



**DIRECTORS' REPORT ON THE OPERATIONS OF PBG S.A.**

**for the period January 1st – December 31st 2010**



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## **CHAPTER I: CORPORATE GOVERNANCE REPORT**

### **I. STATEMENT ON COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES BY PBG S.A.**

**PBG S.A. PUBLISHED THE CONSOLIDATED TEXT OF THE STATEMENT ON COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES ON ITS WEBSITE AT:**

<http://www.pbg-sa.pl/pub/uploaddocs/oswiadczenie-o-stosowaniu-zasad-ladu-korporacyjnego-za-rok-2010.pdf>

#### **1. Corporate governance principles adopted by PBG S.A.**

PBG S.A. adopted the corporate governance principles set forth in the document "Best Practices for WSE Listed Companies" published at <http://www.corp-gov.gpw.pl>.

#### **2. Corporate governance principles which PBG S.A. did not comply with**

The Management Board of PBG S.A. represents that in 2010 the Company complied with all the applicable corporate governance rules set forth in Chapters II-IV of the document "Best Practices for WSE-Listed Companies". Furthermore, the Company followed the recommendations stipulated in Chapter I thereof, except for:

1. Recommendation I.1.: in 2010, the Company did not implement the recommendation with respect to on-line broadcasts of General Shareholders Meetings over the Internet due to deficiencies in IT infrastructure. However, the Company publishes the recordings of the meetings on the company website. PBG S.A. may enable on-line broadcasts in the future.

2. Recommendation I.5.: in 2010, the Company did not implement the recommendation with respect to determining the remuneration policy for the management and supervisory boards. The rules of remuneration of the Supervisory Board were set out in a resolution of the Extraordinary General Shareholders Meeting. The amount of remuneration depends on the scope of duties and responsibilities of individual Supervisory Board members. The amount of remuneration paid to members of the Management Board is determined by the Supervisory Board by way of a resolution. It depends on the scope of duties and responsibilities of individual Management Board members.

3. Recommendation I.9.: the Company appoints Supervisory and Management Board members on the basis of their respective qualifications: experience, professionalism and expertise. As regards the gender of the management and supervisory personnel, the decision is left for the discretion of the Company's relevant bodies. On April 21st 2010, the Supervisory Board of the fifth term of office was appointed with Ms Małgorzata Wiśniewska as the Deputy Chairman.

#### **3. Key features of the Company's internal control and risk management systems used in the preparation of the separate and consolidated financial statements**

See Chapter II, Report on Risk and Control, page 43.

**4. Shareholders directly or indirectly holding significant blocks of shares, along with an indication of the numbers of shares and percentages of Company's share capital held by such shareholders, and the numbers of votes and percentages of the total vote that such shares represent at the General Shareholders Meeting**

See Chapter V, Shares and Shareholders, page 73.

**5. Holders of any securities conferring special control rights, and description of those rights**

See Chapter V, Shares and Shareholders, page 78.

**6. Restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities**

See Chapter V, Shares and Shareholders, page 78.

**7. Rules governing the appointment and removal of the Company's management personnel and such personnel's powers, including in particular the power to make decisions to issue or buy back shares**

**Management Board of PBG S.A.**

The Management Board acts pursuant to the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Management Board. The scope of powers of the Management Board includes any matters which are not reserved for other governing bodies of the Company pursuant to the provisions of the Commercial Companies Code or the Company's Articles of Association.

Pursuant to the provisions of the Articles of Association currently in force (Par. 37), the PBG Management Board consists of more than one person and includes the President, from one to four Vice-Presidents and up to three Members, appointed and removed from office by the Supervisory Board. The Supervisory Board appoints President of the Management Board, and subsequently at the Presidents' request, appoints Vice-Presidents and Members of the Management Board. Only natural persons who have full capacity to enter into legal transactions may be appointed Members of the Management Board.

Two Vice-Presidents acting jointly, a Vice-President acting jointly with a Member of the Management Board, a Vice-President acting jointly with a Proxy or a Member of the Management Board acting jointly with a Proxy are authorised to represent the Company. The President of the Management Board acting individually is authorised to represent the Company. The Management Board may grant powers of attorney (general powers of attorney, powers of attorney to perform certain types of activities, and powers of attorney to perform a certain activity) to act on behalf of the Company.

The Management Board may grant a power of proxy upon consent of all Members of the Management Board. A power of proxy may be revoked by any Member of the Management Board acting individually.

Acting in the best interest of the Company, the Management Board sets forth the strategy and the main objectives of the Company's operations, and submits them to the Supervisory Board for approval. The

Management Board is responsible for implementation and performance of the same. The Management Board is responsible for transparency and effectiveness of the Company's management system and the conduct of its business in accordance with legal regulations and best practice.

Members of the Management Board are appointed, removed from office and suspended from duties by the Supervisory Board in accordance with the rules set forth in the Commercial Companies Code and the Company's Articles of Association. Candidates are nominated by the President of the Management Board. The Supervisory Board enters into and terminates employment contracts with Members of the Management Board. The Chairperson or Deputy Chairperson of the Supervisory Board is authorised to execute such contracts on behalf of the Supervisory Board. Other actions concerning the employment relationship with Members of the Management Board are dealt with in the same manner. The Supervisory Board determines remuneration for Members of the Management Board, taking into account the remuneration's incentivising function in ensuring effective management of the Company.

Mandate of a Management Board Member expires:

- 1) upon removal of a given Member from the Management Board,
- 2) on the date of the General Shareholders Meeting approving the financial statements for the last full year during the term of office,
- 3) upon death,
- 4) upon resignation.

Resignations by Members of the Management Board should be submitted to the Supervisory Board, with a copy for the Management Board.

Without the consent of the Supervisory Board, a Management Board Member may not:

- 1) conduct any activity competitive to the Company's business,
- 2) be a partner in any partnership under civil law or another type of partnership, or a member of a governing body of an incorporated company or a member of the governing body of any other competitive legal entity,
- 3) participate in a competitive company in which a given Member holds at least 10% of shares or rights entitling that Member to appoint at least one member of the management board.

A Management Board Member is obliged to immediately notify the Supervisory Board of the occurrence of the circumstances specified above. The Management Board Member should remain fully loyal to the Company and refrain from taking any actions which could lead to the gaining of personal profits only. If the Member of the Management Board receives information on the possibility of investment or any other profitable transaction concerning the Company's business, such Member should promptly present the information to the Management Board so that it can be considered in terms if its possible use by the Company. The use of such information by a Member of the Management Board or its conveying to a third party may only take place with the Management Board's consent and only if it does not infringe upon the Company's interest. Members of the Management Board should notify the Supervisory Board of each actual or potential conflict of interests in relation to the position they hold. A Member of the Management Board should treat its shareholding in the Company as a long-term investment.

Any activities which are beyond the scope of ordinary management require adoption of a resolution by the Management Board. In particular, the following matters require a resolution to be adopted by the Management Board:

- 1) decisions regarding major investment projects and the manner of their financing,
- 2) outlining the Company's strategic development plans and setting the Company's financial targets,
- 3) definition of the Company's organisational structure,
- 4) definition of the Company's rules of procedure and other internal regulations,
- 5) internal division of powers between individual Members of the Management Board,
- 6) outlining personnel and payroll policies, including assumptions underlying incentive schemes.

With respect to all matters not listed above, Members of the Management Board should be responsible for managing the Company's affairs individually, as per the division of powers. Board are obliged to promptly notify the Supervisory Board of any hindrance in their performance of duties. The President of the Management Board will decide which other Management Board Member will perform the duties instead.

### **Supervisory Board**

The Supervisory Board acts pursuant to the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board

The Supervisory Board is composed of no less than five Members appointed by the General Shareholders Meeting by way of a secret ballot for a one-year term of office. The Supervisory Board members' mandates expire on the date of the General Shareholders Meeting which approves the financial statements for the previous full financial year when the members held the office.

Members of the Supervisory Board may be re-elected. The Supervisory Board is comprised of independent members, the criteria of their independence are provided for in the relevant laws or regulations contained in documents on public companies that specify the rules of corporate governance.

A member of the Supervisory Board is deemed to be independent if:

- 1) they are not employed by the Company or Related Undertaking;
- 2) they are not a member of the supervisory and management bodies of a Related Undertaking;
- 3) they are not a shareholder holding at least 5% of votes at a General Shareholders Meeting of the Company or of Related Undertaking;
- 4) they are not a member of the supervisory and management bodies or employee of an undertaking holding at least 5% of votes at a General Shareholders Meeting of the Company or of Related Undertaking;
- 5) They are not a parent, child, spouse, sibling or parent of a spouse, and not adopted by, any of the persons referred to in above points.

The Supervisory Board exercises ongoing supervision over the Company's business, across all areas of its operations. It submits annually a brief assessment of the Company's standing to the General Shareholders Meeting.

The Supervisory Board's approval is required in particular for the following:

- 1) acquisition of an enterprise or an organised part of enterprise,
- 2) establishment and liquidation of Company's divisions in Poland and abroad,
- 3) assumption of liability for third party obligations (sureties, guarantees and avals) whose value exceeds the Company's share capital; however, assumption of liability for obligations of the Group companies does not require such approval,
- 4) conduct by Members of the Management Board of activities competitive to the Company's business and participation in competing companies as a general partner or member of the governing bodies,
- 5) acquisition, subscription for, disposal of and resignation from pre-emptive rights to, shares, except shares in public companies whose number does not exceed 1% of their total number,
- 6) payment of interim dividend,
- 7) provision by the Company of any benefits to Members of the Management Board, other than benefits under the employment relationship,
- 8) execution by the Company or its subsidiary undertaking of a material agreement with a related party (except agreements executed with the Group companies), as supervisory board member, a management board member or their related parties,
- 9) acquisition or disposal of property, a perpetual usufruct right or interest in property,
- 10) appointment of a qualified auditor,
- 11) acting on behalf of the Company in agreements and disputes between the Company and Management Board Members,
- 12) approval of the Rules of Procedure for the Management Board,
- 13) appointment and removal from office of Management Board Members,
- 14) issuing opinions on matters submitted by the Management Board.

In order to discharge its duties, the Supervisory Board may review each area of the Company's activities, request the Management Board and employees to provide reports and clarifications, review the Company's assets, and inspect accounts and documents. Members of the Supervisory Board should receive regular and exhaustive reports on all matters of importance and risks connected with the Company's operations, as well as manner of managing such risks. In case of issues which need immediate attention, the Management Board informs the Members of the Supervisory Board by circulation (in writing). In such situations, the President or two Vice-Presidents acting jointly, a Vice-President acting jointly with a Management Board Member, a Vice-President acting jointly with a Proxy, or a Management Board Member acting jointly with a Proxy submit information in writing to the Chairperson of the Supervisory Board.

A Supervisory Board Member should immediately notify the Chairperson of any hindrance in his or her performance of duties, stating the reasons for such hindrance.

A Supervisory Board Member should notify other Supervisory Board Members without undue delay of:



- a) an actual conflict of interests with the Company. In such a case, the Supervisory Board Member should refrain from expressing opinions or voting on adoption of resolutions concerning the matter which has given rise to the conflict of interests. Information on the conflict of interests so reported should be recorded in the minutes of the Supervisory Board meeting,
- b) personal and factual relationships or organisational links between a Supervisory Board Member and a particular shareholder, especially the majority shareholder, which may affect the Company's affairs.

A personal relationship with a shareholder is understood as a relationship by marriage or blood of the first degree. A factual relationship is understood as maintaining regular economic relations. Organisational links with a shareholder are understood as links under employment or similar contracts. The Company may request a Supervisory Board Member to furnish a statement regarding such relationships and links.

## **8. Rules governing amendments to the Company's Articles of Association**

An amendment to the Company's Articles of Association requires:

- General Shareholders Meeting's resolution adopted by three-fourths (3/4) of the votes cast (Art. 415 of the Commercial Companies Code), in the form of a notarial deed (a material change in the Company's business requires a resolution adopted by two-thirds (2/3) of the votes (Art. 416 of the Commercial Companies Code)),
- an entry in the National Court Register (Art. 430 of the Commercial Companies Code).

In 2010, the Company's Articles of Association were amended under resolution of the Annual General Shareholders Meeting dated April 21st 2010.

The amendments to the Company's Articles of Association were published in the Current Report No. 18/2010Z (available at: <http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/18-2010-uchwaly-podjete-przez-zwyczajne-walne-zgromadzenie-akcjonariuszy-pbg-s-a-w-dniu-21-kwietnia-2010-r.html>)

and covered the following issues:

### ➤ **The previous version of Art. 20.5 of the Company's Articles of Association:**

"The Extraordinary General Shareholders Meeting shall be convened by the Management Board whenever it is deemed necessary, or by the motion of the Supervisory Board, or shareholders representing at least one-tenth of the share capital."

### ➤ **As at April 21st 2010, Art. 20.5 of the Company's Articles of Association reads as follows:**

"The Extraordinary General Shareholders Meeting shall be convened by the Management Board. The Supervisory Board may convene an Extraordinary General Shareholders Meeting should the Supervisory Board deem it necessary. An Extraordinary General Shareholders Meeting may also be convened by shareholders representing at least half of the share capital, or at least half of the total number of votes in the Company, in which case shareholders shall appoint the Chairman of the Meeting."

### ➤ **The previous version of Art. 20.6 of the Company's Articles of Association:**

"If the Management Board does not pass a resolution to convene an Extraordinary General Shareholders Meeting within two weeks from the day it received a motion in writing to convene it or

convenes it with an agenda other than included in the motion, or convenes the General Shareholders Meeting on a day after the two-month period following the date of receipt of the motion, the right to convene the General Meeting may be exercised also by the Supervisory Board."

➤ **As at April 21st 2010, Art. 20.6 of the Company's Articles of Association reads as follows:**

"Shareholder(s) representing at least one-twentieth of the share capital may demand that an Extraordinary General Shareholders Meeting be convened and put items on the agenda of the Meeting. The demand to convene the Extraordinary General Shareholders Meeting shall be submitted to the Management Board in writing or electronically. If the Extraordinary General Shareholders Meeting is not convened within two weeks of the submission of the demand to the Management Board, the court of registration may authorise the shareholders submitting the demand to convene the Extraordinary General Shareholders Meeting."

➤ **As at April 21st 2010, Art. 20.7 was deleted. The previous version read as follows:**

"If pursuant to Art. 20.6 there are two Extraordinary General Shareholders Meetings convened (one by the Management Board and one by the Supervisory Board), then both should take place. However, if both Extraordinary General Shareholders Meetings have identical agendas, then only that General Shareholders Meeting shall take place, which was convened at an earlier date, and if both Meetings were convened on the same day, the one scheduled at an earlier hour shall take place."

➤ **The previous version of Art. 22.2 of the Company's Articles of Association:**

"Motions to include particular matters in the agenda of the General Shareholders Meeting shall be submitted to the Management Board by the Supervisory Board and the shareholders in writing, otherwise shall be null and void."

➤ **As at April 21st 2010, Art. 22.2 of the Company's Articles of Association reads as follows:**

"Shareholders may propose amendments to the agenda of the General Shareholders Meeting, and draft resolutions, pursuant to the provisions of the Commercial Companies Code."

➤ **As at April 21st 2010, Art. 22.3 was deleted. The previous version read as follows:**

"The Management Board shall include in the agenda of the General Shareholders Meeting every motion submitted to the Management Board in writing, at least 30 days prior to the date of the Meeting, by the Supervisory Board or by the shareholders representing at least one-tenth of the Company's share capital."

➤ **The previous version of Art. 27.3 of the Company's Articles of Association:**

"The Company shareholders may participate in the General Shareholders Meeting convened at a date after August 3rd 2009, using means of electronic communication."

➤ **As at April 21st 2010, Art. 27.3 of the Company's Articles of Association reads as follows:**

"The Company shareholders may participate in the General Shareholders Meeting using means of electronic communication." The decision on the use of such means of communication and the terms of using the same at the General Shareholders Meeting shall each time be taken by the Management Board."

➤ **The previous version of Art. 29.9 of the Company's Articles of Association:**

"At least one-half of the members of the Supervisory Board should be independent members. i.e. persons, who comply with the following requirements:

- a) they are not employed by the Company or Related Undertaking;
- b) they are not a member of the supervisory and management bodies of a Related Undertaking;
- c) they are not a shareholder holding at least 5% of votes at a General Shareholders Meeting of the Company or of Related Undertaking;
- d) they are not a member of the supervisory and management bodies or employee of an undertaking holding at least 5% of votes at a General Shareholders Meeting of the Company or of Related Undertaking;
- e) they are not a parent, child, spouse, sibling or parent of a spouse, and not adopted by, any of the persons referred to in above points."

➤ **As at April 21st 2010, Art. 29.9 of the Company's Articles of Association reads as follows:**

"The Supervisory Board shall include independent members, whose number and the criteria of their independence are provided for in the relevant laws or regulations contained in documents on public companies that specify the rules of corporate governance."

➤ **As at April 21st 2010, the Art. 29.10-13 were deleted. The previous version read as follows:**

„10. "10. The requirements set in Art. 29.9 must be satisfied during the entire term of office."

„11. Within the meaning of the Company's Articles of Association herein, a Related Undertaking is an undertaking that is Company's Parent Undertaking, Subsidiary Undertaking, or a Subsidiary to Company's Parent Undertaking."

„12. Within the meaning of the Company's Articles of Association herein, an undertaking is a Subsidiary Undertaking to another undertaking (Parent Undertaking), if the Parent Undertaking:

- a) holds the majority vote in other undertaking's (Subsidiary Undertaking) governing bodies, also on the basis of agreements with other entities, or
- b) is authorised to appoint and/or dismiss majority of members of governing bodies of another undertaking (Subsidiary Undertaking), or
- c) more than one-half of the Management Board members of another undertaking (Subsidiary Undertaking) are simultaneously members of the Management Board, or executive managers of the first undertaking, or any of its subsidiaries.

13. An undertaking which is subsidiary to Parent Undertaking's other Subsidiary Undertaking, is also a Subsidiary Undertaking of the Company's Parent Undertaking."

**9. Manner of operation of the general shareholders meeting and its key powers; shareholders' rights and the manner of exercising those rights, including in particular the principles stipulated in the rules of procedure of the General Shareholders Meeting**

**9. 1 Manner of operation of the General Shareholders Meeting**

The manner of operation of the General Shareholders Meeting is governed by the Rules of Procedure of the Company's General Shareholders Meeting.

A shareholder is entitled to participate in the General Shareholders Meeting if he/she has submitted to the Company a registered certificate of deposit issued by the entity operating the shareholder's securities account not later than one week prior to the date of the General Shareholders Meeting and such certificate of deposit is not collected by the Shareholder prior to the conclusion of the General Shareholders Meeting. The General Shareholders Meeting is valid if the Shareholders present at the Meeting represent at least a half of the share capital. Members of the Supervisory Board and Management Board should also participate in the General Shareholders Meeting. The absence of any such member must be explained at the General Shareholders Meeting.

The Company's auditor should participate in the Annual General Shareholders Meeting and in any Extraordinary General Shareholders Meeting whose agenda includes discussion of the Company's financial matters. Experts and invited guests may participate in appropriate parts of the meeting, especially if their participation is advisable, given the need to present to the General Shareholders Meeting opinions on the matters discussed.

The Company's Articles of Association provide for convening general shareholders meetings at which shareholders may cast their votes in an electronic form. The decision on the use of such means of communication and the terms of using the same at the General Shareholders Meeting shall each time be taken by the Management Board.

The Chairperson of the General Shareholders Meeting presides over proceedings of the Meeting, in line with the adopted agenda and in compliance with the applicable regulations, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting. The Chairperson may not at his/her sole discretion remove items from the published agenda of the Meeting, rearrange items in the agenda or include in the agenda important matters which were not in the agenda originally communicated to the Shareholders. Upon presentation of each item in the agenda, the Chairperson prepares a list of persons who have registered for discussion and – upon closing the list – opens the discussion, giving the floor in the order the speakers registered for the discussion. The Chairperson closes the discussion at his/her sole discretion. The Chairperson may give the floor to members of the Supervisory Board and Management Board and invited experts who may speak out of turn. Participants of the meeting may take the floor exclusively on the matters on the agenda which are currently under discussion. For the purposes of discussing any individual matter, the Chairperson may limit each participant's speaking time, including the time for speech in reply. The above limitation may not be applied to a member of the Supervisory Board or Management Board and invited experts. The Chairperson decides whether to lengthen the speaking time or give the floor again to the given speaker.

Each participant of the General Shareholders Meeting has the right to put questions to the Management Board, Supervisory Board and the auditor on the matters in the agenda which are currently under discussion. Members of the Management Board, Supervisory Board and the Company's auditor are obliged to answer the questions. While answering such questions, it should be noted that the Company is required to observe the disclosure requirements under the regulations governing the trade in financial instruments. Forthwith upon closing the discussion, the Chairperson puts a formal motion to vote. At a participant's request, his/her written statement is included in the minutes of the meeting.

The General Shareholders Meeting's resolutions are adopted by way of an absolute majority of votes cast, unless an absolutely binding laws or the Company's Articles of Association require that a given resolution be adopted by way of a qualified majority.

Shareholders may vote at the General Shareholders Meeting by postal ballot, using a form published by the Management Board at the website, pursuant to the relevant provisions of law. The postal vote shall be deemed valid, if it is submitted to the Company not later than during voting at the Shareholders Meeting. Postal ballot requires the voter to provide signature compliant with the specimen signature submitted to the Company, confirmed by the notary public.

### **9.2 Key powers of the General Shareholders Meeting**

According to Par. 28 of the Articles of Association of PBG S.A., the matters requiring the General Shareholders Meeting's resolution include:

- 1) review and approval of the annual financial statements of the Company and the Directors' Report on the Company's operations for the previous financial year,
- 2) approval of discharge of duties by Members of the Supervisory Board and Management Board,
- 3) profit distribution or coverage of loss,
- 4) any decisions concerning claims for repair of damage inflicted in the establishment of the Company or in exercise of supervision or management,
- 5) disposal and lease of a business or its organised part and creation of usufruct rights in a business or its organised part,
- 6) issue of bonds convertible into shares or conferring pre-emptive right,
- 7) defining the rules and amounts of remuneration of the Supervisory Board Members,
- 8) appointment and removal from office of the Supervisory Board Members,
- 9) setting the dividend record date,
- 10) creation, each instance of application, and liquidation of capital reserves.

### **9.3 Shareholders' rights and the manner of exercising those rights**

According to the Rules of Procedure of the General Shareholders Meeting of PBG S.A.:

1. A shareholder may participate in the General Shareholders Meeting and exercise his/her voting rights personally, through a proxy or another representative. Powers of proxy to act on behalf of a Shareholder should be granted in a written form under the pain of nullity and attached to the minutes of the General Shareholders Meeting. Other representatives of Shareholders should duly document their authority to act on behalf of Shareholders.
2. The General Shareholders Meeting selects its Chairperson from among the participants.
3. The Management Board convenes annual or extraordinary General Shareholders Meetings. If the Management Board fails to adopt a resolution convening the Annual General Shareholders Meeting before the lapse of the fifth month as from the end of the last financial year or convenes the Annual Meeting for a date later than the deadline specified in item 2, then also the Supervisory Board will have the right to convene the Annual General Shareholders Meeting. Shareholders representing at least a half of the share capital or at least a half of the total vote in the Company are also entitled to convene the General Shareholders Meeting and to appoint the Chairperson.

Shareholders representing at least one-twentieth of the share capital may request that the Extraordinary General Shareholders Meeting be convened and certain items included in the Meeting's agenda. The request shall be submitted to the Management Board in a written or electronic form. If the Extraordinary General Shareholders Meeting is not convened within two weeks of the submission of such request to the Management Board, the court of registration may authorise the shareholders submitting such request to convene the Extraordinary General Shareholders Meeting

4. Each participant of the General Shareholders Meeting has the right to put questions to the Management Board, Supervisory Board and the auditor on the matters in the agenda which are currently under discussion.

5. Each participant of the General Shareholders Meeting may submit a motion concerning a procedural matter. The Chairperson may allow participants to speak out of turn on procedural matters. At a participant's request, his/her written statement is included in the minutes of the meeting.

6. Shareholders may propose amendments to the agenda of the General Shareholders Meeting, and draft resolutions, pursuant to the provisions of the Commercial Companies Code.

## **10. Composition and activities of the Issuer's management, supervisory and administrative bodies or of their committees; changes in their composition in the last financial year**

### **10.1 Composition and activities of the Supervisory Board and its committees**

The composition of the Supervisory Board in the period from **1 January 1st** to **April 21st 2010** was as follows:

- Maciej Bednarkiewicz – Chairman of the Supervisory Board;
- Jacek Kseń – Deputy Chairman of the Supervisory Board;
- Wiesław Lindner – Secretary of the Supervisory Board;
- Dariusz Sarnowski – Member of the Supervisory Board;
- Adam Strzelecki – Member of the Supervisory Board.

The persons listed above were reappointed as members of the Supervisory Board for another term of office by the Annual General Shareholders Meeting on June 4th 2009. The term of office of the Supervisory Board appointed in June 2009 expired on the date of the Annual General Shareholders Meeting which approved the Company's financial statements for 2009.

On April 21st 2010, the Annual General Shareholders Meeting of PBG S.A. granted approval of duties to all members of the Supervisory Board listed above. On the same day the General Shareholders Meeting appointed members of the Supervisory Board for the next term of office.

The Supervisory Board of PBG S.A. **of the fifth term of office** is composed of five members.

The composition of the Supervisory Board in the period from **April 21st** to **December 31st 2010** (and thereafter) **has been as follows:**

- Maciej Bednarkiewicz – Chairman of the Supervisory Board;
- Małgorzata Wiśniewska – Deputy Chairman of the Supervisory Board;
- Dariusz Sarnowski – Secretary of the Supervisory Board;

- Adam Strzelecki – Member of the Supervisory Board;
- Marcin Wierzbicki – Member of the Supervisory Board.

<b>Name</b>	<b>Maciej Bednarkiewicz</b>
<b>Position</b>	<b>Chairman of the Supervisory Board</b> <i>Independent Member of the Board; Mr. Bednarkiewicz does not conduct any activity competitive with respect to PBG S.A.</i>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ University of Warsaw – Faculty of Law</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Member of the Parliament, 1989-1991</li> <li>➤ Judge of the State Tribunal of the Republic of Poland</li> <li>➤ President of the Central Board of Lawyers (Naczelna Rada Adwokacka)</li> <li>➤ General partner at the Law Office Maciej Bednarkiewicz, Andrzej Wilczyński i Wspólnicy</li> <li>➤ Member of the Supervisory Board of BIG Bank S.A.</li> <li>➤ Chairman of the Supervisory Board of Millenium Bank S.A.</li> <li>➤ Secretary of the Supervisory Board of PZU S.A.</li> <li>➤ Member of the Supervisory Board of Techmex S.A.</li> <li>➤ Chairman of the Supervisory Board of PBG S.A. – since 2004</li> </ul>

<b>Full name</b>	<b>Jacek Kseń</b>
<b>Position</b>	<b>Deputy Chairman of the PBG Supervisory Board until April 21st 2010</b> <i>Independent Member of the Board; Mr Kseń does not conduct any activity competitive with respect to PBG S.A.</i>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Economics – Faculty of International Trade</li> <li>➤ Warsaw School of Economics – Ph.D. in International Financial Markets</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Currency Market trader at Bank Handlowy</li> <li>➤ President of the Management Board of BZ WBK S.A.</li> <li>➤ Chairman of the Supervisory Board of PLL LOT</li> <li>➤ Chairman of the Supervisory Board of Sygnity</li> <li>➤ Deputy Chairman of the Supervisory Board of Orbis</li> <li>➤ Deputy Chairman of the Supervisory Board of PBG S.A.</li> </ul>

<b>Full name</b>	<b>Małgorzata Wiśniewska</b>
<b>Position</b>	<b>Deputy Chairman of the Supervisory Board since April 21st 2010</b> <i>Dependent Member of the Board; Ms. Wiśniewska does not conduct any activity competitive with respect to PBG S.A.</i>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Technology – Faculty of Civil Engineering</li> <li>➤ MBA – Rotterdam School of Management</li> <li>➤ Canadian International Management Institute – management programme</li> <li>➤ Postgraduate programme on Management and Public Relations at the Faculty of Finance and Banking at the Poznań School of Banking.</li> <li>➤</li> <li>➤</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Member of the PBG Supervisory Board in 2006 - 2008 and since April 21st 2010</li> <li>➤ Assistant Designer at Przedsiębiorstwo Uprzemysłowane Budownictwa Rolniczego of Poznań</li> <li>➤ At PBG S.A.: Quality System Director, Public Relations Director, Member of the Management Board and Vice-President of the Management Board.</li> </ul>

	<ul style="list-style-type: none"> <li>➤ President of the Management Board of Poznańskie Stowarzyszenie Oświatowe since 1997</li> <li>➤ President of the Management Board of INFRA S.A.</li> <li>➤ Chairman of the Supervisory Board of Hydrobudowa Polska S.A.</li> <li>➤ Deputy Chairman of the Supervisory Board of Hydrobudowa 9 S.A.</li> <li>➤ Chairman of the Supervisory Board of PBG Dom Sp. z o.o.</li> <li>➤ Chairman of the Supervisory Board of APRIVIA S.A.</li> <li>➤ Member of the Supervisory Board of GasOil Engineering AS</li> <li>➤ Member of the Supervisory Board of PBG S.A. in the period November 21st 2006 – August 31st 2008 and since April 21st 2010</li> <li>➤ President of the PBG Foundation</li> </ul>
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<b>Full name</b>	<b>Wiesław Lindner until April 21st 2010</b>
<b>Position</b>	<b>Secretary of the Supervisory Board</b>
	<i><b>Dependent Member of the Board; Mr. Lindner does not conduct any activity competitive with respect to PBG S.A.</b></i>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Economics</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Economics Department Manager; Deputy Economics Director; Deputy CEO; CEO at PGNiG</li> <li>➤ Chief Accountant at Zakład Naprawy Gazomierzy of Poznań</li> <li>➤ Member of the Supervisory Board of ATG Sp. z o.o.</li> <li>➤ Member of the PBG Supervisory Board since 2004</li> </ul>

<b>Full name</b>	<b>Dariusz Sarnowski</b>
<b>Position</b>	<b>Secretary of the Supervisory Board</b>
	<i><b>Independent Member of the Board; Mr. Sarnowski does not conduct any activity competitive with respect to PBG S.A.</b></i>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Economics – Accounting</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Certified Chartered Auditor</li> <li>➤ W. Consulting Department Assistant; Audit Department Assistant at W. Frąckowiak i Partnerzy Sp. z o.o.</li> <li>➤ Inspector at the consultancy division of the Capital Markets Department of BZ WBK S.A.</li> <li>➤ Manager at Trade Institute – Reemtsma Polska S.A.</li> <li>➤ Audit Department Assistant at BDO Polska Sp. z o.o.</li> <li>➤ Audit Department Assistant at HLB Frąckowiak i Wspólnicy Sp. z o.o.</li> <li>➤ Shareholder; President of Sarnowski &amp; Wiśniewski Spółka Audytorska</li> <li>➤ Vice-President of the Management Board of Usługi Audytorskie DGA Sp. z o.o.</li> <li>➤ Member of the Supervisory Board of Mostostal Poznań S.A.</li> <li>➤ Member of the Supervisory Board of Browary Polskie BROK – STRZELEC S.A.</li> <li>➤ Member of the Supervisory Board of NZOZ Szpital w Puszczykowie Sp. z o.o.</li> <li>➤ Member of the Supervisory Board of Swarzędz S.A.</li> <li>➤ Member of the PBG Supervisory Board since 2005.</li> </ul>

<b>Full name</b>	<b>Adam Strzelecki</b>
<b>Position</b>	<b>Member of the Supervisory Board</b>
	<i><b>Independent Member of the Board; Mr. Strzelecki does not conduct any activity competitive with respect to PBG S.A.</b></i>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Uniwersytet im. Mikołaja Kopernika w Toruniu – Wydział Prawa i Administracji; doktor nauk prawnych</li> <li>➤ University of Warsaw – Faculty of Economic Sciences – Banking</li> <li>➤ Reader; Deputy Dean of the Faculty of Administration of the University of Humanities and Economics of Wrocław</li> </ul>



	<ul style="list-style-type: none"> <li>➤ Lecturer at the Higher School of Toruń</li> <li>➤ Lecturer at the Higher School of Security and Protection of Warsaw</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Inspector at the Executive Office of the Chełmno County Council</li> <li>➤ Credit Inspector at Bank Rolny of Chełmno</li> <li>➤ Chief Accountant at the Chełmno Branch of NBP</li> <li>➤ Manager of the Lipno Branch of NBP</li> <li>➤ Manager of the Provincial Branch of NBP</li> <li>➤ Manager of the Włocławek Branch of Polski Bank Inwestycyjny</li> <li>➤ Manager of the Włocławek Branch of Kredyt Bank S.A.</li> <li>➤ Shareholder and Member of the Supervisory Board of Zakład Doskonalenia Zawodowego Sp. z o.o.</li> <li>➤ Member of the Management Board of Włocławskie Towarzystwo Naukowe</li> <li>➤ Member of the PBG Supervisory Board since 2004</li> </ul>

<b>Full name</b>	<b>Marcin Wierzbicki</b>
<b>Position</b>	<b>Member of the PBG Supervisory Board since April 21st 2010</b> <i>Independent Member of the Board; Mr. Wierzbicki does not conduct any activity competitive with respect to PBG S.A.</i>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Warsaw School of Economics – Management and Marketing</li> <li>➤ MBA studies at the Ross School of Business School at the University of Michigan</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Analyst at TRINITY MANAGEMENT</li> <li>➤ Consultant at Ernst&amp;Young Management Consulting Services</li> <li>➤ Development Manager and then Good Promotional Practices Manager at ELI LILLY Polska Sp. z o.o.</li> <li>➤ Business Unit Manager at CEGEDIM Polska</li> <li>➤ Customer Service Director Russia at CEGEDIM Rosja</li> <li>➤ Operations Director at CEGEDIM DENDRITE</li> <li>➤ Chief Operations Officer at ALLIANCE MEDICAL Poland</li> <li>➤ Owner of the Internet shop Sklep.pl</li> <li>➤ General Manager at ALLIANCE MEDICAL Poland</li> <li>➤ Member of the Supervisory Board of POL-AQUA S.A.</li> <li>➤ Member of the Supervisory Board of COMP S.A.</li> <li>➤ Member of the Supervisory Board of PBG S.A. since April 21st 2010</li> </ul>

As at the date of this Report, there had been no changes in the composition of the Supervisory Board.

The Supervisory Board members' are elected for one-year terms, and their remuneration is determined by the General Shareholders Meeting. The Supervisory Board is responsible for exercising on-going supervision over the Company's activities in all aspects of its operations. Specific duties conferred on the Board include: assessment of the consistency of financial statements and Directors' Reports with the accounting records and documents, as well as with facts; review of the Management Board's proposals concerning profit distribution or coverage of loss; and presentation of written annual reports on the results of such reviews to the General Shareholders Meeting.

The duties of and the rules for the Supervisory Board are contained in a formal document. The Board carries out its duties as a collective body, with some of its powers delegated to specific persons or committees, as described below.

The following committees operate within the Supervisory Board of PBG S.A.:

1. Audit Committee;
2. Remuneration Committee.

The Audit Committee is composed of:

- Małgorzata Wiśniewska – Chairwoman of the Committee;
- Dariusz Sarnowski,
- Marcin Wierzbicki.

The Audit Committee convenes on an ad hoc basis, at least once every three months. In particular, the Committee is responsible for:

- a) monitoring the financial reporting process;
- b) monitoring the internal control, internal audit and risk management systems for their effectiveness;
- c) monitoring the auditing procedures;
- d) monitoring the independence of auditors and of entities qualified to review financial statements;
- e) providing the Supervisory Board with a recommendation regarding an entity authorized to review financial statements and perform auditing procedures.

The Remuneration Committee is composed of:

- Maciej Bednarkiewicz – Chairman of the Committee;
- Adam Strzelecki.

The Remuneration Committee convenes on an ad hoc basis, at least once every three months. In particular, the Committee is responsible for:

- overall monitoring of the applied remuneration policies, and the levels of remuneration at the Company;
- defining terms and conditions of employment for members of the Company's Management Board and management staff;
- developing a bonus scheme for a given financial year.

### Remuneration of the Supervisory Board Members

The amount of remuneration paid to members of the Supervisory Board is determined based on the resolution of the Extraordinary General Shareholders Meeting of PBG S.A., dated December 10th 2005. The amount of remuneration depends on the respective scope of duties and responsibilities entrusted with an individual Supervisory Board member.

**Table 1: Remuneration of Supervisory Board members for holding office at the Parent Undertaking**

Remuneration (PLN'000)	Jan 1–Dec 31 2010			Jan 1–Dec 31 2009		
	remuneration base	Other benefits*	Total	remuneration base	Other benefits	Total
Maciej Bednarkiewicz	120	-	120	120	1	121
Jacek Kseń	32	-	32	96	1	97
Wiesław Lindner	20	-	20	60	1	61
Dariusz Sarnowski	52	-	52	36	1	37
Adam Strzelecki	36	-	36	36	1	37
Marcin Wierzbicki	24	-	24	-	-	-
Małgorzata Wiśniewska	64	14	78	-	-	-
<b>Total</b>	<b>348</b>	<b>14</b>	<b>362</b>	<b>348</b>	<b>5</b>	<b>353</b>

\*other benefits: third-party liability insurance for members of the Supervisory Board

**Table 2: Remuneration of Supervisory Board members for holding office at subsidiary, jointly-controlled or associated undertakings**

Remuneration (PLN'000)	Jan 1–Dec 31 2010			Jan 1–Dec 31 2009		
	remuneration base	Other benefits*	Total	remuneration base	Other benefits	Total
Maciej Bednarkiewicz	-	-	-	-	-	-
Jacek Kseń	-	-	-	-	-	-
Wiesław Lindner	-	-	-	-	-	-
Dariusz Sarnowski	-	-	-	-	-	-
Adam Strzelecki	-	-	-	-	-	-
Marcin Wierzbicki	-	-	-	-	-	-
Małgorzata Wiśniewska	233	1	234	-	-	-
<b>Total</b>	<b>233</b>	<b>1</b>	<b>234</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*other benefits: third-party liability insurance for members of the Supervisory Board

**Table 3: Company shares or rights to the Company shares (options) held by supervising persons of PBG S.A.**

Supervising person	Number of shares	
	As at Dec 31 2009	As at the date of filing of this Report
Małgorzata Wiśniewska	3,279	3,279

## 10.2 Composition and manner of operation of the Management Board

The Management Board's composition in the period from January 1st to December 31st 2010 was as follows:

- Jerzy Wiśniewski – President;
- Tomasz Woroch – Vice-President;
- Przemysław Szkudlarczyk – Vice-President;
- Tomasz Tomczak – Vice-President;
- Mariusz Łożyński – Vice-President.

<b>Full name</b>	<b>Jerzy Wiśniewski</b>
<b>Position</b>	<b>President of the Management Board</b>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Technology – Faculty of Civil Engineering</li> <li>➤ MBA – Rotterdam School of Management</li> <li>➤ Canadian International Management Institute – management programme</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ PGNiG S.A. – manager in charge of gas transmission system operation</li> <li>➤ PBG S.A. – founder, major shareholder and President of the Management Board</li> </ul>
<b>Field of expertise</b>	<ul style="list-style-type: none"> <li>➤ Natural gas and crude oil</li> <li>➤ Environmental protection</li> </ul>
<b>Areas of responsibility at the PBG Group</b>	<b>Strategy and development</b>

<b>Full name</b>	<b>Tomasz Woroch</b>
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<b>Position</b>	<b>Vice-President of the Management Board</b>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Uniwersytet im. Adam Mickiewicz University in Poznań – Faculty of Social Sciences (philosophy)</li> <li>➤ University of Science and Technology in Kraków – mining of hydrocarbons</li> <li>➤ MBA – Rotterdam School of Management</li> <li>➤ Canadian International Management Institute – management programme</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ Mostostal Poznań – head of administration department</li> <li>➤ Stalmost Poznań – vice-president of the management board</li> <li>➤ Piecobiogaz S.C. – deputy director</li> <li>➤ Technologie Gazowe Piecobiogaz – member of the management board</li> <li>➤ Hydrobudowa Polska – president of the management board</li> <li>➤ PBG S.A. – Vice-President of the Management Board</li> </ul>
<b>Field of expertise</b>	<ul style="list-style-type: none"> <li>➤ Natural gas and crude oil</li> <li>➤ Environmental protection</li> <li>➤ Power engineering</li> </ul>
<b>Areas of responsibility at the PBG Group</b>	<b>Contract execution in the environmental protection sector; acquisition of strategic contracts in the power sector</b>

<b>Full name</b>	<b>Przemysław Szkudlarczyk</b>
<b>Position</b>	<b>Vice-President of the Management Board</b>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Technology – Faculty of Machines and Motor Vehicles</li> <li>➤ Warsaw University of Technology – gas engineering</li> <li>➤ MBA – Rotterdam School of Management</li> <li>➤ Canadian International Management Institute – management programme</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ PGNiG S.A. – technical assistant (natural gas transmission)</li> <li>➤ Technologie Gazowe Piecobiogaz – development manager, member of the management board</li> <li>➤ KRI S.A. – president of the management board</li> <li>➤ Hydrobudowa Śląsk S.A. – proxy</li> <li>➤ PBG S.A. – Vice-President of the Management Board</li> </ul>
<b>Areas of responsibility at the PBG Group</b>	➤ <b>Economics and finance</b>

<b>Full name</b>	<b>Tomasz Tomczak</b>
<b>Position</b>	<b>Vice-President of the Management Board</b>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Technology – Faculty of Machines and Motor Vehicles</li> <li>➤ University of Science and Technology in Kraków – Faculty of Drilling, Oil and Gas</li> <li>➤ MBA – Business School of the Poznań University of Economics (MBA programme run in cooperation with Nottingham Trent University)</li> <li>➤ Canadian International Management Institute – management programme</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ VOLVO SERVICE – assistant service manager</li> <li>➤ Piecobiogaz – technical assistant to the management board</li> <li>➤ Technologie Gazowe Piecobiogaz – technical assistant to the management board; site manager; project manager; technical manager</li> <li>➤ PBG S.A. – technical manager; Member of the Management Board; Vice-President of the Management Board</li> </ul>
<b>Field of expertise</b>	<ul style="list-style-type: none"> <li>➤ Natural gas and crude oil</li> <li>➤ Fuels</li> </ul>
<b>Areas of responsibility at the PBG Group</b>	<b>Contract execution in the natural gas, crude oil and fuels sectors</b>

<b>Full name</b>	<b>Mariusz Łożyński</b>
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<b>Position</b>	<b>Vice-President of the Management Board</b>
<b>Qualifications</b>	<ul style="list-style-type: none"> <li>➤ Poznań University of Technology – Faculty of Civil Engineering</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>➤ BORM Biuro Projektów – senior assistant</li> <li>➤ GEOBUD Poznań – senior assistant designer</li> <li>➤ Concret – Service Poznań – office manager</li> <li>➤ Kulczyk TRADEX – project specialist</li> <li>➤ PTC Poznań – specialist in charge of project planning/designing</li> <li>➤ PBG S.A. – head of technical unit; head of contract execution department; manager in charge of contract preparation; proxy; Member of the Management Board; Vice-President of the Management Board</li> </ul>
<b>Areas of responsibility at the PBG Group</b>	<b>Bidding processes; securing contracts for the PBG Group; contract execution in the hydraulic engineering sector</b>

The Management Board Members of the present term of office have been appointed on June 4th 2009 by virtue of a resolution of PBG S.A.'s Supervisory Board. The Management Board's term of office lasts three years. If appointed during a term of office, a member of the Management Board remains in office until the expiration of this term of office. The Management Board members' mandates expire on the date of the General Shareholders Meeting which approves the financial statements for the previous full financial year when the members held the office. **The current term of office expires on June 4th 2012.**

As at the date of the compliance statement, there had been no changes in the composition of the Management Board.

All matters not reserved for the General Shareholders Meeting or the Supervisory Board fall within the scope of powers and responsibilities of the Management Board. Specific duties and rules of procedure are defined in a formal document, which sets out in detail the role of the Management Board as a corporate body. Members of the Management Board manage the respective areas of the Company's business, and their work is coordinated by the President of the Management Board.

#### Remuneration of the Management Board Members

The Management Board members are appointed by the Supervisory Board by virtue of a relevant resolution. They are employed under employment contracts. The Supervisory Board's resolution stipulates that members of the Management Board are entitled to base pay, bonuses and additional remuneration provided for in applicable rules and regulations concerning wages and salaries. The amount of remuneration depends on the respective scope of duties and responsibilities entrusted with an individual Management Board member.

**Table 4: Remuneration of Management Board members for holding office at the Parent Undertaking**

Remuneration of Management Board members (PLN '000)	Jan 1–Dec 31 2010			Jan 1–Dec 31 2009		
	remuneration base	Other benefits*	Total	remuneration base	Other benefits	Total
Jerzy Wiśniewski	2,550	-	2,550	1,200	3	1,203
Tomasz Woroch	420	-	420	420	2	422
Przemysław Szkudlarczyk	320	-	320	300	2	302
Tomasz Tomczak	320	-	320	300	2	302

Mariusz Łożyński	310	-	310	300	2	302
<b>Total</b>	<b>3,920</b>	<b>-</b>	<b>3,920</b>	<b>2,520</b>	<b>11</b>	<b>2,531</b>

\* Other benefits: third-party liability insurance for members of the Management Board

**Table 5: Remuneration of Management Board members for holding office at subsidiary, jointly-controlled or associated undertakings**

Remuneration (PLN'000)	Jan 1–Dec 31 2010			Jan 1–Dec 31 2009		
	remuneration base	Other benefits*	Total	remuneration base	Other benefits	Total
Jerzy Wiśniewski	-	-	-	-	-	-
Tomasz Woroch	-	-	-	65	-	65
Przemysław Szkudlarczyk	36	-	36	36	-	36
Tomasz Tomczak	12	-	12	9	-	9
Mariusz Łożyński	-	-	-	-	-	-
<b>Total</b>	<b>48</b>	<b>-</b>	<b>48</b>	<b>110</b>	<b>-</b>	<b>110</b>

\* Other benefits: third-party liability insurance for members of the Management Board

**Table 6: Company shares or rights to Company shares (options) held by managing persons of PBG S.A.**

Managing person	Number of shares	
	As at Dec 31 2010	As at the date of filing of this Report
Jerzy Wiśniewski	4,235,054	3,735,054
Przemysław Szkudlarczyk	4,500	4,500
Tomasz Tomczak	3,250	3,250
Tomasz Woroch	1,778	1,778
Mariusz Łożyński	3,553	3,553

During the period under review, there were no changes in the composition of management or supervisory staff of PBG S.A.

supervisory staff of PBG S.A.

### 11. Court, arbitration or administrative proceedings

The value of pending court proceedings instituted by or against PBG S.A. does not exceed 10% of the Company's equity.

### 12. Internal audit

See Chapter II, Report on Risk and Control, page 40.

## II. AGREEMENTS BETWEEN THE COMPANY AND ITS MANAGEMENT STAFF PROVIDING FOR COMPENSATION IN THE EVENT OF A GIVEN PERSON RESIGNING OR BEING REMOVED FROM OFFICE

As at the balance-sheet date, there were no agreements between PBG S.A. and its management staff, which would provide for compensation in the event of a given person resigning or being removed from office.

### **III. AUDITOR OF THE FINANCIAL STATEMENTS**

PBG S.A.'s Management Board represents that under the regulations currently in effect, after considering the recommendations of the Audit Committee, the Supervisory Board decided, by way of resolutions, to appoint Grant Thornton Frąckowiak Sp. z o.o.. of Poznań, registered office at Plac Wiosny Ludów 2, 61-831 Poznań, Poland, a company entered in the list of entities qualified to audit financial statements maintained by the National Board of Chartered Auditors under entry No. 238, as the company authorised to:

- audit the separate financial statements of PBG S.A. and the PBG Group's consolidated financial statements for 2010;
- review the interim separate and consolidated financial statements as at June 30th 2010.

#### **1. Date**

PBG S.A. and Grant Thornton Frąckowiak Sp. z o.o. executed a relevant contract on June 11th 2010.

#### **2. Total fees**

As at December 31st 2010 total fees payable to Grant Thornton Frąckowiak Sp. z o.o. for the audit of the separate and consolidated financial statements amounted to PLN 107,800.00 (VAT excl.). The fee payable to Grant Thornton Frąckowiak Sp. z o.o. for a similar audit in the preceding year was PLN 82,800.00 (VAT excl.).

#### **3. Other fees under the contract**

The other fees due to Grant Thornton Frąckowiak Sp. z o.o. for the performance of services under the contract (i.e. review of the financial statements of PBG S.A. and the consolidated financial statements of the PBG Group for 2010, as well as other services provided to the PBG Group) amounts to PLN 0.00 (VAT excl.).

### **IV. CORPORATE SOCIAL RESPONSIBILITY AT PBG S.A.**

In 2010, the Company established a CSR Team, which reports directly to the top management. The CSR Team's tasks at PBG include streamlining previous work in the CSR area, promoting CSR principles among employees as well as supporting, monitoring and measuring the effects of the existing and future activities. The CSR Team is comprised of employees from various departments of the Company and the Group.

In 2010, a number of CSR trainings were organised. The training programme included theoretical and practical workshops, which covered identification of key stakeholders, classification of previous CSR activities and selection of leading initiatives. The training was attended by 40 employees.

The Company also carried out an internal information campaign on the importance of corporate social responsibility and launched a CSR-related Intranet service available to all employees. The campaign and the CSR Team's work in 2010 ended with a panel meeting of employees with the Company's

Management Board, held in December. The meeting featured the Management Board's presentation of key aspects of CSR applicable to individual business segments, numerous other presentations as well as a discussion with the employees. 245 employees participated in the meeting.

### **Human capital**

The Company's most important and most valuable asset are its employees. Therefore, the employees are the Company's key stakeholders. Extensive knowledge, high motivation and strong commitment ensure a team which is able to successfully implement the Company's strategy. With continuous education of employees in mind, PBG supports complementary courses at high schools and higher education institutions designed to promote knowledge and skills. The Company particularly promotes courses at technical institutions. To facilitate learning at the University of Science and Technology in Kraków, which is located at some distance from the Company's office, PBG invites the university's lecturers to give lectures at the Company's head office in Wysogotowo.

In the academic year 2010-2011, grants for studies at the University of Science and Technology in Kraków were awarded to eight employees and the lectures held at the Company's offices were attended by a total of 21 students from various undertakings across the Province of Poznań.

The Company also finances post-graduate management programmes (such as EMBA programmes). In 2010, grants for such courses were awarded to four employees at the PBG Group.

All employees have equal rights with respect to grants financing BA and MA programmes as well as post-graduate courses. The rules, rights and obligations related to such financial support are defined in the Rules for Financing Education, which is available at the Company's head office.

PBG is committed to educating highly qualified engineers who will contribute to the development of Polish economy driven by innovative projects. In 2010, PBG joined the "Engineer's Era" initiative co-financed from the European Social Fund "The Wings of Career", which promotes cooperation with respect to organisation of work placements and creation of jobs for students and graduates of the Poznań University of Technology.

In addition, PBG also participated in the *Na start w przedsiębiorczość* competition organised by the *Wspieramy Wielkich Jutra* Foundation. The students who were invited to the Company's head office had an opportunity to learn how to use entrepreneurship skills in practice and how a dynamically growing company operates; they were also provided with some insight into what employers expect from young candidates. The project was aimed at improving the qualifications of vocational school students, enhancing their readiness for employment and developing their key qualities, including stronger interest in business-related subjects. The lecture prepared by PBG concerning the work of a young engineer at a construction site and presenting practical aspects of such work was attended by 30 students.

The Management Board is always ready to provide aid where it is most needed. In 2010, Poland was hit by floodings. PBG was one of the first organisations to provide concrete financial assistance. The Group donated funds to flood victims, allowing them to purchase equipment and furniture they needed the most. The employees organised a collection of school items for children, hygiene products, food and home equipment. The initiative was carried out in August 2010. Children from families which received support from PBG have been included in the "**All Children are Ours**" programme, which is an annual



collection of Christmas gifts for children living in orphanages and poor families. The initiative has continued since 2002 as part of voluntary work. Until today, a total of 670 gifts have been prepared.

In October 2010, for the fifth time the Company held its annual blood donor campaign **"We Donate Blood to the PBG Blood Bank"**, designed to promote blood donation. During the last year's session, 13,950 ml of blood were donated, adding to a total of 74,300 ml of blood donated to the **PBG Blood Bank**. Blood stored in the PBG Blood Bank can be used by all PBG Group's employees and their families whenever they are affected by adverse events.

### **Market**

In order to improve its communication with the stakeholders, in 2010 the Company further upgraded its website. The most important efforts in that respect include the adjustment of the website to the needs of people with vision impairment by aligning the service with the IVONA speech synthesis system. The speech synthesis system enables conversion of text to speech, where text contents are read by a virtual reader. The Company also launched an alternative version of the website displayed in high contrast, with strong colours on a dark background. Such innovative measures will provide greater comfort of working on the computer to all website visitors and in particular people with visual impairment. The Company's efforts were appreciated by the organisers of the "Golden Website of Listed Company" competition, in which PBG received the top award for the second consecutive year.

PBG's website was also modified to support Facebook, the largest and the most popular community website with over 250 million users. The Company uses Facebook to provide information and updates on the most important corporate events.

The results of the National Investor Survey conducted in 2010 by the Polish Association of Retail Investors indicated that retail investors demand higher quality of investor relations. According to the Polish Association of Retail Investors, a positive change in that area is more likely to take place with an example to be followed. As a company with top quality investor relations according to institutional and retail investors, PBG S.A. was invited to participate in the Polish Association of Retail Investor's , **"10 out of 10"**, programme designed to develop and promote the highest standards in communication between the listed companies and retail investors. The programme is scheduled to end in April 2011 and is participated by ten companies listed on the Warsaw Stock Exchange. Each company invited to take part in the programme carries out its investor relations activities in line with the guidelines and standards defined by the Polish Association of Retail Investors in order to ensure the best communication with the market. The programme participants also follow the best financial reporting standards applicable on international markets.

### **Environmental protection**

One of the most important goals of the Company's CSR efforts is to develop a high level of environmental awareness and a sense of responsibility for the environment among employees and subcontractors.

PBG implements investment projects in areas considered to have particularly high environmental value, including in the area of the Nature 2000 programme and the Barycz Valley Landscape Park. The construction works are conducted by numerous subcontractors. In order to ensure that they are

performed safely, the Environmental Protection Department carries out trainings for subcontractors' employees. As part of the training, participants are provided with information on, among other things, areas protected under the Nature 2000 programme, requirements of the decision concerning environmental conditions for project implementation, rules of proper waste management and procedures to be followed in case of emergency. Since the beginning of 2010, 847 employees of subcontractors have completed the training. For large projects, PBG S.A. appoints persons responsible for continuous monitoring of subcontractors' compliance with the environmental protection regulations. Before the commencement of construction works, environmental protection coordinators train the employees of subcontractors engaged in a given project. Moreover, construction contracts require PBG to obtain all the necessary environmental permits and decisions under the effective environmental protection laws and regulations.

In 2010, PBG S.A. joined the Carbon Disclosure Project (CDP). CDP is an independent association of 534 institutional investors which collects and discloses information on the amount of greenhouse gas emissions produced by enterprises and measures taken to reduce such emissions. *The primary goal of the project is to motivate the largest global enterprises to cut greenhouse gas emissions into the atmosphere to reduce their impact on climate, as well as to promote those companies which care for the environment.* In 2010, in its report on the level of greenhouse gas emissions in 2009 PBG disclosed the amount of emissions produced through combustion of fuel by its vehicles and through burning natural gas in a boiler house, as well as the amount of emissions generated indirectly by the power plant supplying electricity to the Company. PBG also presented a number of environment-friendly solutions. These include the use of natural gas for heating purposes, operation of an internal co-generation system and application of technology reducing methane emissions into the atmosphere during repairs of gas infrastructure.

## **CHAPTER II: REPORT ON RISKS AND RISK MANAGEMENT**

### **I. RISKS AND THREATS**

#### **EXTERNAL RISKS AND THREATS**

##### **1. Economic environment in Poland**

Despite the global economic turmoil in various parts of the world in 2010, Poland was coping with the effects of the economic crisis much better than most European and global economies. According to the initial GDP estimates published by the Polish Central Statistics Office (GUS), the Gross Domestic Product grew in real terms by 3.8% in 2010. The GDP growth was, of course, much slower than in previous

years, but it should be noted that the GDP growth rate of 3.8% ranks Poland as one of the leaders among the EU countries. The main factor contributing to the positive GDP growth was internal consumption. Despite the continued lower pay growth (average real gross remuneration increase was 1.4% per annum) and growing unemployment, it was still 3.9% higher than in 2009. Other important factors driving the economic growth included: a strong effect on the GDP of net exports which was forecast to grow by 10.3%, and capital expenditure at levels similar to that of 2009, which was boosted by EU funds and the EURO 2012 projects.

Implementation of PBG's strategic goals and the Company's financial performance are affected by the macroeconomic factors, which include: GDP growth, structural investments, general situation in the Polish economy and legislative changes. Adverse macroeconomic developments may result in a failure to achieve revenue forecasts or may lead to higher operating expenses.

The economic forecasts for Poland in 2011 assume continued GDP growth similar to the growth seen in 2010. The 2010 figures give reason for optimism, even though the Polish economy will be faced with difficult reforms related to such areas as the pension system and the budget deficit. According to the latest forecasts prepared by Polish and international financial institutions, the Polish economy will grow over the year by 3.5%. According to the National Bank of Poland, the average annualised consumer price inflation will reach 2.5–3.0% this year, and the assumed inflation target will be reached as early as in the middle of 2011. It is assumed that the inflation pressures may be growing in H1, with a slowdown expected in H2 provided the Monetary Policy Council tightens the monetary policy. The forecasts continue to assume strong domestic consumption, resulting from such factors as labour market stabilisation and strong demand for new employees (forecast decrease of unemployment to 10.8%, and gross remuneration growth of 3.3%). According to the macroeconomic forecasts, 2011 should see a 7% growth in investments, mainly on record high number and value of infrastructural projects co-financed with the EU funds. This growth will be further supported by stock repletion, provided that low interest rates are maintained by the Monetary Policy Council in the subsequent quarters which, given the banks' regained willingness to increase lending, should provide grounds for hope for better access to cheaper external financing sources. The Group currently executes projects co-financed by the European Union under the approved 2007–2013 EU budget, which earmarks EUR 63bn for Poland.

## **2. Competition risk**

The Company operates on the competitive market of specialist construction services mainly in the gas and oil upstream and downstream sectors, water and sewage sector, road construction, residential property development, and power engineering. Apart from pricing, there are also other important factors which determine the competitive advantage of a business, including: experience in execution of complex and specialist projects, relevant credentials, high quality of the offered services and efficient organisation enabling timely and efficient contract execution.

PBG S.A. mitigates competition risk through:

- seeking niche products and services,
- assuring high quality of offered services,
- consistent improvement of skills related to the state-of-the-art technologies, which enables the Company to develop and launch competitive service offerings,

- diversifying the areas of operation,
- concluding strategic alliances with reputable foreign companies operating on the Polish and foreign markets,
- extending business activity abroad, into such countries as Ukraine, Bulgaria, or Romania.

The following domestic and international competitors are present on the Company's current markets:

**Table 7 Domestic and international competitors**

MARKET	BUSINESS SEGMENT	DOMESTIC COMPETITORS	INTERNATIONAL COMPETITORS
NATURAL GAS AND CRUDE OIL	UNDERGROUND GAS STORAGE FACILITIES	- Naftobudowa - Investgas	- ABB - Sofregas
	LNG PLANTS	- Polimex Mostostal	- Tractebel - Linde - Costain - Air Products - DAEWOO Engineering & Construction
	TRANSMISSION	- Naftomontaż Krosno - Gazobudowa Zabrze - Gazobudowa Poznań - Gazomontaż Wołomin - POL-AQUA - ZRUG Poznań	none
	REFINERIES	- Naftomontaż Krosno - Polimex Mostostal	- ABB
	DELIVERY OF SPECIALIST GAS EQUIPMENT AND AUXILIARY INFRASTRUCTURE	- Control Process - Bartimpex - Stalbud - Polimex Mostostal	- ABB - KAWASAKI
	EXTRACTION FACILITIES	- Naftomontaż Krosno	- Tractebel - Linde - Costain - Air Products
Water	WATER AND SEWAGE INFRASTRUCTURE	- POL-AQUA - Hydrobudowa Gdańsk - Budimex - Polimex Mostostal - WARBUD	- SKANSKA - STRABAG - Ferrovia
	HYDRO-ENGINEERING	none	- SKANSKA - STRABAG - Bilfinger Berger - Ferrovia
	REHABILITATION OF WATER PIPELINES AND SEWAGE	none	- Per Aarslef - Diringe&Scheidel - Ludwig Pfeifer
FUELS	FUEL TERMINALS	- POL-AQUA - Polimex Mostostal	- Bilfinger Berger
CONSTRUCTION	INDUSTRIAL CONSTRUCTION SPECIALIST CONSTRUCTION RESIDENTIAL CONSTRUCTION	- WARBUD - POL-AQUA - Budimex - Dom Development - Hochtief Polska - Echo Investment - Instal Kraków	- SKANSKA - STRABAG
ROADS	ROAD CONSTRUCTION BRIDGE CONSTRUCTION	- Budimex - Mostostal Warszawa - Hochtief Polska - Polimex Mostostal - WARBUD - POL-DRÓG	- SKANSKA - STRABAG - MOTA - COLAS

<b>POWER</b>	<b>POWER GENERATING UNIT CONSTRUCTION</b>	<ul style="list-style-type: none"> <li>- Polimex Mostostal</li> <li>- Rafako</li> <li>- Mostostal Warszawa</li> </ul>	<ul style="list-style-type: none"> <li>- Alstom</li> <li>- Hitachi</li> <li>- Siemens</li> <li>- Samsung</li> </ul>
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The Company's position on the **natural gas and crude oil** market in Poland is strong thanks to the high quality of its services, experienced personnel, modern equipment and extensive credentials. The market is divided into two segments: the segment of specialist construction services which require appropriate know-how and credentials, where PBG S.A. essentially faces only foreign competitors; and the segment of less complex construction projects, such as pipelines construction, where PBG S.A. competes primarily against Polish businesses. The Company is able to secure a large number of orders on the natural gas and crude oil market, with the market-share estimated at approximately 50%.

In other markets of interest to PBG S.A. the Company is present through its subsidiaries, in line with the adopted strategy.

### 3. Poland's membership in the European Union

Following Poland's accession to the European Union, international companies providing services similar to the Company's services have become keener on entering the Polish market. This may result in fiercer competition and squeezed profit margins. However, international operators usually seek to acquire orders jointly with Polish companies to secure local execution capabilities.

By acquiring a number of high single-value contracts, PBG S.A. has demonstrated it is well positioned to compete against foreign companies.

In addition, opening of the European markets may create an opportunity for the Company to expand into new geographical markets.

To use the opportunities offered by Poland's accession to the EU in a most efficient manner, PBG S.A.:

- implements projects by forming strategic alliances with foreign companies operating in Poland,
- has implemented and worked on improving effective management culture,
- offers services of the quality confirmed by implemented standards: PN-EN ISO 9001:2001, PN-EN 729-2, AQAP 2110:2003,
- regularly improves staff qualifications, with particular focus on unique technologies enabling the Company to create and market competitive service offerings.

### 4. Risk related to seasonality in the sector

The Company derives most of its sales revenue from the construction and assembly services segment which, like the entire sector, experiences sales seasonality. Seasonality is mostly driven by the following factors which are beyond the Company's control:

- weather conditions in winter preventing performance of most types of work. The weather may be more severe than the average weather conditions and thus adversely affect the Company's revenues,
- project scheduling by customers who always strive to ensure project completion in the final months of the year.

Accordingly, the Company's revenue is the lowest in the first quarter and grows significantly in the second half of the year.

#### **5. Adverse changes in the tax legislation**

In Poland, the laws regarding taxation of business activity change frequently. There is a risk that the tax legislation currently in effect may change and the new regulations may be less favourable to the Company or its customers, which may directly or indirectly affect its financial performance.

The Company monitors developments in the tax legislation, and introduces necessary modifications to mitigate the risk.

#### **6. Exchange rate**

The Polish foreign currency market was volatile throughout 2010. For most of the year, the Polish złoty weakened against the euro and the US dollar. Analysts' forecasts for 2011 assume possible further weakening of the złoty in the initial months of the year, and a return to an upward trend in the second half of 2011. A positive effect of the relatively strong economic growth will be offset by the large budget deficit and growing debt in the public finance sector. The exchange rate of the złoty will depend primarily on the strength of the US dollar and the situation on global capital markets, that is factors which are not exactly related to Poland's economy. Please note that any long-term forecasting of exchange rates is extremely difficult due to the strong market volatility seen in recent years. The currency risk has a direct effect on PBG S.A. as the Company executes contracts co-financed with the EU funds, which are also denominated in the euro. Moreover, a portion of costs related to the purchase of equipment necessary for the execution of the contracts is incurred in foreign currencies, including the euro and the Canadian dollar. The Company minimises the FX risk using appropriate financial instruments and passing some of the risk onto its subcontractors and suppliers. In the case of imports of high-value plant and equipment, the risk is also hedged using financial instruments available on the market.

### **INTERNAL RISKS AND THREATS**

#### **1. Risk related to loss of key personnel**

PBG S.A.'s activities are chiefly based on the knowledge and experience of highly qualified personnel, in particular engineers.

There exists a potential risk that the employees with key importance for the Company's development might leave, which could affect the quality of the services provided.

The risk related to the loss of key personnel is limited by:

- strong organisational culture, which helps employees identify themselves with the Company,
- proper implementation of the incentive and loyalty systems for employees,
- knowledge management and an extensive training programme,
- ample opportunities for personal and career development in a dynamically growing company.

## **2. Risk related to default on contracts**

Construction contracts contain a number of clauses related to their proper and timely performance and proper removal of defects, which involves payment of performance bond or provision of security in the form of a bank guarantee or insurance policy. The security is generally provided on the contract execution date and settled after work under the contract is completed. The amount of the security depends on the type of contract. In most cases it is 10% of the contract value. If PBG S.A. fails to perform or inadequately performs the contracts, there exists a risk that a counterparty might claim payment of contractual penalties or terminate the contract.

To mitigate the risk, the Company takes the following measures:

- the Company insures contracts and subcontractors,
- the Company continuously improves its organisation through a training programme designed to provide professional project management training to a group of employees, and through extensive use of IT tools in design and project management processes.

## **3. Risk of dependence on key customers**

At present, the main customers for services provided by PBG S.A.'s natural gas and crude oil and fuels segment are PGNiG and Polskie LNG (a wholly-owned subsidiary of Gaz-System). This is related to the execution of three contracts of substantial value for these customers, totalling nearly PLN 5bn (including nearly PLN 2.5bn for PGNiG and over PLN 2.4bn for Polskie LNG). However, please note that PBG S.A.'s strategy provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In order to mitigate the risk of being dependent on key customers, the Company gradually attracts new customers for the Company's services, such as Polskie LNG, KGHM, NATO, PKN ORLEN, PERN, LOTOS, Natfobazy, OLPP and foreign entities.

The Company seeks to further mitigate the risk by:

- diversifying sources of revenue and securing new customers,
- executing EU-funded contracts, primarily for local governments,
- operating on international markets.

## **4. Operating risk**

The Company' operations, in particular on-site operations on live systems, involve certain hazards, including potential equipment failures which might result in human and material loss.

The Company mitigates the risk by:

- holding third-party insurance policies,
- upgrading the employees' state-of-the-art protective equipment on a regular basis,
- organising trainings for employees and enhancing their qualifications,
- continuously monitoring the equipment used.

## **II. IDENTIFICATION AND MANAGEMENT OF FINANCIAL RISK**

The Company is exposed to a number of risks related to financial instruments, which mainly include:

- market risk, comprising currency risk and interest rate risk,

- credit risk,
- liquidity risk.

Financial risk management at PBG S.A. is coordinated by the Management Board. The following objectives play the most important role in the risk management process:

- hedging short-term and medium-term cash flows,
- stabilising the fluctuations in the Company's financial result,
- achieving financial forecasts by meeting budget targets,
- achieving a satisfactory rate of return on long-term investments and securing optimal financing sources for investment activities.

The Company does not enter into speculative transactions on financial markets. In economic terms, the transactions concluded by the Company are hedges against specific risks.

Moreover, the Company has formally designated some of the derivative instruments as cash flow and fair value hedges in line with IAS 39 (Hedging Derivative Instruments).

### **1.1. Market risk**

All market risk management objectives should be considered as a whole, and their achievement is determined primarily by the Company's internal situation and market conditions.

The Company applies a consistent and progressive approach to market risk management.

The Company's financial risk management strategy sets out relevant management policies for each of the exposures by defining the process of measuring the exposure, parameters of risk hedging, instruments used for hedging purposes, as well as the time horizon for each type of risk source. The market risk management policies are applied by the designated organisational units under the supervision of Company's Risk Committee, the Management Board and the Supervisory Board.

The key methods used to manage market risk involve hedging strategies based on derivative instruments and natural hedging. The following types of financial instruments may be used by the Company:

- forwards,
- interest rate swaps (IRS),
- swaps.

The Company applies hedge accounting for cash flows to protect against the risks of fluctuations in exchange rates and interest rates.

Before entering into a hedging transaction and during such a transaction's lifetime, the Company confirms and documents that there is a strong negative correlation between changes in the fair value of the hedging instrument and changes in the fair value of the hedged exposure. Hedging effectiveness is assessed and monitored on an ongoing basis.

The rules of cash flow hedge accounting provide that the effective portion of the result on the valuation of hedge transactions should be posted to equity in the period in which such transactions are designated as a hedge of future cash flows. The amounts posted to equity are subsequently transferred to the profit and loss account once the hedged transaction is executed.



### 1.1.1. Currency risk

The Company is exposed to risk of fluctuations in exchange rates due to the following reasons:

- the development strategy provides for broader expansion into foreign markets,
- the Company imports raw materials for large contracts (there is a risk related to fluctuations in other exchange rates, such as USD/PLN or EUR/PLN),
- the Company uses advanced technologies requiring specialist equipment, which it often purchases outside of Poland.

**Table 8: Company's financial assets and liabilities in foreign currencies, translated into PLN at the closing rate as at the balance-sheet date**

Item	Amount in foreign currency ('000):								Restated amount ('000)	Amount in PLN ('000):	Carrying amount ('000)
	EUR	USD	GBP	CAD	UAH	BGN	NOK	RUB	PLN	PLN	PLN
<b>As at Dec 31 2010</b>											
<b>Financial assets (+):</b>	3,026	6,659	-	595	138,433	64	-	-	84,300	1,696,891	1,781,191
<b>Financial liabilities (-)</b>	(615)	(561)	-	(483)	-	-	(1)	(23)	(5,700)	(1,350,807)	(1,356,507)
<b>Total exposure to currency risk</b>	<b>2,411</b>	<b>6,098</b>	<b>-</b>	<b>112</b>	<b>138,433</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78,700</b>	<b>346,084</b>	<b>424,684</b>
<b>As at Dec 31 2009</b>											
<b>Financial assets (+):</b>	17,641	6,964	-	-	279	-	-	-	91,102	1,338,189	1,429,291
<b>Financial liabilities (-)</b>	(2,567)	(4)	(58)	(297)	-	-	-	-	(11,999)	(1,006,555)	(1,018,554)
<b>Total exposure to currency risk</b>	<b>15,074</b>	<b>6,960</b>	<b>(58)</b>	<b>(297)</b>	<b>279</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,103</b>	<b>331,634</b>	<b>410,737</b>

### 1.1.2. Interest rate risk

Management of interest rate risk concentrates on the minimisation of the impact of fluctuations in interest cash flows on financial assets and liabilities which bear interest at variable interest rates. The Company is exposed to interest rate risk in connection with the following categories of financial assets and liabilities:

- loans advanced,
- acquired treasury debt securities, bank debt securities, commercial debt securities, including bonds and treasury bills,
- deposits,
- received loans and borrowings,
- debt securities in issue,
- finance lease,
- interest rate swaps (IRS).

The Company uses interest rate swaps to hedge against the variable interest rate risk. Pursuant to the requirements of the credit facility agreement for the financing of projects, the Company was obliged to manage interest rate risk. In the performance of the Bank's requirements, on July 23rd 2008, the Company entered into an IRS transaction for 50% of the outstanding loan amount, maturing by December 31st 2013.

The IRS transaction consists in the swap of interest payments accruing at a variable 1M WIBOR rate for interest payments accruing at a fixed interest rate.

The Company uses hedge accounting for cash flows with respect to the derivative transaction referred to above and partially hedging against interest rate risk to which the cash flows are exposed.

The table below presents financial assets and liabilities bearing interest at variable interest rates as at the balance-sheet date.

**Table 9: Financial assets and liabilities bearing interest at variable interest rates as at the balance-sheet date**

Exposure to interest rate risk	Dec 31 2010	Dec 31 2009
	Value at risk	Value at risk
	PLN '000	PLN '000
<b>Financial assets</b>	1,130,413	962,602
<b>Financial liabilities</b>	-953,734	-715,670
<b>Exposure to interest rate risk</b>	<b>176,679</b>	<b>246,932</b>

## 1.2. Credit Risk

Credit risk is understood as the inability to meet obligations towards the Company's creditors. Credit risk has three primary aspects:

- creditworthiness of customers with which the Company enters into transactions for physical delivery of products,
- creditworthiness of financial institutions (banks) with which the Company enters into hedging transactions,
- creditworthiness of entities in which the Company invests or whose securities the Company acquires.

The following are the areas of credit risk exposures with different credit risk profiles:

- cash and bank deposits,
- derivatives,
- trade receivables,
- loans advanced,
- debt securities,
- guarantees and sureties advanced.

The Company's maximum exposure to credit risk is measured through carrying amount of the following financial assets presented in the table below:

**Table 10: Maximum exposure to credit risk measured through carrying amount of the disclosed financial assets**

PLN '000	Dec 31 2010	Dec 31 2009
Loans	593,773	517,322
Trade and other financial receivables	512,449	307,224
Financial derivatives	358	19,581
Debt securities	77,059	4,937
Investment fund units	106,902	-
Other classes of other financial assets	49,059	50,903
Cash and cash equivalents	441,600	529,324

Conditional payables under guarantees and sureties advanced	1,576,702	1,479,150
<b>Total credit risk exposure</b>	<b>3,357,902</b>	<b>2,908,441</b>

PBG S.A. monitors clients' and creditors' outstanding payments by analysing the credit risk individually or for the individual asset classes according to credit risk (e.g. by industry, region or structure of customers). Further, as part of risk management, the Company enters into transactions with partners whose creditworthiness is confirmed.

All entities with which the Company enters into deposit transactions operate in the financial sector. These are exclusively banks registered in Poland, or with Polish operations as subsidiaries of foreign banks, owned by European financial institutions which, in most cases, have upper medium credit ratings<sup>1</sup>, and those with sufficient equity as well as a robust and stable market position. Considering the above, as well as the short-term nature of the placements, it is reasonable to assume that the credit risk for cash and bank deposits is low.

PBG S.A. is also exposed to credit risk related to investments in debt securities and specialist investment fund units. This type of credit risk is related to changes in fair value of commercial debt securities and fund units. As at December 31st 2010, the carrying amount of investments in debt securities and fund units was PLN 183,961 thousand. The fair value of fund units is measured as the product of the value and number of units held, while commercial debt securities are measured at amortised cost using the effective interest rate method.

All entities with which the Company enters into derivative transactions operate in the financial sector. These are financial institutions (banks) with upper medium ratings<sup>1</sup>, with sufficient equity as well as a strong and stable market position. The maximum share of a single entity in the total value of derivative transactions effected by the Company was 58%.

**Table 11: Currency and interest rate derivative transactions as at the balance-sheet date (PLN '000)**

	<b>Dec 31 2010</b>	<b>Dec 31 2009</b>
<b>Financial assets</b>	357	19,581
<b>Financial liabilities</b>	(453)	(790)
<b>Derivative instruments valuation, net</b>	<b>(96)</b>	<b>18,791</b>

Thanks to the highly diversified composition of the group of counterparties, and due to the high credit ratings of the partner financial institutions as well as given the fair value of liabilities under the derivative transactions, the Company is not exposed to credit risk inherent in the derivative transactions.

PBG S.A. has a long track record of cooperation with a number of customers in diverse sectors. Based on the 2010 revenue, the key customers included:

<sup>1</sup>An upper medium grade rating is rating from A+ to A- at Standard&Poor's and Fitch and from A1 to A3 at Moody's.

**Table 12: Key customers by their share in the 2010 revenue**

No.	Customer	% share
	<b>Total</b>	<b>100.00%</b>
1.	PGNiG	56.60%
2.	Strateg Capital	5.33%
3.	MAXER	5.24%
4.	KGHM	4.96%
5.	GAZ – SYSTEM	4.59%
6.	ZIOTP	3.70%
7.	CONTROL PROCESS	2.86%
8.	POMERANIA DEVELOPMENT	2.47%
9.	Other	14.25%

At present, the main customer for the Company's natural gas and oil services is PGNiG. This is related to the execution of two contracts of substantial value for that customer, totalling nearly PLN 2.5bn. These are highest-ever contracts signed by PBG S.A. with PGNiG. However, please note that PBG S.A.'s strategy provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In order to mitigate the risk of being dependent on key customers, the Company gradually attracts new customers for the Company's services, such as Polskie LNG, KGHM, NATO, PKN ORLEN, PERN, LOTOS, Natfobazy, OLPP and foreign entities.

The analysis of receivables, as the most important category of assets exposed to credit risk (in terms of outstanding amounts and aging) for which impairment losses were not recognised, is presented in the tables below:

**Table 13: Past due and not past due financial receivables as at the balance-sheet date**

Item	Dec 31 2010		Dec 31 2009	
	Not past due	Past due	Not past due	Past due
<b>Current receivables:</b>				
<b>Trade receivables</b>	350,258	112,683	249,804	39,254
<b>Impairment losses on trade receivables (-)</b>		(193)		(287)
<b>Net trade receivables</b>	350,258	112,490	249,804	38,967
<b>Other financial receivables</b>	35,413	3,938	7,969	2,791
<b>Impairment losses on other receivables (-)</b>				(18)
<b>Other net financial receivables</b>	35,413	3,938	7,969	2,773
<b>Financial receivables</b>	385,671	116,428	257,773	41,740

**Table 14: Age structure of past due current receivables as at the balance-sheet date**

	Dec 31 2010	Dec 31 2009
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	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
<b>Past due current receivables:</b>				
<b>Up to 1 month</b>	68,350	3,770	9,146	2,683
<b>From 1 to 6 months</b>	44,140	168	30,108	108
<b>From 6 to 12 months</b>	-	-	-	-
<b>Over one year</b>	193	-	-	-
<b>Past due financial receivables</b>	<b>112,683</b>	<b>3,938</b>	<b>39,254</b>	<b>2,791</b>

As assessed by the Company's Management Board, the above financial assets which are not past due and for which no impairment losses were recognised as at the respective balance-sheet dates, can reasonably be considered as good credit quality assets. Thus, the Company did not establish collateral or used other tools to improve the credit terms.

With respect to trade receivables, the Company is not exposed to credit risk inherent in being dependent on a single major partner or a group of partners sharing the same characteristics. Based on historical data on overdue payments, the receivables that are past due and for which no impairment losses have been recognised do not show a marked deterioration in quality, as most of them fall into the "up to 1 month" category, and there is no threat to their effective collectability.

PBG S.A. operates in the market of specialist construction services for the natural gas, petroleum, fuel, water supply and sewerage, road and infrastructural sectors, therefore there is no credit risk concentration.

In order to reduce its credit risk exposure, the Company uses offsetting (compensating) arrangements where such solution is accepted by both parties.

### 1.3. Liquidity risk

The Company is exposed to the risk of losing liquidity, that is the loss of the ability to timely meet financial liabilities. The Company manages the liquidity risk by monitoring payment dates and funding requirements with respect to the servicing of current payables (current transactions are monitored on a weekly basis) and long-term funding requirements based on cash flow projections that are updated monthly. The demand for cash is compared with the available sources of funding (in particular by evaluating the ability to source funds under credit facilities) and with the ability to place free funds.

**Table 15: Maturity dates of the financial liabilities as at the balance-sheet date**

PLN '000	Current:		Non-current:			Liabilities total (no discount)	Liabilities - carrying amount
	up to 6 months	from 6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
<b>As at Dec 31 2010</b>							
Total liquidity risk exposure	401,215	54,855	883,961	22	0	1,340,053	1,348,613
<b>As at Dec 31 2009</b>							

Total liquidity risk exposure	390,179	145,619	466,345	11,096	382	<b>1,013,621</b>	<b>1,024,000</b>
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**Table 16: Available overdraft facilities as at the balance-sheet date**

PLN '000	Dec 31 2010	Dec 31 2009
<b>Overdrafts received</b>	155,000	95,000
<b>Overdrafts used</b>	9,217	45,747
<b>Available overdrafts</b>	145,783	49,253

### III. INTERNAL CONTROL SYSTEM

As a result of the acquisitions made in recent years, the number of the PBG Group companies rose. This, in turn, required establishing an internal audit function at PBG S.A.

The Internal Audit Department (**IAD**) was formed on August 1st 2009. The then-existing Procurement Platform (**PP**) **was incorporated into the Department**. Under the current structure, the Internal Audit Department and the Procurement Platform report directly to Mr Jerzy Wiśniewski, President of the PBG Management Board. The Department employs seven persons, including four at the Procurement Platform and three dedicated strictly to the internal audit function.

The IAD has been designed as a tool in the process of building the Group, which comprises: analysing business processes, including identification of areas requiring efficiency improvement and implementing a common business strategy, or, more precisely, monitoring proper performance of tasks executed by particular Group members, and diagnosing the weak points, reasons for inefficiencies and bottlenecks, as well as streamlining various processes. The parent's Management Board should have a tool to optimise the use of synergies offered by a single body of interrelated and complementary entities. The concept of IAD envisages its gradual development. At the current stage, the Internal Audit Department performs standard audit functions which consist in determining – on a test basis – whether particular Group members incur costs and manage resources in a reasonable manner. In particular, the following tasks are performed as part of the internal audit function:

- assessment of risks associated with a given company, and evaluating the efficiency of risk management functions;
- submitting reports on the findings, and, where appropriate, presenting relevant conclusions and suggestions for improvement (recommendations);
- issuing opinions on the effectiveness of the control mechanisms which form part of a system under scrutiny, and performing consulting services;
- based on the assessment of an internal control system, providing a reasonable assurance that a company functions properly.

Types of audit carried out at the Group include:

financial audit designed to:

- analyse the correctness of and rationale for costs incurred (i.e. determine whether costs related to a particular project may be evidenced by relevant documents and invoices, and whether funds have been credited to the accounts specified in the contracts);
- determine whether prepayments have been used in a proper manner;
- determine whether the requirement to ensure transparency of operational procedures has been met;
- compare costs incurred against the investment project's budget (determine whether the invoices evidencing costs incurred in connection with the project implementation are correct; examine whether costs have been recorded in the accounting books in a correct manner and in accordance with the accounting standards and applicable laws).

project execution audit designed to:

- review contracts with contractors in order to ensure that the contracted services have been delivered in a proper manner, and that the portfolio of project documents is complete;
- determine whether the requirement to ensure transparency of the contract award process has been met, and whether the process has been carried out in line with the applicable procedures;
- determine whether rates of fees payable to the contractor do not materially differ from the rates generally applied to a given type of goods/services in the region;
- determine whether plant and equipment purchased are located on the project's site;
- determine whether contractors meet their warranty obligations.

At a later stage of development, the IAD is expected to assume the role of a partner-consultant of the Company's Management Board and its President, as provided for in the International Standards for the Professional Practice of Internal Auditing which define internal audit as an activity that provides independent, objective assurance and consulting services designed to add value and improve organisation's operations. The internal audit function helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management.

In the immediate future, the IAD will seek to provide a helicopter view (or a fresh look) of the PBG Group, i.e. an opportunity to see its business from afar (high-level overview). It is distance that allows for identifying the sources of influence and dependence, weak points, ways to enhance operating efficiency and alternative solutions. Under the above-specified development plans above, the Internal Audit Department will most likely become an organisational unit of the Parent Company (PBG S.A.). Such position will offer the IAD an opportunity to independently perform audit functions at the parent and its subsidiaries.

In order to prove its merit, the IAD must perform the assigned tasks for all Group members and must at least:

- define the principles for information exchange among the Group members;
- ensure the Group's operating efficiency;
- develop rules for cooperation between related parties;
- override particular interests of the Group companies;

- take account of the differences between organisational cultures of particular Group companies.

The newly assigned tasks and goals will be performed and implemented consistently throughout 2011 and in the years to follow. The process of building a fully-fledged Internal Audit Department operating under the new rules, including recruitment and training of new personnel, is planned for completion towards the end of 2013.

The structure of the Internal Audit Department comprises the Procurement Platform. Basic responsibilities of the Platform include control and support activities. The former consist in compiling statistics related to tender procedures, orders and invoices, as well as in reviewing the purchase costs incurred as part of business transactions. Key duties performed as part of the support function include obtaining information on prices and other terms of business transactions, performing analyses, participating in negotiations, preparing master contracts and organising trainings.

The Procurement Platform is responsible for:

- ensuring fairness of the procurement process (purchase requests, RFPs, offers from suppliers, minutes of negotiation sessions, purchase orders, contracts);
- assisting in the development of master contracts which pertain to typical products appearing in the catalogue of purchase requests of several Group members, and which allow for standardising contractual terms applied to all PBG Group companies. Master contracts offer the Group a chance to benefit from the economies of scale (i.e. goods purchased at the negotiated prices irrespective of their volume, discounts calculated on the total volume sold to all companies by a given supplier);
- preparing analyses and reports which may form a basis for negotiating more favourable purchasing terms;
- organising trainings to optimise the use of system tools;
- coordinating the index base building processes.

Apart from its controlling role, the Procurement Platform is an intra-Group source of information. If a need arises to check the price of a product, contract terms or discounts, the information may be quickly obtained through the operated system. Currently, the database contains ca. 26 thousand offers from suppliers, with 97 thousand prices listed for various goods and materials. Thanks to the data, carefully entered into the database, the PBG Group companies have access to information concerning market participants' behaviour, prevailing price trends, suppliers, contractual terms, payment dates, discounts obtained and execution dates. Such exchange and processing of information is aimed at achieving cost efficiencies through an efficient use of data.

#### **IV. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE PREPARATION OF SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**

The PBG Management Board is responsible for the internal control system as well as for the system's effectiveness in the preparation of financial statements and periodic reports, drawn up and published in accordance with the Regulation of the Polish Council of Ministers on current and periodic information to



be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. No. 33, item 259 as amended).

Financial statements are prepared by the Accounting Services Centre, and the process is directly supervised by the Financial Statements Consolidation Department in cooperation with other organisational units, which are responsible for providing accurate information on items not directly sourced from the Company's accounting records, but disclosed in the financial statements. Due to the nature of the industry in which the Company operates, the Controlling Department plays an important role in the preparation of financial statements. The key measures used to reduce the risks include correct assessment and analysis of the construction contracts. As required by IAS 11, revenues and expenses associated with the contracts are estimated on the basis of budgets of individual contracts. These budgets are expertly drawn up by contract managers with relevant training. In the course of contract preparation and execution, the budgets are continuously reviewed and updated by the responsible personnel. Results of the reviews and any adjustments to the budgets are discussed at weekly meetings. The process is based on formal rules adopted by the Company and is subject to close supervision by the Management Board.

The Company's financial information is presented using consistent accounting policies, which are in line with the valuation and presentation policies applied in all PBG Group companies. Since January 1st 2009, the Head Accountant has been responsible for drawing up and signing financial statements, and for drawing up and signing separate and consolidated financial statements – the Group Accounting Coordination Director, and as of July 1st 2010 - the Accounting Services Centre Director acting as a Proxy. The persons responsible for controlling and coordinating the process of preparing financial statements are professionals with relevant expertise in the field; all of them are bound by non-disclosure agreements.

Members of the Management Board responsible for the preparation of financial statements are: Jan Wiśniewski, President of the Management Board, Przemysław Szkudlarczyk, Vice-President of the Management Board, and Eugenia Bachorz, Proxy. In line with the internal procedures, in the course of preparation of the financial statements these members of the management team, acting on behalf of the entire Management Board, review the economic information and matters disclosed in the accounts and present their comments and remarks relevant for the preparation of the statements. Once the financial statements have been prepared, they are audited or reviewed, in accordance with applicable laws. All members of the Management Board are required to sign the financial statements before the auditor's opinion is received.

The financial statements are reviewed or audited by an entity qualified to audit financial statements, selected by the Company's Supervisory Board from among renowned audit firms offering high-quality audit services and satisfying the criterion of independence.

During the audit of financial statements and accounting records, the auditor holds meetings with key members of the Company's staff, including members of the Management Board responsible for economic matters, to discuss individual aspects of the financial statements. The final version of the financial statements is then prepared, re-read and signed by the persons responsible for the preparation of the financial statements and the managing personnel, and contains any agreed-upon corrections or adjustments made by the qualified auditor, the responsible persons or the managing personnel. Every

year, the Supervisory Board assesses consistency of the Company's audited financial statements with the accounting records and documentation as well as with facts, and presents its findings to the shareholders in an annual report published by the Company.

Managing the risk related to the preparation of financial statements involves identifying and assessing risk areas and defining the relevant mitigating measures.

## **CHAPTER III: PBG S.A.**

### **I. STRATEGY AND BUSINESS MODEL**

#### **1. Business Model**

The PBG Group's business model is based on the provision of specialist construction services. The Group has steadily increased its revenues and profits by entering new markets and operating in segments, where competition is limited due to the required qualifications, experience, and credentials. The 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 procuring orders and executing projects, expanding the range of services, arranging financing, and consolidating other entities. The PBG Group develops its project management and engineering capabilities, while its own execution resources are focused on the performance of technologically advanced works. 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 work schedule and within the assumed budget. Execution of specialist construction works and focus of operations on niche markets place the PBG Group among WSE-listed construction companies reporting highest profitability levels.

## **2. Strategy**

**PBG S.A.'S STRATEGY IS TO ENSURE STEADY AND LONG-TERM GROWTH OF THE GROUP'S VALUE BY BUILDING ONE OF THE LARGEST ENGINEERING AND CONSTRUCTION ORGANISATIONS IN EUROPE.**

This is achieved by:

- expanding operations on new markets related to specialist construction and engineering services on such areas as natural gas, power generation, crude oil, fuels, waste and biomass incineration plants;
- expanding the range of credentials in the core business areas, through continuous development of engineering skills, improvement of project management skills and execution of increasingly more complex projects;
- increasing sales revenue while maintaining attractive margins;
- winning and performing profitable contracts with high unit values by tapping the combined potential of the Group companies in the market segments where competition is limited due to the required qualifications and credentials;
- diversifying operations to embrace new areas, such as operator services, PPP projects, and concessions;
- expanding property development business – projects in Poland and abroad;
- expanding into new geographical markets, including Ukraine, Bulgaria, Romania, Russia, Qatar, and South America.
- involvement in the infrastructure and road construction market through by the consolidation of Hydrobudowa Polska and APRIVIA.

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

### **1. Strengthening the Company's position as the leader of the gas engineering sector in Poland.**

In July 2010 a consortium including the PBG Group (Saipem – Techint – Snamprogetti – PBG - PBG Export) was selected by Polskie LNG as the general contractor for the "Development of the engineering design, construction and commissioning of LNG regasification terminal in Świnoujście" project. The PLN 2.2bn contract has the largest unit value in Polish history, and the PBG Group's share in the contract is 33%. In the last stage of the tender procedure, the consortium was competing against two other groups: Daewoo Engineering & Construction consortium (foreign competition) and a consortium including Tecnimont and Polimex Mostostal (domestic and foreign competition). It is the third significant contract of strategic importance to Poland in the gas and oil sector, following the LMG crude oil and natural gas mine, and underground gas storage facilities in Wierzchowce; both contracts were awarded to the PBG Group in last three years.

The strategy to actively acquire and execute high unit value contracts in the gas sector will be continued. The largest tender in the segment in 2011 is the contract for development of natural gas reserves in Róžańsk, with an estimated value of PLN 1bn. Additionally, a series of tenders will be announced for construction of gas transmission infrastructure connecting the LNG terminal with other parts of Poland. At present, PBG has submitted or is preparing to submit bids in such tenders for a total of approximately PLN 2bn.

**2. Strengthening the position in the crude oil and fuel sectors in Poland** through participation in tenders announced by such organisations as PGNiG, PKN Orlen, PERN, LOTOS and NATO.

### **3. Presence in the hydro-engineering market**

In 2010, a long-awaited tender for the construction of the Racibórz retention tank on the Oder River, with an estimated value of approx. PLN 800m, was announced. The PBG Group participates in the procedure in a consortium with OHL. Moreover, several other hydro-engineering tenders are expected to be announced this year.

### **4. Construction of municipal waste incineration plants.**

The PBG Group also sees development opportunities in the construction of waste incineration plants. Pursuant to the EU requirements, such facilities are to be built in urban agglomerations with population over 350,000. The waste incineration projects will first be launched by Poznań, Bydgoszcz, Szczecin, Kraków, and Konin. Eleven plants with an aggregate value of PLN 6bn are to be constructed in 2011-2012.

### **5. Expansion in the Polish power engineering market through:**

- **formation of PBG Energia Sp. z o.o. responsible for the power engineering segment in the PBG Group.**
- **establishing strategic cooperation with strong players on the power engineering market which would facilitate joint winning and execution of contracts in Poland;**
- **building up own competences and credentials through winning and execution of contracts of increasingly larger unit values.**

In February 2010, PBG finalised the acquisition of 25% plus 1 share in Energomontaż-Południe SA. It was the first step in the process of entering the power engineering market. Moreover, PBG Energia Sp. z o.o. was established at the beginning of 2011, as a member of the PBG Group. PBG Energia Sp. z o.o. was established on the basis of PBG Export; as of April 1st, the company will cover the power engineering segment, so far operating within PBG S.A. PBG Energia Sp. z o.o. will be responsible for winning and execution of contracts in the power sector, as well as for the development on the power engineering segment within the Group. At present, the segment's order book contains projects acquired in the previous year, worth almost PLN 230m.

In connection with preparations to participate in the largest projects in Poland, the PBG Group has also established strategic alliances with foreign partners specialising in power engineering and having the necessary credentials.

A consortium including the PBG Group (PBG - Techint Compagnia Technica Internazionale - Ansaldo) participates in the tender for construction of two power units in the Opole Power Plant. The estimated value of the project is c.a. PLN 10bn. The tender is at its last stage now, and the winner is to be announced in Q3 2011. Winning the contract would significantly increase the value of the Group's order book and enhance its future financial performance. The PBG Group companies' interest in the consortium is 33%, which would translate into approximately PLN 3bn in revenue.

Moreover, in May 2010, PBG executed a strategic cooperation agreement with ALSTOM, a world leader in the power sector. The companies agreed that their complementary offerings, experience, as well as financial, human, and technical resources will allow them to successfully cooperate in winning and executing the largest power engineering contracts in Poland.

The PBG Group and ALSTOM currently participate in five tenders for delivery and construction of coal- and gas-fired power units construction. The aggregate value of projects the consortium bids for is estimated at approximately PLN 16bn. The following three tenders are for construction of coal-fired power units:

- Construction of power unit at the Koźienice II Power Plant. The estimated value of the project is PLN 5bn; the winner will be announced in Q4 2011;
- Construction of supercritical parameters power unit at the Jaworzno III Power Plant. The estimated value of the project is PLN 5bn; the winner will be announced in Q1 2012;
- Construction of a new power unit at the Turów Power Plant. The estimated value of these projects is estimated at PLN 2.5bn, and the winners are to be announced in Q1 2012.

The remaining two tenders are for delivery and construction of gas-fired power units. The first one is to be constructed at the Stalowa Wola Power Plant and the other one - at the Włocławek Power Plant. The cost of each of these projects is estimated at PLN 1.6bn, and the winners are to be announced by the end of 2011.

The PBG Group is also preparing to participate in other tenders in the power engineering sector for a total value over PLN 3.2bn.

To summarise, PBG participates in tenders in the power engineering industry for a total of over PLN 30bn, which comprises only 16% of all tenders in the sector planned by 2020.

#### **6. Expansion into foreign markets by:**

- **strategic cooperation with OHL;**
- **expanding operations in Ukraine;**
- **launching operations in Bulgaria and Romania, through cooperation with local and international partners;**
- **executing export contracts in co-operation with Polish banks;**
- **winning contracts to construct natural gas and oil facilities, characterized by increasing unit value, for investors in Norway, Qatar, and South America;**
- **participating in tenders and execution of contracts related to the organisation of the World Football Championships in Russia in 2018 and Qatar in 2022.**

In 2010, PBG Group's foreign activities were conducted mainly by Energopol Ukraina and PBG Ukraina of Kiev, EXCAN of Edmonton (Canada) and GOE of Poprad (Slovakia).

Moreover, the PBG Group explores new opportunities of expansion into foreign markets such as Bulgaria or Romania. Last year, PBG Bułgaria was established to acquire, in cooperation with the local partners, contracts for infrastructure projects related to environmental protection, road construction, and natural gas and crude oil units. Development on these markets will be largely possible thanks to the EU subsidies for new member states (Bulgaria and Romania joined the EU in 2007).

The PBG Group is also interested in foreign gas and oil engineering markets in countries such as Norway, Qatar, or Brazil. They are currently one of the largest investment markets for oil and gas projects in the world, mainly due to their own natural gas and oil resources.

The PBG Group is particularly interested in Brazil, where massive crude oil reserves were discovered below the seabed of the Atlantic in 2007. In October 2010, Petrobras issued shares worth over USD 70bn. This issue will allow the company to finance its oil projects. Petrobras intends to allocate USD 224bn in the next five years for the development of the reserves, estimated to hold at least 50bn barrels of crude oil. The reserves hold one and a half times more crude oil than confirmed reserves of Libya or Nigeria, which are in turn the largest producers of crude oil in Africa.

The PBG Group sees its opportunity chance on the above mentioned markets, in cooperation with international partners, as it has all necessary credentials and years of experience necessary to build such facilities.

A new investment programme, related to the organisation of the World Football Championships in Qatar in 2022 also opens up new opportunities. The PBG Group was appreciated by the investors in Qatar as a contractor for three out of four stadiums designed for the 2012 European Football Championships in Poland. The total investment plan of USD 104bn assumes the construction of nine new stadiums as well as a number of infrastructure projects such as airports, motorways, railways, underground, hotels etc. The Management Board of PBG plans to launch a representative office in Qatar, which will allow the PBG Group to commence operations in the Middle East.

As for the Russian market, the PBG Group is interested in construction of sports venues and motorways. First bids to be submitted in the tender related both to the construction and operation of motorways in Russia are currently under preparation.

PBG Group's cooperation with the Spanish OHL Group, present for years on the global markets, may prove to be instrumental for the Group's foreign operations. First joint bids for the construction of motorways in Russia have already been submitted.

## **7. Investments related to the long-term infrastructure operation projects, Public Private Partnerships and licences**

Investments in infrastructure operation projects, implementation of projects based on Public Private Partnerships and licenses. The projects involve construction and operation of motorways, generation of electricity from small hydro-electric power stations and biogas plants, generation of heat from the municipal waste incineration plants, operation of water supply and sewage disposal systems, underground car parks, and other infrastructure facilities. The following four models of cooperation are taken into account:

- **BOT** – Build – Operate – Transfer;
- **DBFO** – Design – Build – Finance – Operate;
- **BOO** – Build – Own – Operate;

➤ **BTL** – Build – Transfer – Lease.

These types of projects carried out by the PBG Group will be aimed at diversifying operations and entering markets that are a source of long-term and stable sales revenue, irrespective of conditions prevailing in the construction business.

#### **8. Presence on the infrastructure market in Poland through Hydrobudowa Polska S.A.**

- **strengthening the position in the infrastructure area;**
- **participating in the performance of contracts related to the organisation of the 2012 European Football Championships.**

Currently a consortium including Hydrobudowa Polska is preparing to bid in a tender for construction of the new railway station in Łódź. The project's estimated value is PLN 2.5bn. The participation in the tender is possible thanks to extensive credentials involving tunnel construction in urban areas and microtunnelling. The winner will be selected by the end of H1 2011.

Hydrobudowa Polska S.A. actively procures contracts related to EURO 2012. On March 11th 2011, in consortium with OHL, it executed a contract for the construction of the Słowacki Route - connecting the Gdańsk Airport and the Port of Gdańsk worth almost PLN 130m (net).

At present, the value of joint bids submitted in the tenders amounts to PLN 5bn.

Apart from the possibility of winning large unit value contracts, Hydrobudowa may be hired as a sub-contractor in other assignments won by other PBG Group companies, such as road construction contracts, gas projects, or power engineering projects.

#### **9. Involvement in the Polish road construction market through APRIVIA S.A. and investments in the quarry projects:**

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

There was a large number of road construction projects tendered in Poland in 2010, particularly for motorways and expressways. The strategy has proved successful. The PBG Group with its foreign partners executed projects for a total of nearly PLN 3.8bn; the Group's share in the amount is 50%. The projects include sections of the A1 and A4 motorways, and a section of the S5 expressway.

At present, road construction companies from the PBG Group participate in tenders for construction of national roads, expressways, and motorways for a total amount of PLN 4bn. By the end of 2011, the APRIVIA Group intends to submit bids totalling approximately PLN 18.5bn.

To supplement its credentials and enhance its chances of winning contracts, the PBG Group companies have established strategic co-operation with international companies, including Alpine Bau, SIAC, SRB Civil Engineering, or OHL.

Additionally, PBG is involved in a project securing access to aggregate deposits necessary for road and railway construction. In October 2010, control was acquired over Strateg Capital, a company responsible for the project implementation as well as quarry operation and sales of the aggregate. It is expected that this year's production will be 1.7m tonnes, while the 2011 target is to reach 2m tonnes of aggregates annually.

## 10. Commercial and residential property development

Participation in construction projects related to residential and commercial property development will be an important part of PBG's activities in the coming years. PBG Dom is the company responsible for this area of the Group's operations. Recent months have seen an improvement of market conditions in the segment. The property market is overcoming the crisis it suffered in 2009/2010, which gives hope that new projects will be executed and those put on hold - relaunched.

PBG Dom is currently working on nine active projects. These include apartment estates in Poznań, Gdańsk and Świnoujście, the Skalar Office building in Poznań, and hotel Hampton by Hilton in Świnoujście. The combined area of the current projects is nearly 120,000 m<sup>2</sup>.

There are also thirteen projects under preparation or considered for acquisition. They include apartment estates and office buildings located countrywide, however particularly in Warszawa, Poznań, and Świnoujście.

## 11. 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 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 3.5bn and are sufficient for the Group to bid in all strategically important tenders that are planned for 2011. Individual contracts are financed with the use of short-term working capital credit facilities, special purpose loans, and bonds.

In 2010, the Company secured additional debt financing to optimise the debt structure. PBG S.A. issued bonds for a total value of PLN 450m, in order to adjust the term structure of projects' financing to the period of their execution, which becomes increasingly longer due to the growing value of the projects.

In 2011, PBG is committed to increasing the guarantee, insurance, and credit limits on a regular basis, and to release the highest possible number of them, in order to bid in all planned tenders.

The financial standing of the Company may improve significantly upon finalising the disposal of Hydrobudowa Polska S.A. and APRIVIA S.A. shares to the Spanish OHL Group. For details of the transaction, see Current Reports Nos. 49/2010, 50/2010 and 65/2010. Proceeds from the disposal may exceed PLN 500m.

The Current Reports are available at the following addresses:

**PBG Current Report No. 49/2010** <http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/49-2010-podpisanie-przez-pbg-s-a-porozumienia-w-sprawie-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a.html>

**PBG Current Report No. 50/2010** <http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/50-2010-podpisanie-przez-pbg-s-a-porozumienia-w-sprawie-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a-uzupelnienie-informacji.html>

**PBG Current Report No. 65/2010** <http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/65-2010-podpisanie-przez-pbg-s-a-umowy-uzupelniajacej-do-porozumienia-dotyczacego-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a.html>



### 3. 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. The Management Board of PBG S.A. defines the development directions for each company and defines its role in the Group. Each company is responsible for project execution in line with its business profile and resources.

**Figure1: Organisational structure of the PBG Group as at December 31 2010 (percentage of voting rights held by PBG S.A.)**



We wszystkich nieedytowalnych obiektach należy zmienić format zapisu liczb tak, aby części dziesiętne oddzielone były od liczb całkowitych kropką (zamiast przecinkiem), a grupy liczb całkowitych oddzielone były od siebie przecinkiem, np.:

Zapis polski:

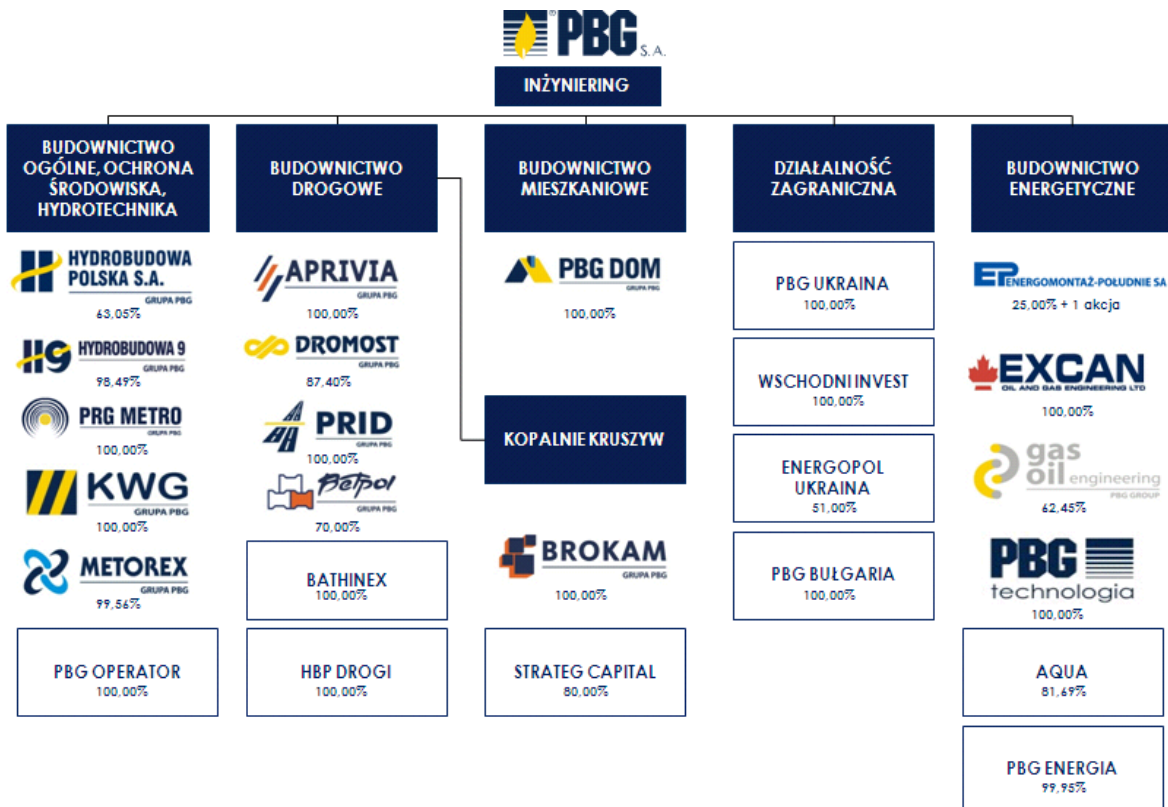
1.000,00

Zapis angielski:

1,000.00

INŻYNIERING	ENGINEERING
BUDOWNICTWO OGÓLNE, OCHRONA ŚRODOWISKA I HYDROTECHNIKA	GENERAL CONSTRUCTION, ENVIRONMENTAL PROTECTION AND WATER ENGINEERING
BUDOWNICTWO DROGOWE	ROAD CONSTRUCTION
KOPALNIE KRUSZYW	AGGREGATE QUARRIES
BUDOWNICTWO MIESZKANIOWE	RESIDENTIAL CONSTRUCTION
DZIAŁALNOŚĆ ZAGRANICZNA	FOREIGN OPERATIONS
BUDOWNICTWO ENERGETYCZNE	POWER ENGINEERING CONSTRUCTION
25,00% + 1 akcja	25.00% and one share

Figure2: Current organisational structure of the PBG Group (percentage of voting rights held by PBG S.A.)



INŻYNIERING	ENGINEERING
BUDOWNICTWO OGÓLNE, OCHRONA ŚRODOWISKA I HYDROTECHNIKA	GENERAL CONSTRUCTION, ENVIRONMENTAL PROTECTION AND WATER ENGINEERING
BUDOWNICTWO DROGOWE	ROAD CONSTRUCTION
KOPALNIE KRUSZYW	AGGREGATE QUARRIES
BUDOWNICTWO MIESZKANIOWE	RESIDENTIAL CONSTRUCTION
DZIAŁALNOŚĆ ZAGRANICZNA	FOREIGN OPERATIONS
BUDOWNICTWO ENERGETYCZNE	POWER ENGINEERING CONSTRUCTION
25,00% + 1 akcja	25.00% and one share

Within the Group the **natural gas, crude oil, and fuels markets** are the responsibility of PBG S.A., which has been offering services in these segments since its inception. PBG is the leader on these markets in Poland. It has gained its current position through strategic co-operation with international companies, which has enabled PBG to introduce technologically advanced solutions on the Polish market. PBG was able to use the resulting credentials and necessary experience to win contracts for execution of the largest projects carried on 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 result.

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.

PBG S.A. and PBG Energia Sp. z o.o. are responsible for **the power engineering segment**. The Group's operations in this segment are currently supported also by GasOil Engineering, Excan and Oil Engineering, AQUA, and Energomontaż Południe.

In accordance with the adopted strategy, the Group's operations in the energy segment will enable it to further develop its revenue streams. Projects in the area of power engineering identified by the PBG Group will total over PLN 30bn in the next two years. The Group plans to be an active player on this market.

The strategy of the PBG Group assumes that over the next three years the sales revenue of the power engineering segment would reach PLN several hundred million annually, starting from 2012.

PBG S.A. and supporting companies: PBG Ukraina, Energopol-Ukraina and PBG Bułgaria are primarily responsible for **the Group's operations on foreign markets**. Winning foreign contracts and their execution will be based on cooperation with international companies such as OHL and local partners operating on a particular market. Currently, companies of the PBG Group bid or prepare to submit bids in tenders in Romania, Bulgaria, Russia and Ukraine. Activities designed to facilitate the expansion of PBG into foreign markets were intensified. Due to new prospects and opportunities for strategic alliances with international partners, revenues from foreign markets may significantly affect the financial performance in the future. The strategy of the PBG Group assumes that revenues from the foreign markets would reach several hundred million zlotys annually, starting from 2012.

PBG Dom is responsible for the **residential and commercial construction market**. The PBG Dom Group comprises 16 subsidiaries. These are special purpose vehicles, each established to implement a given development or commercial project. The area related to construction and/or commercialisation of property may prove to be important for the entire PBG Group over a long term.

PBG Dom's strategy assumes investing up to PLN 100m annually over two years provided that the company identifies appropriate projects.

Hydrobudowa Polska S.A. is responsible for the **infrastructure and general construction market**. The Hydrobudowa Polska Group comprises Hydrobudowa 9 and PRG Metro. At present, disposal of 51% of shares in Hydrobudowa Polska S.A. to the Spanish OHL for PLN 431m is being negotiated. The negotiations are to be completed by the end of March and the transaction is to be executed in H1 2011. Following the transaction, PBG S.A. will remain the shareholder of Hydrobudowa Polska S.A., and will hold from 12% to 15% shares in the Company. The Management Board of PBG S.A. may its equity interest in Hydrobudowa Polska S.A. in the future. Further participation in the general and infrastructure construction market in Poland will be possible through the consolidation of results generated by the Hydrobudowa Polska Group.

APRIVIA S.A. **is responsible for the road construction market**. The APRIVIA Group comprises Dromost, PRID and Betpol. At present, disposal of 50.1% of shares in APRIVIA S.A. to the Spanish OHL for PLN 75m is being negotiated. The negotiations are to be completed by the end of March and the transaction is to be executed in H1 2011. Following the transaction, PBG S.A. will hold 49.9% of shares in APRIVIA S.A. Further participation in the road construction market in Poland will be possible through the consolidation of results generated by the APRIVIA Group.

The Memorandum of Understanding concluded between PBG S.A. and OHL assumes purchase of shares in Hydrobudowa Polska S.A. S.A. and APRIVIA S.A. by OHL. PBG S.A. does not treat this transaction as a sales transaction but rather as the acquisition of a foreign strategic partner for the PBG Group. Hydrobudowa Polska S.A. will remain listed on the Warsaw Stock Exchange, while PBG S.A. will continue as a significant shareholder in Hydrobudowa Polska S.A. and APRIVIA S.A. Therefore, PBG S.A. perceives this transaction as yet another ample development opportunity.

***Proceeds from the disposal of shares in Hydrobudowa S.A. and APRIVIA S.A. will allow the PBG Group to implement the assumed strategy of expansion on the power engineering market and foreign markets. Moreover, the funds will be invested in operator projects. The Group will focus on rendering specialist construction services and exploring new areas such as license and operator projects and other projects implemented on the basis of Public Private Partnerships. This will facilitate further dynamic development and growth of PBG S.A.***

## **II. BUSINESS PROFILE**

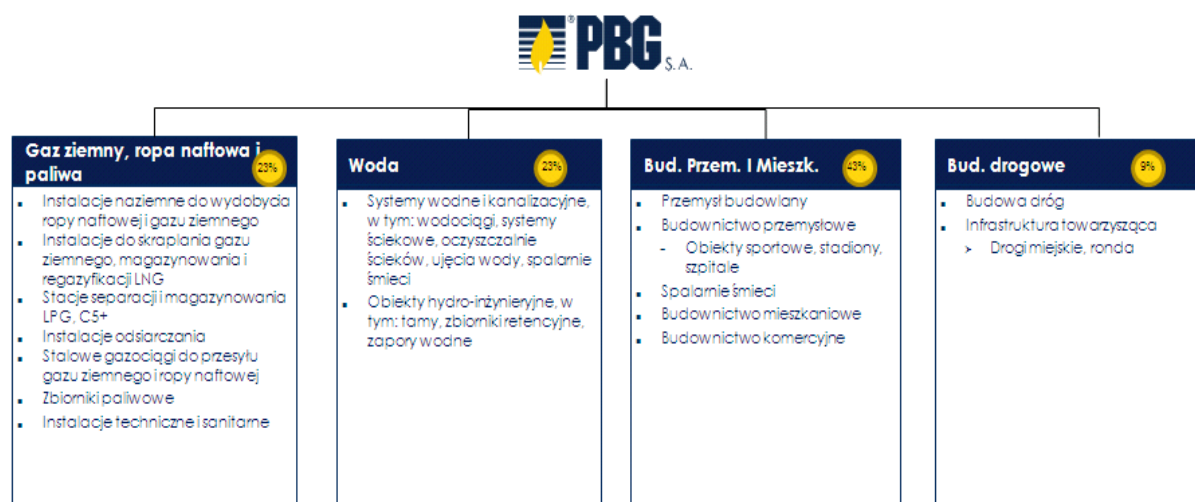
The business profile of PBG and its Group comprises general contractor services related to natural gas, crude oil, water and fuels facilities, provided on a "turn key" basis, as well as general contractor services for projects in the area of industrial, residential, infrastructure, and road construction. The Company's operations mostly consist in performing contracts for its natural gas, crude oil and fuels services.

Given the small share of revenue from the fuels segment in the total sales revenue, the Company decided that from the beginning of 2010 the natural gas and crude oil segment and the fuels segment would be combined to make up a single business segment.

Currently, the Company divides its business into four major operating segments:

- 1. natural gas, crude oil and fuels,**
- 2. water,**
- 3. residential and industrial construction,**
- 4. roads.**

Figure3: Breakdown of services by segment



<p><b>Gaz ziemny, ropa naftowa i paliwa</b></p> <ul style="list-style-type: none"> <li>Instalacje naziemne do wydobycia ropy naftowej i gazu ziemnego</li> <li>Instalacje do skraplania gazu ziemnego, magazynowania i regazyfikacji LNG</li> <li>Stacje separacji i magazynowania LPG, C5+</li> <li>Instalacje odsiarczenia</li> <li>Stalowe gazociągi do przesyłu gazu ziemnego i ropy naftowej</li> <li>Zbiorniki paliwowe</li> <li>Instalacje techniczne i sanitarne</li> </ul>	<p><b>Natural gas, crude oil and fuels</b></p> <ul style="list-style-type: none"> <li>Surface installations for crude oil and natural gas production</li> <li>Installations for liquefying natural gas and for LNG storage and regasification</li> <li>LPG, C5+ separation and storage facilities</li> <li>Desulphurisation units</li> <li>Steel pipelines for oil and gas transmission</li> <li>Fuel tanks</li> <li>Technical and sanitary systems</li> </ul>
<p><b>Woda</b></p> <ul style="list-style-type: none"> <li>Systemy wodne i kanalizacyjne, w tym: wodociągi, systemy ściekowe, oczyszczalnie ścieków, ujęcia wody, spalarnie śmieci</li> <li>Obiekty hydro-inżynieryjne, w tym: tamy, zbiorniki retencyjne, zapory wodne</li> </ul>	<p><b>Water</b></p> <ul style="list-style-type: none"> <li>Water supply and sewage systems, including: water pipes, sewage systems, wastewater treatment plants, water intakes, waste incineration plants</li> <li>Water engineering structures, including: dams, storage reservoirs</li> </ul>
<p><b>Bud. Przem. i Mieszk.</b></p> <ul style="list-style-type: none"> <li>Przemysł budowlany</li> <li>Budownictwo przemysłowe                             <ul style="list-style-type: none"> <li>Obiekty sportowe, stadiony, szpitale</li> </ul> </li> <li>Spalarnie śmieci</li> <li>Budownictwo mieszkaniowe</li> <li>Budownictwo komercyjne</li> </ul>	<p><b>Industrial and residential construction</b></p> <ul style="list-style-type: none"> <li>Construction industry</li> <li>Industrial construction                             <ul style="list-style-type: none"> <li>Sports facilities, stadiums, hospitals</li> </ul> </li> <li>Waste incineration plants</li> <li>Residential construction</li> <li>Commercial construction</li> </ul>
<p><b>Bud. drogowe</b></p> <ul style="list-style-type: none"> <li>Budowa dróg</li> <li>Infrastruktura towarzysząca                             <ul style="list-style-type: none"> <li>Drogi miejskie, ronda</li> </ul> </li> </ul>	<p><b>Roads</b></p> <ul style="list-style-type: none"> <li>Road construction</li> <li>Auxiliary infrastructure                             <ul style="list-style-type: none"> <li>Municipal roads, roundabouts</li> </ul> </li> </ul>

The scope of construction services provided as part of the above segments comprises comprehensive contracting services, engineering design work, upgrading, modernisation, repairs, and maintenance of facilities and systems.

Detailed financial data on the share of individual business segments in sales revenue is presented in the section below on changes in the Company's markets.

### III. CHANGES IN THE COMPANY'S MARKETS

In 2010, revenue streams from the individual areas of operations of PBG S.A. were generated mainly on the domestic market and were as follows:

**Table 17:** Industry segments

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
<b>natural gas, crude oil and fuels</b> (transmission, distribution, production)	701,915	441,085	+260,830	+59%
<b>water</b> (water engineering and environmental protection, pipeline rehabilitation)	73,082	126,421	-53,339	-42%
<b>Industrial and residential construction</b> (construction, infrastructure for industrial facilities)	98,458	226,783	-128,325	-57%
<b>Road construction</b> (road construction)	24,045	0	+24,045	-
<b>Other</b> (sale of goods for resale, materials and products, other services)	12,453	33,174	-20,721	-62%
<b>Total sales revenue</b>	<b>909,953</b>	<b>827,463</b>	<b>82,490</b>	<b>10%</b>

**Table 18:** Geographical segments

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
<b>domestic sales</b>	909,821	827,463	82,428	+10
<b>foreign sales</b>	62	0	+62	-

In the reviewed period, domestic sales accounted for 99.99% of total sales.

### Operational Reach

The Company's operations focus primarily on the domestic market, which the Company perceives as its key market because of: the investments co-financed by the EU, the planned projects connected with LNG production facilities and the entire auxiliary infrastructure (compressor stations, gas pipelines, etc.), the investment projects related to the 2012 European Football Championships to be held in Poland as well as planned investments in the power sector. Nevertheless, steps are being taken with a view to entering foreign markets, mainly in the natural gas, crude oil and infrastructure sectors. Historically, PBG S.A. performed contracts for customers in Latvia, Pakistan and Norway. Activities related to PBG Group's expansion into the foreign markets, such as: Ukraine, Russia, Romania, Bulgaria, Qatar and South America are currently under way. In some of the listed countries, PBG has already established, or is currently establishing, its branch in the form of a representative office or a special purpose vehicle.

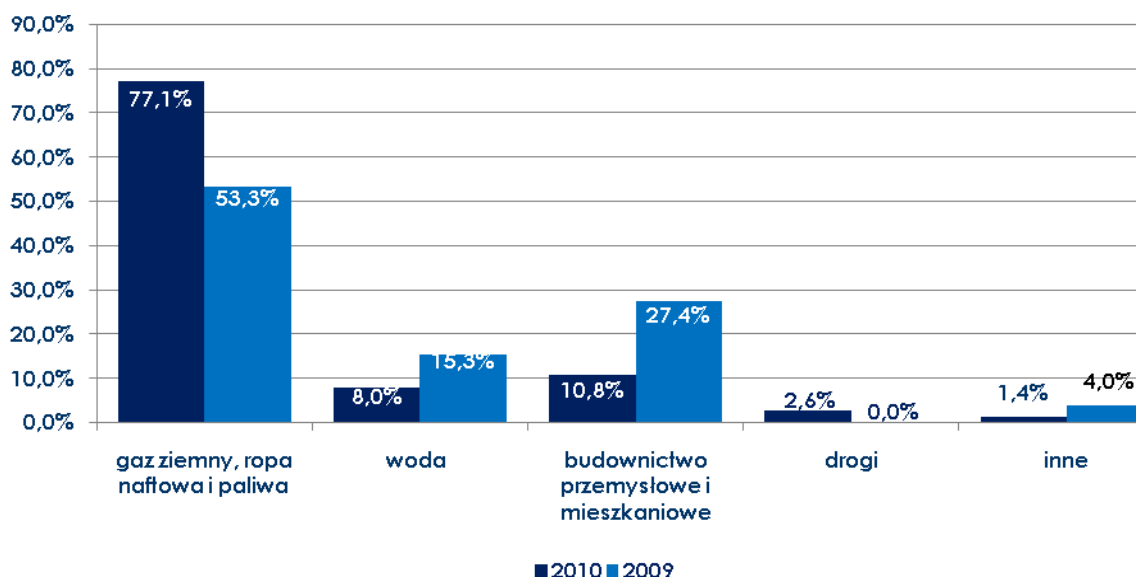
Furthermore, first steps are being taken in order to attract those foreign sub-contractors or partner companies.

In the future, foreign markets may become a significant source of revenue for the PBG Group.

### Share of Business Segments in the Company's Total Sales Revenue

In the period under review, the share of the Company's individual business segments in its total sales revenue was as follows:

**Figure 4:** Percentage share of the Company's individual business segments in its sales revenue in 2009-2010



Gaz ziemny, ropa naftowa i paliwa	Natural gas, crude oil and fuels
Woda	Water
Budownictwo przemysłowe i mieszkaniowe	Industrial and residential construction
Drogi	Roads
Inne	Other

In 2009, the natural gas and crude oil segment **had the largest share in the Company's sales revenue**. The segment's share in the Company's sales revenue in the period under review stood at 77.1% (up by 23.8% year-on-year). In connection with the signing of the largest contracts in the segment to date, i.e. the contract for development of an oil field with a value of PLN 1.4bn (August 2008), the contract for the construction of an underground gas storage facility in Wierzchowice with the value of PLN 1.1bn (November 2008) for Polskie Górnictwo Naftowe i Gazownictwo SA, and the contract for the construction of LNG terminal in Świnoujście for Polskie LNG (July 2010) as well as new opportunities becoming available on the market, PBG S.A. expects that its sales revenue from the natural gas and crude oil sector will rise significantly or remain unchanged in the years to follow.

The second largest business segment of PBG S.A. in the period under review was **the industrial and residential construction segment**, providing general construction and industrial infrastructure services. The segment's share in the Company's total sales revenue was 10.8%, compared with 27.4% in the same period last year (down by 16.6%). It is mainly attributable to fact that contracts on this market are performed by Hydrobudowa Polska, also being a PBG Group company. In connection with the new

opportunities related to infrastructure projects, such as construction of waste incineration plants, it may be expected that the sales revenue from the industrial construction segment will remain unchanged or even substantially increase in the years to follow. Currently, the largest projects implemented in the segment include contracts for construction of the National Stadium in Warsaw for PLN 1.252bn and construction of the Baltic Arena stadium in Gdańsk for PLN 427m.

In 2010, **the water segment** accounted for 8% of total sales revenue and was the third largest segment. Contracts executed in the water segment are co-financed by the European Union and are connected with environmental protection and water engineering projects. Hydrobudowa Polska S.A. is the Group's leading subsidiary focusing on environmental protection generating significantly higher revenue from its operations in this segment.

**The road construction segment** is the fourth largest segment and also the last one operated by PBG S.A. In the period under review, the road construction segment's share in total sales revenue stood only at 2.6% in total sales revenue. Companies such as: Aprivia, PRiD, Dromost and Betpol from the PBG Group are primarily responsible for the performance of the road construction contracts.

#### **Entities Having 10% or Higher Share in the Company's Total Sales Revenue**

In the period covered by this Report, the entities having a 10% or larger share in the Company's total sales revenue included:

- customers: PGNiG SA;
- suppliers: the Company had no suppliers with a 10% or larger share in its total sales revenue.

#### **IV. BRANCHES**

PBG S.A. has no branches.



## CHAPTER IV: REPORT ON THE COMPANY'S OPERATIONS IN 2010

## I. TOTAL NUMBER OF SHARES HELD IN RELATED UNDERTAKINGS

Table 19: Shares held in related undertakings

Related undertaking	Business profile	Relation		Number of shares	Par value of shares as at Dec 31 2010	% of share capital held
		Parent	Type of relation			
<b>PBG Technologia Sp. z o.o.</b>	Manufacture and assembly of steel structures, plants and installations, steel tanks, execution of comprehensive installation projects for the industry, in particular the petrochemical sector, general construction	PBG S.A.	subsidiary	46,100	PLN 23,050,000.00	100%
<b>PBG Energia Sp. z o.o.</b>	Procurement of orders in Poland and abroad in the energy segment and the supervision of the execution of orders	PBG S.A.	subsidiary	19,990	PLN 999,500.00	99.95%
<b>Metorex Sp. z o.o.</b>	Construction of water-pipe networks, sewage systems, heat and gas distribution networks, land melioration networks, hydro-engineering, wastewater treatment plants, road and square pavement	PBG S.A.	subsidiary	682	PLN 51,150.00	99.56%
<b>Hydrobudowa Polska S.A.</b>	Comprehensive execution of hydro-engineering, engineering and industrial construction projects	PBG S.A.	subsidiary	132,748,692	PLN 132,748,692.00	63.05%
<b>KWG S.A.</b>	Execution of infrastructure projects in the environmental protection sector	PBG S.A.	subsidiary	28,700	PLN 2,870,000.00	100%
<b>Excan Oil and Gas Engineering Ltd., Canada</b>	Export activities in the technology sector and procurement of orders in the natural gas and crude oil sectors	PBG S.A.	subsidiary	-	CAD 250,000.00	100%
<b>GasOil Engineering AS Slovakia</b>	Engineering, design and contracting company; project management, turn-key delivery, and the supervision of projects in the natural gas and crude oil sectors	PBG S.A.	subsidiary	-	EUR 414,647.48	62.45%
<b>WSCHODNI INVEST Sp. z o.o.</b>	Special Purpose Vehicle	PBG S.A.	subsidiary	37,740	PLN 3,774,000.00	100%
<b>PBG Dom Sp. z o.o.</b>	Large-volume building construction	PBG S.A.	subsidiary	550,000	PLN 55,000,000.00	100%
<b>Brokam Sp. z o.o.</b>	Owner of an undeveloped property where granodiorite reserves are located	PBG S.A.	subsidiary	12,000	PLN 12,000,000.00	100%
<b>Avatia S.A.</b>	IT services; a member of the PBG Group providing IT support services to all Group members	PBG S.A.	subsidiary	998	PLN 49,900.00	99.80%
<b>Aprivia S.A.</b>	Company 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 the procurement and performance of contracts and the arrangement of financing	PBG S.A.	subsidiary	71.993.065	PLN 71,993,065.00	100%
<b>PBG Ukraina PSA</b>	Representative office whose purpose is to conduct research in the Ukrainian	PBG S.A.	subsidiary	222,227	UAH 888,908.00	100%

	market and establish contacts with companies operating in the construction and related services sector					
<b>Bathinex Sp. z o.o.</b>	The company's business comprises quarrying and processing of stone used in the construction and road work sector. The company owns the Brodziszów-Kłóśnik Mine where it exploits reserves of granodiorite, an acidic fine-crystalline intrusive igneous rock.	PBG S.A.	subsidiary	50	PLN 50,000.00	100%
<b>PBG Operator Sp. z o.o.</b>	Special Purpose Vehicle	PBG S.A.	subsidiary	50	PLN 5,000.00	100%
<b>HBP Drogi Sp. z o.o.</b>	Special Purpose Vehicle	PBG S.A.	subsidiary	50	PLN 5,000.00	100%
<b>Strateg Capital Sp. z o.o.</b>	Special purpose vehicle involved in the implementation of a project connected with the launch of an aggregate quarry in Tłumaczów, field exploitation management and the sale of aggregates	PBG S.A.	subsidiary	200	PLN 200,00.00	80%
<b>PBG Bułgaria Sp. z o.o.</b>	Representative office whose purpose is to conduct research in the Bulgarian market and establish contacts with regional companies operating in the construction and related services sector	PBG S.A.	subsidiary	-	BGN 35,000.00	100%
<b>AQUA SA</b>	AQUA S.A. is an engineering design company which specialises in large municipal projects such as water intakes, water and sewage treatment plants, sewer systems, sewage pumping stations, water supply systems and pumping stations as well as other facilities and road-related infrastructure	PBG S.A.	subsidiary	710,770	PLN 710,770.00	81.69%
<b>Energomontaż-Południe S.A.</b>	The company provides services regarding installation, modernisation and repairs of equipment and power and industrial units	-	subsidiary	17,743,002	PLN 17,743,002.00	25% + one share

In addition to the companies listed above, PBG S.A., the Parent Undertaking, holds interests in the following entities:

**Table 20: Shares held in other entities**

No.	Company name:	Number of shares held by PBG S.A.	Par value of shares (PLN)	Shares held in the share capital and in the total number of votes (%)
1.	KRI SA	25,300,000	25,300,000.00	19.97
2.	Awdar Sp. z o.o.	95	9,500.00	19.00
3.	Poner Sp. z o.o.	475	475,000.00	19.00
4.	Remaxbud Sp. z o.o.	840	420,000.00	18.92
5.	Energia Wiatrowa PL Sp. z o.o.	230	11,500.00	18.70
6.	Lubickie Wodociągi Sp. z o.o.	60	30,000.00	15.00
7.	Budownictwo Naftowe "Naftomontaż" Sp. z o.o.	3,500	3,500,000.00	7.82
8.	Towarzystwo Ubezpieczeń Wzajemnych TUZ	60	600.00	0.01

After the balance-sheet date PBG S.A. did not acquire shares in other entities.

## II. MATERIAL AGREEMENTS

**Table 21: Agreements concluded within the period covered by this Report and subsequent to the balance-sheet date**

Date	Parties	Subject matter	Key terms
<p><b>Jan 11 2010</b></p> <p>(information on exceeding the significant agreement threshold)</p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> Strateg Capital Sp. z o.o.</p> <p><b>Contractor:</b> PBG S.A.</p>	<p>The subject matter of the contract is the provision of general contracting services in connection with construction of an aggregate(melaphyre) quarry and processing plant in Tłumaczów, delivery of aggregate loading and handling systems and construction of a railway siding.</p> <p>Total value of contracts concluded with Strateg Capital Sp. z o.o. in the last twelve months has been <b>PLN 168,079,202.98 (VAT exclusive)</b>.</p>	<p>Single agreement of the largest value is a contract of June 1st 2009 for <b>PLN 69,312,136.98 (VAT exclusive)</b></p> <p>Completion date: Sep 30 2010</p> <p>The parties may extend the scope of the contract.</p> <p>As at the contract execution date, PBG S.A. held 18.80% of shares in Strateg Capital (the current shareholding is 80%).</p>
<p><b>For more information see: PBG Current Report No. 01/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/01-2010-zawarcie-umowy-znaczacej-ze-spolka-strateg-capital.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/01-2010-zawarcie-umowy-znaczacej-ze-spolka-strateg-capital.html</a></b></p>			
<p><b>Jan 11 2010</b></p> <p>(information on exceeding the significant agreement threshold)</p> <p>agreement executed outside the ordinary course of business - financing of subsidiary's operations</p>	<p><b>Lender:</b> PBG S.A.</p> <p><b>Borrower:</b> PBG Dom Sp. z o.o.</p>	<p>Loan agreements executed with PBG Dom Sp. z o.o.</p> <p>A total value of contracts concluded with the company in the last 12 months has exceeded the significant agreement threshold and amounted to <b>PLN 145,819,500.00 (VAT exclusive)</b>.</p>	<p>Single agreement of the largest value is a loan agreement of June 23rd 2009 for <b>PLN 35,910,000.00 (VAT exclusive)</b>.</p>
<p><b>For more information see: PBG Current Report No. 02/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/02-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-pbg-dom.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/02-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-pbg-dom.html</a></b></p>			
<p><b>Mar 3 2010</b></p> <p>(information on exceeding the significant agreement threshold)</p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> PBG S.A.</p> <p><b>Contractor:</b> PBG Technologia</p>	<p>Contract for the provision of construction services.</p> <p>A total value of contracts concluded with the company in the last 12 months has amounted to <b>PLN 132,680,264.34 (VAT exclusive)</b>.</p>	<p>A single agreement of the largest value is a contract of October 5th 2009 for <b>PLN 30,000,000.00 (VAT exclusive)</b></p>

<p><b>For more information see: PBG Current Report No. 09/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/09-2010-przekroczenie-progu-umowy-znaczonej-ze-spolka-zalezna-pbg-technologie-sp-z-o-o.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/09-2010-przekroczenie-progu-umowy-znaczonej-ze-spolka-zalezna-pbg-technologie-sp-z-o-o.html</a></b></p>			
<p><b>Mar 3 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> Operator Gazociągów Przesyłowych GAZ-SYSTEM SA</p> <p><b>Contractor:</b> Control Process S.A., PBG S.A. and Gas Oil Engineering a.s.</p>	<p>Performance of the project: "Turnkey Delivery of Jarosław II Gas Compressor Station as part of the Upgrade of Jarosław Gas Compressor Station".</p>	<p>Lump-sum remuneration: <b>PLN 117,700,000.00 (VAT exclusive)</b></p> <p>PBG S.A.'s share in the remuneration will amount to approximately 50%.</p> <p>Completion date: 18 months as of the commencement of work.</p>
<p><b>For more information see: PBG Current Report No. 10/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/10-2010-zawarcie-umowy-istotnej.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/10-2010-zawarcie-umowy-istotnej.html</a></b></p>			
<p><b>Mar 15 2010</b></p> <p>(information on exceeding the significant agreement threshold) agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> PBG S.A.</p> <p><b>Contractor:</b> Przedsiębiorstwo Inżynierskie Cwiertnia Sp. z o.o.</p>	<p>Contract for the provision of construction services. A total value of contracts concluded with the company in the last 12 months: <b>PLN 101,502,030.52 (VAT exclusive)</b>.</p>	<p>A single agreement of the largest value is a contract of October 30th 2009</p> <p>for <b>PLN 33,075,000.00 (VAT exclusive)</b></p>
<p><b>For more information see: PBG Current Report No. 11/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/11-2010-przekroczenie-progu-umowy-znaczonej-ze-spolka-cwiertnia-sp-z-o-o.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/11-2010-przekroczenie-progu-umowy-znaczonej-ze-spolka-cwiertnia-sp-z-o-o.html</a></b></p>			
<p><b>May 10 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Parties to the agreement:</b> PBG S.A. ALSTOM Power Sp. z o.o.</p>	<p>Cooperation agreement – Consortium Agreement defining the rules of cooperation between the two companies with a view to submitting a joint bid for a contract "Construction of Power Unit at the Koźienice Power Plant".</p>	<p>The companies decided that their complementary offerings, experience as well as financial, infrastructural and human resources will allow them to submit a comprehensive bid for the project execution.</p>
<p><b>For more information see: PBG Current Report No. 26/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/26-2010-zawarcie-umowy-z-alstom-power.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/26-2010-zawarcie-umowy-z-alstom-power.html</a></b></p>			
<p><b>Jun 9 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> Narodowe Centrum Sportu Sp. z o.o.</p> <p><b>Contractor:</b> ALPINE BAU DEUTSCHLAND AG and ALPINE BAU GmbH, ALPINE Construction Polska Sp. z o.o., HYDROBUDOWA POLSKA S.A., PBG S.A.</p>	<p>Annex to the contract of May 4th 2009 for the construction of a multi-purpose National Stadium in Warsaw together with auxiliary infrastructure.</p>	<p>Extension of the contract completion date to June 30th 2011.</p>
<p><b>For more information see: PBG Current Report No. 29/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/29-2010-zawarcie-aneksu-do-umowy-na-budowe-wielofunkcyjnego-stadionu-narodowego-w-warszawie.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/29-2010-zawarcie-aneksu-do-umowy-na-budowe-wielofunkcyjnego-stadionu-narodowego-w-warszawie.html</a></b></p>			

<p><b>Jun 17 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> General Directorate for National Roads</p> <p><b>Contractor:</b> PBG S.A. and APRIVIA S.A., HYDROBUDOWA POLSKA S.A., SRB Civil Engineering Limited, John Sisk&amp;Son Limited</p>	<p>Construction of the A1 Toruń-Stryków Motorway, Brzezie-Kowal Section III, from km 186+348 to km 215+850</p>	<p>Contract value: <b>PLN 702,768,700.00 (VAT exclusive)</b></p> <p>Completion date: 20 months as of the commencement of work. The time necessary for completing the work excludes the winter season.</p>
<p><b>For more information see: PBG Current Report No. 31/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/31-2010-zawarcie-znaczcych-umow-na-budowe-autostrady-a1.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/31-2010-zawarcie-znaczcych-umow-na-budowe-autostrady-a1.html</a></b></p>			
<p><b>Jun 17 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> General Directorate for National Roads</p> <p><b>Contractor:</b> SRB Civil Engineering Limited and PBG S.A., APRIVIA S.A., HYDROBUDOWA POLSKA S.A., John Sisk&amp;Son Limited</p>	<p>Construction of A1 Motorway (Toruń-Stryków), Czerniewice-Odolion Section I, from km 151+900 to km 163+300, and Odolion-Brzezie Section II, from km 163+300 to km 186+366"</p>	<p>Contract value: <b>PLN 765,632,889.69 (VAT exclusive)</b></p> <p>Completion date: 20 months as of the commencement of work. The time necessary for completing the work excludes the winter season.</p>
<p><b>For more information see: PBG Current Report No. 31/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/31-2010-zawarcie-znaczcych-umow-na-budowe-autostrady-a1.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/31-2010-zawarcie-znaczcych-umow-na-budowe-autostrady-a1.html</a></b></p>			
<p><b>Jul 7 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> General Directorate for National Roads</p> <p><b>Contractor:</b> SIAC Construction Ltd and PBG S.A., APRIVIA S.A., HYDROBUDOWA POLSKA S.A.</p>	<p>Contract for construction of the Krzyż-Dębica Pustynia Section of the A4 Motorway (Tarnów-Rzeszów)</p>	<p>Contract value: <b>PLN 1,434,761,287.80 (VAT exclusive)</b></p> <p>Completion date: 24 months as of the commencement of work</p>
<p><b>For more information see: PBG Current Report No. 32/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2010-zawarcie-umowy-znaczczej-na-budowe-autostrady-a4-tarnow-rzeszow-na-odcinku-krzyz-debica-pustynia.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2010-zawarcie-umowy-znaczczej-na-budowe-autostrady-a4-tarnow-rzeszow-na-odcinku-krzyz-debica-pustynia.html</a></b></p>			
<p><b>Jul 15 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> Polskie LNG SA</p> <p><b>Contractor:</b> Saipem S.p.A., and Saipem S.A., Techint Compagnia Tecnica Internazionale S.p.A, Snamprogetti Canada Inc., PBG S.A., PBG Export Sp. z o.o.</p>	<p>Development of the engineering design, construction and commissioning of LNG regasification terminal in Świnoujście</p>	<p>Contract value: <b>PLN 2,415,213,000.00 (VAT exclusive)</b></p> <p>Completion date: Jun 30th 2014</p>
<p><b>For more information see: PBG Current Report No. 35/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/35-2010-zawarcie-umowy-znaczczej-na-budowe-terminalu-lng-w-swinoujsciu.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/35-2010-zawarcie-umowy-znaczczej-na-budowe-terminalu-lng-w-swinoujsciu.html</a></b></p>			
<p><b>Jul 9 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> KGHM Polska Miedź S.A.</p> <p><b>Contractor:</b> PBG S.A.</p>	<p>Execution and delivery of gas turbine generator sets for the project: construction of a combined gas and steam cycle unit in highly-efficient cogeneration and construction of combined gas and steam cycle units at the Głogów CHP plant and the Polkowice CHP Plant.</p>	<p>Contract value: <b>PLN 95,100,000.00 (VAT exclusive)</b></p> <p>Completion date: Nov 30 2012</p>
<p><b>For more information see: PBG Current Report No. 37/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/37-2010-korekta-zawarcie-przez-pbg-s-a-umowy-istotnej-w-branzy-energetycznej-korekta-raportu.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/37-2010-korekta-zawarcie-przez-pbg-s-a-umowy-istotnej-w-branzy-energetycznej-korekta-raportu.html</a></b></p>			

<p><b>Jul 30 2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> General Directorate for National Roads</p> <p><b>Contractor:</b> ALPINE Bau GmbH, PBG S.A., APRIVIA S.A., HYDROBUDOWA POLSKA S.A.</p>	<p>Construction of the Kaczkowo-Korzeńsko section (the Bojanowo and Rawicz beltway) of the S5 Poznań (A2 – the Głuchowo interchange) – Wrocław (A8 – the Widawa interchange) expressway</p>	<p>Contract value: <b>PLN 777,239,570.60 (VAT exclusive)</b></p> <p>Completion date: 20 months as of the commencement of work (the winter season is excluded from the execution time).</p>
<p><b>For more information see: PBG Current Report No. 39/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/39-2010-zawarcie-umowy-znaczacej-na-budowe-drogi-ekspresowej-s5-poznan-wroclaw-na-odcinku-kaczkowo-korzensko.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/39-2010-zawarcie-umowy-znaczacej-na-budowe-drogi-ekspresowej-s5-poznan-wroclaw-na-odcinku-kaczkowo-korzensko.html</a></b></p>			
<p><b>Oct 27 2010</b></p> <p>(information on exceeding the significant agreement threshold)</p> <p>agreement executed outside the ordinary course of business - financing of an investment project and subsidiary's operations</p>	<p><b>Project sponsor:</b> PBG S.A.</p> <p><b>Borrower:</b> Strateg Capital Sp. z o.o.</p>	<p>A total value of contracts concluded with the company in 2010 was <b>PLN 165,821,288.90</b>.</p> <p>The highest value commitment is an offer to acquire debt securities issued by STRATEG CAPITAL, dated October 25th 2010 and accepted by PBG S.A. PBG S.A. acquired 76 registered bonds in a physical form, with a total par value of PLN 76,000,000 (PLN 1,000,000 per bond).</p> <p>PBG S.A.'s acquisition of the bonds was a condition precedent for STRATEG CAPITAL executing investment loan agreements with banks. STRATEG CAPITAL Sp. z o.o. will apply the proceeds from the issue towards its capital expenditure and financing of its day-to-day operations. The bonds will mature on December 29th 2017.</p> <p>Payment of the issue price for the bonds will be settled by offsetting Strateg Capital's receivable under the Issue Price payable by PBG S.A. against PBG S.A.'s receivables under the loans, payable by Strateg Capital.</p> <p>PBG S.A.'s financial support to the company totals PLN 105,517,886.34.</p>	<p>Single agreement of the largest value is a contract of October 25th 2010, acquisition by PBG S.A. of 76 registered certificated bonds, with a total par value of <b>PLN 76,000,000.00</b> (PLN 1,000,000 per bond) issued by STRATEG CAPITAL.</p>
<p><b>For more information see: PBG Current Report No. 56/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/56-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-strateg-capital-sp-z-o-o.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/56-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-strateg-capital-sp-z-o-o.html</a></b></p>			
<p><b>Nov 5 2010</b></p> <p>(information on exceeding the significant agreement threshold)</p> <p>agreement executed outside the normal course of activity</p>	<p><b>Lender:</b> PBG S.A.</p> <p><b>Borrower:</b> Infra S.A.</p>	<p>Loan agreement A total value of contracts concluded with the company in 2010 was <b>PLN 130,966,734.85</b>.</p>	<p>Single agreement of the largest value is a loan agreement of December 16th 2009 for PLN <b>30,000,000.00</b>.</p> <p>Following the sale of shares in INFRA S.A. by PBG S.A., the former was excluded from the PBG Group as of May 31st 2010</p>
<p><b>For more information see: PBG Current Report No. 57/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/57-2010-zawarcie-umowy-znaczacej-ze-spolka-infra-s-a.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/57-2010-zawarcie-umowy-znaczacej-ze-spolka-infra-s-a.html</a></b></p>			

<p><b>Nov 15 2010</b></p> <p>agreement executed outside the normal course of activity</p>	<p><b>Principal:</b> PBG S.A.</p> <p><b>Contractor:</b> Zakład Produkcyjno Wydobywczy Sp. z o.o. STRATEG CAPITAL Sp. z o.o.</p>	<p>Provision of a guarantee to a subsidiary undertaking STRATEG CAPITAL Sp. z o.o. and establishment of a pledge over shares in the subsidiary and of a ceiling mortgage by the subsidiary.</p> <p>The borrowed funds will be applied by STRATEG CAPITAL towards the execution of a project consisting in the design, construction, launch and on-going operation of:</p> <ul style="list-style-type: none"> <li>- two melaphyre quarries in Tłumaczów, along with a mobile and a stationary processing plant,</li> <li>- a railway siding from Ścinawka Średnia to Tłumaczów, connected to the national rail network and allowing bulk transportation of stone,</li> <li>a loading railway station and a belt conveyor system.</li> </ul>	<p>The amount of the guarantees will not be higher than</p> <ul style="list-style-type: none"> <li>- the guarantee provided by PBG S.A.: 150%</li> <li>- the guarantee provided by ZPW Sp. z o.o.: 200% of the maximum Commitment of the Banks; the guarantees will expire on December 31st 2020.</li> </ul>
<p><b>For more information see: PBG Current Report No. RB 61/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/61-2010-udzielenie-gwarancji-spolce-zaleznej-strateg-capital-sp-z-o-o-oraz-ustanowienie-zastawu-na-udzialach-w-spolce-zaleznej-oraz-hipoteki-kaucyjnej-przez-spolke-zalezna.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/61-2010-udzielenie-gwarancji-spolce-zaleznej-strateg-capital-sp-z-o-o-oraz-ustanowienie-zastawu-na-udzialach-w-spolce-zaleznej-oraz-hipoteki-kaucyjnej-przez-spolke-zalezna.html</a></b></p>			
<p><b>17.11.2010</b></p> <p>agreement executed in the ordinary course of business</p>	<p><b>Principal:</b> Municipality of Włocławek</p> <p><b>Contractor:</b> APRIVIA S.A., PBG S.A., HYDROBUDOWA POLSKA S.A., Husar Budownictwo Inżynieryjne Sp. z o.o., SRB Civil Engineering Ltd, John Sisk&amp;Son Ltd, Roadbridge</p>	<p>Reconstruction of National Road No. 1, Phase II (Infrastructure and Environment Operational Programme)</p>	<p>Contract value: <b>PLN 90,777,000.00 (VAT exclusive)</b></p> <p>Completion date: 36 months after the agreement date.</p>
<p><b>For more information see: PBG Current Report No. RB 59/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/59-2010-zawarcie-umowy-znaczacej-przez-konsorcjum-z-udzialem-spolek-z-grupy-kapitalowej.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/59-2010-zawarcie-umowy-znaczacej-przez-konsorcjum-z-udzialem-spolek-z-grupy-kapitalowej.html</a></b></p>			
<p><b>Dec 22 2010</b></p> <p>(information on exceeding the significant agreement threshold)</p> <p>agreement executed outside the ordinary course of business - financing of subsidiary's operations</p>	<p><b>Lender:</b> PBG S.A.</p> <p><b>Borrower:</b> PBG Dom</p>	<p>A total value of contracts concluded with the company in the last 12 months: <b>PLN 116,328,078.00 (VAT exclusive).</b></p>	<p>Single agreement of the largest value is a loan agreement of October 22nd 2010 for <b>PLN 27,500,000.00.</b></p>
<p><b>For more information see: PBG Current Report No. RB 64/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/64-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-pbg-dom.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/64-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-pbg-dom.html</a></b></p>			



<p><b>Mar 11 2011</b></p> <p>agreement executed as part of operating activities</p>	<p><b>Principal:</b> Municipality of Gdańsk</p> <p><b>Contractor:</b> PBG S.A., HYDROBUDOWA POLSKA S.A., APRIVIA S.A. and OBRASCÓN HUARTE LAIN S.A.</p>	<p>Road connection between the Gdańsk Airport and the Port of Gdańsk – Trasa Słowackiego – Task 2, ul. Potokowa–Aleja Rzeczypospolitej Section (total length of 3.32 kilometres)</p>	<p>Contract value: <b>PLN 129,300,000.00 (VAT exclusive)</b></p> <p>Completion date: 20 months after the agreement date. The PBG Group companies' interest in the contract is 50%</p>
<p>For more information see: PBG Current Report No. 19/2011 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/19-2011-zawarcie-umowy-znaczacej-na-wykonanie-polaczenia-portu-lotniczego-z-portem-morskim-gdansk-frasa-slowackiego-zadanie">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/19-2011-zawarcie-umowy-znaczacej-na-wykonanie-polaczenia-portu-lotniczego-z-portem-morskim-gdansk-frasa-slowackiego-zadanie</a></p>			

### The materiality criteria are set forth in the following regulations:

Legal basis:

Par. 5.1.3 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities, dated October 19th 2005.

Art. 56.5 of the Public Offering Act – amendment of the information.

Legal basis:

The Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009.

### III. INFORMATION ON CHANGES IN ORGANISATIONAL RELATIONS

**Table 22: Changes in organisational relations in the reporting period and subsequent to the balance-sheet date**

Date	Parties	Transaction type	Description	Objective
<b>Feb 17 2010</b>	PBG S.A., Energomontaż Południe S.A.	<b>Acquisition of shares</b> in Energomontaż Południe S.A. – transaction completion	Registration with the National Depository for Securities of 22,582,001 Series E shares in Energomontaż Południe S.A. under ISIN code: PLENMPD00018. PBG S.A. effectively acquired rights to 17,743,002 Series E shares in Energomontaż Południe S.A. The shares represent 25% of the company's share capital and confer the right to 17,743,002 votes, i.e. 25% of the total vote and one vote.	It is a long-term investment relating to the PBG Group entry into the power engineering market
<p>For more information see: Current Report No. RB 08/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/08-2010-nabycie-akcji-energomontaz-poludnie-sa-zakonczenie-transakcji.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/08-2010-nabycie-akcji-energomontaz-poludnie-sa-zakonczenie-transakcji.html</a></p>				
<b>Jan 5 2010</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary company</b> – PBG Dom Invest III Sp. z o.o.	Establishment of PBG Dom Invest III Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00 per share. Shares are equal and indivisible, one share carries one vote.	Execution of a development project
<b>Jan 5 2010</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary company</b> – PBG Dom Invest IV Sp. z o.o.	Establishment of PBG Dom Invest IV Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00 per share. Shares are equal and indivisible, one share carries one vote.	Execution of a development project



<b>Jan 5 2010</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary company</b> –PBG Dom Invest V Sp. z o.o.	Establishment of PBG Dom Invest V Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00 per share. Shares are equal and indivisible, one share carries one vote.	Execution of a development project
<b>Jan 5 2010</b>	PBG Dom Sp. z o.o. PBG DOM Invest III	<b>Incorporation of a subsidiary company</b> –PBG Dom Invest III Sp. z o.o. sp. k.	Establishment of PBG Dom Invest V Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 2,000.00 and is divided into 2,000 shares with a par value of PLN 1 per share. Shares are equal and indivisible, one share carries one vote.	Execution of a development project
<b>Feb 17 2010</b>	PBG Dom Sp. z o.o.	<b>Share capital increase</b> in PBG Dom Sp. z o.o.	Upon increase by 426,428 new shares, the company's share capital increased from PLN 12,357,200.00 to PLN 55,000,000.00, and is divided into 550,000 shares with a par value of PLN 100.00 per share. PBG S.A. is the sole shareholder of PBG DOM Sp. z o.o.	Securing the Company's operations
<b>Apr 12 2010</b>	PBG S.A. Hydrobudowa Polska S.A.	<b>Acquisition of additional shares</b> by PBG S.A. in Hydrobudowa Polska S.A.	PBG S.A. acquired 650,507 shares in HYDROBUDOWA POLSKA S.A. at a purchase price of PLN 3.60 per share. The acquired shares represent 63.05% of the share capital and of the total vote PBG S.A.'s share in the share capital increased to 132,748,692 shares.	Increase of equity interest
For more information see: PBG Current Report No. 16/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/16-2010-zwiekszenie-zaangazowania-w-kapital-hydrobudowa-polska-s-a.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/16-2010-zwiekszenie-zaangazowania-w-kapital-hydrobudowa-polska-s-a.html</a>				
<b>May 31 2010</b>	PBG S.A. Natural person	<b>Disposal of shares by PBG S.A.</b> in Infra S.A.	PBG S.A. sold to a natural person 4,997,500 INFRA S.A. shares, with a par value of PLN 1 per share, for PLN 8,450,000.00. Prior to the transaction, PBG S.A. held a 99.95% interest in the company's share capital and total vote.	Optimisation of the PBG Group structure
For more information see: PBG Current Report No. 28/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/28-2010-sprzedaz-akcji-spolki-infra-s-a.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/28-2010-sprzedaz-akcji-spolki-infra-s-a.html</a>				
<b>Aug 30th 2010</b>	PBG S.A.	<b>Acquisition of shares</b> in Revana Sp. z o.o. (currently <b>PBG Operator Sp. z o.o.</b> )	PBG S.A. acquired 50 shares in Revana Sp. z o.o. (currently PBG Operator Sp. z o.o.) for PLN 5,000.00 (PLN 100.00 per share).	Special Purpose Vehicle
<b>Sep 6 2010</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary company</b> – PBG Dom Invest VIII Sp. z o.o.	Establishment of PBG Dom Invest VIII Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00 per share. Shares are equal and indivisible, one share carries one vote.	Execution of a development project
<b>Sep 6 2010</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary company</b> –PBG Dom Invest IX Sp. z o.o.	Establishment of PBG Dom Invest IX Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00 per share. Shares are equal and indivisible, one share carries one vote.	Execution of a development project
<b>Sep 6 2010</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary company</b> –PBG Dom Invest X Sp.	Establishment of PBG Dom Invest X Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00	Execution of a development project

		z o.o.	per share. Shares are equal and indivisible, one share carries one vote.	
<b>Sep 15th 2010</b>	PBG S.A.  Obrascón Huarte Lain Construcción Internacional S.L.	<b>Execution of a Memorandum of Understanding, confirming the intention to enter into equity cooperation through disposal of shares in: HBP S.A. and APRIVIA S.A.</b>	<p>PBG S.A. and Obrascón Huarte Lain Construcción Internacional, S.L. executed a Memorandum of Understanding in which they confirmed their intention to enter into equity cooperation with respect to offering of construction and contracting services in Poland and abroad.</p> <p>Upon completion of the negotiations and depending on the results of the due diligence process to be carried out by OHL, as well as after all necessary and legally required approvals have been obtained, the Parties will execute a transaction. OHL will acquire directly or indirectly through an entity in which it holds an interest:</p> <p>1) shares in Hydrobudowa Polska S.A., a subsidiary of PBG S.A., representing 51% of Hydrobudowa Polska S.A.'s share capital, for PLN 431,000,000.00, and</p> <p>2) shares in APRIVIA S.A., a subsidiary of PBG S.A., representing 50.1% of APRIVIA S.A.'s share capital, for PLN 75,000,000.00.</p> <p>PBG S.A. undertook that from the date of execution of the Memorandum of Understanding until its termination or until the date of closing the transaction, or March 15th 2011, PBG S.A. would suspend activities connected with offering for sale the shares in companies subject to the Memorandum.</p> <p>Upon completion of the transaction, PBG S.A. will hold no less than 12% of shares in HBP S.A. and 49.9% of shares in APRIVIA S.A., with a proviso that it may increase its interest in HBP S.A. in the future.</p>	Capital cooperation in the area of construction and operator services in Poland and abroad
<b>For more information see:</b>				
<p><b>PBG Current Report No. 49/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/49-2010-podpisanie-przez-pbg-s-a-porozumienia-w-sprawie-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/49-2010-podpisanie-przez-pbg-s-a-porozumienia-w-sprawie-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a.html</a></b></p> <p style="text-align: center;"><b>and</b></p> <p><b>PBG Current Report No. 50/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/50-2010-podpisanie-przez-pbg-s-a-porozumienia-w-sprawie-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a-uzupelnienie-informacji.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/50-2010-podpisanie-przez-pbg-s-a-porozumienia-w-sprawie-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a-uzupelnienie-informacji.html</a></b></p>				
<b>Sep 27 2010</b>	PBG S.A.	<b>Incorporation of a subsidiary company – PBG Bułgaria Sp. z o.o.</b>	Establishment of PBG Bułgaria Sp. z o.o. and acquisition of the company shares by PBG S.A. The company's share capital amounts to BGN35,000.00 (Bulgarian leva).	It is a long-term investment relating to the PBG Group entry into the Bulgarian construction market
<b>Sep 28 2010</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary company – PBG Dom Invest VI Sp. z o.o.</b>	Establishment of PBG Dom Invest VI Sp. z o.o. and acquisition of the company shares by PBG Dom. The company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00 per share. Shares are equal and indivisible, one share carries one vote.	Execution of a development project
<b>Sep 28</b>	PBG Dom Sp. z o.o.	<b>Incorporation of a subsidiary</b>	Establishment of PBG Dom Invest VII Sp. z o.o. and acquisition of the company shares by PBG Dom. The	Execution of a

<b>2010</b>		<b>company</b> – PBG Dom Invest VII Sp. z o.o.	company's share capital amounts to PLN 5,000.00 and is divided into 100 shares with a par value of PLN 50.00 per share. Shares are equal and indivisible, one share carries one vote.	development project
<b>Oct 05 2010</b>	PBG S.A.	<b>Acquisition of shares</b> in Vilalobos Sp. z o.o. (currently HBP Drogi Sp. z o.o.)	PBG S.A. acquired 50 shares in Vilalobos Sp. z o.o. (currently HBP Drogi Sp. z o.o.) for PLN 5,000.00 (PLN 100.00 per share).	Special Purpose Vehicle
<b>Oct 13 2010</b>	PBG S.A., INVEST ECOPAP Sp. z o.o. and ESMER HOLDING LIMITED	<b>Acquisition of shares</b> in STRATEG CAPITAL Sp. z o.o.	<p>PBG S.A. acquired 153 shares in STRATEG CAPITAL Sp. z o.o. for PLN 153,000.00, including:</p> <ul style="list-style-type: none"> <li>– 152 shares from INVEST ECOPAP Sp. z o.o. for PLN 152,000.00</li> <li>– 1 share from ESMER HOLDING LIMITED for PLN 1,000.00.</li> </ul> <p>Prior to the transaction, PBG S.A. held 47 shares representing 18.80% of the share capital and total vote at the General Shareholders Meeting of STRATEG CAPITAL Sp. z o.o.</p> <p>Following the transaction, PBG S.A. holds 200 shares with the total par value of PLN 200,000.00 representing 80.00% of the share capital and total vote.</p>	Ensuring access to aggregate for road and railway construction contracts.
<b>Oct 14 2010</b>	PBG S.A.	<b>Acquisition of Shares</b> in Bathinex Sp. z o.o.	PBG S.A. acquired 50 shares in Bathinex Sp. z o.o. for PLN 50,000.00, with a par value of PLN 1000.00 per share.	Ensuring access to aggregate for road and railway construction contracts.
<p><b>For more information see: PBG Current Report No. 53/2010</b> <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/53-2010-nabycie-przez-pbg-s-a-udzialow-w-spolce-strateg-capital-sp-z-o-o.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/53-2010-nabycie-przez-pbg-s-a-udzialow-w-spolce-strateg-capital-sp-z-o-o.html</a></p>				
<b>Dec 21 2010</b>	PBG S.A. Natural persons	<b>Acquisition of shares</b> in AQUA S.A.	<p>PBG S.A. acquired from natural persons (shareholders of AQUA S.A.) 710,770 ordinary bearer shares in AQUA S.A. of Poznań, in off-session block transactions, for a total of PLN 22,744,640.00.</p> <p>The shares represent 81.69% of AQUA's share capital and confer the right to 710,770 votes, representing 81.69% of the total vote at the General Shareholders Meeting of AQUA S.A.</p> <p>AQUA S.A. is a public company listed on the NewConnect market. AQUA S.A. is a leading engineering design company, specialising in the provision of large municipal projects.</p> <p>PBG S.A. may acquire more shares in the company in the future.</p>	Long-term investment, improvement of Group's engineering capabilities
<p><b>For more information see: Current Report No. 63/2010</b> <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/63-2010-nabycie-przez-pbg-s-a-pakietu-kontrolnego-akcji-w-spolce-aqua-s-a-z-siedziba-w-poznaniu.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/63-2010-nabycie-przez-pbg-s-a-pakietu-kontrolnego-akcji-w-spolce-aqua-s-a-z-siedziba-w-poznaniu.html</a></p>				
<b>Dec 28 2010</b>	PBG S.A. Obrascón Huarte Lain Construcción Internacional S.L.	<b>Execution of a Supplementary Agreement to the Memorandum of Understanding</b>	<p>Following completion of the financial, legal and technical due diligence by OHL, the parties executed the agreement which sets out the procedure and terms of a transaction in which OHL is to acquire:</p> <ul style="list-style-type: none"> <li>– 107,384,807 shares in Hydrobudowa Polska S.A., owned by PBG S.A. as at the agreement execution date, representing 51% of the Company's share capital, for a</li> </ul>	Entering into capital cooperation with respect to offering of construction and operator services in Poland and abroad

	(OHL)	regarding the disposal of shares in HBP S.A. and APRIVIA S.A.	<p>total amount of PLN 431,000,000.00; – 36,068,525 shares in APRIVIA S.A., owned by PBG S.A. as at the agreement execution date, representing 50.1% of the Company's share capital, for a total amount of PLN 75,000,000.</p> <p>The parties expect the transaction to complete in Q1 2011.</p> <p>OHL has also declared its intention to retain controlling interests in HYDROBUDOWA POLSKA S.A. and APRIVIA S.A., with PBG S.A. holding at least a 12.05% interest in HYDROBUDOWA POLSKA S.A. and a 49.9% interest in APRIVIA S.A.</p> <p>PBG S.A. may seek an opportunity to increase its equity interest in HYDROBUDOWA POLSKA S.A.</p> <p>Before HBP shares may be acquired by OHL, the latter must obtain relevant anti-trust clearance, a key condition to be met by OHL in order to proceed with the HBP and APRIVIA share sale transaction.</p>	
<p><b>For more information see: PBG Current Report No. 65/2010 <a href="http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/65-2010-podpisanie-przez-pbg-s-a-umowy-uzupelniajacej-do-porozumienia-dotyczacego-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a.html">http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/65-2010-podpisanie-przez-pbg-s-a-umowy-uzupelniajacej-do-porozumienia-dotyczacego-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a.html</a></b></p>				

#### IV. RELATED-PARTY TRANSACTIONS

In the discussed period, The Company executed transactions with related undertakings, whose value exceeded the złoty equivalent of EUR 500,000. These transactions were typical for the day-to-day operations of PBG S.A. and its subsidiaries, and were executed at arm's length.

Furthermore, part of the executed transactions were concluded in connection with the existing agreements with Financial Institutions; collateral for these agreements includes sureties and mutual guarantees issued by the PBG Group companies which are parties to individual agreements.

This approach follows from the funding strategy adopted by the PBG Group.

Furthermore, being the Parent Undertaking with the strongest financial position within the Group, PBG S.A. also grants sureties for trade payables of the PBG Group companies.

The most frequent types of transactions concluded within the PBG Group are:

- construction contracts,
- loan agreements,
- surety agreements concerning:
  - credit limits,
  - guarantee limits.

The PBG Group conducts its operations through specialist entities, whose business profiles are complementary to each other in terms of the services provided. The PBG Group companies enter into cooperation with each other in order to improve the utilisation of resources managed by the companies and to reduce the business risk through appropriate risk allocation. The benefits achieved by the PBG Group companies through risk allocation and division of functions include:

- increased trading volumes through long-term planning of the use of company resources and investments, while securing stable demand,
- achieving strategic objectives of the Group – maintaining leadership among peer companies and earning a monopoly rent over the competitors depend on the PBG Group's ability to respond to specific market requirements,
- reducing the risk of day-to-day operations – cooperation between the related undertakings can be helpful in reducing or eliminating the impact of current economic changes and their effect on the Group's financial standing,
- competitive offering, resulting in increased trading volumes and improved profitability of business operations,
- reduced operating expenses through lower production costs and more effective use of resources,
- reduced costs of supplies and stronger bargaining power in price negotiations,
- savings related to receiving sureties from PBG S.A. Undoubtedly, granting a surety for a liability or a collateral for its repayment by a related undertaking allows for quicker execution of a contract and can contribute to more efficient management of the PBG Group members and more effective use of the Group's resources.

#### **V. CONTRACTED LOANS, LOAN AGREEMENTS**

For information on contracted loans and loan agreements, see notes to the balance sheet of PBG S.A. – Note No. 4.9.5.

#### **VI. LOANS ADVANCED**

For information on loans advanced, see notes to the balance-sheet of PBG S.A. – Note No. 4.9.2.

#### **VII. NON-RECURRING FACTORS AND EVENTS**

In Q2 2010, PBG S.A. received dividend from its subsidiary Infra S.A. in excess of PLN 43.2m, which had a material effect on the Company's net profit for Q2 2010 and the entire H1 2010. The dividend received from Infra S.A. was recognised in the income statement as finance income.

#### **VIII. MAJOR RESEARCH AND TECHNICAL ACHIEVEMENTS**

In the period covered by this Report, the Company did not have any major research or technical achievements which would have a major effect on its performance.

#### **IX. CONTROL SYSTEMS FOR EMPLOYEE PLANS**

PBG S.A. does not operate any employee plans.

#### **X. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS**

The value of pending court proceedings instituted by or against PBG S.A. does not exceed 10% of the Company's equity.

#### **XI. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES**

In the period covered by this Report, the Company did not make any major changes in its significant management policies.

## **CHAPTER V: SHARES AND SHAREHOLDERS**

### **I. CONVERSION OF SERIES A REGISTERED SHARES**

As the request of Mr Jerzy Wiśniewski, the Company's main shareholder, in January 2011 the PBG Management Board adopted a resolution concerning conversion of 500,000 Series A shares conferring a voting preference (each preferred share confers the right to two votes at the General Shareholders Meeting) into ordinary bearer shares. The Management Board of the Polish National Depository for Securities, in its resolution of January 31st 2011, resolved to assign ISIN code PLPBG0000052 to 500,000 ordinary bearer shares in PBG S.A. resulting from the conversion of the 500,000 registered shares in the Company, assigned ISIN code PLPBG0000037, effected on January 14th 2011. As of February 3rd 2011, ISIN code PLPBG0000037 was assigned to 3,740,000 PBG S.A. shares and ISIN code PLPBG0000052 was assigned to 500,000 ordinary bearer shares in the Company. On February 25th 2011, the Management Board of the Warsaw Stock Exchange decided to admit to trading on the main market 500,000 Series A ordinary bearer shares in PBG S.A., registered by the National Depository for Securities under code PLPBG0000052. As of March 4th 2011, the Management Board of the Polish National Depository for Securities assimilated 500,000 Series A PBG S.A. shares under code PLPBG0000052 with 10,055,000 PBG S.A. shares under code PLPBG0000029.

Following the transaction, 10,555,000 ordinary bearer shares are currently in trading, whereas 3,740,000 shares conferring voting preference remain outside the stock-exchange trading. Additionally, the number of votes attributable to the Shareholders at the General Shareholders Meeting changed. At present, shareholders holding 14,295,000 shares have the right to a total of 18,035,000 votes at the General Shareholders Meeting.

### **II. SHARE CAPITAL STRUCTURE AND SHAREHOLDERS DIRECTLY OR INDIRECTLY HOLDING LARGE BLOCKS OF SHARES**

At present, the Company's share capital amounts to PLN 14,295 thousand and is divided into 3,740,000 registered shares with voting preference and 10,555,000 ordinary bearer shares. The par value of the preferred and ordinary shares is PLN 1 per share. Each preferred share confers the right to two votes at the General Shareholders Meeting. Nearly 99.9% of the preferred shares are held by Mr Jerzy Wiśniewski, the founder and main shareholder of PBG S.A. who also serves as the President of the Company's Management Board.

**Table 23: Share Capital of PBG S.A.**

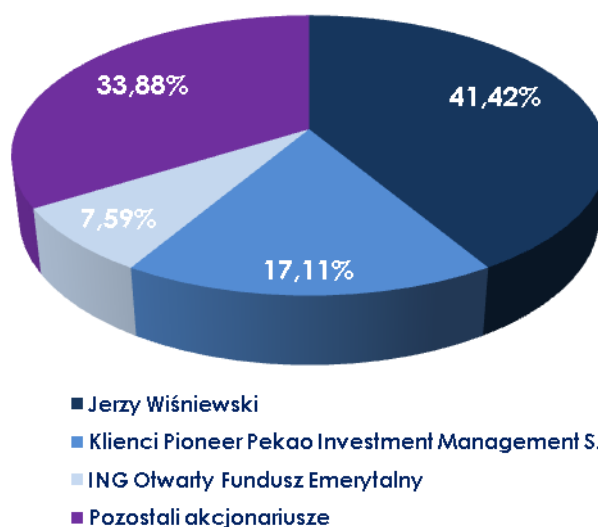
PBG shares	Number of shares	Type of shares	Number of shares	Number of votes	Number of outstanding shares
Series A	5,700,000	conferring voting preference	3,740,000	7,480,000	0
		ordinary	1,960,000	1,960,000	1,960,000
Series B	1,500,000	ordinary	1,500,000	1,500,000	1,500,000
Series C	3,000,000	ordinary	3,000,000	3,000,000	3,000,000
Series D	330,000	ordinary	330,000	330,000	330,000
Series E	1,500,000	ordinary	1,500,000	1,500,000	1,500,000
Series F	1,400,000	ordinary	1,400,000	1,400,000	1,400,000
Series G	865,000	ordinary	865,000	865,000	865,000
		<b>Total</b>	<b>14 295 000</b>	<b>18,035,000</b>	<b>10,555,000</b>

**Table 24: Shareholders holding over 5% of shares**

As at Dec 31st 2010				
Shareholder	Number of Shares	Total Par Value (PLN)	% of Share Capital Held	% of Votes held in Total Number of Votes
Jerzy Wiśniewski	4,235,054 shares, including: 4,235,054 registered preferred shares	4,235,054	29.63%	45.70%
Clients of Pioneer Pekao Investment Management SA	2,228,695 ordinary shares	2,228,695	15.59%	12.02%
ING Otwarty Fundusz Emerytalny	1,369,463 ordinary shares	1,369,463	9.58%	7.59%
As at the date of filing of this Report				
Shareholder	Number of Shares	Total Par Value (PLN)	% of Share Capital Held	% of Votes held in Total Number of Votes
Jerzy Wiśniewski	3,735,054 shares, including: 3,735,054 registered preferred shares	3,735,054	26.13%	41.42%
Clients of Pioneer Pekao Investment Management SA	3,085,288 ordinary shares	3,085,288	21.58%	17.11%
ING Otwarty Fundusz Emerytalny	1,369,463 ordinary shares	1,369,463	9.58%	7.59%



**Figure 5: PBG S.A. Shareholders holding over 5% of shares**



Klienci Pioneer Pekao Investment Management S.A.	Clients of Pioneer Pekao Investment Management S.A.
Pozostali akcjonariusze	Other shareholders

The Company is not aware of any other shareholders holding 5% or more of the total vote at the General Shareholders Meeting. By the date of the Report, the Company has not been notified of any such shareholders.

### III. CHANGES IN THE COMPANY'S SHAREHOLDER STRUCTURE

In the period covered by this Report and subsequent to the balance-sheet date, the following material changes occurred in the PBG S.A.'s shareholder structure:

**Table 25: Changes in PBG S.A.'s shareholder structure in 2010 and after the balance-sheet date**

Notification date	Threshold	Number of Shares	% of total vote at GM (%)	Date of change
<b>Clients of Pioneer Pekao Investment Management S.A. (PPIM):</b>				
August 20th 2010	> 10%	1,858,845	10.03%	August 13th 2010
November 17th 2010	> 12%	2,232,365	12.04%	November 10th 2010
January 20th 2011	> 14%	2,598,850	14.41%	January 14th 2011
January 28th 2011	> 15%	2,709,863	15.03%	January 25th 2011
February 4th 2011	> 15%	2,721,635	15.09%	January 31st 2011
March 2nd 2011	> 17%	3,078,439	17.07%	February 25th 2011
March 8th 2011	> 17%	3,085,288	17.11%	March 1st 2011
<b>Aviva Powszechno Towarzystwo Emerytalne (Aviva OFE)</b>				
November 18th 2010	< 5%	875,738	4.72%	November 8th 2010
<b>Jerzy Wiśniewski – founder and main shareholder of PBG S.A.</b>				
January 14th 2011	< 45.70%*	3,735,054 (registered preferred shares)	41.42%	January 14th 2011

\* Notification concerning reduction of equity interest resulting in holding 41.42% of the total vote was related to the disposal of 500,000 Series A shares in a block transaction. As at the date of filing this Report, to the Company's best knowledge Mr Jerzy Wiśniewski does not intend to dispose of any PBG S.A. shares over the next two years.

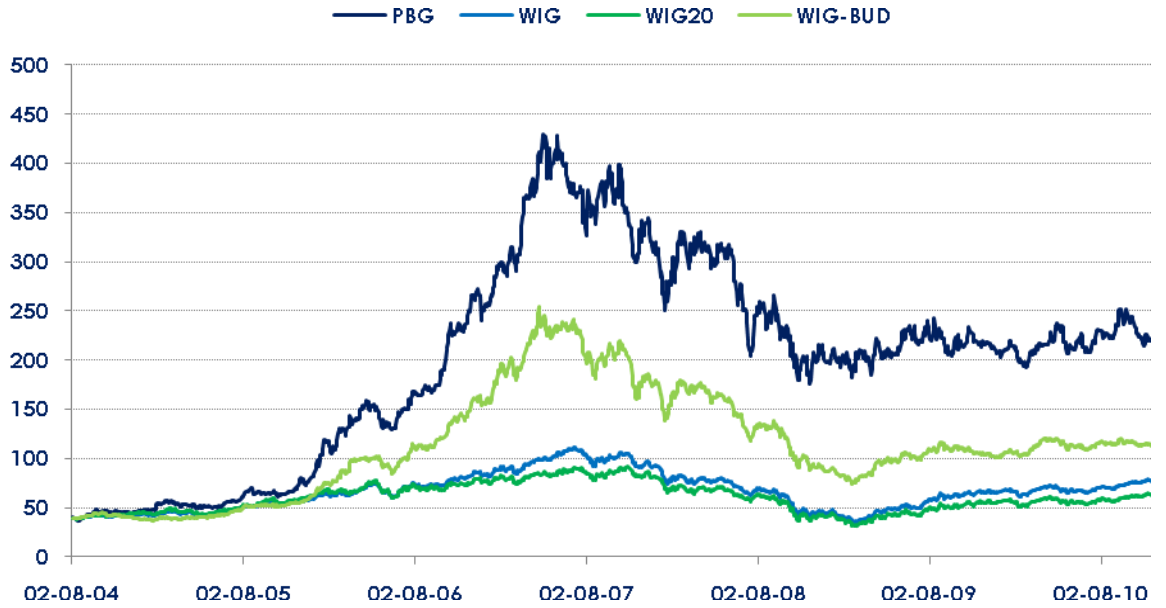
**IV. KEY INFORMATION ON PBG S.A. SHARES**

**1. Share Price**

**Figure 6: Price of PBG S.A. shares in January 1st–December 31st 2010**

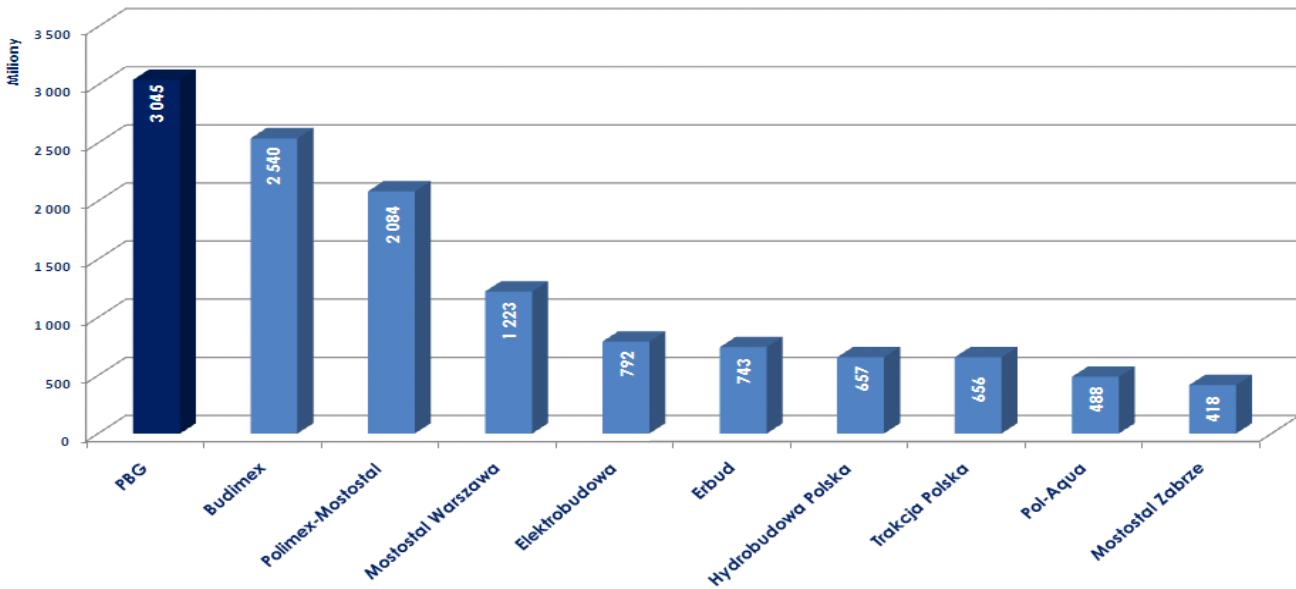


**Figure 7: Price of PBG S.A. shares from first-time listing to March 2011**



## 2. Market Value Relative to Peers

Figure 8: Largest construction companies in terms of capitalisation listed on the WSE (as at December 31st 2010)



Milliony	millions
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### 3. Key information on PBG S.A. shares

**Table 26: Information on Company shares (per share)**

Key information (per share)		2010	2009	y-o-y change
Earnings	PLN	11.57	7.05	+61
Equity	PLN	83.22	73.40	+13
52-week high	PLN	252.00	242.90	+4
52-week low	PLN	192.00	182.00	+5
Share price at year end	PLN	213.00	203.20	+5
P/E ratio (max.)		21.78	35.35	-38
P/E ratio (min.)		16.59	26.49	-37
P/E ratio at year end		18.41	29.57	-38
Number of shares at the end of period	number of shares	14,295,000	14,295,000	-
Number of outstanding shares	number of shares	10,055,000	10,055,000	-
Capitalisation at year end	PLN '000	3,044,835	2,904,744	+5
Average daily trading value	PLN '000	10,399	15,128	-31
Average daily trading volume	number of shares	23,701	35,261	-33

### V. SHARE BUY-BACKS

In the period covered by this Report, the Company did not buy back any of its shares.

### VI. HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL RIGHTS

There are no securities conferring special control rights with respect to the Company. There are no restrictions with respect to the transfer of the Company shares or limitations on the voting rights attached to them.

### VII. ANY RESTRICTIONS ON VOTING RIGHTS, SUCH AS LIMITATIONS OF THE VOTING RIGHTS OF HOLDERS OF A GIVEN PERCENTAGE OF NUMBER OF VOTES, DEADLINES FOR EXERCISING VOTING RIGHTS, OR SYSTEMS WHEREBY WITH THE COMPANY'S COOPERATION, THE FINANCIAL RIGHTS ATTACHING TO SECURITIES ARE SEPARATED FROM THE HOLDING OF SECURITIES

PBG S.A.'s Articles of Association do not provide for any restrictions on the voting rights of holders of a given percentage or number of votes.

## **VIII. RESTRICTIONS ON TRANSFER OF PBG S.A. SECURITIES AND LIMITATIONS ON THE VOTING RIGHTS**

In accordance with Par. 11.1 of the Company's Articles of Association, the disposal of Series A registered shares requires the Management Board's approval.

## **IX. AGREEMENTS WHICH MAY RESULT IN CHANGE IN SHAREHOLDINGS**

As at the date of filing this Report, the Management Board is not aware of any agreements which may result in changes in the shareholdings.

## **X. INVESTOR RELATIONS**

Investor relations play an important role in PBG S.A.'s activities. The IR Department's activities are managed by the President of the Management Board and Vice-President of the Management Board, Finance and Economics Director. The main goal of the investor relations function is to establish an open platform of communication with investors and PBG S.A.'s shareholders in order to guarantee the most convenient access to information. The Company communicates with the market guided by the principle of transparency.

In 2010, the representatives of PBG S.A. participated in a number of meetings with investors and conferences. The Management Board and IR Department staff held meetings with dozens of investors in person but also presented the Company and its strategy by holding video conferences and conference calls. Furthermore, the investor relations website is an important communication hub and provides all interested parties with ample information on the Company and allows them to download annual, interim and current reports, its financial calendar, information on the General Shareholders Meeting and recommendations issued by analysts.

Once again, the financial environment acknowledged our effort to constantly improve investor relations by granting the Company an award.

The title of "Issuer's Golden Website" granted in October last year was a very important award for PBG S.A. PBG S.A.'s website was selected, for the second consecutive time, as the best website in the category of websites of listed companies included in WIG20 and mWIG40 indices. The "Issuer's Golden Website" competition comprised of three phases during which all listed companies' websites were scored for their content, accessibility of specific information and appearance. The jury of the competition composed of various specialists focused on the clarity of the message, usability and proper application of technologies.

Another very important distinction for PBG S.A. was ranking second in the main category of the competition for the best company's annual report for 2009. In the same competition the Company was also distinguished for the best Directors' Report.

The competition has been organised for five years by the Institute for Accountancy and Taxes. In last year's edition, the jury focused in particular on three features of reports: reliability, accuracy and clarity.

### 1. Brokers' Recommendations

The institutions which cover PBG S.A. on a regular basis include:

- CitiGroup Investment Research Dom Maklerski Banku Handlowego S.A.;
- UniCredit CAiB Poland S.A.;
- IDM S.A.;
- Millennium DM S.A.;
- DI BRE BANK S.A.;
- Banco Espirito Santo S.A.;
- Ipopema Securities S.A.;
- Wood & Company Financial Services AS;
- ING Securities S.A.;
- DM BZ WBK S.A.;
- Erste Securities Polska S.A.;
- Deutsche Bank Securities S.A.;
- KBC Securities N.V. (S.A.) Branch in Poland;
- Beskidzki Dom Maklerski S.A.;
- Goldman Sachs International;
- Credit Agricole Cheuvreux;
- Raiffeisen Centrobank AG.

**Table 27: Recommendations received in 2010**

Issue date	Recommending institution	Recommendation	Target price (PLN)
Jan 15 2010	UniCredit CA IB	HOLD	223.00
Jan 21 2010	KBC	BUY	245.30
Jan 25 2010	ING Securities	BUY	266.00
Jan 26 2010	Ipopema	HOLD	225.00
Feb 22 2010	DI BRE	REDUCE	172.30
Feb 24 2010	Goldman Sachs	BUY	299.00
Feb 25 2010	Beskidzki Dom Maklerski	ACCUMULATE	220.80
Mar 19 2010	DM BZ WBK	BUY	300.00
Apr 7 2010	DI BRE	SELL	173.20
Apr 9 2010	Espirito Santo	BUY	248.10
Apr 9 2010	CA Cheuvreux	BUY	245.00
Apr 16 2010	Erste	ACCUMULATE	245.00
Apr 20 2010	Wood	HOLD	234.00
Apr 26 2010	KBC	BUY	247.00
Apr 28 2010	Deutsche Bank	BUY	270.00
May 13 2010	DI BRE	SELL	194.00
Jun 11 2010	Goldman Sachs	BUY	283.00
Jul 19 2010	DI BRE	REDUCE	194.00

Jul 26 2010	ING Securities	SELL	220.00
Aug 3 2010	Beskidzki Dom Maklerski	REDUCE	210.00
Sep 9 2010	KBC	HOLD	261.64
Sep 15 2010	Ipopema,	HOLD	246.00
Oct 8 2010	KBC	BUY	273.50
Nov 4 2010	Raiffeisen	REDUCE	200.00
Dec 7 2010	Wood	HOLD	227.90
Dec 10 2010	Erste	REDUCE	205.00
Dec 20 2010	Espirito Santo	BUY	253.00

**Summary:**

27 recommendations issued by 14 financial institutions, including:

- 11 **BUY** recommendations;
- 6 **HOLD** recommendations;
- 3 **SELL** recommendations;
- 2 **ACCUMULATE** recommendations;
- 5 **REDUCE** recommendations.

**Table 28: Recommendations received before the date of this Report**

Issue date	Recommending institution	Recommendation	Target price (PLN)
Jan 2 2011	DM IDMSA	HOLD	244.60
Jan 3 2011	Deutsche Bank	HOLD	240.00
Jan 14 2011	Ipopema	SELL	200.00
Jan 20 2011	Citi	SELL	201.00
Jan 24 2011	ING	SELL	180.00
Jan 24 2011	UniCredit CA IB	HOLD	215.00
Jan 25 2011	Wood	HOLD	228.00
Feb 11 2011	Wood	HOLD	227.90
Feb 21 2011	KBC Securities	HOLD	215.60
Feb 25 2011	Goldman Sachs	NEUTRAL	218.00

**2. The Company and Its Shares****Table 29: Persons responsible for investor relations**

<b>IR Department</b>	Kinga Banaszak – Filipiak
<b>Tel. No.</b>	+48 (0) 61 66 46 423
<b>Mobile</b>	Mobile: +48 (0) 691-470-491
<b>E-mail</b>	<a href="mailto:kinga.banaszak@pbg-sa.pl">kinga.banaszak@pbg-sa.pl</a>
<b>Website</b>	<a href="http://www.pbg-sa.pl">www.pbg-sa.pl</a>
<b>WSE</b>	PBG
<b>Reuters</b>	PBGG.WA

## CHAPTER VI: FINANCIAL REVIEW

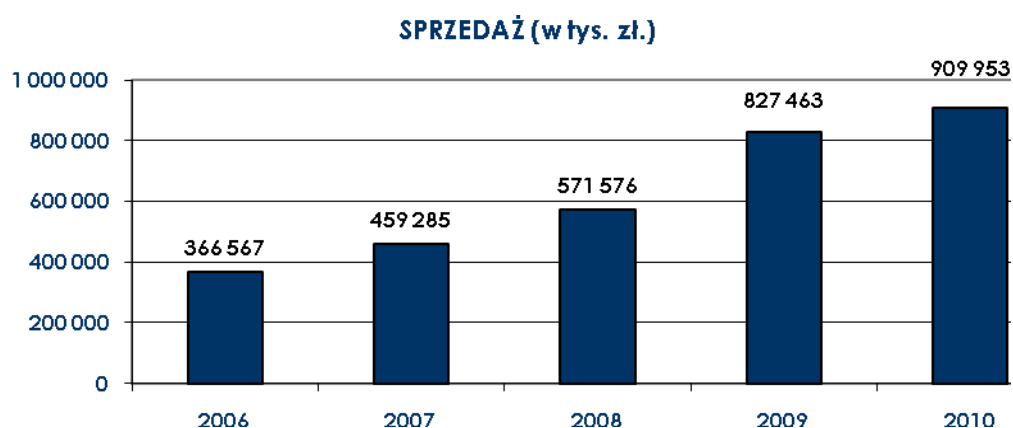
### I. ANALYSIS OF THE PBG GROUP'S FINANCIAL STANDING

All financial ratios and data presented in this section are based on or sourced from the financial statements prepared in accordance with the International Accounting Standards.

#### 1. Revenue

As at the end of 2010, PBG S.A. recorded a 10% year-on-year increase in sales revenue. PBG S.A.'s revenue increased from **PLN 827,463 thousand in 2009** to **PLN 909,953 thousand in 2010**. In the period under review, cost of sales grew slower than revenue, that is by 8%, to PLN 735,076 thousand as at the end of 2010.

Figure 9: Historical development of sales revenue (over the last five years)



SPRZEDAŻ (w tys. zł.)	SALES (PLN '000)
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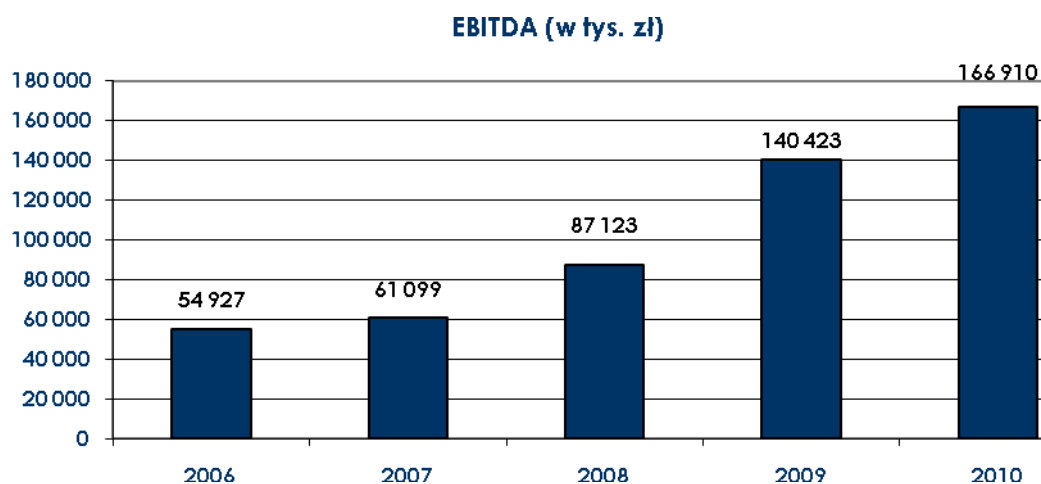
Over the last several years, PBG S.A.'s sales of services have been growing steadily. This is attributable to the Company's continuous growth and the growing number of high-value contracts, with the resultant expansion of the order book. As at January 1st 2011, the value of the PBG Group's order portfolio stood at PLN 2.1bn, of which nearly PLN 1bn represents orders to be executed in 2011, with the balance, i.e. PLN 1.1bn, scheduled for execution in subsequent years.

#### 2. EBITDA

As at the end of 2010, PBG S.A. recorded EBITDA of **PLN 166,910 thousand**, 19% up on the respective figure (**PLN 140,423 thousand**) as at the end of 2009.



Figure 10: Development of EBITDA (over the last five years)

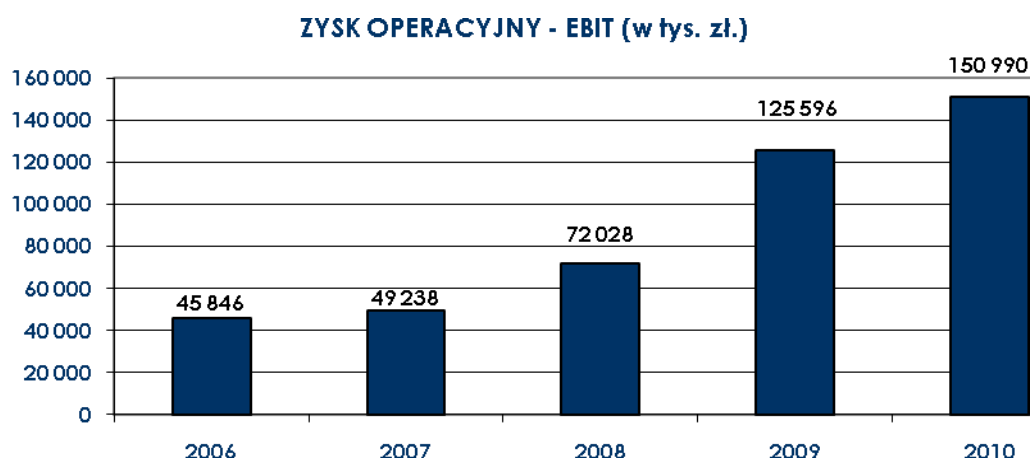


EBITDA (w tys. zł.)	EBITDA (PLN '000)
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### 3. EBIT

In 2010, the Company recorded a 20% year-on-year increase in EBIT PBG S.A. EBIT increased from PLN **125,596 thousand** to PLN**150,990 thousand**.

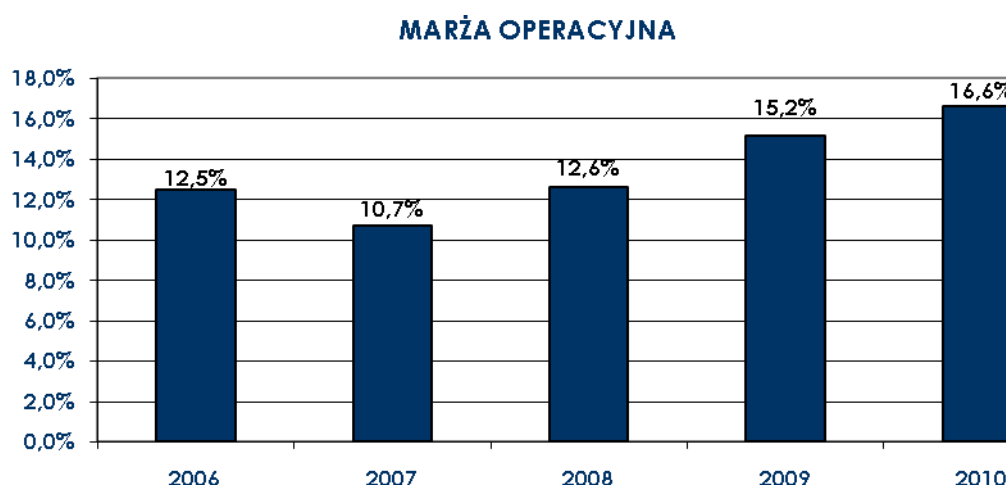
Figure 11: Development of EBIT (over the last five years)



ZYSK OPERACYJNY – EBIT (w tys. zł.)	EBIT (PLN '000)
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### 4. Operating Margin

In 2010, the Company recorded a 1.4% year-on-year increase in Operating Margin. The operating margin grew from **15.2% to 16.6%**, the record high over the last five years.

**Figure 12: Development of operating margin (over the last five years)**

MARŻA OPERACYJNA

OPERATING MARGIN

In 2010, the high operating margin was attributable to slower growth of expenses (108%) compared with the income growth rate (110%). This also allowed the Company to maintain general and administrative expenses at virtually the same level as in 2009, despite the relatively large revenue growth. It was possible thanks to assigning some employees to execution of large-scale contracts, which resulted in recognition of costs related to those employees under costs of sales (i.e. variable costs of contract). Moreover, the operating margin was influenced by other operating income generated at PLN 8m. Most notably, PLN 2.7m in lease revenue, and PLN 1.9m in fines and damages received.

## 5. Profitability ratios

**Table 30: Profitability ratios**

Item	FORMULA	2010	2009
ROA	(net profit / total assets)*100%	5,97%	4,38%
ROE	(net profit / equity) *100%	13,90%	9,37%
Gross margin	(gross profit / sales revenue)*100%	19,22%	17,89%
Sales margin	(profit on sales / sales revenue)*100%	15,98%	14,38%
Operating margin	(operating profit / sales revenue)*100%	16,59%	15,18%
Net margin	(net profit / sales revenue)*100%	18,18%	11,88%

In 2010, cost of sales grew slower than sales revenue. Notably, the general and administrative expenses in the reporting period remained virtually unchanged relative to the previous year. Both of these factors benefitted margins at all levels of the income statement, i.e. sales margin, operating margin and net margin. As at the end of 2010, the Company's profitability ratios improved year on year: gross margin

grew from 17.89% to 19.22%; sales margin grew from 14.38% to 15.98%, up by 1.6%; operating margin rose by 1.41%, from 15.18% to 16.59%; net margin grew by 6.30%, and stood at 18.18%. High net margin was attributable to a non-recurring event, namely recognition of a PLN 43.2m dividend received from INFRAS.A. The transaction affected the PBG's separate accounts only. The entire amount was exempt from the consolidated financial statements. The dividend was received in Q2 2010.

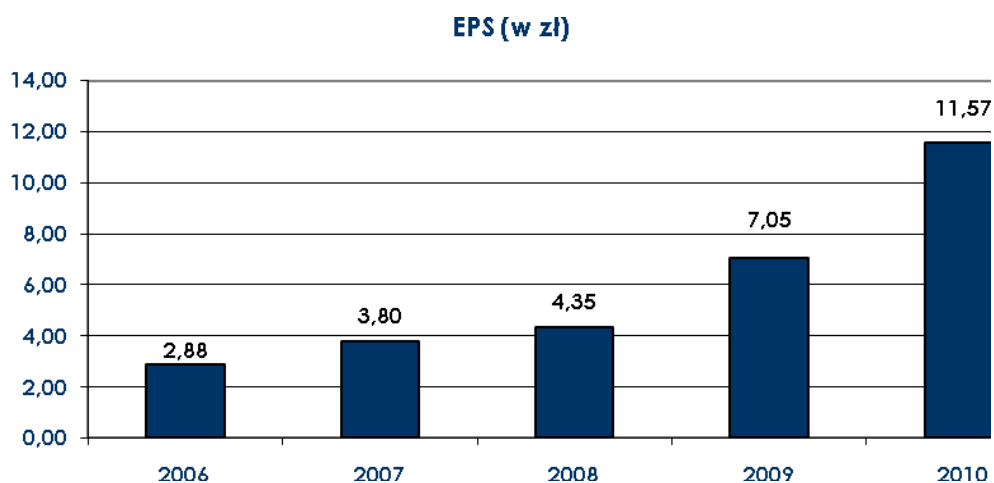
As at the end of 2010, ROA increased by 1.59 percentage points, from 4.38% to 5.97%, relative to the end of 2009, which follows from the growth of net profit (68%) being higher than the growth of total assets (23%).

As at the end of 2010, return on equity was 13.9%, up by 4.53 percentage points over the end of 2009. In other words, for every PLN 1 of equity invested in 2010, the Company generated nearly PLN 0.14 of net profit and significantly improved its performance relative to the previous year's figure.

## 6. Earnings per share

In 2010, earnings per share grew by as much as 64% year on year, from PLN 7.05. to PLN 11.57. This has been the best result for the last five years.

Figure 13: Development of earnings per share (last five years)



EPS (w zł)	EPS (PLN)
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## 7. Turnover ratios

**Table 31: Turnover ratios**

ITEM	FORMULA	2010	2009
Average collection period (days)	average trade receivables * 365/ sales	236	209
Inventory cycle (days)	average inventory * 365/ cost of sales	5	13
Average payment period (days)	average trade payables * 365 / cost of sales	253	159

In 2010, the average collection and average payment periods were longer relative to the previous year, whereas the inventory cycle was shorter compared with 2009. The average collection period increased by 27 days, to 236 days as at the end of 2010. The inventory cycle was 5 days, i.e. 8 days less than in 2009. The average payment period was 94 days longer, at 253 days. In 2010, the Company collected its receivables quicker than it paid its liabilities.

In 2010, the cash conversion cycle, computed by subtracting the average payment period (days) from the sum of the inventory cycle and the average collection period (both in days), was -12 days (2009: 63 days). It means that the Company no longer finances its current assets with equity.

## 8. Liquidity ratios

**Table 32: Liquidity ratios**

ITEM	FORMULA	2010	2009
Current ratio	(current assets / current liabilities)*100	2,65	2,22
Quick ratio	(current assets – inventory – current prepayments and accrued income / current liabilities)*100	2,64	2,19
Cash ratio	(end cash balance / current liabilities )*100	0,66	0,75

As at the end of 2010, the current ratio improved relative to the previous year. It was 2.65 compared with 2.22 as at the end of 2009, which is believed to be a safe level. Both in 2010 and 2009, the Company would have been able to meet its current liabilities if they had become immediately payable, and additionally it would have had a large surplus of current assets to use for other purposes.

The quick ratio improved as well. It increased from 2.19 as at the end of 2009 to 2.64 at the end of 2010. In the discussed periods, ratios remained within a range believed to be safe, and in both cases indicated that the Company was able to meet its liabilities in a timely manner.

The cash ratio dropped from 0.75 as at the end of 2009, to 0.66 as at the end of 2010, which means that PBG is able to cover 66% of its current liabilities with the most highly liquid assets, which is still a very satisfactory result.

## 9. Debt

**Table 33: Debt ratios**

ITEM	FORMULA	2010	2009
Equity and liabilities structure	Equity / external funds	0,75	0,88
Asset structure	Non-current assets / current assets	0,57	0,44
Interest coverage ratio	Gross profit + interest / interest	4,49	10,38

In 2010, there was a slight change in the structure of equity and liabilities. In 2009, the Company's equity covered 88% of its debt and in 2010 the coverage of debt with equity was 75%. The ratio changed in connection with the issue of a tranche of three-year bonds for a total amount of PLN 450m, which materially increased long-term liabilities.

The asset structure ratio increased year on year by 13%, which indicates lower flexibility of the Company's assets and lengthening of the period when funds remain tied-up. It can thus be said that the Company's operating risk increased. An analysis of the operating leverage, provided in Chapter VI Section 2.2, reporting on sensitivity of operating profit on sales fluctuation, may confirm the above statement.

The interest coverage ratio dropped by 5.89 percentage points in the period. The ratio's value at 4.49 means that the Company's pre-tax profit is nearly four-and-a-half-fold higher than the value of interest and that the interest is repaid on a timely basis.

## II. CHANGES IN THE INCOME STATEMENT AND COST ANALYSIS

### 1. Income statement

**Table 34: Changes in the income statement**

PBG S.A. Income statement (PLN '000)	2010	2009	2010/2009
Revenue from sales of products, services, goods for resale and materials	909,953	827,463	110%
Cost of sales	735,076	679,400	108%
<b>Gross profit/(loss)</b>	<b>174,877</b>	<b>148,063</b>	<b>118%</b>
Selling costs	-	-	0%
Administrative expenses	29,486	29,113	101%
<b>Profit on sales</b>	<b>145,391</b>	<b>118,950</b>	<b>122%</b>
Other operating income	7,978	8,887	90%
Other operating expenses	2,379	2,241	106%
<b>Operating profit/(loss)</b>	<b>150,990</b>	<b>125,596</b>	<b>120%</b>
Finance income	99,252	31,578	314%
Finance expenses	56,371	35,487	159%
Profit/loss on investments	17	-	0%
Valuation of interests in joint ventures	647	-	0%
<b>Pre-tax profit/(loss)</b>	<b>194,535</b>	<b>121,687</b>	<b>160%</b>
Income tax	29,148	23,408	125%
<b>Net profit</b>	<b>165,387</b>	<b>98,279</b>	<b>168%</b>

As at the end of 2010, the Company's net profit was over PLN 165m, up by 68% or PLN 67m relative to the end of 2009. Moreover, the upward trends continue in financial results for 2010 at all levels of the income statement. Gross profit on sales advanced by 18% year on year, to PLN 175m. Profit on sales grew by 22%, to PLN 145m, while operating profit rose by 20%, to PLN 151m.

### 2. Operating leverage

**Table 35: Operating leverage**

ITEM	FORMULA	2010	2009
Operating leverage (DOL)	percentage change in EBIT/percentage change in sales revenue	2.0	1.6

In the period under review, the operating leverage grew, from 1.6 as at the end of 2009 to 2.0 as at the end of 2010, i.e. 0.4 percentage point. This means that a 1% change in sales would result in a 2% change in EBIT. The growth of operating leverage represents an increase of the Company's operating risk.

### 3. Cost

**Table 36: Cost ratio**

ITEM	FORMULA	2010	2009
Basic cost ratio	the sum of ratio * and ratio **	0.840	0.856
Cost of sales ratio*	cost of sales / sales revenue	0.808	0.821
General and administrative expenses ratio**	general and administrative expenses / sales revenue	0.032	0.035

In 2010, the cost of sales was PLN 735m, up by 8% on the end of 2009. The share of variable costs in total sales revenue decreased. Cost of sales accounted for 80.8% of sales as at the end of 2010 versus 82.1% as at the end of 2009, which represents a decrease of 1.3 percentage points.

In 2010, general and administrative expenses amounted to PLN 29.5m and were 1% higher relative to the year before. The share of general and administrative expenses in sales revenue fell from 3.5% in 2009 to 3.2% in 2010, which represents a decrease of 0.3%. Such result is primarily connected with the assignment of some employees to execution of large-scale contracts, which resulted in recognition of costs related to those employees under costs of sales (i.e. variable costs of contract).

The basic cost ratio calculated as the sum of the cost of sales ratio and the general and administrative expenses ratio dropped to 84%, or by 1.6%, in 2010 relative to 2009.

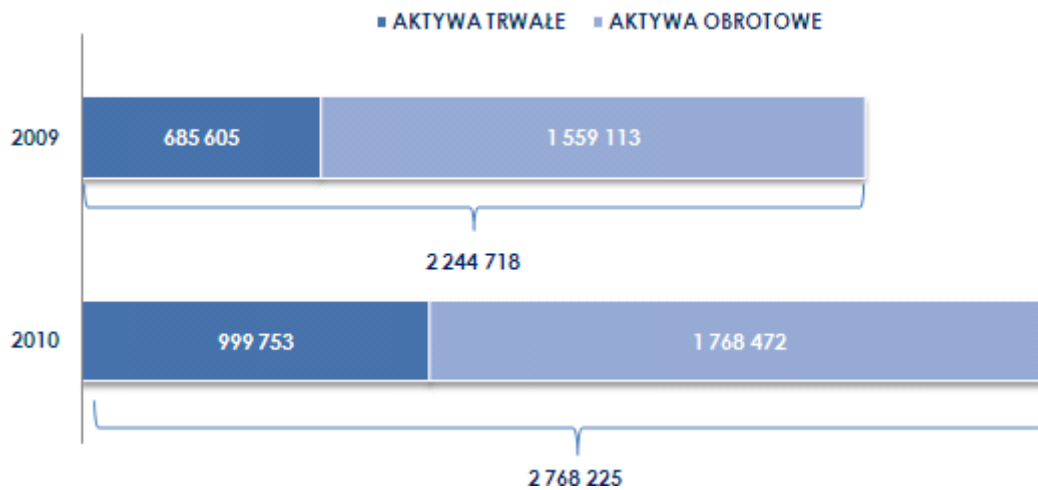
### III. ASSETS, FINANCIAL STANDING AND FUNDING OF THE ASSETS

#### 1. Assets

The assets' structure changed over the period under review. As at the end of 2010, the share of non-current assets in total assets stood at over 36% and was up by almost 5.5% year on year. On the other hand, over 2010 the share of current assets in total assets fell year on year and reached nearly 64%. The largest item of non-current assets, accounting for 46% of total non-current assets, were investments in subsidiary undertakings. 6% of non-current assets were attributable to investments in associated undertakings accounted for with the equity method, including the interest of 25% and one share in Energomontaż Południe amounting to more than PLN 64m. The second largest item of non-current assets was property, plant and equipment, which accounted for 18% of total non-current assets.

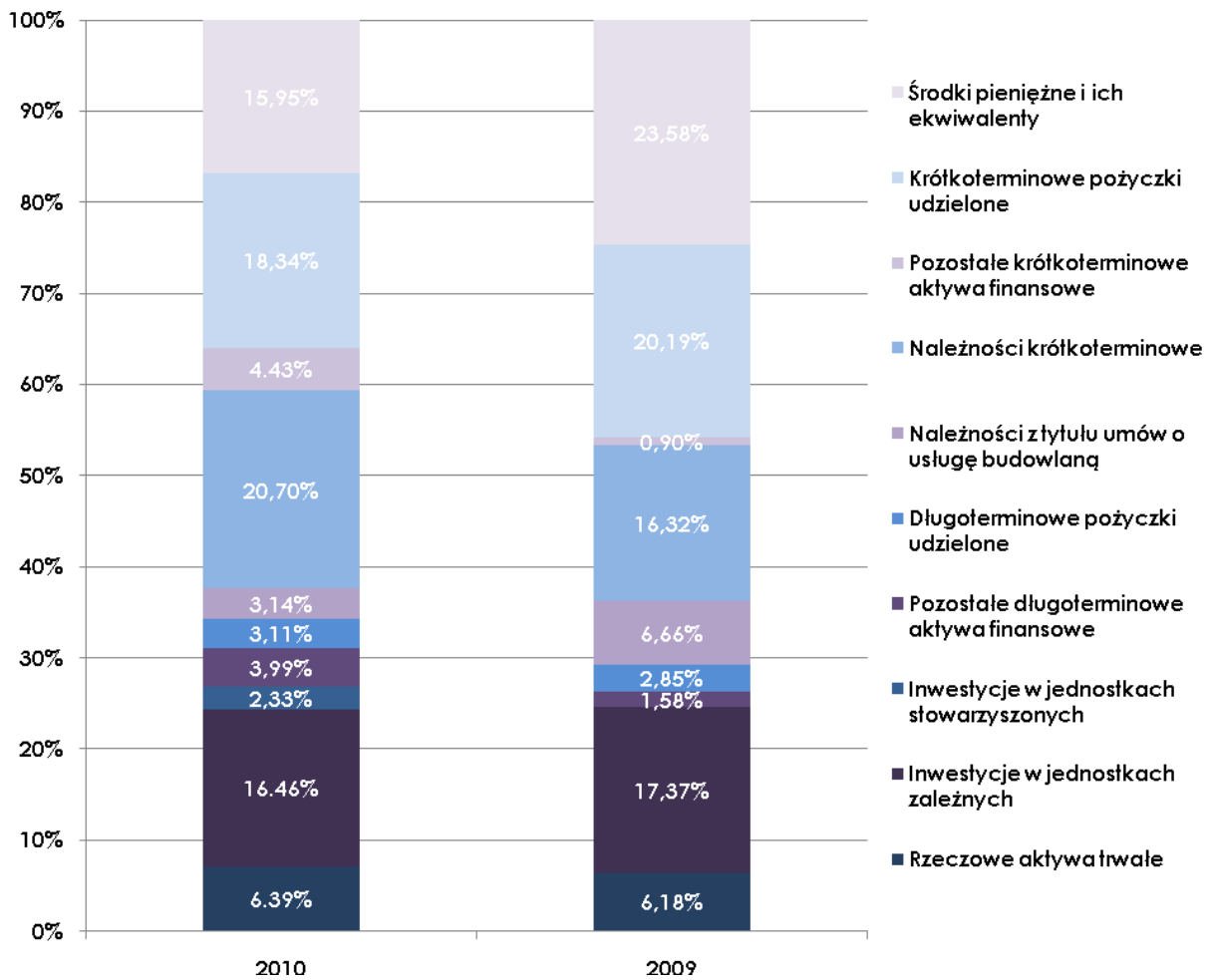
Over the period under review, the structure of current assets changed as well. In 2010, current receivables were the largest item of current assets, with a 32% share in the total (up by 9% year on year). They were followed by loans advanced, representing 29% of total current assets, comprising mostly loans advanced to PBG Group companies (PLN 330m), with the highest loan advanced to PBG Dom (over PLN 200m), and to other entities (nearly PLN 150m). The third largest item of current assets was cash and cash equivalents, with a 25% share in total current assets. In 2010, the Company carried out the issue of 3-year bonds, obtaining the proceeds of PLN 450m.

Figure 14 : Assets (PLN'000)



AKTYWA TRWAŁE	NON-CURRENT ASSETS
AKTYWA OBROTOWE	CURRENT ASSETS

Figure 15: Percentage shares of individual asset items in total assets (assets >1%)



Środki pieniężne i ich ekwiwalenty	Cash and cash equivalents
Krótkoterminowe pożyczki udzielone	Short-term loans advanced
Pozostałe krótkoterminowe aktywa finansowe	Other current financial assets



Należności krótkoterminowe	Current receivables
Należności z tytułu umów o usługę budowlaną	Receivables under construction contracts
Długoterminowe pożyczki udzielone	Long-term loans advanced
Pozostałe długoterminowe aktywa finansowe	Other non-current financial assets
Inwestycje w jednostkach stowarzyszonych	Investments in associated undertakings
Inwestycje w jednostkach zależnych	Investments in subsidiary undertakings
Rzeczowe aktywa trwałe	Property, plant and equipment

**Table 37: Asset ratios (%)**

ITEM	FORMULA	2010	2009
Basic asset structure	$(\text{non-current assets} / \text{current assets}) * 100$	56.53	43.97
Non-current assets to total assets	$(\text{non-current assets} / \text{total assets}) * 100$	36.12	30.54
Current assets to total assets	$(\text{current assets} / \text{total assets}) * 100$	63.88	69.46
Inventories to current assets	$(\text{inventories} / \text{current assets}) * 100$	0.27	1.11
Current receivables to current assets	$(\text{current receivables} / \text{current assets}) * 100$	32.40	23.50

The key asset structure ratio is discussed in detail in Section 1.9, Chapter VI.

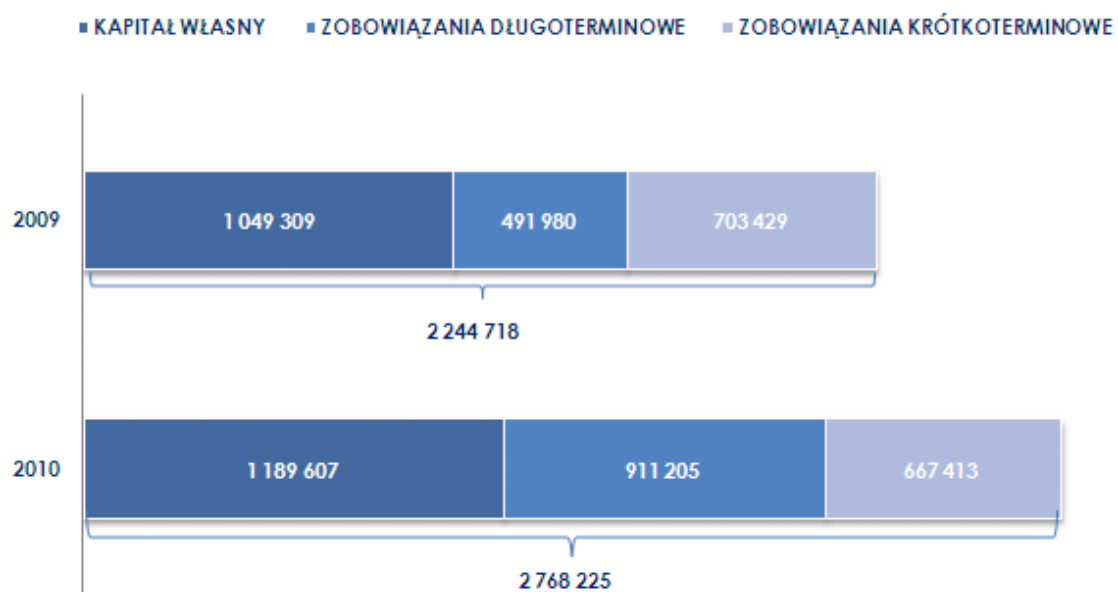
A noticeable change in the structure of the Company's assets can be seen by comparing the rates of dynamics of the individual items with the rates of dynamics of other items and with the rates of dynamics of total assets. In 2010, non-current assets grew by 45% relative to 2009. A lower increase was recorded in current assets, which grew by 13%. The above ratios show that the share of non-current assets in total assets was 5.5% higher as at the end of 2010 than at the end of 2009. An increase in the share of non-current assets in total assets was accompanied by a decrease in the share of current assets.

## 2. Equity and liabilities

In the reporting period, the PBG's asset financing structure changed. Equity comprised 43% of total equity and liabilities. The share of non-current liabilities in the balance-sheet total changed significantly. It increased by 11% year on year and reached 33%. Concurrently, the share of current liabilities in the balance-sheet total decreased. As at the end of 2010, current liabilities accounted for 24% of total liabilities, down from 31% as at the end of 2009. This confirms the performance of the Company's financing policy designed to, among other things, optimise the capital structure by converting short-term debt into long-term debt, so that it is aligned with schedules of the implemented projects.

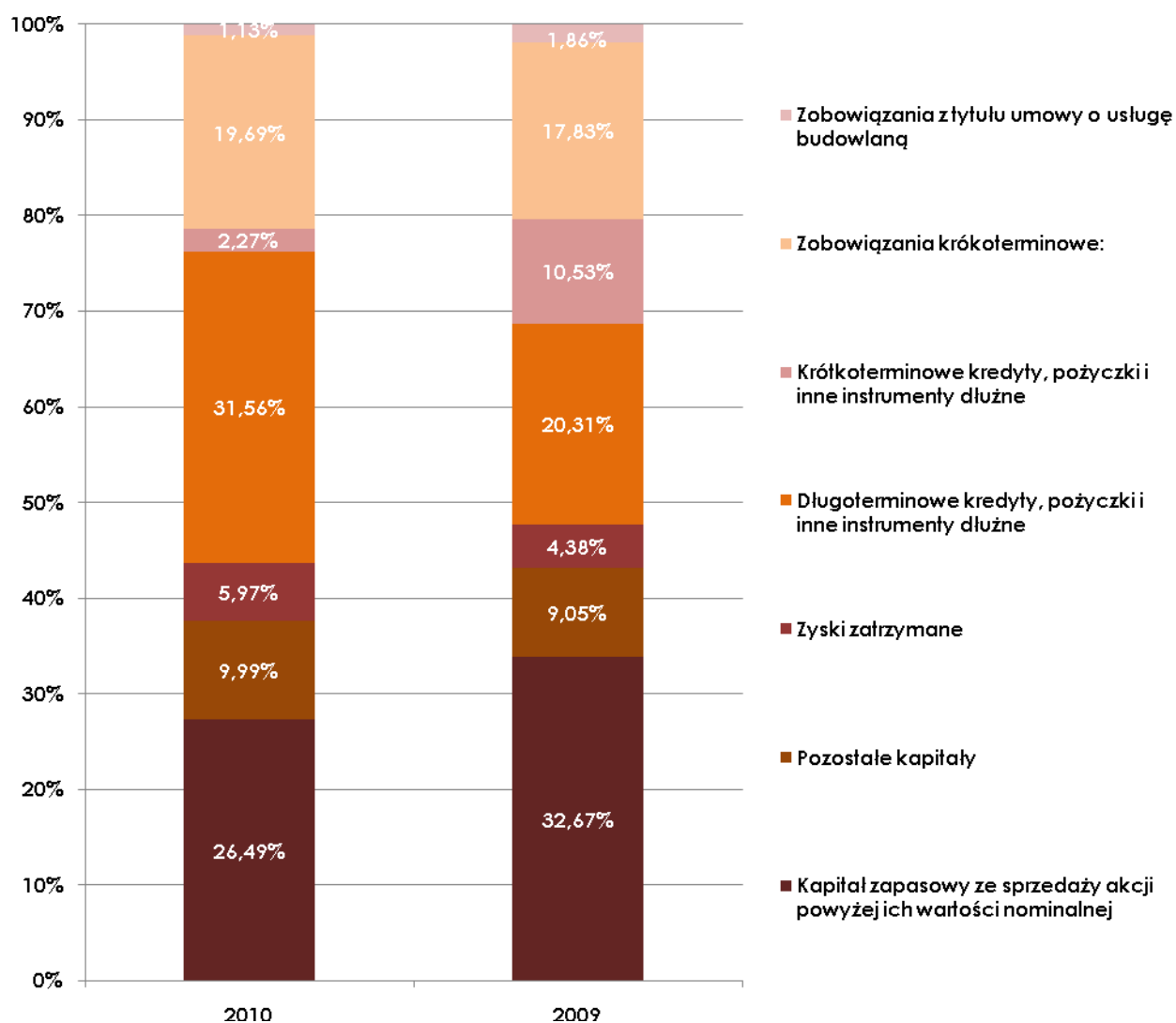
The largest item under non-current liabilities was long-term loans, borrowings and other debt instruments, which comprised bonds with a value of PLN 375m issued by the Company in 2009 and bonds with a value of PLN 450m issued in 2010.

Figure 16: Equity and liabilities (PLN'000)



KAPITAŁ WŁASNY	EQUITY
ZOBOWIĄZANIA DŁUGOTERMINOWE	NON-CURRENT LIABILITIES
ZOBOWIĄZANIA KRÓTKOTERMINOWE	CURRENT LIABILITIES

Figure 17: Percentage shares of individual asset items in total equity and liabilities (assets >1%)



Zobowiązania z tytułu umowy o usługę budowlaną	Liabilities under construction contracts
Zobowiązania krótkoterminowe	Current liabilities
Krótkoterminowe kredyty, pożyczki i inne instrumenty dłużne	Short-term loans, borrowings and other debt instruments
Długoterminowe kredyty, pożyczki i inne instrumenty dłużne	Long-term loans, borrowings and other debt instruments
Zyski zatrzymane	Retained earnings
Pozostałe kapitały	Other capitals
Kapitał zapasowy ze sprzedaży akcji powyżej ich wartości nominalnej	Share premium account

Table 38: Financial ratios (%)

ITEM	FORMULA	2010	2009
Basic equity and liabilities structure ratio	$(\text{equity} / \text{debt capital}) * 100$	75.36	87.78
Debt capital to total capital ratio	$(\text{debt capital} / \text{total equity and liabilities}) * 100$	57.03	53.25

Debt capital to equity ratio – debt ratio	$(\text{debt capital} / \text{equity}) * 100$	132.70	113.92
Long-term capital to equity and liabilities ratio	$(\text{long-term capital} / \text{total equity and liabilities}) * 100$	32.92	21.92
Short-term debt capital to equity and liabilities ratio	$(\text{short-term debt capital} / \text{total equity and liabilities}) * 100$	24.11	31.34
Capital reserves to equity and liabilities ratio	$(\text{capital reserves} / \text{total equity and liabilities}) * 100$	0.51	0.55

The key equity and liabilities structure ratio was already discussed in detail in Section 1.9, Chapter VI.

The share of debt capital in total capital increased by over 4 percentage points relative to the end of 2009 and amounted to 57% in the asset financing structure. The debt ratio grew by 19% to 133%, which means that for each złoty of its equity, the Company has PLN 1.33 of debt capital, which compares with PLN 1.14 as at the end of 2009.

As at the end of 2010, the share of long-term capital in total capital was 33%, having increased significantly from 22% as at the end of 2009. However, current debt ratio went down by 7% to 24% as at the end of 2010.

**Table 39: Asset financing ratios – vertical analysis (%)**

ITEM	FORMULA	2010	2009
Equity to non-current assets ratio (first grade financing ratio)	$(\text{equity as at end of period} / \text{non-current assets as at end of period}) * 100\%$	118.99	153.05
Long-term capital to assets ratio (second grade financing ratio)	$(\text{equity as at end of period} + \text{long-term debt capital as at end of period} / \text{non-current assets as at end of period}) * 100\%$	210.13	224.81
Current debt capital to current assets ratio	$(\text{short-term debt capital as at end of period} / \text{current assets as at end of period}) * 100\%$	37.74	45.12

The analysis of financial data indicates that there are positive relations in the Company's asset financing. It needs to be highlighted that both in 2010 and in 2009 the Company fulfilled the requirements of the so-called golden rule of financing and the golden rule of balance sheet. The former requires that non-current assets should be fully financed with long-term capital, whereas the latter, that equity must finance at least the company's non-current assets.

#### IV. STATEMENT OF CASH FLOWS

**Table 40: Amounts disclosed in the statement of cash flows (PLN '000)**

	2010	2009
<b>Net cash provided by/(used in) operating activities</b>	+145,063	+349,910
<b>Net cash provided by/(used in) investing activities</b>	-411,942	-463,696

<b>Net cash provided by/(used in) financing activities</b>	+179,155	+478,167
<b>Net cash at end of period</b>	+441,600	+529,324

In 2010, the statement of cash flows showed no major changes relative to 2009. In 2010, the Company again generated positive cash flows from operating activities (PLN 145m). The balance of cash flows generated in investing activities was negative and amounted to PLN -411.9m. The result was mostly affected by nearly PLN 138m expenditure on the acquisition of subsidiary undertakings, including expenditure on the acquisition of shares in Energomontaż Południe S.A. and AQUA S.A. of Poznań (the company is listed on the New Connect market in Warsaw). In the period under analysis, PBG S.A. advanced loans for a total of PLN 258m, including loans to subsidiary undertakings for over PLN 189m. These are primarily loans extended to finance current projects or acquisition of real estate. With respect to other entities, large loans included: a nearly PLN 34m loan advanced to Strateg Capital in connection with the implementation of a quarry construction project, and a PLN 34m loan advanced to Infra. The project is connected with the construction of one of the largest aggregate mines in Poland. A significant portion of the loans will be repaid by the end of 2011.

The balance of cash flows generated in financing activities was positive and amounted to PLN 179m, which largely resulted from another bond issue (PLN 450m) effected in October 2010. In the reporting period, loans contracted by the Company totalled only PLN 9m while repaid loans amounted to nearly PLN 96m.

PBG S.A.'s current economic position indicates that the Company continues its dynamic growth. It is also capable of raising substantial external financing (issue of bonds or increased credit limits). Both the external financing and the cash generated from operations are necessary to fund the planned investments, as well as to acquire and finance strategic contracts.

**Table 41: Profile of cash flows**

	2010	2009
<b>Net cash provided by/(used in) operating activities</b>	+	+
<b>Net cash provided by/(used in) investing activities</b>	-	-
<b>Net cash provided by/(used in) financing activities</b>	+	+
<b>Net cash at end of period</b>	+	+

## V. NET DEBT

**Table 42: Data used by PBG S.A. to compute net debt (PLN '000)**

	2010	2009	y-o-y change
<b>Long-term loans and borrowings, by maturity</b>	48,688	80,855	-40
<b>Short-term loans and borrowings</b>	50,909	104,857	-51
<b>Bonds</b>	825,000	500,000	+65
<b>Net cash</b>	441,600	529,324	-17
<b>Net debt</b>	<b>482,997</b>	<b>156,388</b>	<b>+209</b>

As at December 31st 2010, net debt was PLN 483m, having increased 209% relative to the end of 2009. This figure comprises interest-bearing debt, including PLN 48.7m in long-term loans and borrowings, nearly PLN 51m in short-term loans and borrowings and PLN 825m in bonds (issued by the Company: PLN 375m in 2009 and PLN 450m in 2010). Net cash of nearly PLN 442m as at the end of 2010 was deducted from the above figures. The increasing net debt of PBG S.A. is an effect of raising substantial funds through the next bond issue, use of these funds to finance the Company's operating activities and a decline in net cash flows as at the end of period. Higher net debt also stems from lower positive cash flows generated in operating activities compared with the end of 2009.

## VI. NET WORKING CAPITAL

**Table 43: Net working capital (PLN '000)**

	2010	2009	y-o-y change
<b>Net working capital based on the short-term formula (current assets – short-term liabilities)</b>	1,101,059	855,684	+2

In the discussed period, the Group reported an increase in working capital. As at the end of 2010, working capital was PLN 1,101 thousand compared with PLN 856 thousand as at the end of 2009, which represented a 29% increase. Interpretation of working capital is fairly straightforward: its rise demonstrates improving financial standing as working capital is a liquid reserve which can be used to meet current financing needs.

**Table 44: Percentage share of net working capital in assets**

	2010	2009	y-o-y change
<b>Net working capital in total assets</b>	40%	38%	+2

Working capital's share in total assets as at the end of 2010 was 40% and was 2% higher than as at the end of 2009.

## VII. INVESTMENTS

### 1. Equity investments

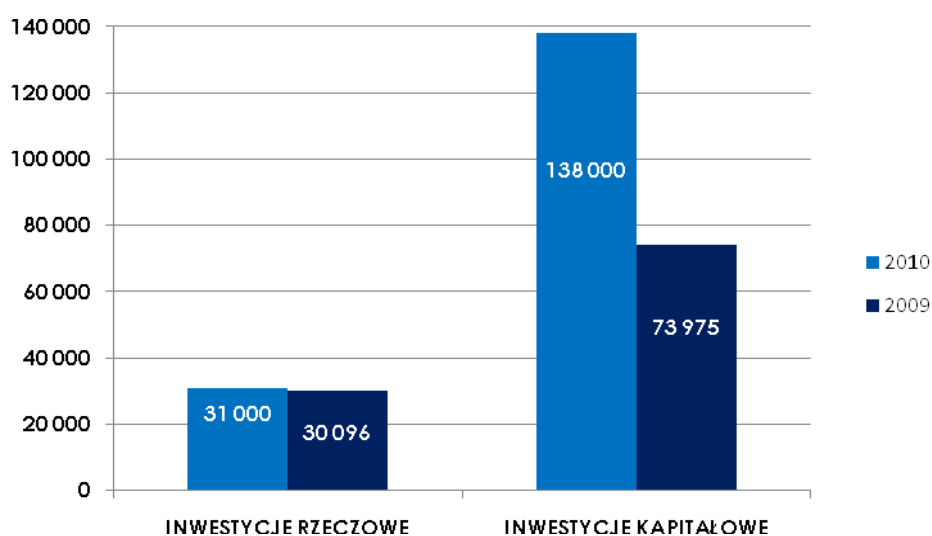
In 2010, PBG S.A. acquired 25% and one share in Energomontaż Południe S.A. for PLN 64.4m, which was the largest investment in 2010 (the acquisition was in line with the objectives of the share issue carried out in 2009 and the Company's strategy). Also, PBG S.A. increased the share capital of its subsidiary PBG Dom by PLN 42.6m. The transaction was designed to provide sufficient funds for the implementation of the company's investment plans involving acquisition of attractive projects and land for residential and commercial property development purposes. The third largest equity investment was the acquisition of an 81.69% interest in AQUA S.A. for PLN 22.8m. The company specialises in design of water intakes, water and sewage treatment plants, sewer systems, sewage pumping stations, water supply systems and pumping stations and other facilities as well as road- and power engineering-related infrastructure. The scope of the company's services helped expand the PBG Group's service offering.

Moreover, PBG S.A. increased its equity interest in Hydrobudowa Polska by acquiring additional shares from the company's existing management staff for PLN 2.4m. Following the transaction, PBG S.A.'s share in the total vote at the General Shareholders Meeting of Hydrobudowa Polska increased from 62.74% to 63.05%.

### 2. Expenditure on property, plant and equipment

In 2010, PBG S.A.'s capital expenditure was focused mainly on extension of its plant and equipment, including equipment required to provide specialist construction services. For that purpose, the Company incurred PLN 31m, similarly to 2009 when the expenditure was slightly over PLN 30m.

Figure 18: Capital expenditure in 2009-2010 (PLN '000)



### 3. Feasibility of the Company's investment plans for 2011

Financial resources available to the Company, the issue of bonds in 2010 and the outstanding loan agreements fully secure funding for the current projects and equity investments. For 2011, replacement investments in property, plant and equipment are estimated at approximately PLN 30m.

#### VIII. MANAGEMENT BOARD'S DISCUSSION OF THE COMPANY'S FINANCIAL PERFORMANCE IN Q4 2010

In Q4 2010, sales revenue increased, while margins improved significantly year on year at virtually all levels of the income statement.

In Q4 2010, the Company generated sales revenue of over PLN **373m**, while its **gross profit on sales was PLN 70.6m**, having grown by 36% relative to Q4 2009. Furthermore, **operating profit** amounted to **PLN 66.7m**, while **net profit was PLN 52.8m**, which in both cases represented a 37% year-on-year increase.

**Table 45: Income statement for Q4 2010 and Q4 2009**

PBG S.A.'s income statement	for the period	for the period	Growth rate
	Oct 1–Dec 31 2010	Oct 1–Dec 31 2009	Q4 2010/ Q4 2009
<b>Sales revenue</b>	<b>373,149</b>	<b>294,602</b>	127%
Cost of sales	<b>302,506</b>	<b>242,715</b>	125%
<b>Gross profit/(loss)</b>	<b>70,643</b>	<b>51,887</b>	<b>136%</b>
Selling costs	-	-	0%
Administrative expenses	5,584	5,131	109%
<b>Profit on sales</b>	<b>65,059</b>	<b>46,756</b>	<b>139%</b>
Other operating income	2,835	2,596	109%
Other operating expenses	1,157	531	218%
<b>Operating profit/(loss)</b>	<b>66,737</b>	<b>48,821</b>	<b>137%</b>
Finance income	16,917	12,879	131%
Finance expenses	19,719	13,862	142%
Other gains/(losses) on investments	-	-	0%
Valuation of interests in joint ventures	647	-	0%
<b>Pre-tax profit/(loss)</b>	<b>64,580</b>	<b>47,837</b>	<b>135%</b>
Income tax	11,801	9,289	127%
<b>Net profit/(loss)</b>	<b>52,779</b>	<b>38,549</b>	<b>137%</b>

#### Discussion of revenue, income, costs and expenses

##### 1. Sales revenue

In Q4 2010, the Company's sales revenue amounted to **more than PLN 373m**, having increased by **27%** relative to the end of 2009. The result was attributable to the implementation of the following projects:

In Q4 2010, the Company's sales revenue amounted to **more than PLN 373m**, having increased by **27%** relative to the end of 2009. The result was chiefly attributable to the implementation of the following projects:



- LMG Project – Central Facility, Well Areas, Pipelines and Other Infrastructure - **PLN 164m**;
- Construction of the Surface Infrastructure of the Wierzchowice Underground Gas Storage Facility - **PLN 75m**;
- Construction of the Malczyce Barrage on the Oder River - **PLN 39m**;
- Modernisation of Jarosław II Gas Compressor Station - **PLN 25m**;
- Construction, Delivery, Assembly, Start-Up and Maintenance of Four Identical Waste-Heat Boilers – Construction of Combined Gas and Steam Cycle Units at the Głogów CHP Plant and the Polkowice CHP Plant - **PLN 14m**.

## 2. Cost of sales

In Q4 2010, cost of sales reached **PLN 302.5m, which represented a 25%** increase over the end of Q4 2009. There was a minor change in the share of variable costs in total sales revenue. Cost of sales accounted for 81.1% of sales revenue as at the end of Q4 2010 versus 82.4% as at the end of Q4 2009, representing a decrease of 1.3%.

## 3. General and administrative expenses

As at the end of Q4 2010, general and administrative expenses amounted to **PLN 5.6m, having increased by 9%** year on year. The share of general and administrative expenses in sales revenue fell from 1.7% in Q4 2009 to 1.5% in Q4 2010, which represents a decrease of 0.2%.

## 4. Other operating income

In Q4 2010, other operating income was over PLN 2.8m, having increased by 9% year on year. The largest items were: fines and damages received (PLN 1.1m), and lease revenue (PLN 0.7m).

## 5. Other operating expenses

As at the end of Q4 2010, other operating expenses totalled nearly **PLN 1.2m, having increased by as much as 118%** compared with the end of Q4 2009. The largest item was fines and damages paid (PLN 0.55m).

## 6. Finance income

Year on year, Q4 2010 saw a 31% rise in finance income, which stood at nearly PLN 16.9m. The largest items were: interest on loans advanced (PLN 8.7m), and interest from banks (PLN 2.6m).

## 7. Finance expenses

As at the end of Q4 2010, finance expenses amounted to PLN 19.7m, having increased by 42% year on year. The largest items were: interest under bonds of (PLN 17.2m) and interest on bank loans (PLN 2.5m).

## Discussion of the financial result

### 1. Items of the Income Statement

As at the end of Q4 2010, the Company posted net profit of PLN 52.8m, **representing a strong 37% growth relative to the end of Q4 2009**. In Q4 2010, the financial result at all levels of the income statement continued to grow. Gross profit on sales rose by 36% while **operating profit advanced by 37%**.

## 2. EBITDA

In Q4 2010, capital expenditure on acquisition of property, plant and equipment and non-tangible assets totalled nearly PLN 8m, relative to PLN 2.9m in the corresponding period of the previous year. In Q4 2010, depreciation/amortisation charges amounted to PLN 4.4m (PLN 3.3m in Q4 2009). As at the end of Q4 2010, EBITDA (EBIT before depreciation/amortisation) was PLN 71.1m, up by 36%, or PLN 19m, from the corresponding period of 2009.

## 3. Profitability ratios

In Q4 2010, the growth of sales revenue was higher than the increase in cost of sales (127% and 125%, respectively). Thus, the Company's gross margin and other profitability ratios improved. The gross margin in Q4 2010 was up by 1.3%, from 17.6% to 18.9%. Other profitability ratios: operating margin grew by 1.3%, from 16.6% to 17.9%, whereas net margin went up by 1%, from 13.1% to 14.1%.

**Table 46: Q4 2010 and Q4 2009 profitability ratios**

Profitability Ratios	Q4 2010	Q4 2009
Gross margin <sup>1</sup>	18.9%	17.6%
Operating margin <sup>2</sup>	17.9%	16.6%
Net margin <sup>3</sup>	14.1%	13.1%

<sup>1</sup>gross profit on sales/sales revenue \*100

<sup>2</sup>operating profit /sales revenue \*100

<sup>3</sup>net profit/ sales revenue \*100

## IX. FINANCIAL OUTLOOK

In 2010, PBG S.A. plans to maintain its financial ratios at a level ensuring stable operations. Current operations and projects will be financed using internally generated funds, short-term facilities and investment loans. It is possible that the Group may change its financing arrangements by increasing the amount of credit facilities and long-term bonds if this proves necessary to implement the Group's strategic objectives, such as acquisition of major contracts or implementation of its projects.

## X. EXPLANATION OF DISCREPANCIES BETWEEN THE ACTUAL RESULTS AND FORECASTS

The Company does not publish standalone forecasts for PBG S.A., but only consolidated forecasts for the PBG Group as at the end of a financial year. The actual performance over the period under analysis, as well as the explanation of discrepancies between the actual results and forecasts are discussed in the Directors' Report on the operations of the PBG Group in 2010, in Section X of Chapter VI, FINANCIAL REVIEW.

## XI. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

PBG S.A.'s financing strategy, based on clear and uniform terms of cooperation with financing institutions, was continued in 2010.

As at December 31st 2010, the amount of bank and insurance limits awarded to PBG S.A. for the financing of its day-to-day operations and capital expenditure and to execute FX transactions was PLN 3,243m.

The increase in the amounts of the available credit facilities is related to, among other factors, raising funds to finance the PBG Group's projects, including the LNG Terminal in Świnoujście and construction of the A4 Motorway from the Krzyż Interchange to the Dębica Pustynia Interchange.

In the second half of 2010, the Company started to cooperate with further banks, namely Crédit Agricole Corporate & Investment Bank S.A. and Banco Espírito Santo de Investimento S.A.

In order to enhance the diversification of financing sources, in November 2007 an agency and dealer agreement was signed for ING Bank Śląski S.A.'s arrangement and execution of a bond issue programme for PBG S.A. and Hydrobudowa Polska S.A. Under the annex of September 27th 2010, the amount of the programme was increased to PLN 1,000,000 thousand and the agreement's term was extended until December 31st 2015.

Under this programme, on October 22nd 2010, PBG S.A. issued another tranche of bonds (Series D) with a value of PLN 450m, maturing on October 22nd 2013, and redeemed series B bonds with a value of PLN 69m. The debt under bonds in issue currently amounts to PLN 825m.

The continued implementation of the financing strategy has helped the Company to:

1. maintain diversified funding sources,
2. gain wider access to available bank and insurance products,
3. standardise the products and services offered to PBG S.A.,
4. reduce collateral requirements for the credit facilities,
5. link bank and insurance products with particular contracts.

The availability, flexibility and standardisation of the bank products allowed the Company to directly link these products to particular contracts and to adjust the products the profile of the Company's cash flows, which, as viewed from the financial institutions' perspective, significantly reduced the operating risk of the Company. The rules of controlling and monitoring PBG S.A.'s performance by the financial institutions permitted direct settlement of the Company's debt liabilities with cash flows under particular contracts.

Threats related to the financial resources:

- Contracts executed over up to five years vs. one-year credit limits;
- Payment periods under EU contracts protracting beyond settlement periods viewed by the banks as regular;
- Interest rate and currency risks.

In the present situation, the Management Board believes there is no risk of availability of the credit facilities or insurance limits being restricted.

Measures aimed at mitigating the risk:

- Diversified sources of financing: banks, insurance companies, brokerage companies and the capital market,
- Constantly monitored use of PBG S.A.' resources,
- Application of procedures defined under the implemented Integrated Management Systems,
- linking between banking products to particular contracts, to enable active controlling by financial institutions,
- gradual change in the debt structure towards long-term debt.

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<b>Vice-President of the Management Board</b>	<b>Tomasz Woroch</b>
<b>Vice-President of the Management Board</b>	<b>Przemysław Szkudlarczyk</b>
<b>Vice-President of the Management Board</b>	<b>Tomasz Tomczak</b>
<b>Vice-President of the Management Board</b>	<b>Mariusz Łożyński</b>