DIRECTORS' REPORT ON THE OPERATIONS OF THE PBG GROUP

for the period January 1st – December 31st 2010

TABLE OF CONTENTS

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 separate and consolidated financial statements

See Chapter II, Report on Risk and Control, page 45.

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 118.

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

See Chapter V, Shares and Shareholders, page 123.

6. Any 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 123.

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.

Name	**Maciej Bednarkiewicz**
Position	**Chairman of the Supervisory Board** ***Independent Member of the Board; Mr. Bednarkiewicz does not conduct any activity competitive with respect to PBG S.A.***
Qualifications	➢ University of Warsaw – Faculty of Law
Experience	➢ Member of the Parliament, 1989-1991 ➢ Judge of the State Tribunal of the Republic of Poland ➢ President of the Central Board of Lawyers (Naczelna Rada Adwokacka) ➢ General partner at the Law Office Maciej Bednarkiewicz, Andrzej Wilczyński i Wspólnicy ➢ Member of the Supervisory Board of BIG Bank S.A. ➢ Chairman of the Supervisory Board of Millenium Bank S.A. ➢ Secretary of the Supervisory Board of PZU S.A. ➢ Member of the Supervisory Board of Techmex S.A. ➢ Chairman of the Supervisory Board of PBG S.A. – since 2004

Full name	**Jacek Kseń**
Position	**Deputy Chairman of the PBG Supervisory Board until April 21st 2010** ***Independent Member of the Board; Mr Kseń does not conduct any activity competitive with respect to PBG S.A.***
Qualifications	➢ Poznań University of Economics – Faculty of International Trade ➢ Warsaw School of Economics – Ph.D. in International Financial Markets
Experience	➢ Currency Market trader at Bank Handlowy ➢ President of the Management Board of BZ WBK S.A. ➢ Chairman of the Supervisory Board of PLL LOT ➢ Chairman of the Supervisory Board of Sygnity ➢ Deputy Chairman of the Supervisory Board of Orbis ➢ Deputy Chairman of the Supervisory Board of PBG S.A.

Full name	**Małgorzata Wiśniewska**
Position	**Deputy Chairman of the Supervisory Board since April 21st 2010** ***Dependent Member of the Board; Ms. Wiśniewska does not conduct any activity competitive with respect to PBG S.A.***
Qualifications	➢ Poznań University of Technology – Faculty of Civil Engineering ➢ MBA – Rotterdam School of Management ➢ Canadian International Management Institute – management programme ➢ Postgraduate programme on Management and Public Relations at the Faculty of Finance and Banking at the Poznań School of Banking.
Experience	➢ Member of the PBG Supervisory Board in 2006 - 2008 and since April 21st 2010 ➢ Assistant Designer at Przedsiębiorstwo Uprzemysłowione Budownictwa Rolniczego of Poznań ➢ At PBG S.A.: Quality System Director, Public Relations Director, Member of the Management Board and Vice-President of the Management Board. ➢ President of the Management Board of Poznańskie Stowarzyszenie Oświatowe

	since 1997 ➢ President of the Management Board of INFRA S.A. ➢ Chairman of the Supervisory Board of Hydrobudowa Polska S.A. ➢ Deputy Chairman of the Supervisory Board of Hydrobudowa 9 S.A. ➢ Chairman of the Supervisory Board of PBG Dom Sp. z o.o. ➢ Chairman of the Supervisory Board of APRIVIA S.A. ➢ Member of the Supervisory Board of GasOil Engineering AS ➢ Member of the Supervisory Board of PBG S.A. in the period November 21st 2006 – August 31st 2008 and since April 21st 2010 ➢ President of the PBG Foundation

Full name	**Wiesław Lindner until April 21st 2010**
Position	**Secretary of the Supervisory Board** ***Dependent Member of the Board; Mr. Lindner does not conduct any activity competitive with respect to PBG S.A.***
Qualifications	➢ Poznań University of Economics
Experience	➢ Economics Department Manager; Deputy Economics Director; Deputy CEO; CEO at PGNiG ➢ Chief Accountant at Zakład Naprawy Gazomierzy of Poznań ➢ Member of the Supervisory Board of ATG Sp. z o.o. ➢ Member of the PBG Supervisory Board since 2004

Full name	**Dariusz Sarnowski**
Position	**Secretary of the Supervisory Board** ***Independent Member of the Board; Mr. Sarnowski does not conduct any activity competitive with respect to PBG S.A.***
Qualifications	➢ Poznań University of Economics – Accounting
Experience	➢ Certified Chartered Auditor ➢ W. Consulting Department Assistant; Audit Department Assistant at W. Frąckowiak i Partnerzy Sp. z o.o. ➢ Inspector at the consultancy division of the Capital Markets Department of BZ WBK S.A. ➢ Manager at Trade Institute – Reemtsma Polska S.A. ➢ Audit Department Assistant at BDO Polska Sp. z o.o. ➢ Audit Department Assistant at HLB Frąckowiak i Wspólnicy Sp. z o.o. ➢ Shareholder; President of Sarnowski & Wiśniewski Spółka Audytorska ➢ Vice-President of the Management Board of Usługi Audytorskie DGA Sp. z o.o. ➢ Member of the Supervisory Board of Mostostal Poznań S.A. ➢ Member of the Supervisory Board of Browary Polskie BROK – STRZELEC S.A. ➢ Member of the Supervisory Board of NZOZ Szpital w Puszczykowie Sp. z o.o. ➢ Member of the Supervisory Board of Swarzędz S.A. ➢ Member of the PBG Supervisory Board since 2005.

Full name	**Adam Strzelecki**
Position	**Member of the Supervisory Board** ***Independent Member of the Board; Mr. Sarnowski does not conduct any activity competitive with respect to PBG S.A.***
Qualifications	➢ Uniwersytet im. Mikołaja Kopernika w Toruniu – Wydział Prawa i Administracji; doktor nauk prawnych ➢ University of Warsaw – Faculty of Economic Sciences – Banking ➢ Reader; Deputy Dean of the Faculty of Administration of the University of Humanities and Economics of Włocławek ➢ Lecturer at the Higher School of Toruń ➢ Lecturer at the Higher School of Security and Protection of Warsaw
Experience	➢ Inspector at the Executive Office of the Chełmno County Council ➢ Credit Inspector at Bank Rolny of Chełmno ➢ Chief Accountant at the Chełmno Branch of NBP ➢ Manager of the Lipno Branch of NBP ➢ Manager of the Provincial Branch of NBP ➢ Manager of the Włocławek Branch of Polski Bank Inwestycyjny ➢ Manager of the Włocławek Branch of Kredyt Bank S.A. ➢ Shareholder and Member of the Supervisory Board of Zakład Doskonalenia Zawodowego Sp. zo.o. ➢ Member of the Management Board of Włocławskie Towarzystwo Naukowe

	➢ Member of the PBG Supervisory Board since 2004

Full name	**Marcin Wierzbicki**
Position	**Member of the PBG Supervisory Board since April 21st 2010** ***Independent Member of the Board; Mr. Wierzbicki does not conduct any activity competitive with respect to PBG S.A.***
Qualifications	➢ Warsaw School of Economics – Management and Marketing ➢ MBA studies at the Ross School of Business School at the University of Michigan
Experience	➢ Analyst at TRINITY MANAGEMENT ➢ Consultant at Ernst&Young Management Consulting Services ➢ Development Manager and then Good Promotional Practices Manager at ELI LILLY Polska Sp. zo.o. ➢ Business Unit Manager at CEGEDIM Polska ➢ Customer Service Director Russia at CEGEDIM Rosja ➢ Operations Director at CEGEDIM DENDRITE ➢ Chief Operations Officer at ALLIANCE MEDICAL Poland ➢ Owner of the Internet shop Sklep.pl ➢ General Manager at ALLIANCE MEDICAL Poland ➢ Member of the Supervisory Board of POL-AQUA S.A. ➢ Member of the Supervisory Board of COMP S.A. ➢ Member of the Supervisory Board of PBG S.A. since April 21st 2010

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	-	-	-
Total	**348**	**14**	**362**	**348**	**5**	**353**

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	-	-	-
Total	**233**	**1**	**234**	**-**	**-**	**-**

**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 Łożynski – Vice-President.

Full name	**Jerzy Wiśniewski**
Position	**President of the Management Board**
Qualifications	➢ Poznań University of Technology – Faculty of Civil Engineering ➢ MBA – Rotterdam School of Management ➢ Canadian International Management Institute – management programme
Experience	➢ PGNiG S.A. – manager in charge of gas transmission system operation ➢ PBG S.A. – founder, major shareholder and President of the Management Board
Field of expertise	➢ Natural gas and crude oil ➢ Environmental protection
Areas of responsibility at the PBG Group	**Strategy and development**

Full name	**Tomasz Woroch**

Position	**Vice-President of the Management Board**
Qualifications	➢ Uniwersytet im. Adam Mickiewicz University in Poznań – Faculty of Social Sciences (philosophy) ➢ University of Science and Technology in Kraków – mining of hydrocarbons ➢ MBA – Rotterdam School of Management ➢ Canadian International Management Institute – management programme
Experience	➢ Mostostal Poznań – head of administration department ➢ Stalmost Poznań – vice-president of the management board ➢ Piecobiogaz S.C. – deputy director ➢ Technologie Gazowe Piecobiogaz – member of the management board ➢ Hydrobudowa Polska – president of the management board ➢ PBG S.A. – Vice-President of the Management Board
Field of expertise	➢ Natural gas and crude oil ➢ Environmental protection ➢ Power engineering
Areas of responsibility at the PBG Group	**Contract execution in the environmental protection sector; acquisition of strategic contracts in the power sector**

Full name	**Przemysław Szkudlarczyk**
Position	**Vice-President of the Management Board**
Qualifications	➢ Poznań University of Technology – Faculty of Machines and Motor Vehicles ➢ Warsaw University of Technology – gas engineering ➢ MBA – Rotterdam School of Management ➢ Canadian International Management Institute – management programme
Experience	➢ PGNiG S.A. – technical assistant (natural gas transmission) ➢ Technologie Gazowe Piecobiogaz – development manager, member of the management board ➢ KRI S.A. – president of the management board ➢ Hydrobudowa Śląsk S.A. – proxy ➢ PBG S.A. – Vice-President of the Management Board
Areas of responsibility at the PBG Group	➢ **Economics and finance**

Full name	**Tomasz Tomczak**
Position	**Vice-President of the Management Board**
Qualifications	➢ Poznań University of Technology – Faculty of Machines and Motor Vehicles ➢ University of Science and Technology in Kraków – Faculty of Drilling, Oil and Gas ➢ MBA – Business School of the Poznań University of Economics (MBA programme run incooperation with Nottingham Trent University) ➢ Canadian International Management Institute – management programme
Experience	➢ VOLVO SERVICE – assistant service manager ➢ Piecobiogaz – technical assistant to the management board ➢ Technologie Gazowe Piecobiogaz – technical assistant to the management board; site manager; project manager; technical manager ➢ PBG S.A. – technical manager; Member of the Management Board; Vice-President of the Management Board
Field of expertise	➢ Natural gas and crude oil ➢ Fuels
Areas of responsibility at the PBG Group	**Contract execution in the natural gas, crude oil and fuels sectors**

Full name	**Mariusz Łożyński**
Position	**Vice-President of the Management Board**
Qualifications	➢ Poznań University of Technology – Faculty of Civil Engineering
Experience	➢ BORM Biuro Projektów – senior assistant ➢ GEOBUD Poznań – senior assistant designer

	➢ Concret – Service Poznań – office manager ➢ Kulczyk TRADEX – project specialist ➢ PTC Poznań – specialist in charge of project planning/designing ➢ 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
Areas of responsibility at the PBG Group	**Bidding processes; securing contracts for the PBG Group; contract execution in the hydraulic engineering sector**

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
Total	**3,920**	**-**	**3,920**	**2,520**	**11**	**2,531**

** 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	-	-	-	-	-	-
Total	**48**	**-**	**48**	**110**	**-**	**110**

** 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.

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 42.

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 solutions which are beneficial from the environmental perspective. These include the use of natural gas for the purposes of heating rooms, operation of an internal co-generation system and application of technology reducing methane emissions into the atmosphere during repairs of gas infrastructure elements.

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.

The implementation of the strategic goals of the PBG Group and the projected financial results are affected by, inter alia, the aforementioned macroeconomic factors, which include: GDP growth, structural investments, general situation in the Polish economy and legislation 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 PBG Group operates on the competitive market of specialist construction services in the gas and oil upstream and downstream sectors, water and sewage sector, road construction, 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.

The PBG Group 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 active in the PBG Group's existing 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 Engeneering & 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 - Ferrovial

	HYDRO-ENGINEERING	none	- SKANSKA - STRABAG - Bilfinger Berger - Ferrovial
	REHABILITATION OF WATER PIPELINES AND SEWAGE	none	- Per Aarslef - Diringer&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
POWER	POWER GENERATING UNIT CONSTRUCTION	- Polimex Mostostal - Rafako - Mostostal Warszawa	- Alstom - Hitachi - Siemens - Samsung

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%.

The general construction and infrastructure market, whose scope includes construction of sewage treatment plants, water and sewage piping, is highly competitive, with both Polish and foreign operators competing for new contracts. Nevertheless, in some segments of the market competition is less intense as requirements pertaining to qualifications and reference implementations are more stringent. The Group's share in the segment for construction or upgrade of piping structures (e.g. water and sewage piping) is estimated at over 10%. In the segment of more complex structures (with higher unit values), such as collector sewers, sewage treatment plants and water intakes, competition is limited and the Group's market share is higher. The PBG Group holds a strong position on the environmental protection market, owing to the experience and reference projects of the Hydrobudowa Polska Group.

3. Poland's membership in the European Union

Following Poland's accession to the European Union, international companies providing services similar to the Group'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 major contracts, PBG S.A. and its subsidiaries have demonstrated they are well positioned to compete against foreign companies.
In addition, opening of the European markets may create an opportunity for the PBG Group to expand onto new geographical markets.
To use the opportunities arising from Poland's accession to the EU in a most efficient manner,PBG S.A. and its Group:

- implement projects by forming strategic alliances with foreign companies operating in Poland,
- have implemented and work on improving effective management culture,
- offer the required quality of services, confirmed by implemented standards: PN-EN ISO 9001:2001, PN-EN 729-2, AQAP 2110:2003,
- regularly improve staff qualifications, with particular focus on unique technologies, helping the Group create and position on the market a competitive service offering.

4. Risk Related to Seasonality in the Sector

The PBG Group 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 Group'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 reduce the Group's revenues;
- Customers schedule most of their projects in such a way as to ensure they are completed in the final months of the year.
Accordingly, the PBG Group's revenue is the lowest 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. 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 companies of the PBG Group or their customers, which may directly or indirectly affect the financial performance of the Group companies.
The companies of the PBG Group monitor developments in the tax legislation, and introduce 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 the PBG Group as it 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 PBG Group 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 and other Group companies' business operations are chiefly based on the knowledge and experience of highly qualified personnel, in particular the engineers.

There exists a potential risk that the employees with key importance for the PBG Group'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:

- high internal organisational culture, which helps employees identify themselves with the Company and the PBG Group,
- 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 the dynamically growing companies.

2. Risk Related to Default on Contracts

Construction contracts include numerous 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. or any Group company fails to perform or improperly performs the concluded contracts, there exists a risk that a counter party might claim payment of contractual penalties or terminate the contract.

To mitigate such risk the Group takes the following measures:

- the Company insures contracts and subcontractors,
- the Company continuously improves its organisation through a programme designed to provide professional project management training to a group of employees, and 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 PLN 4.7bn (VAT exclusive) (including nearly PLN 2.5bn for PGNiG and over PLN 2.2bn for Polskie LNG). However, please note that

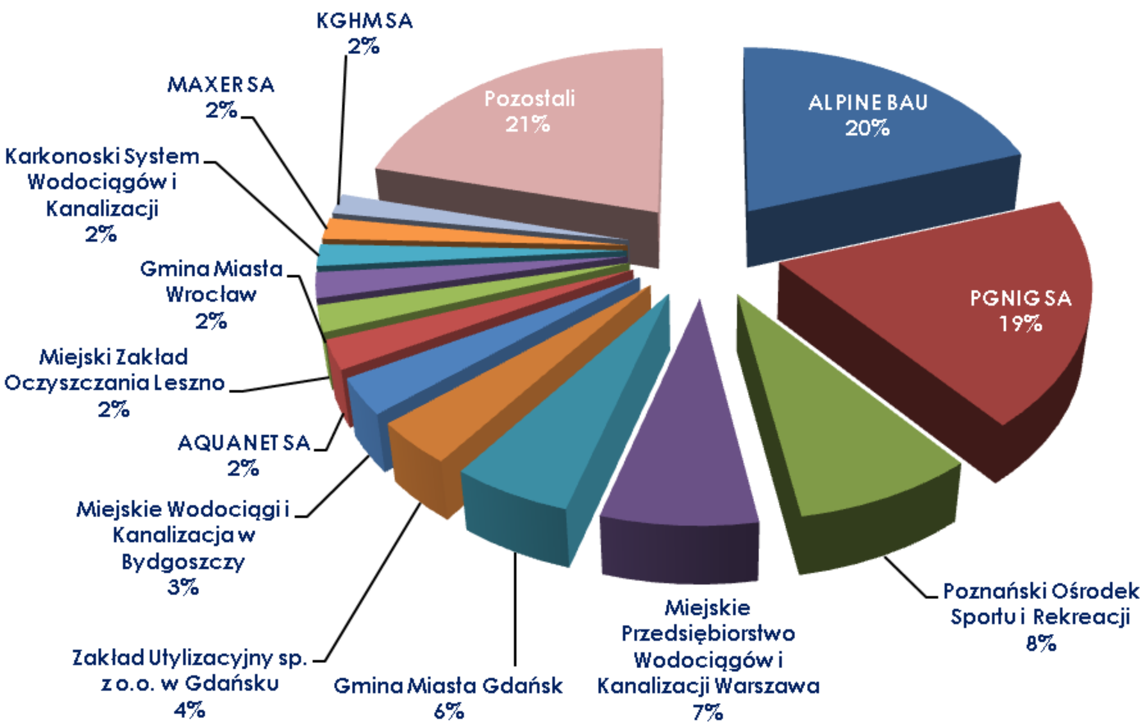
PBG S.A.'s strategy covering the entire Group provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In the previous two years, the Group companies, with the exception of the companies referred to above, acquired four contracts of substantial value. These contracts relate to the following projects: construction of waste incineration plants (concluded with Zakład Utylizacyjny of Gdańsk), extension of a stadium in Poznań (concluded with Euro Poznań 2012), construction of a stadium in Gdańsk (concluded with Biuro Inwestycji Euro Gdańsk 2012), and construction of the National Stadium in Warsaw (concluded with Narodowe Centrum Sportu). The aggregate value of the above contracts amounts to PLN 2.4bn. In order to mitigate the risk of being dependent on key customers, the PBG Group gradually attracts new customers for the Group's services, such as GDDKiA, Polskie LNG, KGHM, NATO, PKN ORLEN, PERN, LOTOS, Natfobaza, OLPP and foreign entities.

The share of key customers in the Group's sales revenue was presented in the next section of this chapter.

The Group companies seek to mitigate the risk further by:

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

Figure 1: Customers of the PBG Group in 2010



4. Operating Risk

The Group companies' operations, in particular on-site operations, involve certain threats related to, among other things, the possibility of failure resulting in human and material loss.

The Group 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,
- performing constant supervision over the equipment used,
- organising continuous training and exercising health and safety at work oversight.

II. IDENTIFICATION AND MANAGEMENT OF FINANCIAL RISK

The PBG Group is exposed to many 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 the Group is coordinated by the Parent Undertaking, which closely cooperates with the management boards and chief financial officers of its subsidiaries. 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 Group'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 PBG Group does not enter into speculative transaction on financial markets. In economic terms, the transactions concluded by the Company are entered into for the purpose of hedging against specific risks.

Moreover, the Group has formally designated some of the derivative instruments as cash flow and fair value hedging instruments under the requirements of 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 PBG Group applies a consistent and progressive approach to market risk management. The Company's market 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 the Risk Committee, the Management Board and the Supervisory Board of the Company.

The key techniques used to manage market risk involve 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 Group 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 Group 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 Group 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 Group uses advanced technologies requiring specialist equipment, which it often purchases outside of Poland.

Table 8: The Group'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)
	EUR	USD	GBP	CAD	UAH	BGN	NOK	RUB	PLN
As at Dec 31 2010									
Financial assets (+):	43,798	432	-	753	4	64	-	-	182,728
Financial liabilities (–)	(19,458)	(2,304)	-	(919)	-	-	(1)	(23)	(94,316)
Total exposure to currency risk	**24,340**	**(1,872)**	**-**	**550**	**138,433**	**-**	**-**	**-**	**88,412**
As at Dec 31 2009									
Financial assets (+):	81,393	8,225	-	1,867	7,877	-	-	-	353,326
Financial liabilities (–)	(38,533)	(1,053)	(58)	(885)	(1,290)	-	-	-	(226,978)
Total exposure to currency risk	**42,860**	**7,172**	**(58)**	**982**	**6,587**	**-**	**-**	**-**	**126,348**

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 Group 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 leases,
- interest rate swaps (IRS).

In order to secure against the interest rate risk, the Group uses IRS hedging instruments.

Pursuant to the covenants of the credit facility agreement for project financing, the Parent Undertaking was obliged to manage interest rate risk. In the performance of the Bank's requirements, on July 23rd 2008, the Parent Undertaking 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 Group 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.

Table 9: Financial assets and liabilities bearing interest at variable interest rates as at the balance-sheet date (PLN '000)

Exposure to interest rate risk	31.12.2010	31.12.2009
	Value at risk	Value at risk
Financial assets	1,173,016	799,587
Financial liabilities	(1,448,719)	(130,786)
Exposure to interest rate risk	**(275,703)**	**(331,199)**

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

- creditworthiness of customers with which the Group enters into transactions for physical delivery of products/services,
- 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 Group'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 value of the disclosed financial assets

PLN '000	31.12.2010	31.12.2009
Borrowings	270,604	272,481
Trade and other financial receivables	1,210,817	1,045,798
Financial derivatives	5,044	28,961
Debt securities	-	-
Investment fund units	106,902	-
Other classes of other financial assets	87,006	36,437
Cash and cash equivalents	708,506	660,281
Conditional payables under guarantees and sureties advanced	1,229,762	1,030,287
Total credit risk exposure	**3,618,644**	**3,074,245**

The Group 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 the risk management activities, the Group enters into transactions with partners whose creditworthiness is confirmed.

All entities with which the Group 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[1], 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.

The Company is exposed to this type of credit risk due to changes in the fair value of units in a specialised investment funds. As at December 31st 2010, the carrying amount of investment fund units was PLN 106,902 thousand. Fair value of investment fund units is measured as the product of the number of units held and their value.

[1]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.

All entities with which the Group enters into derivative transactions operate in the financial sector. These are financial institutions (banks) with upper medium ratings[1], with sufficient equity as well as a strong and stable market position.

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

	31.12.2010	31.12.2009
Financial assets	5,044	28,961
Financial liabilities	(11,677)	(59,809)
Derivative instruments valuation, net	**(6,633)**	**(30,848)**

Thanks to the highly diversified composition of the group of counterparties and cooperation with financial institutions with upper medium ratings, as well as given the fair value of liabilities under the derivative transactions, the Group is not exposed to credit risk inherent in derivative transactions.

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

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

No.	Customer	% share
	Total	**100.00%**
1.	ALPINE BAU	19.70%
2.	PGNIG	19.30%
3.	Poznański Ośrodek Sportu i Rekreacji	8.30%
4.	Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji Warszawa	7.21%
5.	Municipality of Gdańsk	5.53%
6.	Zakład Utylizacyjny Sp. z o.o. of Gdańsk	3.76%
7.	Miejskie Wodociągi i Kanalizacja w Bydgoszczy	3.10%
8.	AQUANET SA	2.48%
9.	Miejski Zakład Oczyszczania Leszno	2.19%
10.	Municipality of Wrocław	2.14%
11.	Karkonoski System Wodociągów i Kanalizacji	1.82%
12.	MAXER S.A	1.79%
13.	KGHM S.A.	1.69%
	Other	**20.99%**

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 PLN 4.7bn (VAT exclusive) (including nearly PLN 2.5bn for PGNiG and over PLN 2.2bn for Polskie LNG). However, please note that PBG S.A.'s strategy covering the entire Group provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In the previous two years, the Group companies, with the exception of the companies referred to above, acquired four contracts of substantial value. These contracts relate to the following projects: construction of waste incineration plants (concluded with Zakład Utylizacyjny of Gdańsk), extension of a stadium in Poznań (concluded with Euro Poznań 2012), construction of a stadium in Gdańsk (concluded with Biuro Inwestycji Euro Gdańsk 2012), and construction of the National Stadium in Warsaw (concluded with Narodowe Centrum Sportu). The aggregate value of the above contracts amounts to PLN 2.4bn. In order to mitigate the risk of being dependent on key customers, the PBG Group gradually attracts new customers for its services, such as the General Directorate for National Roads and Motorways, Polskie LNG, KGHM, NATO, PKN Orlen, PERN, LOTOS, Natfobazy, OLPP and foreign entities.

In 2010, the shares of key customers in the Group's total sales revenue did not exceed several per cent.

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	31.12.2010		31.12.2009	
	Not past due	Past due	Not past due	Past due
Trade receivables (net)	**817,739**	**316,218**	**737,313**	**253,969**
Other net financial receivables	**57,921**	**3,232**	**39,832**	**1,056**
Financial receivables	**875,660**	**319,450**	**777,145**	**255,025**

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

	31.12.2010		31.12.2009	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Past due current receivables:				
Up to 1 month	154,363	747	126,412	15
From 1 to 6 months	112,739	234	125,666	36
From 6 to 12 months	49,451	2,220	22,899	-
Over one year	13,020	27,059	3,571	55,831
Past due financial receivables	329,573	30,260	278,548	55,882

As assessed by the Parent Undertaking'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 Group did not establish collateral or used other tools to improve the credit terms.

With respect to trade receivables, the Group 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 6 months" category, and there is no threat to their effective collectability.

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

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

1.3. Liquidity Risk

The Group is exposed to the risk of losing liquidity, that is the loss of the ability to timely meet financial liabilities. The Group companies manage the liquidity risk by monitoring payment dates and demand for cash with respect to the servicing of current payables (current transactions are monitored on a weekly basis) and long-term demand for cash 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: The maturities of the Group's financial liabilities as at the balance-sheet date are presented in the table below (PLN '000):

Item	Current:		Non-current:			Liabilities total (no discount)	carrying value
	up to 6 months	from 6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
As at Dec 31 2010							
Bank loans and overdraft facilities	232,046	274,945	73,193	-	-	580,184	579,643
Borrowings	-	5,627	6,700	-	-	12,327	12,327
Debt securities	-	-	825,000	-	-	825,000	836,904
Finance lease	5,360	5,364	9,061	60	-	19,845	19,845
Financial derivatives	3,598	7,626	-	-	-	11,224	11,224
Trade payables and other financial liabilities	793,135	69,420	24,030	2,916	1,043	890,544	890,544
Total liquidity risk exposure	**1,034,139**	**362,982**	**937,984**	**2,976**	**1,043**	**2,339,124**	**2,350,487**
As at Dec 31 2009							
Bank loans and overdraft facilities	105,599	380,710	88,357	10,139	3,241	588,046	585,304
Borrowings	5,493	2,878	140	-	-	8,511	10,440

Debt securities	-	125,000	375,000	-	-	500,000	506,440
Finance lease	6,464	10,044	15,881	297	-	32,686	32,686
Financial derivatives	26,991	32,264	553	-	-	59,808	59,809
Trade and other financial payables	745,853	12,822	34,192	7,013	937	800,817	798,785
Total liquidity risk exposure	**890,400**	**563,718**	**514,123**	**17,449**	**4,178**	**1,989,868**	**1,993,464**

Table 16: Available overdraft facilities as at the balance-sheet date

PLN '000	31.12.2010	31.12.2009
Overdrafts received	**439,929**	**381,629**
Overdrafts used	**174,879**	**179,723**
Available overdrafts	**265,050**	**201,906**

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.
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 bottle necks, 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 performance audit designed to:

- review contracts concluded 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 Control 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 Division of 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.

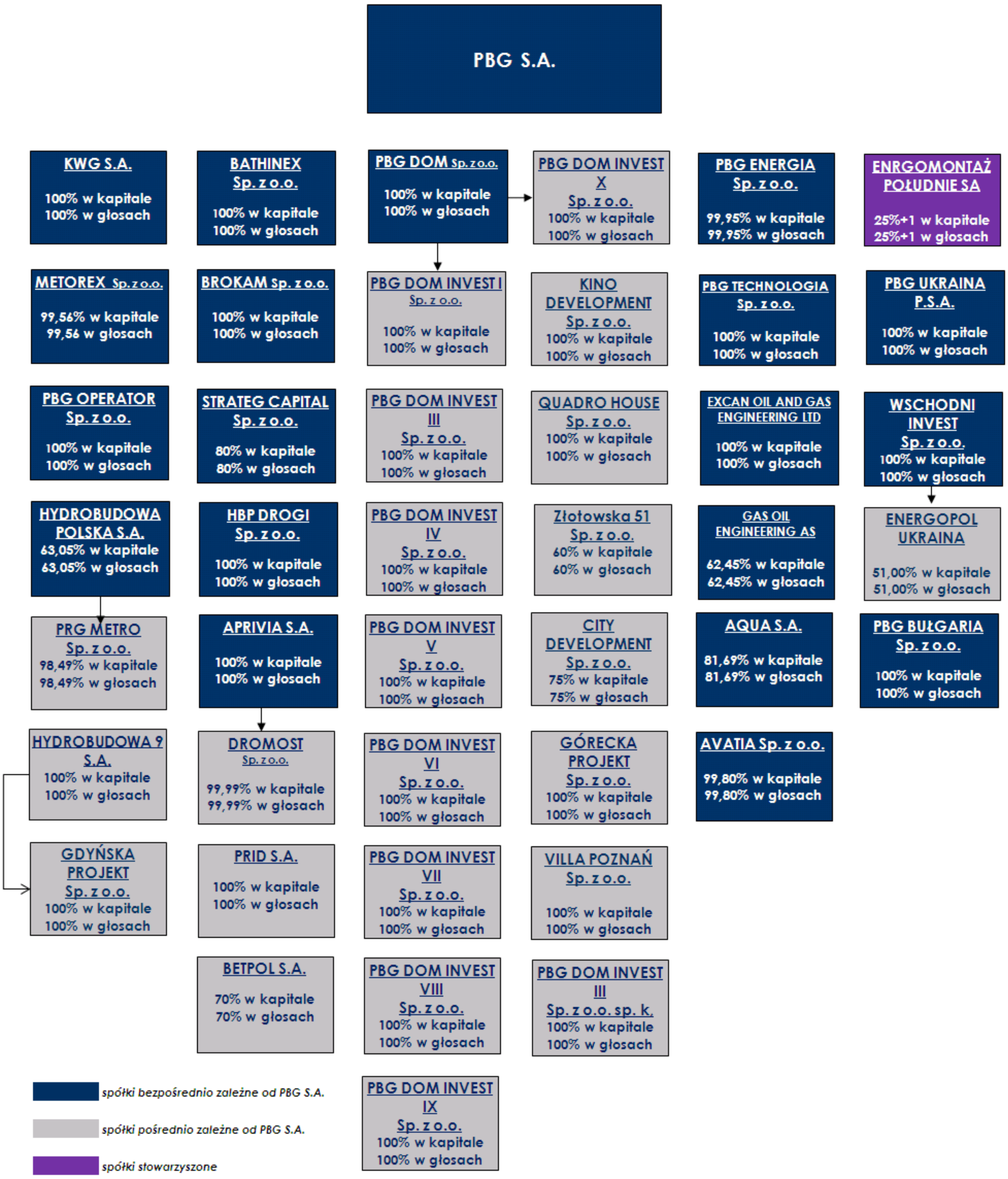
During the audit of financial statements and accounting records, the auditor holds meetings with key members of the Company's staff, including members of the Management Board responsible for economic matters, to discuss individual aspects of the financial statements. The final version of the financial 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: THE PBG GROUP

I. STRUCTURE OF THE PBG GROUP

As at the date of filing this Report, the PBG Group was composed of 44 companies, including its Parent Undertaking, PBG S.A., 19 direct subsidiary undertakings, 23 indirect subsidiary undertakings, and one associated undertaking.

Figure 2: Structure of the PBG Group as at the date of filing this Report



II. 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 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 Różańsk, 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 Kozienice 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 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 microtunelling. 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. 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 m².
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 will still aim at 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 sales transaction of Hydrobudowa Polska S.A. and APRIVIA S.A. to the Spanish OHL Group. The transaction was discussed in Current Reports No. 49/2010, No. 50/2010 and No. 65/2010. Following the transaction, the Company may receive over 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***

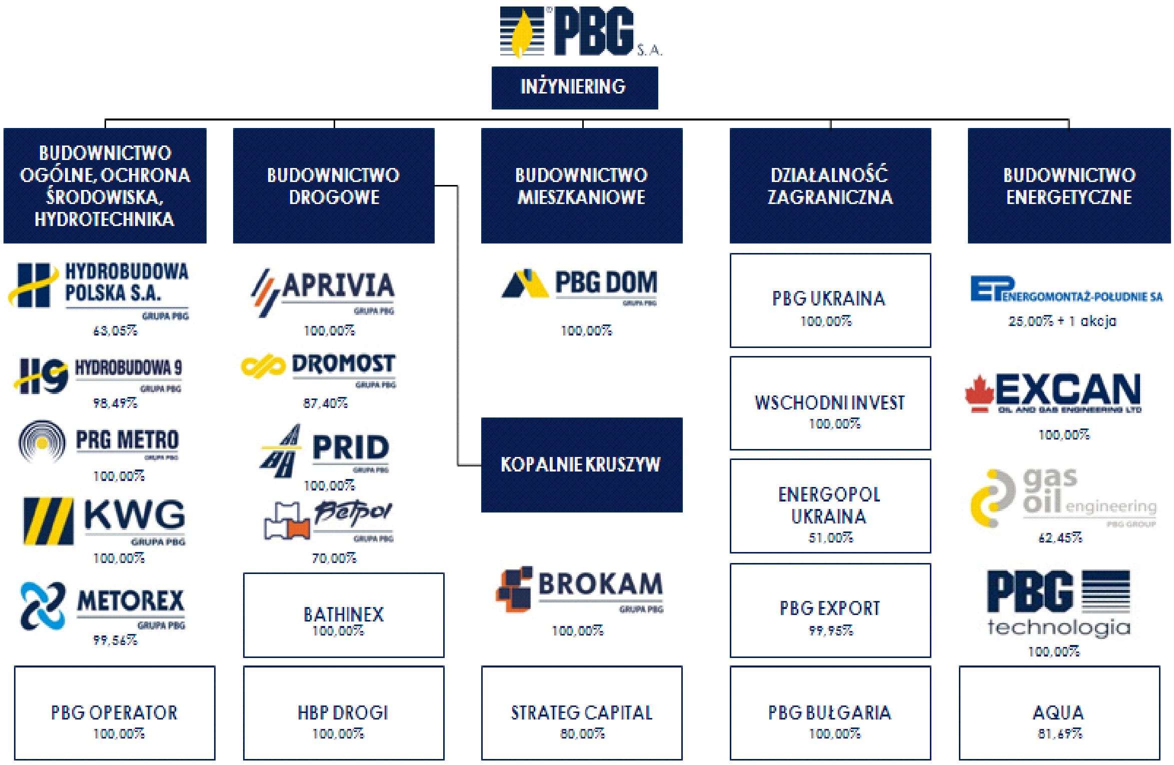
PBG Current Report No. 50/2010 ***http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/50-2010-podpisanie-przez-pbg-s-a-porozumienia-w-sprawie-sprzedazy-akcji-spolek-hydrobudowa-polska-s-a-oraz-aprivia-s-a-uzupelnienie-informacji.html***

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 of a given company and determines its role in the Group. Each company is responsible for project implementation in line with its business profile and held reserves.

Figure3: 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

Figure4: 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 construction market.** Moreover, the operations in this segment are currently supported 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 **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 tender procedures conducted in Romania, Bulgaria, Russia and Ukraine. Activities designed to facilitate the expansion of PBG into foreign markets were intensified. Due to emerging perspectives and opportunities of concluding strategic alliances with international business partners, income from the foreign markets may significantly affect the financial performance in the future. The strategy of the PBG Group assumes sales revenue from the foreign markets would reach PLN several hundred million 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, established in order 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 investment at a level of as much as 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, the agreement on sale of 51% of shares in Hydrobudowa Polska S.A. to the Spanish OHL for PLN 431m is being negotiated. The negotiations are to be finished by the end of March and the transaction is to be performed in H1 2011. Following the transaction, PBG S.A. will remain the shareholder of Hydrobudowa Polska S.A., and will hold 12% to 15% shares in the Company. The Management Board of PBG S.A. may seek an opportunity to increase its equity interest in Hydrobudowa Polska S.A. Involvement in general and infrastructure 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 Roost, PRID and Betpol. At present, the agreement on sale of 50.1% of shares in APRIVIA S.A. to the Spanish OHL for PLN 75m is being negotiated. The negotiations are to be finished by the end of March and the transaction is to be performed in H1 2011. Following the transaction, PBG S.A. will hold 49.9% of shares in

APRIVIA S.A. Involvement in the road 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 the repurchase 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 a company listed on the Warsaw Stock exchange and PBG S.A. will still remain its significant shareholder. The same is applicable to APRIVIA S.A. Therefore, PBG S.A. perceives this transaction as yet another chance for success and as a source of ample development opportunities.

Funds obtained from the disposal of shares in Hydrobudowa S.A. and APRIVIA S.A. will allow the PBG Group to implement the assumed strategy regarding expansion to the power market and foreign markets. Moreover, the funds will be invested in operation projects. The Group will focus on rendering specialist construction services and exploring completely new areas such as licenses, operation and other projects implemented on the basis of Public Private Partnerships. Therefore, further dynamic development and consequently the growth in PBG S.A.'s value will be possible.

III. 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 natural gas, crude oil and fuels segment is the responsibility of PBG, Hydrobudowa Polska and Hydrobudowa 9 are the leading companies in the water segment, the road construction segment is the responsibility of Aprivia, whereas Hydrobudowa Polska and its Group and PBG are responsible for infrastructure projects.

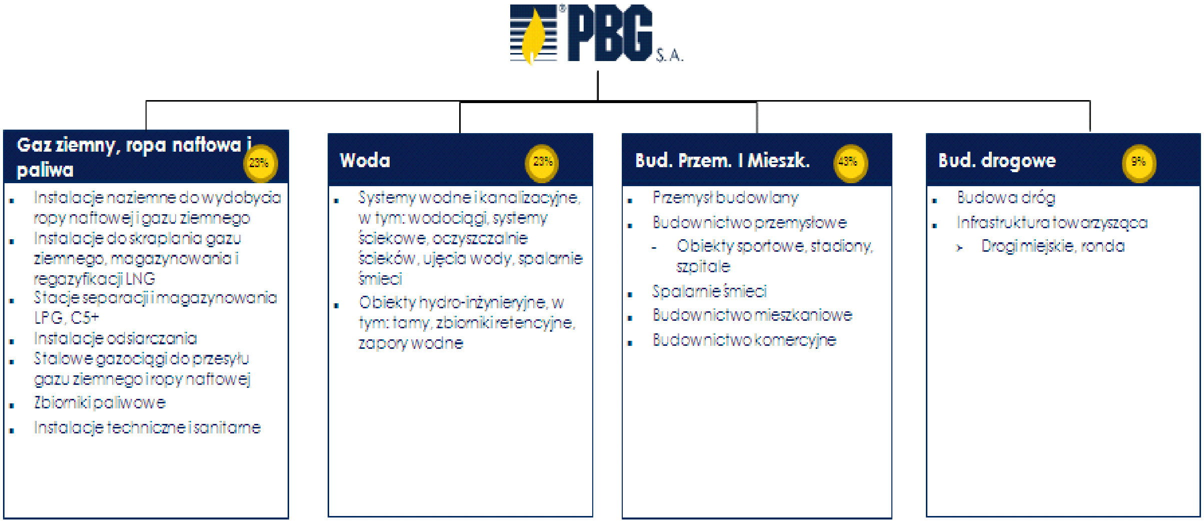
Given the small share of revenue from the fuels segment in the total sales revenue, the PBG Group decided that from the beginning of 2010 the natural gas and crude oil segment and the fuels segment would be combined to make up a single business segment.

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

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

The list of the services performed as part of each individual segment is presented below.

Figure5: Services by segments



Gaz ziemny, ropa naftowa i paliwa	Natural gas, crude oil and fuels
▪ Instalacje naziemne do wydobycia ropy naftowej i gazu ziemnego ▪ Instalacje do skraplania gazu ziemnego, magazynowania i regazyfikacji LNG ▪ Stacje separacji i magazynowania LPG, C5+ ▪ Instalacje odsiarczania ▪ Stalowe gazociągi do przesyłu gazu ziemnego i ropy naftowej ▪ Zbiorniki paliwowe ▪ Instalacje techniczne i sanitarne	▪ Surface installations for crude oil and natural gas production ▪ Installations for liquefying natural gas and for LNG storage and regasification ▪ LPG, C5+ separation and storage facilities ▪ Desulphurisation units ▪ Steel pipelines for oil and gas transmission ▪ Fuel tanks ▪ Technical and sanitary systems
Woda	Water
▪ Systemy wodne i kanalizacyjne, w tym: wodociągi, systemy ściekowe, oczyszczalnie ścieków, ujęcia wody, spalarnie śmieci ▪ Obiekty hydro-inżynieryjne, w tym: tamy, zbiorniki retencyjne, zapory wodne	▪ Water supply and sewage systems, including: water pipes, sewage systems, wastewater treatment plants, water intakes, waste incineration plants ▪ Water engineering structures, including: dams, storage reservoirs
Bud. Przem. i Mieszk.	Industrial and residential construction
▪ Przemysł budowlany ▪ Budownictwo przemysłowe - Obiekty sportowe, stadiony, szpitale ▪ Spalarnie śmieci ▪ Budownictwo mieszkaniowe ▪ Budownictwo komercyjne	▪ Construction industry ▪ Industrial construction - Sports facilities, stadiums, hospitals ▪ Waste incineration plants ▪ Residential construction ▪ Commercial construction
Bud. drogowe	Roads
▪ Budowa dróg ▪ Infrastruktura towarzysząca - Drogi miejskie, ronda	▪ Road construction ▪ Auxiliary infrastructure - Municipal roads, roundabouts

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.

IV. CHANGES IN THE COMPANY'S MARKETS

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

Table 17: Industry segments

Sales revenue	2010	2009	Change (PLN '000)	Change (%)
natural gas, crude oil and fuels (transmission, distribution, production)	791,883	483,128	+308,755	+64
water (water engineering and environmental protection, pipeline rehabilitation)	644,019	996,045	-352,026	-35
industrial and residential construction (construction, infrastructure for industrial facilities)	995,284	877,489	+117,795	+13
roads (road construction)	298,868	187,022	+111,846	+60
other (sale of goods for resale, materials and products, other services)	10,257	28,825	-18,568	-64
Total sales revenue	**2,740,311**	**2,572,509**	**+167,802**	**+7**

The changes taking place on the above markets result from the Group's strategy to secure contracts involving the use of highly specialist technologies, develop its presence in the natural gas and crude oil market, and expand its portfolio to include road construction and infrastructure projects.

Geographical presence

The PBG Group's operations focus primarily on the domestic market, which the Company perceives as its key market because of the projects co-financed by the EU, planned projects connected with LNG production facilities with auxiliary infrastructure (compressor stations, gas pipelines, etc.), projects related to the 2012 European Football Championships to be held in Poland, and projects planned in the power sector. However, the Group is taking steps 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 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.

V. SEGMENT OPERATIONS

1. Natural gas, crude oil and fuels segment

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

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

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

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

PBG S.A.

The Company provides comprehensive, specialised contracting services for natural gas, crude oil, and fuels facilities. It acts as a general contractor or sub-contractor with respect to: engineering design work, construction, repairs, operation, and maintenance in the field of: production of natural gas and crude oil, transmission of natural gas and crude oil, storage of natural gas, fuels, LNG, LPG, C5+, and CNG. In the fuels segment, the PBG Group provides general contracting services relating to projects involving construction of new facilities and modernisation of existing fuel terminals, together with auxiliary infrastructure.

Excan Oil and Gas Engineering LTD.

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

GasOil Engineering A.S.

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

SALES

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

Table 18:Sales of services in the natural gas and crude oil segment

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
natural gas, crude oil and fuels (transmission, distribution, production)	791,883	483,128	+308,755	+64

The percentage share of the natural gas, crude oil and fuels segment in the Group's total sales revenue in 2010 reached 29%, having increased by 64% year on year. In connection with execution of a PLN 1.4bn contract for development of an oil field for Polskie Górnictwo Naftowe i Gazownictwo S.A., and of a slightly lower value PLN 1.1bn contract for construction of an underground gas storage facility in Wierzchowice in 2008, as well as the contract of the highest value in the market's history (currently PLN 2.2 net) for construction of the LNG terminal in Świnoujście for Polskie LNG in 2010, PBG expects that its sales revenue from the natural gas and crude oil sector will rise in the years to follow. The contracts are currently the most significant among those carried out by the PBG Group.

2. Water segment

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

PBG GROUP COMPANIES OPERATING IN THE WATER SEGMENT

Hydrobudowa Polska S.A.

Hydrobudowa Polska S.A. specialises in comprehensive execution and maintenance of civil and water engineering, environmental protection, and water supply and sewage projects.

Hydrobudowa 9 S.A.

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

Przedsiębiorstwo Inżynieryjne Metorex Sp. z o.o.

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

KWG S.A.

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

AQUA S.A.

AQUA S.A. is a regional leader in engineering design, specialising 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. It provides a comprehensive execution of projects at all stages, from the initial concept to function and usability programmes to civil engineering design and supervision, to commissioning of the finished facilities. The company is listed on the New Connect market.

SALES

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

Table 19: Sales of services in the water segment

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
Water (water engineering and environmental protection, pipeline rehabilitation)	644,019	996,045	-352,026	-35

The water segment is another crucial area of the PBG Group's operations. In 2010, it accounted for 24% of the sales revenue, compared to 39% in 2009. Contracts executed in the water segment are co-financed by the European Union, are characterised by large unit values and are connected with environmental protection and water engineering projects. The 2007–2013 investment budget approved for Poland includes EUR 63bn for projects relating to such areas as infrastructure, environmental protection and water engineering, which ensures that it should remain a prospective market over the next several years.

3. Industrial and residential construction segment

Projects executed by the PBG Group in this business segment relate to the infrastructure for construction of residential buildings and industrial facilities, as well as provision of property development services in the commercial property sector, based on own land and construction structures. At present, the largest contracts performed in this business segment involve the construction and modernisation of stadiums in Poznań, Gdańsk and Warsaw in connection with the EURO 2012 Football Championships to be held in Poland.

PBG GROUP COMPANIES OPERATING IN THE INDUSTRIAL CONSTRUCTION SEGMENT

Projects related to sports facilities – **Hydrobudowa Polska, PBG**
Projects related to waste sorting plants – **Hydrobudowa Polska, Hydrobudowa 9**

P.R.G. Metro Sp. z o.o.

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

PBG GROUP COMPANIES OPERATING IN THE RESIDENTIAL CONSTRUCTION SEGMENT

PBG Dom Sp. z o.o.

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

PBG DOM INVEST I Sp. z o.o.

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

PBG INVEST III Sp. z o.o.

The company operates in the construction and property development sectors.

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

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

PBG DOM Invest IV Sp. z o.o.

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

PBG Dom Invest V Sp. z o.o.

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

PBG DOM Invest VI Sp. z o.o.

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

PBG DOM Invest VII Sp. z o.o.

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

PBG DOM Invest VIII Sp. z o.o.

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

PBG DOM Invest IX Sp. z o.o.

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

PBG DOM Invest X Sp. z o.o.

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

Gdyńska Projekt Sp. z o.o.

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

Górecka Projekt Sp. z o.o.

The company operates in the construction and property development sectors.

Złotowska 51 Sp. z o.o.

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

City Development Sp. z o.o.

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

Villa Poznań Sp. z o.o.

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

Kino Development Sp. z o.o.

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

Quadro House Sp. z o.o.

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

SALES

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

Table 20: Sales of services in the industrial and residential construction segment

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
industrial and residential construction (construction, infrastructure for industrial facilities)	995,284	877,489	+117,795	+13

In 2010, the share of the industrial and residential construction segment in the Group's total sales revenue reached 36%, up by as much as 2% relative to 2009. As was expected in connection with the new opportunities appearing on the market relating mainly to infrastructure projects, such as construction of infrastructure facilities, waste sorting or incineration plants in the largest Polish cities, the PBG Group's sales revenue in the industrial construction segment grew significantly relative to the previous year and are likely to continue on an upward path in the coming years. 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.

4. Road construction segment

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

PBG GROUP COMPANIES OPERATING IN THE ROAD CONSTRUCTION SEGMENT

APRIVIA S.A.

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

Dromost Sp. z o.o.

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

PRID S.A.

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

BETPOL S.A.

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

Brokam Sp. z o.o.

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

BATHINEX Sp. z o.o.

The company owns land and licenses to launch aggregate production; the Brodziszów-Kłośnik Mine with reserves of granodiorite, an acidic fine-crystalline intrusive igneous rock. The incorporation of the company into the PBG Group created a materials base for the Group companies from the road construction segment.

STRATEG CAPITAL Sp. z o.o.

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

HBP DROGI Sp. z o.o.

Special purpose vehicle.

SALES

At present, the companies operating in the road construction segment are seeking to win and are executing contracts for construction of local roads, expressways, and motorways.

Table 24: Sales of services in the road construction segment

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
roads (road construction)	298,868	187,022	+111,846	+60

In 2010, the share of revenue from the road construction segment in the Group's total sales was 11%, and constituted a 4% growth year on year. The segment's revenue grew by 60% over the end of 2010, from PLN 187m to nearly PLN 299m.

5. Other operating areas

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

CONTRACTING SERVICES

PBG Technologia Sp. z o.o.

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

PBG Operator Sp. z o.o.

Special purpose vehicle

FOREIGN OPERATIONS

PBG UKRAINA Publiczna Spółka Akcyjna (public company limited by shares)

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

Wschodni Invest Sp. z o.o.

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

Energopol Ukraina

The company holds a legal title to a land property with an area of 63,000 m2 located in Kiev, which is planned to be developed and the development area is to be around 250,000 m2. The company provides a wide range of services in the investment process, including: general construction, production and design works. It is experienced in trading and works related to upgrading/modernising industrial facilities.

PBG Bułgaria Sp. z o.o.

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.

POWER ENGINEERING

Energomontaż Południe S.A.

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

PBG ENERGIA Sp. z o.o.

The company procures orders in Poland and abroad in the energy segment and supervises their execution.

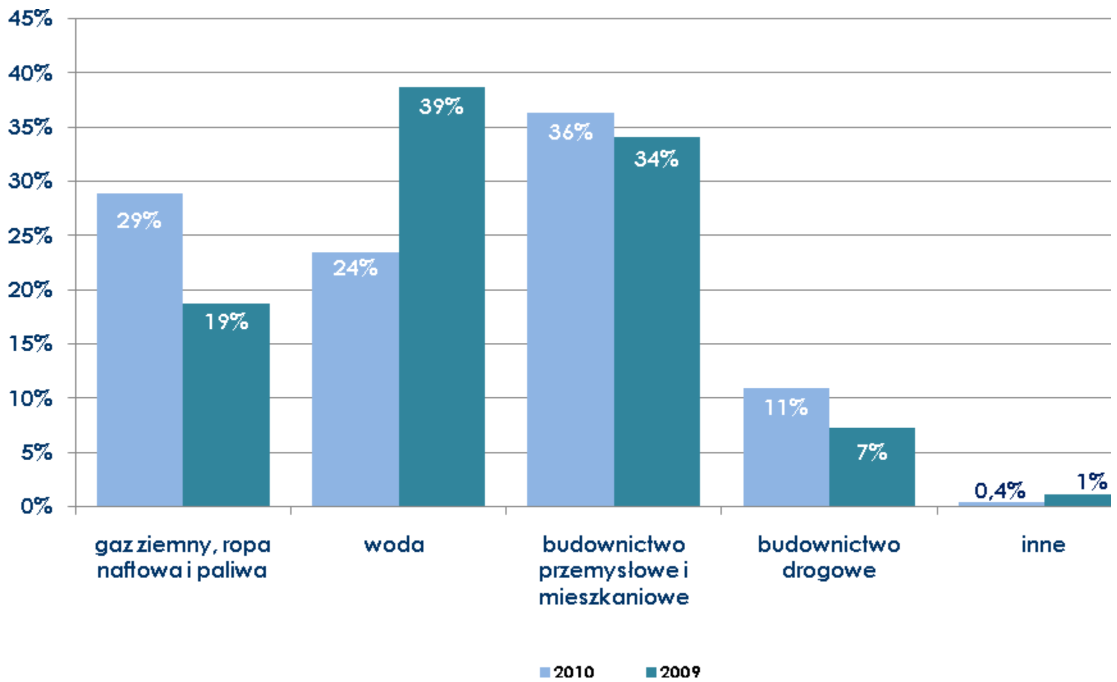
SUPPORT FOR THE PBG GROUP COMPANIES

AVATIA Sp. z o.o.

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

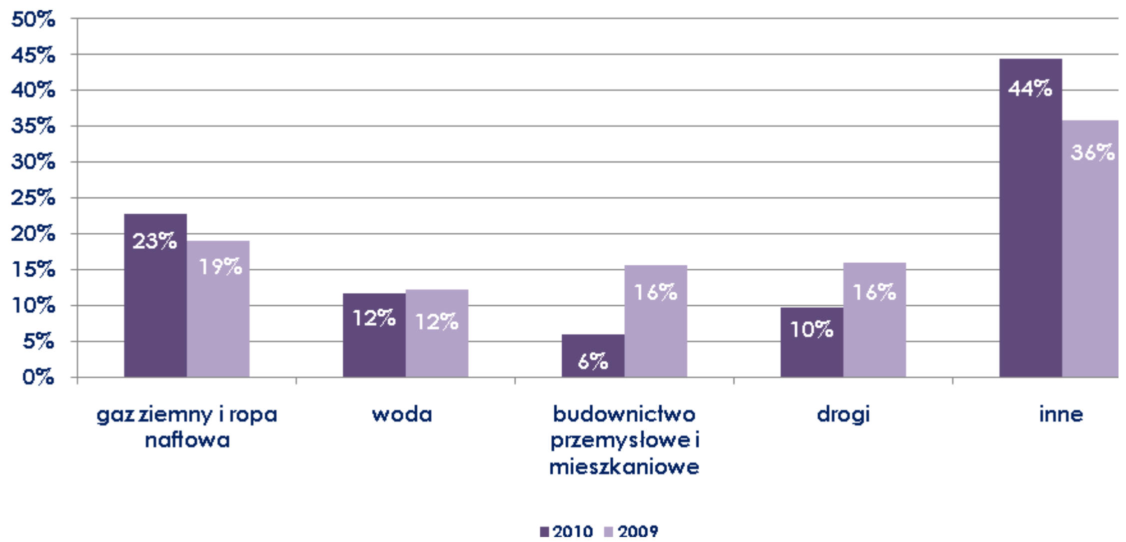
SHARES OF THE PBG GROUP'S BUSINESS SEGMENTS AND MARGINS BY SEGMENTS

Figure 6: Share of the PBG Group's business segments in 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

Figure 7: Gross margins in the PBG Group's key business segments 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

VI. MARKET OUTLOOK

NATURAL GAS, CRUDE OIL AND FUELS MARKETS and SHALE GAS

NATURAL GAS

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

Energy Policy of Poland until 2030 of November 10th 2009 proposed by the Ministry of Economy outlines the main development directions for the Polish gas industry. In order to ensure Poland's energy security and economic growth, the Ministry of Economy set out eight main task groups for the state-controlled companies:

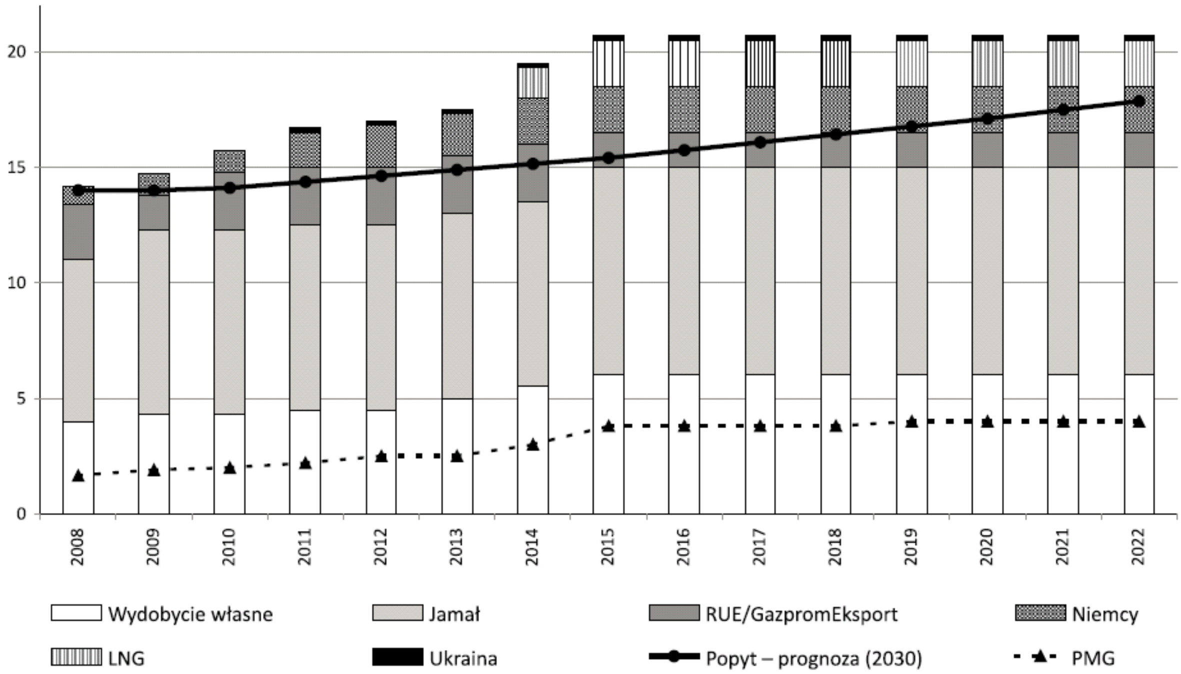
- discovery of new natural gas resources,
- increase of natural gas production capacity in Poland,
- acquisition of alternative sources of gas supply to Poland,
- extension of the natural gas transmission and distribution system,
- expansion of natural gas storage capacities,
- gaining access to natural gas fields outside Poland,
- gas production using coal gasification technology,
- commercial use of methane produced from surface wells.

Poland currently needs approximately 15 billion cubic meters of natural gas per year, approximately 30% of which is sourced from domestic production. The balance is imported, mainly from Russia, under the Yamal Contract.

In connection with the expected increase in natural gas demand in the coming years, as well as in the context of the 2009 gas crisis between Ukraine and Russia and the Northern Pipeline construction plans becoming reality, investments in the gas infrastructure aimed at improving Poland's energy security have become the priority of the Polish government. Achieving the Polish government's objective of enhancing Poland's energy security will be possible only through the implementation of large-scale projects which require billions of PLN in capital expenditure. The development of the Polish gas infrastructure will be funded by the PGNIG Group and OGP Gaz-System as well as by the EU funds (under the Infrastructure and Environment Operational Programme). The PGNiG Group alone plans to spend PLN 25bn-32bn on the strategy-related projects by 2015. The EU funds will play a very important role in the financing of the projects. The European Commission earmarked EUR 28bn for the implementation of the Infrastructure and Environment Operational Programme in 2007–2013. Out of 15 priorities of the programme, two are related to:

- **Priority IX** – environmentally friendly energy infrastructure and energy efficiency – EUR 748m, and
- **Priority X** – energy security, including diversification of energy sources – EUR 974m.

Figure 8: Natural gas demand forecast



Source: Kaliski, Maciej, and Szurlej, Adam. "Demand for Natural Gas in Poland and Possibilities of its Satisfaction," in* Energy Policy*, Vol. 12, No. 2/2, 2009.

Wydobycie własne	Domestic production
Jamał	Yamal Contract
Ukraina	Ukraine
RUE/GazpromEksport	RUE / Gazprom Export
Popyt – prognoza (2030)	Forecast demand (2030)
Niemcy	Germany
PMG	Underground Gas Storage Facilities

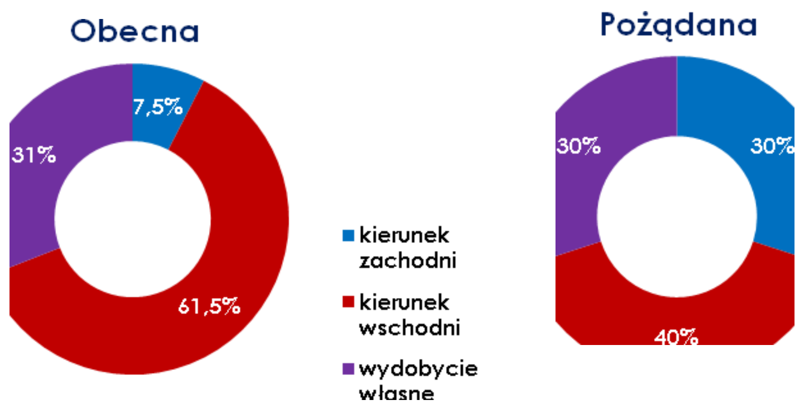
The flagship project aimed at enhancing Poland's energy security is the construction of the LNG terminal in Świnoujście. The project, which is currently valued at approximately PLN 2.65bn, is to be carried out by Polskie LNG Sp. z o.o., a special purpose company fully owned by OGP Gaz-System. The agreement with the contractor was signed on July 15th 2010. The contractor is a consortium of the following companies: PBG, Saipem (as the consortium leader), Techint Compagnia Tecnica Internazionale, Snamprogetti Canada, and PBG Export. The terminal is to be placed in service June 30th 2014. Initially, the Świnoujście terminal will be able to receive 5 billion cubic meters of gas per year.

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

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

Source: Statement by Jan Chahaj, President of OGP Gaz-System, for PAP of September 24th 2009.

Figure 9: Natural gas supply to Poland by source

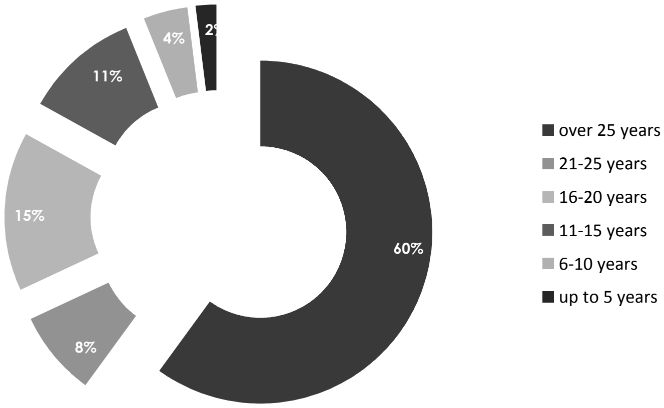


Source: 2010 National Report of the President of the Energy Regulatory Office

Obecna	Existing
Pożądana	Target
kierunek zachodni	Imports from countries west of Poland
kierunek wschodni	Imports from countries east of Poland
wydobycie własne	Domestic production
7,5%	7.5%
61,5%	61.5%

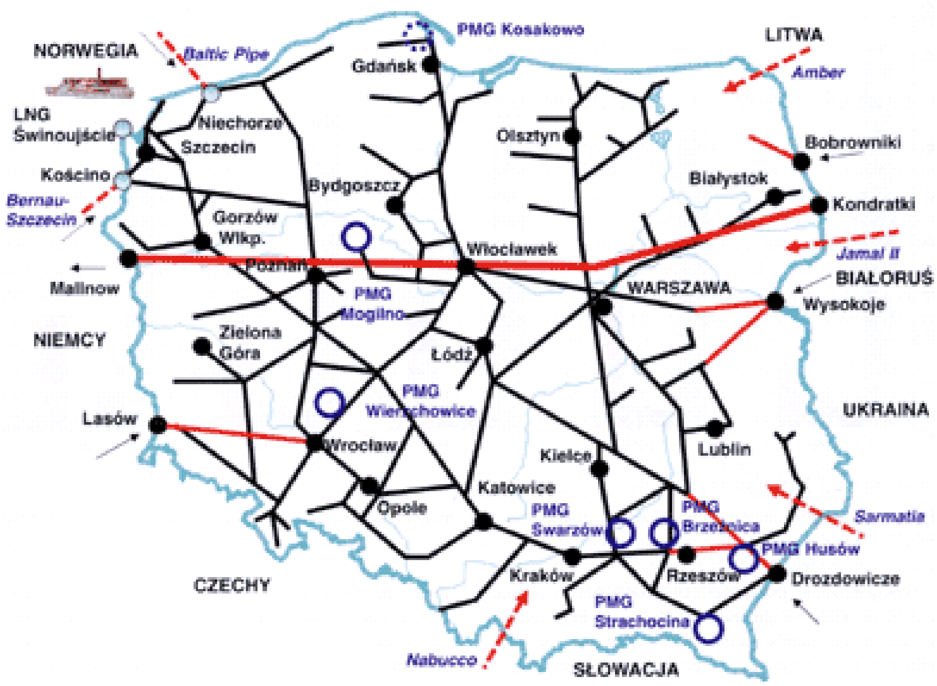
Pursuant to the 2010 Annual Report of the President of the Energy Regulatory Office (URE), the technical condition of the transmission infrastructure plays the key role in ensuring security of gas fuel supplies. Although in 2008 the transmission system's operation was failure-free, its age and heavy depreciation may pose a threat to the continuity of gas supplies in the future.

Figure 10: Age structure of gas transmission pipelines in Poland



Source: 2010 National Report of the President of the Energy Regulatory Office

Figure 11: Existing and projected natural gas transmission network in Poland



Source: [*http://rynekgazu.pl*](http://rynekgazu.pl)

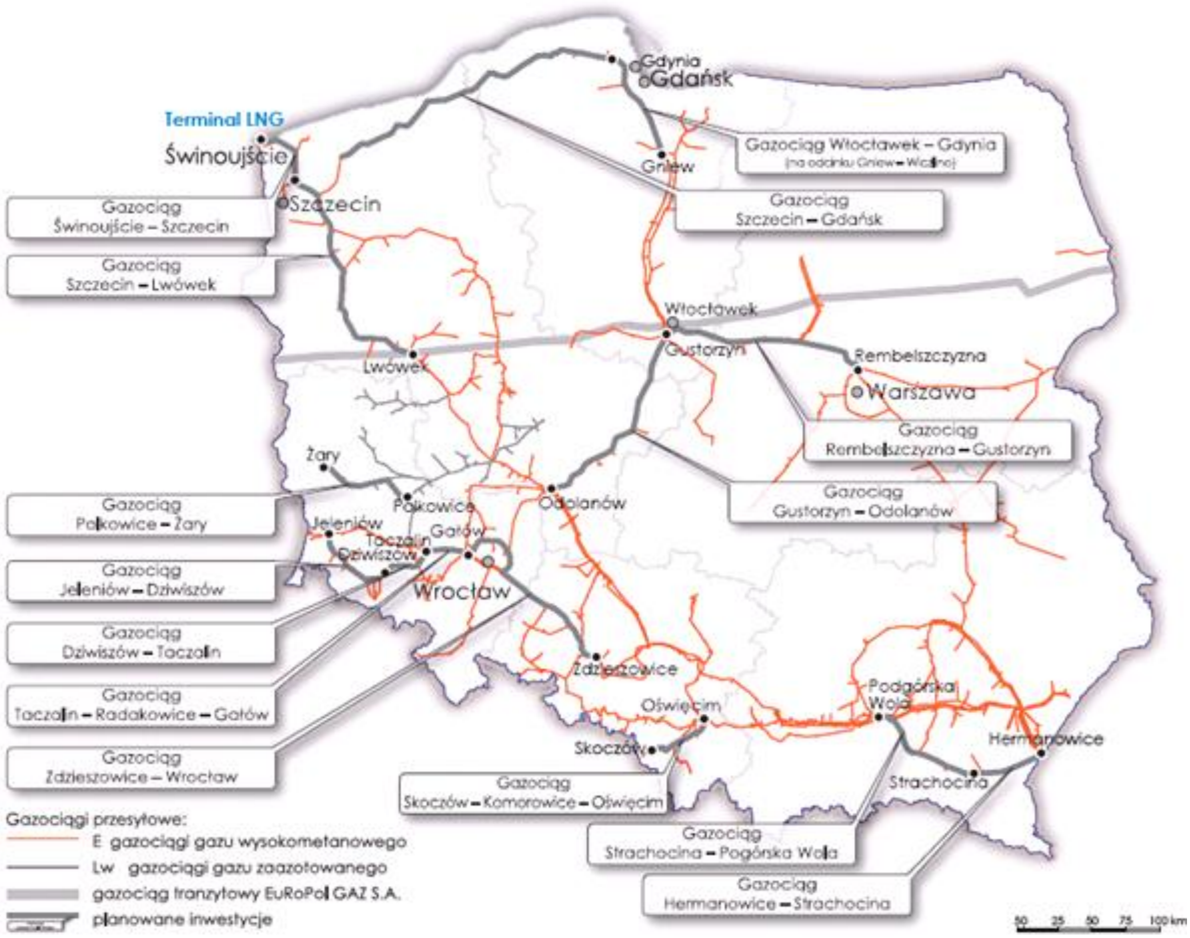
Furthermore, the President of URE highlights the underdevelopment of the gas transmission network, lack of capacity reserves and insufficient integration of the Polish gas system with systems of the neighbouring countries, in particular those of the EU Member States. The President of URE primarily points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

The investment tasks related to development of the transmission network will be implemented through OGP Gaz-System, which in 2009–2014 intends to invest ca. PLN 5bn and construct more than 1,000 km of new gas pipelines. The planned projects include:

Table 21: Planned gas pipeline projects

No.	Project	Value (PLN)
1.	Construction of a 267 km a gas pipeline from Szczecin to Gdańsk which will comprise an element of the Northern main gas transmission network connecting the Gdańsk and Szczecin urban areas. The investment project is an extension of the Goleniów-Nowogard-Płoty gas pipeline	**1.13bn**
2.	Construction of a gas pipeline from Szczecin to Lwówek to increase the capacity of the gas pipeline from Odolanów to Police – the new pipeline will become the main transmission line for the gas collected at the LNG terminal. The project will be executed in two stages: construction of the Szczecin-Gorzów Wielkopolski section (106 km), and the Gorzów Wielkopolski-Lwówek section (80 km)	**865m**
3.	Construction of a gas pipeline from Gustorzyn to Odolanów to connect Gustorzyn and Odolanów main system hubs and Wierzchowice and Mogilno Gas Storage Facilities, which will improve gas transmission capabilities	**778m**
4.	Upgrade of a gas pipeline from Rembelszczyzna to Gustorzyn, which will improve the safety of gas transmission through this connection, strengthen the supply systems leading to the Uniszki hub, and facilitate transmission of larger streams of gas fuel to North-Eastern Poland	**767m**
5.	Construction of a gas pipeline from Jeleniów to Dziwiszów to form a ring network, which will ensure improved reliability and flexibility of operation of the entire gas grid in the Province of Wrocław	**185m**
6.	Construction of a gas pipeline from Włocławek to Gdynia – another 64 km of pipeline is needed to complete the project	**143m**
7.	Construction of a gas pipeline from Polkowice to Żary required to secure stable and safe operation of the nitrogen-rich gas system	**100m**

Figure 12: Transmission gas pipeline network – GAZ SYSTEM S.A.'s projects until 2014



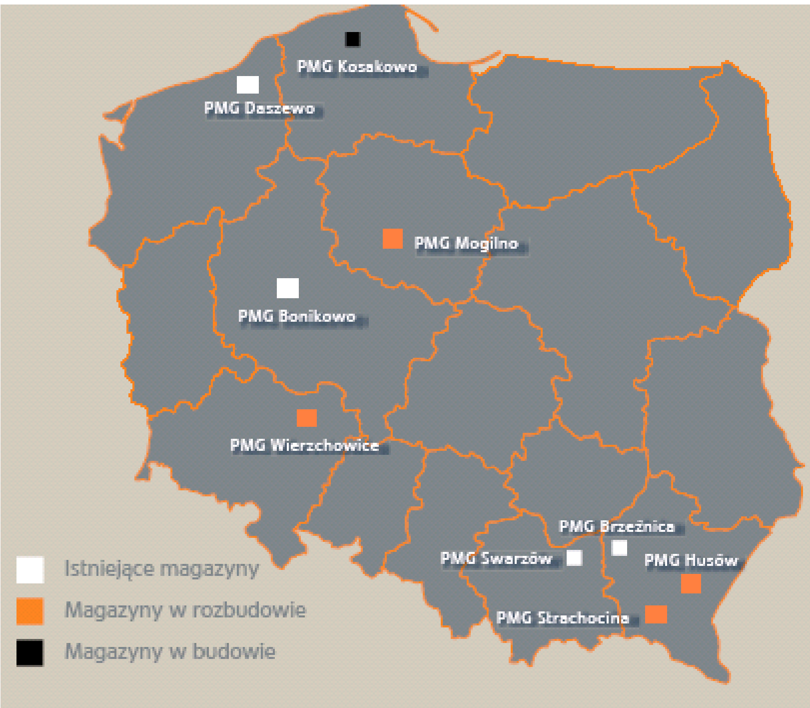
Source: Gaz-System S.A.

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

Increasing gas production by domestic producers is another area requiring capital expenditure to ensure Poland's energy security. Projects in this area will be implemented by the PGNiG Group and will involve increasing gas production from Polish fields and providing access to the gas produced from fields located abroad, e.g. in Norway. In 2009, the PGNiG Group produced 4.1 billion cubic meters of gas from Polish fields. According to the PGNiG Group's strategy adopted in 2008, in the coming years the PGNiG Group intends to increase natural gas production to approximately 6.2 billion cubic meters per year by increasing production from the Polish fields to approximately 4.5 billion cubic meters and by launching production from foreign fields in 2011. After 2015, at least 1.5 billion cubic meters of the annual production of natural gas is to come from the equity gas reserves on the Norwegian Continental Shelf (i.e. gas produced by a consortium; PGNiG holds an interest in equity gas pro rata to its share in the consortium). The most important project related to increasing domestic gas production and doubling crude production is the development of Lubiatów-Międzychód-Grotów oil and gas fields. In 2008, the PGNiG Group and the PBG Group as the contractor executed a PLN 1.7bn contract for development of an oil and gas field; the field is to be commissioned in 2013.

Another vital aspect of Poland's energy security is the implementation of projects designed to expand gas storage capacity. Gas storage facilities help maintain a required amount of reserves in case of short-term interruptions in gas supplies resulting from system failures or reduced supplies. In addition, the storage facilities guarantee a stable level of production throughout the year. In periods of lower demand, gas is injected into a storage facility, and at times of peak demand – the gas is drawn from the facilities. PGNiG operates six storage facilities with an aggregate storage capacity of 1.61 billion cubic meters, which represents 11.3% of the annual demand in Poland. The storage facilities are located in various types of geological structures and have different gas compression and output capacities.

Figure 13: Natural Gas Storage Facilities in Poland



Source: PGNiG S.A.

PMG	Underground Gas Storage Facility
Istniejące magazyny	Existing storage facilities
Magazyny w rozbudowie	Storage facilities being expanded
Magazyny w budowie	Storage facilities under construction

PGNiG's strategy provides for the expansion of storage capacity by approximately 2 billion cubic meters, to a target capacity of 3.8 billion cubic meters in 2015. The most extensive project is the expansion of the Wierzchowice Gas Storage Facility from 0.5 billion cubic meters to a target capacity of 3.5 billion cubic meters in 2015. The first stage of this project is currently underway and is scheduled to be completed in 2012, with the expansion of the gas storage capacity to 1.2 billion cubic meters. This contract, worth PLN 1.3bn, is performed by a PBG-led consortium. In addition to the construction of new capacity at Wierzchowice, PGNiG is currently implementing the following capacity expansion projects:

- expansion of the Mogilno Storage Facility – **PLN 220m,**
- construction of the Kosakowo Storage Facility – **PLN 667m,**

- expansion of the Strachocina Storage Facility – **PLN 550m.**

Table 22: Expansion of gas storage capacity in Poland – projects planned for 2010–2015

Facility	Type of project	Working capacity (BCM)	Target capacity (BCM)	Year of completion
Bonikowo	-	0.20	-	-
Brzeźnica	-	0.07	-	-
Daszewo	-	0.03	-	-
Husów	expansion	0.35	0.50	2011
Kosakowo	construction	-	0.25	2020
Mogilno	expansion	0.38	0.80	2018
Strachocina	expansion	0.15	0.33	2011
Swarzów	-	0.09	-	-
Wierzchowice	expansion	0.58	3.50	2015
Total		1.85	5.38	

Source: PGNiG S.A.

In addition, the years 2009-2012 will see a number of large-scale investment projects (some of which are already under way) aimed to prepare Poland's infrastructure (mainly its transport system) to the 2012 European Football Championships hosted by Poland. When new motorways, expressways and beltways are built, the existing gas networks will also have to be altered.
New entrants on the Polish market include private distributors of natural gas (e.g. KRI S.A.) and gas exploration companies, such as FX Energy or Aurelian Gas&Oil. Those companies also have investment plans designed to develop the existing transmission and distribution networks, as well as gas production facilities.

PGNiG intends to allocate an amount in the range of **PLN 25bn–PLN 32bn** to the implementation of the PGNiG Group's Strategy until 2015. On the other hand, the **Gaz-System** Group's planned investment expenditure for 2007-2013 is approximately **PLN 8bn**.

SHALE GAS

In the context of recent reports on the growth prospects for the Polish natural gas sector, **shale gas** should be mentioned as a resource which may in the near future dramatically change Poland's position on the global market of production of and trade in natural gas. Poland appears to have an exceptionally large potential in this field. According to various analyses, from 1.5 trillion to 3 trillion cubic metres of gas may be trapped in shale in Poland. To put this figure in a context, the annual demand for natural gas in Poland is approximately 15bn cubic metres.

Depending on the source, capital expenditure on exploring for shale gas in Poland over the next three years is estimated at **USD 1.5bn–2bn**. The companies exploring for shale gas in Poland are to intensify their operations in the spring 2011. The largest players on the market have already announced drilling new boreholes. Each of the companies which obtained licences for shale gas exploration in Poland

must expend around USD 15m on one complete borehole. This level of expenditure has been confirmed by the operators which have already been conducting drilling work in Poland.
The material issues are the obligations under the licences granted for gas exploration and meeting the criteria stipulated therein. Each investor is obliged to drill at least two boreholes, usually within three years. It is not enough to perform vertical drilling; while exploring for shale gas, it is also necessary to perform fracturing and horizontal drillings. All these operations are designed to arrive at a more accurate determination of reserves of a given deposit. The Ministry of Environment has granted over 70 licences. Even assuming that not all investors have performed their obligations under respective licences, over 100 boreholes will be drilled in Poland over the next three years, which puts their total expenditure at USD 1.5bn or higher.

First pilot work has been performed by Lane Energy and Conoco Phillips (working in cooperation) and ExxonMobil. Chevron has also been conducting exploratory work. In mid-February 2011, BNK Petroleum announced that its first drilling in Pomerania was a success. Consequently, BNK Petroleum plans to drill another two boreholes before the end of H1 2011. All largest global corporations specialising in natural gas production are present in Poland.

Market analysts and operators agree that the performance of licence obligations by the licensees will enable the reserve volumes and production feasibility to be estimated with a large probability; it will also support production forecasting.

However, the first boreholes currently drilled in Poland mark the starting point only along the path leading to a more accurate determination of the reserves of shale gas in Poland and, in a longer time horizon, gas production. The holders of exploration licences will have to apply for production permits if they find the production economically viable. Experts estimate that the process will take at least a year and a half. Therefore, the most reasonable appear to be the forecasts according to which the industrial production of shale gas in Poland will be possible in seven to ten years at the earliest.

Thus it is with a growing frequency that the problem has been emerging of transporting newly discovered and producible gas from deposits to networks. It will be necessary to build gas pipelines and other gas facilities. This is good news for the PBG Group and its leading company, PBG S.A.: the potential construction market in the natural gas sector may grow significantly.

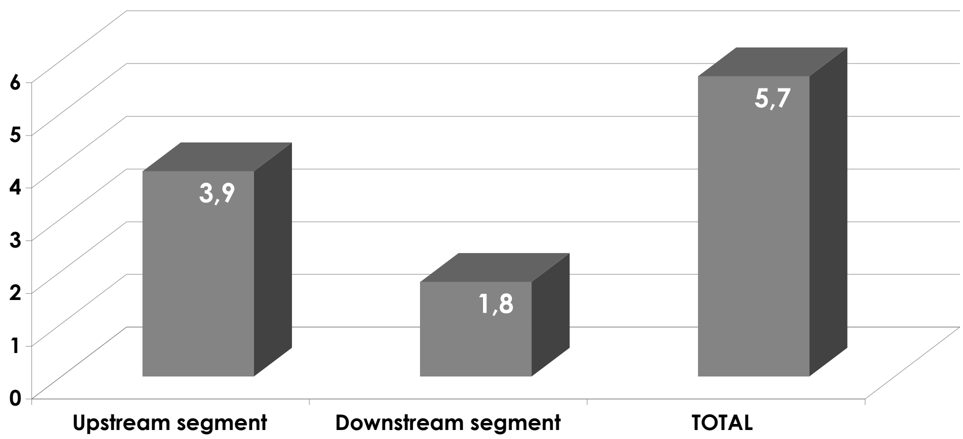
CRUDE OIL AND FUELS

The PGB Group's position in the **oil industry** is related to investment plans of PKN ORLEN S.A., LOTOS S.A., NATO, OLPP, PERN Przyjaźń S.A. as well as other organisations in the fuel sector.
Factors with a material bearing on the oil and fuel market include:

- **Investment plans of PKN Orlen S.A.** for 2011–2013 amounting to **PLN 6bn**;
- **Investment plans of Lotos SA** for 2011–2015 amounting to approximately **PLN 5.7bn,** including the final implementation of the 10+ Programme (objectives of the Programme include increasing crude processing capacity from 6m to 10.5m tonnes; improving the oil conversion

ratio; mild hydrocracking unit (MHC); diesel oil hydrodesulphurisation unit (HDS); and residuum oil supercritical extraction (ROSE)). The other plans mainly relate to the production of crude oil on the Baltic Shelf (the planned budget exceeds PLN 3bn), as well as in the Norwegian Sea and the North Sea. Production is assumed to increase to 20% of the processed volume, that is to 1.2m tonnes per annum in 2015, to further grow thereafter.

Figure 14: Capital expenditure planned by LOTOS for 2011–2015 (PLN bn)



Source: LOTOS.

- Also **Polskie Górnictwo Naftowe i Gazownictwo** plans to increase crude oil production**:**
  - **In Poland:** from the planned ca. 570 thousand tonnes in 2011, to ca. 900 thousand tonnes in 2012. In 2011 and 2012, domestic production will amount to 480–500 thousand tonnes.
  - **Abroad:** from the planned ca. 90 thousand tonnes in 2011, to ca. 400 thousand tonnes (on the Norwegian Continental Shelf).

  In 2015, the increase in the production volume will be ca. 1.3m tonnes (from approximately 0.5m tonnes pa to approximately 1.8m tonnes). Domestic fields are expected to yield 1m tonnes of crude oil.

The planned budgets for natural gas and crude oil exploration are as follows:

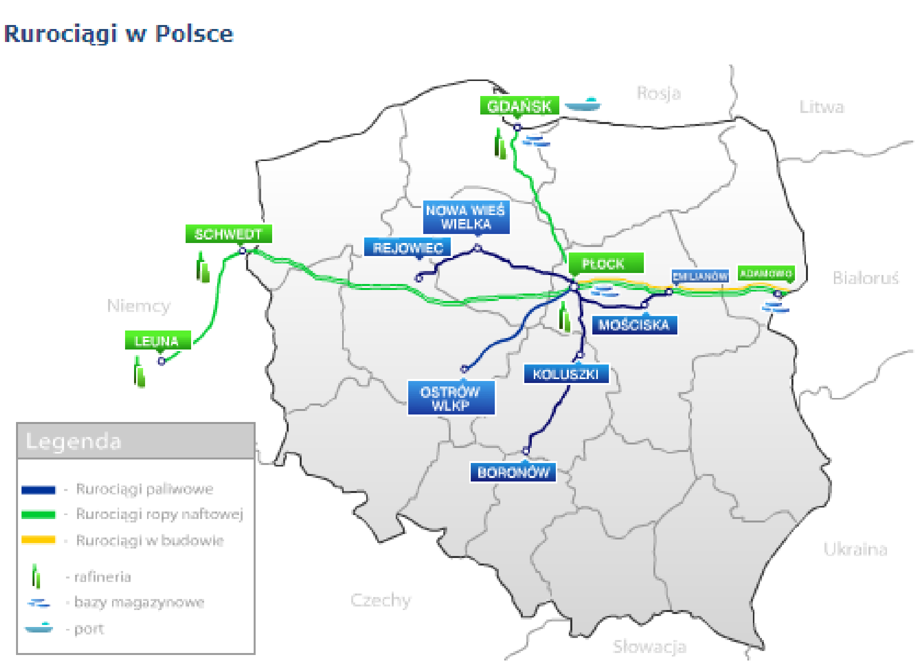
- **PGNiG:**
  - until 2015, around **PLN 600–650m** annually in Poland;
  - until 2015, around **PLN 300–500m** annually abroad.
- **Orlen:**
  - about **PLN 420m** in Poland and abroad.
- Moreover, **NATO's investments** in Poland in 2011–2014, are to reach **EUR 1bn**, including fuel storage depots (PLN 0.7bn).
- **Plans for construction of crude oil pipelines:** Adamów–Płock and Odessa–Brody.

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

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

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

Figure 15: Pipelines in Poland

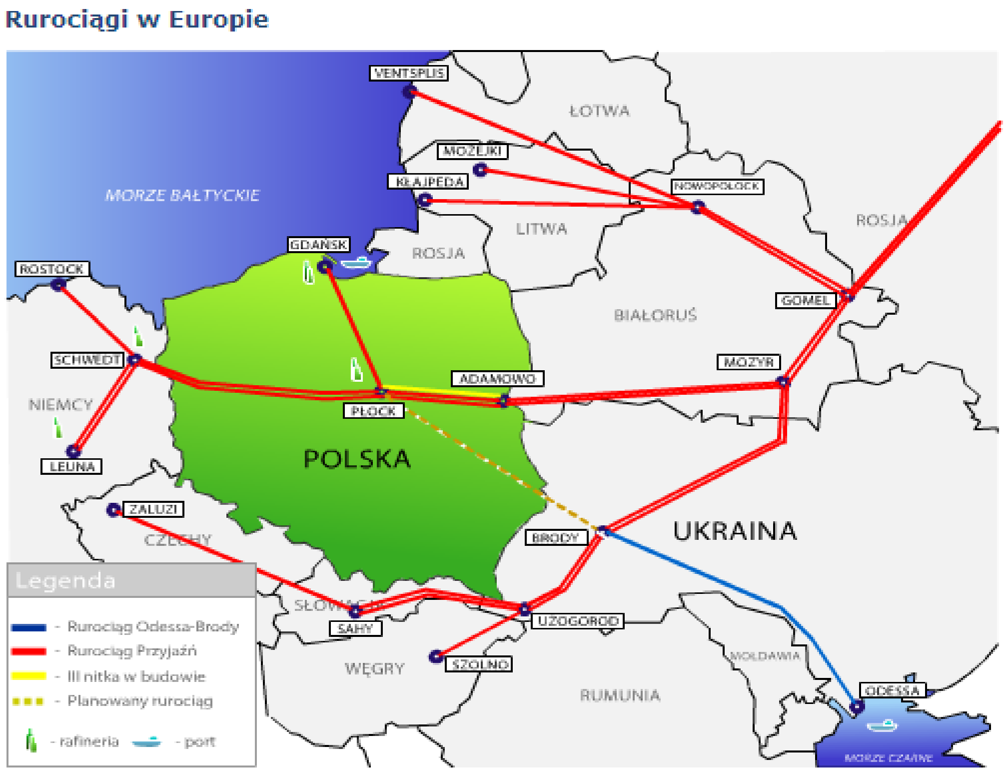


Source: www.pern.com.pl

Pipelines in Poland

Rurociągi paliwowe	fuel pipelines
Rurociągi ropy naftowej	crude pipelines
Rurociągi w budowie	pipelines under construction
rafineria	refinery
bazy magazynowe	storage depots
port	sea terminal

Figure 16: Pipelines in Europe



Source: www.pern.com.pl

Pipelines in Europe

Rurociąg Odessa–Brody	Odessa–Brody pipeline
Rurociąg Przyjaźń	Friendship Pipeline
III nitka w budowie	Third line under construction
Planowany rurociąg	Planned pipeline
rafineria	refinery
port	sea terminal

ENVIRONMENTAL PROTECTION AND HYDRO-ENGINEERING MARKET

One of the key documents applicable to environmental protection projects is the Infrastructure and Environment Operational Programme for 2007-2013, adopted and endorsed by the European Commission on December 7th 2007 and subsequently approved by the European Commission by way of the Resolution of the Council of Ministers dated January 3rd 2008. The Programme – in line with the draft National Strategic Reference Framework (NSRF) for 2007-2013 – is one of the operational programmes which constitute a critical tool in helping achieve the objectives stated in the NSRF, with the financial support from the Cohesion Fund and the European Regional Development Fund.

The main objective behind the Programme is to promote Poland (and also its individual regions) through projects implemented in six areas ranging from transport, through environment, power engineering, culture and health care to higher education. The following three specific objectives are perceived by the PBG Group as to the Programme's success:

- Construction of infrastructure supporting Poland's economic development, combined with protection and improvement of the natural environment;
- Higher accessibility of economic centres in Poland, connected by a network of motorways and expressways as well as use of means of transport other than road vehicles;
- Ensuring long-term energy security for Poland through diversification of the supply sources, reducing the energy intensity and development of renewable resources.

This means that investment into technical infrastructure (the core area of the PBG Group's business) is additionally driven by an influx of structural funds from the EU. This is particularly true in the case of financing of water and sewage systems, as well as wastewater treatment plants. To illustrate the impact of EU funds on the water segment's revenues, suffice it to mention that the amount of financial support received by Poland in 2000-2003 to co-finance projects in the area of environmental protection and water engineering amounted to EUR 0.7bn. In 2004-2006, the total grants amounted already to EUR 4.2bn. The total amount of funds committed to the **implementation of the Infrastructure and Environment Operational Programme for 2007-2013 will reach EUR 38.9bn** (at current prices), of which the public contribution will amount to EUR 35.4bn. The public contribution will comprise EU funds of EUR 27.9bn (including EUR 22.2bn from the Cohesion Fund and EUR 5.7bn from the European Regional Development Fund), and funds from the Polish state budget of EUR 7.5bn. In addition to public funds, the Programme will also be financed with private money – financial support for the corporate sector will be subject to competitive terms. The total amount of private funds has been estimated at EUR 3.5bn. This amount may increase by EUR 2bn if the planned loans from the European Investment Bank (EIB) are granted to Poland.

Figure 17: EU funds committed to the Infrastructure and Environment Operational Programme (EUR BILLION)

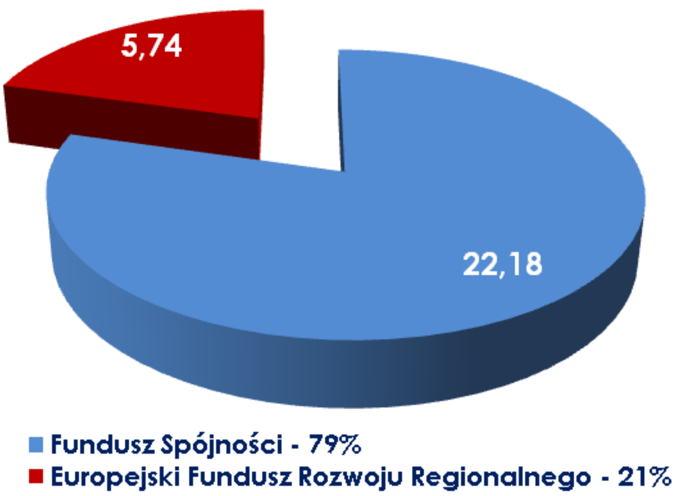


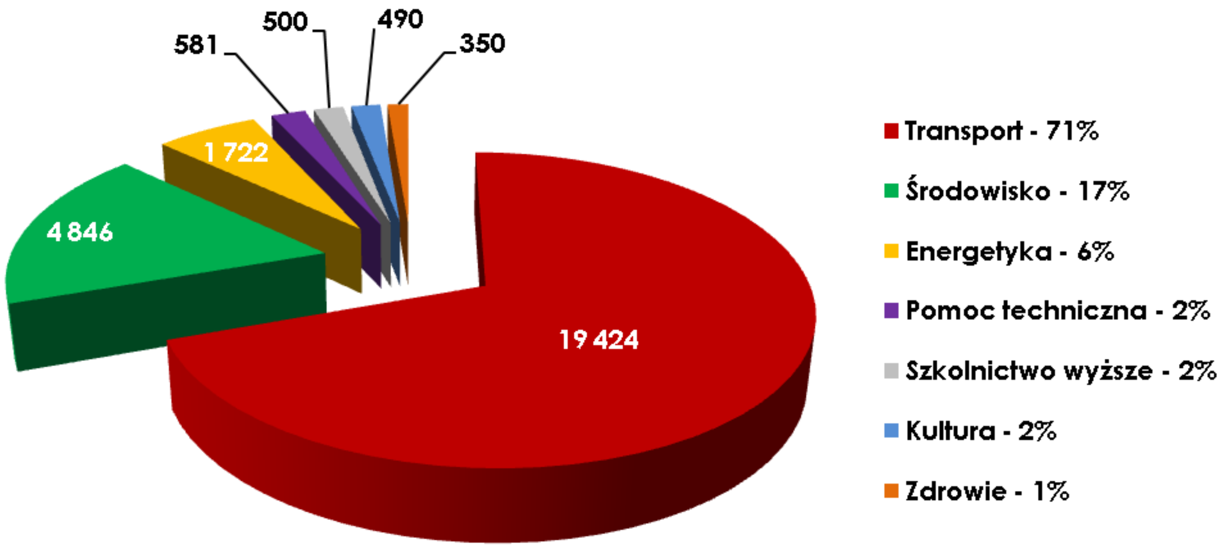
Table 23: Allocation of EU funds under the Infrastructure and Environment Operational Programme, by priority

	Infrastructure and Environment Programme	Community contribution (EUR '000)		%	
		ERDF	CF	ERDF	CF
1	2	3	4	5	6
P I	Water and wastewater management		2,783,943		12.6%
P II	Waste management and land conservation		1,215,740		5.5%
P III	Resource management and environmental risk prevention		556,788		2.5%
P IV	Projects designed to adapt businesses to meet environmental requirements	200,000		3.5%	
P V	Protection of the environment and environmental awareness promotion	89,800		1.6%	
P VI	The TEN-T road and air transport network		8,802,367		39.7%
P VII	Environment-friendly transport		7,676,019		34.6%
P VIII	Transport safety and domestic transport networks	2,945,490		51.3%	
P IX	Environment-friendly power infrastructure and energy efficiency		748,037		3.4%
P X	Energy security, including through diversification of energy sources	974,280		17.0%	
P XI	Culture and cultural heritage	489,970		8.5%	
P XII	Health security and improvement of health-care efficiency	349,990		6.1%	
P XIII	Higher education infrastructure	500,000		8.7%	
P XIV	Technical support – European Regional Development Fund	187,800		3.3%	
P XV	Technical support – Cohesion Fund		393,459		1.8%

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

- transport – **EUR 19.4bn**;
- environmental protection – **EUR 4.84bn;**
- power – **EUR 1.7bn**;
- technical support **– EUR 581m;**
- higher education – **EUR 500m**.
- culture – **EUR 490m**;
- health – **EUR 350m**;

Figure 18: Allocation of EU funds under the Infrastructure and Environment Operational Programme by sectors (EUR MILLION)



Transoprt	transport
Środowisko	Enviroment
Energetyka	Energetic
Pomoc techniczna	Tech support
Szkolnictwo wyższe	Higher education
Kultura	Culture
Zdrowie	Health care

The Programme – in line with the National Strategic Reference Framework (NSRF) approved by the European Commission on May 7th 2007 – is one of the operational programmes which constitute a critical tool in helping achieve the objectives stated in the NSRF, with the support of funding from the Cohesion Fund and the European Regional Development Fund. In addition, the Infrastructure and Environment Operational Programme plays an important role in the implementation of the renewed Lisbon Strategy – the Programme expenditure on EU priority policy goals account for 66.24% of its entire budget financed with EU funds.

Source: www.pois.gov.pl;

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

source: www.funduszeeuropejskie.gov.pl

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

The largest planned projects include:

Water and wastewater management:

Table 24: Planned projects in water and wastewater management

No.	Project name	PLN
1.	Water supply and wastewater treatment in Warsaw, phase IV	**2.2bn**
2.	Wastewater treatment in the Żywiec region	**858m**
3.	Comprehensive protection of the underground waters in the Kielce urban agglomeration	**630m**
4.	Optimisation of water and wastewater management in the Mikołów urban agglomeration	**498m**
5.	Expansion and modernisation of the water supply and sewage discharge systems in Lublin	**488m**
6.	Optimisation of water and wastewater management in the Parsęta river basin, phase II	**459m**
7.	Construction of a drainage system in the Puszcza Zielonka Landscape Park and its surrounding areas	**361m**
8.	Modernisation and development of the water and wastewater management system in Nowy Sącz	**335m**
9.	Optimisation of the water and wastewater management in the town of Żory	**279m**

Water retention and flood security:

Table 25: Planned projects in the area of water retention and flood security

No.	Project name	PLN
1.	Development of a flood control reservoir Racibórz Dolny on the Odra river	**1.28bn**
2.	Modernisation of the Wrocław Hydrotechnical System	**680m**
3.	flood protection of Żuławy (6 projects)	**647m**
4.	Modernisation of the Wrocław Hydrotechnical System – reconstruction of the town's flood control system	**572m**
5.	Modernisation of the Nysa water reservoir	**467m**
6.	Modernisation of the artificial waterfall in Włocławek	**153m**

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

INFRASTRUCTURE CONSTRUCTION MARKET

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

Upgrade, extension and construction of airports in eight cities in Poland is planned to cost up to **EUR 396m** from the EU budget plus EUR 390m in outlays incurred by the relevant local authorities. Investment plans concerning airports are included in the Infrastructure and Environment Operational Programme for 2007–2013., Priority VI: TEN-T Road and air transport network. Fourteen projects have been approved, whereas 8 are in the reserve list.

The key airport-related projects are listed below:

Table 26: **Key projects related to airports in Poland**

No.	Project name	PLN
1.	Extension of the passenger terminal and the existing infrastructure of the Krakow airport	**630m**
2.	Upgrade of the Warsaw airport's infrastructure	**575m**
3.	Extension and upgrade of the Katowice airport	**416m**
4.	Extension and upgrade of the Poznań airport's infrastructure	**395m**
5.	Construction of the second passenger terminal, including upgrade of the associated infrastructure, plus extension and upgrade of the Gdańsk airport infrastructure, including the upgrade of the airside infrastructure	**360m**
6.	Construction of a new terminal and extension and upgrade of the existing infrastructure of the Rzeszów airport	**335m**
7.	Upgrade of the Wrocław airport's infrastructure	**313m**
8.	Extension and upgrade of the Szczecin-Goleniów airport	**121m**

Projects related to the **construction of waste incineration plants** in Poland's largest cities can potentially become key investment tasks for the PBG Group's activities. Presence of such plants is one of the key requirements for Poland to meet in order to comply with the EU requirements on waste management.

Under the Accession Treaty of 2003, Poland undertook to reduce the amount of waste disposed on landfills by a half. Moreover, waste is subject to quality segregation, which means that only biodegradable waste may be disposed at landfills.

As of July 16th only 75% of biodegradable waste may be disposed on landfills. Poland failed to meet this requirement, which caused the European Commission to impose penalties amounting to EUR 40 thousand per day. If Poland does not comply with the accession obligations to 2013, this amount will increase to EUR 250 per day.

These important projects also fall within the scope of the Infrastructure and Environment Operational Programme for 2007–2013. Priority II of the Programme precisely concerns waste management and land conservation. Eighteen projects for a total amount of PLN 5.6bn have been submitted and approved.

The key projects include:

Table 27: Investment projects related to waste management and land surface protection

No.	Project	Amount (PLN)
1.	Waste management system for cities and towns of the Upper Silesia Metropolitan Union, along with construction of a waste incineration plant	**1.08bn**
2.	Municipal waste management in Kraków, along with the construction of a waste incineration plant	**703m**
3.	Municipal waste management in Łódź, along with the construction of a waste incineration plant	**640m**
4.	Construction of a waste incineration plant in Olsztyn	**518m**
5.	Integrated waste management system for the Białystok metropolitan area	**414m**
6.	Construction of waste incineration plant for the Bydgoszcz-Toruń Metropolitan Area	**400m**
7.	Construction of waste incineration plant for the Szczecin Metropolitan Area	**300m**

There are three possible scenarios for the construction of waste incineration plants. The first scenario assumes that the projects will be financed with the EU funds. The second scenario provides for a public and private partnership, and co-financing from the EU. This is an innovative solution that has so far been implemented only with respect to a few projects executed in the European Union. Under the third scenario, the projects may be carried out by local authorities.

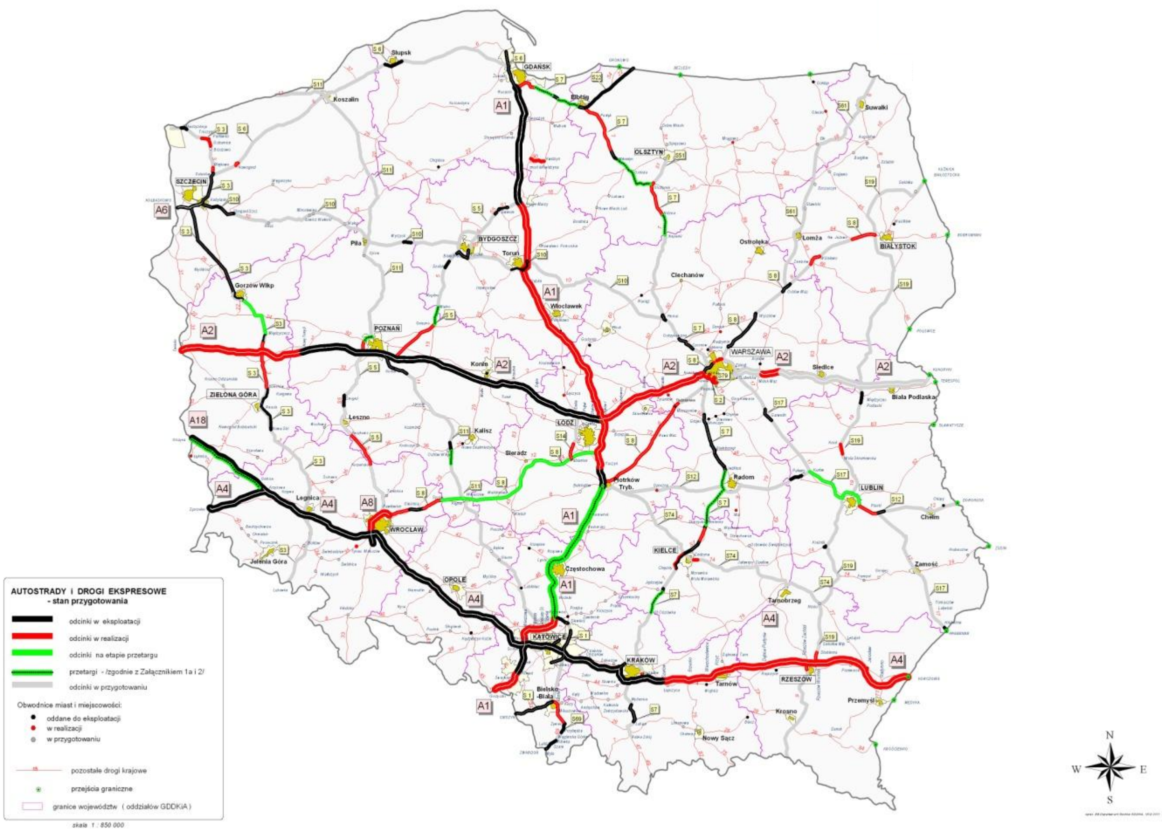
In order to improve its competitiveness in bids for construction of highly-complex facilities such as incineration plants, the PBG Group established cooperation with the world leader in this field. The scenario providing for a public and private partnership appears to be particularly attractive. It offers the company a possibility to extend its operations by becoming not only the constructor, but also the operator of the plant.

ROAD CONSTRUCTION MARKET

A long-term main roads construction programme for 2011-2015 provides for completion of the following tasks by the end of 2013:

- construction of a motorway network with a total length of approximately 810.4 km (including sections built under public–private partnership of a length of 168.3 km);
- construction of an expressway network or a total length of approximately 782.5 km;

Figure 19: Main roads construction programme for 2011-2015



Source: GDDKiA

Autostrady i drogi ekspresowe – stan przygotowania	Motorways and expressways – level of completion
Odcinki w eksploatacji	Sections in service
Odcinki w realizacji	Sections under construction
Odcinki na etapie przetargu	Sections subject to tenders
Przetargi – /zgodnie z Załącznikiem 1a i 2/	Tenders - /as specified in Appendix 1a and 2/
Odcinki w przygotowaniu	Sections under preparation for construction

Obwodnice miast i miejscowości	Town and city beltways
Oddane do eksploatacji	In service
W realizacji	Under construction
W przygotowaniu	Under preparation for construction
Pozostałe drogi krajowe	Other main roads
Przejścia graniczne	Border crossings
Granice województw (oddziałów GDDKiA)	Boundaries of provinces
Skala 1: 850 000	Scale 1:850,000

- construction of 26 beltways of a total length of 203 km in towns congested by intense drive-through traffic, as well as prevention of new building developments in the bypass area;
- reconstruction of sections of main roads in order to improve road traffic safety as part of the *Drogi zaufania* programme (programme for the protection of heath and lives of main road users, implemented by GDDKiA since 2007).

The total expenditure on construction and reconstruction of main roads in 2011-2013 amounts to PLN 9.4 bn and covers:

- improvement of the condition of main roads to ensure that 66% of main roads are in a good condition by 2012.

The projects to be implemented in the first order and completed by 2013 involve the construction of the following motorways and expressways:

- A1Motorway – completion of all sections;
- A2 Motorway – completion of the Świecko-Mińsk Mazowiecki section, start of construction works on the Mińsk Mazowiecki-Eastern border section;
- A4/A18 Motorway – completion of all sections;
- A8 Motorway – completion of all sections;
- Expressways: S1, S2, S3, S5, S7, S8, S17, S19, S69.

Implementation of the programme in 2011–2013 is secured with a budget of **PLN 72.4bn**, including PLN 63.3bn from the National Road Fund (KFD) and the balance of PLN 9.1bn from the central budget. The funds (around PLN **4.8bn**) of the Operational Programme Infrastructure and Environment saved in tenders for railway projects will be contributed to the programme implementation. The increased pool of funds will facilitate the construction of sections of the S3 and S17 expressways, currently on the waiting list. Thus a total of PLN **77.2bn** will be spent on road construction in 2011–2013.

Figure 20: Financing of the main road programme until 2013

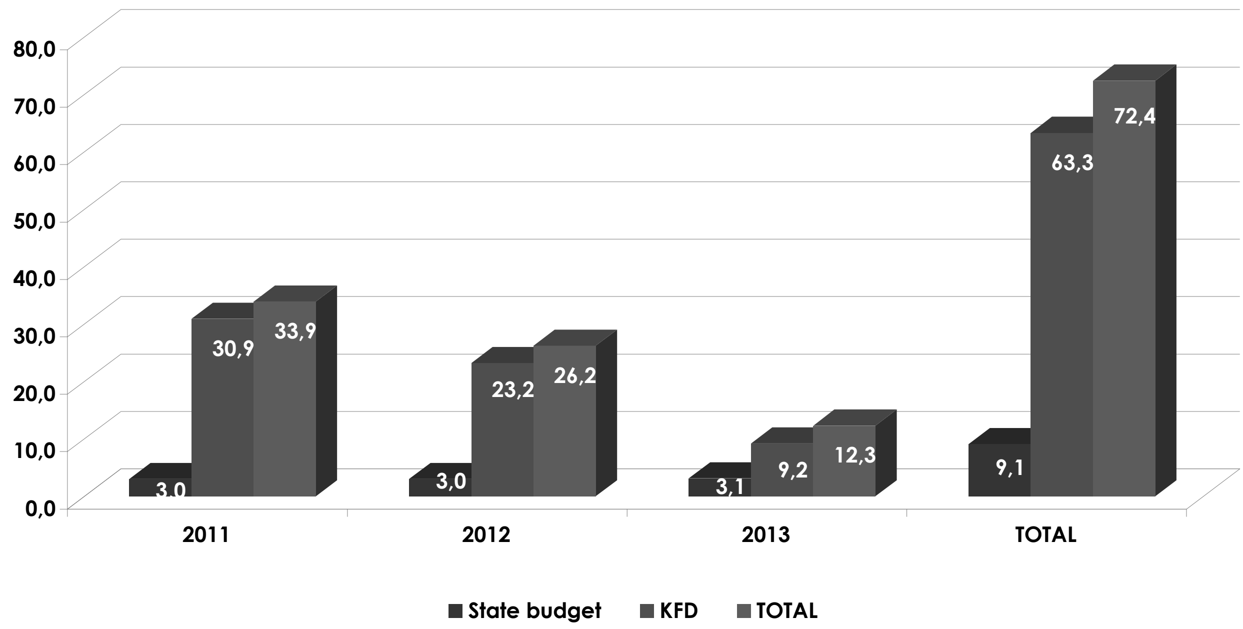
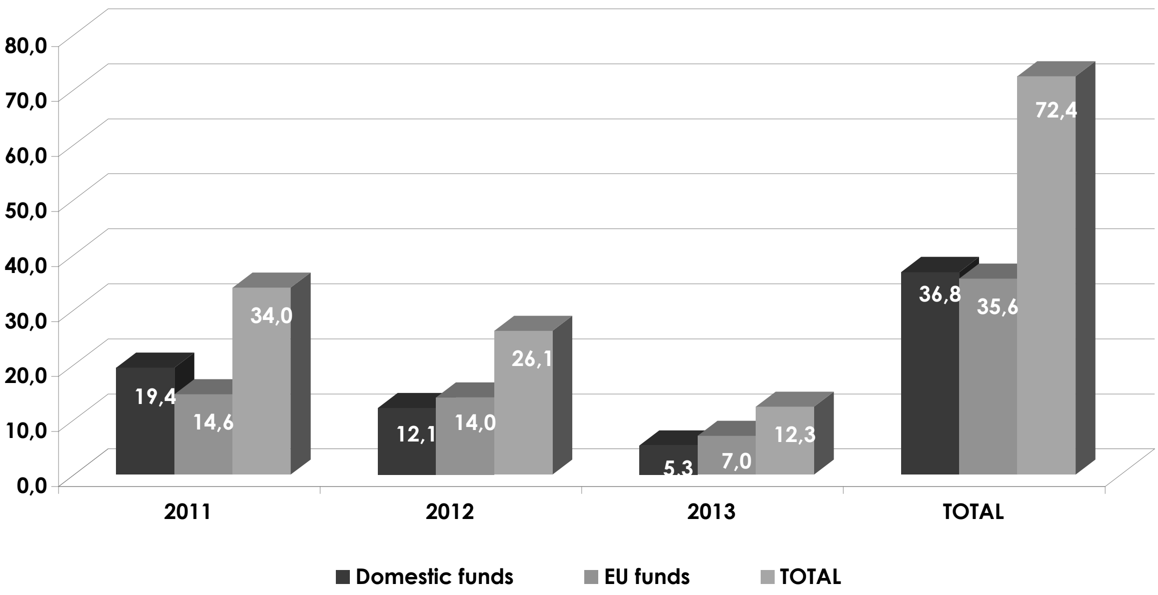


Figure 21: Financing of the main road programme until 2013



Budgeting for the programme implementation until 2015 and earmarking of funds for individual tasks are planned for 2012, when the Multi-Year Road Construction Programme is to be updated.

In order to increase the pool of emergency funds to be used in the event of natural disasters, the European Union Solidarity Fund (EUSF) has been established. It may be used to support the National Road Fund. After the flood which afflicted Poland in May and June 2010, the Polish government applied to the EUSF for assistance. The Ministry of Infrastructure requested the European Commission for PLN 902.3m assistance to be applied towards flood damage repairs.

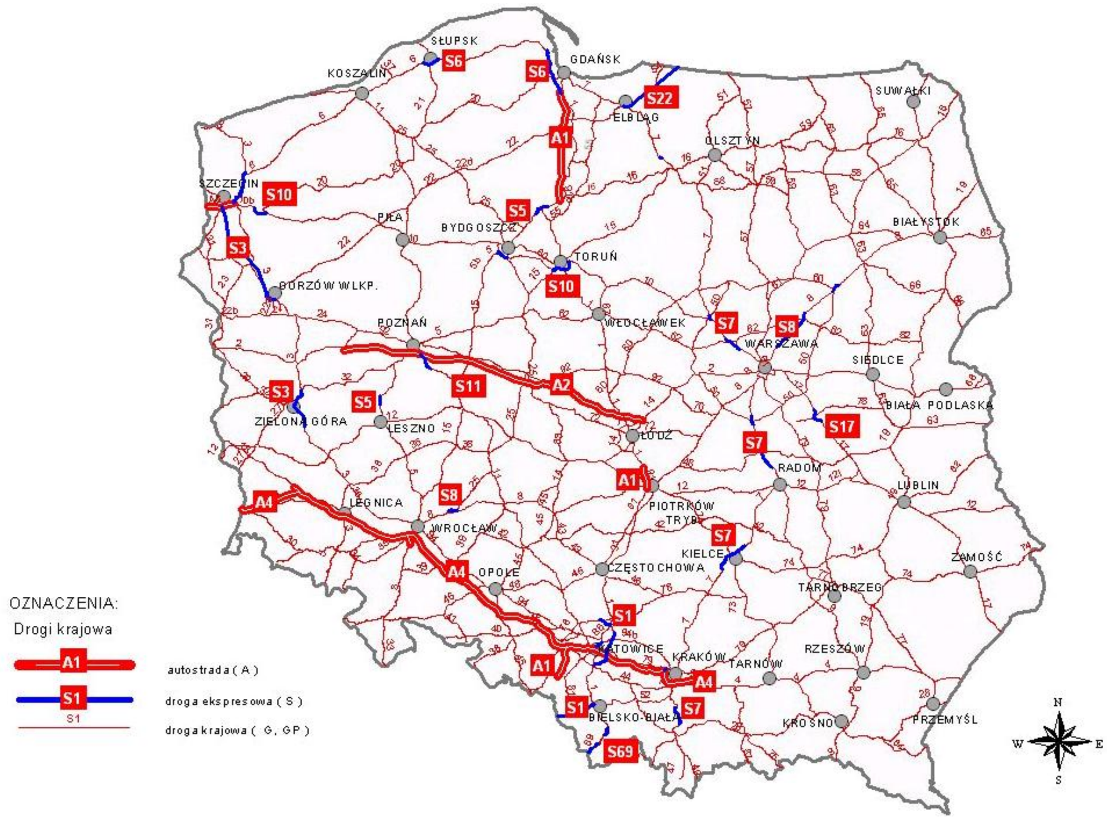
The following two tasks are being currently executed under the public-private partnership system:

- A1 Motorway, section Nowe Marzy–Toruń (62.4 km). Completion scheduled for 2011;
- A2 Motorway, section Świecko–Nowy Tomyśl (105.9 km). Completion scheduled for 2012.

Another two tasks are currently in the analysis phase under the public-private partnership system:

- A1 Motorway, section Tuszyn–Pyrzowice (138.9 km);
- A2 Motorway, section Warsaw–the state border.

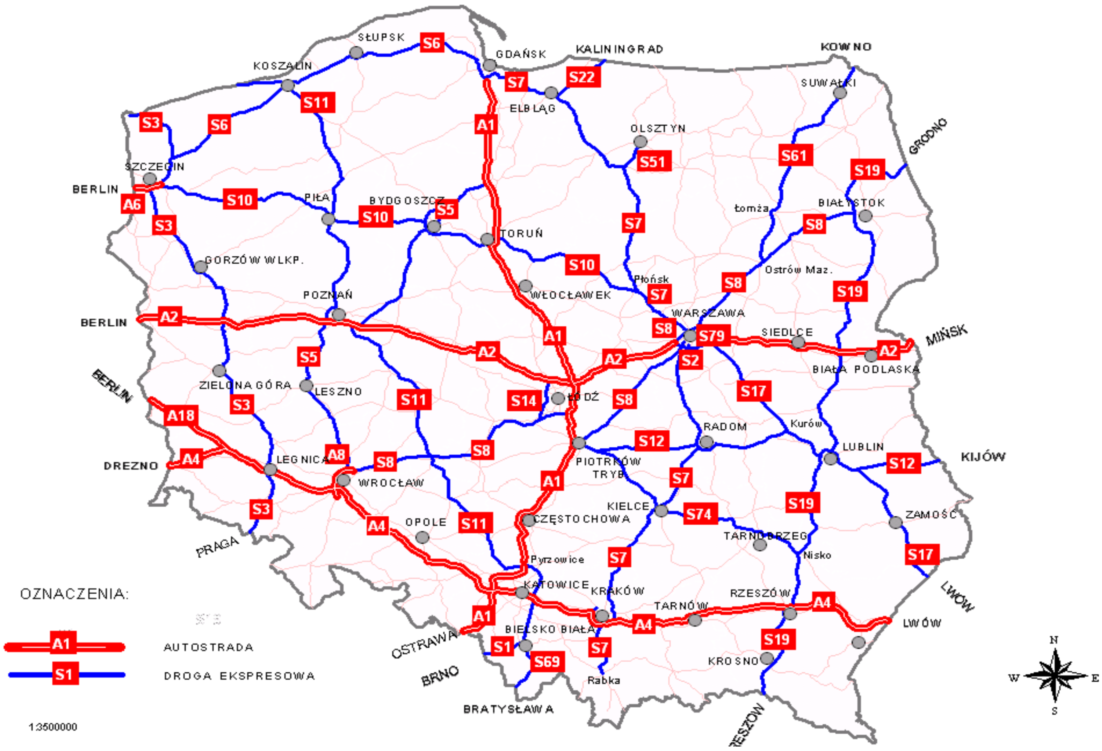
Figure 22: Main road network as at January 1st 2011



Source: General Directorate for National Roads and Motorways (GDDKiA).

autostrada (A)	motorway
droga expresowa (S)	expressway
droga krajowa (G, GP)	main road

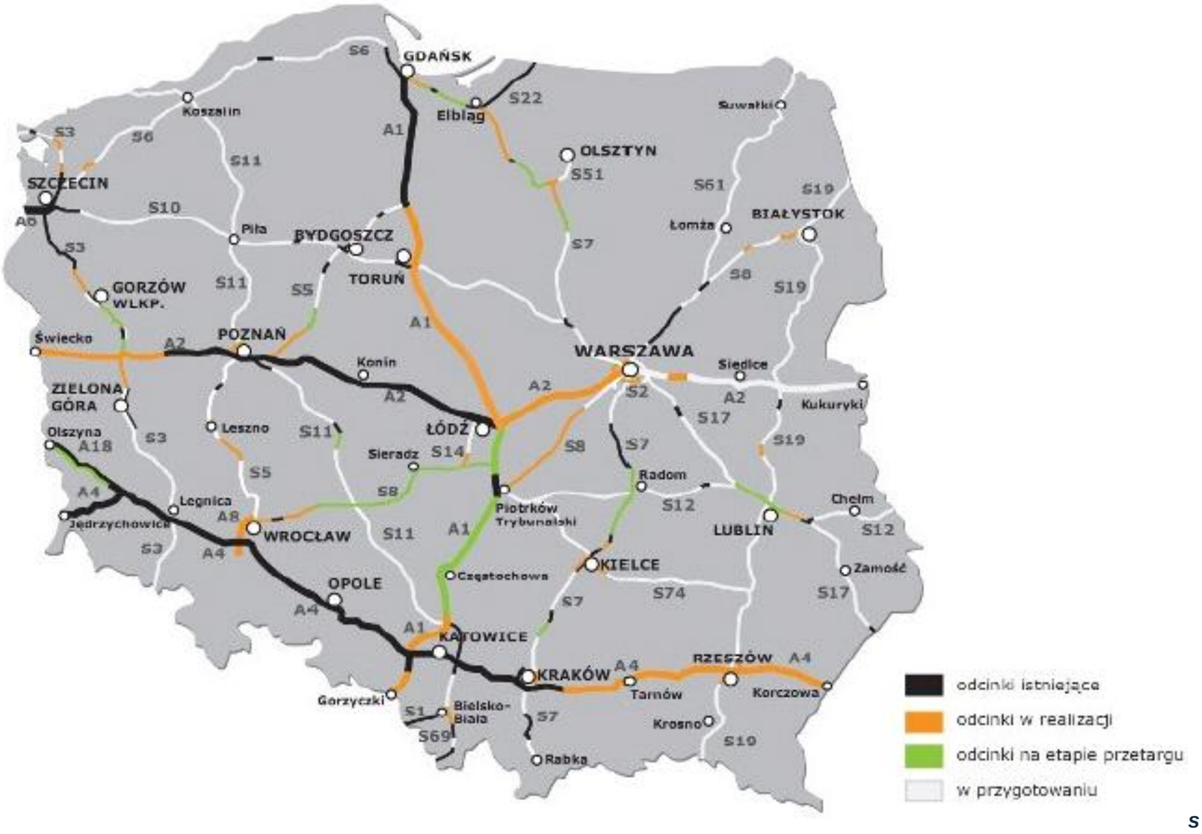
Figure 23: Target main road system



Source: General Directorate for National Roads and Motorways (GDDKiA).

autostrada (A)	motorway
droga expresowa (S)	expressway

Figure 24: Main road reconstruction programme for 2011–2015 (progress as at November 15th 2010)



Source: The Ministry of Infrastructure.

odcinki istniejące	existing sections
odcinki w realizacji	sections under construction
odcinki na etapie przetargu	sections subject to tender proceedings
w przygotowaniu	under preparation

An important circumstance is the hosting of the European Football Championships by Poland and Ukraine in 2012, which significantly accelerates projects involving **road construction**, the most important of those being:

Table 28: The largest investment projects involving motorway construction in Poland

No.	Project	Length (km)	Total amount (PLN)
1.	Construction of A1 Motorway	298.7	21.4bn
2.	Construction of A2 Motorway	196.0	8.4bn
3.	Construction of A4 Motorway	297.4	13.2bn
4.	Construction of A8 Motorway (Wrocław beltway)	35.0	4bn

Another investment programme is the National Programme for Local Road Reconstruction 2008–2011. It provides for the construction or reconstruction of around six thousand kilometres of municipal and county roads in 2009–2011.

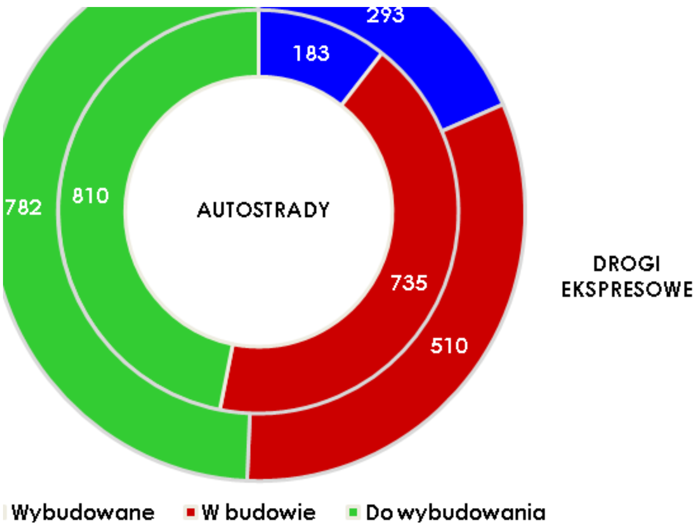
In each year in 2009–2011, the government plans to expense from the central budget an amount of **PLN 1bn** on the implementation of projects co-financed with task subsidies, while local governments are to contribute at least **PLN 1bn** of own funds. The funds provided by local or regional governments may be sourced from the governments' own funds, advanced by provincial governors or contributed by other entities. Funds from provincial budgets may only be used to finance special projects in justified cases.

The Programme budget totals **PLN 6bn,** including **PLN 3bn** from the central budget and **PLN 3bn** from local governments' budgets.

An amount of PLN 500m will be spent on the following projects under the Programme:

- Support of the reconstruction, construction or repair of key sections of municipal and county roads, designed to enhance traffic liquidity and transport safety;
- Support of the creation of interconnections between the municipal/county road network and the provincial/main road network, designed to improve the access to local business centres.

Figure 25: Progress of the motorway and main road construction programme as at November 15th 2010 (in km)



Source: The Ministry of Infrastructure.

Autostrady	Motorways
Drogi ekspresowe	Expressways
Wybudowane	In service
W budowie	Under construction

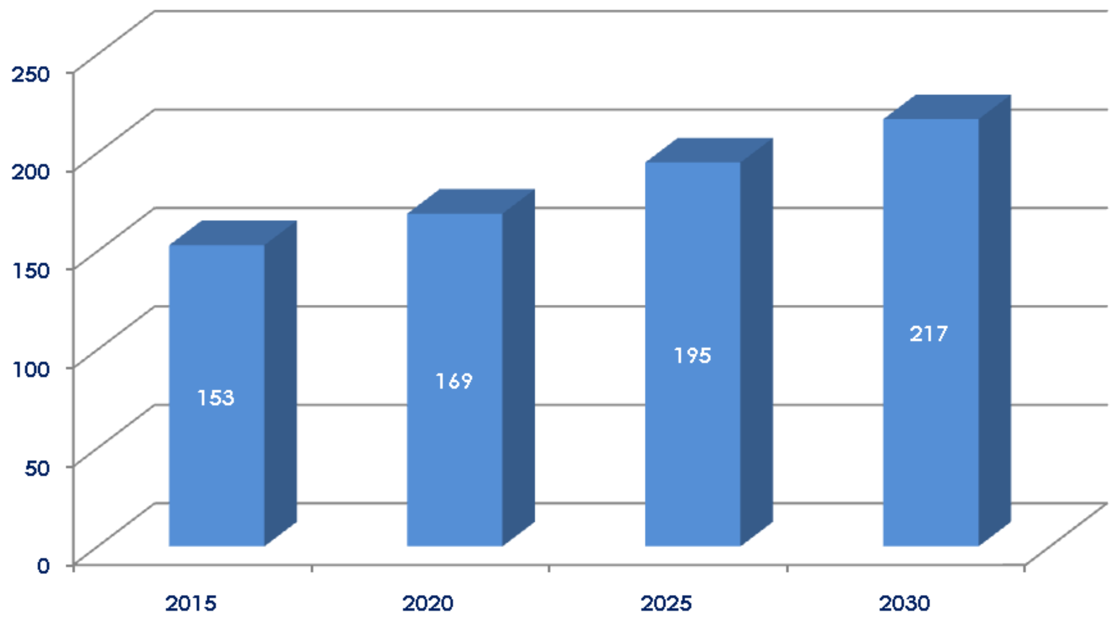
Do wybudowania	To be constructed

The PBG Group sees a great potential for growth in the road construction segment. Historically, the PBG Group has focused on execution of low-value contracts on local markets. The Group will continue pursuing this strategy as it generates relatively high margins, reaching up to 10% in net profit terms. However, as the market grows, the PBG Group spots opportunities in the expressways and motorways construction segment. In 29010, it brought fruit in the form of winning several contracts, such as the construction of A1 and A4 Motorways and S5 Expressway, for a total amount of over PLN 4bn.

POWER ENGINEERING

The market for power engineering projects in Poland will be one of the key growth drivers in the Polish construction sector in the coming years. Increasing capital expenditure in the power sector follows from a rising demand for power and the need to upgrade obsolete power plants. According to Eurostat, the annual consumption of electricity in Poland is 155 TWh (2010), ranking Poland sixth in Europe (after France, Germany, Great Britain and Spain). This is equivalent to consumption of 4 MWh per capita, in comparison with the average consumption of 6.5 MWh in the EU-15 countries.

Figure 26: Projected gross demand for electricity in Poland until 2030 (TWh)



source: Ministry of Economy

The Ministry of Economy forecasts a moderate growth of demand for electricity due to the projected use of existing capacity reserves and efficiency measures in the economy. The demand for peak capacity will increase from 26 GW in 2010 to approximately 34.5 GW in 2030. The gross demand for electricity will rise from approximately 155 TWh in 2010 to approximately 217 TWh in 2030.

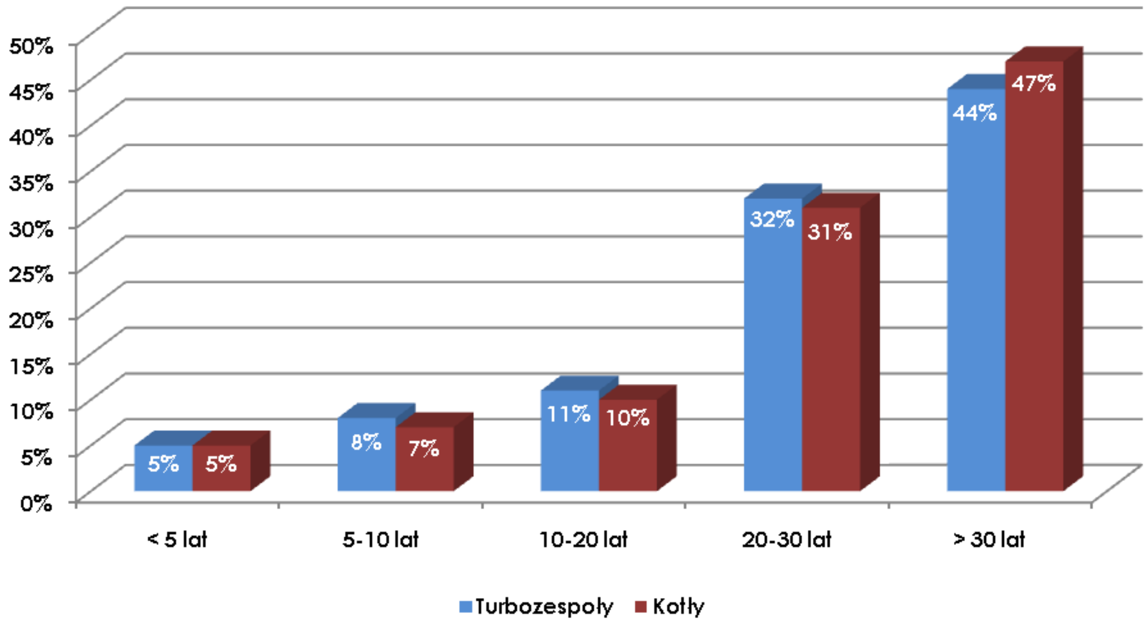
Also, Poland is required to implement the EU's 3X20% programme under Directive 2009/28/EC. It is scheduled for completion by 2020. The programme provides for a 20% reduction in carbon dioxide emissions relative to 1990, a 20% share of energy from renewable sources in energy supply and a 20% reduction of energy consumption.

Due to these requirements, nuclear power plants have been included in the cost-effective structure of electricity sources. Their construction, however, is hindered for organisational and technical reasons. According to "Poland's Energy Policy until 2030", the first nuclear unit will be completed in 2020. By 2030, three nuclear units should be in operation with a total net capacity of 4.5 GW (gross 4.8 GW). Additionally, in order to meet the EU's requirements with respect to renewable energy, Poland will have to generate approximately 31 TWh (gross) from renewable sources (18.4% of total electricity production), while in 2030 – 39.5 TWh (gross) from renewable sources (approximately 18.2%). Wind power plants will account for the largest share of the production – in 2030 approximately 18 TWh or 8.2% of the estimated total gross production of energy. Production of electricity generated in high efficiency cogeneration is expected to increase from 24.4 TWh in 2006 to 47.9 TWh in 2030. Its share in the domestic gross demand for electricity will increase from 16.2% in 2006 to 22% in 2030.

The average age of power units owned by Polish energy producers is 40 years, with approximately one quarter of all units in Poland older than 40 years. Such old facilities emit large amounts of carbon dioxide which, on recommendation of the European Union, must be reduced by 20% by 2020. By the end of 2012, at least 4.1GW capacities must be upgraded. It is estimated that 15GW of current generation capacities would have to be decommissioned by 2030 due to old age or environmental considerations. Depending on the source, over the next nine years **the power sector in Poland will attract from PLN 150 to 200 billion in investments**. The four key players in the power sector, PGE, Tauron, Energa and Enea, plan to significantly increase their capital expenditure in the coming years. They want to focus not only on constructing new units powered by conventional energy sources but also on plants using renewable sources. The producers will also need to invest in keeping the existing units in operation. According to initial plans outlined by these operators, **PGE plans to invest PLN 30bn until 2013 and further PLN 63bn by 2023 (including in construction of a nuclear plant), Tauron wants to invest PLN 30bn by 2020, Energa – PLN 20bn by 2015, and Enea – PLN 20bn by 2020**. It should be noted that, apart from these four energy groups, major investment projects are to be implemented by foreign investors operating on the Polish market (RWE, Gdf Suzez, CEZ, EDF and Fortum), as well as entities yet not directly involved in the power sector, such as PGNiG, PKN Orlen, Lotos, KGHM or Kulczyk Holding.

The *Power Engineering in Poland 2010 – Development Forecasts and Planned Investments* report prepared by PMR, shows that the most significant increase in the new production capacities is expected in 2014-2016, when the 8-10GW power units will be placed in service. However, launching new production units in Poland and in the EU in 2016-2020 requires immediate investment decisions (due to the average age of the existing units), as well as formulation of assumptions for relevant tenders. According to the "*capture ready*" requirement, units with power capacities of at least 300 MW have to be prepared to include additional CO2 capturing and compression facilities. The concept of associated production of methanol and ammonium, in conjunction with generation of electricity based on carbon gasification may prove to be significant on the Polish market in the coming years, as it is perceived as particularly interesting and innovative technology of carbon use in the power industry.

Figure 27: Average age of the power units in Poland



Source: Energy Regulatory Office

Table 29: Major tenders in the power engineering sector in 2011

No.	Project name	Estimated amount (PLN)
1.	Construction of power units No. 5 and No. 6 in PGE Elektrownia Opole S.A.	PLN 10bn
2.	Construction of a supercritical, coal-fired power unit (net power of min. 900MWe) at Kozienice II Sp. z o.o.	PLN 5bn
3.	Development of new capacities in carbon technologies at PKE SA- Construction of a supercritical power unit at the Jaworzno III Power Plant	PLN 5bn
4.	Construction of a new power unit at the Turów Power Plant	PLN 3.0bn
5.	Construction of a 430MWe CCGT unit at the Stalowa Wola Power Plant	PLN 2.0bn
6.	Construction of a CCGT unit in Włocławek	PLN 2.0bn
7.	Design and performance of concrete works, supplementary equipment, air conditioning unit and a cooling tower for the power unit in Rybnik	PLN 1.5bn
8.	Installation of a flue gas catalytic denitriding unit for boilers OP-650 No. 4,5,6,7,8, at Elektrownia Kozienice S.A.	PLN 400m
9.	Fortum Wrocław – heat recovery steam generator (turbine power - 280-320 MW)	PLN 400 m
10	Construction of 20 MWe biomass-fired power unit at ENERGA Kogeneracja Sp. z o.o. in Elbląg	PLN 200 m

Figure 28: Largest projects the PBG Group is tendering for in the power engineering sector

VII. COMPANIES OF THE PBG GROUP

As at the date of filing this Report, the PBG Group was composed of the following companies:

Table 30: Parent Undertaking

Company	Address	Tel. No./Fax	WWW	e-mail
PBG S.A.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 665 17 00 (+48 61) 665	www.pbg-sa.pl	polska@pbg-sa.pl

Table 31: Direct subsidiary undertakings

Company	Address	Tel. No./Fax	WWW	e-mail
Hydrobudowa Polska S.A.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 664 19 50 (+48 61) 664	www.hbp-sa.pl	polska@hbp-sa.pl
KWG S.A.	ul. Wojska Polskiego 129, 70-490 Szczecin, Poland	(+48 91) 432 11 30 (+48 91) 469	www.kwg.com.pl	biuro@kwg.com.pl
Metorex Sp. z o.o.	ul. Żwirki i Wigury, 17A, 87-100 Toruń, Poland	(+48 56) 66 96 647 (+48 56) 65	www.grupapbg.pl	metorex@post.pl
PBG Operator Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 665 17 00 (+48 61) 665	www.grupapbg.pl	N/A
Aprivia S.A.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 46 426(+48 61) 66 46	www.aprivia-sa.pl	biuro@aprivia-sa.pl
Bathinex Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(0) 663 750 374	www.aprivia-sa.pl	bathinex.kopalnia@op.pl
Brokam Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48)691 470 133 (+48 61) 66 41	www.grupapbg.pl	pawel.dolinski@pbg-sa.pl
Strateg Capital Sp. z o.o.	ul. Ratajczaka 19, 60-814 Poznań, Poland	(+48 61) 664 88 20 (+48 61) 664	www.strateg.pl	biuro@strateg.pl
HBP Drogi Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 664 19 50 (+48 61) 664	www.grupapbg.pl	N/A
PBG Dom Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61) 661	www.pbgdom.pl	biuro@pbgdom.pl
PBG Technologia Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 32) 779 10 00(+48 32) 779 10	www.grupapbg.pl	sekretariat@pbg-t.pl
Gas Oil Enegінerring AS	Karpatská 3256/15, Poprad 058 01, Slovakia	+421 52 7144 111 +421 52 7144 140	www.gasoil.sk	gasoil@gasoil.sk
Excan Oil and Gas Engineering Ltd.	9637-45 Avenue, Edmonton Alberta T5J 3V5, Canada	+1 780 701 7501 +1 780 430 1133	www.excan.ca	info@excan.ca
AQUA S.A.	ul. Kancelarska 28, 60-327 Poznań, Poland	(+48 61) 66 545 00 (+48 61)	www.aqua.poznan.pl	biuro@aqua.poznan.pl
PBG Energia Sp. z o.o.	Al. Słowackiego 165, 30-004 Kraków, Poland	(+48 12) 298 41 60(+48 12) 298 41	www.grupapbg.pl	office@pbg-export.pl
PBG Ukraina PSA	Kondratiuka 1, 04-201 Kiev, Ukraine	(+48 61) 665 17 00(+48 61) 665 17	www.grupapbg.pl	N/A
Wschodni Invest Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 665 17 00 (+48 61) 665	www.grupapbg.pl	N/A
PBG Bułgaria Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 665 17 00 (+48 61) 665	www.grupapbg.pl	N/A
Avatia Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 46 440 (+48 61)	www.avatia.pl	biuro@avatia.pl

Table 32: Direct subsidiary undertakings

Company	Address	Tel. No./Fax	WWW	e-mail
Hydrobudowa 9 S.A.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 846 97 00 (+48 61) 847	www.hb9.pl	sekretariat@hbp.pl
P.R.G. Metro Sp. z o.o.	ul. Wólczyńska 163, 01-919 Warszawa, Poland	(+48 22) 864 57 50(+48 22) 864 57	www.prgmetro.pl	info@prgmetro.pl
Gdyńska Projekt Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 846 97 00 (+48 61) 847	www.grupapbg.pl	sekretariat@hbp.pl
Dromost Sp. z o.o.	Żabno 2A, 63-112 Brodnica, Poland	(+48 61) 28 23 607 (+48 61) 28	www.dromost.pl	polska@dromost.pl
PRID S.A.	ul. Poznańska 42, 64-300 Nowy Tomyśl, Poland	(+48 61) 44 37 600(+48 61) 44 37	www.prid.pl	sekretariat@prid.pl
Betpol S.A.	ul. Fordońska 168A, 85-766 Bydgoszcz, Poland	(+48 52) 343 59 08 (+48 52) 344	www.betpol.com.pl	betpol@betpol.com.pl
PBG DOM INVEST I Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG Dom Invest III Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG DOM Invest IV Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG Dom Invest V Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG DOM Invest VI Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG DOM Invest VII Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG DOM Invest VIII Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG DOM Invest IX Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG DOM Invest X Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
PBG DOM Invest III Sp. z o.o. sp. k.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
Górecka Projekt Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
Złotowska 51 Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
City Development Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
Villa Poznań Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
QUADRO HOUSE Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl
Kino Development Sp. z o.o.	ul. Skórzewska 35, 62-081 Wysogotowo k. Poznania,	(+48 61) 66 41 986 (+48 61)	www.grupapbg.pl	biuro@pbgdom.pl

Table 33: Associated undertakings

Company	Address	Tel. No./Fax	WWW	e-mail
Energomontaż Południe S.A.	ul. Mickiewicza 15, 40-951 Katowice, Poland	(+48 32) 200 82 34 (+48 32) 258	www.energomontaz.pl	info@energomontaz.pl

VIII. BRANCHES

PBG S.A.'s (the Parent Undertaking's) branches:

none

Subsidiary undertakings' branches:

Hydrobudowa Polska S.A.:

Włocławek Branch,	ul. Płocka 164, 87-800 Włocławek, Poland
Silesia Branch,	ul. Żwirki i Wigury 58, 43-190 Mikołów, Poland

CHAPTER IV: REPORT ON THE PBG GROUP'S OPERATIONS IN 2010

I. TOTAL NUMBER OF SHARES HELD IN RELATED UNDERTAKINGS

Table 34: Shares held in related undertakings

Related undertaking	Relation		As at Dec 31 2010		As at the date of representation	
	Parent	Type of relation	Number of shares	Par value of shares	Number of shares	Par value of shares
Metorex Sp. z o.o.	PBG S.A.	subsidiary	682	PLN 51,150.00	682	PLN 51,150.00
Hydrobudowa Polska S.A.	PBG S.A.	subsidiary	132,748,692	PLN 132,748,692.00	132,748,692	PLN 132,748,692.00
KWG S.A.	PBG S.A.	subsidiary	28,700	PLN 2,870,000.00	28,700	PLN 2,870,000.00
Excan Oil and Gas Engineering LTD,	PBG S.A.	subsidiary	-	CAD 250,000.00	-	CAD 250,000.00
Gas OilEngineering AS, Slovakia	PBG S.A.	subsidiary	-	EUR 414,647.48	-	EUR 414,647.48
PBG Dom Sp. z o.o.	PBG S.A.	subsidiary	550,000	PLN 55,000,000.00	550,000	PLN 55,000,000.00
Brokam Sp. z o.o.	PBG S.A.	subsidiary	12,000	PLN 12,000,000.00	12,000	PLN 12,000,000.00
AVATIA Sp. z o.o.	PBG S.A.	subsidiary	998	PLN 49,900.00	998	PLN 49,900.00
APRIVIA S.A.	PBG S.A.	subsidiary	71,993,065	PLN 71,993,065.00	71,993,065	PLN 71,993,065.00
PBG Technologia Sp. z o.o.	PBG S.A.	subsidiary	46,100	PLN 23,050,000.00	46,100	PLN 23,050,000.00
PBG ENERGIA Sp. z o.o.	PBG S.A.	subsidiary	19,900	PLN 999,500.00	19,900	PLN 999,500.00
Wschodni Invest Sp. z o.o.	PBG S.A.	subsidiary	37,740	PLN 3,774,000.00	37,740	PLN 3,774,000.00
PBG Ukraina Publiczna Spółka	PBG S.A.	subsidiary	222,227	UAH 888,908.00	222,227	UAH 888,908.00
BATHINEX Sp. z o.o.	PBG S.A.	subsidiary	50	PLN 50,000.00	50	PLN 50,000.00
PBG OPERATOR Sp. z o.o.	PBG S.A.	subsidiary	50	PLN 5,000.00	50	PLN 5,000.00
HBP DROGI Sp. z o.o.	PBG S.A.	subsidiary	50	PLN 5,000.00	50	PLN 5,000.00
STRATEG CAPITAL Sp. z o.o.	PBG S.A.	subsidiary	200	PLN 200,00.00	200	PLN 200,00.00
PBG BUŁGARIA Sp. z o.o.	PBG S.A.	subsidiary	-	BGN 35,000.00	-	BGN 35,000.00
AQUA S.A.	PBG S.A.	subsidiary	710,770	-	710,770	-
HYDROBUDOWA 9 S.A.	HBP S.A.	indirect subsidiary	14,536,685	PLN 1,453,668.50	14,536,685	PLN 1,453,668.50
PRG Metro Sp. z o.o.	HBP S.A.	indirect subsidiary	5,543	PLN 5,543,000.00	5,543	PLN 5,543,000.00
Gdyńska Projekt Sp. z o.o.	HB 9 S.A.	indirect subsidiary	60,000	PLN 3,000,000.00	60,000	PLN 3,000,000.00
PBG DOM INVEST I Sp. z o.o.	PBG Dom Sp.	indirect subsidiary	500	PLN 50,000.00	500	PLN 50,000.00
PBG Dom Invest III Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
PBG DOM Invest III Sp. z o.o. sp. k.	PBG Dom Sp.	indirect subsidiary	2000	PLN 2,000.00	2000	PLN 2,000.00

PBG Dom Invest IV Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
PBG Dom Invest V Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
PBG Dom Invest VI Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
PBG DOM Invest VII Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
PBG Dom Invest VIII Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
PBG DOM INVEST IX Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
PBG DOM INVEST X Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
Górecka Projekt Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	1,000	PLN 50,000.00	1,000	PLN 50,000.00
Złotowska 51 Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	150	PLN 75,000.00	150	PLN 75,000.00
City Development Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	53,250	PLN 2,662,500.00	53,250	PLN 2,662,500.00
Villa Poznań Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	21,000	PLN 2,110,000.00	21,000	PLN 2,110,000.00
QUADRO HOUSE Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	100	PLN 5,000.00	100	PLN 5,000.00
Kino Development Sp. z o.o.	PBG DOM Sp.	indirect subsidiary	40,500	PLN 4,050,000.00	40,500	PLN 4,050,000.00
Dromost Sp. z o.o.	APRIVIA S.A.	indirect subsidiary	6,864	PLN 3,432,000.00	6,864	PLN 3,432,000.00
PRID S.A.	APRIVIA S.A.	indirect subsidiary	25,000	PLN 500,000.00	25,000	PLN 500,000.00
Betpol S.A.	APRIVIA S.A.	indirect subsidiary	14,244,999	PLN 14,244,999.00	14,244,999	PLN 14,244,999.00
Energopol Ukraina	Wschodn i Invest	indirect subsidiary	37,240	PLN 3,724,000.00	37,240	PLN 3,724,000.00
Energomontaż Południe S.A.	PBG S.A.	associated undertaking	17,743,002	PLN 17,743,002.00	17,743,002	PLN 17,743,002.00

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

Table 35: 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
1.	KRI S.A.	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	47,000.00	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	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. CONCLUDED AGREEMENTS SIGNIFICANT TO THE GROUP'S OPERATIONS

Table 36: Agreements material to the PBG Group's operations and concluded within the period covered by this Report and subsequent to the balance-sheet date

Date	Parties	Subject matter	Key terms
Jan 7 2010 agreement executed in the ordinary course of business	**Principal:** Hydrobudowa Polska and Alpinie Construction **Contractor:** Elektrobudowa S.A., Qumak – Sekom S.A., AGAT S.A.	Comprehensive work on power-supply, low-voltage and BMS systems.	Contract and annex value: **PLN 91,000,000.00 (VAT exclusive)** Completion date: Feb 28 2011 Final completion: May 4 2011
For more information see: HBP Current Report No. 03/2010 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-03-2010-zawarcie-znaczacych-umow-podwykonawczych-zwiazanych-z-budowa-stadionu-narodowego-w-warszawie.html			
Jan 7 2010 agreement executed in the ordinary course of business	**Principal:** Hydrobudowa Polska and Alpinie Construction **Contractor:** Imtech Sp. z o.o.	Construction of a sanitary sewage system and external networks for the National Stadium in Warsaw.	Aggregate value of the contract and annex: **PLN 118,000,000.00 (VAT exclusive)** Completion date: Feb 28 2011 Final completion: May 4 2011
For more information see: HBP Current Report No. 03/2010 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-03-2010-zawarcie-znaczacych-umow-podwykonawczych-zwiazanych-z-budowa-stadionu-narodowego-w-warszawie.html			
Jan 11 2010 (information on exceeding the significant agreement threshold) agreement executed in the ordinary course of business	**Principal:** Strateg Capital Sp. z o.o. **Contractor:** PBG S.A.	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. Total value of contracts concluded with Strateg Capital Sp. z o.o. in the last twelve months has been **PLN 168,079,202.98 (VAT exclusive).**	Single agreement of the largest value is a contract of June 1st 2009 for **PLN 69,312,136.98 (VAT exclusive)** Completion date: Sep 30 2010 The parties may extend the scope of the contract. As at the contract execution date, PBG S.A. held 18.80% of shares in Strateg Capital (the current shareholding is 80%).
For more information see: PBG Current Report No. 01/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/01-2010-zawarcie-umowy-znaczacej-ze-spolka-strateg-capital.html			

Jan 11 2010 (information on exceeding the significant agreement threshold) agreement executed outside the ordinary course of business –	**Lender:** PBG S.A. **Borrower:** PBG Dom Sp. z o.o.	Loan agreements executed with PBG Dom Sp. z o.o. A total value of contracts concluded with the company in the last 12 months has exceeded the significant agreement threshold and amounted to **PLN 145,819,500.00 (VAT exclusive).**	Single agreement of the largest value is a loan agreement of June 23rd 2009 for **PLN 35,910,000.00 (VAT exclusive).**
For more information see: PBG Current Report No. 02/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/02-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-pbg-dom.html			
Mar 3 2010 (information on exceeding the significant agreement threshold) agreement executed in the ordinary course of business	**Principal:** PBG S.A. **Contractor:** PBG Technologia	Contract for the provision of construction services. A total value of contracts concluded with the company in the last 12 months has amounted to **PLN 132,680,264.34 (VAT exclusive).**	A single agreement of the largest value is a contract of October 5th 2009 for **PLN 30,000,000.00 (VAT exclusive)**
For more information see: PBG Current Report No. 09/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/09-2010-przekroczenie-progu-umowy-znaczacej-ze-spolka-zalezna-pbg-technologia-sp-z-o-o.html			
Mar 3 2010 agreement executed in the ordinary course of business	**Principal:** Operator Gazociągów Przesyłowych GAZ-SYSTEM SA **Contractor:** Control Process S.A., PBG S.A. and Gas Oil Engineering a.s.	Performance of the project: "Turnkey Delivery of Jarosław II Gas Compressor Station as part of the Upgrade of Jarosław Gas Compressor Station".	Lump-sum remuneration: **PLN 117,700,000.00 (VAT exclusive)** PBG S.A.'s share in the remuneration will amount to approximately 50%. Completion date: 18 months
For more information see: PBG Current Report No. 10/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/10-2010-			
Mar 15 2010 (information on exceeding the significant agreement threshold) agreement executed in the ordinary course of business	**Principal:** PBG S.A. **Contractor:** Przedsiębiorstwo Inżynierskie Ćwiertnia Sp. z o.o.	Contract for the provision of construction services. A total value of contracts concluded with the company in the last 12 months: **PLN 101,502,030.52 (VAT exclusive).**	A single agreement of the largest value is a contract of October 30th 2009 for **PLN 33,075,000.00 (VAT exclusive)**
For more information see: PBG Current Report No. 11/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/11-2010-przekroczenie-progu-umowy-znaczacej-ze-spolka-cwiertnia-sp-z-o-o.html			
May 10 2010 agreement executed in the ordinary course of business	**Parties to the agreement:** PBG S.A. ALSTOM Power Sp. z o.o.	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 Kozienice Power Plant".	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.
For more information see: PBG Current Report No. 26/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/26-2010-			

Jun 7 2010 agreement executed in the ordinary course of business	**Principal:** Euro Poznań 2012 Sp. z o.o. **Contractor:** HYDROBUDOWA POLSKA S.A and ALPINE BAU DEUTSCHLAND AG, ALPINE BAU GmbH, ALPINE Construction Polska Sp. z o.o., AK-BUD KURANT Spółka jawna, PBG S..A	Annex to the contract for execution of a project "Extension of City Stadium at ul.Bułgarska 5/7 in Poznań for EURO 2012 – construction of Tribunes I and III, and roofing over Tribunes I, II and III ".	Extension of the contract completion date to July 29th 2010. Other material terms and conditions of the agreement remain unchanged.
For more information see: HBP Current Report No. 22/2010 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-22-2010-zawarcie-aneksu-do-umowy-znaczacej-na-rozbudowe-stadionu-miejskiego-w-poznaniu-dla-potrzeb-euro-2012.html			
Jun 9 2010 agreement executed in the ordinary course of business	**Principal:** Narodowe Centrum Sportu Sp. z o.o. **Contractor:** ALPINE BAU DEUTSCHLAND AG and ALPINE BAU GmbH, ALPINE Construction Polska Sp. z o.o., HYDROBUDOWA POLSKA S.A., PBG S.A.	Annex to the contract of May 4th 2009 for the construction of a multi-purpose National Stadium in Warsaw together with auxiliary infrastructure.	Extension of the contract completion date to June 30th 2011.
For more information see: PBG Current Report No. 29/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/29-2010-zawarcie-aneksu-do-umowy-na-budowe-wielofunkcyjnego-stadionu-narodowego-w-warszawie.html			
Jun 17 2010 agreement executed in the ordinary course of business	**Principal:** General Directorate for National Roads **Contractor:** PBG S.A. and APRIVIA S.A., HYDROBUDOWA POLSKA S.A., SRB Civil Engineering Limited, John Sisk&Son Limited	Construction of the A1 Toruń-Stryków Motorway, Brzezie-Kowal Section III, from km 186+348 to km 215+850.	Contract value: **PLN 702,768,700.00 (VAT exclusive)** Completion date: 20 months as of the commencement of work. The time necessary for completing the work excludes the winter season.
For more information see: PBG Current Report No. 31/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/31-2010-zawarcie-znaczacych-umow-na-budowe-autostrady-a1.html			
Jun 17 2010 agreement executed in the ordinary course of business	**Principal:** General Directorate for National Roads **Contractor:** SRB Civil Engineering Limited and PBG S.A.., APRIVIA S.A., HYDROBUDOWA POLSKA S.A., John Sisk&Son Limited	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.	Contract value: **PLN 765,632,889.69 (VAT exclusive)** Completion date: 20 months as of the commencement of work. The time necessary for completing the work excludes the winter season.
For more information see: PBG Current Report No. 31/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/31-2010-zawarcie-znaczacych-umow-na-budowe-autostrady-a1.html			

Jul 7 2010 agreement executed in the ordinary course of business	**Principal:** General Directorate for National Roads **Contractor:** SIAC Construction Ltd and PBG S.A., APRIVIA S.A., HYDROBUDOWA POLSKA S.A.	Contract for construction of the Krzyż–Dębica Pustynia Section of the A4 Motorway (Tarnów–Rzeszów).	Contract value: **PLN 1,434,761,287.80 (VAT exclusive)** Completion date: 24 months as of the commencement of work
For more information see: PBG Current Report No. 32/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2010-zawarcie-umowy-znaczacej-na-budowe-autostrady-a4-tarnow-rzeszow-na-odcinku-krzyz-debica-pustynia.html			
Jul 15 2010 agreement executed in the ordinary course of business	**Principal:** Polskie LNG SA **Contractor:** 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.	Development of the engineering design, construction and commissioning of LNG regasification terminal in Świnoujście.	Contract value: **PLN 2,415,213,000.00 (VAT exclusive)** Completion date: Jun 30th 2014
For more information see: PBG Current Report No. 35/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/35-2010-zawarcie-umowy-znaczacej-na-budowe-terminalu-lng-w-swinoujsciu.html			
Jul 9 2010 agreement executed in the ordinary course of business	**Principal:** KGHM Polska Miedź S.A. **Contractor:** PBG S.A.	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.	Contract value: **PLN 95,100,000.00 (VAT exclusive)** Completion date: Nov 30 2012
For more information see: PBG Current Report No. 37/2010 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			
22.07.2010 agreement executed in the ordinary course of business	**Principal:** MPWiK w m.st. Warszawie S.A. **Contractor:** Metro Sp. z o.o, HYDROBUDOWA POLSKA S.A., HYDROBUDOWA 9 S.A., INFRA S.A.	Execution of Phase II of the construction of sewage collectors for the Czajka sewage treatment plant.	Contract value: **PLN 144,771,027.99 (VAT exclusive)** Completion date: Dec 31 2011
For more information see: HBP Current Report http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-30-2010-zawarcie-umowy-znaczacej-na-wykonanie-ii-etapu-budowy-kolektorow-do-oczyszczalni-sciekow-bdquo-czajka-rdquo.html			
Jul 30 2010 agreement executed in the ordinary course of business	**Principal:** General Directorate for National Roads **Contractor:** ALPINE Bau GmbH, PBG S.A., APRIVIA S.A., HYDROBUDOWA POLSKA S.A.	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.	Contract value: **PLN 777,239,570.60 (VAT exclusive)** Completion date: 20 months as of the commencement of work (the period December 15–March 15 is excluded from the execution time).
For more information see: PBG Current Report No. 39/2010 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			

12.08.2010 agreement executed in the ordinary course of business	**Principal:** Zakład Utylizacyjny Spółka z o.o. z siedzibą w Gdańsku **Contractor:** HYDROBUDOWA POLSKA S.A., PBG S.A., HYDROBUDOWA 9 S.A., Korporacja Budowlana DORACO Sp. z o.o., VAUCHE S.A.	Execution of annex extending the contract completion date to May 22nd 2011 for project: Design and construction of waste neutralisation facility in Gdańsk Szadółki – construction and assembly works.	Completion date: May 22 2011
For more information see: HBP Current Report 34/2010 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-34-2010-zawarcie-aneksu-do-umowy-znaczacej-zawartej-z-zakladem-utylizacyjnym.html			
Oct 27 2010 (information on exceeding the significant agreement threshold) agreement executed outside the ordinary course of business - financing of an investment project and subsidiary's operations	**Project sponsor:** PBG S.A. **Borrower:** Strateg Capital Sp. z o.o.	A total value of contracts concluded with the company in 2010 was **PLN 165,821,288.90**. 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). 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. 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. PBG S.A.'s financial support to the company totals PLN 105,517,886.34.	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 **PLN 76,000,000.00** (PLN 1,000,000 per bond) issued by STRATEG CAPITAL.
For more information see: PBG Current Report No. 56/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/56-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-strateg-capital-sp-z-o-o.html			
Nov 5 2010 (information on exceeding the significant agreement threshold) agreement executed outside the normal course of activity	**Lender:** PBG S.A. **Borrower:** Infra S.A.	Loan agreement A total value of contracts concluded with the company in 2010 was **PLN 130,966,734.85.**	Single agreement of the largest value is a loan agreement of December 16th 2009 for PLN **30,000,000.00.** 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.
For more information see: PBG Current Report No. 57/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/57-2010-zawarcie-umowy-znaczacej-ze-spolka-infra-s-a.html			

<table>
<tr><td>Nov 15 2010

agreement executed outside the normal course of activity</td><td>Principal:
PBG S.A.

Contractor:
Zakład Produkcyjno Wydobywczy Sp. z o.o. STRATEG CAPITAL Sp. z o.o.</td><td>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.

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:

- two melaphyre quarries in Tłumaczów, along with a mobile and a stationary processing plant,
- a railway siding from Ścinawka Średnia to Tłumaczów, connected to the national rail network and allowing bulk transportation of stone,
a loading railway station and a belt conveyor system.</td><td>The amount of the guarantees will not be higher than

- the guarantee provided by PBG S.A.: 150%

- 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.</td></tr>
<tr><td colspan="4">For more information see: PBG Current Report No. RB 61/2010 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</td></tr>
<tr><td>Nov 17 2010

agreement executed in the ordinary course of business</td><td>Principal:
Municipality of Włocławek

Contractor:
APRIVIA S.A., PBG S.A., HYDROBUDOWA POLSKA S.A., Husar Budownictwo Inżynieryjne Sp. z o.o., SRB Civil Engineering Ltd, John Sisk&Son Ltd, Roadbridge</td><td>Reconstruction of National Road No. 1, Phase II (Infrastructure and Environment Operational Programme).</td><td>Contract value:
PLN 90,777,000.00 (VAT exclusive)

Completion date:
36 months after the agreement date.</td></tr>
<tr><td colspan="4">For more information see: PBG Current Report No. RB 59/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/59-2010-zawarcie-umowy-znaczacej-przez-konsorcjum-z-udzialem-spolek-z-grupy-kapitalowej.html</td></tr>
<tr><td>22.12.2010

(information on exceeding the significant agreement threshold)

agreement executed outside the ordinary course of business -</td><td>Lender:
PBG S.A.

Borrower:
PBG Dom</td><td>A total value of contracts concluded with the company in the last 12 months: PLN 116,328,078.00 (VAT exclusive).</td><td>Single agreement of the largest value is a loan agreement of October 22nd 2010 for PLN 27,500,000.00.</td></tr>
<tr><td colspan="4">For more information see: PBG Current Report No. RB 64/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/64-2010-zawarcie-umowy-znaczacej-ze-spolka-zalezna-pbg-dom.html</td></tr>
</table>

Jan 13 2011 agreement executed in the ordinary course of business	**Principal:** Municipality of Gdańsk, represented by Biuro Inwestycji Euro Gdańsk 2012 Sp. z o.o. **Contractor:** HYDROBUDOWA POLSKA S.A., HYDROBUDOWA 9 S.A., ALPINE BAU DEUTSCHLAND AG, ALPINE BAU GmbH, ALPINE Construction Polska Sp. z o.o.	Execution of annex to the contract of April 20th 2009, for the second stage of construction works on the Baltic Arena Football Stadium in Gdańsk Letnica. Extension of the contract completion date to April 30th 2011.	Completion date: April 30 2011
For more information see: HBP Current Report 04/2011 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-04-2011-zawarcie-aneksu-do-umowy-na-wykonanie-stadionu-pilkarskiego-pge-arena-gdansk.html			
Mar 11 2011 agreement executed as part of operating activities	**Principal:** Municipality of Gdańsk **Contractor:** PBG S.A., HYDROBUDOWA POLSKA S.A., APRIVIA S.A. and OBRASCÓN HUARTE LAIN S.A.	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).	Contract value: **PLN 129,300,000.00 (VAT exclusive)** Completion date: 20 months after the agreement date The PBG Group companies' interest in the contract is 50%
For more information see: PBG Current Report No. 19/2011 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/19-2011-zawarcie-umowy-znaczacej-na-wykonanie-polaczenia-portu-lotniczego-z-portem-morskim-gdansk-trasa-slowackiego-zadanie-ii.html			

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 37: Changes in organisational relations in the reporting period and subsequent to the balance-sheet date

Date	Parties	Transaction type	Description	Objective
17.02.2010	PBG S.A., Energomontaż Południe S.A.	**Acquisition of shares** 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
For more information see: Current Report No. RB 08/2010 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/08-2010-nabycie-akcji-energomontaz-poludnie-sa-zakonczenie-transakcji.html				
05.01.2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –** 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 caries one vote.	Execution of a development project
05.01.2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –**PBG Dom Invest IVSp. 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 caries one vote.	Execution of a development project
05.01.2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –**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 caries one vote.	Execution of a development project
05.01.2010	PBG Dom Sp. z o.o. PBG DOM Invest III	**Incorporation of a subsidiary company –**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 caries one vote.	Execution of a development project
17.02.2010	PBG Dom Sp. z o.o.	**Share capital increase** 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
Apr 12 2010	PBG S.A. Hydrobudowa Polska S.A.	**Acquisition of additional shares** 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 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/16-2010-zwiekszenie-zaangazowania-w-kapital-hydrobudowa-polska-s-a.html				

May 31 2010	PBG S.A. Natural person	**Disposal of shares by PBG S.A.** 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 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/28-2010-sprzedaz-akcji-spolki-infra-s-a.html,				
Aug 30th 2010	PBG S.A.	**Acquisition of shares** in Revana Sp. z o.o. (currently **PBG Operator Sp. z o.o.)**	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
06.09.2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –** 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 caries one vote.	Execution of a development project
06.09.2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –**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 caries one vote.	Execution of a development project
06.09.2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –**PBG Dom Invest X Sp. z o.o.	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 per share. Shares are equal and indivisible, one share caries one vote.	Execution of a development project
Sep 15 2010	PBG S.A. Obrascón Huarte Lain Construcción Internacional S.L.	**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.	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. 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: 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 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. 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	Capital cooperation in the area of construction and operator services in Poland and abroad

			15th 2011, PBG S.A. would suspend activities connected with offering for sale the shares in companies subject to the Memorandum. 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.	
For more information see: **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** **and** **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**				
Sep 27 2010	PBG S.A.	**Incorporation of a subsidiary company –** PBG Bułgaria Sp. z o.o.	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
Sep 28 2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –** PBG Dom Invest VI Sp. z o.o.	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 caries one vote.	Execution of a development project
28.09.2010	PBG Dom Sp. z o.o.	**Incorporation of a subsidiary company –** PBG Dom Invest VII Sp. z o.o.	Establishment of PBG Dom Invest VII 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 caries one vote.	Execution of a development project
05.10.2010	PBG S.A.	**Acquisition of shares** 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
13.10.2010	PBG S.A. INVEST ECOPAP Sp. z o.o. and ESMER HOLDING LIMITED	**Acquisition of shares** in STRATEG CAPITAL Sp. z o.o.	PBG S.A. acquired 153 shares in STRATEG CAPITAL Sp. z o.o. for PLN 153,000.00, including: – 152 shares from INVEST ECOPAP Sp. z o.o. for PLN 152,000.00 – 1 share from ESMER HOLDING LIMITED for PLN 1,000.00. 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. 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.	Ensuring access to aggregate for road and railway construction contracts.
14.10.2010	PBG S.A.	**Acquisition of Shares in**	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	Ensuring access to aggregate for road and

		Bathinex Sp. z o.o.	share.	railway construction contracts.
For more information see: PBG Current Report No. 53/2010 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				
22.10.2010	HBP SA, HB9 SA	**Decision to merge** Hydrobudowa Polska SA and Hydrobudowa 9 and relevant notifications	The merger will be effected in the manner provided for in Art. 492.1.1 of the Commercial Companies Code, i.e. by transferring all the assets and liabilities of the Target Company to the Acquiring Company. The merger will be effected in the manner provided for in Art. 515.1 of the Polish Commercial Companies Code, i.e. without increasing the share capital of the Acquiring Company, as the Target Company is a wholly-owned subsidiary of the Acquiring Company. For the same reason, the merging companies will follow a simplified merger procedure provided for in Art. 516.6 in conjunction with Art. 516.1 and Art. 516.5 of the Commercial Companies Code. The Merger Plan was published in Monitor Sądowy i Gospodarczy No. 214/2010 of November 3rd 2010 and in the Company's Current Report No. 42/2010 of October 22nd 2010.	Streamlining of the structure of the HYDROBUDOWA POLSKA Group, reduction of the operating expenses, streamlining of the process of managing the available resources of companies executing projects in overlapping areas, improving operating efficiency of the HYDROBUDOWA POLSKA Group;
For more information see: Current Report HB 42/2010 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-42-2010-podjecie-decyzji-o-zamiarze-polaczenia-hydrobudowy-polska-sa-ze-spolka-zalezna-hydrobudowa-9-sa.html **and** **For more information see: Current Report 43/2010 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-43-2010-zawiadomienie-o-zamiarze-polaczenia-hydrobudowy-polska-sa-ze-spolka-zalezna-hydrobudowa-9-sa.html** **and** **For more information see: HB Current Report No. 45/2010 http://hbp-sa.pl/relacje-inwestorskie/raporty-biezace/raport-biezacy-nr-45-2010-kolejne-zawiadomienie-o-zamiarze-polaczenia-hydrobudowy-polska-sa-ze-spolka-zalezna-hydrobudowa-9-sa.html**				
Dec 21 2010	PBG S.A. Natural persons	**Acquisition of shares in** AQUA S.A.	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. 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. 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. PBG S.A. may acquire more of the company shares in the future.	Long-term investment enhancing the Group's engineering capabilities
For more information see: Current Report No. 63/2010 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				
Dec 28 2010	PBG S.A. Obrascón Huarte Lain	**Execution of a Supplementary Agreement to the**	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:	Entering into capital cooperation with respect to offering of construction and

	Construcción Internacional S.L. (OHL)	**Memorandum of Understanding** regarding the disposal of shares in HBP S.A. and APRIVIA S.A.	– 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 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. The parties expect the transaction to complete in Q1 2011. 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. PBG S.A. may seek an opportunity to increase its equity interest in HYDROBUDOWA POLSKA S.A. 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.	operator services in Poland and abroad
For more information see: 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				

IV. RELATED-PARTY TRANSACTIONS

In the discussed period, there were transactions with related parties within the PBG Group, 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,
    - treasury limits, etc.

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 the PBG Group's ability to respond to specific market requirements;
- Reducing the risk of day-to-day operations – cooperation between the related parties 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

In 2010, the PBG Group companies contracted bank loans totalling PLN 118m and repaid loans of PLN 206m. At the end of 2010, the value of outstanding bank debt of the PBG Group totalled PLN 592m, including PLN 79m as non-current debt and PLN 513m as current debt.

Moreover, in 2010 PBG S.A. issued another tranche of series D bonds worth PLN 450m and repaid PLN 69m of series B bonds. As at the end of 2010, the value of debt under bonds totalled PLN 825m, including bonds worth PLN 375m maturing in 2012, and bonds worth PLN 450m maturing in 2013.

Figure29: Loans and borrowings of the PBG Group in 2009-2010 (PLN million)

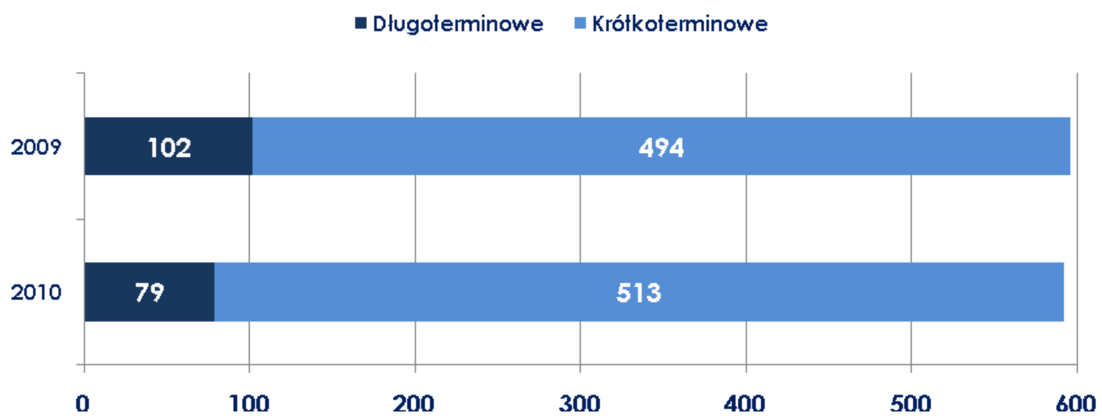
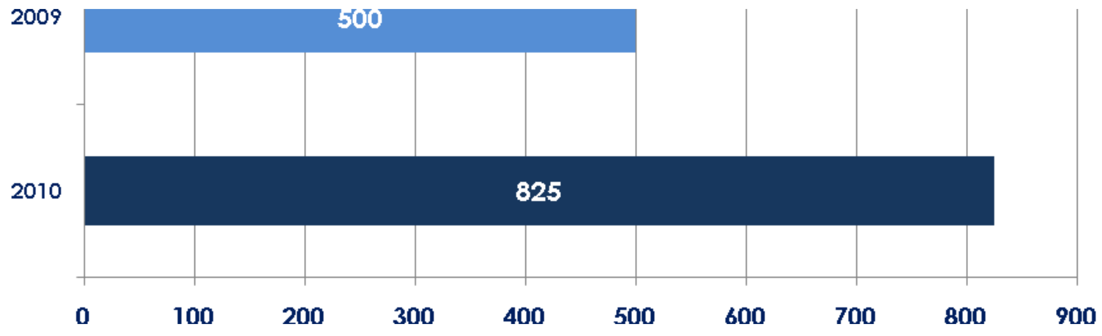


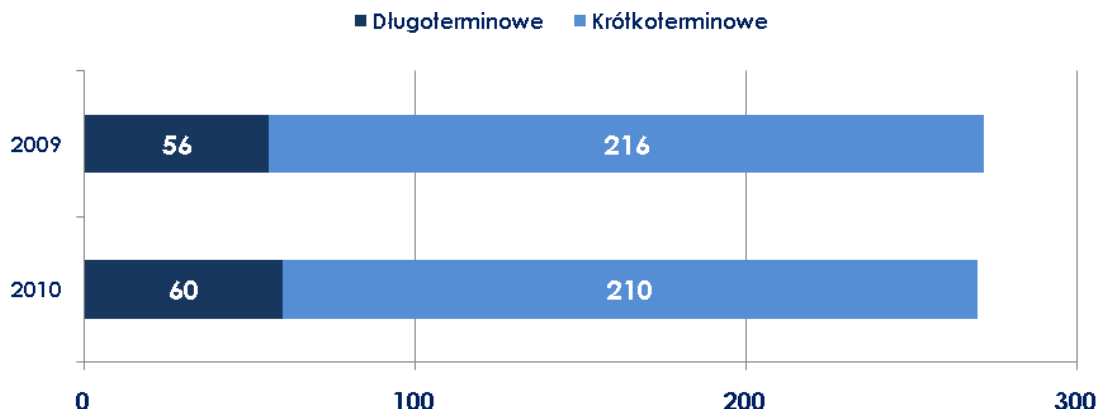
Figure30: Value of the PBG Group's bonds (PLN million)



VI. LOANS ADVANCED

In 2010, the PBG Group advanced loans totalling PLN 225m and repaid loans worth PLN 191m.
As at the end of 2010, the value of loans advanced by the PBG Group companies (mainly by PBG S.A.) totalled PLN 270m, including PLN 60m as non-current loans and PLN 210m as current loans.

Figure 31: Loans advanced by the PBG Group by maturity (PLNm)



VII. NON-RECURRING FACTORS AND EVENTS

In Q1 2010 the Group's financial results were largely affected by the long and exceptionally cold winter. Although the Group generated sales revenue of PLN 467m, up 34% on Q1 2009, the profitability ratios were lower year on year. The severely cold weather forced the Group to suspend work on construction sites and use alternative technologies enabling work at low temperatures. The weather conditions affected mainly the contracts for construction of sport stadiums, performed by Hydrobudowa Polska.

The winter season also had a material bearing on the financial results of Aprivia, Dromost, PRiD and Betpol, our subsidiaries in the road construction segment. In Q1 2010, they posted gross loss on sales; however, as usually, a recovery in the road construction segment is expected in the coming quarters.
On a separate basis, in Q1 2010 PBG S.A. retained high profitability and generated good financial results, with growth ratios up to over 10%. Our separate (non-consolidated) results accounted for ca. 24% of the Group's sales revenue, and for as much as 62% of its operating profit and 71% of the Group's net profit attributable to owners of the Parent.
All the above factors were non-recurring and had a material effect on the Group's financial performance in 2010.

VIII. MAJOR RESEARCH AND TECHNICAL ACHIEVEMENTS

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

IX. CONTROL SYSTEMS FOR EMPLOYEE PLANS

The PBG Group does not operate any employee plans.

X. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

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

XI. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES

In the period covered by this Report, the PBG Group companies 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 38: Share capital of PBG SA

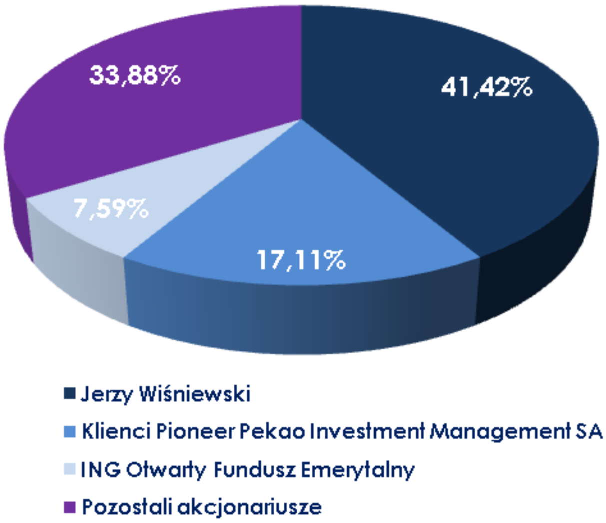
PBG shares	Number of shares	Type of shares	Number of shares	Number of votes	Number of outstanding shares
Series A	**5,700,000**	conferring voting preference	3,740,000	7,480,000	0
		ordinary	1,960,000	1,960,000	1,960,000
Series B	**1,500,000**	ordinary	1,500,000	1,500,000	1,500,000
Series C	**3,000,000**	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
		Total	**14,295,000**	**18,035,000**	**10,555,000**

Table 39: 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 32: PBG S.A. Shareholders holding over 5% of shares



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 this 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 40: Changes in PBG S.A.'s shareholding structure in 2010 and after the balance-sheet date

Notification date	Threshold	Number of Shares	% of total vote at GM (%)	Date of change
Clients of Pioneer Pekao Investment Management S.A. (PPIM):				
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
Aviva Powszechne Towarzystwo Emerytalne (Aviva OFE)				
November 18th 2010	< 5%	875,738	4.72%	November 8th 2010
Jerzy Wiśniewski – founder and main shareholder of PBG S.A.				
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 33: Price of PBG S.A. shares in the period from January 1st to December 31st 2010

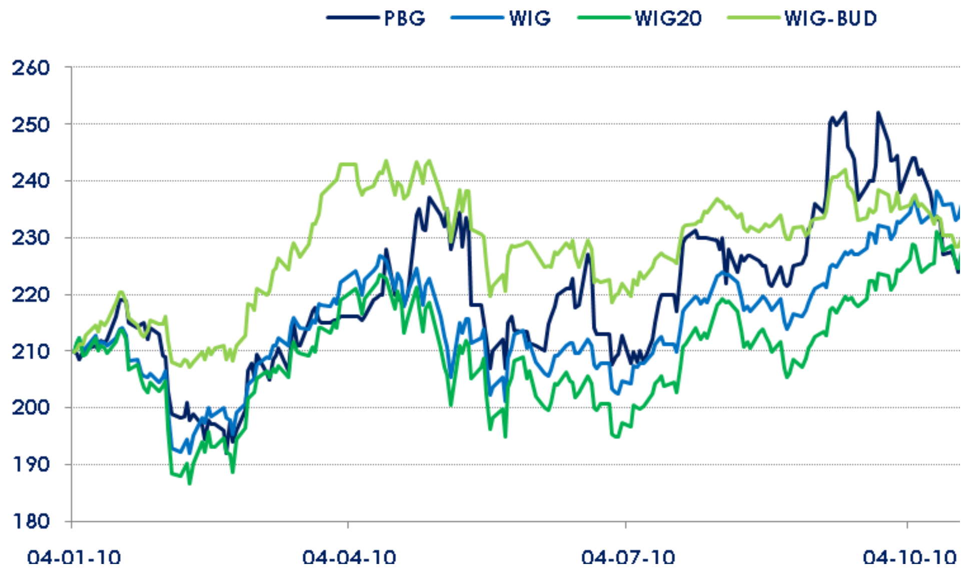
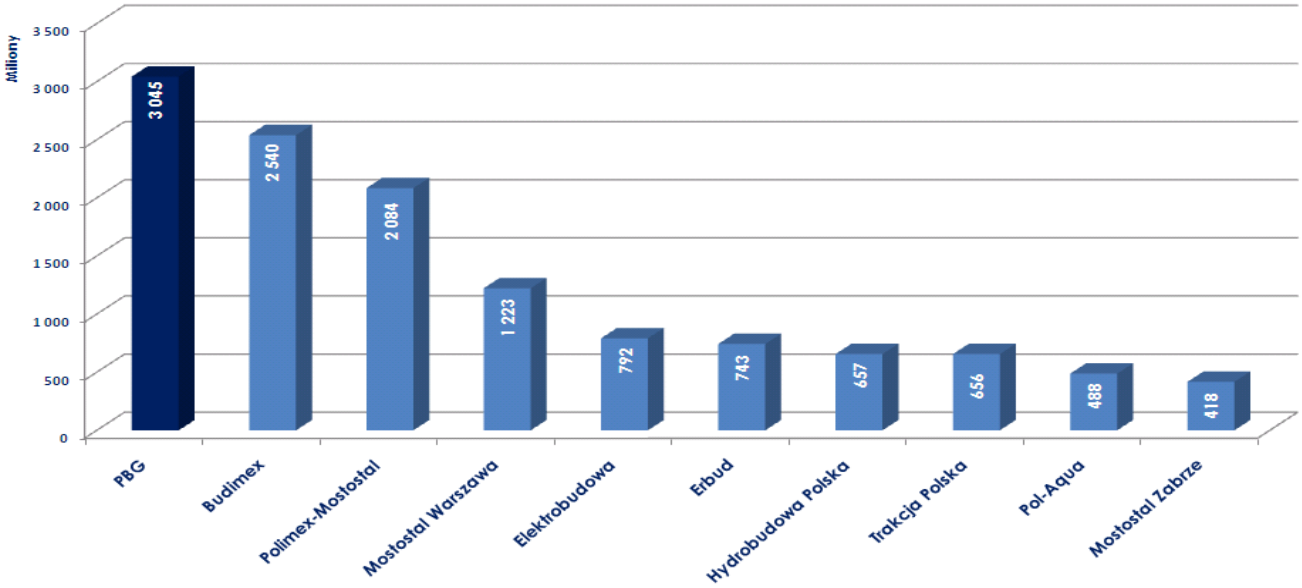


Figure 34: Price of PBG S.A. shares from first-time listing to March 2011

2. Market Value Relative to Peers

Figure 35: Largest construction companies in terms of capitalisation listed on the WSE (as at December 31st 2010)



3. Key information on PBG S.A. shares

Table 41: Key information (per share)

Key information (per share)		2010	2009	y-o-y change
Earnings	**PLN**	15.69	15.00	+5
Equity	**PLN**	112.29	97.49	+15
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**	23,701	35,261	-33

	of shares			

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 limitations 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, intuitiveness and ergonomics of navigation 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. Moreover, in the same competition the Company was 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 42: Recommendations received in 2010

Issue date	Recommending institution	Recommendation	Target price (PLN)
15.01.2010	UniCredit CA IB	HOLD	223.00
21.01.2010	KBC	BUY	245.30
25.01.2010	ING Securities	BUY	266.00
26.01.2010	Ipopema	HOLD	225.00
22.02.2010	DI BRE	REDUCE	172.30
24.02.2010	Goldman Sachs	BUY	299.00
25.02.2010	Beskidzki Dom Maklerski	ACCUMULATE	220.80
19.03.2010	DM BZ WBK	BUY	300.00
07.04.2010	DI BRE	SELL	173.20
09.04.2010	Espirito Santo	BUY	248.10
09.04.2010	CA Cheuvreux	BUY	245.00
16.04.2010	Erste	ACCUMULATE	245.00
20.04.2010	Wood	HOLD	234.00
26.04.2010	KBC	BUY	247.00
28.04.2010	Deutsche Bank	BUY	270.00
13.05.2010	DI BRE	SELL	194.00
11.06.2010	Goldman Sachs	BUY	283.00
19.07.2010	DI BRE	REDUCE	194.00
26.07.2010	ING Securities	SELL	220.00
03.08.2010	Beskidzki Dom Maklerski	REDUCE	210.00
09.09.2010	KBC	HOLD	261.64
15.09.2010	Ipopema,	HOLD	246.00
08.10.2010	KBC	BUY	273.50
04.11.2010	Raiffeisen	REDUCE	200.00
07.12.2010	Wood	HOLD	227.90
10.12.2010	Erste	REDUCE	205.00
20.12.2010	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 43: Brokers' recommendations issued before the date of this Report

Issue date	Recommending institution	Recommendation	Target price (PLN)
02.01.2011	DM IDMSA	HOLD	244.60
03.01.2011	Deutsche Bank	HOLD	240.00
14.01.2011	Ipopema	SELL	200.00
20.01.2011	Citi	SELL	201.00

24.01.2011	ING	SELL	180.00
24.01.2011	UniCredit CA IB	HOLD	215.00
25.01.2011	Wood	HOLD	228.00
11.02.2011	Wood	HOLD	227.90
21.02.2011	KBC Securities	HOLD	215.60
25.02.2011	Goldman Sachs	NEUTRAL	218.00

2. THE COMPANY AND ITS SHARES

Table 44: Persons responsible for investor relations

IR Department	Kinga Banaszak – Filipiak
Tel. No.	+48 (0) 61 66 46 423
Mobile	Mobile: +48 (0) 691-470-491
E-mail	**kinga.banaszak@pbg-sa.pl**
Website	**www.pbgsa.pl**
WSE	PBG
Reuters	PBGG.WA
Bloomberg	PBG PW
ISIN	PLPBG0000029

CHAPTER VI: FINANCIAL REVIEW

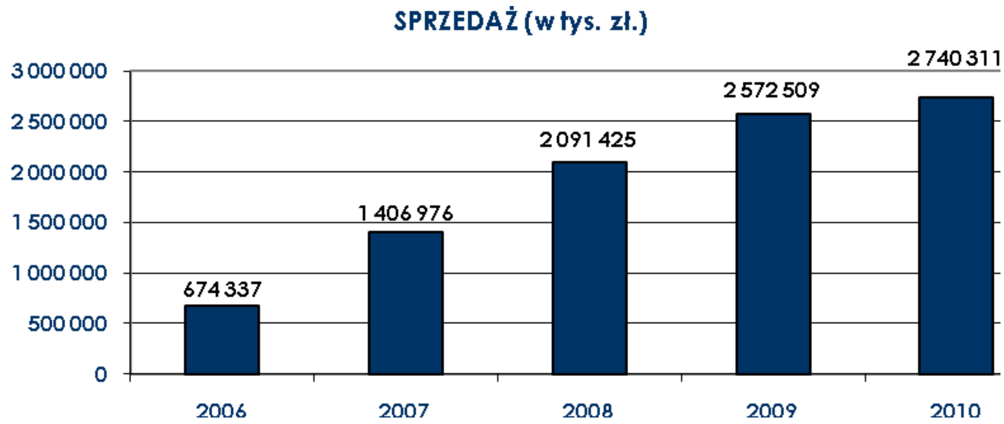
I. ANALYSIS OF THE PBG GROUP'S FINANCIAL STANDING

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, the PBG Group recorded a 7% year-on-year increase in sales revenue. The Group's revenue increased from **PLN 2,572,509 thousand in 2009** to **PLN 2,740,311 thousand in 2010.** In the period under review, cost of sales grew 4 p.p. faster than revenue, that is by 10%, to PLN 2,393,075 thousand as at the end of 2010.

Figure 36: Development of sales revenue (last five years)



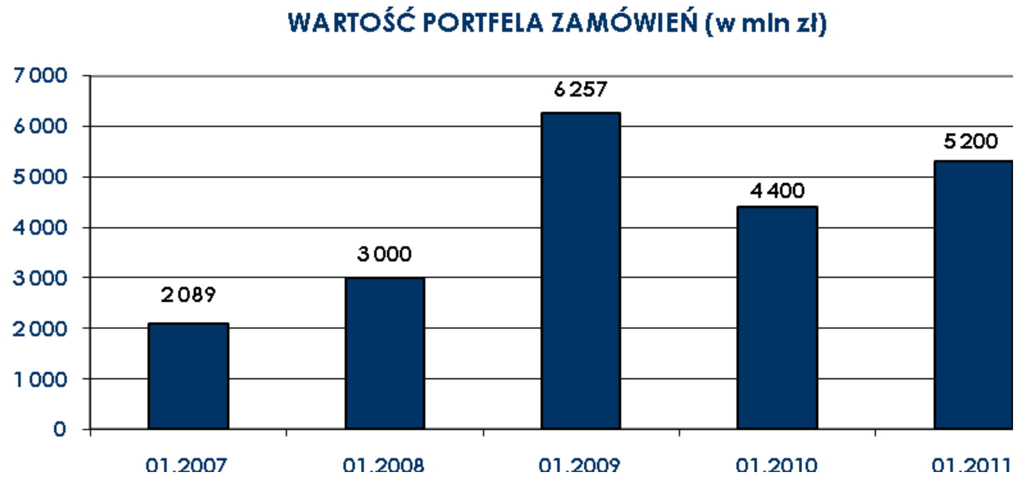
Sprzedaż (w tys. zł.)	Sales (PLN '000)

Over the last several years, the PBG Group's sales of services have been growing steadily. This is attributable to the Group's continuous growth and the growing number of high-value contracts, with the resultant expansion of the order book.

2. Order Book

As at January 1st 2011, the value of the PBG Group's order book was PLN 5.2bn, of which nearly PLN 2.8bn represents orders to be executed in 2011, with the balance, i.e. approximately PLN 2.4bn, scheduled for execution in subsequent years. The largest share (38%) in the Group's order book represents contracts in the natural gas, crude oil and fuels segment, where the Group recognises the three largest contracts, namely for the construction of the underground gas storage facility in Wierzchowice, the LMG oil production facility, and the LNG terminal in Świnoujście. The Group's second largest segment is road construction, accounting for 36% of the total order book, where the Group recognises contracts for the construction of two sections of the A1 motorway, one section of the A4 motorway and the S5 expressway. The contracts co-financed with the EU funds represent 14% of the order book and comprise the third largest segment. The Group's industrial and residential construction segment represents 12% of the total order book.

Figure 37: Development of the PBG Group's order book (last five years)



Wartość portfela zamówień (w mln zł)	Order Book (PLN MLN)

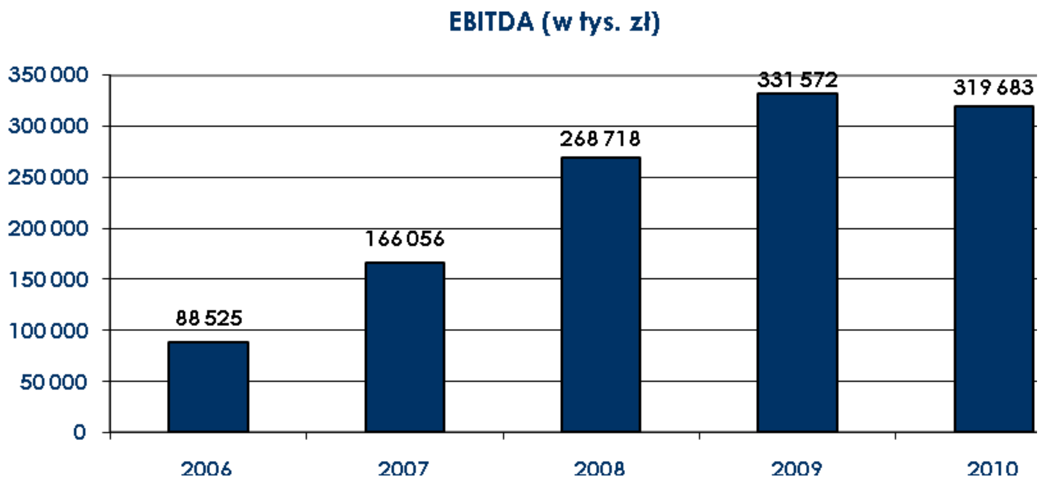
Table 45: Structure of order book as at January 1st 2011

ORDER BOOK AS AT JANUARY 1ST 2011	
Natural gas, crude oil and fuels	38%
Water	14%
Industrial and residential construction	12%
Road construction	36%
Total	100%

3. EBITDA

As at the end of 2010, the PBG Group recorded EBITDA of **PLN 319,683 thousand**, 4% down on the respective figure (**PLN 331,572 thousand**) as at the end of 2009.

Figure 38: Development of EBITDA (last five years)

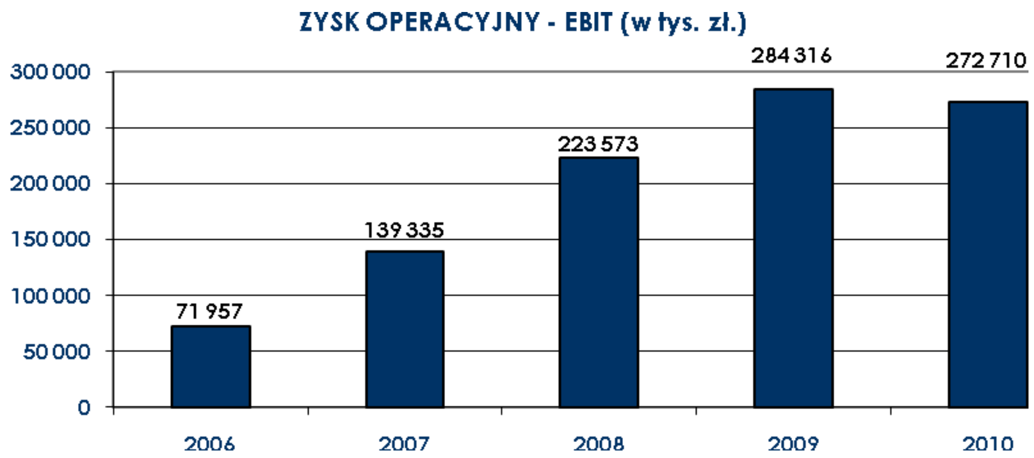


EBITDA (w tys. zł.)	EBITDA (PLN '000)

4. EBIT

In 2010, the PBG Group recorded a 4% year-on-year drop in EBIT. EBIT decreased from **PLN 284,316 thousand** to **PLN 272,710 thousand.**

Figure 39: Development of EBIT (last five years)

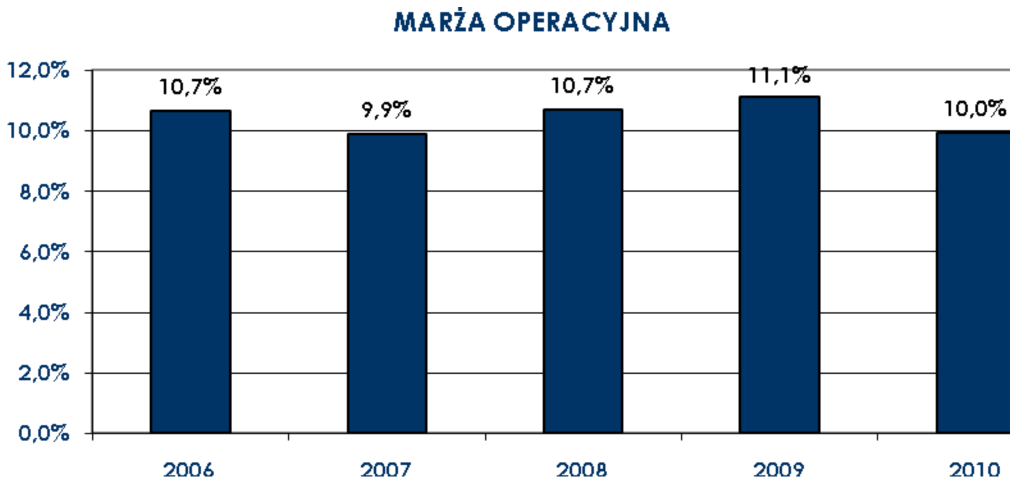


ZYSK OPERACYJNY – EBIT (w tys. zł.)	EBIT (PLN '000)

5. Operating Margin

In 2010, the PBG Group recorded a **1.1% year-on-year decrease in operating margin.**The operating margin dropped from **11.1% to 10.0%.**

Figure 40: Development of operating margin (last five years)



MARŻA OPERACYJNA	OPERATING MARGIN

In 2010, the operating margin was affected by a number of factors. Firstly, cost of sales grew faster than sales revenue (by 3%). Secondly, general and administrative expenses remained flat year on year. Also, other operating income of nearly PLN 66.7m more than doubled on 2009 . The largest item of other operating income was fair value measurement of investment property recognised by Górecka Projekt, which is responsible for real-estate development operations within the PBG Group. The amount of the measurement of investment property disclosed under other operating income was PLN 22.8m. Another material item of other operating income represents the reversal of impairment losses on receivables of nearly PLN 21.4m. Other material income represents compensation received under insurance agreements, fines and penalties, of PLN 5m, gain on disposal of non-financial non-current assets of PLN 4.8m, and lease revenue of PLN 3.1m.

6. Profitability ratios

Table 46: Profitability ratios

ITEM	FORMULA	2010	2009
ROA	(net profit / total assets)*100%	4.7%	5.2%
ROE	(net profit / equity) *100%	14.0%	15.0%
Gross margin	(gross profit / sales revenue)*100%	12.7%	15.2%
Sales margin	(profit on sales / sales revenue)*100%	8.7%	10.9%
Operating margin	(operating profit / sales revenue)*100%	10.0%	11.1%
Net margin	(net profit / sales revenue)*100%	8.2%	8.1%

In 2010, the growth of the cost of sales was higher (110%) than the growth of sales revenue (107%), which had an adverse effect on all margins in the income statement. The net margin was the only margin with a year on year growth. It increased slightly from 8.1% to 8.2%. Other margins decreased year on year: the gross margin by 2.5% to 12.7%, the sales margin fell from 10.9% to 8.7%, the operating margin was at 10%, a 1.1% lower than in 2009. General and administrative expenses in the reporting period remained virtually unchanged relative to the previous year, which had a positive effect on the operating margin, considering the 7% growth of revenue.

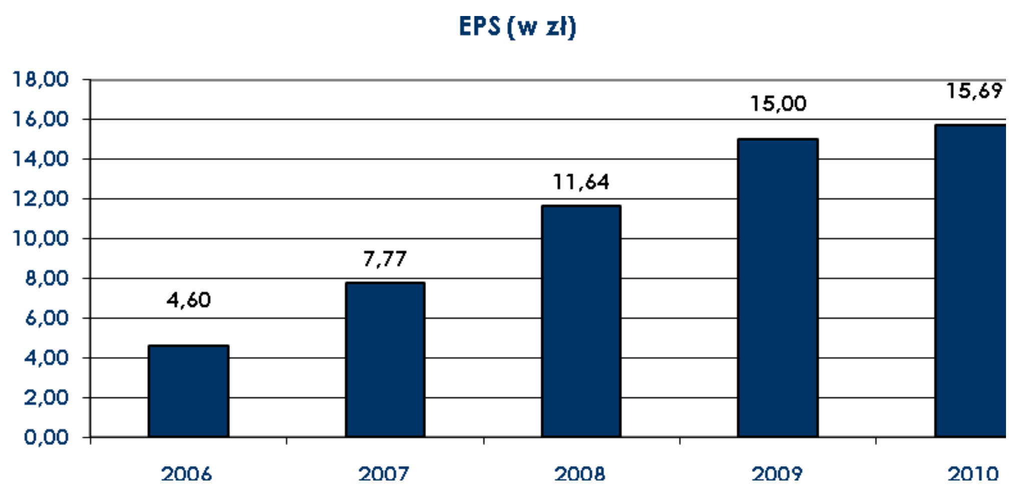
As at the end of 2010, ROA decreased by 0.5 percentage point, from 5.2% to 4.7%, relative to the end of 2009, which follows from the growth of net profit (6%) being slower than the growth of total assets (18%).

As at the end of 2010, ROE was 14%, down by 1 percentage point over the end of 2009. In other words, for every PLN 1 of equity invested in 2010, the Company generated PLN 0.14 of profit, which is PLN 0.01 less than in the previous year.

7. Earnings per share

In 2010, earnings per share grew by 5% year on year, and increased from PLN 15.00 to PLN 15.69. This has been the best result in the last five years.

Figure 41: Development of earnings per share (last five years)



EPS (w zł)	EPS (PLN)

8. Turnover ratios

Table 47: Turnover ratios

ITEM	FORMULA	2010	2009
Average collection period (days)	average trade receivables * 365/ sales	237	220
Inventory cycle (days)	average inventory * 365/ cost of sales	41	23
Average payment period (days)	average trade payables * 365 / cost of sales	177	121

In 2010, the average collection and average payment periods as well as the inventory cycle were longer relative to the previous year. The average collection period increased by 17 days, to 237 days as

at the end of 2010. The inventory cycle was 41 days, i.e. 18 days more than in 2009. The average payment period was 56 days longer, at 177 days. In 2010, the PBG Group continued to pay its liabilities quicker than it collected its receivables.
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 101 days (2009: 122 days). In other words, the Group's financing of current assets with equity was shortened by 21 days.

9. Liquidity ratios

Table 48: Liquidity ratios

ITEM	FORMULA	2010	2009
Current ratio	(current assets / current liabilities)*100	1.63	1.64
Quick ratio	(current assets – inventory – current prepayments and accrued income /	1.48	1.51
Cash ratio	(end cash balance /)current liabilities)*100	0.37	0.36

As at the end of 2010, the current ratio declined slightly relative to the previous year. It was 1.63 compared with 1.64 as at the end of 2009, which is believed to be a safe level. Both in 2010 and 2009, the Group would have been able to meet its current liabilities if they had become immediately payable, and additionally would have had a surplus of current assets to use for other purposes.
The quick ratio decreased slightly as well, from 1.51 as at the end of 2009 to 1.48 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 PBG Group was able to meet its liabilities in a timely manner.
The cash ratio at 0.37 remained virtually unchanged compared with 2009, which means that the PBG Group is able to cover 37% of its current liabilities with the most liquid assets.

10. Debt

Table 49: Debt ratios

Item	FORMULA	2010	2009
Equity and liabilities structure	Equity / external funds	0.55	0.58
Asset structure	Non-current assets / current assets	0.51	0.34
Interest coverage ratio	Gross profit + interest / interest	5.65	8.15

In the discussed period, there were no material changes in the structure of equity and liabilities. In 2009, the Group's equity covered 55% of its debt and in 2009 the coverage of debt with equity stood at 58%. The decrease recorded in 2010 followed chiefly from another, PLN 450m issue of bonds. The issue proceeds were credited to debt instruments recognised under non-current liabilities.
Over the discussed period, the proportion of short-term debt in total equity and liabilities decreased by 5% while the proportion of long-term debt rose by 6%. In value terms, long-term debt went up by 73%

while short-term debt - only by 7%. This was attributable primarily to the PLN 450m issue of bonds by the Group's Parent. The situation is in line with the Group's strategy to increase non-current liabilities against current liabilities, thus enabling the Group to align the financing structure to the term of contracts, which are extended as the values of the contracts grow.

Furthermore, the asset structure ratio rose by 17% year on year, indicating lower flexibility of the Group's assets and the lengthening of the period when funds remain tied-up.

The interest coverage ratio dropped by over 2 percentage points in the period. The ratio's value at 5.65 means that the Group's pre-tax profit exceeds the value of interest by over five-fold and that interest is repaid on a timely basis.

II. CHANGES IN THE INCOME STATEMENT AND COST ANALYSIS

1. Income statement

Table 50: 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	2,740,311	2,572,509	107%
Cost of sales	2,393,075	2,182,566	110%
Gross profit/(loss)	**347,236**	**389,943**	**89%**
Selling costs	73	0	0%
Administrative expenses	109,096	109,764	99%
Profit on sales	**238,067**	**280,179**	**85%**
Other operating income	66,863	31,143	215%
Other operating expenses	33,603	27,006	124%
Share in profit of undertakings consolidated with equity method	1,383	0	0%
Operating profit/(loss)	**272,710**	**284,316**	**96%**
Finance income	64,015	30,717	208%
Finance expenses	71,324	58,850	121%
Profit/loss on investments	2,209	4,265	52%
Pre-tax profit/(loss)	**267,610**	**260,448**	**103%**
Income tax	49,051	40,588	121%
Net profit	218,559	219,860	99%
- attributable to owners of the Parent	**224,315**	**209,094**	**107%**
- attributable to minority interests	-5,756	10,766	0%

As at the end of 2010, the PBG Group's net profit was over PLN 224m, up by 7% or PLN 15m relative to the end of 2009. Other items of the income statement, however, declined: pre-tax profit dropped by 11% year on year, to slightly over PLN 347m, profit on sales went down by 15%, to PLN 238m, and operating profit saw a 4% decrease, to nearly PLN 273m.

3. Cost

Table 51: Cost ratio

Item	FORMULA	2010	2009
Basic cost ratio	the sum of ratio * and ratio **	0.913	0.891
Cost of sales ratio*	cost of sales / sales revenue	0.873	0.848
General and administrative expenses ratio**	general and administrative expenses / sales revenue	0.040	0.043

In 2010, the cost of sales was PLN 2,393,075 thousand, up by 10% on the end of 2009. There was a change in the share of variable costs in total sales revenue. Cost of sales accounted for 87.3% of sales as at the end of 2010 versus 84.8% as at the end of 2009, which represents an increase of 2.6 percentage points.

In 2009, general and administrative expenses reached PLN 109m and remained almost unchanged year on year. The share of general and administrative expenses in sales revenue fell from 4.3% in 2009 to 4.0% in 2010, which represents a decrease of 0.3%. The decrease in general and administrative expenses is due primarily to the allocation of some employees to the performance of the largest contracts and the resulting disclosure of the costs related to those employees under the cost of sales(i.e. contract variable costs).

The basic cost ratio calculated as the sum of the cost of sales ratio and the general and administrative expenses ratio went up to 91.3%, or by 2.2%, in 2010 relative to 2009.

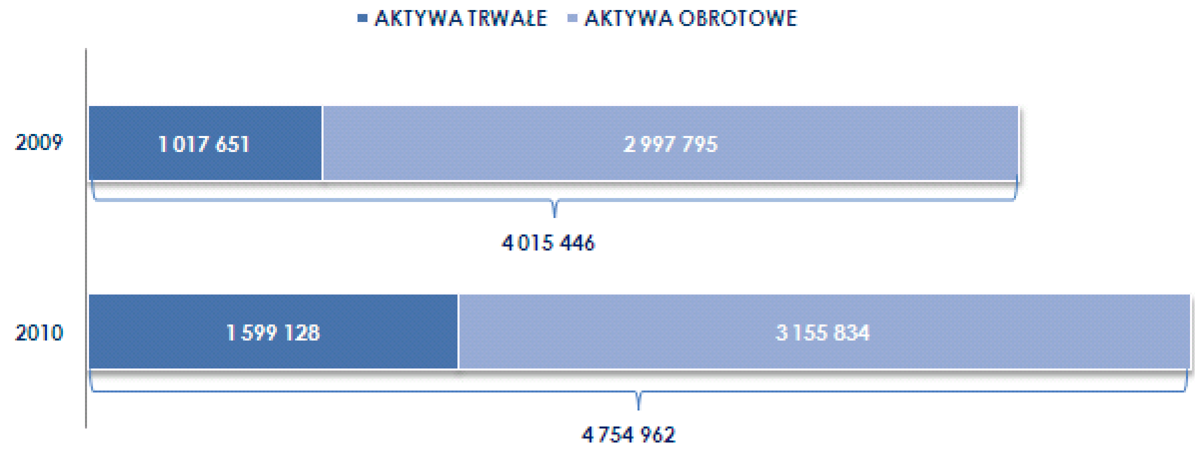
III. ASSETS, FINANCIAL STANDING AND FUNDING OF THE ASSETS

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 nearly 34% and was up by 9% year on year. On the other hand, over 2009 the share of current assets in total assets fell year on year and reached 66%. The largest item of non-current assets, accounting for 42% of total non-current assets, was property, plant and equipment, followed by goodwill acquired under business combination, representing 22% of total non-current assets. Goodwill on business combination comprises such items as goodwill attributable to Hydrobudowa Polska of PLN 43.6m and goodwill attributable to Hydrobudowa 9 of PLN 176.4m. Another major item of non-current assets is investment property, which accounts for 18% of total non-current assets (including the value of the real property situated in the Skalar Office at ul. Górecka in Poznań, estimated at over PLN 110m).

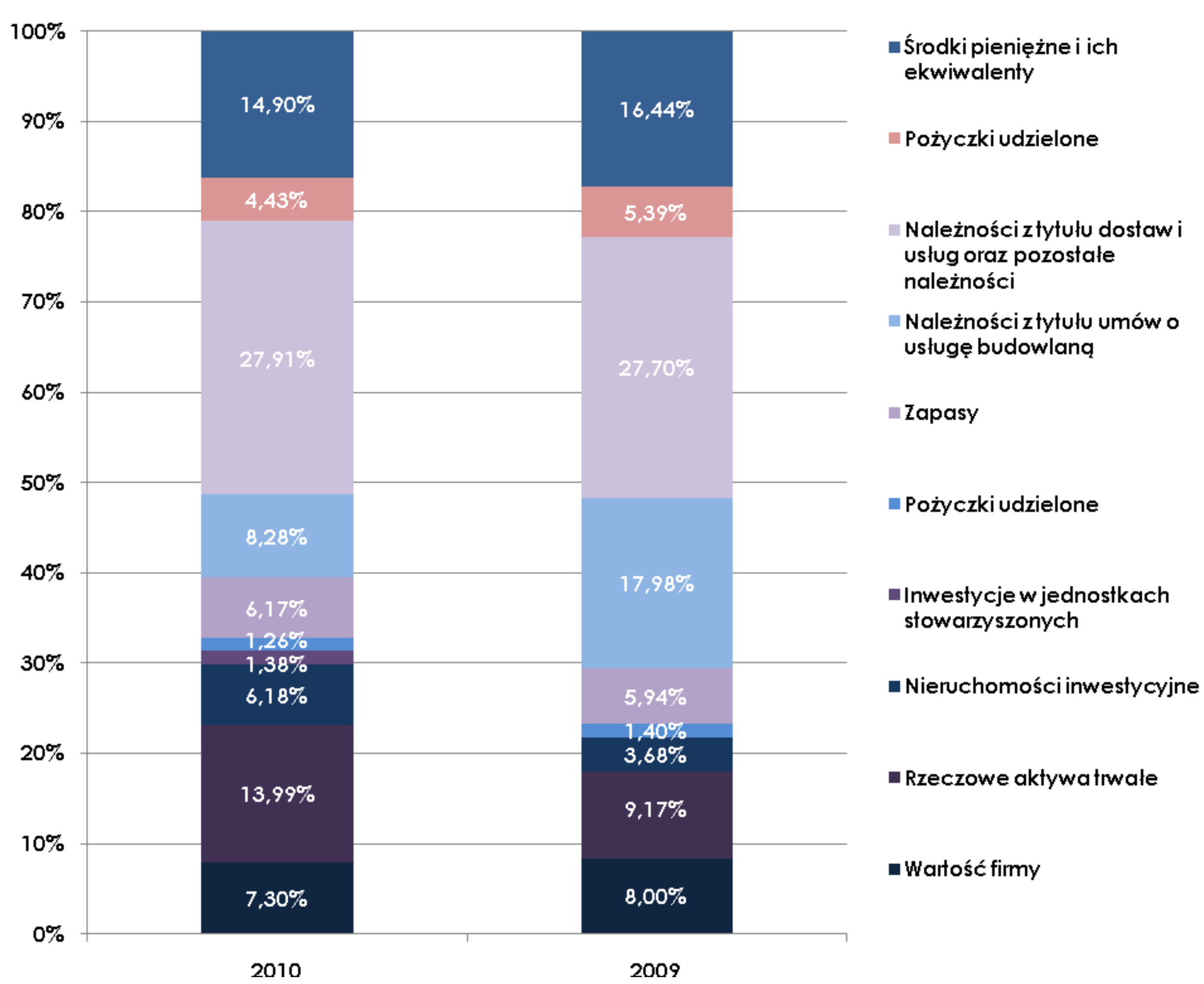
Over the period under review, the structure of current assets changed as well. In 2010, trade receivables were the largest item of current assets, with a 42% share in the total, up by 5% year on year. They were followed by cash and cash equivalents, with a 22% share in total current assets. The third largest item of current assets were receivables under construction contracts, representing 12% of total current assets.

Figure 42 : Assets (PLN'000)



AKTYWA TRWAŁE	NON-CURRENT ASSETS
AKTYWA OBROTOWE	CURRENT ASSETS

Figure 43: Percentage shares of individual asset items in total assets (assets >1%)



Środki pieniężne i ich ekwiwalenty	Cash and cash equivalents
Pożyczki udzielone	Loans advanced
Należności z tytułu dostaw i usług oraz pozostałe	Trade and other receivables

zobowiązania	
Należności z tytułu umów o usługę budowlaną	Receivables under construction contracts
Zapasy	Inventories
Pożyczki udzielone	Loans advanced
Inwestycje w jednostkach stowarzyszonych	Investments in associated undertakings
Nieruchomości inwestycyjne	Investment property
Rzeczowe aktywa trwałe	Property, plant and equipment
Wartość firmy	Equity

Table 52: Asset ratios (%)

Item	FORMULA	2010	2009
Basic asset structure	(non-current assets / current assets)*100	51%	34%
Non-current assets to total assets	(non-current assets / total assets)*100	34%	25%
Current assets to total assets	(current assets / total assets)*100	66%	75%
Inventories to current assets	(inventories / current assets)*100	9%	8%
Current receivables to current assets	(current receivables / current assets)*100	55%	61%

The key asset structure ratio is discussed in detail in Section 1.10, Chapter VI.

A noticeable change in the structure of the PBG Group'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 57% relative to 2009. An increase was recorded also in current assets, which grew by 5%. The above ratios show that the share of non-current assets in total assets as at the end of 2010 was 9% higher than as 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, which resulted mainly from a decline in receivables under construction contracts by 45%, or PLN 328m.

2. Equity and liabilities

In the reporting period, the PBG Group's asset financing structure changed. Equity attributable to owners of the Parent represented 34% of total equity and liabilities. The share of non-current liabilities in the balance-sheet total increased by 7%, to 21%, while the share of current liabilities fell to 41% as at the end of 2010 (45% as at the end of 2009). The largest item of non-current liabilities was other non-current financial liabilities, which comprised bonds with a total value of PLN 450m issued by PBG S.A. in 2010.

Figure 44: Equity (PLN '000)

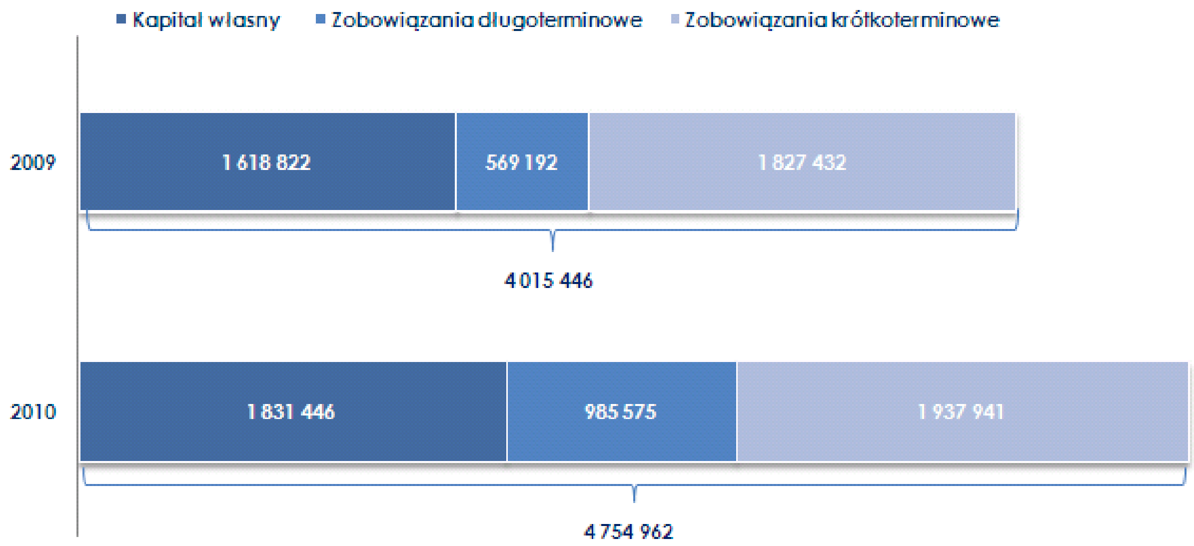
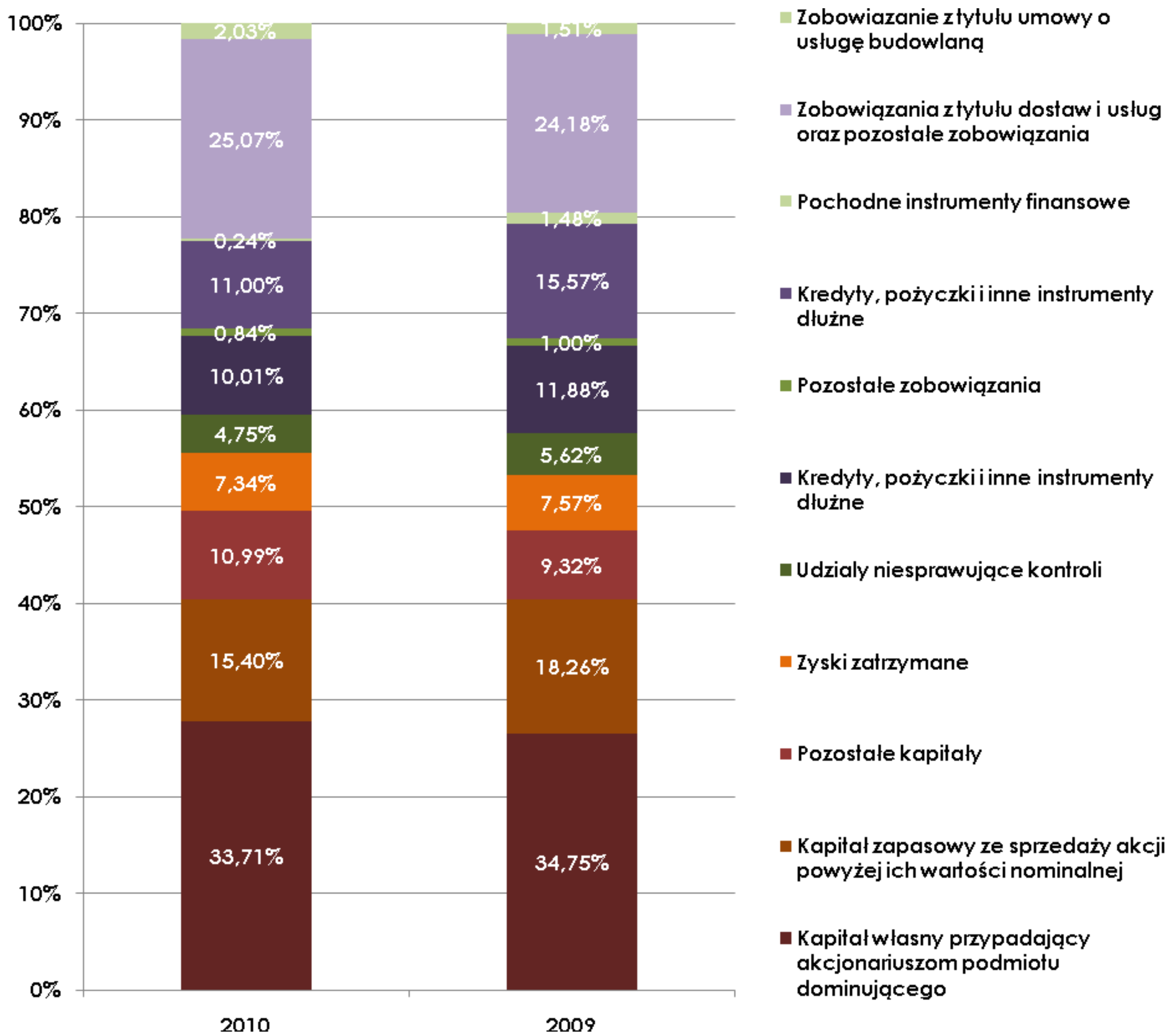


Figure 45: Percentage share of individual asset items in total equity and liabilities (assets >1%)



Zobowiązania z tytułu umowy o usługę budowlaną	Liabilities under construction contracts
Zobowiązania z tytułu dostaw i usług oraz pozostałe zobowiązania	Trade and other liabilities
Pochodne instrumenty finansowe	Financial derivatives
Kredyty, pożyczki i inne instrumenty dłużne	Short-term loans, borrowings and other debt instruments
Udziały niesprawujące kontroli	Non-controlling interests
Pozostałe zobowi ązania	Other liablilities
Zyski zatrzymane	Retained earnings
Pozostałe kapitały	Other capitals
Kapitał zapasowy ze sprzedaży akcji powyżej ich wartości nominalnej	Share premium account
Kapitał własny przypadający akcjonariuszom podmiotu dominującego	Equity attributable to owners of the parent

Table 53: Financial ratios (%)

Item	FORMULA	2010	2009
Basic equity and liabilities structure ratio	(equity / debt capital)*100	55%	58%
Debt capital to total capital ratio	(debt capital / total equity and liabilities)*100	61%	60%
Debt capital to equity ratio – debt ratio	(debt capital / equity)*100	182%	172%
Long-term capital to equity and liabilities ratio	(long-term capital / total equity and liabilities)*100	21%	14%
Short-term debt capital to equity and liabilities ratio	(short-term debt capital / total equity and liabilities)*100	41%	46%
Capital reserves to equity and liabilities ratio	(capital reserves / total equity and liabilities)*100	2%	2%

The key equity and liabilities structure ratio is already discussed in detail in Section 1.10, Chapter VI.

The share of debt capital in total capital increased by 1 percentage point relative to the end of 2009 and amounted to 61% in the PBG Group's asset financing structure. The debt ratio grew by 10% to 182%, which means that for each złoty of its equity, the Group has PLN 1.82 of debt capital, which compares with PLN 1.72 as at the end of 2009.

The share of long-term capital in total capital stood at 21% and grew by 7% compared with the end of 2009. However, current debt ratio went down by 5% to 41% as at the end of 2010.

Table 54:Asset financing ratios – vertical analysis (%)

Item	FORMULA	2010	2009
Equity to non-current assets ratio (first grade financing ratio)	(equity as at end of period / non-current assets as at end of period)*100%	100%	137%
Long-term capital to assets ratio (second grade financing ratio)	(equity as at end of period + long-term debt capital as at end of period / non-	162%	193%
Current debt capital to current assets ratio	(short-term debt capital as at end of period / current assets as at end of	61%	61%

The analysis of financial data indicates that there are positive relations in the PBG Group's asset financing. Please note 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 55: Amounts disclosed in the statement of cash flows (PLN '000)

	2010	2009
Net cash provided by/(used in) operating activities	+433,582	+305,060
Net cash provided by/(used in) investing activities	-529,951	-350,566
Net cash provided by/(used in) financing activities	+144,866	+416,920
Net cash at end of period	+708,509	+660,281

In 2010, the statement of cash flows features trends similar to those seen in 2009. In the analysed period, the Company generated positive cash flows from operating activities (PLN 434m). The balance of cash flows generated in investing activities was negative and amounted to PLN -530m. The result was mostly affected by nearly PLN 138m expenditure on the purchase of property, plant and equipment and PLN 122m expenditure on the acquisition of subsidiary undertakings, including the acquisition of shares in Energomontaż Południe and AQUA. In the period under review, the Group companies advanced loans in a total amount of PLN 225m and received PLN 191m as repayment. The loans were primarily extended to finance investment projects. With respect to other entities, large loans included PLN 34m extended to Infra. The balance of cash flows generated in financing activities was positive and amounted to PLN 145m, which largely resulted from another issue of bonds (PLN 450m) by the Parent Undertaking in October 2010. In the reporting period, loans contracted by the Group Companies totalled PLN 118m while repaid loans amounted to PLN 206m.

The PBG Group's economic standing indicates that the Group 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 56: Profile of cash flows

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

V. NET DEBT

Table 57: Data used by PBG S.A. to compute net debt (PLN '000)

	2010	2009	y-o-y change
Long-term loans and borrowings, by maturity	78,894	101,876	-22
Short-term loans and borrowings	513,073	493,868	+4
Bonds	825,000	500,000	+65
Net cash	708,509	660,281	+7
Net debt	**708,458**	**435,464**	**+63**

As at December 31st 2010, net debt was PLN 708.5m, having increased 63% relative to the end of 2009. This figure comprises interest-bearing debt, including PLN 79m in long-term loans and borrowings, PLN 513m in short-term loans and borrowings and PLN 825m in bonds (issued by PBG S.A. in two tranches: PLN 375m in 2009 and PLN 450m in 2010). Net cash of nearly PLN 709m as at the end of 2010 was deducted from the above figures. The increasing net debt of the PBG Group is an effect of raising substantial funds through the next bond issue and only partial use of these funds to finance the Group's operating activities. It also stems from the positive cash flows generated in operating activities of nearly PLN 434m.

VI. NET WORKING CAPITAL

Table 58: Net working capital (PLN '000)

	2010	2009	y-o-y change
Net working capital based on the short-term formula (current assets – short-term liabilities)	1,217,892	1,170,363	104%

In the discussed period, the Group reported an increase in working capital. As at the end of 2010, working capital was **PLN 1,217,892 thousand** compared with **PLN 1,170,363 thousand** as at the end of 2009, which represented a 4% increase. Interpretation of working capital is straightforward: its rise demonstrates improving financial standing as working capital is a liquid reserve which can be used to meet current financing needs.

Table 59: Percentage share of net working capital in assets

	2010	2009	y-o-y change
Net working capital in total assets	26%	29%	-3%

Working capital's share in total assets as at the end of 2010 was 26% and was 3% lower than as at the end of 2009.

VII. INVESTMENTS

1. Equity investments

In 2010, PBG S.A., the Parent Undertaking, acquired 25% and one share in Energomontaż Południe S.A. for PLN 64.4m, which was the Group's 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 PBG's 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%.

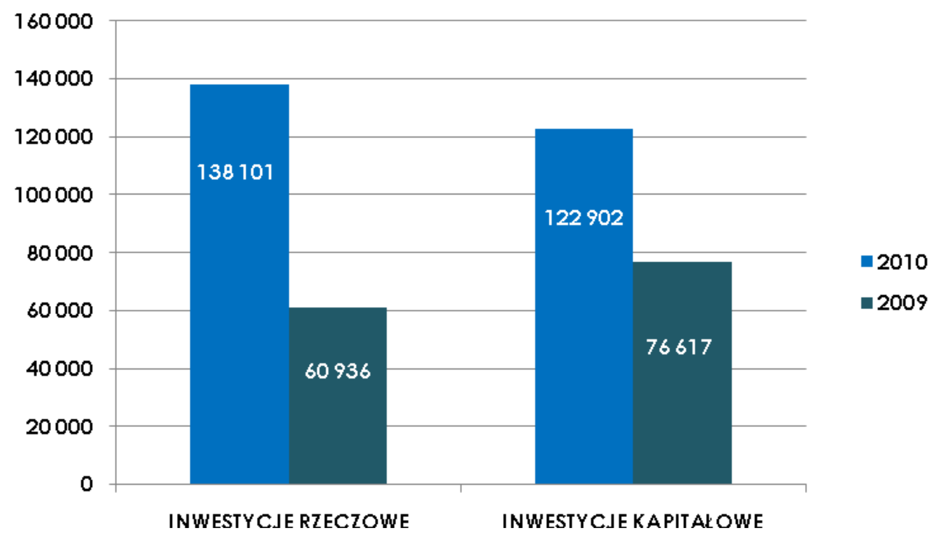
The other companies of the PBG Group made the following equity investments in 2010. APRIVIA increased its equity interest in Dromost through the purchase of additional shares for PLN 3.5m. Following the transaction, APRIVIA's share in total vote at Dromost's General Shareholders Meeting increased from 87.40% to 99.99%.

In the performance of its strategy, PBG Dom established special purpose vehicles for the implementation of property development projects and acquired existing undertakings. PBG Dom's equity investments totalled PLN 45.8m in 2010.

2. Expenditure on property, plant and equipment

In 2010, the PBG Group mainly invested in the enhancement of its plant, workshops and warehouses. A part of the funds was invested in the modernisation and extension of the existing office buildings and the construction of new ones. The investments totalled PLN 138m.

Figure 46: Capital expenditure in 2009–2010 (PLN '000)



INWESTYCJE RZECZOWE	INVESTMENTS IN PROPERTY, PLAN AND EQUIPMENT
INWESTYCJE KAPITAŁOWE	EQUITY INVESTMENTS

3. Feasibility of the Company's investment plans

Financial resources available to the PBG Group, the issue of bonds in 2010 and the executed loan agreements fully secure funding for the current projects and equity investments. In 2011, replacement investments in property, plant and equipment are estimated to reach approximately PLN 50m.

VIII. MANAGEMENT BOARD'S DISCUSSION OF THE PBG GROUP'S FINANCIAL PERFORMANCE IN Q4 2009

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 PBG Group generated sales revenue of PLN **809m, while its gross profit on sales was PLN 90.3m**, which translated into a 12% and 41% decrease, respectively, relative to Q4 2009. Further, in Q4 the PBG Group recorded **operating profit** of PLN **99.5m** and **net profit attributable to the owners of the Parent of PLN 85.2m**. Year on year, operating profit went down by 14%, while net profit decreased by 17%.

Table 60: PBG Group's income statement for Q4 2010 and Q4 2009

PBG Group's income statement	for the period Oct 1–Dec 31 2010	for the period Oct 1–Dec 31 2009	Growth rate 4Q2010/ 4Q2009
Sales revenue	809,223	921,454	88%
Cost of sales	718,927	769,478	93%
Gross profit/(loss)	**90,296**	**151,976**	**59%**
Selling costs	7	0	0%
General and administrative expenses	30,485	27,345	111%

Profit on sales	**59,804**	**124,631**	**48%**
Other operating income	36,354	3,095	1175%
Other operating expenses	-5,593	12,078	-46%
Share in profit of subsidiary undertakings consolidated with equity method	-426	0	0%
Operating profit/(loss)	**101,331**	**115,648**	**88%**
Finance income	17,847	11,644	153%
Finance expenses	21,166	15,757	134%
Other gains/(losses) on investments	1	1,357	0%
Pre-tax profit/(loss)	**98,009**	**112,892**	**87%**
Income tax	18,801	23,545	80%
Net profit/(loss) attributable to:	79,207	89,347	87%
- owners of the Parent	**85,268**	**99,989**	**85%**
- minority interests	-6,062	-10,642	57%

Discussion of revenue, income, costs and expenses

1. Sales revenue

In Q4 2010, the PBG Group's sales revenue amounted to over **PLN 809m, having decreased by 12%** year on year.

2. Cost of sales

In Q4 2010, cost of sales reached almost **PLN 719m, which represented a 7%** decrease over the end of Q4 2009. There was a change in the share of variable costs in total sales revenue. Cost of sales accounted for 88.8% of sales revenue as at the end of Q4 2010 versus 83.5% as at the end of Q4 2009, which represents an increase of 5.3%.

3. General and administrative expenses

As at the end of Q4 2010, general and administrative expenses amounted to **PLN 30.5m**, having **increased by 11%** year on year. The share of general and administrative expenses in sales revenue went up from 3.0% in Q4 2009 to 3.8% in Q4 2010, which represents an increase of 0.8%.

4. Other operating income

In Q4 2010, other operating income amounted to **PLN 36.3m.** The most material item was the measurement of investment property to fair value of PLN 25.3m, reversal of impairment losses (mainly on receivables) of PLN 3.9m and gain on disposal of non-financial non-current assets of PLN 4.7m. Other operating income rose more than tenfold year on year.

5. Other operating expenses

As at the end of Q4 2010, other operating expenses totalled **-PLN 5.6m,** having decreased **by PLN 17.5m** compared with the end of Q4 2009. The positive value of other operating expenses in Q4 2010 is attributable to the reversal of a PLN 10.4m impairment loss, disclosed as expenses reduction. The increase in operating expenses is mainly attributable to compensation under insurance agreements, penalties and fines, totalling PLN 4.8m.

6. Finance income

Year on year, Q4 2010 saw a **53%** rise in finance income, which stood at PLN 17.8m. The main item was interest on loans (PLN 6.8m), interest on bank deposits (PLN 3m) and income from financial market transactions (PLN 3.9m).

7. Finance expenses

As at the end of Q4 2010, finance expenses amounted to **PLN 21.2m,** having increased by 34% year on year. The main item was interest on bonds (PLN 11.6m) and bank interest and fees (PLN 9.3m).

Discussion of the financial result

1. Items of the Income Statement

As at the end of Q4 2010, the Group posted **net profit attributable to owners of the Parent** of **PLN 85.2m,** representing a **15% drop** relative to Q4 2009. In Q4 2010, the financial result at all levels of the income statement went down. Gross profit on sales dropped by 41%, **while** operating profit decreased by 12%.

2. EBITDA

In Q4 2010, capital expenditure on acquisition of property, plant and equipment, and non-tangible assets totalled over PLN **71m**, relative to PLN 18m in the corresponding period of the previous year. In Q4 2010, depreciation/amortisation charges amounted to **PLN 11.6m** (PLN 11.8m in Q4 2009).As at the end of Q4 2010, **EBITDA** (EBIT – operating profit and depreciation/amortisation) was PLN **111.1m**, down by 13%, or PLN 16m, from the value recognised in the corresponding period of 2009..

3. Profitability ratios

There was a clear year-on-year decline of profitability ratios in Q4 2010. The gross margin fell by over 5%, from 16.5% to 11.2%. The operating margin decreased as well, having fallen to 12.3% in Q4 2010 (down by 0.3% year on year). The net margin shrank lost 0.4%, shrinking from 10.9% to 10.5%.

Table 61: Q4 2009 and Q4 2010 profitability ratios

Profitability ratios	Q4 2010	Q4 2009
Gross margin[1]	11.2%	16.5%
Operating margin[2]	12.3%	12.6%
Net margin[3]	10.5%	10.9%

*[1]gross profit on sales/sales revenue *100*
*[2]operating profit /sales revenue *100*
*[3]net profit/ sales revenue *100*

IX. FINANCIAL OUTLOOK

In 2010, the PBG Group 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.
Upon completion of negotiations concerning disposal of shares in Hydrobudowa Polska and APRIVIA, described in detail in Chapter III (strategy), the scale of PBG Group's operations may change. The transaction will have a material effect on the Group's revenue, due to the de-consolidation of Hydrobudowa Polska Group and APRIVIA Group revenue. However, the situation will be only temporary, as the PBG Group plans to expand into new markets, which will produce considerable revenue in the future.

X. CONSOLIDATED FINANCIAL FORECASTS FOR 2011

The PBG Group financial forecast for 2011 will be published in a current report, following the publication of the Group's financial information for 2010, but not later than on the date of release of Group's Q1 2011 report.

XI. EXPLANATION OF DISCREPANCIES BETWEEN THE ACTUAL RESULTS AND FORECASTS

The PBG Group publishes financial forecasts annually. The forecast consolidated financial results for 2010 is presented below, with a discussion of the Group's actual performance vs. the forecast.
The consolidated results for 2010 did not vary significantly from the forecasts presented in May 2009 (see Current Report No. 24/2010). The Group publishes its financial guidance for sales revenue, operating profit and net profit.
The forecast and actual values of the selected items of the consolidated income statement are presented in the table below.

Table 62: Financial forecast vs. actual performance in 2010

Item	Forecast (PLN '000)	Actual (PLN '000)	Actual vs. forecast(%)
Net sales revenue	3,000,000	2,740,311	91.3%
Operating profit	300,000	272,710	90.0%
Net profit	220,000	224,315	101.9%

XII. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

PBG S.A.'s financing strategy, based on clear and uniform terms of cooperation with the financing institutions, was continued in 2010.
As at December 31st 2010, the amount of bank and insurance limits awarded to PBG S.A. and the PBG Group as a whole for the financing of their day-to-day operations and capital expenditure and to execute FX transactions was PLN 3,55bn.

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 PBG Group 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 1bn and the agreement's term was extended until December 31st 2015.

As part of the 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 outstanding 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 the PBG Group,
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 Group to directly link these products to particular contracts and to adjust the products the profile of the Group's cash flows, which, as viewed from the financial institutions' perspective, significantly reduced the operating risk of the PBG Group. The rules of controlling and monitoring PBG S.A.'s and the PBG Group's performance by the financial institutions permitted direct settlement of PBG's and the Group'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 the PBG Group's 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.

INDEX OF TABLES AND FIGURES:

TABLES:

FIGURES:

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SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

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Vice-President of the Management Board	**Tomasz Woroch**
Vice-President of the Management Board	**Przemysław Szkudlarczyk**
Vice-President of the Management Board	**Tomasz Tomczak**
Vice-President of the Management Board	**Mariusz Łożyński**