

**REPORT ON THE ACTIVITY OF THE SUPERVISORY BOARD
AND TEST REPORT
OF HYDROBUDOWA POLSKA S.A.
WITH A REGISTERED OFFICE IN WYSOGOTOWO
FOR THE YEAR OF 2010**

1. General information

The Supervisory Board of HYDROBUDOWA POLSKA S.A. operates on the basis and within the scope defined by the Commercial Companies Code, the Articles of Association and the Rules of the Supervisory Board and the principles contained in the "Best Practices of WSE Listed Companies".

2. Composition of the Supervisory Board in 2010

As of 1 January 2010, the Supervisory Board consisted of:

1. Małgorzata Wiśniewska - Chairman of the Supervisory Board;
2. Andrzej Wilczyński - Vice-Chairman of the Supervisory Board;
3. Grzegorz Wojtkowiak - Secretary of the Supervisory Board;
4. Jacek Krzyżaniak - Member of the Supervisory Board;
5. Robert Oppenheim - Member of the Supervisory Board;
6. Przemysław Szkudlarczyk - Member of the Supervisory Board.

The terms of office of Mrs. Margaret Wiśniewska, Mr. Andrzej Wilczynski, Mr. Grzegorz Wojtkowiak and Mr. Przemysław Szkudlarczyk expired in 2010. On 21 April 2010 they were again appointed by the Annual General Meeting of the Company and Mr. Adam Hamrol and Mr. Marek Obrusiewicz were again joined to the Supervisory Board.

On 30 December 2010 Mr. Robert Oppenheim submitted resignation from the post of a Supervisory Board Member with effect as of 31 December 2010.

As a result of these changes, the composition of the Supervisory Board on 31 December 2010 was as follows:

1. Małgorzata Wiśniewska - Chairman of the Supervisory Board;
2. Andrzej Wilczyński - Vice-Chairman of the Supervisory Board;
3. Jacek Krzyżaniak - Secretary of the Supervisory Board;
4. Adam Hamrol - Member of the Supervisory Board;
5. Marek Obrusiewicz - Member of the Supervisory Board;
6. Przemysław Szkudlarczyk - Member of the Supervisory Board.
7. Grzegorz Wojtkowiak - Member of the Supervisory Board;

3. Information on the activities of the Supervisory Board in 2010

Pursuant to the provisions of the Commercial Companies Code and the Articles of Association, the Supervisory Board exercised supervision over the activities of the Company and control of documents presented to the Supervisory Board by the Management Board. The Supervisory Board exercised its functions mainly through the acquisition of regular information about the activities of the Company.

The Supervisory Board of HYDROBUDOWA POLSKA S.A. held 7 meetings, during which 34 resolutions were adopted in the period from 01 January 2010 to 31 December 2010. The Supervisory Board also adopted resolutions in writing in exceptional circumstances. All meetings were held with such participation that allowed the adoption of resolutions. The Supervisory Board meetings were attended by members of the Company's Management Board and invited guests (including representatives of the auditor).

The Supervisory Board considered current issues related to the proper operation of the Company and adopted resolutions on matters connected with the operation of the Company and resulting from the provisions of the Commercial Companies Code, the Articles of Association and the Rules of the Supervisory Board. The agenda for meetings and adopted resolutions concerned but were not limited to:

1. Discussion, review and approval of:
 - Financial statements and the Company's Management Board and the Capital Group as at 31 December 2009;
 - Report of the Supervisory Board and the audit and remuneration committees for the year 2009;
 - Suggestion submitted by the Management Board on the distribution of profit for 2009.
2. Selection of an auditing entity

3. Opinions on issues raised at the Annual session (and Extraordinary) General Meeting and draft resolutions, (including on: approval of the statements for the year 2009, distribution of profit for the year 2009, amendments to the Articles of Association, the Rules of the Supervisory Board and the Rules of the General Meeting; merger with the company Hydrobudowa 9);
4. Consolidated text of the Company's Articles of Association after the changes adopted during the Meetings of Shareholders;
5. Changes in the Rules of the Supervisory Board;
6. Management Action Plan for 2010 and 2011, and particularly in the scope concerning the planned results, financial projections, plans for employment, contract portfolio;
7. Consent to the exchange, sale and purchase of real properties.

The Supervisory Board focused its interest on the Company's economic situation; in this field there were discussed in particular:

1. The current economic results of the Company and the results gained by the subsidiaries included in the Group.
2. Progress of work under contracts performed by the Company, including the financial results of individual contracts;
3. The liquidity of the Company, including individual liquidity associated with the implementation of major construction contracts;
4. Status of procurement procedures with the participation of the Company and other efforts to obtain contracts and orders;
5. Information on the status of employment and staff turnover.
6. The Supervisory Board also kept a current monitoring over the selected group of business risks and assessed the means of control and protection against risks by the Company; as a part of its operation, the Supervisory Board cooperated with an internal audit conducting control from the level of the Group.

4. Self-assessment of the Supervisory Board's operation

In 2010 Hydrobudowa Polska S.A. continued its entire activity and gained well financial results as compared to other similar companies despite the difficult market conditions and a slight decrease in revenues.

The task of the Supervisory Board was in this period to keep the Company's ongoing monitoring, analyse decisions taken by the Management Board and, in particular, assess the future and opportunities for the Company's development in subsequent years. Therefore, the members of the Supervisory Board obtained detailed information from the Company at the

regular meetings and adapted their activities to the required situation, for example, in the field of monitoring of major construction contracts undertaken by the Company.

The Supervisory Board exercised a constant supervision over the activities of the Company in all areas of its operation, provided the Management Board with opinions while making critical business decisions. The Supervisory Board demonstrated diligence, integrity and expertise within the scope of its activities and its members satisfied the requirements of independence. Members of the Supervisory Board informed the Management Board about the possible conflict of interest.

The Supervisory Board performed its functions as a body and through the secondment of its members to work within the audit committee and remuneration committee.

The composition of the Supervisory Board allowed it to pass resolutions at all meetings and adopt resolutions by means of direct communication at a distance in particular situations.

The Supervisory Board members participated in the proceedings of the General Meeting, presented relevant reports and assessments of its activities for the past years.

The Supervisory Board acted in accordance with the Commercial Companies Code, the Articles of Association and Rules of the Management Board.

The Supervisory Board assesses its work in 2010 positively.

5. Report of the Audit Committee

The Audit Committee of the Supervisory Board of HYDROBUDOWA POLSKA S.A. operates on the basis and within the limits provided for in the Rules of the Supervisory Board.

Since January 2010 the Audit Committee was composed of:

1. Grzegorz Wojtkowiak - Chairman of the Audit Committee;
2. Robert Oppenheim - Member of the Audit Committee;
3. Przemyslaw Szkudlarczyk - Member of the Audit Committee.

Once the composition of the Supervisory Board changed, the Audit Committee remained the same and Mr. Przemysław Szkudlarczyk became entrusted with the chairmanship of its work.

Method of work

Audit Committee members actively participated in the meetings of the Supervisory Board and passed the written report on their activities during the year. The Audit Committee directed further questions about the subject issues to the Management Board of the Company, department of finance and controlling. It also worked with the bodies of internal control.

In 2010 the members of the Audit Committee conducted additional audits in connection with the execution of major construction contracts.

Scope of work

The Audit Committee performed its tasks in compliance with the obligations specified in §18 section 4 of the Rules of the Supervisory Board, and current affairs, which were dealt with by the members of the Audit Committee, were discussed at meetings of the Supervisory Board.

1. The Audit Committee maintained contact with representatives of the expert auditor and also followed the principles of cooperation between the company's accounting department and the expert auditor.
2. The Audit Committee kept a constant control over the company's results, in particular the quarterly and half-yearly results, as well as monitored the accuracy of financial statements.
3. The Audit Committee reviewed the system of internal audit and risk management.
4. The Audit Committee reviewed the offer and submitted to the Supervisory Board recommendation on the selection of an expert auditor.
5. Moreover, the Audit Committee directed requests to the Management Board and discussed the information received in the scope concerning:
 - profitability of contracts, progress of contracts and compliance of the implementation with the presented forecasts,
 - value of assets and liabilities (in particular related to supplies and services) and problems resulting from debt receivables collection and delays in the repayment of liabilities,
 - assurance of the company's current liquidity and financing of future activity,
 - impact of litigation on the economic situation of the company,
 - investment activities,
 - plans for further periods, in particular the financial forecasts for 2010.
6. Following the instruction of the Supervisory Board, the Audit Committee (Resolution No. 2/01/2010 dated 29 January 2010 on the conduct of internal audit) carried out an additional audit of the contract "Construction of National Stadium in Warsaw" in the scope concerning the accuracy of circulation of documents between members of the consortium and the distribution of and type of control over the budget.

After the date of this report, but in conjunction with the Company's activity for the year 2010, the Audit Committee also carried out a detailed audit of work on a contract relating to the construction of the Baltic Arena in Gdańsk.

6. Report of the Remuneration Committee

The Remuneration Committee of the Supervisory Board of HYDROBUDOWA POLSKA S.A. operates on the basis and within the limits provided for in the Rules of the Supervisory Board.

In 2010 the Remuneration Committee worked in the following composition:

1. Małgorzata Wiśniewska - Chairman of the Remuneration Committee,
2. Robert Oppenheim - Member of the Remuneration Committee.

The Supervisory Board found that due to the scope of tasks it was sufficient for the Committee to be composed of two persons.

The Remuneration Committee exercised its functions in compliance with the obligations provided for in §18 section 6 of the Rules of the Supervisory Board. The Committee monitored the remuneration of employees of the Company, as well as the costs associated therewith. The Committee verified the terms related to the employment of the members of the Management Board and Board of Directors.

Members of the Remuneration Committee took an active part at the meetings of the Supervisory Board.

7. Assessment of internal control and risk management

In 2010 the Supervisory Board and Audit Committee assessed detailed solutions of the internal control system within the Company and the Group.

The internal audit is based on the department that functions on the level of the Group, to which the Company belongs. In the opinion of the Supervisory Board members this solution guarantees the independence of audit department staff from the Company's Management Board and objectivity of the work they perform. The audit department staff actively cooperated with the Audit Committee of the Company's Supervisory Board during 2010.

Additionally, the implementation of the new IT system, which according to the Supervisory Board allows better control of various spheres of the Company's operation, in particular, it enforces the correctness of cost settlement and budget control, was completed in 2010.

The method of audit and internal control is considered sufficient and adapted to the scale and activities of the Company, and the Supervisory Board assesses its effectiveness positively.

The company identified several key risks: competition, economic situation and seasonality of the trade, availability of EU funds, size of orders, results of tenders and contracts, unreliable suppliers and subcontractors, adverse changes in tax regulations, exchange rate, liquidity and loss of key employees.

The system of risk assessment and monitoring is based on internal procedures resulting from the accounting policies and quality management system (according to ISO standards). Risk assessment is taken into consideration while making all economic decision, particularly those related to obtaining and implementation of contracts and financing policies of the Company. The Company did not specify a separate cell or department responsible for risk management - that is the competence of the Management Board and particular departments of the Company, whose activity is associated with identifiable or potential risks.

The Supervisory Board shall periodically review the risk management, in particular regarding its assessment and methods of prevention, and examine the reasons for any failures. In 2010 the Supervisory Board positively assessed the risk management system and the changes made to facilitate it.

8. Assessment of the financial standing of HYDROBUDOWA POLSKA S.A. for the year 2010

The Company Hydrobudowa Polska S.A. and the associated Capital Group found the year 2010 to be another period of struggling with the financial crisis and increased competition in the construction industry. This situation was reflected in a slight decrease in sales and a greater decline in operating profitability and net profitability.

At the same time, according to the Supervisory Board, the Company properly secured its business - despite the crisis, it acquired several contracts of significant value, which would also make it possible to broaden the scope of activities and achieve positive results in the future. A net profit, particularly shown in a unit report, is not satisfactory with respect to the results of previous years, however, it should be assessed favourably in the light of the market situation.

The Supervisory Board has a very high opinion of the company's liquidity and the method of management over the current assets. The year 2010 was another year for the Group for generation of positive cash flows from operating activities. The Companies did not have any difficulties to finance current and investment activities either.

During the year a decision was made to merge the Company with a subsidiary: the company Hydrobudowa 9 S.A. Following the expectations, this decision will allow better utilization of resources of the Group, facilitate the organization and substantially reduce the ultimate cost of the Management Board and department related costs.

While assessing the prospects of the Company and the Group, one should emphasise the ability to adapt to the changing market situation. The implementation of the biggest contracts

for the stadium construction ends in 2011. It has been replaced, however, by participation in road contracts and the Company may find its place performing contracts concerning the energy industry in the future. In 2010, the Company also pursued and acquired orders related to the original scope of its activities: environmental protection, their scope included but was not limited to investments in the Czajka waste water treatment plant in Warsaw (the construction of transmission collectors, including a tunnel under the Vistula with the first use of TBM technology in Poland).

Contracts in progress, prospects for new orders, implemented internal changes and long-term strategy allow expecting good results in subsequent years. They are also the basis for the Supervisory Board to make a positive assessment of the activities of the Company and entities belonging to the Group in 2010.

9. Examination of the Company's Financial Statements

The Supervisory Board examined the Financial Statements of the Company and the Company's Consolidated Financial Statements for 2010, drawn up as of 31 December 2010, including:

- balance sheet as of 31 December 2010, with total assets and liabilities amounting to 1,393,608 thousand zlotys.
- profit and loss account for the period from 1 January 2010 to 31 December 2010 indicating net profit of 293 thousand zlotys,
- statement of total income for the period from 1 January 2010 to 31 December 2010 indicating total profit of 7,137 thousand zlotys,
- statement of changes in equity, showing an increase in equity during the period from 1 January 2010 to 31 December 2010, amounting to 6,037 thousand zlotys,
- cash flow statement, showing a decrease in cash during the period from 1 January 2010 to 31 December 2010, amounting to 16,912 thousand zlotys,
- additional information on accepted accounting principles and other explanatory information;

and

- consolidated balance sheet as of 31 December 2010, with total assets and liabilities amounting to 1,427,851 thousand zlotys,
- consolidated profit and loss account for the period from 1 January 2010 to 31 December 2010 indicating net profit of 36,557 thousand zlotys,
- consolidated statement of total income for the period from 1 January 2010 to 31 December 2010 indicating total profit of 59,785 thousand zlotys,
- statement of changes in consolidated equity, showing an increase in equity during the period from 1 January 2010 to 31 December 2010, amounting to 59,757 thousand zlotys,

- consolidated cash flow statement, showing an increase in cash during the period from 1 January 2010 to 31 December 2010, amounting to 1,792 thousand zlotys,
- additional information on accepted accounting principles and other explanatory information,

and analysed the opinion and report on the examination of these statements conducted by an independent auditor, Grant Thornton Frackowiak sp. z o.o. with a registered office in Poznań.

The Supervisory Board analysed the Report of the Management Board for 2010 and the Report of the Management Board on the operations of the Group for 2010 and found that they were drawn up in accordance with the law, including the Accounting Act of 29 September 1994, and contained complete information about the activities of the Company in 2010. The Supervisory Board positively assesses the submitted reports and approves the activity of the Management Board in 2010.

The Supervisory Board raised no objections to the content of the submitted Reports.

Pursuant to the results of the above-mentioned documents, the Supervisory Board suggest that the General Meeting of Shareholders should approve:

- Financial Statements for 2010,
- Consolidated Financial Statements for 2010,
- Reports of the Management Board on the Company's operations in 2010,
- Reports of the Management Board on the Group's operations in 2010,
- Proposal on distribution of the Company's profit,
- Report of the Supervisory Board for the year 2010.

Moreover, the Supervisory Board proposes to grant vote of acceptance to the members of the Management Board and Supervisory Board confirming the discharge of the duties for the period from 1 January 2010 to 31 December 2010.

The Supervisory Board approves the proposal of the Management Board concerning the distribution of the Company's net profit of 292,814.99 zlotys and its exclusion from the full distribution.

At this point, the Report was finalized and signed:

1. Małgorzata Wiśniewska - Chairman of the Supervisory Board;

2. Andrzej Wilczyński - Vice-Chairman of the Supervisory Board;

3. Grzegorz Wojtkowiak - Secretary of the Supervisory Board;

4. Jacek Krzyżaniak - Member of the Supervisory Board;

5. Przemysław Szkudlarczyk - Member of the Supervisory Board.

6. Adam Hamrol - Member of the Supervisory Board;

7. Marek Obrusiewicz - Member of the Supervisory Board;
