

II The Company



1. Interview with Jerzy Wisniewski



Mr President, it seems that the last year's crisis had not a major impact on performance of the PBG Group. How would you evaluate the past year? What to look for in terms of successes and failures of the Company?

I will start with successes because it is much better to talk about it. Signing contracts worth about PLN 2.8 billion, including the construction of stadiums in Gdansk and Warsaw, and highly specialized contracts for the construction of the collectors to the "Czajka" waste water treatment plant and water intake in Mosina. The positive outcome in multi-billion prequalifications in tenders for the construction of highways, power units in Opole and construction of LNG terminal in Świnoujście. Participation in the tenders and possible successful outcome is a great opportunity for our PBG Group. In addition, the successful carrying out of another issue of shares and raising capital from the Stock Exchange in the amount of PLN 190 million. Last year, the Company issued another tranche of three-year bonds worth PLN 375 million. On one hand, obtained contracts and on the other hand, concern for their security. Thanks to resources obtained from the issues we were able to execute acquisition of Energomontaż Południe and companies in the Ukraine. It also allowed us to continue investment in the construction of the aggregates mine which in the long perspective will bring measurable benefits to us. However, the important factor is to always execute consistently assumed increase in value of the company. As for the business failures, I find the lack of satisfaction, my personal and our shareholders, concerning an increase in the price of shares in the past year. Despite the implementation of our development strategy and meeting financial forecasts, PBG's price of shares has behaved relatively weaker compared with WIG 20 and WIG Construction.

What ideas to ensure the further development of the PBG Group? Is as dynamic growth of the Group as reached so far is possible?

The greatest opportunities for further development of the PBG Group I see, are still on the Polish market due to the scale of investments to be implemented. We estimate that within the next two years there is a market worth between PLN 140 and 150 billion. With this scale of supply of projects we have not met so far in our history. In particular, we will prepare ourselves for the gas and energy investments. These segments have a great potential for growth. Our great ability to create consortiums with major international companies during execution of gas projects will be used in energy sector. I believe that the PBG Group will manage to win significant contracts in these segments and will be able to ensure works by that for the next few years. Another very interesting field of activity for us is related to road construction. In this part of the construction market we see opportunities for dynamic growth. I am convinced that the next two years will pass under the sign of double-digit, in percentage terms, growth of financial results.

In the first half of 2010 there was made an application by the Management Board of PBG to the Supervisory Board for payment of the Company's first-ever dividend. What amount of profits has been proposed by the Management Board and can we expect that payments of dividend will be continued in subsequent years?

It is true that the first time in our history of the presence on the Warsaw Stock Exchange we proposed a dividend payment. Underlying this decision is not only to develop good financial results, but above all the high flows at the operational level of over PLN 300 million. Our position in terms of profit distribution is as follows: every year we want to share with our shareholders earned profit on such scale that would allow further dynamic development of the Company. In 2009, the dividend amounted to over PLN 20 million which accounted for 20% of net profit generated by PBG and amounted to PLN 1.40 per share. In subsequent years, the dividend policy will be continued which means that we will want to spend about 20% of net profit earned by the PBG Company for distribution to all its shareholders.

Jan Wisniowski

2. Strategy and business model

BUSINESS MODEL

The business model of the PBG Group consists in provision of specialised construction services. The Group has been steadily increasing its revenues and profits by entering new markets and operating in niche segments, where competition is limited due to required qualifications, experience, and credentials. Operational and strategic management of the PBG Group is facilitated by a simple structure where a Leading Company is in charge of each area of operations. The Leading Company is responsible for winning contracts, expanding the service range, arranging financing, and consolidating other entities. Services of the PBG Group are provided to customers through completion of certain parts of works (those technologically advanced) with own resources and commissioning simple works to proven sub-contractors. In the case of projects that require application of technologies or equipment manufactured abroad, the PBG Group will establish co-operation with foreign partners to perform contracts as a consortium. Under such model it is possible to perform contracts in accordance with the schedule and within the assumed budget. Execution of specialist construction works and focus of operations on niche markets place the PBG Group among of WSE-listed construction companies which achieve the highest profitability levels.

Currently, the Management Board of PBG SA is focusing on creating a construction group specialising in managing projects characterised by large unit value and technological complexity. This will drive the Group's further development and adjust its structure to market conditions.

STRATEGY

THE OPERATING STRATEGY OF PBG SA IS TO ACHIEVE A STEADY AND LONG-TERM GROWTH OF THE GROUP'S VALUE BY BUILDING ONE OF THE LARGEST CONSTRUCTION GROUPS IN CENTRAL AND EASTERN EUROPE.



This is achieved by:

- ✓ Dynamically increasing the sales revenue while maintaining a leading position among the most profitable peers listed on the Warsaw Stock Exchange;
- ✓ Winning and performing profitable contracts with a high unit value by tapping the combined potential of the Group Companies;
- ✓ Diversifying operations to embrace new areas, such as road construction, industrial facilities, underground car parks, underground railways, and sports facilities;
- ✓ Expanding into new markets related to specialised construction business, such as power industry construction; and
- ✓ Expanding into foreign markets.

IN THE NEAR FUTURE THE ACTIVITIES AIMED AT IMPLEMENTING THE ADOPTED STRATEGY OF PBG SA AND ITS GROUP WILL PRIMARILY FOCUS ON:

1. Strengthening the Position in the Oil and Natural Gas Segment by Winning and Performing the Largest Contracts in Poland.

In September 2009, a consortium including the PBG Group (Saipem – Techint – Snamprogetti – PBG – PBG Export) submitted its bid in the tender procedure for construction of the LNG terminal in Świnoujście. The estimated value of the project ranges from EUR 600m to EUR 700m. At the pre-qualification stage there were eight consortia competing for the contract, of which Polskie LNG, as the investor, selected three for further procedure, with the PBG consortium among them. The other entities were a consortium including Daewoo Engineering & Construction (foreign competitors) and a consortium including Tecnimont and Polimex Mostostal (domestic and foreign competitors).

The completion of the tender procedure and selection of the contractor for the investment project is planned by end of H1 2010. Winning the contract would significantly contribute to increasing the value of the Group's portfolio (an estimated amount of PLN 1bn) and boost the financial performance.

2. Strengthening the Position in the Segment of Infrastructure and Water Engineering by:

- ✧ **Consolidating Hydrobudowa Polska and Hydrobudowa 9;**
- ✧ **Expanding operations to include contracts for construction of the underground railway, underground car parks, and industrial facilities;**
- ✧ **Participating in the performance of contracts related to the organisation of the 2012 European Football Championships.**

At present, the consortium including Hydrobudowa Polska is preparing for a tender to construct a new railway station in Łódź. An estimated value of that investment project may even total PLN 2.5bn. Participation in the tender is possible thanks to specialist track record in tunnel construction in urban areas and in microtunneling. The tender is to be decided by mid-2010.

Additionally, there will be tenders announced this year for water engineering projects, including the largest project: construction of a water storage reservoir in Racibórz, with an estimated value of PLN 800m.

In addition, the PBG Group sees major development opportunities in the environmental protection segment involving construction of waste incineration facilities. Such facilities are to be built in urban agglomerations with population of more than 350,000. The investment projects involving construction of waste incineration facilities will first be launched by Poznań, Bydgoszcz, Toruń, Szczecin, Olsztyn, and Kraków. We expect that this year's tenders will total over PLN 1.1bn.

Apart from the possibility of winning large unit value contracts, Hydrobudowa may be engaged as a subcontractor in other assignments won by other PBG Group Companies, such as road construction contracts, gas sector projects, or power facilities construction.

3. Expanding Operations in Local Roads Construction Segment through:

- ✧ **Investments in road construction companies and winning contracts of significant unit value;**
- ✧ **Participation in projects that ensure access to aggregate deposits necessary for road and railway construction.**

At present, road construction companies from the PBG Group participate in tender procedures for construction of national roads, expressways, and motorways for the total amount of PLN 6.5bn. In addition, the PBG Group is preparing bids for the total amount of PLN 6.3bn, to be submitted soon. Moreover, we expect to be invited to submit bids totalling approximately PLN 10bn.

To supplement its credentials and increase the probability of winning contracts the PBG Group has established strategic co-operation with international companies, such as Alpine Bau, SIAC, or SRB Civil Engineering.

Currently, there is a tender procedure underway, organised by the General Directorate for National Roads and Motorways (Generalna Dyrekcja Dróg Krajowych i Autostrad) for the construction of a 27km section of expressway S5 with a beltway of Bojanowo and Rawicz. A consortium of PBG Group companies and Alpine Bau, as the leader, submitted the best tender, which means that the probability of winning the contract is very high. The PBG Group companies' interest in the consortium is 50%, which translates into almost PLN 400m in sales revenue (the net tender value is PLN 777m).

4. Expansion into Foreign Markets by:

- ✓ **Winning contracts to construct natural gas and oil facilities, characterized by increasing unit value, for investors in Norway;**
- ✓ **Executing export contracts in co-operation with Polish banks;**
- ✓ **Launching operations in Ukraine through acquisition of an operating company;**
- ✓ **Entering into strategic co-operation with global corporations.**

In June 2009, PBG acquired a 51% shareholding in Energopol-Ukraina, thus expanding the geographical reach of its operations. This year the PBG Group is considering the launch of the first stage of a development project in Kiev, to be executed drawing on the capabilities of PBG Ukraina and other Group companies. The estimated investment spending may total PLN 100m. The first construction stage would be completed towards the end of 2011 and beginning of 2012. The project will be financed with internal and with external funds.

5. Expansion in the Power Construction Market Through:

- ✓ **Acquisitions of companies operating in the power construction sector;**
- ✓ **Establishment of strategic co-operation with companies enjoying a dominant position on the power market, which would facilitate participation in the largest tenders in Poland;**
- ✓ **Establishment of co-operation with foreign entities;**
- ✓ **Participation in tenders characterised by increasing unit value.**

In February 2010, PBG finalised the acquisition of 25% plus 1 share in Energomontaż-Południe SA. The PBG Group intends to use this company as a platform for consolidating the power segment. In connection with preparations to participate in the largest investment projects in Poland, the PBG Group has established strategic alliances with foreign partners specialising in power construction and having the necessary credentials.

A consortium including the PBG Group (PBG - Techint Compagnia Technica Internazionale - Ansaldo) has submitted a bid in the tender procedure for the construction of two power units in the Opolo Power Plant. The estimated value of the project ranges from PLN 10bn to PLN 11bn. At the pre-qualification stage, there were four consortia competing for the contract, from among which Polska Grupa Energetyczna, the investor, selected two consortia for further procedure, including the one with PBG. The other consortium is the consortium of Polimex-Mostostal, Rafako, and Mostostal Warszawa. Pursuant to a decision of the National Chamber of Appeals, the consortium including Alstom will also participate in the next stage of the tender.

The tender procedure and selection of the contractor are to be completed by the end of 2010. Winning the contract would significantly increase the value of the Group's portfolio and enhance its future financial performance. The PBG Group companies' interest in the consortium is 33%, which translates into approximately PLN 3.3bn.

In addition, the PBG Group is currently preparing to participate in tenders for the construction of a power unit in Koźlenice and for the upgrade and repair of the boiler's furnace in Bełchatów, with the total value of over PLN 6bn.

6. Enhancing the Structure and Organisation of the PBG Group to Reduce Operating Expenses Through:

- ✧ Establishment of low-cost operating companies to handle low unit value contracts;
- ✧ Integration of companies, establishment of a single platform for common areas of operation, elimination of overlapping functions;
- ✧ Effective management of real estate.

Currently, all leading companies from the PBG Group have their registered offices in Wysogotowo.

The companies are as follows: PBG, Hydrobudowa Polska, Hydrobudowa 9, Infra, Aprivia, and PBG Dom.

In performance of the adopted strategy, in 2009 PBG Technologia was established on the basis of Hydrobudowa Konstrukcje and took over a part of the execution units of PBG and Hydrobudowa 9. The takeover involved staff (220 employees), assets, and organisational resources that together formed an organised technology execution unit of PBG, as well as staff (46 persons) and assets from the Equipment Manufacturing Unit of Hydrobudowa 9.

The reason behind such changes was the need to establish a company that would focus on executing a large number of contracts with a lower unit value. Merging the three entities into one company is to contribute to an even better use of human resources and assets.

Further changes in the Group will involve seizing the small contracts market in the environmental protection segment, including chiefly construction of sewage systems by KWG and Metorex. This will enable the Hydrobudowa Polska Group to focus on managing projects characterised by increasingly higher unit value.

7. Investments in Infrastructure Operation Projects Generating Long-term and Stable Revenues

At present, the PBG Group is performing analyses and making preparations related to operator projects. These projects may potentially involve electrical energy production by small hydro-electric power stations, operation of water supply and sewage disposal systems, underground car parks, and other infrastructure facilities. These types of projects carried out by the PBG Group are aimed at diversifying operations and entering markets being a source of long-term and stable sales revenue, irrespective of conditions prevailing in the construction business.

8. Securing Financing for PBG Group's Operations Through:

- ✧ Use of short-term and long-term funding sources to ensure financing for operations and investments;
- ✧ Arrangement of long-term financing for investment projects;
- ✧ Management of credit limits to ensure the ability to provide guarantees for planned tenders and for contracts.

The credit and guarantee limits for the PBG Group have now exceeded the amount of PLN 2.5bn and are sufficient for the Group to participate in all strategically important tenders that are planned for 2010. Individual contracts are financed with the use of short-term working capital credit facilities, special purpose loans, and bonds.

In 2010, the Company intends to secure additional debt financing to optimise the debt structure, including by increasing the guarantee limits, and to carry out its investment plans.

STRATEGY IN PRACTICE

One of the factors contributing to the achievement of the PBG Group's strategic objectives is the way in which the Group is organised in the individual areas of its operations.

FIGURE 1: ORGNISATIONAL CHART OF THE PBG GROUP AS AT DECEMBER 31ST 2009

(PERCENTAGE OF VOTING RIGHTS HELD BY PBG)

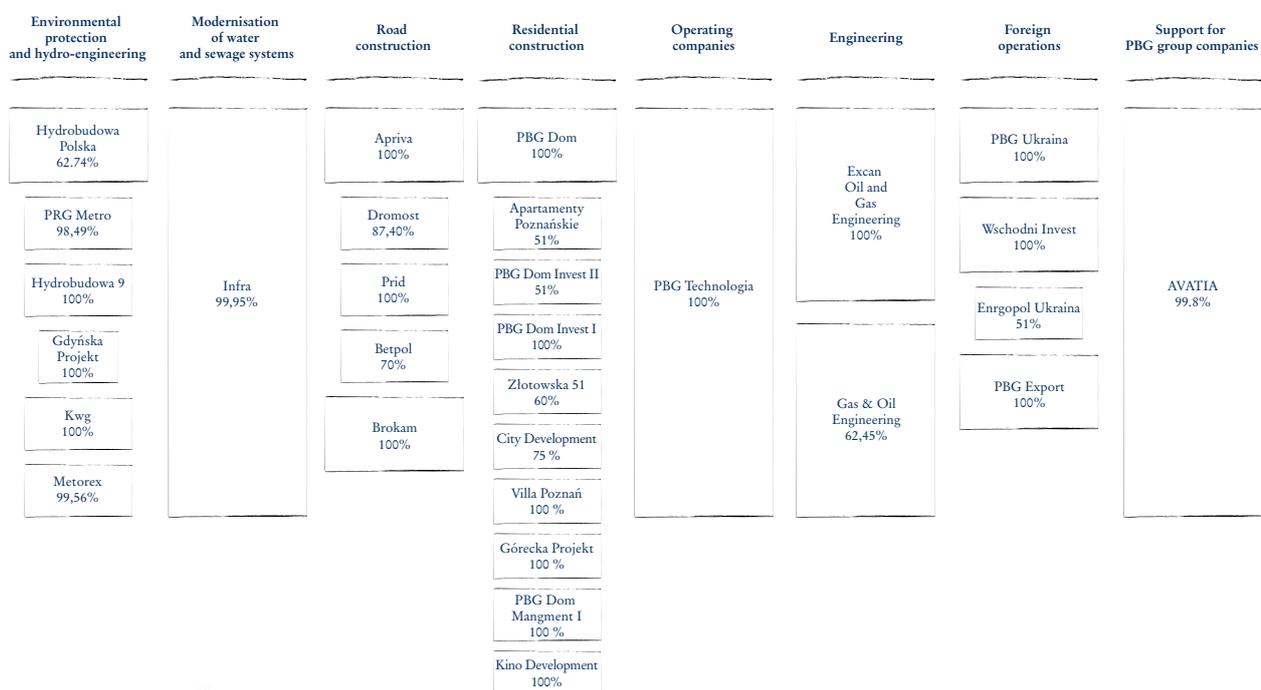
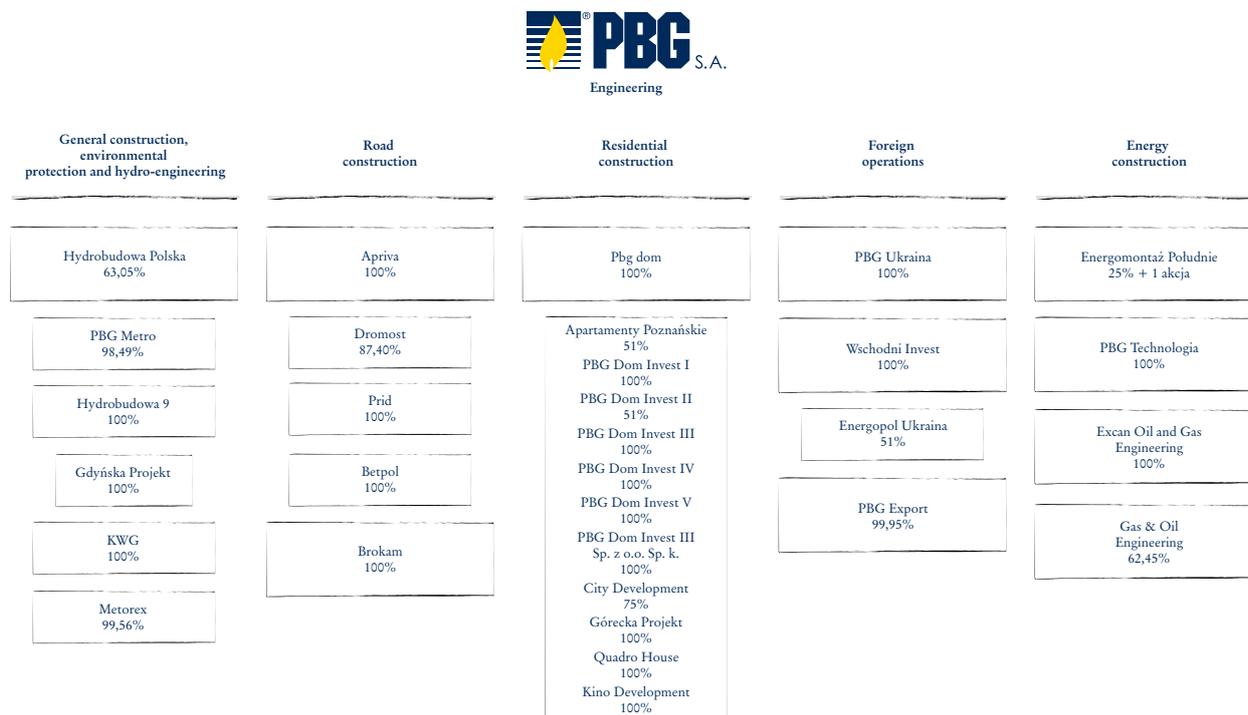


FIGURE 2: CURRENT ORGANISATIONAL CHART OF THE PBG GROUP (PERCENTAGE OF VOTING RIGHTS HELD BY PBG)



Within the Group the **natural gas, crude oil, and fuels market** is the responsibility of PBG, which has been offering services on this market since the beginning of its operations. PBG is the domestic leader in this market. It has gained the leadership through strategic co-operation with international companies, which has enabled it introduce technologically advanced solutions on the Polish market. PBG was able to use the resulting credentials and necessary experience to win contracts for the execution of the largest investment projects carried in the Polish gas, oil, and fuels market. The gas and oil market is particularly important for the Group and over the next few years it will be a major contributor to the Group's financial performance. The value of PGNiG's and Gaz-System's gas investment projects identified by the PBG Group as planned to be carried out over the next two years will total over PLN 5.6bn. The Group intends to actively operate in the discussed market. The strategy of the PBG Group assumes that over the next three years the revenue from sales to the gas and oil sector would reach PLN 1bn annually.

The infrastructure market, including environmental protection and water engineering, is equally important for the PBG Group. In this segment of the Group's operations **Hydrobudowa Polska**, listed on the Warsaw Stock Exchange, has the leading role. Hydrobudowa Polska is one the sector leaders. The company's potential, experience and credentials enable it to win the largest contracts co-financed with the EU funds and contracts concerning investment projects preparing Poland for EURO 2012 (European Football Championships to be held in Poland). Hydrobudowa Polska is developing its own Group together with Hydrobudowa 9 and PRG Metro. To mitigate the impact of the situation on the general construction market on the operations of the Hydrobudowa Group, there are plans to enter new markets, such as the power sector or specialised road construction. The investment projects in the environmental protection, water engineering, and infrastructure segments identified by the PBG Group are to total over PLN 15.1bn within the next two years. It is the market on which the Group plans to actively operate. The strategy of the PBG Group assumes that over the next three years the sales revenue of the segment of water and infrastructure investment projects would reach at least PLN 1.5bn annually.

Road construction is a new, strategically important area of the PBG Group's operations. Road construction projects, which are co-financed by the European Union, are a priority for the Polish government because of the 2012 European Football Championships to be hosted by Poland. The PBG Group's operations in this segment are expected to drive a further dynamic growth of its revenue. As part of that segment, the PBG Group

wants to perform contracts for the construction of local roads in municipalities and counties. Additionally, a new company (Brokam) was established in that newly developed segment in connection with the Group's investment in aggregate mines, which are to ensure access to raw materials for companies from the road construction segment and the other companies of the PBG Group. The investment projects in the area of road construction identified by the PBG Group will total over PLN 37bn over the next two years. The Group plans to actively operate in that market. The strategy of the PBG Group assumes that over the next three years sales revenue of the road construction segment would reach PLN 500m annually.

Foreign operations are another strategically important segment. Acquisitions of foreign companies allow the Group to expand outside of Poland, while strengthening its own execution capabilities domestically, for example in the area of engineering and project management. Thus, another new area of the Group's operations is being developed. Gas Oil Engineering of Slovakia was the first company to be acquired in the segment. In addition, Excan Oil And Gas Engineering was established in Canada (a company wholly owned by PBG SA). Another element of the strategy envisaging PBG's expansion into foreign markets was its entry into the Ukrainian market through acquisition of an operating company – Energopol-Ukraina – which was finalised in June 2009. Despite the economic downturn currently prevailing in Ukraine, the Ukrainian market is set to be very prospective for the PBG Group over the long term, especially in the context of the aid funds which that country is likely to receive to upgrade its gas pipeline systems. Given the estimated amount of the aid (EUR 2.5bn), large contracts in the natural gas segment are expected to be offered for competitive bidding. Investments in environmental protection and water engineering, which are also co-financed by the European Union, will be necessary to adapt the country's sewage and water supply systems to Western European standards. Moreover, to strengthen its foreign operations, in April 2009 PBG established PBG Export, whose core activity consists in securing and performing export contracts.

At present, an additional area of PBG's operations is **large-sized construction projects**, which may prove to be important for the entire Group over a long term. Within that segment **PBG Dom** was established – a company responsible for managing the real property owned by the Group (by putting it to the most effective use or selling it). In line with its long-term plans, PBG intends to launch operations in the property development business, not only as a sub-contractor, but also as a developer. Currently, the company is purchasing attractive designs, ready to be executed. That is why several new entities were established within the PBG Dom Group in the period under review. The strategy for PBG Dom assumes investment at the level of as much as PLN 100m annually over three years.

With a view to streamlining the structure and organisation of the PBG Group, PBG Technologia (formerly operating under the name of Hydrobudowa Konstrukcje) was established in April 2009. The company will handle smaller contracts and focus on execution only. Another move meant to streamline the structure of the PBG Group was the transfer of Górecka Projekt together with its assets from subsidiary undertaking Hydrobudowa 9 to subsidiary undertaking PBG Dom.

Investments in broadly understood infrastructure operation projects may play an important role in the future operations of the PBG Group, as a source of long-term and stable revenue streams. Such projects involve, among others, gas transmission, renewable energy, and water supply systems.

As envisaged by the adopted strategy, a new company active in the power construction segment (Energomontaż-Południe) has been included to the PBG Group. PBG does not rule out a possibility of increasing its interest in the company, until it holds a controlling stake. Such a decision, however, will depend on the results of the co-operation between the PBG Group and Energomontaż, as well as on how effective it will prove to be in securing contracts in the power sector.

The investment projects in the power construction sector identified by the PBG Group will total nearly PLN 30bn over the next two years. The Group intends to actively operate in that sector. The strategy of the PBG Group assumes that over the next three years the sales revenue of the power construction segment would reach PLN several hundred million annually, starting from 2011.

3. market outlook

NATURAL GAS MARKET

The Polish market for gas contracting services is viewed as very promising due to the expected multi-billion investments in the gas sector, following mainly from the implementation of Poland's energy policy and the need to comply with the requirements of Poland's membership in the European Union. The obligation to perform the tasks resulting from, among other things, Poland's energy policy rests primarily with the PGNiG Group and OGP Gaz System. Consequently, those companies are the leading investors in gas infrastructure projects and the projects led by them cover a wide range of investment tasks, from the construction of gas stations to the construction of gas mining plants or gas pipelines, which represent an attractive source of contracts for construction companies specialising in the provision of gas contracting services.

Policy for the Natural Gas Industry of March 20th 2007 proposed by the Ministry of Economy and Energy Policy of Poland until 2030 of September 23rd 2009 outline the main growth directions for the Polish gas industry. In order to ensure Poland's energy security and economic growth, the Ministry of Economy set out four main task groups for the state-controlled companies:

- ✓ diversification of natural gas supplies,
- ✓ expansion of the natural gas transmission network and increase of its capacity,
- ✓ construction of new and extension of the existing underground gas storage facilities,
- ✓ increase of the domestic gas production capacity.

Poland currently needs approximately 14 bn m³ of natural gas per year, approximately 30% of which is sourced from domestic production. The balance is imported, mainly from Russia, under the Yamal Contract.

In connection with the expected increase in natural gas demand in the coming years, as well as in the context of the 2009 gas crisis between Ukraine and Russia and the Northern Pipeline construction plans becoming reality, investments in the gas infrastructure aimed at improving Poland's energy security have become the priority of the Polish government. Achieving the Polish government's objective of enhancing Poland's energy security will be possible only through the execution of large-scale projects which require billions of zlotys in capital expenditure. The development of the Polish gas infrastructure will be funded by the PGNiG Group and OGP Gaz-System as well as by the EU funds (under the Infrastructure and Environment Operational Programme). The PGNiG Group alone plans to spend PLN 25bn-32bn on the strategy-related projects by 2015. The EU funds will play a very important role in the financing of the projects.

The European Commission earmarked EUR 28bn for the implementation of the Infrastructure and Environment Operational Programme in 2007–2013. Out of 15 priorities of the programme, two are related to:

- ✓ Gas sector: Priority IX – environmentally friendly energy infrastructure and energy efficiency – EUR 1.4bn, and
- ✓ Priority X – energy security, including diversification of energy sources – EUR 1.7bn.

TABLE 1: NATURAL GAS DEMAND FORECAST

Year	Natural gas demand forecast
	(bn m ³)
2010	14,9
2015	16,2
2020	17,9

Source: Public Announcement of the Minister of Economy of May 7th 2009.

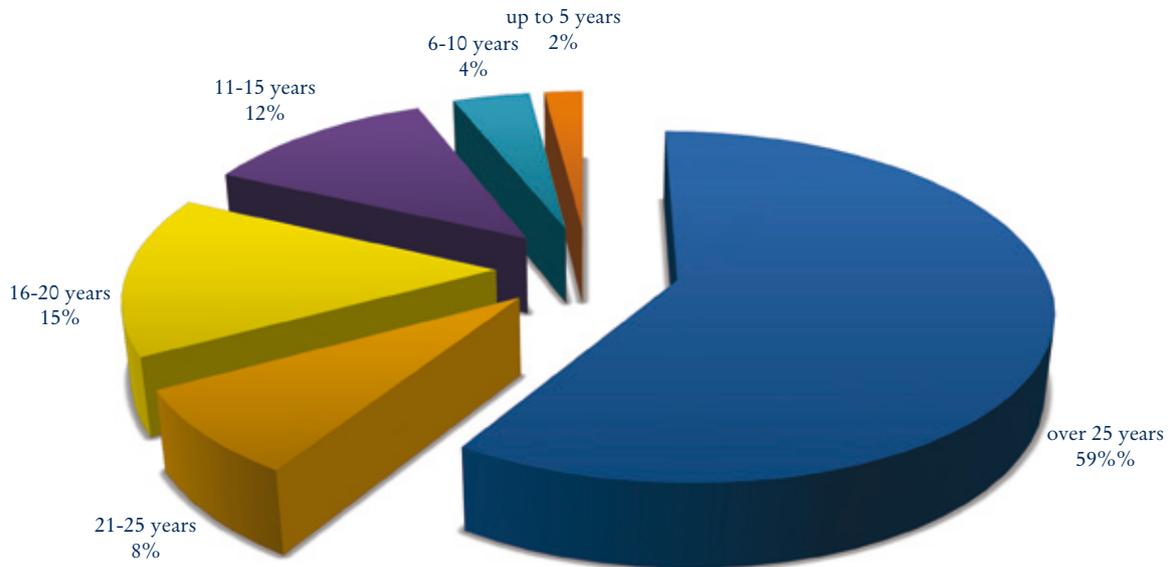
The flagship project aimed at enhancing Poland's energy security is the construction of the LNG terminal in Świnoujście. The project, which is valued at EUR 600m–EUR 700m, is to be carried out by Polskie LNG Sp. z o.o., a special purpose company fully owned by OGP Gaz-System. The procedure for selection of the contractor to build the LNG terminal has been in progress since August 6th 2009. The agreement with the contractor is expected to be signed in May 2010, and the terminal is to be placed in service June 30th 2014. Initially, the Świnoujście terminal will be able to receive 5bn m³ of gas per year. *Source: Annual Report of OGP Gaz-System.*

Another project related to the diversification of gas supplies is the construction of the interconnector, i.e. a pipeline connecting Cieszyn with the Moravia network in the Czech Republic; the interconnector will enable Poland to import or export gas via the Czech transmission system. The project, valued at EUR 7m, is to be completed by 2011, and will handle approximately 0.5bn m³ of gas supplies to Poland per year. The Cieszyn-Moravia pipeline is of great importance to Poland's energy security, as it will be the second interconnector between the Polish gas network and the EU gas grid; it will also allow Poland to import gas from Norway and, in the future, from the Caspian Sea region.

The Baltic Pipe is another project which should also contribute to the diversification of Polish gas supplies. It is a pipeline which is to connect Polish Niechorze with the Danish transmission system, facilitating gas imports from the Norwegian sources. The Norwegian gas was originally to be delivered to Denmark through the Skanled pipeline. However, the consortium (with PGNiG as one of its members) decided to suspend the project due to the adverse economic conditions. Despite the suspension of the Skanled project, OGP Gaz-System decided to continue the work and plans to prepare the relevant technical design and perform a survey of the Baltic seabed by the end of 2011. The capacity of the 240 km long Baltic Pipe is to be 3bn m³ of gas per year. *Source: Statement by Jan Chabaj, President of OGP Gaz-System, for PAP of September 24th 2009.*

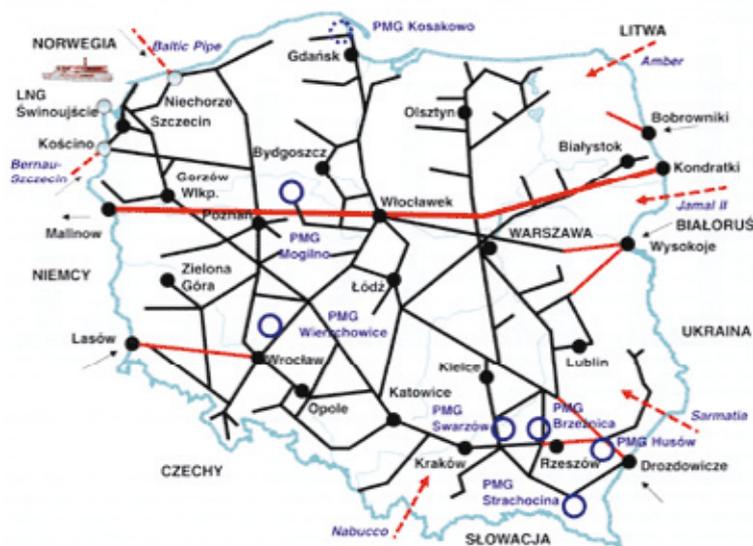
Pursuant to the 2009 Annual Report of the President of the Energy Regulation Authority (URE), the technical condition of the transmission infrastructure plays the key role in ensuring security of gas fuel supplies. Although in 2008 the transmission system's operation was failure-free, its age and heavy depreciation may pose a threat to the continuity of gas supplies in the future.

FIGURE 3: AGE STRUCTURE OF GAS TRANSMISSION PIPELINES IN POLAND



Source: OGP Gaz-System.

FIGURE 4: EXISTING AND PROJECTED NATURAL GAS TRANSMISSION NETWORK IN POLAND



PMG – Underground Gas Storage Facility

Source: <http://rynekgazu.pl>

Furthermore, the President of URE highlights the underdevelopment of the gas transmission network, lack of capacity reserves and insufficient integration of the Polish gas system with systems of the neighbouring countries, in particular those of the EU Member States. The President of URE primarily points to the need of eliminating bottlenecks, i.e. points with reduced capacity. The greatest difficulties in transmitting high-methane gas and increasing the flow capacity to consumers at exit points from the transmission system are seen in North-Western Poland where the largest amount of capital expenditure is required in the immediate future; the required spending also pertains to the construction of the LNG terminal in Świnoujście.

The investment tasks related to development of the transmission network will be implemented through OGP Gaz-System, which in 2009–2014 intends to invest ca. PLN 5bn and construct approximately 1,000 km of new gas pipelines. According to OGP Gaz-System's annual report for 2008/2009, the projects which are currently planned or being implemented include:

- ✓ Construction of an 80 km of Świnoujście-Szczecin gas pipeline connecting the proposed LNG terminal in Świnoujście with the transmission system in the Szczecin area;
- ✓ Construction of a PLN 60 m gas compressor station in Goleniów near Szczecin, which will play an important role as a transmission hub and will help increase the capacity of the system supplying gas to the area of Szczecin, the Police Chemical Plant and the Przymorze district;
- ✓ Construction of Szczecin-Lwówek gas pipeline to increase the capacity of the Odolanów-Police gas pipeline – the new pipeline will become the main transmission line for the gas collected at the LNG terminal. The project will be executed in two stages: construction of the Szczecin-Gorzów Wielkopolski section (106 km), and the Gorzów Wielkopolski-Lwówek section (80 km);
- ✓ Construction of a 267 km Szczecin-Gdańsk gas pipeline which will be an element of the Northern main gas transmission network connecting the Gdańsk and Szczecin urban areas. The investment project is an extension of the Goleniów-Nowogard-Ploty gas pipeline;
- ✓ Construction of Gustorzyn-Odolanów gas pipeline to connect Gustorzyn and Odolanów main system hubs and Wierzchowice and Mogilno Gas Storage Facilities, which will improve gas transmission capabilities;
- ✓ Construction of the Włocławek-Gdynia gas pipeline – another 64 km of pipeline is needed to complete the project;
- ✓ Upgrade of the Rembelszczyzna-Gustorzyn gas pipeline, which will improve the safety of gas transmission through this connection, strengthen the supply systems leading to the Uniszki hub, and facilitate transmission of larger streams of gas fuel to North-Eastern Poland;
- ✓ Extension of gas pipelines in Lower Silesia involving the extension of the Lasów metering station at the Polish-German border and the construction of 104 km of gas pipelines connecting the station with the Wrocław ring road, which will enable the off-take and transmission of larger gas volumes from the Lasów station;
- ✓ Construction of a Polkowice-Żary gas pipeline required to secure stable and safe operation of the nitrogen-rich gas system.

The development of the transmission network is expected to entail extension of the gas distribution network operated by the PGNiG Group.

Increasing gas production by domestic producers is another area requiring investment to ensure Poland's energy security. Projects in this area will be implemented by the PGNiG Group and will involve increasing gas production from Polish fields and providing access to the gas produced from fields located abroad, e.g. in Norway. In 2008, the PGNiG Group produced 4.1bn m³ of gas from Polish fields, of which 2.8bn m³ was produced at the Zielona Góra Branch and 1.8bn m³ at the Sanok Branch. According to the PGNiG Group's strategy adopted in 2008, in the coming years the PGNiG Group intends to increase natural gas production to approximately 6.2bn m³ p.a. by increasing production from the Polish fields to approximately 4.5bn m³ and by launching production from foreign fields in 2011. After 2015, at least 1.5bn m³ of the annual production of natural gas is to come from the equity gas reserves on the Norwegian Continental Shelf (i.e. gas produced by a consortium; PGNiG holds an interest in equity gas pro rata to its share in the consortium). The most important project related to increasing domestic gas production and doubling crude production is the development of Lubiatów-Międzychód-Grotów oil and gas fields. In 2008, the PGNiG Group and the PBG Group executed a PLN 1.7bn contract for development of an oil and gas field; the field is to be commissioned in 2013.

Another vital aspect of Poland's energy security is the implementation of projects designed to expand gas storage capacity. Gas storage facilities help maintain a required amount of reserves in case of short-term interruptions in gas supplies resulting from system failures or reduced supplies. In addition, the storage facilities guar-

antee a stable level of production throughout the year. In periods of lower demand, gas is injected into a storage facility, and at times of peak demand – the gas is drawn from the facilities. PGNiG operates six storage facilities with an aggregate storage capacity of 1.66bn m³, which represents 11.9% of the annual demand in Poland. The storage facilities are located in various types of geological structures and have different gas compression and output capacities.

FIGURE 5: NATURAL GAS STORAGE FACILITIES IN POLAND



Source: OGP Gaz-System.

PGNiG’s strategy provides for the expansion of storage capacity by approximately 2bn m³, to a target capacity of 3.8bn m³ in 2015. The most extensive project is the expansion of the Wierzchowice Gas Storage Facility from 0.5bn m³ to a target capacity of 2bn m³ in 2015. The first stage of this project is currently underway and is scheduled to be completed in 2011, with the expansion of the gas storage capacity to 1.2bn m³. This contract, worth PLN 1.3bn, is performed by a PBG-led consortium. In addition to the construction of new capacity at Wierzchowice, PGNiG is currently implementing the following capacity expansion projects:

- ✧ expansion of the Mogilno Storage Facility – PLN 525m,
- ✧ construction of the Kosakowo Storage Facility – PLN 425m,
- ✧ expansion of the Strachocina Storage Facility – PLN 209m,
- ✧ construction of the Bonikowo Storage Facility – PLN 160m,
- ✧ construction of the Daszewo Storage Facility – PLN 40

TABLE 2: EXPANSION OF GAS STORAGE CAPACITY IN POLAND – PROJECTS PLANNED FOR 2010–2015

Facility	Type of project	Working capacity (bn m ³)	Target capacity (bn m ³)	Year of completion
Bonikowo	construction	-	0,20	2010
Brzeźnica	-	0,07	0,07	-
Maszewo	construction	-	0,03	2010
Husów	expansion	0,40	0,50	2011
Kosakowo	construction	-	0,13	2015
Mogilno	expansion	0,37	0,62	2015
Strachocina	expansion	0,15	0,33	2011
Swarów	-	0,09	0,09	-
Wierzchowice*	expansion	0,58	2,00	2015
Total		1,66	3,97	

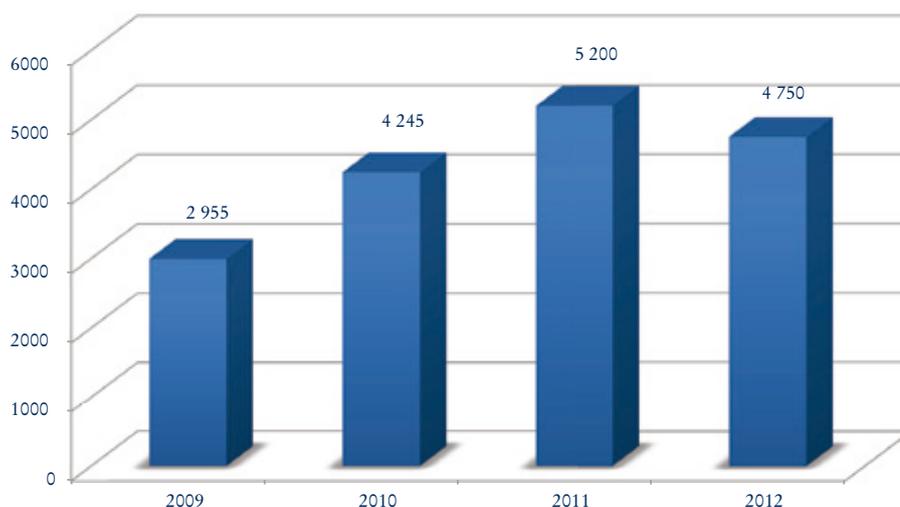
Source: OGP Gaz-System.

In addition, the years 2009-2012 will see a number of large-scale investment projects (some of which are already under way) aimed to prepare Poland's infrastructure (mainly its transport system) to the 2012 European Football Championships hosted by Poland. When new motorways, expressways and beltways are built, the existing gas networks will also have to be reconstructed.

New entrants on the Polish market include private distributors of natural gas (e.g. KRI SA) and gas exploration companies, such as FX Energy or Aurelian Gas&Oil. Those companies also have investment plans designed to develop the existing transmission and distribution networks, as well as gas production facilities.

PGNiG intends to allocate an amount in the range of PLN 25bn–PLN 32bn to the implementation of the PGNiG Group's Strategy until 2015. On the other hand, the Gaz-System Group's planned investment expenditure for 2007-2013 is approximately PLN 5bn.

FIGURE 6: PGNIG'S CAPITAL EXPENDITURE PLANNED FOR 2009-2012 (PLNM)



Source: PGNiG, KBC Securities

ENVIRONMENTAL PROTECTION AND WATER ENGINEERING MARKET

One of the key documents applicable to environmental protection projects is the Infrastructure and Environment Operational Programme for 2007-2013, adopted and endorsed by the European Commission on December 7th 2007. The Programme – in line with the draft National Strategic Reference Framework (NSRF) for 2007-2013 – is one of the operational programmes which constitute a critical tool in helping achieve the objectives stated in the NSRF, with the financial support from the Cohesion Fund and the European Regional Development Fund .

The main objective behind the Programme is to promote Poland (also at the level of its individual regions) as an attractive investment destination, by developing technical infrastructure, protecting and improving the quality of the environment and developing the country’s territorial cohesion. This means that investment into technical infrastructure (the core area of the PBG Group’s business) is additionally driven by an influx of structural funds from the EU. This is particularly true in the case of financing of water and sewage systems, as well as wastewater treatment plants. To illustrate the impact of EU funds on the water segment’s revenues, suffice it to mention that the amount of financial support received by Poland in 2000-2003 to co-finance projects in the area of environmental protection and water engineering amounted to EUR 0.7bn. In 2004-2006, the total grants amounted already to EUR 4.2bn. The total amount of funds committed to the implementation of the Infrastructure and Environment Operational Programme for 2007-2013 will reach EUR 37.6bn (at current prices), of which the public contribution will amount to EUR 35.3bn. The public contribution will comprise EU funds of EUR 27.9bn (including EUR 22.2bn from the Cohesion Fund and EUR 5.7bn from the European Regional Development Fund), and funds from the Polish state budget of EUR 7.4bn. In addition to public funds, the Programme will also be financed with private money – financial support for the corporate sector will be subject to competitive terms. The total amount of private funds has been estimated at EUR 2.3bn.

FIGURE 7: EU FUNDS COMMITTED TO THE INFRASTRUCTURE AND ENVIRONMENT OPERATIONAL PROGRAMME

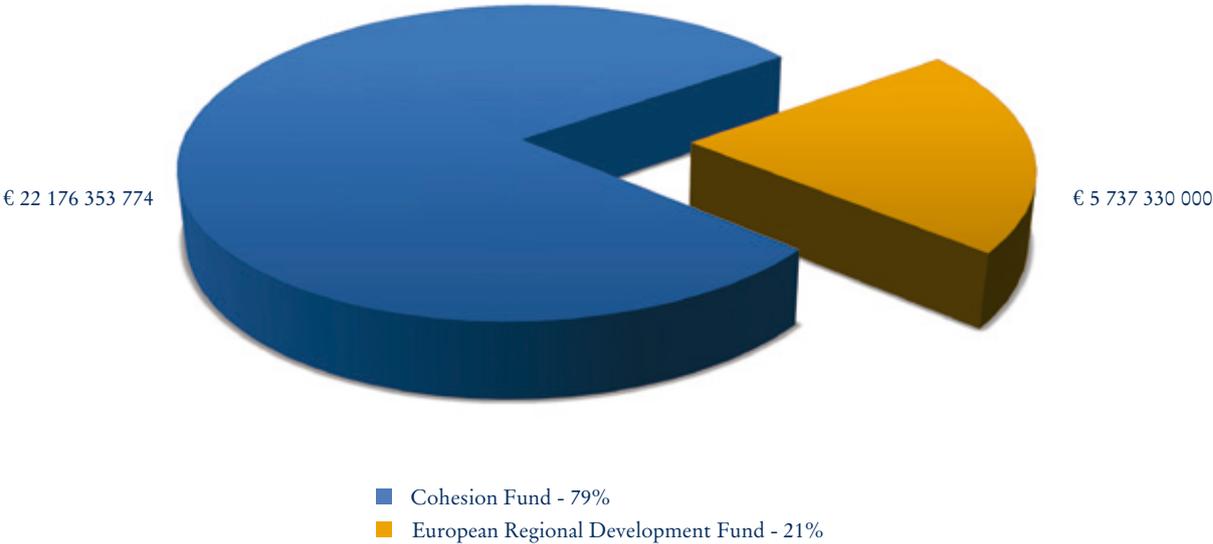


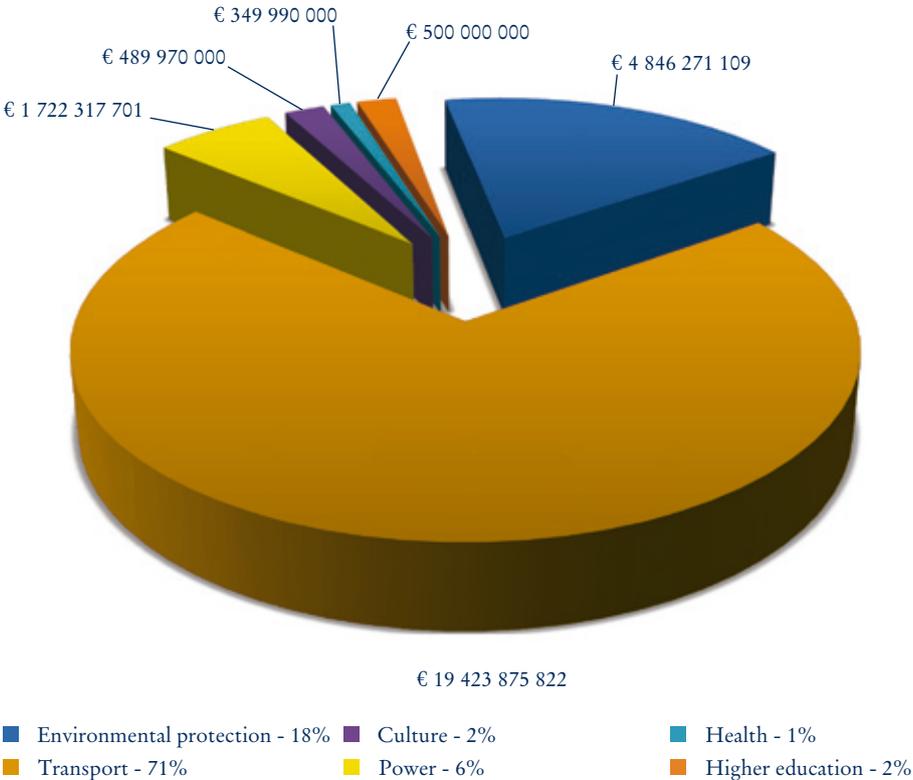
TABLE 3: ALLOCATION OF EU FUNDS UNDER THE INFRASTRUCTURE AND ENVIRONMENT OPERATIONAL PROGRAMME, BY PRIORITY

Infrastructure and Environment Programme		Community contribution (EUR '000)		%	
		EFRR	FS	EFRR	FS
P I	Water and wastewater management		2 783 943		12,6%
P II	Waste management and land conservation		1 215 740		5,5%
P III	Resource management and environmental risk prevention		556 788		2,5%
P IV	Projects designed to adapt businesses to meet environmental requirements	200 000		3,5%	
P V	Protection of the environment and environmental awareness promotion	89 800		1,6%	
P VI	The TEN-T road and air transport network		8 802 367		39,7%
P VII	Environment-friendly transport		7 676 019		34,6%
P VIII	Transport safety and domestic transport networks	2 945 490		51,3%	
P IX	Environment-friendly power infrastructure and energy efficiency		748 037		3,4%
P X	Energy security, including through diversification of energy sources	974 280		17,0%	
P XI	Culture and cultural heritage	489 970		8,5%	
P XII	Health security and improvement of health-care efficiency	349 990		6,1%	
P XIII	Higher education infrastructure	500 000		8,7%	
P XIV	Technical support – European Regional Development Fund	187 800		3,3%	
P XV	Technical support – Cohesion Fund		393 459		1,8%
Total allocation 2007-2013		5 737 330	22 176 353	100,0%	100,0%

Allocation of EU funds under the Infrastructure and Environment Operational Programme, by sector:

- ✓ environmental protection – EUR 4.84bn;
- ✓ transport – EUR 19.4bn;
- ✓ power – EUR 1.7bn;
- ✓ culture – EUR 490m;
- ✓ health – EUR 350m;
- ✓ higher education – EUR 500m.

FIGURE 8: ALLOCATION OF EU FUNDS UNDER THE INFRASTRUCTURE AND ENVIRONMENT OPERATIONAL PROGRAMME



The Programme – in line with the National Strategic Reference Framework (NSRF) approved by the European Commission on May 7th 2007 – is one of the operational programmes which constitute a critical tool in helping achieve the objectives stated in the NSRF, with the support of funding from the Cohesion Fund and the European Regional Development Fund. In addition, the Infrastructure and Environment Operational Programme plays an important role in the implementation of the renewed Lisbon Strategy – the Programme expenditure on EU priority policy goals account for 66.23% of its entire budget financed with EU funds.

Source: www.pois.gov.pl; The Lisbon Strategy – a development plan for the European Union adopted by the European Council in 2000 in Lisbon – OJ L. 210 of July 31st 2006, p. 25.

It is estimated that the value of **water engineering** projects, implemented under the Infrastructure and Environment Operational Programme in 2007-2013 will not be lower than **EUR 4.8bn**. After pooling those funds with investors’ equity (at the level approximating 20% of the budget of each planned project), they add up to nearly **EUR 6bn**.

Source: www.funduszezestrukturalne.gov.pl

The main beneficiaries of EU funds are local governments. The funding obtained by those bodies will translate into higher demand for services offered by the PBG Group. As far as environmental protection issues are concerned, the Cohesion Fund gives the highest priority to improving water and wastewater management, as well as to flood security. **26 projects have been approved for implementation in the first area, and 17 in the second area.**

The largest planned projects include:

Water and wastewater management:

- ✓ wastewater treatment in the Żywiec region – **PLN 704m**;
- ✓ modernisation and development of the water and wastewater management system in Nowy Sącz – **PLN 250m**;
- ✓ optimisation of the water and wastewater management in the town of Żory – **PLN 229m**;
- ✓ construction of sanitary sewage system in the Marki municipality – **PLN 201m**;
- ✓ water and wastewater management in the town of Nowa Sól – **PLN 188m**;
- ✓ optimisation of wastewater management in the town of Płock – **PLN 169m**.

Water retention and flood security:

- ✓ construction of a dam and water power station in Nieszawa – **PLN 2bn**;
- ✓ development of a flood control reservoir Racibórz Dolny on the Odra river – **PLN 1.28bn**;
- ✓ modernisation of the Wrocław Hydrotechnical System – **PLN 680m**;
- ✓ flood protection of Żuławy – approximately **PLN 650m**;
- ✓ modernisation of the Wrocław Hydrotechnical System – reconstruction of the town's flood control system – **PLN 572m**;
- ✓ modernisation of the Nysa water reservoir – **PLN 467m**;
- ✓ modernisation of the artificial waterfall in Włocławek – **PLN 153m**;

According to estimates prepared by the Ministry of Environment, the aggregate value of projects related to water structures will exceed **PLN 23bn** by 2020. The amount includes both greenfield expenditure and expenditure on modernisation of parts of facilities deteriorated through wear and tear. The project designated as “**Program ODRA 2006**” is one of the most important investment projects in this area (with the estimated aggregate value of the key projects exceeding **EUR 0.52bn**). The programme's objectives include the construction of a flood-control system, removal of flood damage and utilisation of the power-generation potential of rivers. The projects will be partially financed with EU aid funds. According to the Ministry of Environment's budget plans, the amount of nearly **PLN 3.1bn** is to be allocated to financing **flood-control structures** in the years 2002–2016. **The redevelopment and modernisation of flood embankments will cost PLN 364.5m.**

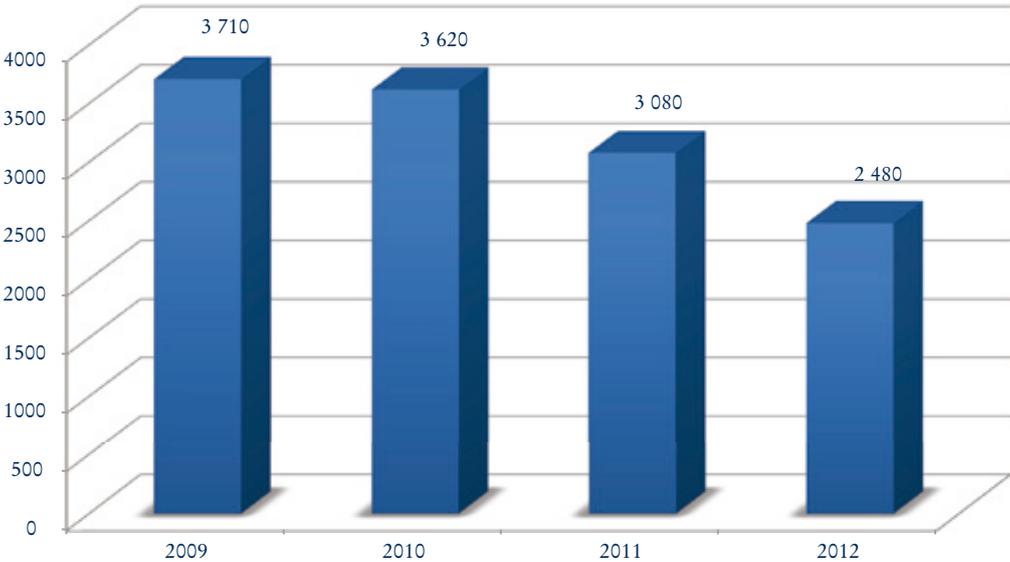
OIL AND FUELS MARKET

The PGB Group’s position in the oil industry is related to investment plans of PGNiG SA, LOTOS SA, NATO, OLPP, PERN Przyjaźń SA as well as other organisations in the fuel sector.

Factors with a material bearing on the oil and fuel market include:

- ✂ Investment plans of PKN Orlen SA for 2009–2013, amounting to PLN 12.9bn;

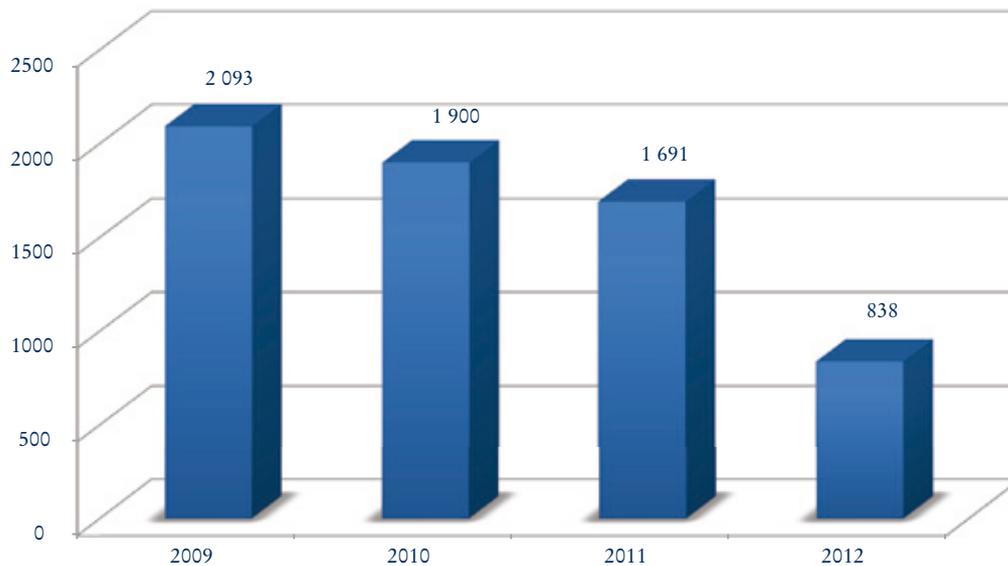
FIGURE 9: CAPITAL EXPENDITURE PLANNED BY PKN ORLEN FOR 2009-2012 (PLN M)



Source: PKN ORLEN, KBC Securities.

- ✂ Investment plans of LOTOS SA for 2009–2012, amounting to ca. PLN 6.7bn, including implementation of the 10+ Programme comprising capital outlays of PLN 5.2bn (objectives of the Programme include increasing crude processing capacity from 6m to 10.5m tonnes; improving the oil conversion ratio; mild hydrocracking unit (MHC); diesel oil hydrodesulphurisation unit (HDS); and residuum oil supercritical extraction (ROSE).

FIGURE 10: CAPITAL EXPENDITURE PLANNED BY LOTOS FOR 2009-2012 (PLN M)



Source: LOTOS, KBC Securities.

- ✧ NATO's investments in Poland in 2009–2014, worth EUR 400m, including fuel storage depots (PLN 0.7bn);



- ✧ Plans for construction of crude oil pipelines: Adamów–Płock and Odessa–Brody.

The currently implemented plans of PERN Przyjaźń SA focus on development of the feedstock infrastructure. The infrastructure is being developed in two independent directions:

The eastern direction – construction of the third line of the Adamów–Płock pipeline is in progress. The new pipeline will help adjust the capacity of Polish pipelines to the current transmission capacity via the northern section of the Friendship pipeline. The final completion of the project is planned for 2011–2012. The investment in the Friendship pipeline was made in response to the growing demand for Russian crude. Poland lies on one the major routes for oil exports from Russia. In addition to resolving the urgent issues of the state's energy security, the new pipeline will also create conditions conducive to the development of services related to crude transit through Poland.

The southern direction – PERN Przyjaźń SA together with Ukrtransnafta of Ukraine continue work on construction of the Brody-Płock pipeline, which will enable delivery of Caspian crude to refineries in Central and Western Europe. The initial assumption is that the transmission volume of Caspian crude transported via the Brody-Płock pipeline will be up to 25m tonnes annually.

FIGURE 11: PIPELINES IN POLAND



Source: www.pern.com.pl

FIGURE 12: PIPELINES IN EUROPE



Source: www.pern.com.pl

INFRASTRUCTURE CONSTRUCTION MARKET

Development of these markets will be strongly influenced by projects related to the organisation of the European Football Championships **EURO 2012**. The aggregate value of projects in Poland and Ukraine is estimated at nearly EUR 38bn, of which 60% will be spent on projects in Poland. Stadium refurbishment and construction projects are expected to involve expenditure of around **EUR 2.9bn**. The largest projects concerning refurbishment and construction of Polish stadiums have already been contracted.

Upgrade, extension and construction of airports in eight cities in Poland is planned to cost up to **EUR 396m** from the EU budget plus EUR 370m in outlays incurred by the relevant local authorities. Investment plans concerning airports are included in the Infrastructure and Environment Operational Programme for 2007–2013. Fourteen projects have been approved, whereas 11 are in the reserve list.

The key airport-related projects are listed below:

- ✓ extension of the passenger terminal and the existing infrastructure of the Krakow airport – **PLN 630m**;
- ✓ upgrade of the Warsaw airport's infrastructure – **PLN 502m**;
- ✓ extension and upgrade of the Katowice airport – **PLN 416m**;
- ✓ extension and upgrade of the Poznań airport's infrastructure – **PLN 395m**;
- ✓ construction of the second passenger terminal, including associated infrastructure, plus extension and upgrade projects at the Gdańsk airport – **PLN 377m**;
- ✓ construction of a new terminal and extension and upgrade of the existing infrastructure of the Rzeszów airport – **PLN 334m**;
- ✓ upgrade of the Wrocław airport's infrastructure – **PLN 313m**;
- ✓ extension and upgrade of the Szczecin airport – **PLN 121m**.

Projects related to the **construction of waste incineration plants** in Poland's largest cities can potentially become key investment tasks for the PBG Group's activities. These projects also fall within the scope of the Infrastructure and Environment Operational Programme for 2007–2013. Priority II of the Programme precisely concerns waste management and land conservation. Eighteen projects have been submitted and approved.

The key projects include:

- ✓ development of a waste management system for the towns and cities in the Upper Silesian Metropolitan Area, including construction of waste incineration plants – **PLN 1.1bn**;
- ✓ municipal waste management in Kraków, including construction of a waste incineration plant – **PLN 703m**;
- ✓ municipal waste management in Łódź, including construction of a waste incineration plant – **PLN 660m**;
- ✓ waste management system for the municipality of Poznań – **PLN 640m**;
- ✓ waste management system for the Gdańsk Metropolitan Area – **PLN 539m**;
- ✓ upgrade and extension of the Municipal Solid Waste Treatment Plant in Warsaw – **PLN 533m**;
- ✓ construction of a waste incineration plant in Olsztyn – **PLN 518m**;
- ✓ integrated waste management system for the Białystok urban agglomeration – **PLN 414m**;
- ✓ construction of a waste incineration plant for the Bydgoszcz–Toruń Metropolitan Area – **PLN 400m**;

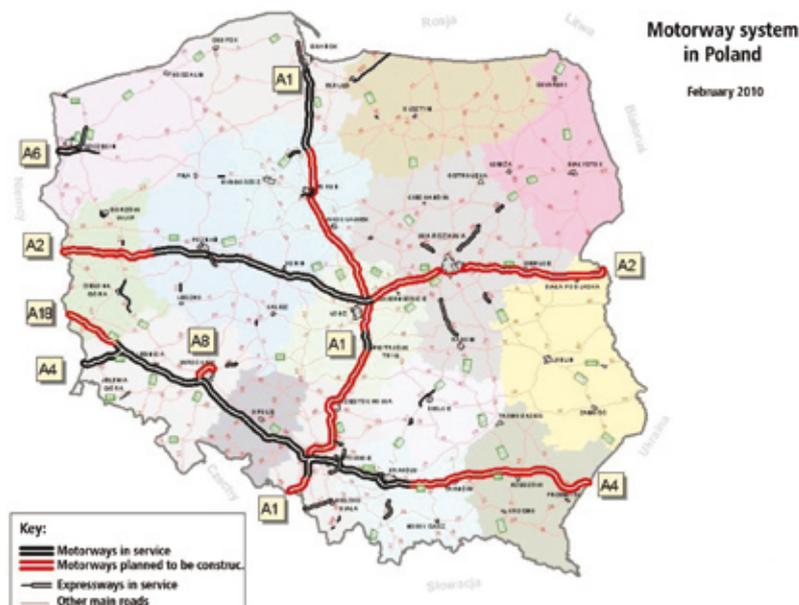
- ✧ municipal waste management upgrade project in Gdańsk – PLN 329m; a PLN 299m tender concerning construction of a waste incineration plant has already been completed, with companies from the PBG Group having been awarded the contracts in August 2008;
- ✧ construction of a waste incineration plant for the Szczecin Metropolitan Area – PLN 300m.

ROAD CONSTRUCTION MARKET

In 2008–2012, the projects for development of a basic road network will be focused on:

- ✧ construction of a motorway network with a total length of approximately 1,779 km (including sections built under Public–Private Partnership);

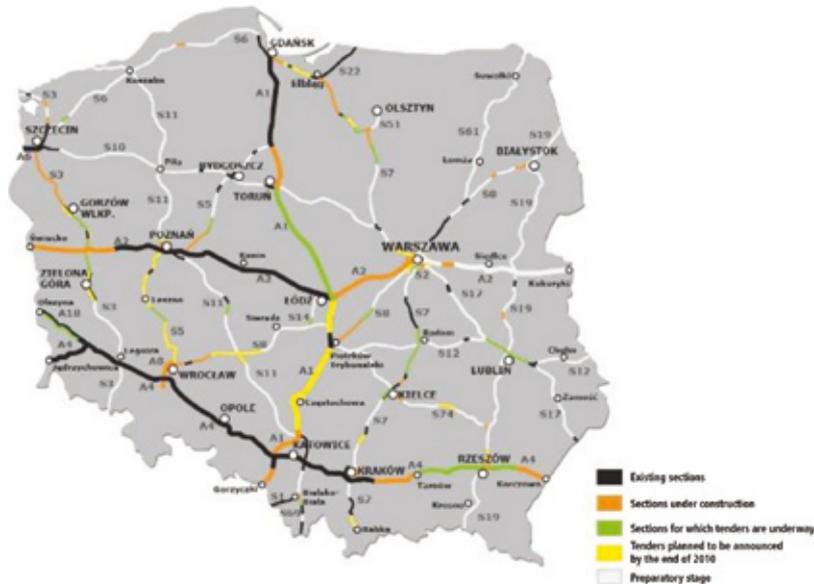
FIGURE 13: TARGET MOTORWAY SYSTEM IN POLAND



Source: GDDKiA.

- ✧ construction of an expressway network with a total length of approximately 2,274 km;
- ✧ construction of 54 beltways with a total length of 428 km in towns affected by intense drive-through traffic, as well as prevention of new building developments in the bypass area;
- ✧ improvement of the condition of main roads to ensure that 75% of main roads are classified as roads in a good condition and 10% as roads in a satisfactory condition in 2013.

FIGURE 14: PROJECTS UNDER WAY AND PLANNED TENDERS



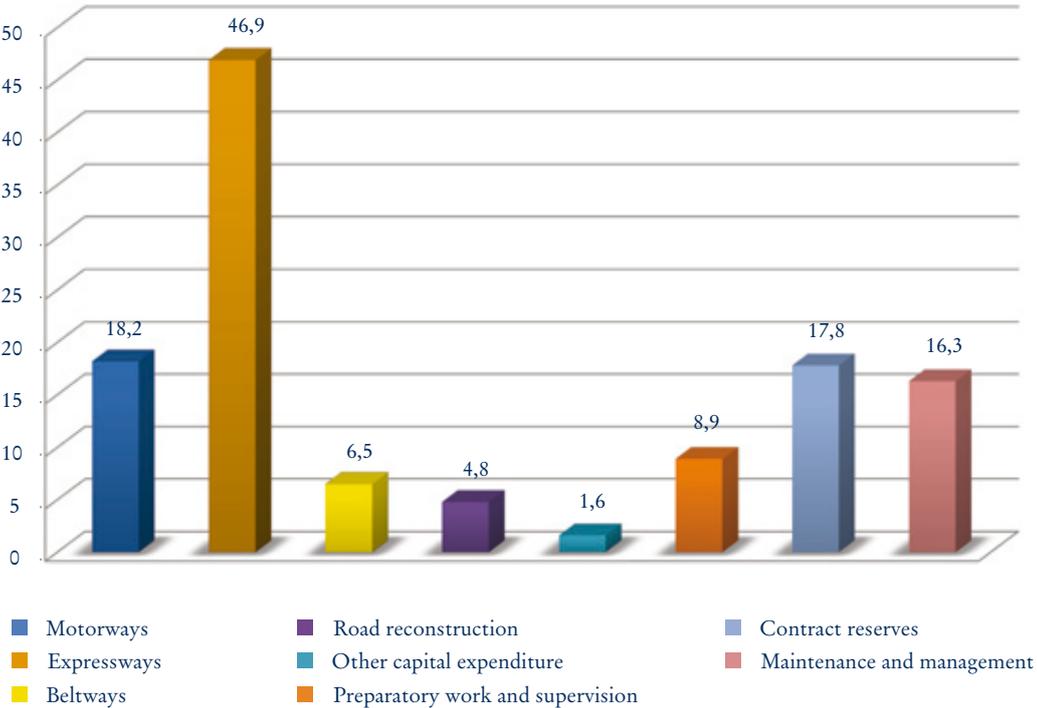
Source: GDDKiA.

The hosting of the European Football Championships by Poland and Ukraine in 2012 significantly accelerates projects involving road construction, and as much as up to PLN 121bn is to be spent on those projects in 2008–2012.

Expenditure on projects under the Main Road Construction Programme, split in the following categories, is follows:

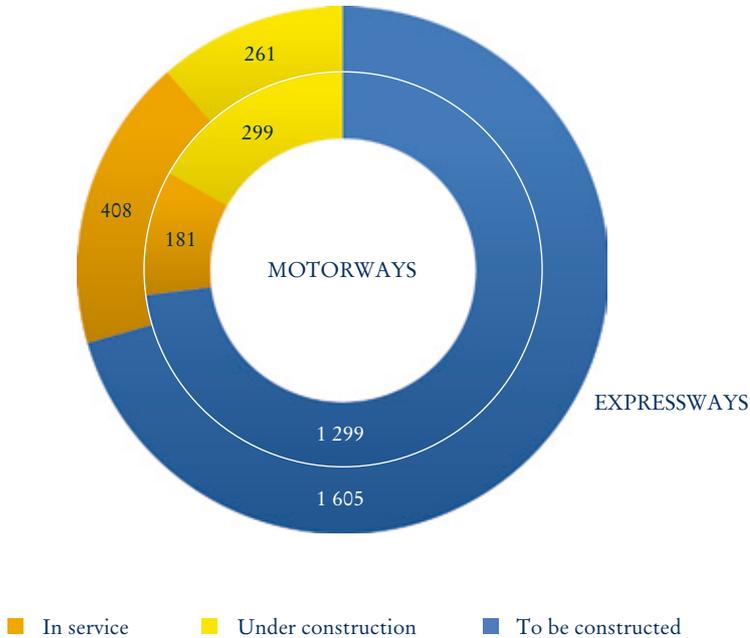
- ✓ motorways – **PLN 18.2bn**;
- ✓ expressways – **PLN 46.9bn**;
- ✓ beltways – **PLN 6.5bn**;
- ✓ surface treatment and road reconstruction – **PLN 4.8bn**;
- ✓ preparatory work and supervision – **PLN 8.9bn**;
- ✓ other capital expenditure (project-related spending, e.g. office equipment and patrol cars) – **PLN 1.6bn**;
- ✓ contract reserves and reserves for performance bonds and litigation – **PLN 17.8bn**;
- ✓ road maintenance and management in 2008–2012 – **PLN 16.3bn**.

FIGURE 15: CAPITAL EXPENDITURE BY CATEGORY IN 2008–2012 (PLN BN)



Source: www.mi.gov.pl

FIGURE 16: PROGRESS OF THE MOTORWAY AND MAIN ROAD CONSTRUCTION PROGRAMME AS AT FEBRUARY 2010 (IN KM)



Source: GDDKiA.

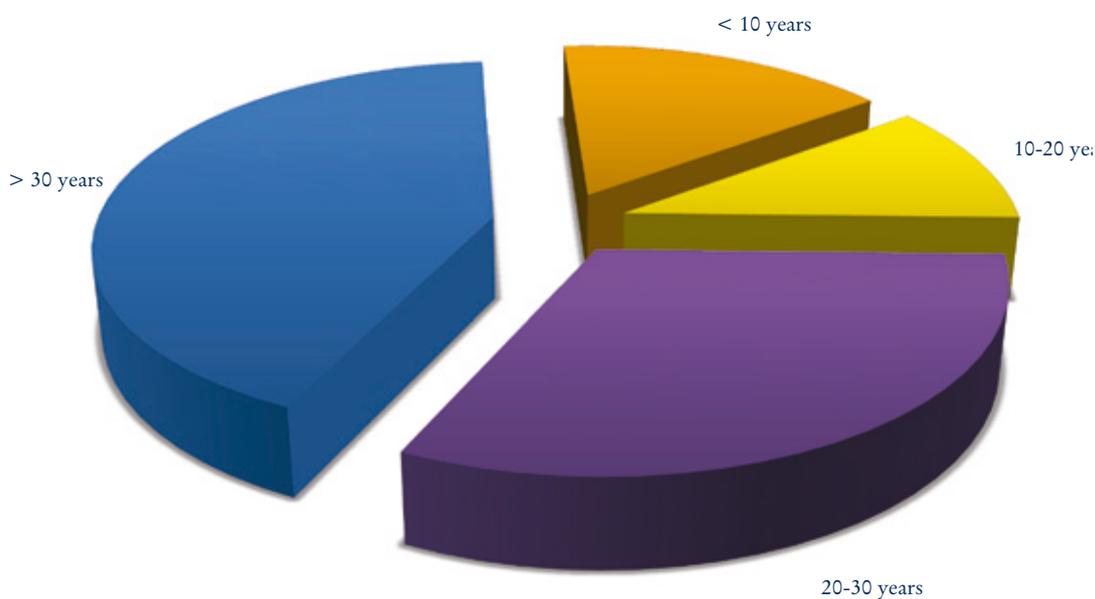
The PBG Group sees a great potential for growth in the road construction segment. Historically, the PBG Group has focused on execution of low-value contracts on local markets. The Group will continue pursuing this

strategy as it generates relatively high margins, reaching up to 10% in net profit terms. However, as the market grows, the PBG Group spots opportunities in the expressways and motorways construction segment. This market, as it becomes more saturated, will generate better and, from the PBG Group’s perspective, more satisfactory margins.

POWER SECTOR CONSTRUCTION

The market for power sector construction in Poland will be one of the key growth drivers in the Polish construction sector in the coming years. Increasing capital expenditure on construction in the power sector follows from a rising demand for power and the need to upgrade obsolete power plants. According to Eurostat, the annual consumption of electricity in Poland is 160TWh, ranking Poland sixth in Europe (after France, Germany, Great Britain and Spain). This is equivalent to consumption of 3 MWh per capita, half of the average consumption in the EU-15 countries. The average age of power units owned by Polish energy producers is between 30 and 40 years, with approximately one quarter of all units in Poland older than 40 years. Such old facilities emit large amounts of carbon dioxide which, on recommendation of the European Union, must be reduced by 20% by 2020. By the end of 2012, at least 4.1GW capacities must be upgraded. According to estimates by the Polish Energy Agency, 15GW of current generation capacities would have to be decommissioned by 2030 due to old age or environmental considerations. Depending on the source, over the next decade the power sector in Poland will attract from PLN 150 to 200 billion in investments. The four key players in the power sector, PGE, Tauron, Energa and Enea, plan to significantly increase their capital expenditure in the coming years. They want to focus not only on constructing new units powered by conventional energy sources but also on plants using renewable sources. The producers will also need to invest in keeping the existing units in operation. According to initial plans outlined by these operators, PGE plans to invest PLN 30bn until 2013 and further PLN 63bn by 2023 (including in construction of a nuclear plant), Tauron wants to invest PLN 30bn by 2020, Energa – PLN 20bn by 2015, and Enea – PLN 20bn by 2020.

FIGURE 17: AGE OF POWER UNITS IN POLAND



Source: Vattenfall.

4. Business profile

The offer of the Companies belonging to the PBG Capital Group comprises the complex work realization including the branch of design, mechanics, building, as well as automation and measurements in the following fields:

- ✂ installations to extract, process, transfer and store natural gas, crude oil and fuels
- ✂ engineering in the field of environmental protection, hydraulic engineering and renovation of water and sewage systems
- ✂ industrial and large volume buildings construction
- ✂ road construction

We introduce modern environmental friendly technologies. We constantly increase executive potential. We are able to perform the largest construction projects in Poland and to participate in international undertakings thanks to our financial potential. We manage our budgets with full awareness and build trust of financial institutions.

Foundation of our success is knowledge and experience of highly skilled and trained engineering and production staff. Matrix teams management enable us elastic reaction to requirements of the Client and to changing conditions during projects execution.

We are in the forefront in many work types such as ground works, construction, roads, technological, installations, electrical, industry automation and cathode protection.

Currently, the PBG Group divides its business into five major operating segments:

- ✂ 1. natural gas and crude oil;
- ✂ 2. water;
- ✂ 3. fuels;
- ✂ 4. industrial and residential construction;
- ✂ 5. roads.

4.1 NATURAL GAS AND CRUDE OIL SEGMENT

We have introduced to the Polish market a method of working on active gas pipelines in air-tight conditions, invented by T.D. Williamson. In 1999 we were the first in Poland to design and perform, under a general contractor formula, an unmanned gas production facilities. We were also the first in Poland to design and construct a liquefied natural gas (LNG) regasification unit. The unit is used in supplying gas and heat to towns and municipalities, as well as by industrial customers. We design and build co-generation systems, as well as CNG and LCNG units.

The technologies we have developed and the experience acquired while developing the natural gas field are now being used in the development of an oil field. In 2003, we built our first unmanned crude production facilities. In 2005, in connection with more stringent requirements in the area of environmental protection, we were the first in Poland to construct a formation water purification system. A year later we worked out and implemented a system of underground crude oil heating to facilitate its extraction.

As far as natural gas is concerned, we design and build:

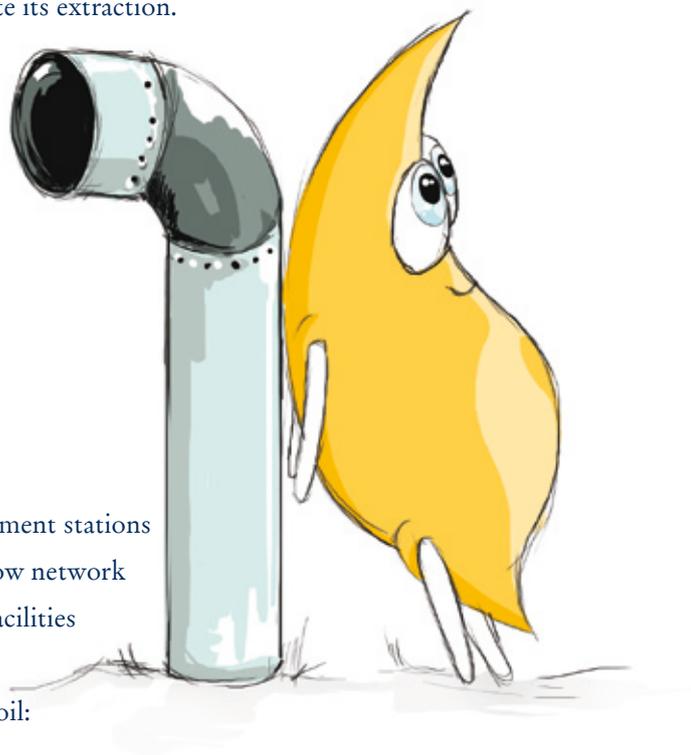
- ✓ glycol installations for gas drying
- ✓ molecular sieves
- ✓ amino installations
- ✓ gas liquefaction installation LNG
- ✓ mercury removal systems
- ✓ hydrogen sulphide removal systems
- ✓ nitrogen removal systems
- ✓ installations to fractionate LPG and C5+
- ✓ re-gasification stations LNG
- ✓ reductive-measurement stations and measuring-settlement stations
- ✓ gas mixing stations and distribution centres on the flow network
- ✓ transmission pipelines together with accompanying facilities
- ✓ compressors and others

We design and make the following installations connected with oil:

- ✓ double-phase separation
- ✓ three-phase separation
- ✓ stabilization
- ✓ chlorides removal
- ✓ sulphur removal
- ✓ hydrogen sulphide removal
- ✓ mercaptan removal

We also offer:

- ✓ shop prefabrication of steel constructions of refinery furnaces together with an assembly
- ✓ repairs and modernizations of refinery plants



PBG GROUP COMPANIES OPERATING IN THE NATURAL GAS AND CRUDE OIL SEGMENT



PBG SA

The Company provides comprehensive, specialised contracting services for natural gas, crude oil, and fuels facilities. It acts as a general contractor or sub-contractor with respect to: engineering design work, construction, repairs, operation, and maintenance in the field of: production of natural gas and crude oil, transmission of natural gas and crude oil, storage of natural gas, fuels, LNG, LPG, C5+, and CNG.



Excan Oil and Gas Engineering LTD.

Excan Oil and Gas Engineering LTD. is an engineering company involved in designing and marshalling deliveries for equipment used to build natural gas and crude oil facilities. The company's registered office is in Edmonton (Alberta), Canada.



GasOil Engineering A.S.

GasOil is an engineering, design, and execution company with international presence. The Company offers analyses, preparation of studies, design work, financial analysis, project management, turn-key deliveries and supervision over the execution of natural gas and crude oil contracts. The Company's registered office is in Poprad, Slovakia.

SALES

The market for services relating to the natural gas and crude oil segment comprises primarily Poland. The inclusion in the PBG Group of GasOil Engineering, which sells its services on international markets (including: Germany, Czech Republic, Israel and Ghana) was an important move in terms of gaining a foothold on foreign markets. Currently, PBG is also executing its first foreign contracts for Norway's Kanfa Aragon and Gas Naturale of Pakistan. The largest customers for the Group's services in this segment are PGNiG and Gaz-System.

TABLE 4: SALES OF SERVICES IN THE NATURAL GAS AND OIL SEGMENT

Sales revenue	2009 (PLN '000)	2008 (PLN '000)	Change (PLN '000)	Change (%)
natural gas and crude oil (transmission, distribution, production)	399 840	258 070	141 770	55%

The percentage share of the natural gas and crude oil segment in the Group's total sale revenue in 2009 stood at 16%, increasing by 4 percentage points from the previous year's figure. The natural gas and crude oil segment constitutes the core operating segment of PBG SA, which is the domestic leader of that industry. Given that August 2008 saw the signing of the largest contracts in the segment to date, i.e. the contract for the development of a crude oil field for Polskie Górnictwo Naftowe i Gazownictwo SA with the net value of PLN 1.4bn and the only slightly less expensive contract for the construction of an underground gas storage facility in Wierzchowice with the value of PLN 1.1bn, PBG expects that its sales revenue from the natural gas and crude oil segment will rise significantly in the years to follow. The two contracts are currently the most significant among those carried out by the PBG Group.

4.2 WATER SEGMENT

Projects executed by the Group in the water segment are aimed to reduce the pollution of water, soil and air. Thus, our activities in the area help significantly improve the condition of the natural environment. The Group comprehensively executes water engineering, environmental protection as well as water and sewage systems construction projects. We have the required equipment, financial means and staff resources to secure and independently execute even the largest projects. We are the leader in the market of pipeline rehabilitation services. We use state-of-the-art technologies of trenchless renewal, maintenance and repair of underground pipeline systems.

We completely prepare such environment protection structures as:

WATER:

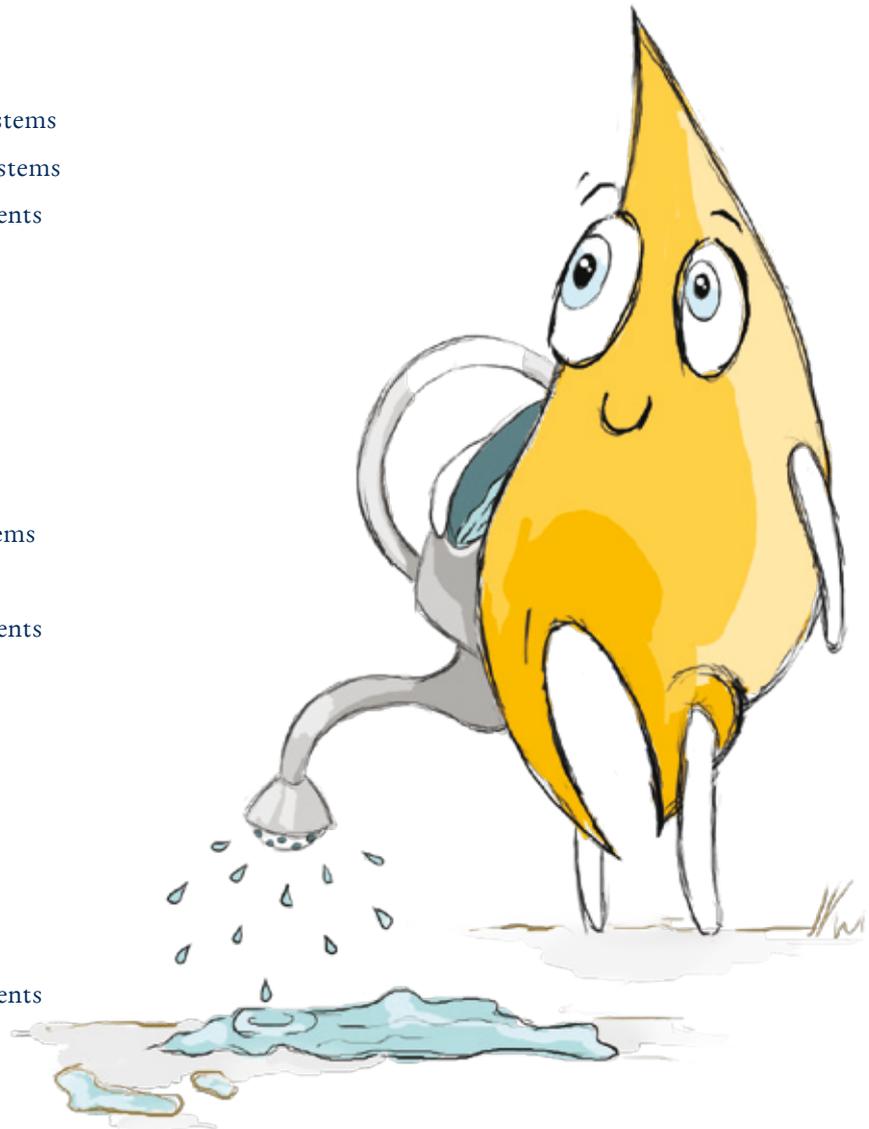
- ✓ water treatment stations
- ✓ water mains and supply systems
- ✓ renewal of water supply systems
- ✓ automation and measurements
- ✓ electrical installations
- ✓ designing
- ✓ anti-corrosion protection

SEWAGE:

- ✓ sewage treatment system
- ✓ collectors and sewage systems
- ✓ renewal of sewage systems
- ✓ automation and measurements
- ✓ designing
- ✓ electrical installations

WASTE:

- ✓ waste management plants
- ✓ waste dump sites
- ✓ reclamation
- ✓ automation and measurements
- ✓ designing
- ✓ electrical installations



We completely build such hydraulic engineering constructions as:

- ✓ hydraulic engineering reservoirs (dry and wet, fire-fighting, agricultural)
- ✓ river regulation
- ✓ damming constructions, water levels
- ✓ locks

-  hydroelectric power stations
-  communication structures

PBG GROUP COMPANIES OPERATING IN THE WATER SEGMENT



Hydrobudowa Polska SA

Hydrobudowa Polska SA specialises in comprehensive execution and maintenance of investment projects (engineering and water engineering constructions) as well as construction of environmental protection and water supply and sewage structures.



Hydrobudowa 9 SA

Hydrobudowa 9 SA provides building services for environmental protection and water engineering structures, roads and large-sized construction.



Przedsiębiorstwo Inżynieryjne „Metorex” Sp. z o.o.

The company provides building contractor services for water supply, sewage, heating, and gas systems; land reclamation for water construction, sewage-treatment plants; construction of roads and yards.



KWG SA

KWG SA specialises in the execution of infrastructure projects in the environmental protection sector, such as water supply and sewage systems, intermediate pumping stations and sewage treatment plants, as well as high-, medium- and low- pressure gas systems, pressure reduction and metering station, and gas boiler houses.

SALES

The market for water segment services covers the territory of the entire country, which follows from the fact that the Group has signed contracts with different entities whereby it has been engaged to execute projects in specifically designated locations. The Group's main customers include local government units and companies operating in the area of water and sewage management, including companies owned by local government units.

TABLE 5: SALES OF SERVICES IN THE WATER SEGMENT

Sales revenue	2009 (PLN '000)	2008 (PLN '000)	Change (PLN '000)	Change (%)
Water (water engineering and environmental protection, pipeline rehabilitation)	996 045	1 115 740	-119 695	-11%

The water segment is the Group's business segment which has so far been growing very dynamically and which has had the largest share in its total sales (in 2009, the water segment accounted for 39% of total sales revenue, versus 53% in 2008). Contracts executed in the water segment are co-financed by the European Union, are characterised by large unit values and are connected with environmental protection and water engineering projects. The 2007-2013 investment budget approved for Poland includes EUR 63bn for investment projects relating to such areas as infrastructure, environmental protection and water engineering, which ensures that this market should continue to present attractive prospects over the next several years.

4.3 FUELS SEGMENT

In the fuels segment, the PBG Group provides general contracting services relating to projects involving the construction of new facilities and modernisation of existing fuel terminals, together with auxiliary infrastructure. In the area of construction and repair of storage tanks, we also conduct work on active facilities. The Group is engaged in projects, commissioned by NATO, involving modernisation and extension of existing storage facilities for propellants and lubricants and delivery and execution of underground storage tanks for F-16 fighters at the military bases throughout Poland. The execution of military construction projects requires access to classified information marked as "CONFIDENTIAL". We are one of few contractors in Poland that meet the Investor's requirements in that respect.

We completely prepare:

- ✓ building and execution designs
- ✓ ground and underground installations
- ✓ transmission and storage technologies
- ✓ technological installation of petrol vapour recycling
- ✓ distribution and unloading installations
- ✓ dosing installation of concern additives to fuels
- ✓ safety and monitoring installation
- ✓ sanitary installation
- ✓ power infrastructure and akp
- ✓ container generating sets and emergency power supply systems
- ✓ control and supervision installations
- ✓ complete fire systems
- ✓ elements of railway infrastructure (tracks, sidings)
- ✓ tight trays
- ✓ steel constructions
- ✓ anti-corrosion protection
- ✓ concrete and asphalt roads and fields

PBG GROUP COMPANIES OPERATING IN THE FUELS SEGMENT

PBG is the leading company in the segment.

SALES

The market for fuels segment services covers virtually the entire country. It follows from the fact that the Group signs contracts with different entities and executes projects in locations designated by the investors.

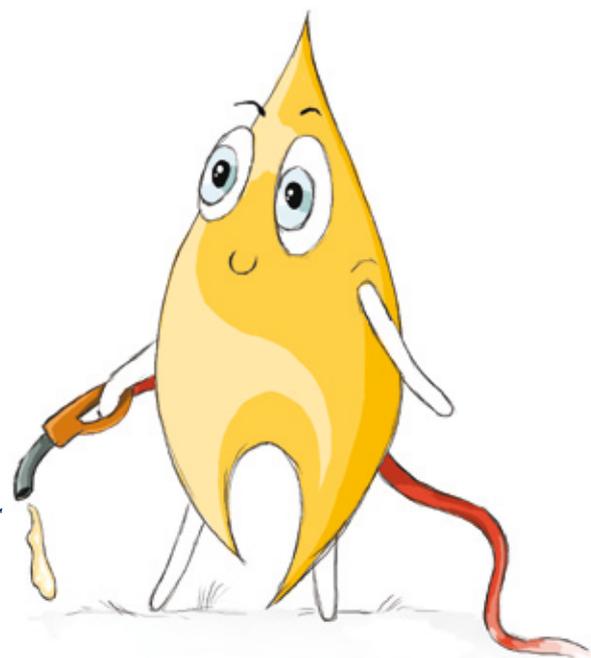


TABLE 6: SALES OF SERVICES IN THE FUELS SEGMENT

Sales revenue	2009 (PLN '000)	2008 (PLN '000)	Change (PLN '000)	Change (%)
Fuels (fuel storage)	83 288	180 089	-96 801	-54%

In the period under review, the fuels segment's share in total sales revenue stood at 3%, down by 6% year on year. The main customers for fuels segment services include: Zakład Inwestycji Organizacji Traktatu Północnoatlantyckiego – NATO, PKN Orlen and Operator Logistyczny Paliw Płynnych.

4.4 INDUSTRIAL AND RESIDENTIAL CONSTRUCTION SEGMENT

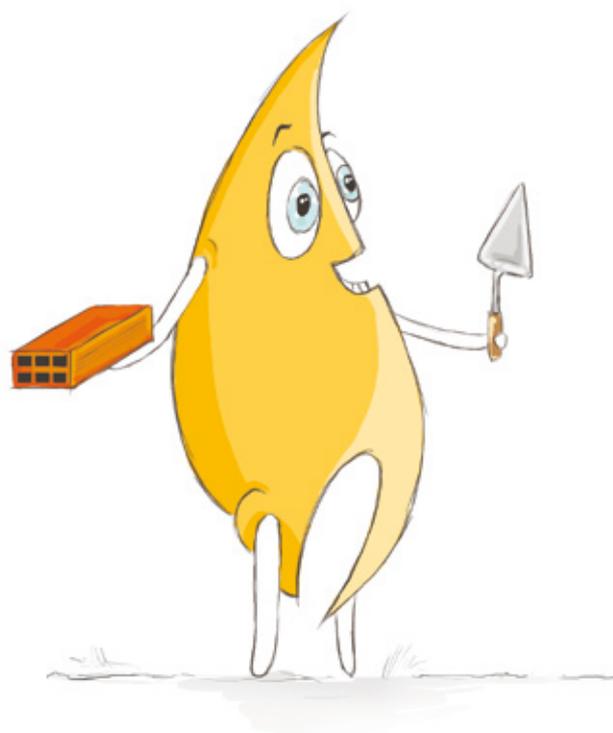
W obszarze tym Grupa PBG wykonuje realizacje związane z infrastrukturą dla budownictwa mieszkaniowego, obiektów przemysłowych, a także w zakresie usług deweloperskich w sektorze nieruchomości komercyjnych na bazie własnych gruntów i obiektów budowlanych. Obecnie największe realizowane kontrakty w tym segmencie dotyczą budowy i modernizacji stadionów: w Poznaniu, Gdańsku i Warszawie w związku z organizacją w Polsce EURO 2012.

W obszarze budownictwa przemysłowego i kubaturowego wykonujemy:

- ✓ formal and legal agreements
- ✓ land levelling
- ✓ land drainage
- ✓ staking
- ✓ foundations
- ✓ fields
- ✓ concrete and steel constructions
- ✓ provision of all technological media to structures
- ✓ electric networks
- ✓ central heating and ventilation
- ✓ ventilation, air-conditioning and heating systems

Moreover, we:

- ✓ build housing and trade centres
- ✓ design new concepts of development
- ✓ deal with the property management and trade
- ✓ put the property legal status in order
- ✓ organise formal and legal structures of property development projects



PBG GROUP COMPANIES OPERATING IN THE INDUSTRIAL CONSTRUCTION SEGMENT

Projects related to sports facilities – Hydrobudowa Polska, PBG

Projects related to waste sorting plants – Hydrobudowa Polska, Hydrobudowa 9



PR.G. Metro Sp. z o.o.

PR.G. Metro Sp. z o.o. is one of the general contractors of tunnels for the Warsaw underground railway, as well as its associated facilities, such as tunnel ventilation plants, turnout chambers, underground passes and microtunnels. In 2001, the company diversified into the water supply and sewage market. PRG Metro strengthened the execution potential of Hydrobudowa Polska SA, allowing it to diversify its business profile by entering completely new markets, such as that connected with the construction of the Warsaw underground railway.

PBG GROUP COMPANIES OPERATING IN THE RESIDENTIAL CONSTRUCTION SEGMENT



PBG Dom Sp. z o.o.

PBG Dom Sp. z o.o. operates in the property development sector. Currently it is involved in the construction of a residential estate in Lusówko, near Poznań. Furthermore, the Company also manages real property and land owned by all the PBG Group companies. PBG Dom is the leading company of the residential construction segment.



Apartamenty Poznańskie Sp. z o.o.

The company operates in the construction and property development sectors.

Gdyńska Projekt Sp. z o.o.

The company's business consists in the purchase, sale, lease and management of real property. The company operates in the construction and property development sectors.

Górecka Projekt Sp. z o.o.

Górecka Projekt Sp. z o.o. operates in the construction and property development sectors. The company is currently involved in the construction of an office building in Poznań.

PBG DOM Invest I Sp. z o.o.

The company operates in the construction and property development sectors.

PBG DOM Invest II Sp. z o.o.

The company's business consists in the purchase, sale and management of real property for its own account. The company operates in the construction and property development sectors.

Złotowska 51 Sp. z o.o.

The company's business consists in the construction of dwelling units for sale or rent. The purpose of the investment in the company is to jointly execute a property development project.

City Development Sp. z o.o.

A special purpose vehicle established to execute a property development project.

Villa Poznań Sp. z o.o.

The company's purpose is to execute a property development project.

Quadro House Sp. z o.o.

A special purpose vehicle established to execute a property development project.

Kino Development Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest III Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest IV Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest V Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest III Sp. z o.o. sp. k.

A special purpose vehicle established to execute a property development project.

SALES

The industrial and residential construction services are provided to customers throughout Poland.

TABLE 7: SALES OF SERVICES IN THE INDUSTRIAL AND RESIDENTIAL CONSTRUCTION SEGMENT

Sales revenue	2009 (PLN '000)	2008 (PLN '000)	Change (PLN '000)	Change (%)
Industrial and residential construction (construction, infrastructure for industrial facilities)	881 202	199 227	681 975	342%

In 2009, the share of the industrial and residential construction segment in the Group's total sales revenue stood at 34%, up by as much as 24% relative to 2008. As was expected in connection with the new opportunities appearing on the market relating mainly to infrastructure projects, such as construction of stadiums or waste sorting plants in the largest Polish cities, the PBG Group's sales revenue in the industrial construction segment grew significantly relative to the previous year and are set to continue on an upward path in the coming years.

4.5 ROAD CONSTRUCTION SEGMENT

In the road construction segment, the PBG Group carries out projects relating to road and bridge construction works. The Group operates a bitumen mastic production plant and research laboratories, which oversee the production operations. Mineral and bitumen mastics produced by the Group meet the highest standards and are designed to be used for roads carrying heavy traffic volumes.

In the range of road, bridge and tunnel construction we offer:

- ✓ road and street construction and modernization in various functional categories
- ✓ complex road works, including:
 - ✓ earthwork
 - ✓ sewage system
 - ✓ culverts
 - ✓ all kinds of foundations
 - ✓ bituminous and concrete surface works
 - ✓ bridge works
- ✓ tunnel construction, including:
 - ✓ underground tunnels
 - ✓ road tunnels
 - ✓ railway tunnels
 - ✓ tunnels for pedestrians
 - ✓ ventilation tunnels
- ✓ bituminous mass production
- ✓ concrete production
- ✓ production of mineral-bituminous mixtures
- ✓ cold recycling of roads and fields
- ✓ soil stabilization and homogenization
- ✓ surface milling
- ✓ recycling of the building rubble
- ✓ equipment and transport services



PBG GROUP COMPANIES OPERATING IN THE ROAD CONSTRUCTION SEGMENT



APRIVIA SA

APRIVIA SA is responsible for the consolidation of the road construction segment companies and the strengthening of the PBG Group's position in the area of road construction, including for securing and performing contracts and for arranging financing.



Dromost Sp. z o.o.

Dromost Sp. z o.o.'s business consists in the provision of services relating to the construction of transport facilities and the production of bitumen mastics.



PRID SA

PRID SA provides services relating to the execution of road and bridge construction and engineering works, including excavation work, construction of sewage systems, culverts, various road bases, soil stabilisation, and surface work involving both bitumen and cement surfaces. The company operates a bitumen mastic production plant and a research laboratory.



BETPOL SA

BETPOL SA's business consists mainly in the performance of road works, including cold recycling using foamed bitumen and milling of bitumen and cement surfaces. Betpol also produces cold-mixed mineral and bitumen blends and ready-mixed concrete. The company also provides services relating to demolition work, constructs steel structures and performs assembly and construction work, as well as installation and reinforced-concrete work. The incorporation of Betpol into the PBG Group has strengthened the Group's operations in the area of road construction.



BROKAM Sp. z o.o.

BROKAM Sp. z o.o. owns the land and holds the licence enabling it to launch the production of aggregate. The incorporation of the company into the PBG Group created a materials base for the Group companies from the road construction segment.

SALES

The road construction segment companies operate mainly on their local markets and neighbouring areas (i.e. Bydgoszcz, Nowy Tomyśl and Poznań). Currently, the companies are seeking to win contracts throughout Poland.

TABLE 8: SALES OF SERVICES IN THE ROAD CONSTRUCTION SEGMENT

Sales revenue	2009 (PLN '000)	2008 (PLN '000)	Change (PLN '000)	Change (%)
Roads (road construction)	187 022	141 191	45 831	32%

In 2009, the share of revenue from the road construction segment in the Group's total sales was 7% and remained unchanged relative to the previous year. The segment's revenue grew by 32% over the end of 2008, from nearly PLN 141m to PLN 187m.

OTHER OPERATING AREAS

In addition to the companies mentioned above, there are also seven other companies in the PBG Group which operate in separate areas, omitted from the above description.

CONTRACTING SERVICES



PBG Technologia Sp. z o.o.

The company is involved in THE production and assembly activities, including: production and assembly of steel structures, production and assembly of equipment and facilities, production and assembly of steel tanks, construction of complex industrial units, including in particular in the petrochemical industry. Additionally, in the future the company will also provide building contractor services.

FOREIGN OPERATIONS

PBG Export sp. z o.o.

PBG Export was established with a view to acquiring orders in Poland and abroad, and to exercise supervision over their performance.

PBG UKRAINA Publiczna Spółka Akcyjna

PBG Ukraina was set up with a view to conducting business activities primarily involving research of the Ukrainian market and establishing contacts with companies providing construction and associated services.

Wschodni Invest Sp. z o.o.

Wschodni Invest Sp. z o.o. holds in its portfolio and manages the property development business of Energopol – Ukraina.

Energopol Ukraina

The company holds a legal title to a land property with an area of 63,000 m² located in Kiev, which is planned to be developed and the development area is to be around 250,000 m². The company provides a wide range of services in the investment process, including: general construction, production and design works. Moreover, Energopol-Ukraina has trading experience, as well as experience in various kinds of modernisation/upgrade work related to industrial facilities.

NEW AREA OF ACTIVITY – POWER SECTOR CONSTRUCTION

Energomontaż Południe SA

Energomontaż-Południe SA specialises in the assembly, upgrade and repairs of equipment and facilities for utility and industrial power plants, and CHP plants. The company actively participates in the construction of new, complete power facilities. In this respect, Energomontaż performs work in the following areas: power boilers, facilities and installations accompanying power boilers, steam pipelines, process pipelines, flue gas ducts, air ducts and steel structures. Energomontaż-Południe SA also offers its services to coking plants, cement plants, chemical plants and refineries concerning facilities and assembly of equipment and industrial facilities.

SUPPORT FOR THE PBG GROUP COMPANIES



AVATIA Sp. z o.o.

The company provides IT services, including IT consultancy, implementation of IT systems, data processing and services relating to IT and computer-based technologies. As a member of the PBG Group, Avatia provides IT support to all the PBG Group companies.

SHARES OF THE PBG GROUP'S BUSINESS SEGMENTS AND MARGINS BY SEGMENTS

FIGURE 18: SHARES OF THE PBG GROUP'S BUSINESS SEGMENTS IN SALES REVENUE IN 2009 AND 2008

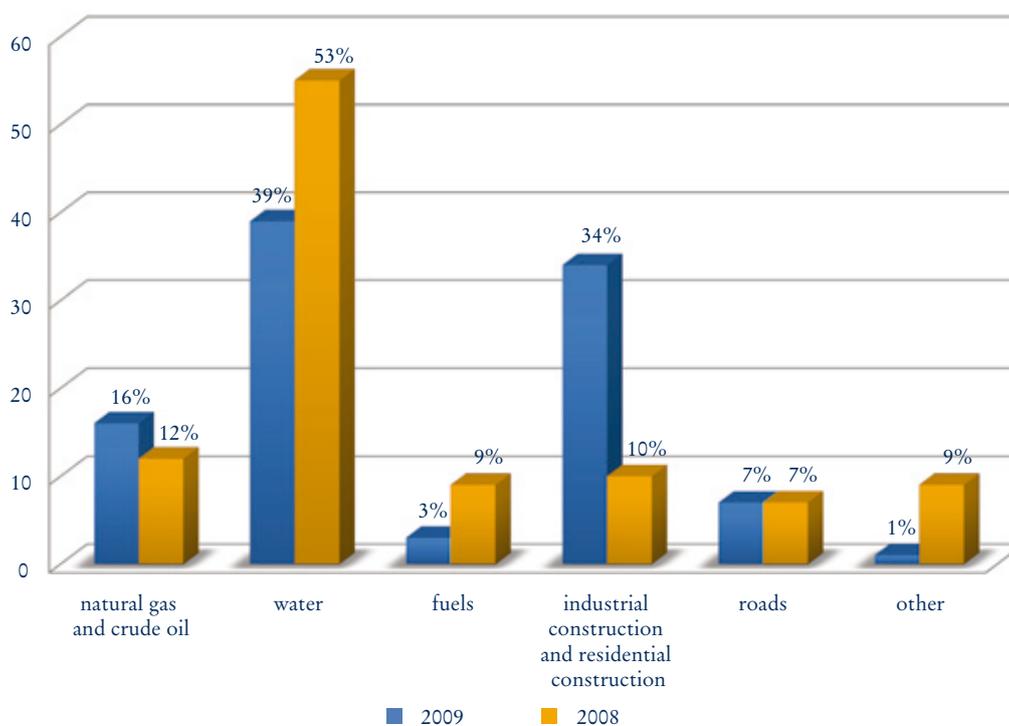
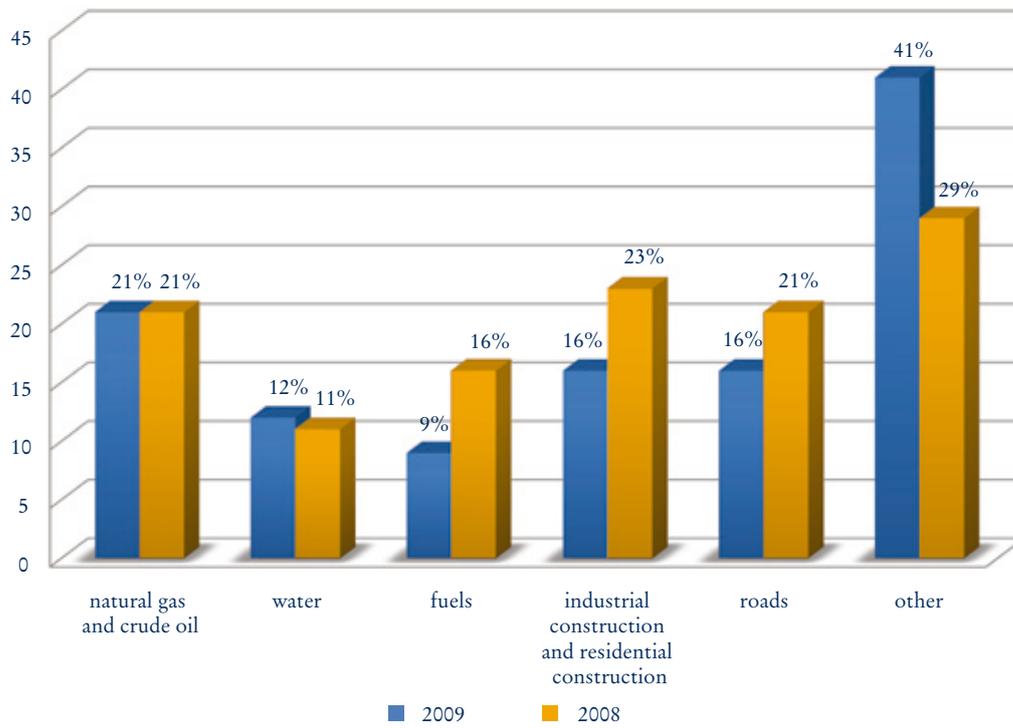


FIGURE 19: GROSS MARGINS IN THE PBG GROUP'S KEY BUSINESS SEGMENTS IN 2009 AND 2008



5. Employees

In the business activity the PBG Capital Group makes its way towards high ethical standards, creating partnership relations with clients, social-economic environment and employees. In contacts with other entities, clients and in interpersonal relations, employees of the Company make their way towards such rules as: professionalism, responsibility, reliability, credibility and honest competition.

The strongest side of the PBG Capital Group is experience, education and ambition of employees. Each of them is prepared to take full responsibility for tasks entrusted to them. Unique organizational culture and family atmosphere create awareness of influence of each of US on achieved successes of the Group.

The Group effectively communicates their employees what are expectations towards them and what aims are meant to be accomplished. OUR employees in a reliable way execute responsibilities entrusted to them and maintain good relations with clients and partners. All above lead to a systematic creation of positive effigy of the Group in its surrounding, either internal or external.

One of the principal assumptions of the human resources management policy in the Group is sustain development and improvement of employees what give them a chance of professional development and, as a consequence, possibility of promotion. Regardless of the level in the organization hierarchy, employees have equal access to the system of trainings. Employer meets needs of the employee and give him opportunity to raise his qualifications according to requirements of the taken position and according to perspectives of further professional development.

FIGURE 20: EMPLOYMENT AT YEAR-END (5 YEARS COMPARISON)

