

REPORT

by the Supervisory Board of Energomontaż–Południe S.A.
on operations in 2010

Acting on the basis of the Commercial Companies Code, the Statute of the Company, the Rules of the Supervisory Board and in connection with Attachment to Resolution No. 17/1249/2010 of the Stock Exchange Council of 19 May 2010 on the application of Best Practices of Warsaw Stock Exchange Listed Companies, the Supervisory Board of Energomontaż–Południe S.A. presents below a report on its operations together with an assessment of the position of the Company in the most recent financial year, that is, for the period 1 January 2010 to 31 December 2010.

1. Report on the operations of the Supervisory Board of Energomontaż–Południe S.A. in 2010, including the Supervisory Board's self-evaluation.

In 2010, the **Supervisory Board** of Energomontaż–Południe S.A. operated in the following composition:

In the period:

- from 1 January 2010 to 14 June 2010 it was composed of five persons:

Sławomir Masiuk	Chairman of the Supervisory Board
Andrzej Wilczyński	Deputy Chairman of the Supervisory Board
Marek Wesółowski	Member of the Supervisory Board
Andrzej Kowalski	Member of the Supervisory Board
Tomasz Woroch	Member of the Supervisory Board

- from 14 June 2010 to 31 December 2010 it was composed of five persons:

Grzegorz Wojtkowiak	Chairman of the Supervisory Board
Andrzej Wilczyński	Deputy Chairman of the Supervisory Board
Radosław Kamiński	Secretary of the Supervisory Board
Andrzej Kowalski	Member of the Supervisory Board
Tomasz Woroch	Member of the Supervisory Board

Acting on the basis of Clause 17 par. 4 pt. 4 of the Statute of the Company, on 27 December 2010 the Supervisory Board, as authorised pursuant to the Commercial Companies Code, appointed Mr Radosław Kamiński, Secretary of the Supervisory Board, to temporarily act as President of the Management Board of the Company.

In 2010, the Supervisory Board acted on the basis of the Company's Statute, the Rules of the Supervisory Board, and the provisions of the Commercial Companies Code. Supervisory Board members carried out their inspection and supervision duties by holding regular meetings during which matters related to the Company's operations were discussed. The Supervisory Board took decisions directly during working meetings, and also expressed its position in the form of resolutions adopted by remote means of direct communication under the procedure provided in Article 388 par. 3 CCC and Clause 5 par. 3 of the Rules of the Supervisory Board.

The Supervisory Board's position on the matters reviewed was reflected in resolutions, as well as in opinions formulated in matters subject to its deliberations but not requiring the adoption of a resolution.

The Supervisory Board worked collectively in implementing all obligations stemming from the Commercial Companies Code and the Company's Statute, as well as the Rules of the Supervisory Board and the Best Practices of Warsaw Stock Exchange Listed Companies.

In 2010, 9 Supervisory Board meetings were held, in which 65 resolutions were adopted, including resolutions adopted by remote means of direct communication, the subject of which included in particular the following matters:

- 1) changes in the composition of the Management Board and determining the rules of remuneration for Members of the Management Board
- 2) the constitution of the Supervisory Board
- 3) establishing the Remuneration Committee
- 4) changes to the composition of the Audit Committee,
- 5) adopting the rules of Committees acting within the Supervisory Board.
- 6) issuing opinions on amendments to the Company's Statute and approving the uniform text of the Statute.
- 7) issuing opinions on matters submitted for consideration by the General Meeting of Shareholders of Energomontaż-Południe S.A. and the Extraordinary General Meeting of Shareholders.
- 8) approval of the Management Board's budget for 2010 together with the Investment Plan for 2010,
- 9) selecting a certified auditor for 2010,
- 10) consent for granting financial guarantees,
- 11) consent for the signing of appropriate credit agreements and annexes to agreements,
- 12) ongoing monitoring of the Company's receivables,
- 13) consent for the Company to negotiate and take control over other companies from the industry,
- 14) consent for the Company to participate in tender procedures and to perform contracts,
- 15) ongoing monitoring of the implementation of strategic contracts carried out by the Company,
- 15) discussing and deciding in the matter of Management Board members' remuneration,
- 16) discussing the consolidated and non-consolidated financial results for 2009,
- 17) evaluating the annual financial statements and the Management Board's report on the Company's operations in 2009,
- 18) evaluating the consolidated annual financial statements and the Management Board's report on the Capital Group's operations in 2009,
- 19) evaluating the Management Board's recommendation regarding the division of profits for 2009,
- 20) issuing an opinion on the discharge of Management Board members from liability for the performance of their duties for 2009,
- 21) selecting a certified auditor for the Company for 2010,
- 22) approving draft resolutions for the Company's General Meeting of Shareholders,
- 23) issuing opinions on matters connected with the share capital increase of Modus II and amendments to the Company's articles of association,
- 24) consent for a share capital increase in the subsidiary „Amontex” Przedsiębiorstwo Montażowe Sp. z o.o.
- 25) consent for the Company to acquire real property from Centrum Kapitałowe-Modus Sp. z o.o.
- 26) consent for the merger of CK-Modus Sp. z o.o. with Energomontaż-Południe S.A.

The composition of the Supervisory Board ensured that the Board was fully capable of carrying out the obligations imposed on it by the regulations, and that it also met the criteria of independence resulting from the Company's Statute and Best Practises of Warsaw Stock Exchange Listed Companies. The Supervisory Board was informed on an ongoing basis about decisions of the Company's Management Board which had a significant impact on Company operations, and about the Company's financial position, projects undertaken and cooperation with contractual partners. The Supervisory Board took decisions on the basis of materials, documents, presentations and explanations provided by the Company's Management Board.

All meetings of the Supervisory Board were convened in accordance with the rules set out in the Rules of the Supervisory Board and in compliance with the relevant provisions of the Commercial Companies Code, and therefore at each meeting the Supervisory Board was competent to adopt resolutions.

In considering matters and in all of its decisions, the Supervisory Board acted objectively, for the good and in the interests of the Company, and therefore, in its assessment, it performed all of its actions with due diligence.

The Supervisory Board requests that the Ordinary General Meeting of Shareholders of Energomontaż-Południe S.A. grant the members of the Supervisory Board a discharge from liability for the performance of their duties during 2010.

2. Report on the activities of the Audit Committee and Remuneration Committee acting as part of the Supervisory Board of Energomontaż-Południe S.A.

General information on the Audit Committee and Remuneration Committee:

The fundamental task of the Audit Committee is to advise the Supervisory Board on the proper initiation and control of financial reporting processes within the Company, on the effectiveness of internal inspections and risk management systems, and to cooperate with the certified auditors.

The Audit Committee acts in accordance with the Rules for the Supervisory Board, the Company's Statute, the Commercial Companies Code, the generally applicable provisions of law, and the rules set out in the document "Best Practises of Warsaw Stock Exchange Listed Companies" (Appendix to Resolution No. 17/1249/2010 of the Exchange Council of 19 May 2010).

In 2010, the Audit Committee created within the Supervisory Board of the Company Energomontaż-Południe S.A. was composed as follows:

In the period:

- from 1 January 2010 to 22 June 2010, with 3 persons:

Sławomir Masiuk	Chairman of the Audit Committee
Tomasz Woroch	Deputy Chairman of the Audit Committee
Andrzej Kowalski	Secretary of the Audit Committee

- from 22 June 2010 to 31 December 2010, with 3 persons:

Radosław Kamiński	Chairman of the Audit Committee
Grzegorz Wojtkowiak	Member of the Audit Committee
Tomasz Woroch	Member of the Audit Committee.

The Remuneration Committee of the Supervisory Board of Energomontaż-Południe S.A. is an auxiliary body acting within the Supervisory Board, which delegated its members to jointly fulfill specific supervisory duties on the Committee. The Committee operated in accordance with the Rules of the Supervisory Board, the Company's Statute, the Commercial Companies Code, the generally applicable provisions of law, and the rules set out in the document "Best Practises of Warsaw Stock Exchange Listed Companies" (Appendix to Resolution No. 17/1249/2010 of the Exchange Council of 19 May 2010).

The Remuneration Committee, appointed on 22 June 2010, was composed as follows:

- from 22 June 2010 to 31 December 2010:

Andrzej Wilczyński	Chairman of the Remuneration Committee
Radosław Kamiński	Member of the Remuneration Committee
Andrzej Kowalski	Member of the Remuneration Committee.

Audit Committee operations in 2010:

In 2010, the Audit Committee acted in accordance with the Audit Committee By-laws. The Audit Committee fulfilled its obligations stemming from the Audit Committee By-laws by advising the

Supervisory Board, including on issues related to the appropriate implementation of budget and financial reporting principles, and initiated and carried out internal control in the Company and within the Energomontaż-Południe S.A. Capital Group on an ongoing basis.

In 2010, the Audit Committee discussed the following matters at its meetings:

- a) monitoring the process of financial reporting;
- b) reviewing the internal control mechanisms within the Company and the Capital Group;
- c) internal audits for the purpose of contracts performed and in other areas of interest to the Supervisory Board;
- d) monitoring the work of the Company's certified auditors and presenting a recommendation with regard to the selection and remuneration of the Company's certified auditors to the Supervisory Board,
- e) reviewing the Company's consolidated and non-consolidated, periodic and annual financial statements, concentrating in particular on conformance with current accounting regulations,
- f) all problems and reservations that could stem from the review of the financial statements.

During the Committee meetings, the financial control mechanisms of the Company were analysed, in particular in terms of exchange rate risk, and the situation of subsidiaries of the Issuer's Capital Group was discussed.

The Audit Committee of Energomontaż-Południe S.A. believes that it carried out its duties in accordance with the provisions of law currently in force, as well as with the principles set out in the Audit Committee By-laws.

Remuneration Committee operations in 2010:

In 2010, the Remuneration Committee held meetings in accordance with the Remuneration Committee By-laws. Those meetings mainly involved working during meetings conducted during Supervisory Board meetings. The Remuneration Committee carried out its duties resulting from the Remuneration Committee By-laws.

In 2010, the Remuneration Committee discussed the following matters at its meetings:

- a) presenting the Supervisory Board with remarks and proposals concerning the general rules of remuneration for members of the Management Board, including in particular analysing the level of remuneration for members of the Management Board with reference to their qualifications, skills, and the task and duties assigned to them, as well as making recommendations concerning the performance evaluation system for members of the Management Board;
- b) presenting the Supervisory Board with remarks and proposals concerning the proper form and content of agreements with members of the Management Board.

In its meetings, the Remuneration Committee dealt with such issues as analysing the remuneration of Management Board members and managerial staff. It also evaluated and verified the bonus system operating within the Company. In accordance with its entitlements specified in its By-laws, the Committee commissioned a study by independent experts and an opinion for use by the Committee.

The Remuneration Committee of Energomontaż-Południe S.A. believes that it carried out its duties in accordance with the provisions of law currently in force, as well as with the principles set out in the Remuneration Committee By-laws.

3. Summary evaluation of the Company's condition in 2010

2010 was a year of changes in the structure of the capital group, and a period of adapting to market changes.

One of the most important corporate events of 2010 was the merger of the subsidiary CK-Modus Sp. z o.o. with Energomontaż-Południe S.A. made by way of a transfer of the assets of CK-Modus as the target company to Energomontaż-Południe S.A. as the acquiring company (a merger by takeover). The merger was made on the basis of Resolution No. 3 of the Extraordinary General Meeting of Shareholders of the Company on 20 December 2010 on the merger of Energomontaż-Południe S.A. with Centrum Kapitałowe-Modus Sp. z o.o. As a result of the merger, the structure of the Capital Group was simplified in order to increase the effectiveness of operations by optimising costs and improving liquidity.

On 20 December 2010, the Extraordinary General Meeting of Shareholders of the Company adopted Resolution No. 7 on authorising the Management Board of the Company to acquire own shares in the Company under the procedure of Article 362 par. 1 pt. 8 of the Commercial Companies Code, and this was reflected in activities undertaken by the Management Board at the beginning of 2011.

In February 2010, a share issue process was completed for 22,582,001 series E shares. Those shares were admitted to trading and a share capital increase in the Company was registered in the National Court Register.

Despite obtaining 17 per cent growth over the year in revenue from sales, the Company did not manage to attain a positive financial result. The following factors had an impact on that situation:

- a fall in the gross margin on sales, including because of a large share of revenue from the PGE Arena Gdansk contract,
- a fall in the value of the investment property in Wrocław,
- the creation of a revaluation write-down for finished products and land (in connection with the developer activities in Katowice),
- an adjustment of receivables because of the bankruptcy of the contractual partner Austrian Energy Environment AG and CO KG,
- charging the financial result with the amount of recapitalisation of "Amontex" Przedsiębiorstwo Montażowe Sp. z o.o.

It should be mentioned that, in 2009, an erroneous estimate of the value of Amontex was made. The value was corrected by PLN -26,219,000 in the consolidated financial statements and by PLN -33,023,000 in the non-consolidated financial statements. The erroneous estimate of the value of balance sheet revenue of Amontex was caused by an improperly conducted impairment test of the company as at 31 December 2009. Currently, Amontex comprises an important executive resource for the Energomontaż-Południe S.A. Capital Group, taking part in the implementation of its most important contracts. The changes made in the subsidiary should enable its market value to grow in the future.

The Supervisory Board considers the Company's result in 2010 to be unsatisfactory, yet expresses its conviction that in the future the situation will not affect the Company's ability to achieve a positive result reflecting its true potential.

The Supervisory Board assesses the changes in the functioning of the Capital Group and the reorganisation of its structure very positively, and plans in upcoming periods to support the Management Board in increasing the effectiveness of basic operations. The current portfolio of contracts, as well as the stable financial situation and previously completed investments, allow for a very positive evaluation of the Company's potential and opportunities for exploiting anticipated market developments in the power industry.

4. Assessment of the internal control system

In the Supervisory Board's assessment, in both the Company and the Capital Group of Energomontaż-Południe S.A., there are internal control systems in place which ensure the reliability, objectivity and credibility of the data presented in the financial statements and the safety of risk management in connection with the process of drawing up the financial statements.

Energomontaż-Południe S.A.'s internal control system consists of a series of internal procedures and regulations stemming from its quality management standards, organisational regulations and

document approval and circulation system. It was designed in such a way as to constitute an effective instrument of risk control and supervision of the correctness of the process of how data are gathered, processed, and presented in the form of financial statements. The internal control system operating in the Company is built from functional control mechanisms (preventative, detective and corrective) described in precise internal regulations of the Company and its subsidiaries.

In connection with the introduction of an integrated computer system, changes in the structure of the Capital Group and constant adaptation of the organisation to changing market conditions and requirements, in 2010 the introduction of changes in particular procedures of the internal control system was begun – the Supervisory Board has made a favourable assessment of all the measures taken in this regard.

In terms of financial reporting, one of the basic elements of controlling the process of preparing the financial statements and the correctness of their published form is having them audited by an external certified auditor. The mid-year and annual financial statements are handed over to a certified auditor for evaluation. Members of the Audit Committee were in constant contact with the auditor, and were convinced of its competence and independence.

5. Assessment of the risk management system

Both the Company and the Energomontaż-Południe S.A. Capital Group have a system in place for managing key risks. The risks identified include: operational risk relating to flow of receivables, subcontractor reliability, quality and time guarantees for performing orders, risk relating to changes in the price of goods, risk relating to exchange rate fluctuations, risk relating to changes in interest rates, and risk relating to liquidity.

The risk management system is based mainly on procedural solutions resulting from accounting policy, the quality management system, and the information system. These are intended to identify, monitor and restrict particular risk groups. The main measures taken to limit risk include the insurance system (including property, civil liability and insurance of receivables), the exchange rate risk policy, procedures for selecting subcontractors, and the internal control system. Assessing risk is taken into consideration when making any decision concerning the Company's operations, and in particular decisions relating to obtaining and performing contracts, and to financial policy. There is no separate unit or department responsible for risk management within the Company.

The Supervisory Board periodically reviews the way in which risk is being managed, in particular of how it is evaluated and avoided. It also verifies the cause of any setbacks.

In 2010, the Supervisory Board evaluated the risk management system favourably.

6. Report submitted pursuant to the requirements of Article 382 par. 3 of the Commercial Companies Code

Acting on the basis of Article 382 par. 3 CCC, the Supervisory Board declares that it analysed the following documents presented by the Management Board: the annual financial statements for financial year 2010, the report of the Management Board on the operations of the Company in financial year 2010, the consolidated financial statements of the Energomontaż-Południe S.A. Capital Group for 2010, the report on the operations of the Energomontaż-Południe S.A. Capital Group in 2010, and the motion by the Management Board on covering the net loss for 2010.

In particular, the Supervisory Board examined:

Non-consolidated results:

1. the report on financial position as at 31 December 2010 which concludes with a balance sheet value of PLN **413,416,388.68** (four hundred thirteen million four hundred sixteen thousand three hundred eighty-eight and 68/100 zlotys),
2. the statement of comprehensive income for the financial year from 1 January 2010 to 31 December 2010, which shows a net loss of PLN **601,321.31** (six hundred and one thousand three hundred twenty-one and 31/100 zlotys),

3. the cash flow statement indicating a cash decrease during financial year 2010 by the amount of PLN **5,541,537.20** (five million five hundred forty-one thousand five hundred thirty-seven and 20/100 zlotys),
4. a statement of changes in equity showing a decrease during financial year 2010 in the amount of PLN **10,838,896.39** (ten million eight hundred thirty-eight thousand eight hundred ninety-six and 39/100 zlotys).

Consolidated results:

1. the report on financial position as at 31 December 2010 which concludes with a balance sheet value of PLN **415,216,891.12** (four hundred fifteen million two hundred sixteen thousand eight hundred ninety-one and 12/100 zlotys),
2. the statement of comprehensive income for the financial year from 1 January 2010 to 31 December 2010, which shows a net loss of PLN **4,915,304.20** (four million nine hundred fifteen thousand three hundred four and 20/100 zlotys),
3. the cash flow statement indicating a cash decrease during financial year 2010 by the amount of PLN **8,769,146.28** (eight million seven hundred sixty-nine thousand one hundred forty-six and 28/100 zlotys),
4. the statement of changes in equity showing a decrease during financial year 2010 in the amount of PLN **7,503,183.26** (seven million five hundred and three thousand one hundred eighty-three and 26/100 zlotys).

The Company's Supervisory Board also familiarised itself with the report and opinion by the Certified Auditor which carried out an audit of the Company's non-consolidated and consolidated financial statements for 2010. The assessments presented in the Management Board reports and the opinion of the Certified Auditor allowed the Supervisory Board to evaluate the position of the Company and the Energomontaż-Południe S.A. Capital Group. From that evaluation it results that the economic and financial position of Energomontaż-Południe S.A. at the end of 2010 does not pose any threat to the continuity of the Company's operations or its future development.

The Supervisory Board of Energomontaż-Południe S.A. finds that:

1. The financial statements of the Company for 2010 and the consolidated financial statements of the Energomontaż-Południe S.A. Capital Group for 2010:

- accurately and clearly present all information which is significant for assessing the assets and financial situation as at 31 December 2010, as well as the financial result for the financial year running from 1 January 2010 to 31 December 2010,
- were drawn up correctly in all material respects, i.e. in accordance with the accounting rules (policy) provided by the International Accounting Standards, the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, as well as – with regard to issues not regulated by those standards – in accordance with the requirements of the Accountancy Act and executive regulations issued on the basis thereof, and in compliance with the provisions of law and of the Company's Statute which affect the content of the financial statements.

2. The financial statements of the Company for 2010 and the consolidated financial statements of the Energomontaż-Południe S.A. Capital Group for 2010:

- accurately and correctly reflect the business activities that took place in the Company in 2010 and the Management Board's actions in this period,
- cover the subjects required by the provisions of law currently in force,
- contain information conforming to the information included in the financial statements.

Moreover, taking into account the opinion of the certified auditor, the Supervisory Board states that the above-mentioned documents were prepared in accordance with the factual status, based on correctly maintained accounting books.

After acquainting itself with the financial statements, the Management Board's report on the Company's and Energomontaż-Południe S.A. Capital Group's operations in 2010 and based on its

own findings and conclusions, the **Supervisory Board** recommends that the Ordinary General Meeting of Shareholders **approve the annual financial statements for financial year 2010, the Management Board's report on the Company's operations in financial year 2010, the consolidated financial statements of the Energomontaż-Południe S.A. Capital Group for 2010, and the report on the Energomontaż-Południe S.A. Capital Group's operations in 2010.**

7. Evaluation of the Motion of the Management Board in the matter of covering the net loss for 2010.

The **Supervisory Board** issues a positive opinion on the motion of the **Management Board** concerning the coverage of:

1. the net loss for the period from 1 January 2010 to 31 December 2011 in the amount of PLN 601,321.31 out of profit achieved in future reporting periods,
2. the net loss from previous years in the amount of **PLN 40,670,699.96** arising in result of:
 - the merger in financial year 2010 of the Company with Centrum Kapitałowe-Modus Sp. z o.o. by means of taking up shares and the resulting elimination of unrealised margin on inventories; as a result of that event, a loss was incurred in the amount of PLN 7,647,640.01,
 - performing a revaluation write-down of the value of shares in the subsidiary Amontex Przedsiębiorstwo Montażowe Sp. z o.o. in the amount of PLN 33,023,059.95, out of profit achieved in future reporting periods.

The Supervisory Board moves that the Ordinary General Meeting of Shareholders of Energomontaż-Południe S.A. approve, in a resolution, the method of covering the net loss generated on operations in 2010, in accordance with the recommendation issued.

The Supervisory Board moves that the Ordinary General Meeting of Shareholders of Energomontaż-Południe S.A. approve this report on the operations of the Supervisory Board in 2010.

The Supervisory Board of Energomontaż-Południe S.A.:

Stanisław Gasinowicz *...Stanisław Gasinowicz...*
Chairman of the Supervisory Board

Andrzej Wilczyński *...Andrzej Wilczyński...*
Deputy Chairman of the Supervisory Board

Marek Skibiński *...Marek Skibiński...*
Secretary of the Supervisory Board

Grzegorz Wojtkowiak *...Grzegorz Wojtkowiak...*
Member of the Supervisory Board

Andrzej Kowalski *...Andrzej Kowalski...*
Member of the Supervisory Board

Tomasz Woroch *...Tomasz Woroch...*
Member of the Supervisory Board