



II. Corporate Governance Report

1. CORPORATE GOVERNANCE AT PBG SA

Principles of Corporate Governance include formal and informal rules of operations, being aimed at regulating relationships between all entities which participate in the life of the Company – with shareholders, investors, recipients, suppliers, the managing staff and employees. Applying all its rules should be a priority matter for every company. It is like this in case of PBG SA. Thanks to that the Company is more credible and transparent.

Rules and the clarity of the information are deciding about the success in the business. Reducing the risk associated with investing in securities of the company is a purpose of good practice. In Poland principles of Corporate Governance were collected in the document "Good Practices of the Companies Listed on the Warsaw Stock Exchange" and for the first time authorities of the Warsaw Stock Exchange published them in September of 2002. The document determined elements of business ethics which listed companies should follow in their everyday activity. Next edition of principles - " Good practices of the Companies Listed on the Warsaw Stock Exchange 2005" - were in effect from the beginning of year 2005 until the end of 2007.

Document being in effect at present - „ Good Practices of the Companies Listed on the WSE" came into effect with the day January 1, 2008. It is recognized as the guide of Corporate Governance principles for companies which want to build good, long-term relations with shareholders.

The PBG SA company adopted principles of the Corporate Governance published in the document „Good Practices of the Companies Listed on the WSE". In accordance with the duty „comply or explain" the PBG SA Management Board is declaring that in 2008 it obeyed all principles arising out of this document.

The report concerning the Corporate Governance is an integral part of the annual report.

Meaning of declarations with the commentary of the Company concerning each principle of the Corporate Governance and report concerning applying principles of Corporate Governance in the PBG for year 2008 the Company placed under the following Internet address:

<http://www.pbg-sa.pl/en/investor-relations/corporate-governance/wse-corporate-governance.html>

2. MEMBERS AND COMMITTEES OF THE SUPERVISORY BOARD

SUPERVISORY BOARD MEMBERS

The term of office of the Supervisory Board members is one year, and their remuneration is determined by the General Meeting of Shareholders. The Supervisory Board shall exercise permanent supervision over the Company's operations in all areas of its business activity. In particular, the task of the Supervisory Board is to analyse the Company's financial statement and the Management Board's report on the Company's operations in terms of their compliance with the underlying accounts and documents and the actual state of affairs, to analyse the Management Board's proposals of the distribution of profit or offset of loss, as well as to submit the annual report on the results of this analysis to the General Meeting of Shareholders.

The Supervisory Board is obliged to carry out permanent supervision over activity of the Company in all fields of its activity. The Supervisory Board submits brief assessment of the Company's condition every year which is agreed in the course of the Supervisory Board Meeting convened before the Ordinary General Shareholders Meeting.

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 part of its competencies to the specific persons or committees presented below.

The Supervisory Board member should have the due wisdom and experience and be able to devote the essential amount of the time for performing its duties. High qualifications and the professional experience of Supervisory Board members are a premise enabling the objectivity and the independence for its for members in expressing opinions and judgements.

MEMBERS OF THE SUPERVISORY BOARD

MACIEJ BEDNARKIEWICZ Chairman of the Supervisory Board	From 2004 Chairman of the PBG S.A. Supervisory Board. Graduate at the University of Warsaw - Faculty of Law and Administration. Lawyer since 1969. In 1989 and later on in 1992 Chairman of the Principal Legal Advice. Runs an individual law firm. From 2004 unlimited partner at Law Firm Maciej Bednarkiewicz, Andrzej Wilczyński and Associates limited partnership in Warsaw. In years 1989-1991 Member of the Parliament of Republic of Poland. In 1991 and later on in 1997 judge at the Polish Tribunal of State. Member of the administrative, management and supervisory organs. 1993-2001 member of the BIG Bank S.A. Supervisory Board. From 1998 Chairman of the Bank Milenium S.A. Supervisory Board. From 1999 Secretary of the PZU SA Supervisory Board. From 2003 member of the Techmex SA Supervisory Board.
JACEK KSEŃ Vice-chairman of the Supervisory Board	Vice-chairman of the PBG SA Supervisory Board. Graduate at University of Economics – Faculty of International Trade, Ph.D at Warsaw School of Economics – Faculty of International Financial Markets. Career: 1975-1978 Trade Bank, operator of exchange markets; 1978-1996 lived in France – worked in 3 banks in the Treasury Departments. Achieved managerial positions. Since 1996 back in Poland and position of Bank WBK President, since 2001 (merger with Bank Zachodni) till 2007 President of the BZWBK. Currently Chairman of the PLL LOT Supervisory Board and Sygnity, Vice-chairman of the PBG SA and Orbis Supervisory Board.
WIESŁAW LINDNER Secretary of the Supervisory Board	Secretary of the PBG SA Supervisory Board. Graduate at University of Economics in Poznań. Career: 1955 Wielkopolskie Okręgowe Zakłady Gazownictwa w Poznaniu (later PGNiG SA In Warsaw – Branch Wielkopolski Zakład Gazownictwa w Poznaniu, for 31 years position of economic department manager. Later on economic vice-director. In years 1987-1988 – worked In PGNiG SA in Warsaw as advisor of dyrektor. Since 1991 till 1997 head accountant at Zakłady Naprawy Gazomierzy in Poznań. Member of the ATG Sp. z o.o. Supervisory Board In the period from September 1999 to December 1999. In the PBG SA Supervisory Board since 2004.
JACEK KRZYŻANIAK Member of the Supervisory Board	Member of the PBG SA Supervisory Board. In years 1992-1995 student at University of Agriculture in Poznań – Faculty of Agricultural Economics. Career: in year 1998 director at Europe XXI Foundation. From 1998 to 2000 connected with WIL Lobbying Sp. z o.o., member of the board and general director, 1999-President of the Board. In 2003 started job as Board Assistant in Technologie Gazowe Piecobiogaz Sp. z o.o. (now PBG SA). Since 2004 manages Investor Relations Department in PBG SA. In 2007 took function of Company's Spokesperson. From Tyree years form 1999 to 2002 member of the Polish Capital Fund SA Supervisory Board. 2004-2006 member of the PC Guard SA Supervisory Board. From 2005-2007 in the HBW SA Supervisory Board. In the PBG SA Supervisory Board since 2004.

<p>MAŁGORZATA WIŚNIEWSKA Member of the Supervisory Board till 31.08.2008</p>	<p>Member of the PBG SA Supervisory Board. Graduate at University of Technology in Poznań – Faculty of Civil Engineering. Completed MBA Executive Master of Business Administration studies and Program for Improving Managerial Skills - Canadian International Management Institute. Postgraduate in the field of: management and public relations at Financial Faculty of Poznań School of Banking.</p> <p>Career: for 15 years held position of President of the Board in Poznań Educational Association. 1984-1991 designer assistant at Agricultural Industrialized Construction Enterprise in Poznań. From 1998 connected with Technologie Gazowe Piecobiogaz Sp. z o.o. (now PBG SA), which she was co-founding. Till 2004 she was: Quality Systems Director, Public Relations Director and member of the Board. In years 2004-2006 vice-president of the Board at PBG SA.</p> <p>Member of the Supervisory Boards at KRI SA, HBP SA, INFRA SA, APRIVIA SA, Hydrobudowa 9 SA. In PBG Supervisory Board from 2006.</p>
<p>MIROSLAW DOBRUT Member of the Supervisory Board till 12.03.2008</p>	<p>1974 – Graduate at the Częstochowa University - Faculty of Electric Engineering, Speciality of Electrical Power Engineering. 1995 - Ministry of Industry and Trade – member of the Supervisory Board. 1997 - Managers Training Foundation in Gdańsk – Managerial Trainings for Top Management.</p> <p>Career: 2003 – President of the Board at The Chamber of Natural Gas Industry. 1997-2002 member of the Board at EuRoPol Gaz SA in Warsaw. 1974-1997 at PGNiG SA- Pomeranian Gas District in Gdańsk on positions: 1989-1997 director of the Pomeranian Gas District in Gdańsk, 1987-1989 Chief of the Production District, 1985-1986 Chief of Motion Securing Department, 1981-1984 Chief of Electric Department, 1974-1980 trainee – technical design reader.</p> <p>Member of Supervisory Boards in PGNiG SA, 1994-2002 Gazomintaz SA, 1993-1997 Supergaz Sp. z o.o., 1993-1997 INVESTGAS Sp. z o.o.</p>
<p>DARIUSZ SARNOWSKI Member of the Supervisory Board</p>	<p>From 2005 member of the PBG SA Supervisory Board. Graduate at the University of Economics in Poznań. Has qualifications of chartered auditor who can examine financial statements.</p> <p>From 1996 connected with W. Frąckowiak and Partners Sp. z o.o. company, till 1997 assistant at Consulting Department, next – assistant at Audit Department. 1998 – inspector in Capital Markets Consulting Department at WBK SA. Next year became manager/consultant at Trade Institute – Reemtsma Poland SA. In 2000 at BDO Poland Sp, z o.o. as an assistant in Audit Department.</p> <p>From 2000 to 2003 connected with HLB Frąckowiak and Partners Sp. z o.o. company where he worked as an assistant in Audit Department, senior In Audit Department and director of Audit Department. From 2004 partner of Sarnowski & Wiśniewski Audit Company Sp. z o.o.. Member of administrative, management and supervisory organs. In years 2003-2004 – vice-president of the Board at Audit Services DGA Sp. z o.o.. From 2004 President of the Board at Sarnowski & Wiśniewski Audit Company Sp. z o.o. Was in Supervisory Boards of: MOSTOSTAL Poznań SA, Browary Polskie BROK - STRZELEC SA, NZOZ "Szpital w Puszczykowie" Sp. z o.o., Swarzędz SA.</p>
<p>ADAM STRZELECKI Member of the Supervisory Board</p>	<p>From 2004 member of the PBG SA Supervisory Board. Graduate at the Nicolas Copernicus University in Toruń, Faculty of Law and Administration. Ph.D in law sciences. Postgraduate at the Warsaw University – Faculty of Banking. From 1997 connected with University of Humanities and Economics in Wrocław, lecturer position and later on position of pro-dean of Administration Faculty, vice-chancellor of Organization and Development, Dean of Administration Faculty, now lecturer. From 1994 lecturer at Toruń Higher School. From October 2007 lecturer at Higher School of Safety and Security Services in Warsaw.</p> <p>Career: from 1966 to 1969 reader in PP Municipal Retail Trade in Chełmno. In years 1969-1972 auditor at Presiding Board of Powiat National Council in Chełmno. From 1972 to 1975 credit inspector at Agricultural Bank in Chełmno. In 1975 came to NBP in Chełmno and to 1977 was head accountant. Another 11 years director of NBP Department in Lipno. 1988-1993 – director of NBP Department - Voivodeship Department. For another 3 years director of Department of Polish Investment Bank in Wrocław. In 1996 at Credit Bank SA in Wrocław, to 2003 worked as director of the department. From 1995 to 2005 partner at Zakład Doskonalenia Zawodowego Sp. z o.o. n Wrocław - for 10 years, from 1995 member of the Supervisory Board. From 1997 to 2005 and from December of 2007 till now – member of the Board at Vocational Education Centre. In years 2002-2004 – member of the HBP SA Supervisory Board.</p>

At the 31st December of 2008 the Supervisory Board of PBG SA was composed of six members.

The Supervisory Board Member in the composition mentioned above was appointed on 23rd May of 2007 by the Ordinary General Shareholders Meeting to perform its function during the next term of office. In the period mentioned above that is in March of 2008, Mr. Mirosław Dobrut resigned from the function of the Supervisory Board Member of PBG SA. Potential conflict of interest connected with undertaking employment in the management bodies of other stock exchange company constituted justification of the submitted resignation. The next change in the Supervisory Board of PBG SA concerned resignation from performing function by Mrs. Małgorzata Wiśniewska as of 1st September of 2008. The resignation was justified by taking up position of the President of the Management Board in the subsidiary of PBG SA – the INFRA SA company.

Term of office of the Supervisory Board appointed in May of 2007 expired at the day of holding Ordinary General Shareholders Meeting and approval of financial statement of the Company for the year 2007. On the 18th day of June of 2008 the Ordinary General Shareholders Meeting of the PBG company granted the vote of approval to all members of the Supervisory Board mentioned above and decided to appoint them again to the Supervisory Board of PBG. In the present term of office the Supervisory Board consisted of seven members, but at the day of the financial statement submission the Supervisory Board consisted of six members.

COMMITTEES OF THE SUPERVISORY BOARD

The following Committees are conducting activity at the Supervisory Board of PBG SA:

- Audit Committee,
- Remuneration Committee.

The Audit Committee shall be composed of the following persons:

- Jacek Kseń,
- Dariusz Sarnowski.

The Audit Committee shall be convened according to the requirements, however at least once in a quarter of the year. The Audit Committee shall be responsible for the following issues, including without limitation:

- assessment of the scope of independence of the elected expert auditor and providing advise to the Supervisory Board with respect to election of the expert auditor, as well as conditions of agreement with him and the amount of his salary. Detailed statement of reasons shall be required in case of election by the Supervisory Board of other entity performing function of expert auditor than that which was recommended.
- analysis and assessment of the relations and dependence occurring in the Company and also in the Supervisory Board and Management Board of the Company with respect to conflicts of interest which occur or are possible to disclose and undertaking any actions aimed at elimination of that phenomenon as well as providing as effective communication as practicable between the expert auditor and the Supervisory Board.
- review of the quarterly, half-yearly and annual financial statements of the members of entities constituting part of the capital group of the Company, as well as quarterly, half-yearly and annual consolidated financial statements of the Company's capital group.

The Audit Committee shall be convened in accordance with the requirements, at least once in the quarter of a year.

The Remuneration Committee shall consist of:

- Maciej Bednarkiewicz;
- Wiesław Lindner;
- Jacek Krzyżaniak.

The Remunerations Committee shall be composed of at least two persons and should be responsible for the following issues:

- general monitoring of practices within the scope of salaries and their level in the Company;
- determination of the employment conditions of the Management Board Members and management staff of the Company;
- setting forth the plan of bonuses for the financial year.

The Remunerations Committee shall be convened in accordance with the requirements at least once in a quarter of the year.

SUPERVISORY BOARD, CODES OF CONDUCT

Supervisory Board conducts activity on the basis of Commercial Companies Code, the Memorandum of Association and the Supervisory Board By-Laws.

Supervisory Board consists of at least five members appointed by the General Shareholders Meeting in the secret ballot for the period of one year, whereas mandates of the Supervisory Board Members shall expire only as at the day of holding General Shareholders Meeting approving financial statement for the last entire financial year on the position of the Supervisory Board Member. The number of Supervisory Board Members shall be agreed each time by the General Shareholders Meeting. Supervisory Board Members may be elected once again. At least half of the Supervisory Board Members shall consist of independent members that is the persons complying with the following pre-conditions:

A member of the Supervisory Board is considered independent if he/she is not:

- an employee of the Company nor Associated Entity;
- a member of the supervisory and managing authorities of the Associated Entity;
- a shareholder holding at least 5% of votes on the General Shareholders Meeting of the Company or General Shareholders Meeting of the Associated (Related) Entity;
- a member of the supervising and managing authorities or an employee of the entity holding at least 5% of votes on the General Shareholders Meeting or General Shareholders Meeting of the Associated Entity;
- an ascendant, descendant, spouse, siblings or parents of the spouse or the person remaining in the adoption relationship towards any persons mentioned in the preceding subparagraphs.

Terms and conditions mentioned above must be complied with through the entire term of mandate.

The following issues shall require approval of the Supervisory Board:

- acquisition of the enterprise or organized part thereof;
- establishment and liquidation of the Company's branches in the domestic country and abroad;
- assumption of responsibility for somebody's obligations (sureties, guarantees, bill sureties) exceeding the sum constituting the amount of the Company's share capital subject to the provision that assumption of responsibility for obligations of the companies from the capital group of the Company shall not require approval of the Supervisory Board;
- dealing with competitive business by the Management Board Members and participation in competitive companies as the partner of unlimited company or member of the authorities;
- acquisition, take up, sale and resignation from the pre-emptive right of shares or stocks with the exception of stocks of public companies in the amount not exceeding 1% (one percent) of the total number thereof;
- advance payment for the benefit of the shareholders as part of the dividend provided at the end of financial year;
- contribution of any benefits by the Company except for the allowances resulting from the employment relationship for the Management Board Members of the Company;
- making material contract by the Company or its subsidiary with the associated entity of the Company (except for making agreements with the companies of the Capital Group of the Company), the Supervisory Board Member or the Management Board Member and the entities associated with the above entities;

- purchase or sale of the property, perpetual usufruct or share in the real estate;
- election of an expert auditor;
- representation of the Company in the agreements and disputes between the Company and the Management Board Members;
- approval of the Management Board By-Laws;
- appointment and dismissal of the Management Board Members;
- provision of the opinion on the matters presented by the Management Board.

DESCRIPTION OF THE RULES OF MAKING AMENDMENTS IN THE MEMORANDUM OF ASSOCIATION OR THE ARTICLES OF ASSOCIATION OF THE ISSUER'S COMPANY.

The amendment of the Memorandum of Association of the Company shall require:

- resolution of the General Shareholders Meeting adopted by the majority of 3/4 votes cast (Article 415 of the Commercial Companies Code), in the form of the Notary's Deed (the resolution concerning material amendment of the objects of the Company's activity shall require be adopted by the majority of 2/3 votes (Article 416 of the Commercial Companies Code));
- entry to the National Court Register (Article 430 of the Commercial Companies Code).

3. REPORT OF THE SUPERVISORY BOARD

REPORT ON OPERATIONS BY THE SUPERVISORY BOARD OF PBG SA IN 2008

The third term in office of the Supervisory Board of PBG SA composed of: Maciej Bednarkiewicz, Jacek Krzyżaniak, Wiesław Lindner, Adam Strzelecki, Dariusz Sarnowski, Małgorzata Wiśniewska and runs from 18th June 2008. On 1 September 2008 Mrs. Małgorzata Wiśniewska submitted a resignation from the function of a Member of the PBG SA Supervisory Board.

The Supervisory Board ensures control and supervision over the Company's running activities in all areas of its operation. In 2008, the Supervisory Board held 11 sessions at which 34 resolutions were adopted, concerning such matters as:

- consent to set up companies;
- consent to acquire companies;
- consent to sell companies;
- evaluating the financial statements of the Company for 2007, the Board of Directors' report on the Company's business in 2007 and the request of the Board of Directors on distribution of profit;
- evaluating the consolidated financial statements of the PBG Capital Group for 2007 and the report on the operations of the PBG Capital Group in 2007;
- determining the list of people authorized to acquire „D” shares within the Incentive Scheme in 2008,
- approving the report on operations of the Supervisory Board in 2007;
- liquidation of branches;
- changes in the Board of Directors.

The Supervisory Board watched over the Company's situation and gave opinions of running issues and planned operations. In the reporting period, the Supervisory Board obtained regularly information from the Board of Directors on the Company's financial standing, projects executed by the Company and cooperation with business partners.

When performing its duties, the Supervisory Board obtained information necessary for these duties from documents, information, presentations and explanations provided by the Board of Directors and – when it was required – by the Company's employees or experts on sessions of the Supervisory Board.

The Supervisory Board confirms that cooperation with the Board of Directors of PBG SA ran smoothly. The Board of Directors presented reliably the information concerning all organizational and financial aspects of the Company's operations. Documentation presented by the Board of Directors was complete and correctly prepared. The Board of Directors notified the Supervisory Board about issues falling within the competences of the Supervisory Board on a regular basis.

The Supervisory Board worked smoothly and efficiently, with all its Members participating.

Detailed description of actions taken by the Supervisory Board is presented in the minutes of sessions located in the Company's registered office.

All sessions were convened in compliance with the By-laws of the Supervisory Board, thus the Supervisory Board was capable of adopting valid resolution at each session.

CONCISE EVALUATION OF THE COMPANY'S STANDING IN 2008 MADE BY THE SUPERVISORY BOARD OF PBG SA

The previous 2008 year was, in the opinion of the Supervisory Board, another year that abounded in numerous very important events in the life of PBG SA. Due to the consequently realized strategy, prudence in execution of various projects and accuracy of decisions, the Company managed to achieve assumed operational targets and satisfy the financial forecasts. We believe that the Company recognizes well the occurring risks and can reduce them effectively, which in the current situation is a very important element of conducting business operations. In our opinion the greatest successes of 2008 include: building historically the greatest backlog of orders that secures the incomes in a three-year perspective (despite the economic slow-down), securing the sources of the contract financing (in view of the financial crisis) and expanding the scope of operations into new, attractive markets related to the infrastructural construction. All this provides grounds for further continuation of the Company's dynamic development.

The above words are confirmed at best by the financial results yielded by the Company. At the end of 2008 revenues of PBG amounted at PLN 571.5 million and mean a 24% growth when compared to the previous year. The operating profit grew by as much as 46% and amounted at over PLN 72 million. The net profit achieved the level of nearly PLN 58,5 million and was higher by 17%. Equally satisfactory financial results were obtained by the entire PBG Capital Group, whose consolidated revenues reached the level of PLN 2.091 billion and the net profit exceeded PLN 158 million.

In the context of the previous 2008 year and the years to come, it is worth mentioning that for its backlog of orders the PBG Capital Group won two historically greatest contracts: for construction of the LMG Crude Oil Plant and for construction of the Underground Gas Storage in Wierchowice for the total value of PLN 2.5 billion. Moreover, the Company won the contract for rebuilding of the Municipal Stadium in Poznań at the value of nearly PLN 400 million, which is the first of three contracts related to the construction and modernisation of stadiums at the total amount of PLN 2 billion.

In 2008, the investment operations in the financial area covered foremost the acquisition of companies in the road construction sector, which is related to the PBG Group's preparation to execution of contracts pertaining to Poland's preparations to the organization of EURO 2012. Moreover, the major emphasis was put on ordering the structure of PBG Capital Group, which is performed by means of forming capital groups within the areas of operations of individual companies within the PBG Group, by increasing the share capital of Hydrobudowa Polska through transfer of Hydrobudowa 9 to the assets of Hydrobudowa Polska, and by increasing the share capital of Aprivia through the acquisition of: Dromost, PRID and Betpol. The position of PBG Dom was strengthened as well by including some more special purpose vehicles preparing designs in the real estates area in the PBG Dom Group.

The Supervisory Board of PBG SA watched carefully how the Company functioned and the Company's Board of Directors operated, and if it realized consistently the strategy assumed for the Company. The Supervisory Board evaluates the Company's operations and the Board of Directors' work as positive ones and leading to an increase of the Company's value for the Shareholders.

Supervisory Board

Wysogotowo, 21 May 2009.

4. MANAGEMENT BOARD OF THE PBG

MEMBERS OF THE MANAGEMENT BOARD



Standing from the left:
Vice-president of the Board Tomasz Woroch,
Vice-president of the Board
Przemysław Szkudlarczyk,
Vice-president of the Board Tomasz Tomczak,
Vice-president of the Board Mariusz Łożyński,
Member of the Board Tomasz Łatawiec,
President of the Board Jerzy Wiśniewski.

Present term of office of the Management Board shall lapse on the 10th day of May of 2009. In accordance with paragraph 37 item 7 of the Statute (Memorandum of Association) of PBG SA, mandates of the Management Board Members expire at the day of holding the General Shareholders Meeting approving financial statement for the last full financial year of performing function of the Management Board Member.

The scope of competences of the Management Board includes any matters of the Company not reserved for competence of the General Shareholders Meeting or the Supervisory Board. The duties and Management Board By-Laws shall be defined in the formal document, which precise the function of Management Board. Particular Management Board Members manage areas of the Company's activity entrusted to them and their work is coordinated by the President of the Management Board.

MANAGEMENT BOARD PERSONNEL

STRATEGY AND DEVELOPMENT JERZY WIŚNIEWSKI Founder of the Company, President of the Board	Graduate at Poznan University of Technology – Civil Engineering Department. Completed MBA Executive Master of Business Administration Studies and Program for Improving Managerial Skills conducted by Canadian International Management Institute. He is entitled to seating himself in supervisory boards of companies of the Treasury.
ENVIRONMENTAL PROTECTION TOMASZ WOROCH Vice-president of the Board	Graduate at Adam Mickiewicz University in Poznan – Philosophy and AGH University of Science and Technology in Cracow – Faculty of Mining and Geoengineering. Completed MBA Executive Master of Business Administration Studies and Program for Improving Managerial Skills conducted by Canadian International Management Institute. He is entitled to seating himself in supervisory boards of companies of the Treasury.
ECONOMY & FINANCE PRZEMYSŁAW SZKUDLARCZYK Vice-president of the Board	Graduate at Poznan University of Technology – Faculty of Working Machines and Transportation and post-graduate studies – Faculty of Gas Engineering. Completed MBA Executive Master of Business Administration Studies and Program for Improving Managerial Skills conducted by Canadian International Management Institute. He is entitled to seating himself in supervisory boards of companies of the Treasury.
NATURAL GAS, CRUDE OIL & FUELS TOMASZ TOMCZAK Vice-president of the Board	Graduate at Poznan University of Technology – Faculty of Working Machines and Transportation and AGH University of Science and Technology in Cracow – Faculty of Drilling, Oil and Gas. Completed Program for Improving Managerial Skills conducted by Canadian International Management Institute.
TENDERING AND WINNING OVER MARIUSZ ŁOŻYŃSKI Vice-president of the Board	Graduate at Poznan University of Technology – Civil Engineering Department

Management Board in the composition mentioned above, despite of Tomasz Latawiec, was appointed on 10th March of 2006 by the Supervisory Board of PBG SA to perform its function in the following term of office. However, Mr. Tomasz Latawiec was appointed to perform function of the Management Board Member by the resolution of the Supervisory Board of PBG SA adopted on the 3rd October of 2007. The following changes in the Management Board of PBG SA have been made by the Supervisory Board on 28th November of 2008 which took decision upon application of the Management Board on appointment of Mr. Mariusz Łożyński – who has been Management Board Member heretofore for the position of Vice-President of the Company's Management Board. Application was filed in connection with the changes of responsibility within the scope of the Company's Management Board, resulting from making in the previous year the biggest contracts in the history of the Company within the scope of crude oil and natural gas. Vice-President of the Management Board Mr. Tomasz Tomczak being responsible until now for the entire area connected with production shall bear responsibility for contracts acquired for execution (construction of LMG crude oil plant and construction of underground gas storage in Wierzchowice). Mr. Mariusz Łożyński shall be additionally responsible for acquisition of orders in the PBG Capital Group and performance of contracts in hydro-technical and renovation areas apart from supervision over acquisition of contracts in the country and abroad.

DESCRIPTION OF THE RULES CONCERNING APPOINTMENT AND DISMISSAL OF THE MANAGING PERSONS AND THEIR RIGHTS IN PARTICULAR THE RIGHT TO TAKE DECISION ON THE ISSUE OR REDEMPTION OF SHARES.

Management Board conducts activity on the basis of the Commercial Companies Code, the Statute (Memorandum of Association) and Management Board By-Laws. The Management Board is body of the Issuer which competences shall include all matters which are not reserved by the Commercial Companies Code or Memorandum of Association of the Issuer for other bodies of the Issuer.

In accordance with presently effective provisions of the Issuer's Statute (paragraph 37) the Management Board of the Issuer consists of several persons including the President of Management Board and one to four Vice-Presidents of the Management Board and maximally three Management Board Members appointed and dismissed by the Supervisory Board. The Supervisory Board appoints the President of Management Board and than other Vice-Presidents and Management Board Members upon his application. Only natural person may be a Management Board Member having full legal capacity to perform acts in law.

Two Vice-Presidents of the Management Board acting jointly shall be authorized to represent the Company or Vice-President and Management Board Member acting jointly or Vice-President with the Commercial Proxy or Management Board Member with the Commercial Proxy. President of the Management Board represents the company individually. The Management Board of the Company may grant power of attorney to act on behalf of the Company. The powers of attorney may be general, or special – and authorize to perform actions of special type as well as there are powers of attorney for personal care and to carry out particular actions.

Management Board may grant commercial proxy rights. Approval of all the Management Board Members shall be required to establish the commercial proxy. Each individual Management Board Member shall be authorized to dismiss the commercial proxy.

Management Board shall define the strategy and consider interest of the Company, as well as main goals of the Company's activity and submit them to the Supervisory Board and then it shall be responsible for implementation and performance of those goals. The Management Board shall care of the transparency

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and effectiveness of management system of the Company and process of conduct of the Company's matters in accordance with the provisions of law and good practice.

Management Board Members are appointed, dismissed and suspended in exercise of their activity by the Supervisory Board in accordance with the rules defined in the Commercial Companies Code and the Memorandum of Association. Proposals of candidates for Management Board Members shall be presented by the President of the Management Board. The Supervisory Board makes agreements with the Management Board Members and terminates thereof, whereas the agreements are signed on behalf of the Supervisory Board by the Chairman or Vice-Chairman of the Supervisory Board. Other actions connected with the employment relation of the Management Board Member are carried out in the same course.

The Supervisory Board shall establish remuneration of the Management Board Members in consideration of motivational nature of this remuneration aimed at ensuring effective management of the Company.

Mandate of the Management Board Member shall expire:

- at the time of his dismissal from the Management Board;
- as of the day of holding the General Shareholders Meeting approving financial statement for the last entire financial year on the position of the Management Board Member;
- at the time of death;
- at the date of resignation.

In case of resignation from the function of the Management Board Member, this resignation should be delivered to the Supervisory Board with the copy addressed to the Management Board.

Management Board Member shall not undertake the following activities without approval of the Supervisory Board:

- to deal with business being competitive in relation to the Company;
- to participate in the competitive company as the partner of civil partnership, general partnership or member of the capital company body or to participate in other competitive legal person as member of the body;
- to participate in the competitive capital company in case of holding at least 10% of shares or stocks therein or the right to appoint at least one Management Board Member.

Any actions exceeding ordinary management shall require resolution of the Management Board. Resolution of the Management Board shall be required in the following cases, including without limitation:

- decisions concerning material investment projects and the manner of financing thereof;
- definition of the strategic plans of the company's development and establishment of financial goals of the Company;
- determination of the organizational structure of the Company;
- establishment of the by-laws and other internal normative acts of the Company,
- determination of the internal division of competences between Management Board Members;
- agreement of the assumptions of the salary and human resources policy, including assumptions to motivational plans.

Except for cases, referred to hereinabove particular Management Board Members are responsible for independent conduct of the Company's cases resulting from division of duties.

Should any impediments occur in the course of fulfilment of the duties by the Management Board Member he is obliged to notify the Management Board forthwith that execution of his duties is impossible. President of the Management Board shall decide whose of the remaining Management Board Members shall perform those duties as a deputy.

5. REMUNERATION REPORT

REMUNERATIONS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD MEMBERS

The amount of remuneration of the Supervisory Board members was determined under the Resolution of the Extraordinary General Shareholders Meeting of the Company PBG SA as of 10th December of 2005. The value of the remuneration is made conditional from individual duties and from areas of the responsibility entrusted to individual members of the Management Board and of the Supervisory Board.

Management Board members are appointed under the Resolution of the Supervisory Board. They are employed on the basis of employment agreements. In accordance with the Resolution of the Supervisory Board of PBG SA the Management Board members shall be entitled to the basis salary as well as bonuses and additional benefits resulting from the provisions on the remuneration.

REMUNERATIONS OF THE MANAGEMENT BOARD MEMBERS RESULTING FROM THE POSITION IN THE HOLDING ENTITY

Remunerations of the Management Board Members [tPLN]	01.01 – 31.12.2008			01.01 - 31.12.2007		
	Basic salary	Other benefits	Total	Basic salary	Other benefits	Total
Jerzy Wiśniewski	741	–	741	600	–	600
Tomasz Woroch	420	–	420	420	–	420
Przemysław Szkudlarczyk	300	–	300	300	300	600
Tomasz Tomczak	300	–	300	300	–	300
Mariusz Łożyński	245	–	245	240	–	240
Tomasz Łatawiec	240	–	240	58	–	58
Total	2 246	–	2 246	1918	300	2218

REMUNERATIONS OF THE SUPERVISORY BOARD MEMBERS RESULTING FROM THE POSITION IN THE HOLDING ENTITY

Remunerations of the Supervisory Board Members [tPLN]	01.01 – 31.12.2008			01.01 - 31.12.2007		
	Basic salary	Other benefits	Total	Basic salary	Other benefits	Total
Maciej Bednarkiewicz	120	–	120	120	–	120
Jacek Kseń	96	–	96	56	–	56
Wiesław Lindner	60	–	60	75	–	75
Jacek Krzyżaniak	36	–	36	46	–	46
Małgorzata Wiśniewska	24	–	24	36	–	36
Dariusz Sarnowski	36	–	36	36	–	36
Adam Strzelecki	36	–	36	36	–	36
Mirosław Dobrut	6	–	6	36	–	36
Total	414	–	414	441	–	441

REMUNERATIONS OF THE MANAGEMENT BOARD MEMBERS RESULTING FROM THE POSITION IN THE SUBSIDIARIES, AFFILIATED AND ASSOCIATED ENTITIES

Remunerations of the Management Board Members [tPLN]	01.01 – 31.12.2008			01.01 - 31.12.2007		
	Basic salary	Other benefits	Total	Basic salary	Other benefits	Total
Jerzy Wiśniewski	190	4	194	143	40	183
Tomasz Woroch	273	5	278	326	–	326
Przemysław Szkudlarczyk	59	–	59	207	1	208
Tomasz Tomczak	–	–	–	21	–	21
Mariusz Łożyński	–	–	–	–	–	–
Tomasz Łatawiec	121	–	121	360	–	360
Total	643	9	652	1057	41	1098

REMUNERATIONS OF THE SUPERVISORY BOARD RESULTING FROM THE POSITION IN THE SUBSIDIARIES, AFFILIATED AND ASSOCIATED ENTITIES

Remunerations of the Supervisory Board Members [tPLN]	01.01 – 31.12.2008			01.01 - 31.12.2007		
	Basic salary	Other benefits	Total	Basic salary	Other benefits	Total
Maciej Bednarkiewicz	–	–	–	–	–	–
Jacek Kseń	–	–	–	–	–	–
Wiesław Lindner	–	–	–	–	–	–
Jacek Krzyżaniak	72	3	75	21	12	33
Małgorzata Wiśniewska	315	1	316	221	1	222
Dariusz Sarnowski	–	–	–	–	–	–
Adam Strzelecki	–	–	–	–	–	–
Mirosław Dobrut	–	–	–	–	–	–
Total	387	4	391	242	13	255

6. RISK REPORT

RISK AND EXTERNAL THREATS

Competition risk

PBG Capital Group companies operate on the competitive market of specialist construction services in gas, oil, heating, water supply, sewerage, roads and infrastructure sectors. Apart from the price, the key factor behind competitiveness of any company is its experience in the execution of complex, specialist projects, adequate reference, high quality of services, and efficient organization guaranteeing timely performance of contracts in line with planned efficiency.

PBG Capital Group reduces competition risks by:

- selection of niche products and services;
- focusing on high quality of services;
- consistent improvement of qualifications in the area of cutting-edge technologies with the objective to develop a competitive offer and present it on the market;
- diversification of business areas;
- forming strategic alliances with well-known foreign companies operating on the Polish and foreign markets. In addition, this risk may be minimized by the Company's decision to gain new markets for its products and services.

Economic situation in Poland

In 2008 a cyclic deterioration of the economic growth which we were dealing with in recent years followed month by month. In the entire year dynamics of the Gross Domestic Product decreased by 6,7% in 2007 to 4,8% at the end of 2008. Deteriorating perspectives of the economic growth affected drop of inflation which convinced the Monetary Policy Council to commence the cyclic decrease of interest rates in the fourth quarter of 2008. At the end of a year the reference rate of the National Bank of Poland amounted 5%, after the following cuts respectively by 25 basic points in November and 75 basic points in December. The dropping inflation measured by means of CPI rate amounted 3,3% y/y at the end of December of 2008 in comparison to its peak of 4,8% y/y at the end of first half-year of the previous year. It was the result of drop in prices of resources and food.

Achievement of strategic goals of the PBG Capital Group and planned financial results is determined by macroeconomic factors, such as: GDP growth, inflation rate, general economic situation in Poland, changes in legislation. Unfavourable changes of macroeconomic indicators may reduce planned revenues or increase operating costs.

Forecasts of the economic situation in Poland for the following months assume decrease of the Gross Domestic Product - GDP. It will be mainly connected with the recession taking place in the United States and in the European Union Zone which is related among other things with hindered access to financing of new investments, decrease of export, increase of unemployment, reduction of consumption and simultaneously the expected further decrease of inflation trend and increase of trade deficit. The effects of economic slow down as well as reduction of materials prices and construction resources as well as access to cheaper labour, sub-contracting companies may result in decrease of activity costs and in consequence the growth of profitability achieved by the PBG Group. However it should be mentioned that decrease of economical activity in Poland will not be as noticeable as in other countries. It is connected first of all with using of the European Union funds designated for Poland, mainly for infrastructure investments, environment protection as well as investments within the scope of the European Football Championship in Poland in 2012.

Projects implemented currently are still financed from the Cohesion Fund (the aid from the Cohesion Fund for 2004-2006 totals EUR 4.5 billion).

Furthermore the projects co-financed by the European Union are also initiated the amount of Euro 63 billion was earmarked for Poland from the approved budget of the European Community in 2007-2013.

Poland's membership in the European Union

Poland's accession to the structure of EU encouraged international companies providing services similar to those offered by the Capital Group companies to enter the Polish market. This may increase the competition and reduce profit margins.

Having won several contracts of considerable value, PBG SA and other companies from the PBG Capital Group have proved that they are well prepared to compete with foreign companies. Moreover, the opening of European markets may be an opportunity for the PBG Capital Group companies to enter brand new markets.

In order to fully benefit from opportunities resulting from Poland's membership in the EU, PBG Capital Group companies are:

- forming strategic alliances with foreign companies operating on the Polish market to implement joint projects;
- implementing and developing good management culture;
- offering high quality of services confirmed by implemented standards, such as PNEN ISO 9001:2001, PN-EN 729-2, AQAP 2110:2003;
- systematically improving qualifications of their staff, especially in the area of unique cutting-edge technologies, with the objective to develop a competitive offer and ensure its optimum market placement.

RISK AND INTERNAL THREATS

Unfavourable changes in tax regulations

In Poland, tax regulations related to taxation of business activities are subject to frequent changes. There is a risk of changes in currently binding tax regulations and introduction of less favourable tax regulations for Companies or their customers, which may in turn affect financial results generated by companies, either directly or indirectly.

Foreign exchange rates

The entire year 2008 distinguished itself with unpredictable changes on the Polish currency market. The first half was connected with permanent strengthening of the Polish zloty, particularly in relation to dollar and euro. However, in the second half of a year a deep depreciation of the Polish zloty took place. This situation affected many factors which are not definitely having fundamental grounds in the Polish economy. The risk connected with fluctuations of exchange rates has direct influence also on the companies from the PBG Group, because they carry out contracts co-financed by the EU funds which are mainly denominated in euro. Moreover, certain part of the costs is transferred within the scope of contracts performance and the part concerning mainly purchase of equipment is also performed in foreign currencies: EUR and CAD. The Group minimizes foreign exchange rate risk by using appropriate financial instruments and by transferring a part of the currency risk onto their subcontractors and suppliers of materials and equipment. Similarly, in the case of purchase of foreign machines and equipment of high value which are required for the performance of contracts, the foreign exchange rate risk will also be minimized with financial instruments available on the market.

One of essential groups generating income in the PBG Capital Group are assignments financed from the European Union funds. In the future, currency risks will be minimized with the expected change in the currency of contracts financed with the EU funds (from EUR to PLN). Some of the new contracts are already denominated in PLN.

In the long-term perspective, this risk will be further reduced by Poland's entry into the EURO zone.

Sector seasonality risk

The majority of revenues from sales of the PBG Group are generated from the operations in the area of construction and installation. Sales generated in these segments are subject to seasonality.

The factors which have the greatest influence on the seasonality of sales regardless of the type of a company are presented below:

- weather conditions in winters season which reduce the scope of works in a significant manner. Worse than normal weather conditions which may reduce the revenues of the company can not be excluded.
- investment cycle planning applied by the customers as a result of which the majority of investments are to be completed in the last months of the year.

As a result of the above factors the revenues of the Group are the lowest in the first quarter and there is a significant increase in the revenues in the second half of the year.

Risk of losing key staff

The business of PBG and the companies of its Capital Group is based primarily on the knowledge and experience of highly qualified staff, especially the engineers.

There is a potential risk of staff outflow involving employees of key importance for the Company's development, which in turn might affect the quality of its services. However, present situation on the labour market has deteriorated significantly; unemployment has increased and the forecasts for the following months do not assume any positive change of this trend which obviously affects limitation of the risk connected with loss of management staff and results in stronger relations of employees with the companies of the PBG Group.

The risk connected with loss of the key employees is also minimized by the following factors:

- well-developed corporate culture thanks to which employees identify with their Company and the Capital Group;
- development of the incentive-based and loyalty-based remuneration programs;
- knowledge management and comprehensive training programs;
- good opportunities for the personal and professional development in dynamically developing companies.

Risk related to non-performance of contracts

Construction services agreements contain a number of clauses concerning the adequate and timely performance of the contract and the removal of faults and failures. Under the agreement the company has to provide a guarantee deposit or hedge the contract with a bank guarantee or an insurance guarantee.

The guarantee is usually paid on the day on which the contract is signed and it is cleared after the contract has been executed. The amount of the guarantee depends on the type of a contract. Usually its amount constitutes approximately 10 % of the contract. In the case of non-performance or improper performance of contract signed by PBG SA or any other Capital Group company, there is a risk that its customers may claim contractual penalties or contract termination.

To minimize this risk, the Group shall make sure that:

- contracts are insured (including subcontractors);
- organization is consistently fine-tuned by: a training program to prepare a group of employees to become certified project managers and extensive use of IT tools in the process of design and management of projects.

Dependence on key customers

The Polish Gas and Oil Company (PGNiG) is presently the main recipient of services of PBG company of the natural gas and crude oil segment. This is a consequence of performance for that client of two contracts of significant individual value in the approximate amount of PLN 2.5 billion. Those are the biggest contracts which the PBG SA company entered into within the scope of investments of the PGNiG in consideration of historical periods. However, it should be indicated that the strategy of the PBG company concerning the entire Capital Group shall assume performance of the projects of the high individual value which may result in increase of the share in sales for the benefit of one recipient in total revenues. In the previous year as well as up to now the companies of the PBG Group apart from those mentioned above made three important contracts of high individual value. They concern: construction of the waste disposal plant (where the Waste Management Plant in Gdańsk is a client) and development of the stadium in Poznań (where Euro Poznań 2012 is a client) as well as construction of stadiums in Gdańsk (where the Investment Office Euro Gdańsk 2012 is a client) in the total amount of PLN 1,125 billion. In order to limit the risk connected with dependence on the key recipients, the PGB Group is systematically attracting new recipients of services, including the Army and NATO, PKN Orlen, PERN, Naftobazy, OLPP and foreign entities.

In 2008 the share of the biggest customers in revenues from sales of the PBG Capital Group has not exceeded between ten and twenty percent.

The Companies plan to further minimize this risk by:

- diversification of sources of revenues and gaining new customers;
- execution of contracts financed from EU funds (in particular with local governments as contracting parties);
- operations on foreign markets.

Risk related to on-going operations

Operations of companies, 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.

The Group counteracts this risk by:

- providing third party liability insurance coverage for the companies' operations;
- providing state-of art personal protective equipment to employees;
- training and development of staff qualifications;
- on-going control of all facilities and equipment used;
- regular H&S training and supervision over safety and hygiene rules at work.