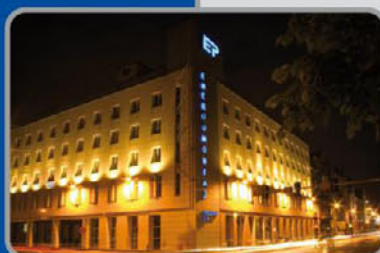


MANAGEMENT BOARD REPORT ON THE
OPERATIONS ENERGMONTAŻ-POŁUDNIE S.A.
FOR THE 12-MONTH PERIOD
ENDING ON 31 DECEMBER 2010



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

Dear Sir/Madam,

On behalf of the Management Board of Energomontaż-Południe S.A., I present our annual report describing the operations of the Company in 2010.

The past year has been a difficult one for the Capital Group in many respects. Despite obtaining 17 per cent growth over the year in revenue from sales, the Company did not manage to attain a positive financial result. As you will notice, in the result for 2009 we were also compelled to correct the value of shares in the subsidiary Amontex. Another factor having a great impact on the result for 2010 was a large loss on the construction contract for the stadium in Gdansk. As a consequence of having to conduct substitute performance in implementing that contract, the Company incurred large additional outlays. 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 results attained in our basic area of activity, power industry construction, there is not only no reason for concern, but those results were in fact good, especially in comparison with those of our competitors. If we exclude what in our opinion were two one-off elements, the write-downs in 2010 of Amontex and the stadium in Gdansk, the Company's results appear in quite a different light.

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.

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 Company's Management Board, I would like to thank all those firms and institutions which put their trust in us by engaging in cooperation with Energomontaż-Południe S.A. 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

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 operating in the Company relates to a series of processes occurring in the undertaking and in subsidiaries, including the process of preparing 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 operating in the Company is built from functional control mechanisms (preventative, detecting and corrective) described in precise internal regulations of the Company and subsidiaries (by-laws, 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 is subject to the assessment of the Audit Committee of the Company's Supervisory Board.

I.1.4 Ownership structure

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 (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 (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

SHAREHOLDER	Number of shares/ votes	Percentage share in the share capital and total number of votes
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 percent 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 Limitations of rights from shares

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 and its basic powers, as well as the rights of shareholders, and the manner of performing 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 principles of amending the Company's Statute

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 Personal composition and basis of operation of managing and supervisory authorities of the 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 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 /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 personal composition of the Supervisory Board

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 Energomontaż-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

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.energomontaz.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 2 February 2010/

Changes to the personal composition of the Management Board

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 Company's authorities

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. Additional information about the company Amontex 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.

Merger 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 was made by transferring the entire assets of CK-Modus as the target company to Energomontaż-Południe S.A. as the acquiring company (merger by takeover), without increasing the share capital of the acquiring company.

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 are minor on the scale of the Company's operations and do not have a significant influence on the financial results.

II.3 Changes in basic 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, Energomontaż-Południe made investment outlays totalling PLN 24 173 000. The investments mainly concerned property, plant and equipment. Energomontaż-Południe S.A. constructed a hall equipped with painting and shotblasting workshops in Będzin Łagisza. Outlays on buildings and construction in 2010 amounted to PLN 1 477 000. 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 7 856 000 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.

Capital was invested in recapitalising the subsidiaries Amontex (PLN 2 852 000) and Modus II (PLN 50 000). These investments were financed primarily with the Company's own funds, bank credit and leasing.

Structure of investment outlays

INVESTMENT OUTLAYS [PLN '000]	2010	2009
Intangible assets	259	313
Property, plant and equipment	21 012	20 784
Capital investments	2 902	1 700
Total:	24 173	22 797

III. THE COMPANY'S BUSINESS OPERATIONS

III.1 Basic products, goods and services

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

The Company'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 Company'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 Steel Materials Wholesale, a trade unit of Energomontaż-Południe.

The Company 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, Energomontaż-Południe S.A. posted almost PLN 333 million in revenues, which is a 17 per cent increase compared with revenues for the same period in the previous financial year.

In 2010, almost 62 per cent of its sales went to the domestic market, while the other 38 per cent constituted foreign sales, mainly for the German market. In 2010, there was a 28 per cent increase in foreign sales as compared with the previous year.

The Issuer's biggest customers were companies from the ALSTOM concern, a world leader in the power and transport sector. ALSTOM's share in 2010 of the value of Energomontaż-Południe S.A. revenue was 42 per cent. The second biggest customer of the Company'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 revenue for the year was about 21 per cent. Energomontaż-Południe S.A. 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 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 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, Energomontaż-Południe S.A. is diversifying its operations by increasing activity in other sectors than power, providing general contracting services and gaining orders for production activities.

III.2.4 Sales by value

Leading areas of activity in terms of sales value in 2010 were, as usual, construction and assembly services for the power industry, which comprise 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 32 914 000 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 apartments in Katowice Ligota have been to date unsatisfactory.

SALE [PLN '000]	2010	2009	% Change
Construction and assembly services	156 583	134 022	+17
General contracting	90 837	57 923	+57
Industrial production	59 375	57 245	+4
Goods and materials services and sales	23 838	20 961	+14
Developer operations	2 729	14 682	-81
Total operations, of which:	333 362	284 833	+17
Exports	125 552	98 267	+28

III.2.5 Sales by quantity

Because of the specific nature of the Company'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.

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 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 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 in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) 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 entities 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 made by 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 will be acquired in an amount of no more than PLN 20 million. 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 Company's own shares may be acquired in regulated trading, in off-session transactions, and also 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 15 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 Company'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 the Company determines the amount of the dividend, the date of establishing rights and the date of payment.

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

In 2010, the Company concluded a number of important trade agreements concerning which it 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).
- an annex to a working capital agreement with Bank Polska Kasa Opieki S.A. - 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 34 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 bond holders

The 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

The Issuer 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 Company's operations

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

- an increase in non-consolidated revenues,
- 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

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

In 2010, a more than 17 per cent increase in non-consolidated revenues was recorded year-on-year. The basis for these good sales was the Company's organic growth, in the area of basic operations and through the implementation of a project outside the power industry (PGE Arena Gdansk). Given the small number of domestic orders being placed, a significant part of the Company'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 Company deals with competition by making comprehensive bids (for prefabrication, supply and assembly) and by additionally offering greater participation in preparation project technical documentation. The Issuer 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 housing estate in Katowice Ligota was completed. By the end of 2010, the Company had sold less than twenty of those apartments. This result is unsatisfactory. The Issuer 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 Issuer did not conclude any significant transactions under non-market conditions with any affiliated companies.

III.9 Employment

As at 31 December 2010, **1 098** employees were employed at Energomontaż-Południe.

Employment structure

Employment (persons)	31.12.2010	31.12.2009	% Change
Hourly employees	738	584	26
Salaried employees	360	305	18
Total:	1 098	889	24

Compared with the previous year, employment in the Company increased by 24%. The growth in employment is due to the increasing scale of activity of the Company.

IV. RESULTS OF THE COMPANY

Comments of the Management Board of Energomontaż-Południe S.A. on the financial results of the Company

The Management Board of the 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 Company in implementing orders in Germany, the result was also affected by significant factors of an incidental nature.

The single most important factor 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 with a loss on margin I at a level of PLN -12.5 million and, after finance costs and management costs, at a level of PLN -16.5 million.

As the Company announced 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 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: -13.546

Financial revenue [PLN million]	Finance costs	Item
+15.422	-	reversal of a revaluation write-down of ownership interests in CK-Modus
-	-2.852	write-down of ownership interests in Amontex
+15.422	-2.852	Total: +12.570

In addition, the Management Board of the Company reports on corrected comparative data for 2009.

In 2009, an erroneous estimate of the value of Amontex was made. That value was adjusted by PLN -33 023 000 in the non-consolidated financial statements.

The main reason for the correction was a faulty estimate of the value of balance-sheet revenue of Amontex. The result of that error was that the test of lost value of the company Amontex as at 31 December 2009 was carried out incorrectly.

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.

In 2010, changes were made in the Management Board of Amontex, and a recovery plan was initiated in order to improve the profitability of the company's activities. Currently, Amontex is showing negative equity – its value is not shown in the financial statements, but the company comprises an important executive resource for Energiomontaż Południe, and supports the Company in implementing its most important contracts. Its portfolio of orders for 2011 and the changes made in the subsidiary should enable its market value to grow in the future.

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

IV.1.1 Analysis of the comprehensive income statement

In 2010, the Company's revenue from sales of products, goods and materials was PLN 333 362 000, which means a dynamic increase in non-consolidated revenue (an increase by over 17 per cent year-on-year). Despite the increase in revenue, the Issuer recorded a negative result on operations in 2010, in the amount of PLN 10 710 000. The operating loss resulted mainly from a decline in the gross margin on sales, and also because of the PGE Arena Gdansk contract, which comprises a large share of revenue but is currently unprofitable because of the problems encountered with subcontractors. 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, an adjustment of the value of finished goods and land (developer activities in Katowice), and an adjustment of receivables because of the bankruptcy of the company Austrian Energy & Environment AG & Co KG. Overall management costs increased, and this also had a detrimental effect on the operational result. The Company recorded a positive result for financial activities, in the amount of PLN 11 788 000, mainly due to a one-off event, the reversal of a write-down at the moment the subsidiary CK-Modus was incorporated. As a consequence of the above-described events, the Company closed the year 2010 with a net loss of PLN 601 000.

Net result structure

STRUCTURE OF THE RESULT [PLN '000]	2010	2009	% Change
Gross profit on sales	15 966	41 569	-62
Operating profit (loss)	-10 710	26 404	-141
Financial activities result	11 788	-34 090	+135
Gross profit (loss)	1 078	-7 686	+114
Income tax	1 679	3 031	-45
Net profit (loss)	-601	-10 717	+94

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 declined by PLN 24 611 000, mainly due to the exclusion of mutual transactions (loans for financing construction of the Książęce housing estate in Katowice Ligota) from the Company's books of account after the merger with CK-Modus. In the asset structure, the share of fixed assets was 41.4 per cent, increasing by 4.3 percentage points, and at the same time the share of current assets in the asset structure decreased by the same amount as a result of the aforementioned accounting operation. At the end of 2010, current assets comprised 58.6 per cent of overall assets, having increased by PLN 9 158 000 in comparison with the end of 2009.

In absolute terms, there was a decrease in equity of PLN 10 839 000 as a result of disclosing the net loss of the parent company during the reporting period and in previous years, as well as the loss of CK-Modus in previous years – as a result of the takeover, **unrealised margin on inventories was eliminated**. In the liabilities structure, the share of equity at the end of June 2010 was 39.7 per cent, having fallen by 1.1 per cent compared with the end of 2009. In the scope of sources of financing in 2010, there was a slight decline in financing through external capital.

IV.1.3 Analysis of cash flow statement

As at 31 December 2010, cash reached a level of PLN 13 242 000, a decrease of PLN 5 541 000 in comparison with the end of 2009.

Cash flow structure

CASH FLOW STRUCTURE [PLN '000]	Change
Cash flows from operating activities	-51 792
Cash flows from investment activities	-36 563
Cash flows from financial activities	+82 814
Change in state of net cash and equivalents	-5 541

IV.1.4 Selected financial indicators

	2010	2009	ALGORITHM
EBITDA [PLN ,000]	-1 793	32 123	Result from operating activities + amortisation/depreciation
Financial liquidity indicators			
Current liquidity ratio	1.40	1.36	Current assets/current liabilities
Quick liquidity ratio	0.88	1.28	(Current assets – reserves)/current liabilities
Debt ratios			
Liabilities to assets ratio (total)	0.60	0.59	Non-current and current liabilities / assets (total)
Liabilities to equity ratio	1.52	1.45	Non-current and current liabilities/ equity
Ratio of covering debt with non-current assets	2.25	2.39	Non-current assets/non-current liabilities
Profitability indicators			
ROA	-0.1%	-2.5%	Net profit (loss) / assets * 100%
ROE	-0.4%	-6.1%	Net profit (loss) / equity * 100%
Profitability of sales	-0.2%	-3.8%	Net profit (loss) / revenue from sales * 100%

IV.2 Financial resources management

MANAGEMENT OF RESOURCES [PLN '000]	2010	2009
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MANAGEMENT OF RESOURCES [PLN '000]	2010	2009
Total liabilities	413 416	428 869
- liabilities	215 483	221 795
- reserves	13 968	14 264
- accruals and deferred income	19 662	17 668
Equity	164 303	175 142
+ non-current liabilities	76 144	82 093
Constant capital	240 447	257 235
- non-current assets	171 212	195 823
Working capital	69 235	61 412

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

IV.3 Financial results forecasts

The Company did not publish any forecasts of financial results for 2010.

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

IV.4.1 Credit

Credit drawn by the Issuer in 2010

CREDITOR	Amount [PLN/EUR '000]	Interest rate	Maturity date	Type
FORTIS Bank Polska S.A.	3 000	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 EUR 1 000*			

* 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 Company.

IV.4.2 Loans

At the end of November 2010, Energomontaż-Południe S.A. granted the subsidiary Amontex a loan of PLN 5 158 000. The loan is designated for repayment of a 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-Południe S.A. did not grant loans to any other affiliated entities.

IV.4.3 Sureties

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

Energomontaż-Południe S.A. 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 Company.

Guarantees received in 2010

GUARANTEES [PLN '000]	Value
Bank	3 931
Insurance	9 167
Total:	13 098

IV.5 Basic risk factors and threats

IV.5.1 Operating risk

The Company insures receivables in 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 Issuer 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 Company 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 contracting stage, the Issuer has agreements with suppliers of steel at prices guaranteeing the profitability of the contract. To reduce that risk, the Issuer 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 Company is exposed to the risk of a change in the EUR/PLN rate of exchange. The Issuer 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 Company 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 Energomontaż-Południe S.A., 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 Company 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 Issuer, the risk of domestic interest rates going up 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 Company 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 Issuer has credit limits in various financial institutions, which considerably lowers the risk of concentration.

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

In 2010, no proceedings were held before a court, appropriate arbitration authority or state administration authority concerning liabilities or receivables of the Issuer or its subsidiaries, the value of which would individually or jointly constitute at least 10 per cent of the Issuer's equity.

As on the date of delivering this report, Energomontaż-Południe S.A.'s is party to a court proceeding whose value constitutes at least 10 per cent of the Company's equity.

On 17 January 2011, the Company received a copy of a claim by Martifer Polska Sp. z o.o. with its registered office in Gliwice (the "Claim") for payment, together with a motion for granting security of the claim. The value of the dispute is listed by the claimant as PLN 90 753 413. The Claimant holds that the amount demanded is due to it for construction work performed under a construction agreement of 29 October 2009, as a contractual penalty for withdrawing from the agreement, and as compensation for other cases of non-performance of that same agreement.

The defendants are the companies Energomontaż-Południe S.A., Hydrobudowa Polska S.A., Hydrobudowa 9 S.A., Alpine Construction Polska Sp. z o.o., and PBG Technologia Sp. z o.o.

In the opinion of the Management Board of the Company, the claims are groundless, devoid of any factual or legal basis. In the assessment of the Management Board of the Company, the initiation of a claim by Martifer Polska Sp. z o.o. is a tactical manoeuvre aimed at improving Martifer Polska Sp. z o.o.'s negotiating position regarding its gross breaches of the construction agreement it concluded with the Issuer from which the Issuer withdrew on 2 September 2010 for reasons attributable to Martifer Polska Sp. z o.o., as reported in current report No. 41/2010.

The Company announced the conclusion of an agreement with the consortium of Hydrobudowa Polska S.A. and Alpine Construction Polska Sp. z o.o. for the construction of the steel roof structure of Arena Bałtycka (currently PGE Arena Gdansk) in current report No. 58/2009 of 21 October 2009. The performance of part of the work, of a value of PLN 44 million, was subcontracted to the consortium of Martifer Polska Sp. z o.o. and Ocekon Engineering s.r.o. Slovakia. The work was to have been completed by 30 June 2010.

Martifer Polska Sp. z o.o. did not meet the deadline for completion of the work. The result is an ongoing dispute in which the Issuer is estimating the amount of loss it suffered, and for which it will demand compensation from Martifer Polska Sp. z o.o.

V. PROSPECTS OF THE COMPANY

V.1 Development 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 Company'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 (inc. developer activities)
- to invest in its production and assembly base.

In subsequent years, Energomontaż-Południe S.A. will concentrate on its activities in the power industry, which it

specialises in. Thanks to a series E share issue conducted in 2010, the Company acquired a significant investor - PBG S.A.

From the issue of 22 582 001 series E ordinary bearer shares, the Company obtained the amount of PLN 77 900 000, which increased its 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 as well as acquisitions.

Moreover, the Company intends to optimise how it uses assets currently not utilised in its basic operations, such as land designated for investment or the property of the Perła holiday resort in Mrzeżyno. That land, with a total area of almost 120 000 square metres, will be used in developer operations. The Company is considering building a second and third phase of the developer project in Katowice Ligota, to include a commercial section and housing with an area of about 31 400 square metres. 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 approximately 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.

Another strategic goal of 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 [pt II.4](#) of these statements.

V.2 The Company's prospects for development

V.3 Important external factors for the Company's development

Energomontaż-Południe S.A. identifies a number of external factors, described below, which have an important influence on the Company's development.

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 1970s. 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
- 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 the 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 see their opportunity to place 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 is a continual small number of domestic orders for energy, Energomontaż-Południe S.A. 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 Company's development

The Issuer sees the following internal factors as having an important impact on the development of its business:

- 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 Company's development is the stiff 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 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 2 February 2010/

VI.2 The Supervisory Board of the 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 /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

VI.3 Information on shares held by supervisory / management personnel

The shareholdings of management and supervisory personnel in the Issuer as at 31 December 2010 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 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 for 2010, is PLN 2 453 000. This amount includes remuneration for sitting on the corporate authorities of subsidiaries, totalling PLN 334 000.

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 the Issuer's management personnel for fulfilling roles in the authorities 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

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

Remuneration of the Issuer's supervisory personnel for fulfilling roles in the authorities 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 Wesołowski	24
Amontex PM Sp. z o.o.	Grzegorz Wojtkowiak	13
Total:		137

In 2010, the Issuer did not implement any motivation 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 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 financial statements of Energomontaż-Południe S.A., 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 Company's asset and financial situation and its financial results.

This Report on the operations of Energomontaż-Południe S.A. provides a true picture of the development, achievements and situation of the Company, 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 financial statements of Energomontaż-Południe prepared as on the balance-sheet day of 31 December 2010, 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 Energomontaż-Południe S.A. and the consolidated financial statements of the Energomontaż-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 Company:**President of the Management Board****Vice-President of the Management Board****Member of the Management Board**