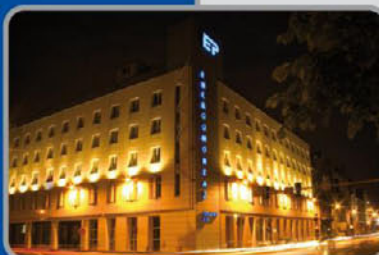


ANNUAL REPORT ON THE
OPERATIONS OF THE
ENERGMONTAŻ POŁUDNIE S.A.
CAPITAL GROUP FOR THE 12-MONTH
PERIOD ENDING 31 DECEMBER 2010



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**Letter from the President of the
Management Board**

Dear Sir/Madam,

On behalf of the Management Board of the parent company, I hereby present the consolidated annual report on the activities of the Energomontaż-Południe S.A. Capital Group for 2010.

The past year has been a difficult one for the Capital Group in many respects. Despite obtaining 23 per cent growth over the year in consolidated revenue from sales, we did not manage to attain a positive financial result. As you will notice, in 2009 we were also compelled to correct the value of the company in relation to the subsidiary Amontex.

Factors having a great impact on the result for 2010 were a large loss on the construction contract for the stadium in Gdansk, and the poor results of Amontex. As to the contract for building the stadium, the loss was the result of having to find a substitute contractor to perform the contract, which involved a high level of additional outlays on the part of the parent company. Until we manage to recover those costs from our former subcontractor, we will not be able to compensate for those expenses. I hope, however, and in fact am convinced, that that money will return to Energomontaż-Południe S.A. in future reporting periods. As to the subsidiary, in addition to the difficult circumstances in Amontex's area of operations, its result was also affected by the company being poorly managed by the previous management board, and faulty financial statements for 2009.

Not counting the bad results in 2010 of Amontex and of the stadium (to date), the result achieved in our fundamental area of activity, construction in the power industry, was good, particularly in comparison with the results of our competitors.

Still faced with waiting for the start-up of the important power industry modernisation program in Poland, last year the Capital Group obtained and performed a number of large orders abroad, mainly in Germany and Holland. We now have a portfolio of orders for 2011 which provides a realistic basis for further increases in revenue. In turn, the planned improved effectiveness of the Group should lead to an improvement in results and satisfied shareholders. The planned improvement, of course, also concerns our subsidiary Amontex. After a change in its Management Board and the implementation of a recovery program, Amontex should generate a positive financial result this year.

Together with all our partners, we will also be working to maintain our competitive edge, which will enable us to remain a leader among companies implementing new power industry investments and modernisations. Having the highest attainable quality and health & safety certificates, and references earned in Poland and on the European market, makes us confident about our future development. Evidence of the innovativeness and quality of our technical thinking and the effectiveness of our performance is the distinction awarded to Energomontaż-Południe S.A. in December 2010 in the category of "Innovative Services by a Large Company" and the title of "Domestic Leader in Innovation and Development 2010". The distinction was for "Specialist comprehensive assembly services for supercritical power furnaces".

On behalf of the parent company, I would like to thank all firms and institutions which have placed their trust in us by cooperating with the Energomontaż-Południe Capital Group. I would also like to take this opportunity to thank all co-workers who have contributed to the Company's development through their professional approach and commitment. Without their efforts, such development would not be possible.

We are confident that the consistent implementation of our strategic and developmental goals will result in the satisfaction of both our customers and our shareholders.



Radosław Kamiński
President of the Management Board of the
parent company

I. SHAREHOLDERS AND CORPORATE GOVERNANCE**I.1 Declaration on the application of corporate governance****I.1.1 Set of corporate governance principles**

In 2010, in the regulatory field, the principles of corporate governance were indicated in norms accepted by the Council of the Warsaw Stock Exchange which were contained in an appendix to Resolution No. 17/1249/2010 of the Stock Exchange Council of 4 July 2007, in a document called "Good Practices of Companies Listed on the WSE", hereinafter referred to as "Good Practices". The set of corporate governance principles to which the Issuer is subject is publicly available and can be found on the Issuer's website at www.energomontaz.pl.

I.1.2 Indication of the extent to which the Issuer has departed from the Good Practices and explanation of the reasons for this

In 2010, Energomontaż-Południe S.A. observed the principles of the aforementioned document. The application of the recommendations contained in the Good Practices also continued to be in the Issuer's sphere of interest. The set of recommendations is available on the Company's website at the aforementioned website address. Energomontaż-Południe S.A. has applied most of these recommendations and is constantly developing its communication with investors by applying a transparent information policy, developing the corporate side and using other available sources of conveying information (press, Internet, television, meetings with investors). Of the recommendations indicated in Part I of Good Practices, the Issuer has so far not fulfilled the recommendation concerning the transmission of the deliberations of the General Meeting of Shareholders. The application of this recommendation cannot be ruled out in the future. On the other hand, the publication on the stock exchange and on the Company's website of all resolutions adopted by the General Meeting of Shareholders ensures extensive access to information and appropriate communication with the shareholders.

I.1.3 Description of the main features of internal control and risk management systems applied with regard to the process of drawing up financial statements

The internal control system in operation in the Group refers to a series of processes occurring in the parent company and subsidiaries, including the process of preparing and consolidating the financial statements. It was designed in such a way as to constitute an effective instrument of risk control and supervision of the correctness of the process of accumulating data, processing them and presenting them in the form of financial statements in accordance with applicable legal regulations in that respect. The internal control system in Group is constructed of functional control mechanisms (designed to prevent, detect and correct) described in specific internal regulations of the organisation and subordinate entities (directives, authorisations, internal instructions). Furthermore, the mechanism of control is supplemented by the systematised operations of a special independent external control unit, i.e. an auditor. These operations considerably secure Energomontaż-Południe S.A. against errors in financial reporting and provide the management with information making it possible to assess the correct, efficient and secure operation of the process of preparing the financial statements. Reviewing the internal control system and risk management mechanisms is subject to assessment of the Audit Committee of the Company's Supervisory Board.

I.1.4 Ownership structure of the parent company

The share capital of Energomontaż-Południe S.A. is PLN 70 972 001 and is divided into 70 972 001 ordinary bearer shares with a nominal value of PLN 1 per share, of which 7 430 000 constitute Series A shares, 3 570 000 Series B shares, 33 000 000 Series C shares, 4 390 000 Series D shares and 22 582 001 Series E shares. All the shares are ordinary bearer shares.

Ownership structure of the parent company (as at 31 December 2010)

| SHAREHOLDER | Number of shares/ votes | Percentage share in the share capital and total number of votes |
|-----------------------------|--------------------------------|--|
| PBG S.A. | 17 743 002 | 25.00 |
| Renata Gasinowicz | 14 504 179 | 20.44 |
| Stanisław Gasinowicz | 5 913 186 | 8.33 |
| Others | 32 811 634 | 46.23 |
| Total issued shares: | 70 972 001 | 100.00 |

Ownership structure of the parent company (as at 21 March 2011)

| SHAREHOLDER | Number of shares/ votes | Percentage share in the share capital and total number of votes |
|---|--------------------------------|--|
| PBG S.A. | 17 743 002 | 25.00 |
| Renata Gasinowicz | 7 207 899 | 10.16 |
| SPV Support 3 Sp. z o.o. Projekt 2 S.K.A.* | 6 230 000 | 8.78 |
| Stanisław Gasinowicz | N/A | N/A |
| Others | N/A | N/A |
| Total issued shares: | 70 972 001 | 100.00 |

* The shareholding structure was determined on the basis of notifications presented by the shareholders of the parent company on the basis of Article 69 of the Act on Offerings, and on the assumption that the shareholding did not change since the time of the most recent notification.

Changes in the shareholding structure of the parent company since the end of financial year 2010 disclosed by significant shareholders under the notification procedure of Article 69 of the Act on Offerings

Ms Renata Gasinowicz reported to Energomontaż-Południe S.A. that in connection with a transfer of 700 000 shares in the Company to IPOPEMA 56 FIZ Aktywa Niepubliczne, settled in the National Depository of Securities on 1 February 2011, she holds a total of 13 867 899 shares in the Company, which constitutes a 19.54 per cent share in its share capital carrying an entitlement to 13 867 899 votes at the General Meeting of Shareholders, i.e. 19.54 per cent of the total number of votes. On the day preceding the transaction, Ms Renata Gasinowicz held 14 567 899 shares in the Company, constituting 20.52 per cent of the Company's share capital and providing entitlement to exercise 14 567 899 votes at the General Meeting of Shareholders, which was 20.52 per cent of the total number of votes [current report No. 16/2011 of 3 February 2011].

Ms Renata Gasinowicz reported to Energomontaż-Południe S.A. that, in connection with a transfer of 6 660 000 shares in the Company to SPV Support 3 Sp. z o.o. Projekt 2 Sp. k.a., settled in the National Depository of Securities on 14 February 2011, she holds a total of 7 207 899 shares in the Company, which constitutes a 10.16 per cent share in its share capital carrying an entitlement to 7 207 899 votes at the General Meeting of Shareholders, i.e. 10.16 per cent of the total number of votes. On the day preceding the purchase transactions, the shareholder held 13 867 899 shares in the Company, constituting 19.54 per cent of the Company's share capital and providing entitlement to exercise 13 867 899 votes at the General Meeting of Shareholders, which was 19.54 per cent of the total number of votes [current report No. 22/2011 of 18 February 2011].

At the same time, SPV Support 3 Spółka z ograniczoną odpowiedzialnością Projekt 2 Spółka komandytowo-akcyjna, with its registered office in Warsaw at ul. Waliców 11, 00-851 Warsaw, represented by the general partner SPV Support 3 Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw at ul. Waliców 11, 00-851 Warsaw (the "Notifier"), reported to Energomontaż-Południe S.A. that, on 14 February 2011, following the acquisition of bearer shares in the company Energomontaż-Południe Spółka Akcyjna with its registered office in Katowice (the "Company") outside the regulated market, the Notifier's share in the total number of votes at the Company's General Meeting of Shareholders has exceeded the 5 percent threshold.

Prior to the above acquisition of shares in the Company, the Notifier held no shares in the Company. At the moment of this notification, the Notifier holds 6 230 000 shares in the Company, which is 8.78 per cent of the Company's share capital and gives 6 230 000 votes at the General Meeting of Shareholders, 8.78% of the total number of votes." [current report No. 22/2011 of 18 February 2011].

I.1.5 Indication of holders of securities carrying special inspection rights

No holders of securities issued by Energomontaż-Południe S.A. have special inspection rights with respect to the Company.

I.1.6 Restrictions of rights from shares issued by the parent company

The transferability of shares in the Issuer is not restricted. Nor do any restrictions exist on rights to shares, including restrictions on voting rights or subscriptions in accordance with which, in cooperating with the company, capital rights in connection with securities are separated from the possession of securities.

I.1.7 Description of the manner of operation of the general meeting of shareholders of the parent company and its basic rights, as well as the rights of shareholders and the manner of exercising them

The General Meeting of Shareholders is the highest authority of the Company. The Management Board convenes an Ordinary General Meeting of Shareholders, which should be held within six months after the lapse of each financial year. The General Meeting of Shareholders shall be held at the registered office of the

Company in Warsaw. The General Meeting of Shareholders operates on the basis of generally applicable regulations, in particular the Commercial Companies Code, the Statute of the Company and the Regulations approved by it. The Statute and the Regulations are available on the Company's website. The powers of the General Meeting of Shareholders include: consideration and approval of the annual financial statements, adoption of resolutions on the distribution of profit, coverage of loss and discharging the members of the Company's authorities from liability in the performance of their duties, amendment of the Statute, including increasing and decreasing the share capital, issuing bonds, creating capital and funds and adopting resolutions on the principles of making use of them, appointing and recalling members of the Supervisory Board and determining their remuneration, changing the subject of business operations of the Company, mergers of the Company, its demerger, transformation, dissolution and liquidation, its sale or leasing the Company's business undertaking or an organised part thereof, all provisions concerning claims for the repair of damage caused in incorporating the Company or exercising management or supervision, as well as the redemption of shares and determining the conditions and manner of redemption.

The Company's shareholders perform their corporate rights in the manner and within the limits set by generally applicable regulations, the Company's Statute and the Regulations of the General Meeting of Shareholders. Each share of the Company gives the right to one vote. The Company has not issued registered shares.

I.1.8 Description of the principles of amending the Statute of the parent company

The Company's Statute can only be amended by a decision of the General Meeting of Shareholders of the Company. A draft amendment of the Statute shall be prepared by the Management Board and the Supervisory Board shall provide an opinion on it. After being approved by the General Meeting of Shareholders, amendments to the Statute shall be registered in the National Court Register. Matters not specified in the Statute are regulated in the Commercial Companies Code and in appropriate domestic regulations.

I.1.9 Composition and principles of operation of management and supervisory authorities of the parent company and their committees

The Supervisory Board

The Supervisory Board supervises all areas of the activities of the Company. The Supervisory Board performs its duties collectively, although it may delegate its members to carry out particular supervisory actions individually. The Supervisory Board shall hold a meeting at least once per quarter.

It is composed of from five to seven members appointed for a joint term of office. The Supervisory Board's term of office lasts five years. Members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders. The same person cannot be reappointed a member of the Supervisory Board earlier than one year before the end of the current term of office. The Regulations of the Supervisory Board regulate the basis of its work. The Company makes the Regulations of the Supervisory Board available on its website.

Personal composition of the Supervisory Board (as at the date of publication of these Statements)

| NAME AND SURNAME | Position |
|-------------------------|---|
| Stanisław Gasinowicz | Chairman /from 13 January 2011/ |
| Andrzej Wilczyński | Deputy Chairman |
| Marek Skibiński | Secretary /from 13 January 2011/ |
| Grzegorz Wojtkowiak | Member /from 13 January 2011, Chairman from 14 June 2010 to 12 January 2011/ |
| Radosław Kamiński | Member /from 13 January 2011, Secretary from 14 June 2010 to 12 January 2011/ |
| Andrzej Kowalski | Member |
| Tomasz Woroch | Member |

Changes to the Supervisory Board of the parent company

As at 1 January 2009, the Supervisory Board of the Company was composed of five persons: Mr Sławomir Masiuk as Chairman of the Supervisory Board, Mr Andrzej Wilczyński as Deputy Chairman of the Supervisory Board, and members Andrzej Kowalski, Marek Wesółowski and Tomasz Woroch. In connection with the resignation of Mr Sławomir Masiuk from the Supervisory Board of Energiomontaż-Południe S.A. at the General Meeting of Shareholders of the Company on 14 June 2010 and the General Meeting of Shareholders' recall of Mr Marek Wesółowski, the General Meeting of Shareholders appointed Messrs Radosław Kamiński and Grzegorz Wojtkowiak to the Supervisory Board. Mr Grzegorz Wojtkowiak acted as Chairman of the Supervisory Board to the end of the reporting period. Mr Radosław Kamiński is a minority shareholder of the Company. He was Secretary of the Supervisory Board until the end of 2010.

On 13 January 2011, the Extraordinary General Meeting of Shareholders of the Company adopted resolutions No. 12 and 13 appointing Mr Stanisław Gasinowicz and Mr Marek Skibiński to the Supervisory Board of the Issuer. Mr Stanisław Gasinowicz is Chairman of the Supervisory Board of the Company. Mr Stanisław Gasinowicz is an investor who has been operating on the Warsaw Stock Exchange (Giełda Papierów

Wartościowych w Warszawie S.A.) almost since the beginning of its existence and who is a long-time shareholder of Energomontaż-Południe S.A.

As at the day of preparing this report, the Supervisory Board was composed as detailed in the table above.

Audit Committee

The Audit Committee is an advisory body operating as part of the Supervisory Board of the Company. The role of the Audit Committee is to support the Supervisory Board in carrying out its statutory inspection and supervisory duties concerning the proper implementation of the rules of financial reporting, inspections and internal auditing, as well as managing the risk of the Energomontaż-Południe S.A. Capital Group, and working with the independent auditors of the Company.

The duties of the Audit Committee are within the scope defined in the Act on Auditors and their Self-Government, on Entities Authorised to Audit Financial Statements and on Public Supervision of 7 May 2009, and also include Good Practice, including in particular that the Committee makes a recommendation to the Supervisory Board on the entity to act as auditor. It also reviews periodic and annual financial statements of the Company and the Energomontaż-Południe S.A. Capital Group. The Audit Committee operates in accordance with the Regulations of the Audit Committee, which the Company makes available on its website at www.energomontaz.pl under the Corporate Governance tab.

At meetings in 2010, the Audit Committee dealt with periodic analysis of the non-consolidated and consolidated financial results, and a review and analysis of the state of the Company's portfolio of orders. The Audit Committee also familiarised itself with the scope of the audit of the annual financial statements. During the Committee meetings, the financial control mechanisms of the Company were analysed, in particular in terms of exchange rate risk, and the situation of subsidiaries of the Issuer's Capital Group was discussed.

Personal composition of the Audit Committee

| NAME AND SURNAME | Position |
|-------------------------|------------------------------|
| Radosław Kamiński | Chairman /from 22 June 2010/ |
| Grzegorz Wojtkowiak | Member /from 22 June 2010/ |
| Tomasz Woroch | Member |

Changes to the personal composition of the Audit Committee

On 1 January 2010, the Audit Committee was composed of Messrs Sławomir Masiuk, Tomasz Woroch and Andrzej Kowalski. Because of the resignation from the Supervisory Board of the Issuer submitted by Mr Sławomir Masiuk and the resignation of Mr Andrzej Kowalski from the Audit Committee, on 22 June 2010 the composition of the Audit Committee was completed with newly-appointed supervisors. Until the day of preparation of this report, the Audit Committee has continued to function with the three people named above.

Remuneration Committee

The Remuneration Committee is an advisory body operating as part of the Supervisory Board of the Company. The Committee was created on 22 June 2010. Since that date, the Remuneration Committee has functioned with the same composition of three persons detailed below.

The Remuneration Committee functions in compliance with the Regulations of the Remuneration Committee, which the Company makes available on its website at www.energomontaz.pl under the Corporate Governance tab.

Remuneration Committee

| NAME AND SURNAME | Position |
|-------------------------|-----------------|
| Andrzej Wilczyński | Chairman |
| Radosław Kamiński | Member |
| Andrzej Kowalski | Member |

In its meetings, the Remuneration Committee deals with such issues as analysing the remuneration of Management Board members and managerial staff. It also evaluates and verifies the bonus system operating within the Company. In accordance with its entitlements specified in the Regulations, on the basis of which it functions as an advisory body, the Committee commissioned a study by independent experts and an opinion for use by the Committee.

The Management Board of the parent company

The Management Board is the Company's executive authority and manages its entire operations. The Management Board of the Company consists of one or more members, including the President and Vice-President of the Management Board, appointed for a joint term of office. The term of office of the Management

Board is for five years. The President of the Management Board, a member of the Board or the entire Management Board may be recalled at any moment before the end of their term of office by the Supervisory Board or the General Meeting of Shareholders. The same person cannot be reappointed a member of the Management Board earlier than one year before the lapse of the current term of office. The Regulations of the Management Board regulate the basis of its work. The Company makes the Regulations of the Management Board available on its website at www.energmontaz.pl under the Corporate Governance tab.

The following persons are entitled to make declarations of intent pertaining to the property rights and obligations of the Company and to sign documents on behalf of the Company:

- 1) the President of the Management Board acting jointly with another Management Board member,
- 2) two members of the Management Board acting jointly,
- 3) the President or a member of the Management Board acting jointly with a Registered Holder of a Commercial Power of Attorney.

Personal composition of the Management Board (as at the date of publication of these Statements)

| NAME AND SURNAME | Position |
|-------------------------|--|
| Radosław Kamiński | President of the Management Board /delegated from the Supervisory Board since 27 December 2010/ |
| Jacek Fydrych | Vice-President of the Management Board /from 17 January 2011, previously Member of the Management Board/ |
| Dariusz Kowzan | Member of the Management Board /from 02.02.10/ |

Changes to the Management Board of the parent company

On 1 January 2010, the Company's Management Board consisted of three persons: Mr Andrzej Hołda - President of the Management Board and Managing Director, Ms Alina Sowa – Vice President of the Management Board and Financial Director, and Mr Jacek Fydrych – Member of the Management Board and Director of Trade. On 2 February 2010, the Supervisory Board of the Company appointed Mr Dariusz Kowzan to the Management Board of Energomontaż-Południe S.A. Dariusz Kowzan holds the positions of Member of the Management Board and Director of Contract Implementation and Development.

At a meeting of the Supervisory Board of the Company held on 27 December 2010, Mr Andrzej Hołda, exercising the functions of President of the Management Board and Chief Executive Officer, and Ms Alina Sowa, exercising the functions of Vice President of the Management Board and Chief Financial Officer, tendered their resignations from the aforementioned functions in the Company. The reasons for the resignations were not stated. The resignations were accepted by the Supervisory Board of the Company and came into effect as of 27 December 2010.

In connection with the above, Mr Radosław Kamiński, until that time Secretary of the Supervisory Board of the Company, was delegated by the Supervisory Board to temporarily act as President of the Management Board of Energomontaż-Południe S.A. for the period from 27 December 2010 to 27 March 2011. On 17 January 2011, Mr Jacek Fydrych, existing Member of the Management Board of the Company, was appointed as Vice President of the Management Board of Energomontaż-Południe S.A.

As at the date of publication of this report, the Company's Management Board is composed of the three persons named above.

Other information concerning members of the Company's authorities, including the remuneration of management and supervisory personnel, is described in detail in [pt VI.](#) of this Report.

Particular powers of the authorities of the parent company

The Management Board of the Company is entitled to make decisions about issuing or purchasing shares or other capital and debt securities, and initiates such processes. As customary in the Company, under the authority contained in relevant resolutions of the General Meeting of Shareholders, the Management Board as executive body determines the parameters of these processes of issuance or purchase and takes pains to ensure the correct performance of operations concerning the aforementioned capital market instruments. Decisions are agreed with the Company's supervisory authority. The Supervisory Board gives its opinion on all decisions of the Management Board concerning the aforementioned matters. The General Meeting of Shareholders of the Company makes a final decision on issuing or purchasing securities.

II. THE CAPITAL GROUP AND ITS RESOURCES

II.1 Information about the structure of the Group

As at 31 December 2010, the Capital Group comprised the parent company – Energomontaż-Południe S.A. – and three subsidiaries whose share capital is 100 per cent owned by the parent company. The subsidiaries are:

- Amontex Przedsiębiorstwo Montażowe Sp. z o.o. [Amontex PM Sp. z o.o., Amontex]

- Modus II Sp. z o.o. [Modus II]
- EP Hotele i Nieruchomości Sp. z o.o. [EP Hotele i Nieruchomości]

Organisational structure of the Capital Group



The subsidiaries referred to above are subject to consolidation by the full method. Subsidiaries do not hold shares in the capital of other companies.

THE PARENT COMPANY

Energomontaż-Południe S.A.

Energomontaż-Południe S.A. is entered in the National Court Register kept by the District Court in Katowice, Commercial Division, under KRS 0000080906.

It has been operating on the Polish and international market for power industry-related and industrial construction for over half a century.

Its core business is providing services involving construction and assembly production, general contracting for investments, and assembling, upgrading and refurbishing power production and industrial equipment and installations. The main customers for its services and products are commercial and industrial power companies, foundries, coking plants and chemical works.

SUBSIDIARIES

Amontex

Amontex is entered in the National Court Register under KRS 0000154195. Its share capital amounts to PLN 3 000 000, divided into 6 000 shares with a par value of PLN 500 per share. Amontex is an assembly/production company which manufactures and assembles steel structures. It has a steel constructions plant in Piotrków Trybunalski. Because it has a shot-blasting system and a separate painting plant, it is able to manufacture steel structures of advanced design from start to finish. The company's main customer is the domestic power production industry. Its specialisations include constructing and assembling absorbers and assembling large LPG tanks. Information about the holiday resort can be found at www.amontex.eu.

Modus II

The company is entered in the National Court Register under KRS 0000289248. Its share capital amounts to PLN 100 000, divided into 200 shares with a par value of PLN 500 per share. The company's core business is developing and selling real property for its own account.

EP Hotele i Nieruchomości

The company is entered in the National Court Register under KRS 0000134975. Its share capital amounts to PLN 70 500, divided into 141 shares with a par value of PLN 500 per share. The entity runs tourism, hotel, recreation and catering operations, based on a holiday resort in Mrzeżyno and a hotel in Łagisza. Information about the holiday resort can be found at www.owperla.pl.

Contracts of Energomontaż-Południa S.A. with the subsidiary CK-Modus

On 31 December 2010, the District Court in Katowice-Wschód in Katowice made an entry in the commercial register of the merger of Energomontaż-Południe S.A. with its subsidiary Centrum Kapitałowe-Modus Sp. z o.o. (CK-Modus). The merger will be made by transferring the entire assets of CK-Modus to the parent company as the acquiring company (merger by takeover) and will be effected without increasing the share capital of Energomontaż-Południe S.A.

The merger was made on the basis of Resolution No. 3 of the Extraordinary General Meeting of Shareholders of the Company on 20 December 2010 on the merger of Energomontaż-Południe S.A. with Centrum Kapitałowe-Modus Sp. z o.o.

Following the merger, the structure of the Capital Group was simplified. Operational effectiveness was also increased due to cost optimisation and an improvement in liquidity resulting from the absence of mutual financial

settlements – the previous activities undertaken by the company were financed by loans granted by the parent company.

II.2 Information on capital investments outside the group of affiliated companies

Energomontaż-Południe S.A. also holds shares in other entities which are not subject to consolidation, but these investments do not have a significant influence on the financial results.

II.3 Changes in basic Group management principles

The Group's parent company holds a current quality management system certificate complying with the EN ISO 9001:2008 standard, an environmental management system certificate complying with the EN ISO 14001:2009 standard, and an occupational health & safety management system certificate complying with the PN-N 18001:2004 standard.

It also holds a Safety Checklist for Contractors (SCC) system implemented for export construction. The SCC** system is based on Dutch norm guidelines and concerns work safety and hygiene and environmental protection on construction projects.

Ośrodek Laboratoryjno Badawczy Energomontażu Południe S.A. holds current qualifications as a subcontractor from the Office of Technical Inspection pertaining to performing laboratory tests in accordance with the requirements of the standard PN-N ISO/IEC 17025 within the scope of laboratory competence.

Energomontaż-Południe S.A. also holds important authorisations and certificates on welding metallic materials, inspecting welded joints and training welders. The Company can also act as an agent in selling property.

In 2010, work was carried out to deploy an integrated IT management system which will make the decision-making process more efficient and facilitate management.

II.4 Investments

In 2010, units of the Energomontaż-Południe S.A. Capital Group made investment outlays in a total amount of PLN 21 744 000. The majority of those investment outlays concerned plant, property and equipment in the parent company, including the construction of a hall equipped with painting and shotblasting workshops in Będzin Łągisza. The Company's investments in the reporting period also involved the purchase of machines and equipment for production operations as well as tools and instruments used in assembly production (approximately PLN 7 856 million in total). The Company also purchased needed means of transport, including wheeled cranes (approximately PLN 4 385 000). The remainder of the Group's outlays during the reporting period were mainly for purchases of equipment, instruments and real property, and equipment used in current operations.

These investments were financed primarily with the Company's own funds, bank credit and leasing.

Employment structure in the Capital Group

| INVESTMENT OUTLAYS [PLN '000] | 2010 | 2009 |
|--|---------------|---------------|
| Intangible assets | 265 | 320 |
| Property, plant and equipment | 21 479 | 23 127 |
| Capital investments | - | 1 700 |
| Total: | 21 744 | 25 147 |

III. BUSINESS ACTIVITIES OF THE CAPITAL GROUP

III.1 Basic products, goods and services

The area of the Energomontaż-Południe Capital Group's operations is the Polish and international construction market for the power sector and industry. The Group's position in the industry is well established. The parent company carries out operations based in plants located in Poland in Łaziska Górne (assembly production) and Będzin-Łągisza (industrial production), with technical offices in Lüdenscheid, Germany.

The Group's principal activity is services in the field of manufacturing, assembly and the modernisation and repair of equipment as well as of power and industrial installations. This activity is supplemented by special centre services (a training centre and a laboratory and research centre) and the implementation of developer projects.

III.2 Features of the main sales and supply markets

III.2.1 Sources of supply

The Group's supply system is, to a large extent, diversified. Suppliers are selected by the various production units on the basis of offer competitiveness. The demand for production materials is partially satisfied by a trade unit of the parent company – Hurtownia Materiałów.

The Capital Group is not dependent on one or more suppliers. In 2010, no supplier's share reached 10 per cent of the total revenues from sales. Deliveries of materials mainly involve steel products necessary for the production process.

III.2.2 Sales markets

The main customers of the Company's services and products are utility and industrial power, steelworks, coking plants, chemical works and consumer and cement industry plants.

In 2010, the Group posted almost PLN 338 million in revenue, which is a 23 per cent increase compared with revenues for the same period in the previous financial year. The basis of the growth in revenue is the organic development of the Group.

In 2010, almost 63 per cent of Group sales went to the domestic market, while the other 37 per cent constituted foreign sales, mainly for the German market. In 2010, there was an increase in foreign sales of about 28 per cent as compared with the previous year.

The Group's biggest customers were companies from ALSTOM, a world leader in the power and transport sector. ALSTOM's share in 2010 of the value of consolidated revenue was 41 per cent. The second biggest customer of the Group's services in the reporting period was the consortium of Hydrobudowa Polska S.A. and Alpine Construction Polska sp. z o.o. (hereinafter the Consortium). The Consortium's share in the value of consolidated revenue for the year was about 20 per cent. The parent company produced and assembled a steel structure for the roof of the PGE Arena Gdansk football stadium for the Consortium. There are no formal ties between the parent company and the above customers.

III.2.3 Seasonal fluctuations in sales

The market for construction/assembly services is subject to seasonal cycles, largely due to the weather. Winter months are associated with reduced activity in the construction industry. The Company generates the great majority of its sales in the second and third quarters, and less revenue in the first quarter. Work in the power sector, the main customer for the parent company's services, is also cyclical in nature. Refurbishment and modernisation work on power production facilities are mostly carried out in summer, because they operate in the winter period. To restrict seasonal fluctuations, the parent company diversifies its operations by increasing activity in other sectors than power, providing general contracting services and gaining orders for production activities.

III.2.4 The Capital Group's sales by value

Leading areas of activity in terms of sales value in 2010 were construction and assembly services for the power industry, which constitute the Company's basic activity.

A significant increase was achieved in the value of sales obtained from sales of general contracting services (growth of PLN 35 774 000 year on year), mainly due to the implementation of the high-value project for construction of the steel roofing structure for the PGE Arena Gdansk stadium. In sales in the area of developer activities, a result lower than that of last year was noted (a drop of PLN 11 953 000). Sales of flats in Katowice Ligota will only appear in the company's sales in 2011.

| SALE [PLN '000] | 2010 | 2009 | % Change |
|--|----------------|----------------|-----------------|
| Construction and assembly services | 164 850 | 127 985 | +29 |
| General contracting | 90 837 | 55 063 | +65 |
| Industrial production | 59 375 | 57 245 | +4 |
| Goods and materials services and sales | 20 324 | 19 176 | +6 |
| Developer operations | 2 729 | 14 682 | -81 |
| Total operations, of which: | 338 115 | 274 151 | +23 |
| Exports | 125 552 | 98 267 | +28 |

III.2.5 The Capital Group's sales by quantity

Because of the specific nature of the Group's operations, the main aspect of which is services, it is only possible to present sales in a quantitative manner with regard to industrial production of the parent company.

Industrial production sales

| SALE Tonnes | 2010 | 2009 | % Change |
|------------------------|--------------|--------------|-----------------|
| Country | - | 452 | -100 |
| Exports | 4 712 | 3 456 | +36 |
| Total: | 4 712 | 3 908 | +21 |

The growth in the sales volume of industrial production is mainly due to increasing exports to Germany in the face of a lack of domestic orders.

III.3 Information concerning operations carried out on securities of the parent company and a description of the manner of using funds from the issuance of new shares

III.3.1 Issuance of Series E shares of the parent company and planned use of funds from issuing Series E shares

2009 saw the commencement of the process of a private placement of Series E shares to PBG S.A. and Mr Andrzej Hołda, the President of the Management Board of Energomontaż-Południe S.A. The process of issuing 22 582 001 series E shares was completed on 5 February 2010. The issue price of the series E shares was PLN 3.45 per share.

The Series E shares were registered and admitted to exchange trading on 17 February 2010. The increase of the share capital was registered in the National Court Register kept by the District Court of Katowice-East in Katowice on 19 March 2010.

The funds gained from issuing the Series E shares, amounting to PLN 77.9 million, will be used for the following purposes:

- acquisition of companies operating in the same industry – the parent company is planning to set aside approximately PLN 50 million to acquire companies operating in the same industry
- investments in fixed assets – it is planned to set aside approximately PLN 16.9 million for investments necessary to carry out the Company's basic operations
- working capital – it is planned to set aside approximately PLN 11 million for this purpose.

III.3.2 Buy-back of own shares

On 20 December 2010, the Extraordinary General Meeting of Shareholders of the Company adopted Resolution No. 7 on authorising the Management Board of the Company to acquire own shares in the Company under the procedure of Article 362 par. 1 pt. 8 of the Commercial Companies Code. In accordance with the above resolution, the Company can acquire up to 20 per cent of its own shares, i.e. 14 194 400 shares, by 20 December 2012. The maximum payment for the shares must not exceed PLN 65 million. In accordance with a decision of the Company's governing bodies on 17 January 2011, the acquisition of the Company's own shares was spread out over three stages. In the first stage, the Company's own shares with a value of no more than PLN 20 million will be bought back. The first stage will take place over a period of one year from 17 January 2011 to 17 January 2012. The buyback of own shares will not be possible for a price higher than the market price. The buyback of the Company's own shares is permitted in regulated trading, in off-session transactions, as well as outside regulated trading. Further stages of the acquisition of own shares, including the time periods and quantity of own shares of the Company being acquired, will be detailed by the Supervisory Board of the Company in a separate resolution to be adopted not later than within one month from the end of the first stage of acquiring own shares, i.e. not later than 17 February 2012. In connection with the low liquidity of the Company's shares on the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*), as of 21 January 2011, the level of the daily volume of shares being acquired by the Company under the purchase of own shares programme can exceed 25 per cent of the average daily amount of trading within 20 days preceding the day of purchase, and the level of the daily volume of shares being acquired will not exceed 50 per cent of that daily average.

Up to the date of approval of this Report, that is, to 17 March 2011, the parent company had acquired a total of 2 940 810 own shares constituting 4.14 per cent of the share capital and providing 2 940 810 votes at the General Meeting of Shareholders (comprising 4.14 per cent of the total number of votes in the Company). The average unit price of shares purchased was PLN 3.79.

In accordance with Resolution No. 7 of the General Meeting of Shareholders of the Company of 20 December 2010, the purpose of the buyback of shares will be determined by the Management Board in consultation with the Supervisory Board. In particular, the shares may be subject to further resale. It is possible that the shares acquired in the process of buying back own shares may be used to finance possible acquisitions. The acquisitions should contribute to the further development of the Group's operations. As at the date of publication of this report, no decision in this regard has been taken.

III.3.3 Dividend

In 2010, the parent company did not pay out any dividend. The General Meeting of Shareholders of Energomontaż-Południe S.A. determines the amount of a dividend, the date of establishing rights and the date of payment.

III.4 Information about agreements of importance for the Company's operations

In 2010, Capital Group companies concluded a number of important agreements about which the parent company provided information in current reports. The agreements, orders and corporate events of the greatest importance included the following:

- orders from Alstom Power Systems GmbH for the prefabrication of exhaust and air flues as part of the construction of two supercritical units in Eemshaven, Holland. The value of the orders was about EUR 7 million (current report No. 5/2010).
- the conclusion of an issue of series E shares conducted under an investment agreement with PBG S.A. The value of the funds obtained by Energomontaż Południe from the share issue was about PLN 77.9 million (current report No. 8/2010).
- an order from Alstom Power Systems GmbH for the production of ventilator mills together with a package of perishable spare parts for the Ledvice power station in the Czech Republic. The value of the order was about EUR 3.3 million (current report No. 9/2010).
- Order from Steinmüller Instandsetzung Kraftwerke GmbH for the performance of part of the assembly work as part of the modernisation of power unit No. 5 at Elektrownia Bełchatów S.A. The value of the order was PLN 19.5 million (current report No. 18/2010).
- orders from Alstom Power Systems GmbH for the assembly of the pressurised part of a 910 MW supercritical boiler in the Rheinhafen-Dampfkraftwerk Karlsruhe. The total value of the orders was about EUR 10.1 million (current report No. 22/2010).
- an agreement with Alstom Power Sp. z o.o. on the performance of assembly works as part of the modernisation of power unit No. 6 at Elektrownia Bełchatów S.A. The value of the agreement is PLN 72 million (current report No. 30/2010).
- an agreement with Bank PEKAO S.A. – the parent company obtained a working capital facility up to PLN 30 million, designated for financing a commercial contract (current report No. 36/2010).
- an annex to the agreement with Bank PEKAO S.A. – the credit agreement was extended by a further 12 months, and the deadline for repaying the credit was also amended accordingly (current report No. 38/2010).
- the conclusion of a credit agreement with FORTIS Bank Polska S.A. – an open multi-purpose credit line up to PLN 30 million (current Report No. 40/2010).
- By virtue of that annex, the parties extended the deadline for the credit amount of PLN 10 million still to be repaid to 30 June 2011 (current report No. 51/2010).
- agreements with Alstom Power Systems GmbH to carry out work at GKM Mannheim 9 in Germany and at the Eemshaven power plant in Holland - the total value of the agreements was approximately EUR 35.7 million [current report No. 56/2010],
- the conclusion of a credit agreement with FORTIS Bank Polska S.A. – an open multi-purpose credit line up to PLN 30 million (current report No. 58/2010).
- court registration of the merger of Energomontaż-Południe S.A. with its subsidiary Centrum Kapitałowe-Modus Sp. z o.o. (current report No. 1/2011).

At the same time, in 2010 the following significant agreements were concluded by the Issuer:

- termination of the agreement with Biuro Projektów "Koksoprojekt" Sp. z o.o. for the provision of supply and assembly of two facilities (current report No. 1/2010).
- termination of the subcontractor agreement concluded between a consortium composed of the Issuer and the companies Martifer Polska Sp. z o.o. and Ocekon Engineering s.r.o. Slovakia (current report No. 41/2010).

The Company has no knowledge of agreements which are concluded between its shareholders.

III.5 Information on agreements as a result of which there could be future changes in the proportions of shares held by current shareholders and bondholders of the parent company

The parent company has no knowledge of any agreements which could in future bring about changes in the proportions of shares held by current shareholders. No bonds have as yet been issued.

III.6 Information on the system of inspecting employee share programmes of the parent company

The parent company does not have a system of inspecting employee shares issued on preferential terms in connection with the transformation of a state enterprise into a joint stock company.

III.7 Events and factors having a significant influence on the Group's operations

Events and factors having a significant influence on the Group's operations in 2010 include:

- an increase in consolidated revenue,
- strengthening of the Group's market position through the development of sales in the EU (mainly on the German market)
- the negative profitability of the contract for construction of the steel roofing structure of the PGE Arena Gdańsk football stadium
- the large loss recorded by the subsidiary Amontex

- growing competition on the market, which affects the size of the margins that can be obtained.
- unsatisfactory progress in selling apartments in the Osiedle Książęce estate in Katowice Ligota
- the situation on the foreign exchange market.

In 2010, an increase of more than 23 per cent in consolidated revenues was recorded year-on-year. The basis for these good sales was the Group's organic growth, mainly in the area of basic operations, through the implementation of a non-power industry project (PGE Arena Gdansk). Given the small number of domestic orders being placed, a significant part of the Group's sales are directed to the German market, where the process of modernising and exchanging power industry equipment is ongoing. The German energy market, however, is becoming increasingly difficult and more competitive, resulting mainly in an unsatisfactory number of new orders. It is increasingly difficult to obtain high margins because of growing pressure from new competitors from central and southern Europe. The Group deals with competition by making comprehensive bids (for prefabrication, supply and assembly) and by additionally offering greater participation in preparation project technical documentation. The parent company is striving to compete above all in terms of the quality and innovativeness of its services. This enables it to obtain orders at higher prices than its competitors.

In 2010, the construction of apartments in the Osiedle Książęce estate in Katowice Ligota was completed. By the end of 2010, the parent company had sold less than twenty of those apartments. This result is unsatisfactory. Energomontaż-Południe S.A. is verifying the list prices of the apartments and is activating new sales channels. This should improve the pace of sales.

The Company is monitoring the situation on the foreign exchange market on an ongoing basis, and so has no problem with hedging its currency position. Its strategy in this respect is based on experience, on the use of foreign exchange technical analysis, and on signals coming in from banking institutions.

III.8 Information on material transactions concluded by the Issuer or its subsidiaries with affiliates on terms other than market terms

In 2010, the parent company did not conclude any significant transactions under non-market conditions with any affiliated companies.

III.9 Employment

As at 31 December 2010, 1 392 employees were employed at the Energomontaż-Południe S.A. Capital Group.

Employment structure in the Capital Group

| Employment (persons) | 31.12.2010 | 31.12.2009 | % Change |
|-----------------------------|-------------------|-------------------|-----------------|
| Hourly employees | 959 | 852 | +13 |
| Salaried employees | 433 | 359 | +21 |
| Total: | 1 392 | 1 211 | +15 |

Compared with the previous year, employment in the Group increased by 15%. The growth in employment is due to the increasing scale of activity of the Group.

IV. RESULTS OF THE CAPITAL GROUP

Comments to the financial results of the Energomontaż-Południe S.A. Capital Group

The Management Board of the parent company considers the result for 2010 as decidedly unsatisfactory.

In addition to market factors such as growing competitive pressure resulting in an unsatisfactory number of orders on the domestic market and serious delays on the part of the Group in implementing orders in Germany, the Group's result was also affected by significant factors of an incidental nature. The consolidated result was also reduced by the very large loss in the company Amontex, which did not result only from market conditions. The single most important factor spoiling the Group's result was the very large loss seen on the PGE Arena Gdansk contract. That contract corresponded to 20 per cent of sales for the year. In the result for 2010, that contract finished on the consolidated level with a loss on margin I at a level of PLN -13.2 million and, after finance costs and management costs, at a level of PLN -17.5 million.

As the parent company reported in current report No. 41 of 3 September 2010, faced with the unreliable and late performance of work by the consortium of Martifer Polska Sp. z o.o. and Ocekon Engineering s.r.o., Slovakia, Energomontaż-Południe S.A. terminated its subcontract agreement with those companies. Then, in order to perform the contract in accordance with the agreement, the Company performed further work at the stadium under a procedure of substitute performance. This involved significantly high outlays. Energomontaż-Południe S.A. intends to pursue payment by the former subcontractor of the costs incurred, and this will potentially result

in an appropriate improvement in the result of the contract. At present, the parent company finds itself in a legal battle with Martifer Polska Sp. z o.o. The Management Board of the Company has decided to report the unplanned additional costs from the contract in their entirety. The Company hopes to recover those costs in litigation.

In addition to the contract for the construction of the stadium in Gdansk, the result for 2010 was also somewhat 'disturbed' by a series of one-off events, mostly of a bookkeeping nature. Those incidents did, however, affect the result for 2010, in both directions, in total causing only a small change.

The influence of those events on particular items in the financial result is shown in the table below:

| Operating revenue [PLN million] | Operating risk | Item |
|--|-----------------------|---|
| +1.87 | -7 188 | revaluation of the valuation of the office building in Wrocław |
| - | -1 587 | write-down of receivables from Austrian Energy & Environment AG & Co KG (bankruptcy of the company) |
| +0.9 | - | recovery of receivables covered by a write-down in previous years |
| - | -2 127 | costs of settlements with purchasers of apartments in Wrocław |
| +1.0 | - | dissolution of provision for costs of settlements with purchasers of apartments in Wrocław |
| - | -0.4 | entry in costs of the construction design for the "Willa nad Potokiem" investment (agreement from 2007) |
| - | -1 372 | handover of land under the road to the Książęce housing estate to the city |
| - | -4 642 | revaluation of finished products – the Książęce housing estate. |
| +3 770 | -17 316 | Total: |

| Financial revenue [PLN million] | Finance costs | Item |
|--|----------------------|---|
| +15 422 | - | reversal of a revaluation write-down of ownership interests in CK-Modus |
| +15 422 | | Total: + 15 422 |

The consolidated result for 2010 has strongly affected by the large loss in the subsidiary Amontex.

That loss resulted to a large degree from the unfavourable circumstances in Amontex's area of activity. In addition, irresponsible management on the part of the management board of the subsidiary forced the authorities of the parent company to change that management board and to conduct an external audit of that company. After the change of the management board, a recovery plan was initiated aimed at improving the profitability of Amontex's activities.

Incorrect estimates, mainly of the value of balance-sheet revenue of Amontex before 2010, also forced the Management Board of Energomontaż-Południe S.A. to correct the consolidated comparative data for 2009.

In 2009, an erroneous estimate of the value of Amontex was made. That value was adjusted by PLN -26 219 000 in the consolidated financial statements.

The aforementioned faulty estimate of the value of balance-sheet revenue for Amontex caused the test of impairment of the subsidiary as at 31 December 2009 to be conducted improperly.

The Company, having reliable information on Amontex, should have written down the shares and the value of the business as recorded in the financial statements at the end of 2009.

Currently, Amontex constitutes a significant executive resource for the Energomontaż-Południe S.A. Capital Group, participating in the implementation of its most important contracts. The changes made in the subsidiary should enable its market value to grow in the future.

IV.1 Analysis of the Capital Group's economic and financial results

IV.1.1 Analysis of the comprehensive income statement

In 2010, consolidated revenue from sales of products, goods and materials was PLN 338 115 000, which means an increase in Group revenue (of about 23 per cent year-on-year). Despite the increase in revenue, the Group recorded a negative result on operations in 2010, in the amount of PLN 17 190 000. The operating loss of the Group resulted mainly from a decline in the gross margin on sales, and also because of the currently unprofitable PGE Arena Gdansk contract implemented by the parent company and the operations of the subsidiary Amontex. That subsidiary recorded a net loss in 2010 of PLN 7 462 000, and its equity finished with a negative value. The operational result of the Group was largely affected as well by a revaluation of the value of the investment property in Wrocław, by costs incurred there as a result of settlements concluded with purchasers of apartments, and an adjustment of receivables from the bankruptcy of the company Austrian Energy & Environment AG & Co KG. Also significant were an update of the value of finished products and a write-down of the value of land beneath the road to the Książęce housing estate handed over to the city. Overall management costs increased, and this also had a detrimental effect on the operational result. The Group recorded a positive

result for financial activities, in the amount of PLN 13 806 000, mainly due to a one-off event, the reversal of write-down at the moment the subsidiary CK-Modus was incorporated. As a consequence of the above-described events, the Group closed the year 2010 with a net loss of PLN 4 915 000.

Net result structure

| STRUCTURE OF THE RESULT [PLN '000] | 2010 | 2009 | % Change |
|---|---------------|----------------|-----------------|
| Gross profit on sales | 14 473 | 38 097 | -62 |
| Operating profit (loss) | -17 190 | -4 192 | -310 |
| Financial activities result | 13 806 | -5 958 | +332 |
| Gross profit (loss) | -3 384 | -10 150 | +67 |
| Income tax | 1 531 | 3 237 | -53 |
| Net profit (loss) | -4 915 | -13 387 | +63 |

IV.1.2 Analysis of the statement of financial position

During the reporting period, in comparison with the end of 2009, the value of fixed assets of the Capital Group increased by PLN 1 815 000. In the assets structure, fixed assets accounted for 41.1 per cent and grew by 5.3 per cent. Current assets decreased by that same percentage amount. At the end of 2010, current assets accounted for 58.9 per cent of overall assets, and had decreased by PLN 58 557 000 in comparison with the end of 2009.

In absolute terms, there was a fall in equity of PLN 7 505 000, mainly as a result of the disclosure in the books of a net loss from the reporting period and previous years. In the liabilities structure, the share of equity at the end of June 2010 was 39.1 per cent, having grown by 3.1 per cent compared with the end of 2009. In terms of sources of financing in 2010, there was a drop in financing from external capital which amounted in absolute terms to PLN 49 237 000.

IV.1.3 Analysis of cash flow statement

As at 31 December 2010, cash reached a level of PLN 13 584 000, a decrease of PLN 8 769 000 in comparison with the end of 2009.

Cash flow structure

| CASH FLOW STRUCTURE [PLN '000] | Change |
|--|---------------|
| Cash flows from operating activities | -5 426 |
| Cash flows from investment activities | -27 434 |
| Cash flows from financial activities | +24 091 |
| Change in state of net cash and equivalents | -8 769 |

IV.1.4 Selected financial indicators

| | 2010 | 2009 | ALGORITHM |
|--|-------------|-------------|--|
| EBITDA [PLN ,000] | -7 209 | 2 519 | Result from operating activities + amortisation/depreciation |
| Financial liquidity indicators | | | |
| Current liquidity ratio | 1.39 | 1.53 | Current assets/current liabilities |
| Quick liquidity ratio | 0.87 | 1.19 | (Current assets – reserves)/current liabilities |
| Debt ratios | | | |
| Liabilities to assets ratio (total) | 0.61 | 0.64 | Non-current and current liabilities / assets (total) |
| Liabilities to equity ratio | 1.56 | 1.78 | Non-current and current liabilities/ equity |
| Ratio of covering debt with non-current assets | 2.23 | 1.63 | Non-current assets/non-current liabilities |
| Profitability indicators | | | |
| ROA | -1.2% | -2.8% | Net profit (loss) / assets * 100% |
| ROE | -3.0% | -7.9% | Net profit (loss) / equity * 100% |
| Profitability of sales | -1.5% | -4.9% | Net profit (loss) / revenue from sales * 100% |

IV.2 Financial resources management

| MANAGEMENT OF RESOURCES [PLN '000] | 2010 | 2009 |
|---|---------------|----------------|
| Total liabilities | 415 217 | 471 959 |
| - liabilities | 217 470 | 268 544 |
| - reserves | 15 118 | 14 713 |
| - accruals and deferred income | 20 188 | 18 756 |
| Equity | 162 441 | 169 946 |
| + non-current liabilities | 76 674 | 103 438 |
| Constant capital | 239 115 | 273 384 |
| - non-current assets | 170 845 | 169 030 |
| Working capital | 68 270 | 104 354 |

The Group has no problems in discharging its obligations. The parent company does not anticipate the possibility of dangers occurring in connection with financial resources management.

IV.3 Financial results forecasts

The parent company has not published forecasts of financial results of the Capital Group for 2010.

IV.4 Information about credit, loans, sureties and guarantees

IV.4.1 Credit

Credit drawn by the Capital Group in 2010

| CREDITOR | Amount [EUR '000] | Interest rate | Maturity date | Type |
|--------------------------------|---|-------------------------|----------------------|---|
| FORTIS Bank Polska S.A. | 34 000 | WIBOR 1M+ bank's margin | 29.08.2011 | limit on guarantees and credit |
| Kredyt Bank S.A. | 30 000 | n.a. | 30.06.2017 | limit on guarantees |
| Pekao S.A. | 10 000 | WIBOR 1M+ bank's margin | 30.06.2011 | working capital facility |
| PKO BP S.A. | 10 000 | WIBOR 1M+ bank's margin | 15.07.2011 | limit on guarantees and credit |
| BRE Bank S.A. | 2 000 | WIBOR 1M+ bank's margin | 31.07.2011 | limit on guarantees and credit |
| Pekao S.A. | 7 000 | n.a. | 30.06.2011 | limit on guarantees and letters of credit |
| Pekao S.A. | EUR 1 000 | WIBOR 1M+ bank's margin | 30.06.2011 | Credit facility in a current account |
| Total: | PLN 93 000 000 EUR 29 000 000* | | | |

* in 2010, as a result of annexing the agreement concluded in previous years, an increase in credit value occurred by the amount indicated

The margins of credit institutions do not differ from market standards. In 2010, no credit was terminated for the entities of the Capital Group.

IV.4.2 Loans

At the end of November 2010, the parent company Energomontaż-Południe S.A. granted the subsidiary Amontex a loan of PLN 5 158 000. The loan is designated for repayment of bank credit drawn down by Amontex. The interest rate on the loan is based on the WIBOR rate for one-month term deposits increased by the margin of the parent company. The loan was granted on market conditions for a 3-year period, and its repayment will begin from the end of February 2011. During the reporting period, Energomontaż-Południa S.A. did not grant loans to any other affiliated entities.

IV.4.3 Sureties

In 2010, the parent company granted sureties on two leasing agreements to the subsidiary Amontex. As at 31 December 2010, the value of those sureties was recorded in the accounts of the parent company as PLN 118 000. The sureties are secured by a promissory note from the above-mentioned subsidiary.

The parent company did not obtain any sureties in 2010.

IV.4.4 Guarantees

Guarantees granted in 2010

| GUARANTEES [PLN '000] | Value |
|----------------------------------|---------------|
| Bank | 23 807 |
| Insurance | 30 883 |
| Total: | 54 690 |

Guarantees granted in 2010 are connected with the operating activities of the Group.

Guarantees received in 2010

| GUARANTEES [PLN '000] | Value |
|----------------------------------|---------------|
| Bank | 3 931 |
| Insurance | 9 306 |
| Total: | 13 237 |

IV.5 Basic risk factors and threats**IV.5.1 Operating risk**

The parent company insures receivables with an insurance company of good repute. In the event of a refusal to provide insurance cover for a given contracting party's receivable, the decision on the transaction with that contracting party is made after its financial condition has been analysed and the security submitted by it assessed. The parent company also makes use of a broad range of financial instruments, such as bank and insurance guarantees, security deposits and promissory notes, as security for the correct performance of contracts. Those instruments do not, however, protect the Group against the activities of competitors or unforeseeable factors such as bad weather occurring during the performance of exterior construction works.

IV.5.2 Risk connected with changes in prices of goods

The Group is exposed to the risk of changes in the prices of goods to a limited extent. That risk mainly concerns increases in the price of steel, and the completion of the first stage of the developer investment (construction of the Książęce housing estate in Katowice Ligota), where unfavourable circumstances arose on the local real property market. At the stage at which contracts are awarded, companies forming part of the Capital Group have contracts with steel providers at prices guaranteeing the profitability of those contracts, thereby significantly reducing risk. And to restrict the risk of the bad situation on the local real property market, the parent company has arranged for financing for the purchase of the flats it is offering for sale.

IV.5.3 Risk connected with changes in foreign exchange rates

In connection with the activities it pursues, the Capital Group is exposed to the risk of a change in the EUR/PLN rate of exchange. The parent company partially hedges its currency position by applying natural hedging (setting aside foreign currency proceeds for foreign exchange expenses). For the remainder, Energomontaż-Południe S.A. hedges its net open currency position by using forward transactions. As an exporter, the Company is exposed to a strengthening of the zloty against the euro and must therefore maintain the net currency position hedged at a specific level. The Issuer pursues a conservative hedging policy and does not use complicated financial instruments, which also restricts the risk.

Hedging ensures that the Group is not dependent on fluctuations in the EUR/PLN rate and guarantees that the results from export transactions will be consistent with the calculation of the profitability of the contracts concluded. The Company does not have any problems in settling its foreign exchange liabilities resulting from transactions reducing the exchange rate risk. In the view of the Management Board of the parent company, EUR/PLN quotations have stabilised, and the behaviour of the market, despite continuing high volatility, has become more predictable.

The Issuer settles, on an ongoing basis, liabilities towards banks intermediating in the conclusion of transactions which restrict the exchange rate risk.

IV.5.4 Interest rate risk

The Capital Group is exposed to the risk of an increase in interest rates on account of the fact that it uses external sources to finance its activities. The character of some financial transactions (financial leasing of property in Wrocław) also requires these operations to be hedged on the interest rate market with the aid of instruments giving protection against an increase in rates. The aforementioned property financial leasing transaction was hedged against an increase in the EURIBOR interest rate with the purchase of CAP FLOOR options. Interest rate levels in Poland and the EU are monitored on an ongoing basis, as a result of which it is possible to react rapidly to any changes. As seen through the prism of increasing finance costs of the basic

activities of the Group, the domestic interest rate risk is considered to be a significant threat. Therefore, wider use of instruments which limit that risk is being considered. Concluding such transactions will depend on market trends and the costs of such security.

IV.5.5 Risk connected with liquidity

The Group maintains a balance by adapting sources of financing to expenses. Purchases of fixed assets are financed either from equity, leasing, credit or non-current loans. The parent company has credit limits in various financial institutions, which considerably lowers the risk of a concentration.

IV.6 Proceedings pending before a court, an authority competent to conduct arbitration proceedings or a public administration authority

Information about proceedings concerning liabilities or receivables of the Issuer and its subsidiaries, which are pending before a court, an appropriate authority for arbitration proceedings or a public administration authority, has been presented in the Management Board's Report on the Operations of the Issuer, which forms part of the non-consolidated annual report.

V. PROSPECTS FOR THE CAPITAL GROUP

V.1 Group strategy

Vision

On the basis of the experience and resources of Energomontaż-Południe, to create an important engineering concern in the region specialising in the general contracting of installations and the assembly of power and industrial equipment.

Strategic goals

The Group's strategic goals for the coming years are:

- to strengthen its alliance with the PBG Capital Group
- to take advantage of the effects of synergy
- to increase its financial strength
- to grow through mergers and acquisitions
- to reorient its employment structure towards highly-qualified engineering personnel
- to maximise the use of the parent company's assets beyond basic operations
- (including developer operations)
- to invest in its production and assembly base.

In subsequent years, the Capital Group will concentrate on the activities in the power industry in which it specialises. Thanks to the series E share issue in 2010, the parent company obtained a significant investor - PBG S.A.

From the issue of 22 582 001 series E ordinary bearer shares, the parent company obtained the amount of PLN 77 900 000, which increased the Company's financial strength. The funds obtained increased the Company's ability to undertake large projects. Energomontaż-Południe S.A. also has the financial capacity to carry out operations regarding mergers and takeovers of power industry companies. The Company evaluates the market with an eye towards takeovers of entities whose activities are complementary to its own. To be considered for acquisition, the entity in question must be attractively priced and have an established position in its industry.

Reorienting its employment structure is a medium-term prospect for the Company's Management Board. By 2012, the plan is to practically double the number of engineers through ongoing hiring within the Group and by acquisitions.

Moreover, the Company intends to optimise how it uses assets currently not utilised in its basic operations, such as land designated for investment and the Perła holiday resort in Mrzeżyn. That land, with a total area of almost 120 000 square metres, will be used in developer operations. The parent company is considering building a second and third phase of the developer project in Ligota, Katowice, comprising the commercial part and about 31 400 square metres of housing. Construction of the second stage should get under way this year, and will take approximately one year. As part of that stage of construction, a commercial and services facility will be erected, which will enhance the attractiveness of the housing estate. The estimated cost of building that facility is about PLN 10 million. The remaining land, involving similar projects near Opole (an area of about 80 000 square meters) and in Katowice Piotrowice, near the city centre (an area of about 8 400 square meters), is designated for sale.

A strategic goal for the Company is the development of a production and assembly base. The planned average annual outlays designated for this purpose in future years amounts to about PLN 15-25 million and will cover

direct purchases of non-current assets. Alternatively, the parent company can acquire companies with well-developed technical support. A description of planned investment outlays in 2011 can be found at [pkt II.4](#) of these statements.

V.2 The Group's prospects for development

V.3 Important external factors for the development of the Capital Group

The parent company identifies a number of external factors described below, which have an important influence on the development of the Energomontaż-Południe Capital Group.

V.3.1 The growing need for services in the power industry

In accordance with the assumptions of Poland's energy policy (*source: appendix to Resolution No. 202/2009 of the Council of Ministers of 10 November 2009*), a gradual increase (of approximately 54 per cent) in the need for electricity from 2010 to 2030 is anticipated. This means that in the future the current installed capacity of the Polish power system will be insufficient. The existing capacity should be modernised and power units with a capacity of about 3 000 MW constructed by the end of 2015.

As "*Rzeczpospolita*" states (*source: No. 57 (8568), 9 March 2010*), the power industry will be one of the most dynamically developing sectors of the economy in the next few years. As the newspaper states: "The total value of big projects alone in this industry exceeds PLN 42 billion".

V.3.2 The shaping of prices on the property market

There should not be any dramatic price changes in 2010. Markets analyses forecast price stabilisation in the near future.

V.3.3 Technical condition of installed capacity

Poland should have a generation system with an installed capacity of over 48 GW by 2025. Most power entities working in the Polish system were opened in the 1960s and „70s. The age and condition of power plants in Poland means that renovation, repair and modernisation work must be continually carried out, and will only increase as power units age further still.

V.3.4 Adaptation to EU environmental norms

In accordance with the climate and energy package approved by the European Commission, the European Union undertook, by 2020, to:

- reduce CO₂ emissions by 20 per cent in comparison with the base year,
- increase the proportion of energy derived from renewable energy sources (RES) by 20 per cent, and
- to improve the energy efficiency of electricity by 20 per cent.

The EU's aims presented in the aforementioned package will force an extensive modernisation of electricity and heat generation systems in the various EU member states.

Polish combustion plants must also meet standards for combined electricity and heat generation (cogeneration). It is also anticipated that the proportion of electricity generated in high-efficiency cogeneration will increase from the current 16 per cent of domestic demand for electricity to 22 per cent in 2030.

V.3.5 Environmental protection

When Poland negotiated its membership in the European Union, certain time periods were determined for Poland to reach European environmental standards. To meet these obligations, approximately PLN 120-150 billion will have to be invested by 2015 in those sectors of the economy in which the Issuer provides its services. In accordance with the Integrated Pollution Prevention and Control directive, as of 2016, burning coal for energy purposes will no longer be possible without high-efficiency installations for desulphurisation, denitrogenation, fume and dust extraction, and CO₂ reductions. The requirements of the directive may also apply to units of smaller capacity (20-50 MW), which are also served by Energomontaż-Południe. It is estimated that, in order to meet the requirements of the updated IPPC Directive, it will be necessary to adapt approximately 1 100 furnaces in 269 power plants, thermal-power plants and thermal plants. Poland will have to make gigantic outlays to fulfil such radically tighter environmental protection regulations.

V.3.6 Competition

One factor determining the possibility of development of a company is the tough competition in the sector, which affects the margins it is possible to obtain, and the large number of small and medium enterprises which, in a time of crisis and a situation where their desired portfolio of orders is not fulfilled, see their opportunity to place their offers in the power industry's construction sector, thereby lowering market offer prices. The low prices of offers are sometimes dictated by the need for such entities to make up for a lack of appropriate references and

experience in carrying out power projects. In this period of heightened competition on the domestic market, and particularly when there a continual small number of domestic orders for energy, the parent company is developing its export sales. The target export markets are Germany, Holland and Austria. Those markets offer the possibility of attaining higher margins on projects implemented. The Company approaches customers with a comprehensive offer covering both supply and assembly, which significantly improves its competitive position.

V.4 Important internal factors for the development of the Capital Group

The parent company discerns the following internal factors as having an important influence on the development of its Group:

- experience in the industry going back a long time,
- an efficient project inspection system,
- great personnel potential,
- the constant perfecting of organisational structures with a view to increasing management effectiveness,
- flexible reactions to changes occurring in the market environment,
- an integrated IT system.

A barrier to the Group's development is the fierce competition in the industry, which affects the size of the margins that can be obtained.

VI. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

VI.1 The Management Board of the parent company

Personal composition of the Management Board (as at the date of publication of these Statements)

| NAME AND SURNAME | Position |
|-------------------------|--|
| Radosław Kamiński | President of the Management Board /delegated from the Supervisory Board since 27 December 2010/ |
| Jacek Fydrych | Vice-President of the Management Board /from 17 January 2011, previously Member of the Management Board/ |
| Dariusz Kowzan | Member of the Management Board /from 02.02.10/ |

VI.2 The Supervisory Board of the parent company

Personal composition of the Management Board (as at the date of publication of these Statements)

| NAME AND SURNAME | Position |
|-------------------------|---|
| Stanisław Gasinowicz | Chairman /from 13 January 2011/ |
| Andrzej Wilczyński | Deputy Chairman |
| Marek Skibiński | Secretary /from 13 January 2011/ |
| Grzegorz Wojtkowiak | Member /Chairman from 13 January 2011, from 14 June 2010 to 12 January 2011/ |
| Radosław Kamiński | Member /from 13 January 2011, Secretary from 14 June 2010 to 12 January 2011/ |
| Andrzej Kowalski | Member |
| Tomasz Woroch | Member |

VI.3 Information on shares held by supervisory / management personnel of the parent company

The shareholdings of management and supervisory personnel in the Issuer are presented in the table below.

| NAME AND SURNAME | Position | Number of shares / votes | Percentage share in share capital / total number of votes | Par value [PLN '000] |
|-------------------------|---|---------------------------------|--|-----------------------------|
| Stanisław Gasinowicz | Chairman of the Supervisory Board | 5 913 186 | 8.33 | 5 913 |
| Radosław Kamiński | Member of the Supervisory Board and President of the Management Board | 2 587 000 | 3.65 | 2 587 |
| Total: | | 8 500 186 | 11.98 | 8 500 |

The other supervisory and management personnel did not hold any shares of Energomontaż-Południe S.A. as at 31 December 2010. The supervisory and management personnel of the parent company did not hold any interests in affiliates in 2010.

VI.4 Remuneration**VI.4.1 Remuneration of management and supervisory personnel**

The total value of the remuneration, awards or benefits paid in any form, due or potentially due to management and supervisory personnel of the parent company for 2010, is PLN 2 453 000. This amount includes remuneration for sitting on the corporate authorities of subsidiaries, totalling PLN 343 000.

Remuneration of management personnel in the parent company

| NAME AND SURNAME | Paid [PLN '000] |
|-------------------------|------------------------|
| Radosław Kamiński | 7 |
| Andrzej Hołda | 583 |
| Alina Sowa | 377 |
| Jacek Fydrych | 275 |
| Dariusz Kowzan | 219 |
| Total: | 1 461 |

Benefits include insurance, private health care and housing rental fees covered by the Company.

Remuneration of managerial personnel of the parent company earned for sitting on the corporate bodies of subsidiaries

| SUBSIDIARY | NAME AND SURNAME | Remuneration [PLN '000] |
|-----------------------|-------------------------|--------------------------------|
| Amontex PM Sp. z o.o. | Jacek Fydrych | 76 |
| CK-Modus Sp. z o.o. | Andrzej Hołda | 48 |
| Amontex PM Sp. z o.o. | Andrzej Hołda | 46 |
| CK-Modus Sp. z o.o. | Alina Sowa | 36 |
| Total: | | 206 |

Remuneration of supervisory personnel of the parent company

| NAME AND SURNAME | Remuneration [PLN '000] |
|-------------------------|--------------------------------|
| Sławomir Masiuk | 65 |
| Marek Wesółowski | 53 |
| Andrzej Wilczyński | 138 |
| Grzegorz Wojtkowiak | 79 |
| Radosław Kamiński | 68 |
| Andrzej Kowalski | 123 |
| Tomasz Woroch | 123 |
| Total: | 649 |

Remuneration of supervisory personnel of the parent company**obtained for fulfilling roles in the corporate bodies of subsidiaries**

| SUBSIDIARY | NAME AND SURNAME | Remuneration [PLN '000] |
|-----------------------|-------------------------|--------------------------------|
| Amontex PM Sp. z o.o. | Radosław Kamiński | 76 |
| Amontex PM Sp. z o.o. | Sławomir Masiuk | 24 |
| Amontex PM Sp. z o.o. | Marek Wesółowski | 24 |
| Amontex PM Sp. z o.o. | Grzegorz Wojtkowiak | 13 |
| Total: | | 137 |

In 2010, the parent company did not implement any incentive programmes or programmes based on subscription warrants.

VI.4.2 Agreements concerning compensation for management personnel

Agreements concluded with management personnel do not contain clauses concerning compensation in the event of their resignation or dismissal without citing a material reason, or where their recall or dismissal results from a merger of the parent company by way of a takeover.

VII. DECLARATIONS OF THE MANAGEMENT BOARD AND OTHER INFORMATION**VII.1 Declarations of the Management Board****Declaration concerning the reliability of the asset and financial situation presented in the reports**

To the best knowledge of the Management Board of the Issuer in the persons of Mr Radosław Kamiński (President of the Management Board), Mr Jacek Fydrych (Vice-President of the Management Board) and Mr Dariusz Kowzan (Member of the Management Board), the annual consolidated financial statements of the Energiomontaż-Południe S.A. Capital Group, prepared as on the balance-sheet day of 31 December 2010, together with comparative data, were prepared in accordance with applicable accounting principles and correctly, reliably and clearly reflect the Capital Group's asset and financial situation and its financial results.

This Report on the operations of the Energiomontaż-Południe S.A. Capital Group provides a true picture of the development, achievements and situation of the Capital Group, including a description of basic dangers and risks.

Declaration on the choice of entity authorised to audit the financial statements

The entity authorised to audit the financial statements, auditing the annual consolidated financial statements of the Energiomontaż-Południe Capital Group prepared as on the balance-sheet day of 31 December 2009, was chosen in accordance with the provisions of law. This entity and the auditors performing the audit met the conditions necessary to issue an impartial and independent report on the audit, in accordance with applicable law and professional norms.

VII.2 Information on agreements with the entity authorised to review and audit the financial statements

On 14 May 2010, agreements were concluded with the auditor MW RAFIN Marian Wcisło Spółka Komandytowa with its registered office in Sosnowiec, concerning a review of the financial statements of Energiomontaż-Południe S.A. and the consolidated financial statements of the Energiomontaż-Południe S.A. Capital Group for the first half of 2010, and an audit of the non-consolidated and consolidated financial statements for financial year 2010. Those agreements were concluded for a period of time corresponding to the audit and review of the non-consolidated and consolidated half-year and annual financial statements of the Issuer for financial year 2010.

The remuneration paid or due to the auditor for particular financial years is shown in the table below.

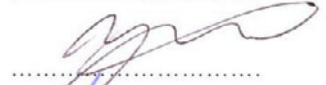
| AUDITOR'S REMUNERATION [PLN '000] | 2010 | 2009 |
|--|-------------|-------------|
| Audit of the annual non-consolidated and consolidated financial statements | 36 | 35 |
| Other services, incl. a review of the non-consolidated and consolidated financial statements | 23 | 18 |
| Tax advisory services | 5 | - |
| Other services | 16 | 27 |
| Total: | 80 | 80 |

Signatures of persons representing the parent company:

President of the Management Board



Vice-President of the Management Board



Member of the Management Board

