



**Report of the Board of Directors on the activity of  
HYDROBUDOWA POLSKA SA**

**for the period from 01.01.2009 to 31.12.2009**

## TABLE OF CONTENTS

<b>I. GENERAL INFORMATION ABOUT HYDROBUDOWA POLSKA SA .....</b>	<b>5</b>
1. General Information.....	5
2. Composition, changes and description of the Board of Directors and the Supervisory Board. ....	6
<b>II. INFORMATION ABOUT BASIC ACTIVITIES.....</b>	<b>8</b>
<b>III. INFORMATION ABOUT MARKETS .....</b>	<b>9</b>
<b>IV. Rate of the Company at Warsaw Stock Exchange Index - Construction Market in 2009.....</b>	<b>11</b>
<b>V. Shareholders carrying at least 5% of number of votes at the General Meeting of Shareholders and changes in the ownership structure of large parts of shares of the Issuer.....</b>	<b>11</b>
<b>VI. DETERMINATION OF THE TOTAL NUMBER AND PAR VALUE OF ALL THE SHARES HELD BY THE MANAGEMENT AT THE END OF 2009, AND CURRENTLY. ....</b>	<b>14</b>
<b>VII. INFORMATION ABOUT ORGANIZATIONAL AND CAPITAL RELATIONS BETWEEN THE COMPANY AND OTHER ENTITIES AND ABOUT MAJOR INVESTMENTS, INCLUDING CAPITAL INVESTMENTS MADE OUTSIDE THE GROUP OF SUBSIDIARIES IN 2009 .....</b>	<b>15</b>
Shares in Przedsiębiorstwo Robót Górniczych "METRO" Sp. z o.o.....	16
Shares in HYDROBUDOWA 9 SA .....	16
<b>VIII. EVENTS THAT HAD A SIGNIFICANT IMPACT ON ACTIVITIES OF THE COMPANY, AND WHICH OCCURRED IN 2009 AND UNTIL THE DAY OF DRAWING UP THE FINANCIAL STATEMENTS.....</b>	<b>16</b>
1. Increasing the limit within the frame agreement with ING Bank Śląski S.A.	16
2. Introduction of series L shares at the Stock Exchange.....	17
3. Increase in the revolving limit within the agreement with TUIR Euler Hermes SA	17
4. Dismissal of the Company's proxy .....	17
5. Change in name of the Company and its registered office .....	17
6. Changes in Supervisory Board of HYDROBUDOWA POLSKA SA.....	18

<b>7. Annex to the agreement on credit line with Bank Gospodarki Żywnościowej SA.....</b>	<b>18</b>
<b>8. Annex to the agreement with Raiffeisen Bank Polska SA on debt limit. ....</b>	<b>18</b>
<b>9. Resignation of a member of the Supervisory Board .....</b>	<b>18</b>
<b>10. Decreasing the amount of surety for loan, granting the surety .....</b>	<b>18</b>
<b>11. Annex to the framework agreement with ING Bank Śląski S.A. ....</b>	<b>19</b>
<b>12. Annex to the agreement with TU Allianz Polska SA.....</b>	<b>19</b>
<b>13. Annex to the agreement with TuiR Euler Hermes SA on granting contract guarantees within the revolving limit. ....</b>	<b>19</b>
<b>14. Annex to the framework agreement with ING Bank Śląski S.A. ....</b>	<b>19</b>
<b>15. Changes in the Board of Directors .....</b>	<b>20</b>
<b>16. Appointment of the Company's proxy .....</b>	<b>20</b>
<b>17. Annex to the agreement on credit line with Bank Gospodarki Żywnościowej SA.....</b>	<b>20</b>
<b>18. Agreement on granting contract insurance guarantees within a specified guarantee limit with TUiR "Warta" S.A.....</b>	<b>20</b>
<b>19. Annex to the agreement with Raiffeisen Bank Polska SA on debt limit. ....</b>	<b>21</b>
<b>20. The limit under the cooperation agreement concluded with Sopockie Towarzystwo Ubezpieczeń Ergo Hestia SA increased .....</b>	<b>21</b>
<b>21. Annex to the frame agreement on credit limit with BZ WBK SA.....</b>	<b>21</b>
<b>IX. INFORMATION ABOUT CONCLUDED SIGNIFICANT AGREEMENTS .....</b>	<b>22</b>
<b>X. INFORMATION ABOUT CHANGES IN ORGANIZATIONAL RELATIONS UNTIL THE DAY OF DRAWING UP THE CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>25</b>
<b>XI. INFORMATION ABOUT BUY-BACK OF SHARES.....</b>	<b>26</b>
<b>XII. DESCRIPTION OF TRANSACTIONS WITH RELATED PARTIES.....</b>	<b>26</b>
<b>XIII. INFORMATION ABOUT INCURRED CREDITS AND LOAN AGREEMENTS.....</b>	<b>27</b>
<b>XIV. INFORMATION ABOUT LOANS .....</b>	<b>27</b>
<b>XV. USE OF INCOME FROM SERIES K SHARES .....</b>	<b>27</b>
<b>1. Aim of the issue of Series K Shares.....</b>	<b>27</b>
<b>2. Used income from the issue of series K shares .....</b>	<b>27</b>
<b>XVI. EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULTS AND FORECASTS .....</b>	<b>28</b>
<b>XVII. ASSESSMENT OF CASH MANAGEMENT.....</b>	<b>28</b>

<b>XVIII. FINANCIAL INSTRUMENTS USED BY THE COMPANY:</b> .....	30
<b>XIX. MAJOR EXPENDITURES ON TANGIBLE ASSETS, CAPITAL INVESTMENTS AND EVALUATION OF INVESTMENT EXECUTION</b> .....	31
<b>1. Major expenditures on tangible assets</b> .....	31
<b>2. Feasibility assessment of investment projects</b> .....	31
<b>XX. EVALUATION OF EXTRAORDINARY FACTORS AND EVENTS</b> .....	31
<b>XXI. DESCRIPTION OF RISKS AND THREATS FACTORS THAT HAVE AN IMPACT ON THE DEVELOPMENT OF HYDROBUDOWA POLSKA SA</b> .....	32
Competition risk .....	32
Risk of unreliable suppliers of materials and subcontractors.....	33
Economic risks in Poland .....	33
Risks associated with the availability of the funds from the European Union .....	34
Risk of unfavourable changes in tax regulations.....	34
Risk of exchange rate .....	34
Risk of seasonality of sales .....	34
Risk factors directly related to the activity of the Company .....	35
Risk related to tenders, which the Company takes part in .....	35
Risk of losing key staff .....	35
Risk related to non-performance of contracts.....	36
Risk related to current operations .....	36
Risk related to order portfolio .....	37
Risk of lack of liquidity .....	37
<b>XXII. PROCEEDINGS CURRENTLY IN PROGRESS IN PUBLIC OR ARBITRATION COURTS AND ADMINISTRATION OFFICES:</b> .....	37
<b>XXIII. STRATEGY OF HYDROBUDOWA POLSKA SA</b> .....	37
<b>XXIV. MAJOR ACHIEVEMENTS IN THE FIELD OF RESEARCH</b> .....	41
<b>XXV. CURRENT AND FUTURE FINANCIAL CONDITIONS</b> .....	41
<b>XXVI. SIGNIFICANT NON BALANCE SHEET ITEMS IN OBJECTIVE, SUBSTANTIVE AND MATERIAL MEANING</b> .....	48
<b>XXVII. CHANGES IN THE ACCOUNTING RULES</b> .....	48
<b>XXVIII. REMUNERATION, BONUSES AND BENEFITS PAID TO THE MANAGEMENT</b>	
48	
<b>XXIX. INFORMATION ABOUT AGREEMENTS THAT MAY HAVE AN IMPACT ON THE OWNERSHIP STRUCTURE OF SHARES</b> .....	48
<b>XXX. INFORMATION ABOUT AN ENTITY AUDITING THE FINANCIAL STATEMENTS</b>	
48	

<b>XXXI. AGREEMENTS BETWEEN THE COMPANY AND MANAGING PERSONNEL, ON COMPENSATION IN CASE OF RESIGNATION OR DISMISSAL .....</b>	<b>49</b>
<b>XXXII. INFORMATION ABOUT THE SYSTEM OF CONTROL OF BENEFIT PROGRAMMES .....</b>	<b>49</b>
<b>XXXIII. RESTRICTION OF ASSIGNMENT OF SECURITIES OF HYDROBUDOWA POLSKA SA AND RESTRICTIONS IN CARRYING VOTES FROM THESE SECURITIES ..</b>	<b>49</b>
<b>XXXIV. CORPORATE GOVERNANCE STATEMENT OF HYDROBUDOWA POLSKA SA</b>	<b>49</b>

## **I. GENERAL INFORMATION ABOUT HYDROBUDOWA POLSKA SA**

### **1. General Information**

Hydrobudowa Polska Spółka Akcyjna with its registered office in Wysogotowo, ul. Skórzewska 35; 62-081 Przeźmierowo operates in the construction sector specialising in civil engineering, construction engineering and hydraulic engineering.

The company was registered on 24.02.1992 by the District Court in Włocławek, entry no. RHB-793 in the commercial register and on 06.06.2001 was registered by the District Court in Toruń, at Młodzieżowa 31, VII Commercial Department of the National Court Register, entry no. KRS 0000017342 - on 06.06.2001.

On 9 September 2006, the General Meeting of Shareholders adopted resolution no. 1, which changed the company's registered office to Wysogotowo near Poznań, at Skórzewska 35 Street. On 20 November 2006, the District Court in Toruń made a change in the registered office and address of the company, and submitted Articles of Association according to the jurisdiction of the District Court in Poznań, XXI Commercial Division of the National Court Register. On 27 August 2007, the District Court in Poznań registered a merger of the Company with Hydrobudowa Śląsk S.A., and on 7 January 2008, the company changed name from HYDROBUDOWA Włocławek S.A. to HYDROBUDOWA POLSKA S.A.

Currently, the register files are kept by the District Court in Poznań - Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register.

**Data of:** HYDROBUDOWA POLSKA Spółka Akcyjna

**Registered Office:** 62-081 Wysogotowo, ul.

**Contact information:** Tel. +48 61 664 19 50

Fax. +48 61 664 19 51

[www.hbp-sa.pl](http://www.hbp-sa.pl)

e-mail: [polska@hbp-sa.pl](mailto:polska@hbp-sa.pl)

The company has the following divisions:

1. Włocławek Division, with registered office in Włocławek

Ul. Płocka 164 Street  
87-800 Włocławek  
tel.: 54 230 32 00  
fax.: 54 230 32 02  
e-mail: [wloclawek@hbp-sa.pl](mailto:wloclawek@hbp-sa.pl)

2. Śląsk Division, with registered office in Mikołowo

Ul. Żwirki i Wigury 58  
43-190 Mikołów  
general: 32 78 31 100  
main office: 32 78 31 200  
fax.: 32 78 31 201  
e-mail: [slask@hbp-sa.pl](mailto:slask@hbp-sa.pl)

**Central Statistical Office (GUS) Classification:**4221Z ( PKD 2007)

**NIP:**888-020-59-44

**910097080**REGON:910097080

## **2. Composition, changes and description of the Board of Directors and the Supervisory Board.**

The Board of Directors is the executive body and the Supervisory Board is the supervisory body in the Company. In addition to the Board and the Supervisory Board there are no other administrative bodies in the Company. Proxies of the Company belong to the Senior Management.

### **Supervisory Board**

In 2009, the following changes occurred in the Supervisory Board:

- On 4 June 2009, Mr. Marcin Idziorek and Mr. Piotr Stobiecki resigned from the position of members of the Supervisory Board of HYDROBUDOWA POLSKA S.A., effective on the same day.
- On 4 June 2009 the General Meeting of Shareholders appointed a new member of the Supervisory Board:
  1. Mr. Leszek Auda
  2. Mr. Robert Oppenheim

3. Mr. Jacek Krzyżaniak

- On 7 September 2009, Mr. Leszek Auda resigned from the position of a member of the Supervisory Board.

On 31 December the composition of the Supervisory Board was as follows:

<b>Name and surname</b>	<b>Position</b>
Małgorzata Wiśniewska	President of the Supervisory Board
Andrzej Wilczyński	Vice President of the Supervisory Board
Grzegorz Wojtkowiak	Member of the Supervisory Board
Przemysław Szkudlarczyk	Member of the Supervisory Board
Jacek Krzyżaniak	Member of the Supervisory Board
Robert Oppenheim	Member of the Supervisory Board

### **Board of Directors**

The following changes took place in the Board of Directors in 2009:

- On 19 October 2009 Mrs. Joanna Zwolak resigned from the position of the Member of the Board. The reason for resignation were personal matters, which did not allow combining the position of the Chief Accountant and a Member of the Board.
- On the same day, the Supervisory Board of the Company appointed Mr. Szymon Tamborski to the Board and appointed him the Vice President of the Board.

As of 31 December 2009 the composition of the Management Board of the Parent Company was as follows:

<b>Name and surname</b>	<b>Position</b>
Jerzy Ciechanowski	President of the Board of Directors
Edward Kasprzak	Vice President of the Board
Jarosław Dusiło	Vice President of the Board
Szymon Tamborski	Vice President of the Board
Andrzej Zwierzchowski	Member of the Board
Rafał Damasiewicz	Member of the Board

### **Proxies**

In 2009 the following changes took place among the Company's Proxies:

- On 22 October 2009, pursuant to a resolution of the Board of Directors Mrs. Joanna Zwolak was appointed to the position of an independent proxy.

On 31 December 2009 the composition of the proxies of the Company was as follows:

<b>Name and surname</b>	<b>Position</b>
Andrzej Szultka	Independent proxy
Joanna Zwolak	Independent proxy

## **II. INFORMATION ABOUT BASIC ACTIVITIES**

The Company currently operates in five main segments:

**natural gas and crude oil,  
water,  
fuels,  
residential and industrial construction  
roads.**

Individual segments cover the following services:

- **natural gas and crude oil:**
  - overground natural gas and crude oil mining facilities
  - natural gas liquefaction facilities and LNG storage and regasification facilities
  - LPG separation and storage stations, C5+
  - LNG storage and vaporisation stations
  - underground gas storage facilities
  - desulphurisation plants
  - overground facilities of underground natural gas storage facilities
  - crude oil tanks
  - natural gas and crude oil transport systems, including:  
meter and regulator stations, measurement and settlement stations, mixing plants,  
distribution stations,
- **Water:**
  - process and sanitary facilities for water and sewerage systems, such as:
    - waterworks
    - sewerage systems
    - water mains and interceptors
    - water intake points
    - waste-water treatment plants
  - hydrotechnical facilities, such as:
    - water dams
    - storage reservoirs
    - flood defences (dykes)
      - renovation of waterworks and sewerage systems
- **Fuels:**
  - fuel depots
- **residential and industrial construction:**

- general construction
- industrial infrastructure
- construction of stadiums/sport arenas
- construction of waste incineration plants

- **Roads:**

- road construction.

the column 'Other' indicates revenues and expenses not attributed to other sectors i.e.:

- sales of goods and materials
- revenues from other activities than construction services.

The following table shows the basic groups of products of the Company for the last two years.

Total net profit from sales (activities)	2009	2008	Difference (PLN in thousand)	Difference (%)
	(PLN in thousand)	(PLN in thousand)		
natural gas and crude oil	4 240	-	4 240	-
<b>water</b> (hydraulic engineering and Environment Protection)	428 221	569 675	- 141 454	- 24.83%
<b>fuels</b> (fuel storage)	20 697	96 260	- 75 563	- 78.49%
<b>residential and industrial construction</b>	660 108	19 167	640 941	3 344.00%
<b>roads</b>	-	1 891	1 891	-
<b>other</b>	12 489	106 958	- 94 469	-88.32%
<b>Total net profit from sales</b>	<b>1 125 755</b>	<b>793 951</b>	<b>331 804</b>	<b>41.80%</b>

Sales of Hydrobudowa POLAND SA is generated solely on the domestic market. This trend is caused by the nature of the Company's activities and very promising markets in Poland, a result of Poland's joining the EU. The contracts are for the construction of specialist facilities, which are awarded by local authorities.

### III. INFORMATION ABOUT MARKETS

Main clients of the Company are local authorities and companies from the field of water and sewage treatment.

#### Main clients from the construction sector in 2009

Name	Shares in revenues in 2009
1. Poznańskie Ośrodki Sportu i Rekreacji	22.0%
2. ALPINE Construction	19.5%
3. Zakład Utylizacyjny Sp. z o.o., with its registered office in Gdańsk	11.1%
4. Municipality of Wrocław	8.5%
5. PBG SA	8.5%
6. Zabrzeńskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o.	5.8%

### Sources of supply

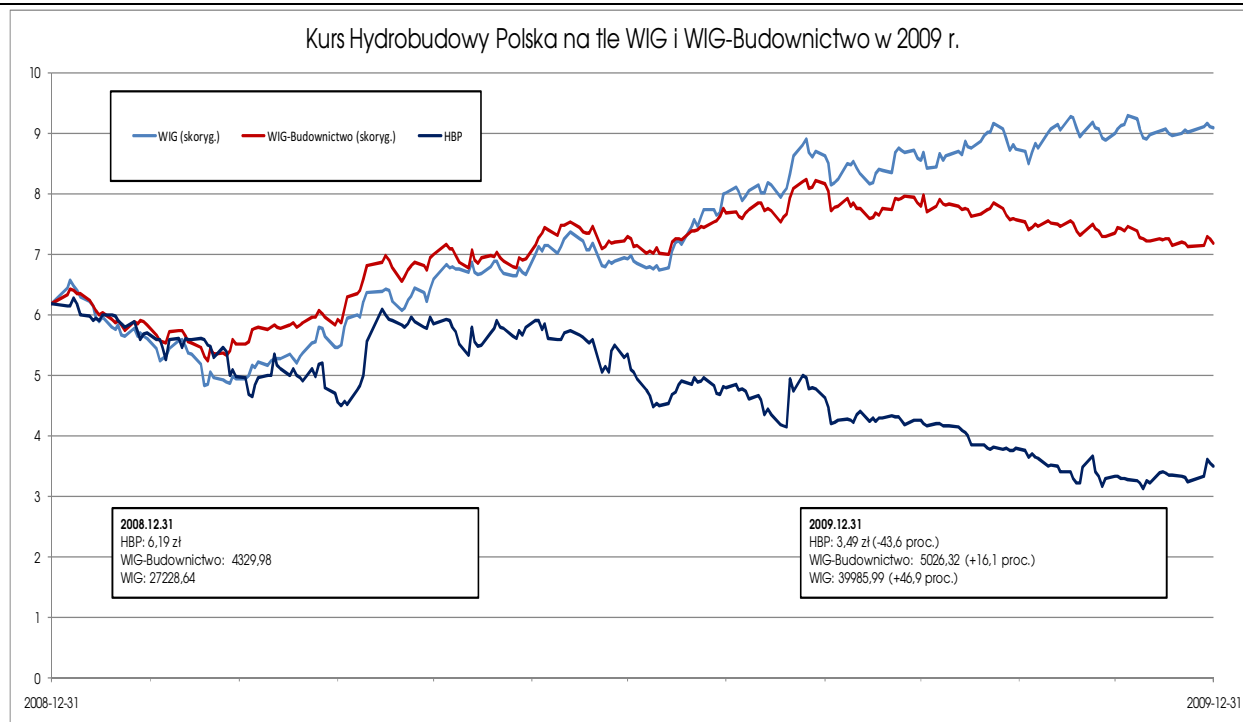
Given the specific type of business activities i.e. provision of construction and installation services, including acting as a general contractor, HYDROBUDOWA POLSKA SA uses mainly domestic suppliers of services.

**The following table shows the biggest suppliers of the Company as at 31.12.2009, in terms of value of the agreements with the suppliers.**

Name	Shares in revenues in 2009
1. PBG SA	11.9%
2. PBG Technologia	6.3%
3. SOBET	3.2%
4. HUSAR	3.2%
5. Metorex	2.8%
6. WP Konsorcjum Stali	2.8%

#### IV. Rate of the Company at Warsaw Stock Exchange Index - Construction Market in 2009

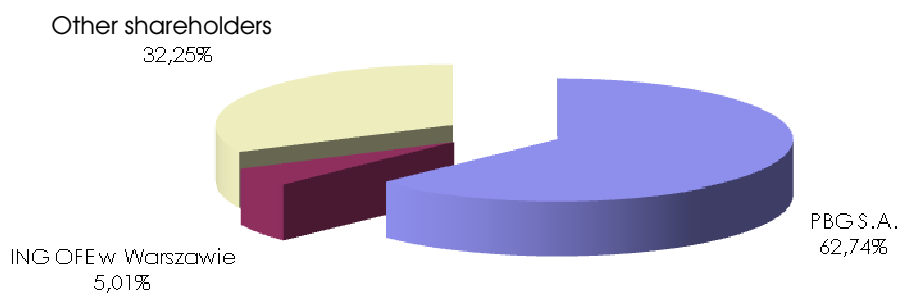
No. Shareholder	Number of shares	Number of votes	Share in equity of the Issuer	Share in total number of votes at the General Meeting of Shareholders
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#### V. Shareholders carrying at least 5% of number of votes at the General Meeting of Shareholders and changes in the ownership structure of large parts of shares of the Issuer

On 31 December 2009 the share capital of the Company was PLN 210 558 445 and was divided into 210 558 445 ordinary bearer shares with nominal value of PLN 1.00 per share.

#### Shareholders' structure of the Company



1.	<b>PBG SA</b>	132 098 185	132 098 185	62.74%	62.74%
2.	<b>ING OFE</b>	10 550 000	10 550 000	5.01%	5.01%
3.	<b>Other shareholders</b>	67 910 260	67 910 260	32.25%	32.25%
<b>TOTAL</b>		<b>210 558 445</b>	<b>210 558 445</b>	<b>100.00%</b>	<b>100.00%</b>

**Notification of changes in ownership:**

The following changes took place in the shareholders' structure in 2009.

**Announcement of disposal of shares by ING TFI SA**

On 18 December 2009 the Board of Directors of the Company received an announcement from ING Towarzystwo Funduszy Inwestycyjnych S.A., acting on behalf of ING Fundusz Inwestycyjny Otwarty Akcji, ING Fundusz Inwestycyjny Otwarty Średnich i Małych Spółek, ING Specjalistyczny Fundusz Inwestycyjny Otwarty Akcji 2 and ING Parasol Funduszu Inwestycyjnego Otwartego that due to sale of the Company's shares on 16 December 2009, the Funds represented less than 5% of the total number of votes at the General Meeting of Shareholders of HYDROBUDOWA POLSKA S.A.

According to the announcement the investment funds managed by ING TFI S.A. 10 490 506 of HYDROBUDOWA POLSKA S.A. which constituted 4.98% of the company's share capital and carried 4.98% of votes at the General Meeting of Shareholders of the Company.

Before the sale, the investment funds managed by ING TFI S.A. held 10 530 506 of shares of HYDROBUDOWA POLSKA S.A., which constituted 5,001% of the company's share capital and carried 10 530 506 votes at the General Meeting of Shareholders, i.e. 5,001% of all votes.

As of the date of drawing up of this announcement investment funds managed by ING TFI S.A. held 10 210 606 shares of HYDROBUDOWA POLSKA S.A., which constituted 4.85% of the issuer's share capital and carried 10 210 606 votes during General Meeting of the Issuer, i.e., 4.85% of the total number of votes at the General Meeting of HYDROBUDOWA POLSKA S.A.

**Notification about purchase of shares of the Company by PBG S.A.**

On 29 December 2009 the Company received an announcement, submitted by the Board of Directors of PBG SA, about the purchase of shares of HYDROBUDOWA POLSKA S.A.

Due to two purchases made on 28 December 2009, of 2 371 377 ordinary bearer shares of HYDROBUDOWA POLSKA S.A., the Board of Directors of PBG S.A. informed that:

- before the transaction PBG SA held 129 726 808 ordinary bearer shares of HYDROBUDOWA POLSKA S.A., which constituted 61.61% of the company's share capital and carried 129 726 808 votes (61.61%).

-after the transaction PBG SA held 132 098 185 ordinary shares of HYDROBUDOWA POLSKA SA, which constituted 62.74% of the company's share capital and carried 132 098 185 votes i.e. 62.74 of all votes. Thus, thanks to the transaction PBG SA increased its share in the capital and number of votes by 1.13%

The Board of Directors of PBG SA also informed that PBG did not have any subsidiaries, which held shares of HYDROBUDOWA POLSKA SA and that it was not a party to the agreements, specified in section 87(1)(3)(c) of the Public Offering Act and conditions of introduction of financial instruments to organized trading and on public companies.

#### **Notification about sales of shares by BZ WBK AIB Asset Management SA and BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych.**

On 31 December 2009 the Board of Directors of the Company received an announcement from BZ WBK AIB Asset Management S.A., with its registered office in Poznań about the sale of shares of HYDROBUDOWA POLSKA S.A., made on 23 December 2009.

Due to this transaction, made on 23 December 2009, customers of BZ WBK AIB Asset Management S.A. became holders of shares carrying less than 5% in the total number of votes at General Meeting of Shareholders of HYDROBUDOWA POLSKA S.A.

Before the transaction, customers of BZ WBK AIB Asset Management SA held 12 507 675 of shares of HYDROBUDOWA POLSKA SA. These shares carried 12 507 675 votes at General Meeting of Shareholders of the Company i.e.. 5.94% of all votes at the General Meeting of Shareholders of HYDROBUDOWA POLSKA SA.

These shares carry 12 507 675 votes at the General Meeting of Shareholders, i.e. 5.94 of all votes at the General Meeting of Shareholders of HYDROBUDOWA POLSKA SA

On 23 December 2009 clients of BZ WBK AIB Asset Management S.A., whose accounts were covered by management agreements held jointly 5 457 675 shares, which constituted 2.59% in the share capital. These shares carry 5 457 675 votes, which constitutes 2.59% in the total number of votes at a General Meeting of Shareholders of HYDROBUDOWA POLSKA S.A.

On the same day the Board of the Company received an announcement about the sale of shares by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych SA, acting on behalf of Arka BZWBK AIB Akcji Funduszu Inwestycyjnego Otwartego, Arka BZ WBK Rozwoju Nowej Europy Funduszu Inwestycyjnego Otwartego and Lukas Funduszu Inwestycyjnego Otwartego on 23 December 2009. Due to this transaction, made on 23 December 2009, customers of BZ WBK AIB Asset Management S.A. became holders of shares carrying less than 5% in the total number of votes at General Meeting of Shareholders of HYDROBUDOWA POLSKA S.A.

Before this transaction, Funds held 12 507 675 shares of the Company, which constituted 5.94 of the share capital of HYDROBUDOWA POLSKA SA, and carried 12 507 675 votes at the General Meeting of Shareholders, i.e. 5.94 of all votes at the General Meeting of Shareholders.

On 23 December 2009 Funds held 5 457 675 shares, which constituted 2.59% of the equity capital. These shares carried 5 457 675 votes, i.e. 2.59% of all votes at the General Meeting of Shareholders of HYDROBUDOWA POLSKA SA

At the same time, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. informed that it commissioned the management of Funds' investment portfolio to BZ WBK AIB Asset Management S.A. having its registered office in Poznań, which shall publish information related to the purchase of shares mentioned in this report.

#### VI. DETERMINATION OF THE TOTAL NUMBER AND PAR VALUE OF ALL THE SHARES HELD BY THE MANAGEMENT AT THE END OF 2009, AND CURRENTLY.

As of 31 December 2009, and currently, members of the board and supervisory board of HYDROBUDOWA POLSKA SA held the following numbers of shares:

<b>Board of Directors</b>	<b>Number of shares 31.12.2009</b>	<b>Number of shares currently</b>
Jerzy Ciechanowski	-	-
Edward Kasprzak	438 100	438 100
Jarosław Dusiło	150	150
Szymon Tamborski	3 182 695	3 182 695
Andrzej Zwierzchowski	4 850	4 850
Rafał Damasiewicz	-	-

<b>Supervisory Board</b>	<b>Number of shares 30.12.2009</b>	<b>Number of shares currently</b>
Małgorzata Wiśniewska	-	-
Andrzej Wilczyński	-	-
Grzegorz Wojtkowiak	-	-
Robert Oppenheim	605 507	605 507
Jacek Krzyżaniak	-	-

Przemysław Szkudlarczyk	16 100	16 100
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Proxies	Number of shares 30.12.2009	Number of shares currently
Andrzej Szultka	9 000	9 000
Joanna Zwolak	50	50

#### VII. INFORMATION ABOUT ORGANIZATIONAL AND CAPITAL RELATIONS BETWEEN THE COMPANY AND OTHER ENTITIES AND ABOUT MAJOR INVESTMENTS, INCLUDING CAPITAL INVESTMENTS MADE OUTSIDE THE GROUP OF SUBSIDIARIES IN 2009

On 31 December 2009, HYDROBUDOWA POLSKA SA held shares in the following entities

- HYDROBUDOWA 9 SA, with its registered office in Poznań
- Przedsiębiorstwo Robót Górniczych „METRO” Sp. z o.o. with its registered office in Warsaw
- Drogowa Trasa Średnicowa SA with its registered office in Katowice,
- Konsorcjum Autostrada „Śląsk” SA with its registered office in Katowice
- Mikołowski Bank Spółdzielczy with its registered office in Mikołowo
- Centrozap SA with its registered office in Katowice

#### Shares held by HYDROBUDOWA POLSKA in other entities as at 31.12.2009

Company name	Carrying amount (PLN in thousand)
Hydrobudowa 9 SA	325 696.7
Przedsiębiorstwo Robót Górniczych „METRO” Sp. z o.o. with its registered office in Warsaw	45 387.0
Drogowa Trasa Średnicowa SA with its registered office in Katowice,	22.0
Konsorcjum Autostrada „Śląsk” SA with its registered office in Katowice	4.0
Mikołowski Bank Spółdzielczy with its registered office in Mikołowo	0.5
Centrozap SA with its registered office in Katowice	156.4
<b>TOTAL ASSETS</b>	<b>371 266.6</b>

The total book value of the above assets amounts to **PLN 371 266 600**

With exception of P.R.G. METRO Sp. z o.o. and HYDROBUDOWA 9 SA, other entities are not affiliates of HYDROBUDOWA POLSKA S.A.

The value of shares held by the Issuer in entities other than P.R.G. "METRO" Sp. z o.o. and HYDROBUDOWA 9 SA does not have a significant impact on the assessment of the Issuer's assets, liabilities, financial condition, profits and losses.

#### **Shares in Przedsiębiorstwo Robót Górniczych "METRO" Sp. z o.o.**

The share capital of Przedsiębiorstwo Robót Górniczych "METRO" Sp. z o.o. was increased twice in 2009.

The first increase was registered on 09 January 2009.

This increase covered 78 shares of the nominal value PLN 1,000.00 per share, all taken over by Hydrobudowa Polska SA.

As a result, share capital of P.R.G. METRO Sp. z o. o. was increased from PLN 500,000.00 to PLN 628,000.00 and is now divided to 628 shares of nominal value PLN 1,000.00 per share. The said shares were paid up by Hydrobudowa Polska SA with a cash contribution of PLN 4,963,631.40.

On 15 October 2009 there was the second increase, as a result of which HYDROBUDOWA POLSKA SA took over 5 000 shares of the nominal value PLN 1,000 per share. As a result HYDROBUDOWA POLSKA SA holds 5 543 shares, which constitute **98.49%** in share capital and in total number of votes of P.R.G. „METRO” Sp. z o.o.

#### **Shares in HYDROBUDOWA 9 SA**

The share capital of HYDROBUDOWA 9 SA amounts to PLN 1,453,668.50 and is divided into 14 536 685 shares of the nominal value PLN 0.10 each. On 31 December 2009, HYDROBUDOWA 9 SA held 14,536,685 shares of the nominal value PLN 0.10 each, of the total value of PLN 1,453,668.50, which constituted 100% of shares and number of votes of HYDROBUDOWA 9 SA. Shares of HYDROBUDOWA POLSKA SA of nominal value of PLN 0.10 each and total value of PLN 1,453,668.50 were purchased in 2008 in exchange of 36,885,245 ordinary bearer shares, series L of HYDROBUDOWA POLSKA SA, of nominal value PLN 1.00 each.

### **VIII. EVENTS THAT HAD A SIGNIFICANT IMPACT ON ACTIVITIES OF THE COMPANY, AND WHICH OCCURRED IN 2009 AND UNTIL THE DAY OF DRAWING UP THE FINANCIAL STATEMENTS**

#### **1. Increasing the limit within the frame agreement with ING Bank Śląski S.A.**

On 6 January 2009, the company signed an annex, increasing the credit limit to PLN 150 000 000.00, to the frame agreement signed on 6 September 2007 with ING Bank Śląski.

## **2. Introduction of series L shares at the Stock Exchange**

On 13 January 2009 an application was submitted to Warsaw Stock Exchange to float shares pursuant to the registration at the National Depository of Securities of 36 885 245 ordinary bearer shares, series L, of the nominal value PLN 1.00 each, with a code PLHDRWL00010.

On 21 January 2009, the Board of the Warsaw Stock Exchange adopted a resolution that floated 36 885 245 ordinary bearer shares, series L. On the same day, the company registered 36 885 245 series L shares at the National Depository for Securities. Therefore, 210 558 445 shares of the company have been registered under entry PLHDRWL00010.

All series L shares were offered to all shareholders of HYDROBUDOWA 9 SA, with its registered office in Poznań in the course of private placement.

Series L shares covered by non-cash contribution in the form of 14,536,685 of fully paid shares of the Company under the name HYDROBUDOWA 9 SA, of the nominal value PLN 0.10 each and the total value of PLN 1,453,668.50, which constitute 100% of shares of HYDROBUDOWA 9 SA. In total, there are 210 558 445 listed ordinary bearer shares, total value of PLN 1.00 each.

## **3. Increase in the revolving limit within the agreement with TUIR Euler Hermes SA**

On 4 February 2009, an annex was concluded with Towarzystwo Ubezpieczeń Euler Hermes SA, with its registered office in Warsaw, increasing the revolving limit from PLN 80 000 000 to PLN 100 000 000, and the maximum amount of a single guarantee within this limit was increased from PLN 8 000 000 to PLN 10 000 000

## **4. Dismissal of the Company's proxy**

On 27 February 2009, the Board of the Company dismissed an independent proxy, Mr. Paweł Kujawa.

## **5. Change in name of the Company and its registered office**

Due to decision of the District Court Poznań i Wilda in Poznań, VIII Commercial Division of the National Court Register, on 30 March 2009 a change was made in the name of a subsidiary of the Issuer -from HYDROBUDOWA 9 Przedsiębiorstwo Inżynieryjno-Budowlane SA to HYDROBUDOWA 9 Spółka Akcyjna and the registered office and address to ul. Skórzewska 35, Wysogotowo, 62-081 Przeźmierowo.

## **6. Changes in Supervisory Board of HYDROBUDOWA POLSKA SA**

On 4 June 2009, Mr. Marcin Idziorek and Mr. Piotr Stobiecki resigned from the position of members of the Supervisory Board of HYDROBUDOWA POLSKA S.A.

On 4 June 2009 the General Meeting of Shareholder appointed Jacek Krzyżaniak, Robert Oppenheim and Leszek Auda to the Supervisory Board.

## **7. Annex to the agreement on credit line with Bank Gospodarki Żywnościowej SA**

On 24 July 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group (Debtor) i.e. PBG SA and INFRA SA signed annex no. 6 to the agreement on credit line for financing current activity, of 27 April 2007, signed with Bank Gospodarki Żywnościowej SA, with its registered office in Warsaw.

Pursuant to this annex, the Company extended the time of using the credit line until 23 August 2009.

## **8. Annex to the agreement with Raiffeisen Bank Polska SA on debt limit.**

On 21 August 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group signed an annex to the agreement of 28 September 2007, on debt limit. Pursuant to this annex, HYDROBUDOWA POLSKA became a party of the agreement.

Moreover, the debt limit was increased from PLN 125,000,000 to PLN 145,000,000.

## **9. Resignation of a member of the Supervisory Board**

On 7 September 2009, Mr. Leszek Auda resigned from the position of a member of the Supervisory Board, effective the following day.

The resignation is a result of Mr Auda's new professional duties.

## **10. Decreasing the amount of surety for loan, granting the surety**

On 8 September 2009, HYDROBUDOWA POLSKA SA and its subsidiary HYDROBUDOWA 9 SA changed the value of surety granted until 15 May 2011 to the shareholders of series B shares, issued by the parent company PBG S.A.

The decrease in surety from PLN 240 000 000 to PLN 150 000 000 was caused by redemption of 750 series B shares of PBG SA, in the amount of PLN 75 000 000.

At the same time, due to the issue of series C bonds by PBG SA in the amount of PLN 375,000,000 HYDROBUDOWA POLSKA SA and HYDROBUDOWA 9 SA granted on 8 September

2009 the surety in the amount of PLN 450,000,000 until 10 March 2013 to all holders of series C bonds of PBG SA. The surety contains a provision about joint and several liability of the issuer. The fee for HYDROBUDOWA POLSKA SA and HYDROBUDOWA 9 SA due to granting the surety, shall be settled annually on market terms.

#### **11. Annex to the framework agreement with ING Bank Śląski S.A.**

On 4 September 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group signed an annex with ING Bank Śląski SA to the frame agreement of 6 September 2009, on limit credit up to PLN 220 000 000.

According to this annex, the period of this credit limit was extended until 13 November 2009.

#### **12. Annex to the agreement with TU Allianz Polska SA**

On 31 July 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group i.e. PBG SA, Infra SA and HYDROBUDOWA 9 SA signed an annex to the agreement with TU Allianz Polska SA of 5 June 2007 on granting contracts guarantees within the revolving limit. Under the said annex, the period during which TU Allianz Polska SA is to grant performance bonds (bid bonds, performance bonds, defect liability bonds, and advance payment guarantees) to PBG Capital Group companies was extended until 31 December 2009.

#### **13. Annex to the agreement with TuiR Euler Hermes SA on granting contract guarantees within the revolving limit.**

On 18 September 2009 HYDROBUDOWA POLSKA SA together with Companies from PBG Capital Group i.e. PBG SA, Infra SA and HYDROBUDOWA 9 SA signed an annex to the agreement with TU Euler Hermes SA, with its registered office in Warsaw, of 28 September 2007, on granting the contract guarantees within the revolving limit.

Under this annex TUIR Euler Hermes SA shall extend contract performance bonds until 31 December 2009 (bid bonds, performance bonds, defect liability bonds and advance payment guarantees) to the companies from PBG Capital Group.

#### **14. Annex to the framework agreement with ING Bank Śląski S.A.**

On 9 October 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group i.e. PBG SA, INFRA SA, HYDROBUDOWA 9 SA, AVATIA Sp. z o.o. and PBG Technologia Sp. z o.o. signed an annex to the frame agreement with ING Bank Śląski SA, dated 6 September 2007 on credit limit up to PLN 220,000,000.00

Under this annex the period of repayment of the credit line was extended until 13 August 2010.

Moreover "PRIS " Sp. z o.o. ceased to be a party to the agreement due to its excluding from PBG Capital Group.

### **15. Changes in the Board of Directors**

- On 19 October 2009 Mrs. Joanna Zwolak resigned from the position of the Member of the Board

The reason for resignation were personal matters, which did not allow combining the position of Chief Accountant and a Member of the Board.

-On the same day, the Supervisory Board of the Company, acting pursuant to section 32(2)(1) of the Articles of Association, appointed Mr. Szymon Tamborski to the Board and appointed him the Vice President of the Board.

### **16. Appointment of the Company's proxy**

On 22 October 2009 the Board of the Company appointed Joann Zwolak as an independent proxy.

### **17. Annex to the agreement on credit line with Bank Gospodarki Żywnościowej SA**

On 15 October 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group i.e. PBG SA and INFRA SA signed annex no. 8 to the agreement of 27 April 2007 on credit limit to finance current activity of the company, signed between the companies of PBG Capital Group and Bank Gospodarki Żywnościowej SA, with its registered office in Warsaw.

Under this annex the credit limit was decreased from PLN 100 000 000.00 to PLN 90 000 000.00

Moreover, the final date of repayment was shortened to 30 December 2014.

### **18. Agreement on granting contract insurance guarantees within a specified guarantee limit with TUIR "Warta" S.A.**

On 17 November 2009 HYDROBUDOWA POLSKA SA together with companies from the PBG Capital Group i.e. PBG SA, INFRA SA and HYDROBUDOWA 9 SA signed an agreement with Towarzystwo Ubezpieczeń i Reaserkuracji WARTA SA on granting contract performance guarantee within a specified guarantee limit.

Under this agreement TUIR "WARTA"SA granted the guarantee limit up to contract performance guarantees, of the Companies from PBG Capital Group, for period not longer than:

a) tender guarantees and refund of advance payments - 3 years,  
b) performance guarantee - 4 years (plus 30 days for the release of security),  
c) defect liability guarantee 5 years (plus 15 days for the release of security),  
but the total maximum guarantee period for one contract (subject to the above-mentioned restrictions) is 6 years. In case of construction contracts financed by the EU, concluded within public tenders and for public Beneficiaries, the guarantee period is 7 years (plus 45 days for the release of security)

The parties agreed that the maximum guarantee limit for all guarantees pursuant to this agreement and other agreements, pursuant to which TUIR WARTA SA is liable during the period of this agreement, shall not exceed the amount of PLN 150,000,000.00 This is a revolving limit i.e. throughout the term of the agreement, new guarantees can be granted in lieu of expired ones.

This agreement has been concluded for the period from 17 November 2009 to 16 May 2010. Either party may terminate this Agreement, giving 30 days' written notice.

#### **19. Annex to the agreement with Raiffeisen Bank Polska SA on debt limit.**

On 30 November 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group i.e. PBG SA, INFRA SA, METOREX Sp. z o.o., DROMOST Sp. z o.o., HYDROBUDOWA 9 SA, PRID SA, APRIVIA SA and BETPOL SA, signed annex no. 6 to the agreement of 28 September 2007 on debt limit

Under this annex, the last day of incurring of revolving credits in PLN, EUR and USD, was extended to 22 November 2010 and the last day of repayment until 25 November 2010.

#### **20. The limit under the cooperation agreement concluded with Sopockie Towarzystwo Ubezpieczeń Ergo Hestia SA increased**

On 1 December 2009 HYDROBUDOWA POLSKA SA became aware Sopockie Towarzystwo Ubezpieczeń Ergo Hestia SA increased the performance guarantee for companies from PBG Capital Group i.e. PBG SA, INFRA SA, and HYDROBUDOWA 9 SA, within the agreement of 2 April 2009 on granting insurance guarantees within the granted guarantee limit.

Pursuant to this agreement the main limit was increased from PLN 90 000 000 to PLN 120 000 000.

#### **21. Annex to the frame agreement on credit limit with BZ WBK SA**

On 1 December 2009 HYDROBUDOWA POLSKA SA together with companies from PBG Capital Group i.e. PBG SA and HYDROBUDOWA 9 SA, concluded an annex to the frame agreement with BZ WBK SA, of 30 June 2005, on the credit limit.

Under this annex the extension has been granted for the repayment of the following credits:

- working capital loans and overdrafts until 30 November 2010,
- credits from granted and executed guarantees and credit receivable until 1 December 2013.

## **IX. INFORMATION ABOUT CONCLUDED SIGNIFICANT AGREEMENTS**

### **Agreement with PBG SA**

On 21 January 2009 HYDROBUDOWA POLSKA SA ("Contractor") signed an agreement with PBG SA ("Customer")

The subject matter of this agreement are complex installations of fuel storage and construction of social and technical facilities and external underground infrastructure, related to management of crude oil and gas deposits in the region of Lubiatów, Międzychód and Grotów.

Net value of the contract: **PLN 82,500,000.00**

The Parties agreed that the contract shall be completed by 10 April 2013.

### **Agreement with a subsidiary - HYDROBUDOWA POLSKA KONSTRUKCJE Sp. z o.o.**

On 24 March 2009 HYDROBUDOWA POLSKA SA (Customer) signed an agreement with its subsidiary - HYDROBUDOWA POLSKA KONSTRUKCJE Sp. o.o., with its registered office in Mikołowo (Contractor)

The subject matter of the agreement is the fabrication of roof steel construction at Stadium in Poznań at Bułgarska Street.

Net value of the contract **PLN 107,664,862.98**

### **Agreement on construction of the Baltic Arena - the football stadium in Gdańsk Letnica**

On 10 April 2009 HYDROBUDOWA POLSKA SA as the Consortium Leader, signed an agreement with Community of Gdańsk, represented by Biuro Inwestycji Euro Gdańsk 2012 Sp. z o.o., on second phase of construction works of the Baltic Arena - the football stadium in Gdańsk Letnica.

The subject matter of this agreement is the construction of the Baltic Arena - the football stadium in Gdańsk Letnica, capacity: about 40 00 seats, together with related infrastructure, relevant for the operation of the stadium, on the area of 34 ha, which shall enable hosting football matches during European Football Championship in 2012.

Net value of the contract: **PLN 427,700,000.00**

The agreement shall be completed within 20 months from the date of making the construction site available to the Contractor.

HYDROBUDOWA POLSKA SA and HYDROBUDOWA 9 SA shall perform and shall be responsible for 50% of the scope of works, under this contract.

### **Contract for the construction of the National Stadium in Warsaw**

On 4 May 2009 HYDROBUDOWA POLSKA, the consortium partner, signed the agreement with Narodowe Centrum Sportu Sp. z o.o. ("Customer"), acting on behalf of the State Treasury, on construction of the multi-purpose National Stadium in Warsaw together with related infrastructure.

Under this contract, HYDROBUDOWA POLSKA SA shall execute the 2nd phase of the construction of the multi-purpose National Stadium in Warsaw, together with related infrastructure, necessary to host European Football Championship in 2012.

Net value of the contract: **PLN 1,252,755,008.64**

The works shall be completed within 24 months from the date of signing this agreement.

HYDROBUDOWA POLSKA SA and PBG SA shall perform and shall be responsible for 50% of the scope of works.

#### **Agreement of a subsidiary - HYDROBUDOWA 9 SA**

On 25 May 2009, HYDROBUDOWA 9 SA signed an agreement with Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. („Customer”) on „Modernization of Water Station SW-4 „Czyżkówko” in Bydgoszcz, part no. 2”.

The agreement covers the following civil engineering works at SW-4 Czyżkówko water station:

##### **Part no. 2 – „Artificial infiltration”:**

- construction of facilities for artificial infiltration and external technical infrastructure;
- small architecture (roads, lighting, ecological path, vegetation);
- start-up.

Net value of the contract: **PLN 82,446,725.64**

Completion date of part no. 2: 522 days from the day of signing this agreement i.e. 16 months from the starting date.

HYDROBUDOWA 9 SA as the consortium leader shall perform 70% of the scope of works and shall be responsible for the coordination of works.

#### **Significant contracting agreement for the construction of roof of the National Stadium in Warsaw**

On 5 August 2009, HYDROBUDOWA POLSKA SA, together with Alpine Construction Polska Sp. z o.o. ("Contractor") signed the agreement with CIMOLAI S.p.A, with its registered office in Pordenone in Italy, MOSTOSTAL ZABRZE HOLDING SA, with its registered office in Zabrze and HIGHTEX GmbH, with its registered office in Rimsting in Germany ("Subcontractor") for construction and assembly of the roof construction and façade of the National Stadium in Warsaw.

The subject of this agreement is construction and assembly of roof construction and façade together with delivery of supporting constructions and glass roof of the stadium. Moreover, the subcontractor shall delivery and assemble façade support.

Net value of the contract: PLN 329,000,000.00

The parties agreed that the completion date shall be 20 April 2011.

**Contracting agreement for the construction of roof steel construction of the football stadium in Gdańsk Letnica.**

On 11 September 2009, HYDROBUDOWA POLSKA SA together with Alpine Construction Polska Sp. z o.o. contracted to PBG TECHNOLOGIA Sp. z o.o. and ENERGOMONTAŻ - POŁUDNIE SA, the construction and assembly of roof steel construction of the football stadium in Gdańsk Letnica.

Net value of the contract: PLN 93,000,000.00. The value may be decreased by PLN 7,950,000.00 in case the Customer shall withdraw from some scope of works.

The completion date: 13 August 2010.

**Conclusion of a material agreement for the modernization of Water Treatment Station Mosina**

On 22 December 2009, a subsidiary of the Issuer - HYDROBUDOWA 9 SA, the consortium leader, together with the consortium partners, PBG SA, HYDROBUDOWA POLSKA SA, "PIECOBIOGAZ" SA and Przedsiębiorstwo Techniczno-Budowlane NICKEL Sp. z o.o. ("Contractor") signed the agreement with AQUANET SA, with its registered office in Poznań ("Customer") on the modernization of Water Treatment Plant - Mosina - Phase II

Under this agreement, the Consortium shall modernize the existing Water Treatment Station in Mosina in order to achieve the capacity of 150,000 m<sup>3</sup>/d.

Net value of the contract: PLN 217,700,006.21

The works shall be executed within 67 months from the dates of signing the agreement.

The parties agreed on the following division of works:

- HYDROBUDOWA 9 SA, the consortium leader shall perform 60% of the scope of works and shall be responsible for the coordination of works,
- PBG SA, the consortium partner shall perform 10% of the scope of works,
- HYDROBUDOWA POLSKA SA, the consortium partner, shall perform 10% of the scope of works,
- „PIECOBIOGAZ” SA, the consortium partner shall perform 5% of the scope of works,
- Przedsiębiorstwo Techniczno – Budowlane NICKEL Sp. z o.o., the consortium partner shall perform 15% of the scope of works.

**Contracting agreements connected with the construction of the National Stadium in Warsaw**

On 7 January 2010, HYDROBUDOWA POLSKA SA together with Alpine Construction Polska Sp. z o.o. signed two significant agreements, including annexes, related to the construction of the National Stadium in Warsaw.

The first agreement, with Elektrobudowa SA, Qumak - Sekom SA and "AGAT" SA ("Contractor") covers complex electrical and power supply, low voltage and BMS works.

Net value of the contract: PLN 91,000,000.00

The completion date: 28 February 2011

The full completion dated: 4 May 2011

The subject matter of the second agreement contracted by HYDROBUDOWA POLSKA SA and Alpine Construction Polska Sp. z o.o. to Imtech Sp. z o.o. with its registered office in Warsaw ("Customer") is the installation of sewage system and external networks.

Net value of the contract: PLN 118,000,000.00

The completion date: 28 February 2011

The full completion dated: 4 May 2011

## **X. INFORMATION ABOUT CHANGES IN ORGANIZATIONAL RELATIONS UNTIL THE DAY OF DRAWING UP THE CONSOLIDATED FINANCIAL STATEMENTS**

The following changes in the organizational relations took place in the period included in the financial statements and after the balance date

### **Increase of shares in P.R.G. „METRO” Sp. z o.o.**

On 9 January 2009, the share capital of P.R.G. "METRO" was increased. The increase in share capital covered 78 shares of the nominal value PLN 1,000.00 each, all take over by HYDROBUDOWA POLSKA SA. Thus, the share capital of P.R.G. "METRO" Sp. z o.o. was increased from PLN 550,000.00 to PLN 628,000.00 and is divided into 628 shares of the nominal value PLN 1,000.00 each. The said shares were paid up by Hydrobudowa Polska SA with a cash contribution of PLN 4,963,631.40.

After registration of the increased share capital, Hydrobudowa Polska SA holds 543 shares of P.R.G. Metro Sp. z o.o., representing 86.46% of share capital and 86.46% of total vote of P.R.G. METRO Sp.

On 15 October 2009 there was the second increase, as a result of which HYDROBUDOWA POLSKA SA took over 5 000 shares of the nominal value PLN 1,000 per share. As a result HYDROBUDOWA POLSKA SA holds 5 543 shares, which constitute **98.49%** in share capital and in total number of votes of P.R.G. „METRO” Sp. z o.o.

### **Sale of shares in HYDROBUDOWA POLSKA KONSTRUKCJE Sp. z o.o.**

On 2 April 2009, HYDROBUDOWA POLSKA SA signed an agreement with PBG SA on sale of all shares in HYDROBUDOWA POLSKA KONSTRUKCJE Sp. z o.o., with its registered office in Mikołowo.

Pursuant to this agreement HYDROBUDOWA POLSKA SA sold 16100 shares of the nominal value of PLN 500.00 each and the total value of PLN 8 050 000.00, which constitute 100% of

votes at the General Meeting of Shareholders and 100% of share capital of HYDROBUDOWA POLSKA KONSTRUKCJE Sp. z o.o., for a sum of PLN 9 000 000.00

#### **Sale of shares in GÓRECKA PROJEKT Sp. z o.o.**

On 25 June 2009 an agreement was concluded between HYDROBUDOWA 9 SA and PBG DOM Sp. z o.o. on sale of all shares in GÓRECKA PROJEKT SP. z o.o. , with its registered office in Poznań.

Pursuant to this agreement HYDROBUDOWA 9 SA sold 1 000 shares, at the nominal value of PLN 50.00 each, which constituted 100% of votes at the General Meeting of Shareholders and 100% of the share capital of GÓRECKA PROJEKT Sp. z o.o. for the sum of PLN 50 000.00.

This transaction is connected with the reorganisation process in PBG Capital Group, where PBG Dom Sp. z o.o. will be responsible for real property management.

### **XI. INFORMATION ABOUT BUY-BACK OF SHARES**

In the period covered by the report HYDROBUDOWA POLSKA SA did not buy-back its own shares.

### **XII. DESCRIPTION OF TRANSACTIONS WITH RELATED PARTIES**

In the period covered by the report, there were transactions with related parties, of value exceeding EUR 500,000 translated into PLN These transactions were standard and they resulted from current operations of HYDROBUDOWA POLSKA SA, and were concluded on the market terms.

Moreover, some transactions are the result of agreements with Financial Institutions, whose one of securities are mutual sureties or guarantees of entities from PBG Capital Group, which are parties to agreements.

This approach reconciles the financial strategy of PBG Capital Group

The most common types of transactions are:

- *contracts for construction works,*
- *loan agreements,*
- *surety agreements:*
  - *credit limits,*
  - *guarantee limits,*
  - *guarantees, etc.*

### XIII. INFORMATION ABOUT INCURRED CREDITS AND LOAN AGREEMENTS

Information about credits and loan agreements for the period covered by the consolidated financial statements are included in explanatory note to the financial statements, no. 9.5

### XIV. INFORMATION ABOUT LOANS

Information about loans taken out for the period covered by the financial statements are included in the explanatory notes to the financial statements under no. 9.2.1

### XV. USE OF INCOME FROM SERIES K SHARES

#### 1. Aim of the issue of Series K Shares

The following table shows amounts, which the Issuer planned to spend from 2008-2009 and which were spent in 2008-2009 to achieve goals of the issue.

	<b>Aim of the issue</b>	<b>Amount Planned (2008 – 2009)</b>	<b>Amount spent in 2008</b>	<b>Amount spent in 2009</b>
1	Computerization	PLN 5,000,000	-	-
2	Acquisitions	PLN 50,000,000	PLN 48,417,894.90	PLN 5,000,000.00
3	Investments in fixed assets	PLN 55,000,000.00	PLN 35,000,000.00	PLN 4,582,195.10
4	Financing of contracts	PLN 183,000,000.00	PLN 130,000,000.00	PLN 70,000,000.00
	<b>TOTAL</b>	<b>PLN 293,000,000.00</b>	<b>PLN 213,417,894.90</b>	<b>PLN 79,582,105.10</b>
	<b>TOTAL EXPENDITURES</b>		<b>PLN 293,000,000.00</b>	

#### 2. Used income from the issue of series K shares

Thanks to the issue of 35 000 000 series K shares without pre-emptive rights, at the issue price of PLN 8.80, HYDROBUDOWA POLSKA SA gained PLN 308 million, which were spent for:

**Financing of contracts:** PLN 183,000,000.00

#### **Acquisitions**

- **Acquisition of shares** in HYDROBUDOWA POLSKA KONSTRUKCJE Sp. z o.o. (HYDROBUDOWA POLSKA SA acquired 16 100 shares with the nominal value of PLN 500 per share and the total value of PLN 8 050 000)

- **Acquisition of shares in P.R.G. „METRO” Sp. z o.o** - HYDROBUDOWA POLSKA SA acquired 5 543 shares with a nominal value of PLN 1000 each and for the total value of PLN 45 367 894.90

**Investments in fixed assets:**

**Expenditure** of PLN 39 582 105.10 for specialist construction equipment.

**XVI. EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULTS AND FORECASTS**

On 29 April 2009 the forecast of consolidated financial results of HBP Capital Group was published.

It anticipates:

- consolidated sales revenues in the amount of PLN 1 500 000 000
- consolidated operating profit in the amount of PLN 114 000 000
- consolidated net profit of about PLN 92 000 000.

On 15 March 2010, after an analysis of contracts performed by the Company and forecast results of the companies from HYDROBUDOWA POLSKA Capital Group, due to higher than expected incomes from sales, the Board of Directors increased the forecast for the consolidated incomes from sales for 2009 to PLN 1 670 000 000 i.e. by 11%.

Other elements of the forecast remained unchanged

**Forecast and its execution of selected item from the consolidated profit and loss account are presented in the following table.**

Forecast volume	Forecast /PLN in million/	Adjustment /PLN in million/	Execution /PLN in million/	Forecast implementation /%/
Net sales revenues /%/	1 500	1 670	1 676	100.36 %
Operating profit	114	-	115	100.88 %
Net profit	92	-	98	106.53 %

**XVII. ASSESSMENT OF CASH MANAGEMENT**

In 2009, the company took numerous actions to improve the financial condition of the company, relevant due to ongoing contract of a very high value.

Achievements that had the biggest impact of on the financial condition of the Group in 2009, were agreements, with high value and of national importance:

- Construction of the National Stadium in Warsaw, together with related infrastructure,
- II phase of construction of the Baltic Arena - the football stadium in Gdańsk Letnica,

The Company's main priority was to obtain financing and securities for correct performance of high value projects. The biggest projects are for the construction of the above-mentioned stadiums and for:

- Development of the Municipal Stadium in Poznań, at 5/7 Bułgarska Street. The contracts includes construction of I and III stand and the roof for I, II and III stand.
- Design project and construction of the Waste Management Plant in Gdańsk-Szadółki

The company extended all agreements on credit limits until 31.12.2009. It also started a cooperation with Nordea Bank Polska SA and concluded an agreement on credit of PLN 60 000 000.

On 25 June 2009, the Company signed the factoring agreement with Pekao Faktoring Sp. z o.o.

It concerns the contract for design and construction of the Waste Management Plant in Gdańsk-Szadółki

In August 2009, the Company signed the factoring and credit agreements with, Raiffeisen Bank Polska, with regard to the contract for the second phase of the construction of the Baltic Arena - the football stadium in Gdańsk-Letnica.

Basic goals of financial activities are focused on providing funds and financial guarantees for continuous growth potential and development of the Company. In 2010 we plan to achieve the essential goal of Hydrobudowa Polska i.e. strengthening the Company's position on the markets of environment protection, hydraulic engineering and specialist construction.

We consider the overall financial situation of the Company in 2009 as very good. Operating activities yielded profit in the amount of PLN 41 384 thousand. Investment activity showed a negative balance of PLN 45 200 000, due to taking out loans, however, it should bring positive effects in 2010. The negative result of the financial activities was caused by the use of foreign funds and maintenance costs.

A part of the financial obligations was repaid by operating incomes, and the contracts, which started in 2009, were financed from loans taken out by the Company.

The risk of liquidity due to long commercial cycles i.e. between financing the ongoing contracts and the date of payment of invoices of executed works is minimized by bank limits

and the risk of not adjusted annual credit limit to longer cycles is eliminated by the diversification of limits between different banks. The financial terms of long-term contracts of high value together with the necessity of committing substantial cash cause that the Company may be exposed to the threat of losing the liquidity.

The financial crisis on the global markets brought up the risk of reduced sources of financing. Nevertheless, the Company increased the scope of cooperation with financial institutions. The Board firmly believes that the financial institutions will not decrease the credit and guarantee limits of the Company.

The Board of Directors estimates that the age and quality structure of receivables do not threaten the Company's liquidity

Thus, the Board assesses that the Company will be able to pay its obligation in due time.

The stable financial condition of the Company results in its high credibility among the financial institutions. The financial strategy adopted by PBG Capital group in the previous years has been continued. It consists in the diversification of financing resources and bank and insurance products, unification of financial products, decreasing financial costs. These actions allow reducing the operating risk.

Therefore, it can be assumed that the financial strategy of the Capital Group and the Company resulted in the diversification of financial sources of ongoing investments, which in turn resulted in stability of executed and planned contracts.

#### **XVIII. FINANCIAL INSTRUMENTS USED BY THE COMPANY:**

In the face of steadily declining EUR/PLN rate in the first half of 2008, the Company secured itself by opening currency options and in this way protecting itself from losses on contracts, co-financed by the European Union. Due to the global crisis on the financial markets in 2009 and rapid growth of EUR/PLN rate, the group observed negative outcome of the currency options. Thanks to high EUR/PLN exchange rate the Company had higher incomes valued in PLN on construction contracts. This compensated for the negative impact of currency options in 2009.

Currency transactions concluded by the Company have the aim to reduce the negative impact of foreign exchange changes on operational activity. The company did not conclude any transactions for speculation purposes. All transactions were carried out in accordance policy of security with regards to the contracts, valued in EUR. The Company used forwards and NDF financial instruments.

Information about open security positions are included in the financial statements of the Company for 2009, explanatory notes - note no. 9.3

## **XIX. MAJOR EXPENDITURES ON TANGIBLE ASSETS, CAPITAL INVESTMENTS AND EVALUATION OF INVESTMENT EXECUTION**

### **1. Major expenditures on tangible assets**

**The biggest expenditures on tangible assets of HYDROBUDOWA POLSKA SA in 2009.**

<b>No.</b>	<b>Investment description</b>	<b>Value (PLN in thousand)</b>
1	Reconstruction of the building	2 907
2	Cars and vans - 6 pieces	445
3	Crane Equipment	347
4	Outfitting of the laboratory	113

### **Capital investments of the Company in 2009**

<b>No.</b>	<b>Item</b>	<b>Amount (PLN in thousand)</b>
1	Purchase of 5 000 shares in P.R.G. "METRO" Sp. z o.o.	5 000

### **2. Feasibility assessment of investment projects**

Cash in possession of the Company secures the planned expenditures connected with ongoing projects.

## **XX. EVALUATION OF EXTRAORDINARY FACTORS AND EVENTS**

### **Impact of securing currency exchange rate on the financial results of HYDROBUDOWA POLSKA SA.**

HYDROBUDOWA POLSKA SA did not conclude any securing transactions in 2009. The last long-term hedging transaction were concluded in 2009 and concerned only future currency hedging, and they used only standard financial forward instruments. The Company has no financial instruments such as currency options. Hedging transactions have been made according to the binding financial policies and concerned agreements signed with investors and denominated in Euro. There were not of speculative nature and were concluded in accordance to the financial policy of the Company, in order to secure future cash flow from sales revenues (long-term construction contracts). Thanks to open positions on currency

market, the Company secured EUR 23.95 million for 2010 (of which EUR 19.05 million in the first half of 2010). According to the information submitted by banks, the balance evaluation of forward transactions as at 31 December 2009 amounted to minus PLN 14.17 million. This amount included the amount of PLN 6.59 million, for securing incomes of the Company. Result on forward transactions completed in 2009 was minus PLN 43.67 million, which has been recorded and accounted for in the profit and loss account. Comprehensive result of both open transactions and those closed in 2009 was minus PLN 50.26 million.

At the same time the Board of Hydrobudowa Polska SA would like to underline that due to high EUR exchange rate, the HBP Capital Group yielded higher profits, valued in PLN, on construction contracts. This compensated for the negative impact of currency options in 2009. Currency transactions concluded by the Company have the aim to reduce the negative impact of foreign exchange changes on operational activity.

Hedging contracts are concluded in accordance with the strategy of PBG Group, aimed at securing business activities against exchange rate fluctuations.

The basis of the strategy is to adjust hedging instruments to the scheduled securing transactions of a contract with regard to net value, currency rate, time span and quarterly income from currency transactions. In order to minimize the impact of the currency fluctuations on operating revenues of the companies from the Capital Group, only forward transaction would be concluded. The Company runs hedge accounting, which requires quarterly assessment of the hedging efficiency.

The Board of Directors would like to underline that the hedging policy secures the execution of contracts at planned margins, regardless of currency fluctuations and does not have an impact on the fundamental valuation of the Company. At the same time, hedging instruments enable precise evaluation of periodical profits on contracts, and none of the concluded transactions is of speculative nature.

The Board of Directors would like to inform that HBP SA has not concluded CIRS transactions

## **XXI. DESCRIPTION OF RISKS AND THREATS FACTORS THAT HAVE AN IMPACT ON THE DEVELOPMENT OF HYDROBUDOWA POLSKA SA**

### **Competition risk**

HYDROBUDOWA POLSKA SA provides the following services: major contracting, modernization, operation of hydro-technical, water and sewage facilities. These sectors are characterized by high competitiveness among companies, both domestic and foreign ones. The biggest players possess high equities and high-quality equipment, relevant for the execution of investments. It becomes crucial when it comes to high requirements that companies need to meet when they take part in tenders for construction works.

The key factors behind the competitiveness of a company are - apart from high level of equity assessed by investors as a guarantee of performance - price, experience, quality of services, effective organizational structure. These are the key for efficient execution of contracts.

The Company's strategy focuses on strengthening its market position and competitive advantage through constant improvement of the quality of provided services, offering complex solutions, flexibility and maintaining and developing its competences.

Big market competition forces companies to provide services at competitive prices. Therefore, the crucial part of our strategy is and will be to submit best quality offers. Moreover, it is necessary to maintain production capacity i.e. appropriate equipment and manpower, at the level which will allow providing high-quality services and meeting the investors' expectations.

Poland's membership in the European Union may encourage international companies providing services similar to those of the Capital Group, to enter the Polish market. This might increase the competition and cause reduction of profit margins. HYDROBUDOWA POLSKA SA tries to prevent these threats by implementing quality systems such as ISO 9001:2000, AQAP 2120, ISO 14001:2004 and PN-EN ISO 9001:2001 and through cooperation with foreign companies from the same market, by acting jointly in many projects as a consortium leader or partner.

#### **Risk of unreliable suppliers of materials and subcontractors**

Among the immediate environment of the Group we can count suppliers of materials and services. The quality of cooperation between HYDROBUDOWA POLSKA SA and its suppliers and subcontractors has a direct impact on the executed contracts. For this reason, it is important that this cooperation be of the best quality.

HYDROBUDOWA POLSKA SA reduces the risk of unreliable suppliers of materials and services through:

- cooperation with partners with established position on the market, who possess necessary credentials,
- diversification of suppliers,
- negotiation of favourable contract terms for the Company.

#### **Economic risks in Poland**

Macroeconomic factors have an influence on the achievement of strategic goals and results of HYDROBUDOWA POLSKA SA. These factors are: GDP growth, inflation, general condition of the Polish economy, changes in the Polish law. The unfavourable changes of macroeconomic factors may decrease the number of contracts executed by HYDROBUDOWA POLSKA SA and in consequence on its financial condition.

### **Risks associated with the availability of the funds from the European Union**

Contracts executed by HYDROBUDOWA POLSKA are financed from the European funds to a large extent. Thus, there is a risk that if there are changes in conditions of granting the funds, both on the European and Polish levels, the influx of funds for investments executed by HYDROBUDOWA POLSKA SA, may be decreased or difficulties will arise in obtaining them. If such a scenario develops there may be a decrease in demand for services provided by HYDROBUDOWA POLSKA which in consequence may lead to lower number of awarded contracts and to worse financial result of the Company.

### **Risk of unfavourable changes in tax regulations**

In Poland, we can observe numerous changes in tax regulations. Moreover, many provisions remain imprecise and they lack clear interpretation.

Therefore, there is a risk of changes in current tax regulations and introduction of less favourable tax regulations for the Company or its customers, which may in turn affect the Company's financial results, either directly or indirectly.

### **Risk of exchange rate**

The company operates mainly on the domestic market but contracts are co-financed by the European Union and valued in EURO. The fact that the Company yields most of its profit from agreements financed by the European Union, makes the Group dependent on currency fluctuations.

Hydrobudowa Polska SA undertakes the following actions to minimize the risk of exchange rate:

- using financial instruments
- signing contracts with suppliers and subcontractors in Euro.

In the long-term this risk shall be reduced, if Poland adopts Euro as its currency.

### **Risk of seasonality of sales**

Most of sales revenues of HYDROBUDOWA POLSKA S.A. are generated from services provided in the construction sector, which is characterized by seasonality of sales. This is caused by weather conditions in winter season, which often make some works impossible to perform.

Thus, we cannot rule out harsher weather conditions in the incoming years, and their impact on the level of profits of Hydrobudowa Polska, e.g. long lasting low temperatures can stop construction works and in consequence postpone revenues of the Company.

Therefore, to prevent the weather risk, most of the investments awarded from our customers shall be scheduled to start in the second quarter of a calendar year and shall be scheduled to end in the last months of a year, before the winter season starts. Moreover, we strive to obtain contracts of a high unit value, which ensue long periods of executed works.

At the same time, we cannot rule out that investment cycles of future investments will lapse and this will cause postponing some of planned sales revenues to future periods.

Arguably, these factors have an influence on the level of sales revenues of HYDROBUDOWA POLSKA S.A, which are usually the lowest in the first quarter and they increase in the second half of the year.

### **Risk factors directly related to the activity of the Company**

#### **Risk related to tenders, which the Company takes part in**

It is possible that the Company, despite starting in numerous tenders and preparing for the planned ones, will not get contracts with the total value that would enable:

- the execution of the published forecasts, and
- internally scheduled increase in the business activity in subsequent years.

It may be the result of losing some tenders by the Company. Moreover, some tenders may be challenged by entities which lost, due to formal and legal reasons.

The risk of insufficient number and value of contracts is relatively small for the planned growth scale in subsequent years. This opinion is based on past results of the Company, when it comes to tender competition, and the estimated value of contracts, which, to the best knowledge of the Company, are planned for 2010-2011

Notwithstanding the foregoing, there exists a risk of delays in the contract awards, which the Group is starting at. These delays may be caused both by longer tender procedures and factors of formal and legal nature. This in consequence may lead to postponing of the incomes planned by the Company and to worse financial results.

#### **Risk of losing key staff**

The Company bases its activities on knowledge and experience of its highly qualified staff, especially engineers. The key method of their recruitment is to offer competitive work conditions and salary.

Given the labour market situation in Poland there is a risk of losing key staff. Poland's membership in EU and open labour markets are also a significant threat. There is a potential risk of staff churn involving employees of key importance for the Company's development, which in turn might affect the quality of services. Thus, the Boards focuses on protecting the most valuable employees, relevant to achieve mission and goals of the Company.

In order to reduce the risk of losing key staff, the Company undertakes the following actions:

- monitors the labour market and offers competitive working conditions and salaries,
- implements appropriate motivation and rewards systems for the achieved results
- introduces flexible salary systems in line with the strategy of the Capital Group,
- organizes systematic trainings,

- develops relation between the Company and employees, through meetings and incentive travels.

### **Risk related to non-performance of contracts**

Construction contracts contain a series of provisions about the proper and timely performance of the works, appropriate removing of defects and faults, providing guarantee deposit or securities to the bank.

Security is usually paid on signing of contract and accounted for after completion of the contract. The value of security depends on the type of contract. Usually, the value is 10% of the gross contract value.

In the case of non-performance or undue performance there is a risk claiming contractual penalties to be paid or the contract to be terminated.

In case of dispute with the investor as to the quality of timeliness of the works, the security may remain unpaid until the end of the contract. In many cases, such disputes can lead to lengthy lawsuits.

Furthermore, under contracts with bank or insurance guarantee provisions, the Contractor shall carry out repair works within the guarantee.

In order to minimize the risk, Hydrobudowa Polska S.A. undertakes the following actions:

- insures contracts and services provided by its subcontractors,
- acts according to ISO 9001:2001, which minimize the risk of quality problems,
- continuously monitors quality and progress of work,
- uses IT software to manage ongoing contracts,
- develops qualifications of personnel directly involved in the execution of contracts, through thorough training programme for certified project managers,
- transfers risks to the cooperation agreements concluded with the manufacturers and material suppliers, subcontractors (product liability, responsibility for services, the differences between ordered and delivered products, price increases, etc.).

### **Risk related to current operations**

The Group's operations, especially works involving running equipment and facilities, may be a potential source of threats, including the possibility of a breakdown causing human or property losses.

Hydrobudowa Polska SA prevents these threats by:

- Insuring its operations against civil liability;
- Consistently equipping employees with new, up-to-date protection equipment;
- Training and development of staff qualifications;
- Regular trainings with regards to H&S and its supervision.

### **Risk related to order portfolio**

Development of HYDROBUDOWA POLSKA depends on the type, quantity and value of projects implemented as part of its core business. Despite broad market prospects for environmental protection and hydraulic engineering in Poland, the Company must meet a number of formal conditions, specified in tender specifications in order to obtain contracts.

In order to do this, the Company:

- identifies market needs through monitoring of the Bulletin of Public Tenders, and sector requirements on the regional and national levels.
- submits tender offers free of legal and formal defects,
- runs a reference record, issued by clients,
- follows all law regulations on public tenders, which allow the Company to participate in tender procedures.

### **Risk of lack of liquidity**

The Group may be exposed to lack of liquidity due to specific payment terms of long-term contracts of high value and necessity of involving significant amount of funds.

Long intervals between expenditures on contracts in progress and payment dates of invoiced works often force the Company to use various financial products such as receivable purchasing, factoring and revolving credit.

In order to minimize the risk, the Company undertakes the following actions:

- focuses on maintaining good relations with financial institutions.
- secures itself by maintaining access to credit and guarantee limits.

### **XXII. PROCEEDINGS CURRENTLY IN PROGRESS IN PUBLIC OR ARBITRATION COURTS AND ADMINISTRATION OFFICES:**

- a) proceedings relating to liabilities or debts of the issuer or its subsidiaries, which value constitutes at least 10% of the share equity of the issuer, stating: the object, value, date, parties of the proceedings and the standing of the issuer.
- b) two or more proceedings regarding liabilities and debts, which the total value constitutes at least 10% of the share equity of the issuer, stating the total value of the proceedings separately for liabilities and debts together with the standing of the issuer on the proceedings and on the biggest proceedings in the group of liabilities and debts, stating their subject, value, date of starting the proceeding and parties of the proceedings.

proceedings against the Company, which value does not exceed 10% of the share equity.

### **XXIII. STRATEGY OF HYDROBUDOWA POLSKA SA**

The strategy of HBP Capital Group is based on stable growth. The Group focuses on expanding its activities in the construction sector, which is the most profitable.

The aim of the Group is to maintain the leading position with regard to the production capacity, share on the market, level of incomes and returns.

Thus, the Group sees prospects for further development in the markets of environmental protection and hydraulic engineering.

The European Union assigned EUR 28 billion until 2013 to the Operational Programme Infrastructure and Environment in Poland. Out of this amount, EUR 5 billion shall be attributed to the protection of environment. This amount becomes bigger if we take into account the own contribution of investors, (20% of every investment)

Beneficiaries of these funds are mainly local and regional authorities. Should they be awarded these funds, there will be bigger demand for services offered by HBP Capital Group

The main priority within the environment protection is the improvement of flood safety.

The planned investments in this area are:

- increasing the capacity of reservoirs by about 2 billion cubic metres to about 3.3 billion cubic metres, including the planned storage reservoir in Racibórz - estimated cost is PLN 650 million;
- reconstruction of about 1 000 km embankments,
- river regulation along about 4000 km, including the regulation of Świna and Żuławy for about EUR 550 million,

According to estimates of the Ministry of Environment the total value of works related to hydro-technical infrastructure will amount to PLN 23 billion until 2020. This amount contains both new investments as well as the modernization of the existing facilities.

One of the most important investments is the "Programme for Odra 2006".

Its aim is the construction of flood protection systems, removal of flood damages and using the river's potential in terms of energy production. Funds will partially come from the European Union.

According to a financial plan of the Ministry of Environment, almost PLN 3.1 billion will be assigned to flood protection facilities until 2016. Reconstruction and modernization of river embankments will cost PLN 364 500 000

The largest projects are:

- construction of the storage reservoir in Racibórz (estimated cost - ca. PLN 650 million),
- construction of water network in Wrocław (estimated cost - ca. PLN 400 million),
- construction and modernization of river embankments in Kędzierzyn Koźle, Brzeg, Oława, Brzeg Dolny, Nowa Sól, Krosno Odrzańskie and Słubice,

- construction and modernization of river embankments in Wrocław, Opole, Nysa and Racibórz,
- construction of Chróścice dam in the municipality of Dobrzeń (estimated cost - over PLN 60 million)
- construction of flood protection facilities in Lwówek Śląski (estimated cost - over PLN 20 million).

A good example of how big impact these funds have on the civil engineering sector is that in years 2000-2003 Poland was awarded only EUR 0.7 billion from the European Funds.

The value of qualified expenditures in 2004-2006 was PLN 6.3 billion, and the part of funds financed by the Union was PLN 5.1 billion.

The total value of funds for the Operational Programme Infrastructure and Environment for 2007-2013 will be EUR 37.6 billion, of which EUR 27.9 billion financed by the European Union and EUR 9.7 million is an own contribution (including expenditures on the protection of environment which amount to over EUR 5 billion).

Industrial construction is another sector, where the Group plans to strengthen its position.

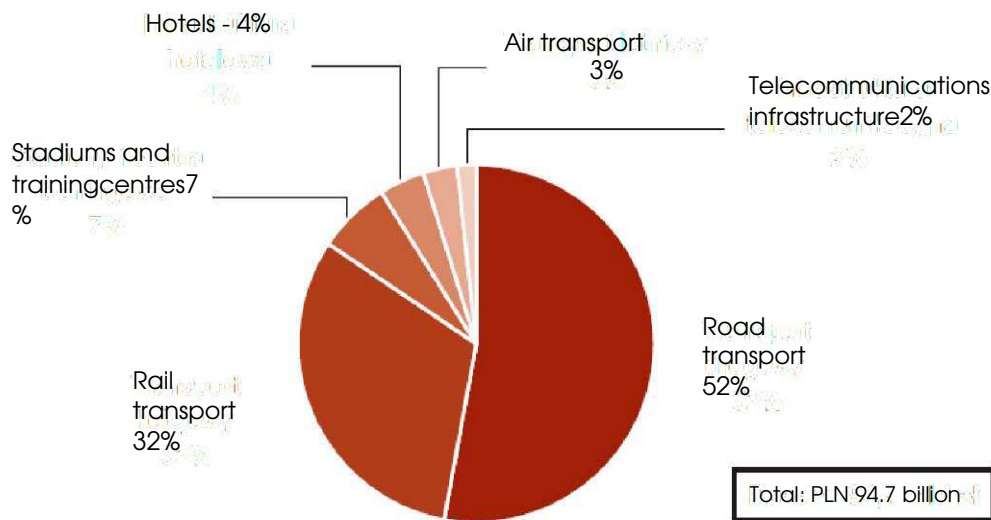
An opportunity for HBP Capital Group are investments related to the European Football Championship in 2012, held in Poland.

The value of projects related to the championship is estimated at nearly PLN 95 billion, twice as more as projects in Ukraine.

More than half of the investments will be road projects, and nearly one-third will be related to development of rail transport in Poland.

The majority of tenders for projects related to EURO 2012, was awarded in 2009. In 2010, most investments will be in progress, thus years 2010-2011 should be much more profitable for the Polish construction industry than the present year.

## Investments related to the organization of Euro 2012 in Poland



Source: Report on the European Football Championship in Poland and Ukraine in 2012. The scheduled construction investments', PMR Publications, PMR department, 2009.

In 2009, HBP Capital Group signed contracts for the construction of stadiums in Warsaw, Poznań and Gdańsk. They enable the company to diversify income structure and to become less dependent on projects related to environmental protection and hydraulic engineering. Due to big competition in this sector, the Capital Group will focus on larger projects, which require more credentials.

Other promising sector for HBP Capital Group is the construction of recycling plants in the biggest Polish cities. The cost of incineration plants only in Poznań, Kraków, Olsztyn and Szczecin will be about PLN 2 billion.

Another investment of big importance for the Group is the construction of the second line of metro in Warsaw. Here the estimated cost will be EUR 1-1.2 billion. Therefore, in the previous year, PRG "Metro" Sp. z o.o. joined the Capital Group. Its credentials and experience in this field will help significantly.

Moreover, the Company expects to benefit from the boom in the energy sector.

In the period 2010-2020, it is planned to build energy units with capacity of 16 thousand MW. Every megawatt produced at a coal plant requires € 1.5-2 million, i.e. investments in new conventional units may reach around € 24-32 billion. In addition, taking into account the objectives of a directive of the European Commission on the renewable energy and the plans of construction a nuclear plant in Poland, the above-mentioned figure may be even doubled.

Due to the fact that the Polish market is very attractive and yields bigger profits than foreign markets, the Capital Group does not plan major investments abroad.

#### **XXIV. MAJOR ACHIEVEMENTS IN THE FIELD OF RESEARCH**

The Company did not observe achievements for the period included in the financial statements that would have significant impact on the financial result.

#### **XXV. CURRENT AND FUTURE FINANCIAL CONDITIONS**

All financial ratios and data are based on the financial statements, which are drawn up in accordance with the International Accounting Standards.

#### **REVENUES FROM SALES**

In 2009, HYDROBUDOWA POLSKA SA observed an increase in sales revenues by 41.8% compared to the previous year. The revenues increased from PLN 793 951 000 in 2008 to PLN 1 125 755 000 in 2009.

The biggest increase was observed in the sector of residential and industrial construction. This sector contains contracts for the construction of stadiums in Warsaw, Gdańsk and Poznań and the contract for the construction of the Waste Management Plant in Gdańsk-Szadółki. The water sector was the second one in terms of revenues. They accounted for 38% of all revenues of the Company. The fuel sector was the third in terms of revenues, which accounted for 1.8% of all revenues of the Company.

In the fourth quarter of 2009 the sales revenues of the Company amounted to PLN 420 741 000 and were **higher by 61%** compared to the previous year.

#### **The biggest sources of revenues in 2009 were the following construction contracts:**

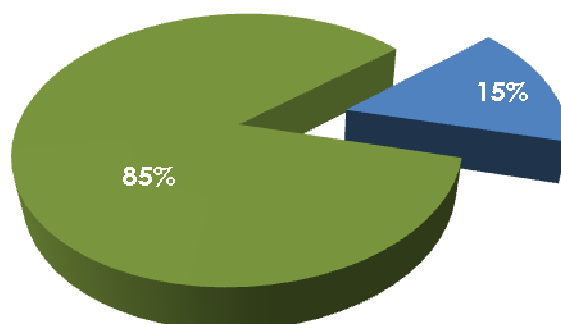
<b>Contract Name</b>	<b>Value of revenues in 2009 PLN in thousand</b>
Development of the Municipal Stadium in Poznań, at 5/7 Bułgarska Street. The contracts includes construction of I and III stand and the roof for I, II and III stand.	320 061.7
Construction of the National Stadium in Warsaw, together with related infrastructure.	145 876.9
Design project and construction of the Waste Management Plant in Gdańsk-Szadółki	116 438.7
Construction of sewer system in Rokitnica and Grzybowice, boroughs of Zabrze.	73 233.6

Agreement on construction of the Baltic Arena - the football stadium in Gdańsk Letnica	51 830.8
Sewage and drainage systems in Wilkowyje and Mąkołowiec, districts of Tychy, within the programme name "Gospodarka ściekowa w Tychach"	48 163.3

### Order portfolio of HYDROBUDOWA POLSKA SA

On 31 December 2009, the order portfolio of HYDROBUDOWA POLSKA SA amounted to PLN 1.3 billion. The largest share in the Company's portfolio constitute contracts from the sector of industrial and residential construction, which contains investments for modernization and construction of stadiums in Warsaw, Poznań and Gdańsk and the Waste Management Plant in Gdańsk-Szadółki.

**The structure of the order portfolio as at 31.12.2009**



■ water ■ industrial and residential construction

### Cost of sales

In 2009 the cost of sales amounted to PLN 1.0 billion and was higher by 48.4% compared to the previous year. The share of variable costs in sales revenues increased from 88.3% at the end of 2008 to 92.4% at the end of 2009.

In the fourth quarter of 2009 the cost of sales amounted to PLN 376.8 million and was higher by 57.5% compared to the previous year. The share of variable costs in sale revenues decreased from 91.8% in the fourth quarter of 2008 to 89.6% in the fourth quarter of 2009.

### General administrative expenses

Administration costs at the end of 2009 amounted to PLN 23.2 million and were lower by 22.6% compared to the previous year. Share of administration costs in sales revenues decreased from 3.8% in 2008 to 2.1% in 2009, i.e. by 1.2%

Administration costs in Q4 2009 amounted to PLN 6.9 million and were lower by 25.1% compared to the same period the previous year. The share of administration costs in sales revenues decreased from 3.5% in Q42008 to 1.6% in Q4 2009, i.e. by 1.9%.

### EBIT - operating income

In 2009 HYDROBUDOWA POLSKA observed a decrease in operating income by 11.9%. The operating income decreased from PLN 58.3 million to PLN 51.4 million.

In 4Q 2009, the operating income of the Company increased by 196.8% from PLN 9.7 million to PLN 28.9 million.

### EBITDA

In 2009, expenditures on tangible and intangible fixed assets amounted to 5.8 million compared to PLN 37.2 million in 2008. It resulted in lower amortization, which decreased from PLN 9.5 million in 2008 to PLN 9.1 million in 2009. **EBITDA** (Earnings before interest, taxes, depreciation and amortization) **at the end of 2009 amounted to PLN 60.5 million** and was **lower by PLN 7.4 million** than EBITDA in 2008.

In fourth quarter of 2009, EBITDA amounted to PLN 31.1 million compared to PLN 12.2 million in 2008 **which represents growth by 154%**

### OTHER OPERATING REVENUES

In 2009, other operating revenues were higher by 172% compared to the previous year. They mainly consist of reversal of impairment of receivables - PLN 3.2 million and paid compensation - PLN 2.6 million.

In 4Q 2009, other operating revenues amounted to PLN 5.5 million, of which most of them were income from the compensations - PLN 1.6 million, and from the reversal of assets impairment - PLN 2 million. Thus, they increased by 570% compared to Q4 2008.

A detailed overview of other operating incomes is included in the table below.

Item	for the period 01.01 – 31.12.2009	for the period 01.01 – 31.12.2008	4th quarter	
			01.10 to 31.12.2009	01.10- 31.12.2009
a) Gains from sale of non-financial fixed assets	660		513	-
b) Reversal of write-downs of assets	3 201	906	2 026	358

- intangible assets and tangible fixed assets	37		37	-
- receivables	3 164	906	1 989	358
- inventories			-	-
- other			-	-
<b>b) Other, of which:</b>	<b>4 024</b>	<b>1 994</b>	<b>3 509</b>	<b>468</b>
- subsidies			-	-
- compensation received under insurance contracts, penalties and fines	2 555	970	1 581	238
- reversal of provisions for warranty servicing			-	-
- rental, lease			-	(242)
- other events, reimbursement of court fees	21	246	21	246
- profit on valuation of investment property	1 379	-	1 379	-
- other extraordinary events	69	778	15	226
<b>Other operating revenues – total</b>	<b>7 885</b>	<b>2 900</b>	<b>5 535</b>	<b>826</b>

### Other operating expenses

In 2009 other operating expenses amounted to PLN 18.6 million and were higher by 155% compared to the previous year. They consisted of write-offs of receivables - PLN 13.3 million and compensations from insurance agreements - PLN 3.9 million.

Other operating expenses in Q4 2009 amounted to PLN 13.6 million and were higher by nearly 250% compared to Q4 2008. They consisted of write-offs of receivables - PLN 11 million, compensations from insurance agreements - PLN 1.6 million and donations - PLN 1 million.

A detailed overview of other operating incomes is included in the table below.

Item	for the period	for the period	4th quarter	
	01.01 – 31.12.2009	01.01 – 31.12.2008	01.10 to 31.12.2009	01.10- 31.12.2009
<b>a) Loss from sale of non-financial fixed assets</b>		<b>465</b>	-	62
<b>b) Write-downs of assets</b>	13 421	2 212	10 994	1 606
- intangible assets and tangible fixed assets	134	758	11	758
- receivables	13 287	1 454	10 983	848
- inventories			-	-
- other			-	-
<b>b) Other, of which:</b>	<b>5 201</b>	<b>4 626</b>	<b>2 623</b>	<b>2 224</b>
- donations	1 087	729	957	202
- compensation received under insurance contracts, penalties and fines	3 929	3 635	1 627	1 922
- shortages of current assets beyond the Company's control	12	-	12	-
- prescribed, waived and non-collectable receivables – written off	5	3	3	3
- costs other than tax-deductible costs			-	-
- other events,	121	141	121	141
- other events,			-	-
- other events,			-	-
- other extraordinary events	47	118	(97)	(44)
			-	-
<b>Other operating expenses – total</b>	<b>18 622</b>	<b>7 303</b>	<b>13 617</b>	<b>3 892</b>

### Financial revenues

Financial profits at the end of 2009 amounted to PLN 7.9 million and were 66% lower than the financial profits in the previous year. The main part of the financial income is the interest from bonds issued by companies from the Capital Group and covered by HYDROBUDOWA POLSKA SA - PLN 2.6 million, interest from granted loans - over PLN 1.5 million and financial transactions (some revenues from forward transactions, which were not hedging of operating income) - PLN 1.1 million.

Financial revenues in Q4 2009 amounted to minus PLN 0.7 million compared to PLN 12.7 million at the end of 2008. The main items are interest from the issued bonds - PLN 0.7 million and discount of long-term settlements - PLN 0.5 million.

In the fourth quarter of 2009, the Company had foreign exchange losses, which resulted in such a significant decrease in financial revenues.

A detailed overview of financial revenues is included in the table below.

Item	for the period	for the period	4th quarter	
	01.01 – 31.12.2009	01.01 – 31.12.2008	01.10 to 31.12.2009	01.10- 31.12.2009
<b>a) Interest</b>	<b>5 261</b>	<b>6 679</b>	<b>862</b>	<b>44</b>
- granted loans	1 507	61	476	16
- bank interest	405	3 158	120	90
- bonds	2 644	1 153	685	634
- other	705	2 307	(419)	(696)
<b>b) Other</b>	<b>2 612</b>	<b>16 185</b>	<b>(1 573)</b>	<b>12 607</b>
- foreign exchange gains	895	14 315	(2 075)	10 755
- revenues from financial market transactions	1 109		(86)	-
- discount (long-term settlements)	540		540	-
- dividends and profit distribution	2	3	-	1
- commissions on sureties	66	1 867	66	1 867
- other			(18)	(16)
<b>Total financial revenues</b>	<b>7 873</b>	<b>22 864</b>	<b>(711)</b>	<b>12 651</b>

### Financial expenses

Financial expenses in 2009 amounted to PLN 10.3 million and decreased by 23%. The most important element of the financial expenses is interest rates and bank fees - PLN 9.6 million.

In the fourth quarter of 2009, financial expenses amounted to PLN 1.1 million and they were lower by 56% compared to the previous year. The most important element is interest rates - PLN 1.5 million

A detailed overview of financial expenses is presented in the table below.

Item	for the period	for the period	4th quarter	
	01.01 – 31.12.2009	01.01 – 31.12.2008	01.10 to 31.12.2009	01.10- 31.12.2009
<b>a) Bank interest and commissions</b>	<b>9 576</b>	<b>11 680</b>	<b>1 474</b>	<b>1 569</b>
- granted loans	216	1 346	-	-
- interest and commissions on bank credits	9 360	8 350	1 474	2 400
- bonds	-	1 576	-	-
- other	-	408	-	(831)
<b>b) Other financial expenses</b>	<b>752</b>	<b>1 743</b>	<b>(341)</b>	<b>983</b>
- foreign exchange losses	-	-	-	-
- costs of financial market transactions	-	-	-	-
- discount (long-term settlements)	-	341	(355)	8
- commissions on sureties	-	1 402	-	1 402
- other - loan impairment	696	-	62	-
- other	56	-	(48)	(427)
<b>Total financial expenses</b>	<b>10 328</b>	<b>13 423</b>	<b>1 133</b>	<b>2 552</b>

#### Financial ratios and explanatory information to amounts presented in the consolidated financial statements.

##### Selected financial ratios:

The following ratios were used to assess the profitability of the company:

- **Return on sales** – sales profit / sales revenues,
- **Return on operations** – operating profit / sales revenues,
- **Net profitability** – net profit / sales revenues,
- **Return on assets (ROA)** – net profit/sales revenues,
- **Return on equity (ROE)** – net profit / shareholders' equity,
- **Return on fixed assets** – net profit/fixed assets,

Profitability ratios	for the period	
	2008	2009
Gross profit margin	11.7%	7.6%
Return on operating activity	7.3%	4.6%
Net profit	6.7%	3.5%
Return on assets	4.6%	2.9%
Return on equity	7.1%	4.7%
Return on fixed assets	10.5%	8.3%

In 2009 HYDROBUDOWA POLSKA generated gross profit margin of 7.6%, compared to 11.7% in 2008 and operating margin of 4.6% compared to 7.3% in 2008, and net profit margin of 3.5% compared to 6.7% in 2008..

The following financial ratios were used to assess the structure of capital and debt level:

- **Total debt ratio** - total debt / total assets,
- **Long-term debt ratio** - (long-term debt + long term reserves + long-term accruals) / total assets,
- **Short-term debt ratio** - (short-term debt + short-term reserves + short-term accruals) / total assets,
- **Equity to debt ratio** - equity / total debt,

Debt ratios	for	
	2008	2009
Total debt ratio	35.4%	38.4%
Long-term debt ratio	3.9%	2.1%
Short-term debt ratio	31.5%	36.3%
Equity to debt ratio	182.9%	160.0%

The following financial ratios were used to assess the liquidity:

- **Current liquidity ratio** - current assets / (short-term payables + short-term reserves + short-term accruals and deferred income),
- **Quick ratio** - (current assets – inventories – receivables from provided services) / (short-term payables + short-term reserves + short-term accruals and deferred incomes),
- **Cash to current liabilities ratio** - (cash + short-term securities) / (short-term payables + short-term reserves + short-term accruals and deferred incomes)

Liquidity ratios	for	
	2008	2009
Current liquidity ratio	1.80	1.80
Quick ratio	0.97	1.14
Cash to current liabilities ratio	0.13	0.08

### Forecast financial condition

In 2010 the Company plans to maintain the financial ration at a level that will enable stable business activity. The issue of series K shares conducted in April 2008 by the Company provided sufficient funds for the future growth.

## **XXVI. SIGNIFICANT NON BALANCE SHEET ITEMS IN OBJECTIVE, SUBSTANTIVE AND MATERIAL MEANING**

Information about the value of off-balance items (sureties and guarantees) has been included in the explanatory information to the financial statements under the name "Liabilities from the granted sureties and guarantees as at 31.12.2009"

## **XXVII. CHANGES IN THE ACCOUNTING RULES**

There were no significant changes in the accounting rules in the period covered by the financial statements.

## **XXVIII. REMUNERATION, BONUSES AND BENEFITS PAID TO THE MANAGEMENT**

Information about the value of remuneration, rewards and benefits paid to the management of the company in the period covered by the financial statements, is included in the explanatory information to the financial statements in the following tables:

- remuneration of the members of the Board of Directors and the Supervisory Board due to holding the position in the Company from 01.01 to 31.12.2009.
- remuneration of the members of the Board of Directors and the Supervisory Board for holding their functions in subsidiaries, associates and jointly controlled entities in the period from 01.01.2009 to 31.12.2009.

## **XXIX. INFORMATION ABOUT AGREEMENTS THAT MAY HAVE AN IMPACT ON THE OWNERSHIP STRUCTURE OF SHARES**

On the day of submitting the consolidated financial statements, the Board of Directors had no information about agreements that may have an impact on the ownership structure of shares.

## **XXX. INFORMATION ABOUT AN ENTITY AUDITING THE FINANCIAL STATEMENTS**

The Board of Directors of HYDROBUDOWA POLSKA SA declares that according to the binding regulations it adopted a resolution on choosing Grant Thornton Frąckowiak Sp. z o.o. (known earlier as HLB Frąckowiak i Wspólnicy Sp. z o.o.), with its registered office in Poznań, Plac Wiosny Ludów 2 (61-831 Poznań), registered on the list of entities authorized to audit financial statements, kept by the National Chamber of Statutory Auditors, entry no. 238, to

- audit the financial statements of HYDROBUDOWA POLSKA SA for 2009

### **1. Date of signing the agreement**

On 24 June 2009 HYDROBUDOWA POLSKA signed an agreement with Grant Thornton Frąckowiak Sp. z o.o. (formerly known as HLB Frąckowiak i Wspólnicy Sp. z o.o.) to audit the financial statements of the Company

### **2. The value of the agreement**

The remuneration for Grant Thornton Frąckowiak Sp. z o.o. (formerly HLB Frąckowiak i Wspólnicy Sp. z o.o.), for auditing the financial statements of the Company for the period from 1 January 2009 to 31 December 2009 is PLN 57 000.00 exclusive VAT.

### **3. Other value of the agreement**

Moreover, the Company shall cover additional costs related to the audit of the financial statements (e.g. accommodation, food, transportation, courier).

## **XXXI. AGREEMENTS BETWEEN THE COMPANY AND MANAGING PERSONNEL, ON COMPENSATION IN CASE OF RESIGNATION OR DISMISSAL**

As at the balance day, HYDRROBUDOWA POLSKA SA has not had the signed agreements with the managing personnel, on compensation in case of their resignation or dismissal.

## **XXXII. INFORMATION ABOUT THE SYSTEM OF CONTROL OF BENEFIT PROGRAMMES**

HYDROBUDOWA POLSKA SA does not have any benefit programmes

## **XXXIII. RESTRICTION OF ASSIGNMENT OF SECURITIES OF HYDROBUDOWA POLSKA SA AND RESTRICTIONS IN CARRYING VOTES FROM THESE SECURITIES**

All shares of the Company are ordinary bearer shares. There are no restrictions with regard to assignment of shares and carrying of votes of the Company.

## **XXXIV. CORPORATE GOVERNANCE STATEMENT OF HYDROBUDOWA POLSKA SA**

## **1. A set of the Corporate Governance rules adopted by HYDROBUDOWA POLSKA SA**

HYDROBUDOWA POLSKA SA adopted rules of corporate governance published in "Good practices of the companies listed at the Warsaw Stock Exchange". The document is available at <http://www.corp-gov.gpw.pl>

## **2. Withdrawing from the code of corporate governance**

The Board of Directors of HYDROBUDOWA POLSKA SA hereby declares that the Company followed the rules of the Corporate Governance set in „the Code of Good Practises of the Companies listed at the Warsaw Stock Exchange"

## **3. Description of systems of internal control and risk assessment in the company with regard to drawing up financial statements and consolidated financial statements.**

The Board of Directors is responsible for the system of internal control in the Company and its efficiency during drawing up financial statements and periodic reports, in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent, the information required by laws of non-EU member states. (Journal of Laws of 2009, no. 33 item 259).

The financial statements are drawn up by the accounting department of the Company in co-operation with other departments, responsible for data, which are not directly shown in the accounting ledgers of the Company, and which are a part of the financial statements.

Due to a specific nature of the branch, the Controlling Department plays an important role in drawing up the financial statements. The effective assessment and analysis of the implemented construction contracts is the key risk management tool adopted by the Company. The basis for calculation of income and costs of the ongoing contracts are budgets of specific contracts according to IAS 11. The budgets are drawn up to the best knowledge and experience of the Company. During the preparation and implementation of construction projects, all budgets are analysed and updated by the responsible persons on an on-going basis. This process is based on the formal set of rules adopted by the Company and is subject to specific supervision by the Management Board.

When presenting its financial information, the Company applies consistent, specific accounting principles in accordance with the principles of measurement and presentation applied across the entire PBG Capital Group.

Chief Accountant - Proxy is responsible for drawing up the financial statements and signs the financial statements. He is also responsible for organization of the Accounting Department, which draws up the financial statements. The persons who prepare financial statements and are responsible for the control and co-ordination of the reporting process are specialists with the relevant knowledge and experience in this field.

Every member of the Board review the economical data and information in the financial statements while they are being drawn up and submits comments, which are considered during drawing up the financial statements. After the financial statements are drawn up, they are handed over for review or audit, pursuant to the applicable law.

Financial statements are reviewed or audited by an entity authorised to audit financial statements selected by the Company's Supervisory Board from among well-known auditing companies, guaranteeing the high quality of services and meeting the independence criteria.

When reviewing the Company's financial statements and accounts, the auditor meets with the key personnel of the Company, including members of the Board, and discusses specific matters of the financial statements. The final financial statements including the agreed adjustments (if any) made by the statutory auditor or any person involved in the preparation thereof or any member of the Management Board are read out again and signed by those persons.

Every year, the Company's Supervisory Board performs an assessment of the Company's audited financial statements to find out whether the statements are consistent with the underlying accounts and documents, as well as the actual situation. Results of this analysis are presented in the annual report of the Supervisory Board published by the Company.

Moreover, the Board of Directors frequently carries out an external audit, to check on the system of internal control and the risk of abuse. In 2007, Grant Thornton Frąckowiak Sp. z o.o. (formerly HLB Frąckowiak i Wspólnicy Sp. z o.o.) carried out an internal audit in the Company.

The Company's risk management during drawing up the financial statements is based on the identification and assessment of areas of risk and the determination of actions necessary to reduce or eliminate these risks.

**4. Shareholders holding large blocks of the Company's shares, either directly or indirectly; number of shares held by these shareholders; percentage share in share capital; number of votes carried by these shares and their percentage share in the total vote at the General Meeting**

**To the best of the Company's knowledge, the following shareholders hold shares representing at least 5% of the total votes at the General Meeting of Shareholders:**

No.	Shareholder	Number of shares	Number of votes	Share in equity of the Issuer	Share in total number of votes at the General Meeting of Shareholders
1.	PBG SA	132 098 185	132 098 185	62.74%	62.74%
2.	ING OFE	10 550 000	10 550 000	5.01%	5.01%

**5. Holders of any securities carrying special rights of control and description of these rights**

There are no securities carrying special rights to control the Company.

**6. Any limitations regarding the exercise of voting rights, such as the limitation of voting rights for holders of the specific portion or number of votes, temporary limitations on voting rights, or any provisions under which the equity rights carried by the securities are separated from their holders**

The Issuer's Articles of Association contain no provisions regarding any limitations of the exercise of voting rights by holders of the specific portion or number of votes.

## **7. Restrictions on assignment of securities of the Issuer**

There are no restrictions with regard to the assignment of shares and to exercise the right to vote. All shares of the Company are ordinary bearer shares.

## **8. Rules for appointment and dismissal of the managements personnel, their rights, and in particular the right to issue or buy-back shares.**

### **The Issuer's Management Board**

The Board of Directors acts pursuant to the Code of Commercial Companies, the Company's Articles of Association and Rules of the Board, adopted by the Board on 16 January 2009 and approved by the Supervisory Board on 10 March 2009.

The Board's competencies cover all matters specified in the Code of Commercial Companies and the Company's Articles of Association.

According to section 35 of the Articles of Association, the Board of Directors consists of the President of the Board, from one to six Vice-Presidents of the Board and from one to six members of the Board.

Only a natural person with full legal capacity may be appointed member of the Board of Directors.

Company may be represented by two members of the Board acting jointly or one member of the Board and a Proxy. The Board may grant full powers to act on behalf of the Company. Powers of attorney may be general, limited (authorisation to perform certain types of activities) and special (authorisation to perform specific activities).

The Board may appoint proxies of the company, in accordance with the binding regulations. Authorised proxy must be approved by all members of the Management Board.

The Board defines the strategy and main objectives of the Company, submit them to the Supervisory Board and later on is responsible for their implementation and execution. The Board of Directors ensures the transparency and efficiency of the management of the Company and that it follows good practices and rules of law.

Members of the Management Board shall be appointed, dismissed and suspended by the Supervisory Board pursuant to the Code of Commercial Companies and the Articles of Association. Candidates for the members of the Board of Directors are presented by the President of the Board.

The Supervisory Board signs and terminates agreements with the members of the Board. The agreements are signed by the Chairman or Vice-chairman of the Supervisory Board. Other activities connected with the employment of Management Board members shall also be based on the same procedure.

Remuneration of the Management Board members shall be determined by the Supervisory Board, taking into account its incentive nature and ensuring effective and trouble-free management of the Company.

The term of office of members of the Board of Directors shall expire:

- 1) at the time of his dismissal from the Board
- 2) on the day of the General Meeting approving the financial statements for the last full financial year of performing the function of a Management Board member,
- 3) upon their death;
- 4) upon their resignation.

If a member resigns from the Management Board, resignation shall be delivered to the Supervisory Board, with a copy for the Management Board.

President of the Board manages works of the Board and coordinates other members of the Board. In case of temporary absence of the President, his duties are taken over by an assigned member of the Board.

Without the consent of the Supervisory Board, members of the Management Board must not:

- 1) engage in any business competitive to the Company's business;
- 2) participate in any competitive entity as a partner in a (private) partnership, or as a member of any authority of any company, or as a member of any authority of any other competitive legal person,
- 3) hold interest in any competitive company, in the case of holding at least 10% of shares or the right to appoint at least one member of the management board.

Any member of the Board shall promptly notify the Supervisory Board of any circumstances listed above. Member of the Board shall remain fully loyal to the Company and shall refrain from taking any actions with the exclusive goal to gain one's own benefits. If a member of the Board receives any information on any potential investments or other profitable transaction related to the Company's business activities, she/he should immediately notify the Board of Directors thereof to make it possible for the Board to consider whether this option may be used to the benefit of the Company. Member of the Board may use such information or reveal it to the third party only with consent of the Board and if it does not affect the interest of the Company. Member of the Board shall inform the Supervisory Board of any conflict of interests in connection to the performed function or of the possibility of conflict of interests. Any activities outside the ordinary management of the Company must be approved by the Management Board's resolution. In particular, the Board's resolution shall be required in the following cases:

- 1) taking decisions on material investment projects and methods of their financing,
- 2) determining strategic plans for the Company's development and defining the Company's financial targets,
- 3) determining the Company's organizational structure,
- 4) determining the Company's regulations and other internal normative acts;
- 5) determining the internal division of responsibilities among members of the Board of Directors,
- 6) determining the assumptions of the payroll and personnel policy, including the terms of incentive schemes.

With the exception of the above matters, individual members of the Board of Directors shall be responsible for the individual management of the Company's affairs resulting from the division of responsibilities.

In case of any obstacles to the performance of duties by a member of the Board, he shall immediately inform the Board about such obstacles. The President of the Management Board shall decide which of the remaining members of the Management Board shall temporarily perform these duties.

### **Supervisory Board**

The Company's Supervisory Board acts pursuant to the Code of Commercial Companies, the Company's Articles of Association, and Regulations of the Supervisory Board of 18 June 2008.

The Supervisory Board is composed of five to nine members appointed at the General Meeting of Shareholders for the period of three years, but these mandates expiry on the date of the General Meeting of Shareholders approving the financial statements for the last full financial year of the Supervisory Board's term of office.

The number of members of the Supervisory Board is determined every time at the General Meeting of Shareholders, with absolute majority of the votes. The Board members may be re-elected.

At least half of the Supervisory Board members shall be independent, i.e. they shall be persons who meet the following requirements:

A member of the Supervisory Board is considered independent if he/she:

- 1) is not employed by the Company or any Related Entity;
- 2) is not a member of the supervisory board or management board of any related party;

- 3) does not hold at least 5% of total votes at the General Meeting of the Company or the Related Entity;
- 4) is not a member of the supervisory board or management board of any related party; carries at least 5% of the votes at the General Meeting of Shareholders or the General Meeting of the Related Entity
- 5) is not ascendant, descendant, spouse, brother, sister nor parent of the spouse, or adoptee of any of the persons listed in the above-mentioned points.

The foregoing conditions shall be fulfilled throughout the term of office. Within the meaning of the Articles of Association, an entity is a Related Entity, if it is the Parent Company for the company, a Subsidiary, or a subsidiary to the Parent Company to the Company. Within the meaning of these Articles of Association, an entity is a Subsidiary of another entity (Parent Company) if the Parent Company

- 1) holds the majority of votes in authorities of another entity (subsidiary), also by way of arrangements with other eligible persons, or
- 2) is entitled to appoint or dismiss the majority of members of company's bodies of that entity (the Subsidiary); or members of company's bodies of that entity (the Subsidiary); or
- 3) if more than 50% of members of the Board of other entity (Subsidiary) is at the same time, members of the board or senior executives of the Parent Company or another subsidiary or associated entity of the Parent Company.

A subsidiary of the Parent Company shall also be an entity, which is a subsidiary of another entity, which is a subsidiary of the Parent Company to the Company.

The Supervisory Board shall exercise permanent supervision over the company operations in all aspects of its activity. The Supervisory Board is responsible for the assessment of the financial statements and the report of the Board of Directors in terms of their accuracy with the accounting ledgers and the current state, for assessment of the Board's decision on the distribution of profits or loss coverage and for submitting annual report from these assessments at the General Meeting of Shareholders.

The Supervisory Board is also responsible for:

- 1) appointing and dismissing members of the Board and determining the number of members of the Board,
- 2) suspending, for important reasons, any or all members of the Board,
- 3) assigning members of the Supervisory Board, for a period not exceeding three months, to temporary duties of members of the Board, who have been dismissed or tendered their resignation or due to other reasons cannot perform their duties,
- 4) determining remuneration of the members of the Board,
- 5) selecting an independent audit;
- 6) approving the rules of the Board of Directors,
- 7) approving of acquisition or sale of real estate, perpetual usufruct or
- 8) share in a property

In order to perform its duties, the Supervisory Board may examine all documents of the Company, demand reports and explanation from the Board of Directors and other employees and assess the financial condition of the Company.

A Supervisory Board member shall immediately inform other Board members of:

- 1) conflict of interest with the company. In such a case, the Supervisory Board member shall refrain from taking part in discussions and from voting on a resolution regarding the matter where the conflict of interest has arisen. The information on the reported conflict of interest should be included in the minutes of the Supervisory Board's meeting.

- 2) any personal, actual and organisational relations between the Supervisory Board member and any shareholder, in particular with any majority shareholder, which may have an impact on the Company's business.

Personal relations with a shareholder shall mean first or second degree relation. Actual relations with a shareholder shall mean permanent business relations. Organisational relations with a shareholder shall mean relations arising from contracts for employment or similar agreements.

The Company shall have the right to request a Board member to submit a statement on the aforementioned relations.

## **8. Amendment of the Company's Articles or Memorandum of Association**

Amendment of the Company's Articles of Association shall require:

- a resolution of the General Meeting of Shareholders adopted by the majority of three fourths ([section 415 of the Code of Commercial Companies.](#)), in the form of a notarial deed (a resolution on a significant change in the business activity of the company requires the majority of two thirds of votes (section 416 of the Code of Commercial Companies.))
- a registration at the National Court Register (section 430 of the Code of Commercial Companies)

## **9. Functioning and primary competencies of the General Meeting of Shareholders, rights of shareholders and methods of their exercise, in particular principles arising from Regulations of the General Meeting**

### **9. 1. General Meeting of Shareholders**

The General Meeting of Shareholder acts on the basis of the Rules of the General Meeting of Shareholders.

Shareholders may participate in the General Meeting and exercise their voting rights in person or by a proxy or other representative.

Proxy authorisation to act for and on behalf of a Shareholder shall be granted in writing or in an electronic form, in which case a secure electronic signature verified based on a certificate is not required.

Other representatives of Shareholders must submit relevant documentation confirming the right to act on their behalf (in particular, duplicates from the relevant registers).

A Shareholder may attend the General Meeting using means of electronic communication, and in particular:

- a) real-time transmission of the General Meeting of Shareholders at the Company's website,
- b) two-way real-time communication enabling the Shareholders who do not participate in the General Meeting in the venue where it is held to take the floor during the General Meeting,
- c) exercise of the voting rights in person or by proxy before or during the General Meeting.

Procedures of participation in the General Meeting and exercise of the voting rights shall be defined by the Board of Directors of the Company before the set date of the General Meeting.

Shareholders, who possessed shares of the Company 16 calendar days before the General Meeting may attend the General Meeting of Shareholder.

The General Meeting of Shareholders is deemed valid if the shareholders present represent at least forty (40)% of the share equity, unless the Code of Commercial Companies stated otherwise.

Members of the Supervisory Board and the Board of Directors shall attend the General Meeting of Shareholders. Absence of any member of the Supervisory Board or the Board of Directors at the General Meeting shall be explained. The explanation is submitted at the General Meeting.

The statutory auditor should participate in the Annual General Meeting and in the Extraordinary General Meeting if the Company's finances are to be discussed thereat.

The General Meeting or its relevant part may be attended by experts and guests invited by the entities convening the Meeting, in particular when their participation is necessary to present expert opinions on matters under discussion to the participants of the General Meeting.

The task of the Chairperson is to ensure that the conduct of the Meeting is in line with the adopted agenda, the applicable laws, the Company's Articles of Association, and Regulations of the General Meeting, and that the rights and interests of all shareholders are respected.

The Chairperson may not remove matters from the agenda, change the order of the agenda, or introduce new matters of substance under discussion.

After addressing each matter included in the agenda, the Chairperson shall draw up a list of speakers and open a discussion, giving the floor to the participants in the adopted order of speaking. The Chairperson shall decide when to close the discussion. The Chairperson may give the floor to members of the Management Board and the Supervisory Board, as well as the invited experts, out of turn. They shall not be taken into account when determining the list and number of speakers. Speakers may only discuss matters included in the agenda and refer to the item currently under discussion. When discussing every item of the agenda, depending on its subject area, the Chairperson may set the time of speaking for a single speaker, both for the statement and the reply. The said restriction cannot be applied to members of the Board of Directors and Supervisory Board, or the invited experts. The Chairperson shall decide on whether to extend the time for presentation or give extra time to the speaker.

Each participant of the General Meeting shall have the right to ask questions to the Management Board, Supervisory Board and the Company's statutory auditor with regard to matters included in the agenda, with respect to the matter currently under discussion. Members of the Supervisory Board, the Management Board, and the statutory auditor shall, within their powers, answer these questions, to the extent necessary to decide on the matters under discussion at the General Meeting. All answers should take into account the fact that the Company should provide information in compliance with the provisions of the Law on Public Trading of Securities, and certain information cannot be provided otherwise than pursuant to these provisions. Immediately after the discussion, the Chairperson orders the vote on formal motions. At the request of participants of the General Meeting, their written statements may be included in the minutes. Such statements are adopted at the end of the Meeting.

Resolutions of the General Meeting shall be adopted by standard majority of votes, unless the law or the Articles of Association require a qualified majority to pass a given resolution. Vote on appointing and dismissal of the management persons is secret.

## **9.2. General rights of the General Meeting**

Pursuant to § 27 of the Articles of Association of HYDROBUDOWA POLSKA SA, shareholders at the General Meeting have the right to:

1. approve the report of the Board of Directors on the activity of the Company and the financial statements for the previous financial year and acknowledge of the fulfilment of duties by members of the (management) board
2. decide in respect of claims for damages of the Company,

3. sale and lease the company or its organized part and establish a limited property right on them,
4. issue of convertible bonds or bonds with pre-emptive rights,
5. buy-back shares, pursuant to section 362(1)(2) of the Code of Commercial Companies,
6. set remuneration rules of members of the Supervisory Board,
7. appoint and dismiss members of the Supervisory Board,
8. create, use and liquidate reserves and special funds,
9. adopt the Code of Conduct of the Supervisory Board,
10. decide whether to use or not specific provisions of the Corporate Governance Code of the Company, set by the Supervisory Board and the Board of the Warsaw Stock Exchange,

### **9.3. Rights of shareholders and the methods of their exercise**

Pursuant to the Rules of the General Meeting of HYDROBUDOWA POLSKA SA, shareholders have the following rights:

1. Shareholders may participate in the General Meeting and exercise their voting rights in person or by a proxy or other representative.

Any such proxy shall be null and void unless granted in writing, and must be attached to the minutes of the General Meeting. Other representatives of Shareholders must submit relevant documentation confirming the right to act on their behalf (in particular, duplicates from the relevant registers). Members of the Board of Directors and employees of the Company may not act as proxies at the General Meeting.

2. Any shareholder has to right to run for the Chairman of the General Meeting or submit one candidate for the Chairman of the General Meeting.

3. Shareholders representing at least 10% of the Company's share capital may request the Company's Management Board to convene an Extraordinary General Meeting of Shareholders.

A written request to hold an Extraordinary General Meeting of Shareholders and to determine the agenda of the next General Meeting pursuant to Section 400 § 1 of the Code of Commercial Companies must include a justification.

4. Each participant of the General Meeting shall have the right to ask questions to the Management Board, Supervisory Board and the Company's statutory auditor with regard to matters included in the agenda, with respect to the matter currently under discussion.

5. Each participant of the General Meeting may put forward a motion on procedural matters. In the case of procedural requests, the Chairperson may give the floor to the requesting participant out of turn. At the request of participants of the General Meeting, their written statements may be included in the minutes. Such statements are adopted at the end of the Meeting.

## **10. Composition of the Management and Supervisory Board and its changes during the last financial year, as well as description of the functioning of the Issuer's management, supervisory, or administrative bodies and their respective committees**

### **10.1. Composition and description of the Board of Directors**

The following changes took place in the Board of Directors in 2009:

- On 19 October 2009 Mrs. Joanna Zwolak resigned from the position of the Member of the Board. The reason for resignation was personal matters, which did not allow combining the position of the Chief Accountant and a Member of the Board.
- On the same day, the Supervisory Board of the Company appointed Mr. Szymon Tamborski to the Board and appointed him the Vice President of the Board.

As of 31 December 2009 the composition of the Management Board of the Parent Company was as follows:

<b>Name and surname</b>	<b>Position</b>
Jerzy Ciechanowski	President of the Board of Directors
Edward Kasprzak	Vice President of the Board
Jarosław Duśi	Vice President of the Board
Szymon Tamborski	Vice President of the Board
Andrzej Zwierzchowski	Member of the Board
Rafał Damasiewicz	Member of the Board

Until the date of publication hereof, composition of the Board of Directors remained unchanged.

The Board of Directors is competent in all matters related to the Company not restricted to competencies of the General Meeting of Shareholders or the Supervisory Board. The role, duties and Regulations of the Board of Directors are defined in a formal document. Individual members of the Management Board shall manage the specific areas of the Company's business, and their work is coordinated by the President of the Management Board.

## **10.2. Composition of the Supervisory Board and its committees**

In 2009, the following changes occurred in the Supervisory Board:

- On 4 June 2009, Mr. Marcin Idziorek and Mr. Piotr Stobiecki resigned from the position of members of the Supervisory Board of HYDROBUDOWA POLSKA S.A., effective on the same day.
- On 4 June 2009 the General Meeting of Shareholders appointed a new member of the Supervisory Board:
  1. Mr. Leszek Auda
  2. Mr. Robert Oppenheim
  3. Mr. Jacek Krzyżaniak
- On 7 September 2009, Mr. Leszek Auda resigned from the position of a member of the Supervisory Board.

On 31 December the composition of the Supervisory Board was as follows:

<b>Name and surname</b>	<b>Position</b>
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Małgorzata Wiśniewska	President of the Supervisory Board
Andrzej Wilczyński	Vice President of the Supervisory Board
Grzegorz Wojtkowiak	Member of the Supervisory Board
Przemysław Szkudlarczyk	Member of the Supervisory Board
Jacek Krzyżaniak	Member of the Supervisory Board
Robert Oppenheim	Member of the Supervisory Board

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Until the date of publication hereof, composition of the Company's Supervisory Board had not changed.

The term of office of the Supervisory Board members last three years, and their remuneration is determined by the General Meeting of Shareholders. The Supervisory Board shall exercise permanent supervision over the company operations in all aspects of its activity. The Supervisory Board is responsible for the assessment of the financial statements and the report of the Board of Directors in terms of their accuracy with the accounting ledgers and the current state, for assessment of the Board's decision on the distribution of profits or loss coverage and for submitting annual report from these assessments at the General Meeting of Shareholders.

The Supervisory Board is also responsible for:

1. appointing and dismissing members of the Board and determining the number of members of the Board,
2. suspending, for important reasons, any or all members of the Board,
3. assigning members of the Supervisory Board, for a period not exceeding three months, to temporary duties of members of the Board, who have been dismissed or tendered their resignation or due to other reasons cannot perform their duties,
4. determining remuneration of the members of the Board,
5. selecting an independent audit;
6. approving the rules of the Board of Directors,
7. approving of acquisition or sale of real estate, perpetual usufruct or share in real property.

The role, duties and Regulations of the Supervisory Board are defined in a formal document. The Supervisory Board shall perform its duties jointly, but has assigned a part of its competences to specific persons or committees presented below.

The Supervisory Board of HYDROBUDOWA POLSKA SA formed the following committees:

1. Audit Committee
2. Remuneration Committee

The Audit Committee is composed of:

- Grzegorz Wojtkowiak – Chairman of the Audit Committee,
- Robert Oppenheim,
- Przemysław Szkudlarczyk.

The Audit Committee meets when required, but at least once a quarter.

In particular, the Audit Committee is responsible for:

1. assessing the independence scope of a selected independent auditor, advising the Supervisory Board on the selection of an independent auditor as well as on the terms of

agreement with such an expert and the amount of his/her remuneration. Should the Supervisory Board select an independent auditor, other than the auditor recommended by the Audit Committee, such a decision must be supported with a detailed explanation.

2. analysis and assessment of relations existing in the Company, Supervisory Board itself and the Board of Directors, paying special attention to conflicts of interest which may occur or be disclosed, and taking actions aiming at eliminating this phenomenon.
3. ensuring optimum communication between the statutory auditor and the Supervisory Board.
4. reviewing quarterly, semi-annual and annual financial statements received from the members of the Company subsidiaries; as well as quarterly, semi-annual and consolidated annual financial statements of the capital group.

- Mrs. Małgorzata Wiśniewska is the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for:

1. general monitoring of practices in the area of remuneration and their level in the Company,
2. defining the terms of employment of the Management Board members and Company senior management,
3. defining the bonus plan for the financial year.

#### **Signatures of the members of the Board of Directors**

<b>Date</b>	<b>Name and surname</b>	<b>Position / Function</b>	<b>Signature</b>
22.03.2010	Jerzy Ciechanowski	President of the Board of Directors	
22.03.2010	Edward Kasprzak	Vice President of the Board	
22.03.2010	Jarostaw Dusiło	Vice President of the Board	
22.03.2010	Szymon Tamborski	Vice President of the Board	
22.03.2010	Rafał Damasiewicz	Member of the Board	
22.03.2010	Andrzej Zwierzchowski	Member of the Board	