuation of implementing the modernization of Econtrol system in the subsidiary, ENERGOTEST sp. z o.o.

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

The Management 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 about the contract concluded with the auditor**

A contract for reviewing the interim financial statements of ELEKTROBUDOWA SA and the ELEKTROBUDOWA SA group for the periods of six months ended 30 June 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 8 August 2014.

The compensation for the review and auditing of the above mentioned statements for 2015 was agreed as 105 in thousands of PLN, VAT excluded.

### **Information about the liabilities to the entities related to the auditor**

As at 30 June 2015 the parent company ELEKTROBUDOWA SA did not have any liabilities to the entities related to auditor.

On 17 July the parent, ELEKTROBUDOWA SA concluded an agreement with ERNST & YOUNG SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ BUSSINESS ADVISORY SP. K. for conducting an analysis of purchasing process in place in the production facility Konin, in respect of conformity with valid regulations, procedures and good practices and of securing the Company's interest in its relations with suppliers.

### **12. SHAREHOLDING OF THE PARENT COMPANY ELEKTROBUDOWA SA**

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

<b>Shareholders of ELEKTROBUDOWA SA as at 30 June 2015:</b>	<b>Number of shares = number of votes</b>	<b>Percentage</b>
1. AVIVA OFE AVIVA BZ WBK SA	579 301	12.20
2. PKO BP Bankowy Otwarty Fundusz Emerytalny	467 415	9.85
3. Otwarty Fundusz Emerytalny PZU "Złota Jesień"	454 446	9.57
4. AXA Otwarty Fundusz Emerytalny	446 553	9.41
5. ING Otwarty Fundusz Emerytalny*	320 850	6.76
6. PTE Allianz Polska SA	299 523	6.31
7. MetLife Otwarty Fundusz Emerytalny	280 367	5.91
8. Generali Otwarty Fundusz Emerytalny	241 640	5.09
9. Free float	1 657 513	34.90
<b>Total number of shares in the share capital</b>	<b>4 747 608</b>	<b>100,00</b>

\* since 20 July 2015 National Nederlanden Otwarty Fundusz Emerytalny

According to information available to the parent company, the shareholding structure of ELEKTROBUDOWA SA as at 30 June 2015 did not change compared with the structure at 31 December 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.

As at 30 June 2015 the managing persons did not hold any shares in ELEKTROBUDOWA SA.

As at 30 June 2015 the managing persons did not hold any shares in entities related to ELEKTROBUDOWA SA.

As at 30 June 2015 the supervising persons did not hold shares in ELEKTROBUDOWA SA or its related companies.

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

### 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.

Until 28 April 2015 the Management Board of ELEKTROBUDOWA SA was composed of:

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

On 29 April 2015 the Supervisory Board of ELEKTROBUDOWA SA established a three-person composition of the Management Board. The following persons were appointed for a common three-year term of office (beginning on 29 April 2015):

Faltynowicz Jacek	-	President
Juszczuk Janusz	-	Member of the Management Board, Vice-President
Janczyk Piotr	-	Member of the Management Board

Further, on 25 June 2015 the Supervisory Board passed a resolution to appoint Mr Paweł Skrzypczak Vice President of the Management Board of ELEKTROBUDOWA SA as of 1 August 2015. On 31 July 2015

Mr Piotr Janczyk resigned as Member of the Management Board.

Following the above, as at the date of submitting the present financial statements, the Management Board is composed of:

Faltynowicz Jacek	-	President	-	Chief Executive Officer
Juszczuk Janusz	-	Vice President	-	Director of the Power Generation Division
Skrzypczak Paweł	-	Vice President	-	Chief Financial Officer

Method of operation of the Management Board is defined in the Articles of Association and in the By-Laws of the Management Board approved by the Supervisory Board.

The Management Board shall manage the affairs of the company and represent the company. The Management Board holds meetings presided by its President. President of the Management Board is also Director of the company. Resolutions of the Management Board are adopted by absolute majority of votes. In the 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 commercial proxy (Polish: prokurent) are authorized to represent the company. The Management Board may grant a commercial proxy only with prior consent of the Supervisory Board. Proxies acting independently within their authorizations may be appointed for performing actions of specific character or kind.

The Management Board Members' compensation policy and rules, with the amounts of compensation, rewards or benefits (in cash or in kind or in any other form) are presented in Note 42 of the interim consolidated financial statements for the period of six months ended 30 June 2015.

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

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

As at 30 June 2015, the Supervisory Board of ELEKTROBUDOWA SA had the following composition:

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

The Supervisory Board Members' compensation policy and rules, with the amounts of compensation, rewards or benefits (in cash, in kind or in any other form) are presented in Note 42 of the interim consolidated financial statements for the period of six months ended 30 June 2015.

### **13.3 The Audit Committee and the Nomination and Compensation 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 2015: the Audit Committee and the Nomination and Compensation 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 drafting of agendas, distribution of documents and writing minutes of meetings of the Committee, 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 shall be competent in finances and accounting.

As at 30 June 2015 the Audit Committee was composed of:

Tomasz Mosiek – Chairman of the Committee,

Eryk Karski – Member,

Artur Małek – Member,

Paweł Tarnowski – Member.

#### **13.3.2 The Nomination and Compensation Committee**

The Nomination and Compensation 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.

As at 30 June 2015 the Nomination and Compensation Committee was composed of:

Ryszard Rafalski – Chairman of the Committee,

Jacek Dreżewski – Member,

Karol Żbikowski – Member.

## **14. REPRESENTATION ON COMPLIANCE WITH THE CORPORATE GOVERNANCE RULES**

The Management of the parent company represents that in the six months ended 30 June 2015 ELEKTROBUDOWA SA and its governing bodies fully complied with the corporate governance rules contained in the document "Code of Best Practice for WSE Listed Companies". Details of corporate governance rules are available on the web page of ELEKTROBUDOWA SA: [www.elbudowa.com.pl](http://www.elbudowa.com.pl).

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

In the past six months ELEKTROBUDOWA SA applied the provisions covered in the corporate governance rules with the exception of Chapter I Principle 12, and Chapter IV Principle 10. 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, implementation 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.

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

## **15. ADDITIONAL INFORMATION**

Disclosures of key events concerning the Company which took place during the period of six months ended 30 June 2015 made pursuant to 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:

6 February 2015 - the Company disclosed signing another Amendment to the Contract No. 234510 of 3 January 2008 made with AREVA GmbH having its registered office in Erlangen, Germany for erection and precommissioning of electrical and I&C components and systems for OLKILUOTO 3 Project in Finland. The agreed price of the Amendment increases the value of the Company's scope of works at the NPP OLKILUOTO 3, Finland by 23 590 836.00 EUR, VAT excluded, which was an equivalent of 98 465 790.38 PLN.

9 February 2015 - the Company informed about signing another Amendment to the Cooperation Agreement I No. 11/234/06/Z/PX made with mBank SA having its registered office in Warsaw, by which the amount of Limit granted by the Agreement. Limit of Line for the Bank products was increased up to 90.0 million PLN. Other essential provisions of the Agreement remained unchanged.

17 February 2015 - the Company informed that on 12 February 2015 the Court of Justice of the European Union gave a judgment in Case C-396/13, the request for a preliminary ruling from the court of first instance of Satakunta Region, Finland, on applicability of legal regulations concerning employment relationships of employees of ELEKTROBUDOWA SA posted to Finland to carry out works.

20 February 2015 - the Company announced that on 19 February 2015 another Amendment was signed to the loan agreement in the form of multi-purpose credit limit with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna based in Warsaw. With this Amendment the validity of the agreement was extended from 20 February 2015 until 28 February 2017.

Pursuant to the Amendment, capping of the limit amount has been decreased from 307 193 750.00 PLN to 290 129 880.05 PLN. The reduction of the capping is the result of reduction of the amount of advance payment guarantee and performance guarantee provided by the Bank, beneficiary of which is Tauron Ciepło Sp. z o.o.

25 February 2015 – the Company announced the 2015 performance forecast for the Company and for the Group.

2 March 2015 – the Company informed that by the resolution of the Management Board of 2 March 2015 the commercial proxy granted to Mr Mariusz Luto was revoked.

2 March 2015 - the Company informed that by the resolution of the Management Board of 2 March 2015 with the prior approval of the Supervisory Board, Mr Roman Grzelak was granted independent commercial proxy.

20 March 2015 – the Company informed that the Supervisory Board of the Company on its meeting on 20 March 2015 approved the motion of the Management Board to allocate the whole 2014 net profit to supplementary capital.

26 March 2015 - the Company informed about having been notified by Polskie Sieci Elektroenergetyczne Spółka Akcyjna (PSE SA) based in Konstancin-Jeziorna that the offer submitted by ELEKTROBUDOWA SA was selected in the public procurement procedure for "Modernization of the 220/110 kV Station in Konin". The net value of works as per the offer is 114 490 000.00 PLN.

30 March 2015 – the company disclosed convening the Annual General Meeting of ELEKTROBUDOWA SA for 29 April 2015. The company released the text of announcement, the agenda and the draft resolutions.

29 April 2015 – the company disclosed texts of resolutions passed by the Annual General Meeting of ELEKTROBUDOWA SA on 29 April 2015.



29 April 2015 - the Company informed that on 29 April 2015 the Supervisory Board resolved that the Management Board of ELEKTROBUDOWA SA of the term of office beginning on 29 April 2015 shall be composed of three Members and appointed to the Board: Mr Jacek Faltynowicz, appointing him President of the Management Board of ELEKTROBUDOWA SA, Mr Janusz Juszczyk, appointing him Member – Vice-President of ELEKTROBUDOWA SA, and Mr Piotr Janczyk, appointing him Member of the Management Board of ELEKTROBUDOWA SA.

30 April 2015 - the company disclosed signing on 29 April 2015 an amendment to the Framework Agreement on the revolving line of credit for bank guarantees with Bank Handlowy w Warszawie Spółka Akcyjna, having its registered office in Warsaw. According to covenants of the Amendment to the Agreement, the Bank increased the amount of the renewable lending limit from 52 800 000.00 PLN to the amount of 90 000 000.00 PLN. The terms of the Agreement on the revolving line for guarantees do not change.

5 May 2015 - the company disclosed signing another amendment to the Multi-product Agreement concluded with ING Bank Śląski SA having its registered office in Katowice. As part of the debt under the working capital loan has been repaid, the available limit was reduced from 77.0 million PLN to 56.0 million PLN effective from 1 May 2015. The amendment provides for further reductions of the limit in monthly installments and repayment of the whole amount of debt under the working capital loan within 31 July 2015. Availability of the limit: until 30 January 2016. The other provisions of the Agreement remain unchanged.

5 May 2015 - the company disclosed a list of shareholders holding at least 5% of total number of votes in the Annual General Meeting of ELEKTROBUDOWA SA held on 29 April 2015.

6 May 2015 - the Company informed that an Amendment to the Agreement on the multi-purpose credit limit signed with Bank Polska Kasa Opieki S.A. based in Warsaw has been received. By the Amendment the validity of the multi-purpose limit granted in the amount of 80 000.00 PLN is extended until 30 April 2016. The other terms of the agreement on the multi-purpose limit do not differ from standard market terms applied in agreements of this type.

25 June 2015 - the Company informed that on 25 June 2015 the Company's Supervisory passed a resolution to appoint Mr Paweł Skrzypczak as Vice-President of the Management Board of ELEKTROBUDOWA SA as from 1 August 2015. As from 1 August 2015 Mr Paweł Skrzypczak will also take the position of Chief Financial Officer of ELEKTROBUDOWA SA.

30 June 2015 - the Company informed that it had been awarded further two orders from Polimex Projekt Opole Sp. z o.o. based in Warsaw, for the supply of switchgear, busducts and installation of busducts. The supplies are associated with the construction of Unit 5 and 6 in Opole Power Plant.

Total net value of orders received from Polimex Projekt Opole Sp. z o.o. within the 12 months to date amounted to 52 500 000 PLN. An order for the delivery and installation of 10kV and 6kV switchgear, including specialist equipment and commissioning within the project concerning construction of Unit 5 and 6 in Opole Power Plant, is the order with the highest value, and its net price is 21 500 000 PLN.

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

On 1 July 2015 the parent company informed that it had been awarded a contract for "Modernization of the 220/110kV station Konin" for Polskie Sieci Elektroenergetyczne Spółka Akcyjna (further: PSE S.A.) having its registered office in Konstancin-Jeziorna.

The contract has been signed for a complete, "design and build" execution of the project. Its scope covers construction of 220kV switchyard consisting of 13 bays, construction of a process building, purchase and installation of the 28-bay 110kV GIS with a double system of busbars. The station infrastructure is also included in the scope. The net contract price is 114 490 000.00 PLN.

Following the resignation by Mr Tadeusz Lamch as President of KONIP Sp. z o.o. as of 31 July 2015, by Resolution No. 1/2015 of the Extraordinary General Meeting of Shareholders of the subsidiary passed on 31 July 2015 Mr Bogdan Czarnecki was appointed President of KONIP Sp. z o.o. for a two-year term of office, effective from 1 August 2015.

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

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

The Management Board of the parent represents 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 consolidated financial statements, except those which do not apply to the Group.

## SIGNATURES OF MEMBERS OF THE MANAGEMENT BOARD

<b>First name and surname</b>	<b>Position / Function</b>	<b>Date</b>	<b>Signature</b>
Jacek Faltnowicz	President	31.08.2015	
Janusz Juszczyk	Vice President	31.08.2015	
Paweł Skrzypczak	Vice President	31.08.2015	