

Current Report No.: PBG/CG/1/2011 Wysogotowo, March 30th 2011

Subject: Report of the Supervisory Board of PBG S.A. on its activities in 2010, assessment of the Company's standing

The Management Board of PBG S.A. presents the Report of the Supervisory Board of PBG S.A. on its activities in 2009, containing a report on the activities of the Supervisory Board committees, a self-assessment and an assessment of the Company's standing.

### **Report of the Supervisory Board of PBG S.A.**

#### **1. Report of the Supervisory Board of PBG S.A. on its activities in 2010 and the Supervisory Board's self-assessment of its work.**

In 2010, the Supervisory Board was composed of the following members:

- from January 1st 2010 to April 21st 2010: Maciej Bednarkiewicz, Jacek Kseń, Wiesław Lindner, Dariusz Sarnowski, and Adam Strzelecki;
- from April 21st 2010: Maciej Bednarkiewicz, Dariusz Sarnowski, Adam Strzelecki, Marcin Wierzbicki, and Małgorzata Wiśniewska.

At its meetings, the Supervisory Board addressed matters related to the control and oversight of the day-to-day operations of the Company in all aspects of its activity. In 2010, the Supervisory Board held six meetings, at which it adopted resolutions on such matters as:

- approving acquisitions or disposals of shares in other companies;
- approving acquisitions or disposals of real estate;

- assessing the Company's financial statements for 2009, the Directors' Report on the Company's operations in 2009 and the Management Board's recommendations regarding distribution of the 2009 profit;
- assessing the consolidated financial statements of the PBG Group for 2009 and the Directors' Report on the operations of the Group in 2009;
- approving the agenda of the Annual General Shareholders Meeting presented by the Management Board;
- approving the Report of the Supervisory Board's activities, containing a brief assessment of the Company's standing;
- appointing an entity qualified to audit financial statements; and
- determining the amount of basic remuneration and bonuses for the Management Board members.

As regards a self-assessment of its work, the Supervisory Board concludes that the powers and duties of the Supervisory Board are described in the Rules of Procedures of the Supervisory Board, the current version of which was approved by the General Shareholders Meeting on April 21st 2010. The Supervisory Board meets the independence criteria stipulated in the Company's Articles of Association and the Code of Best Practice for WSE-Listed Companies. The Supervisory Board appointed the Audit Committee and the Remuneration Committee from among its members.

In the period covered by the report, the Supervisory Board was regularly provided by the Management Board with reliable information on the financial position of the Company, projects implemented by the Company, as well as acquisitions and cooperation with business partners. When performing its duties, the Supervisory Board acquired all necessary information from the documents and information presented by the Management Board, as well as from presentations and explanations provided by the Management Board and, if necessary, Company employees or experts attending the Supervisory Board meetings. The Supervisory Board concludes that there were no disruptions in its cooperation with the Management Board of PBG S.A.

The Supervisory Board proceeded smoothly and efficiently, with all its members participating in its work. Specific activities undertaken by the Supervisory Board are reflected in the minutes from its meetings, which are kept at the Company's head office.

All meetings were convened in compliance with the Rules of Procedure of the Supervisory Board, therefore the Supervisory Board was able to adopt valid resolutions at each meeting.

In the opinion of the Supervisory Board members, the Supervisory Board of PBG S.A. duly performed all its obligations under the applicable laws, the Company's Articles of Association, rules in place at the Company and the Code of Best Practice for WSE-Listed Companies.

## **2. Report on the activities of the Audit Committee**

### **General information on the Audit Committee:**

The Audit Committee was appointed by the Supervisory Board of PBG S.A. by virtue of Resolution No. 5 of May 18th 2010.

The Audit Committee is responsible for:

- monitoring the financial reporting process;
- monitoring the internal control, internal audit and risk management systems in terms of their effectiveness;
- monitoring the audit procedures;
- monitoring the independence of the auditor and the entity qualified to audit financial statements;
- providing the Supervisory Board with a recommendation regarding an entity qualified to audit financial statements and perform audit procedures.

The Audit Committee convenes on an ad hoc basis, at least once every three months.

The Audit Committee is composed of:

- Małgorzata Wiśniewska
- Marcin Wierzbicki
- Dariusz Sarnowski

### **Activities of the Audit Committee in 2010:**

1. Organisational meeting to determine the Committee's tasks for 2010/2011;
2. Meetings with the auditor of PBG and meetings with other auditors;
3. Meeting with the Management Board, concerning the risk hedging strategy;
4. Meeting concerning information security in IT systems and control of procurement planning processes;
5. Initiating control activities performed by the internal audit department at PBG S.A.

### **3. Report on the activities of the Remuneration Committee**

#### **General information:**

The Remuneration Committee was appointed by the Supervisory Board of PBG S.A. by virtue of Resolution No. 6 of May 18th 2010.

The Remuneration Committee is responsible in particular for:

- establishing the remuneration policy at the Company;
- monitoring the implementation of the remuneration policy at the Company with respect to the members of the Management Board and the management staff;
- monitoring the levels of remuneration at the Company;
- defining the terms and conditions of employment for members of the Company's Management Board and management staff.

The Remuneration Committee convenes on an ad hoc basis, at least once every three months.

The Remuneration Committee is currently composed of:

- Maciej Bednarkiewicz, and
- Adam Strzelecki.

#### **Activities of the Remuneration Committee in 2010:**

- 1) Organisational meeting designed to prepare the work plan for 2010/2011;
- 2) Regular meetings concerning the development of remuneration policy and bonus system for the senior management staff of PBG S.A.;

- 3) meetings devoted to preparations to implement the remuneration policy at PBG S.A.

#### **4. Brief assessment of the Company's standing in 2010**

In 2010, despite the continued downturn on the construction market and the resulting increased competition for new contracts, the Company and its Group once again met its operating targets and financial projections.

The construction of Poland's first Euro 2012 stadium in Poznań was completed. The PBG Group companies are simultaneously building stadiums in Warsaw and Gdańsk, while in the gas sector PBG S.A. is constructing the Underground Gas Storage Facility in Wierzchowice and the Lubiatów – Międzychód – Grotów crude oil and natural gas mine. In 2010, the Consortium including PBG S.A. won a contract of key importance to Poland's energy security, involving the construction of the LNG terminal in Świnoujście. The Group companies also won significant road infrastructure contracts: for the construction of sections of A1 and A4 motorways and S5 expressway.

The Supervisory Board of PBG S.A. concludes that the Management Board of the Company is taking steps to secure further contracts in new operating areas. The Company forms consortia with foreign partners, which enhances the recognition of the PBG brand also outside the Polish market. In 2010, in order to find a Partner for acquisition and performance of contracts outside Poland PBG commenced talks with Spain's OHL. The cooperation is to be founded on the Partnership of shareholders in HYDROBUDOWA POLSKA S.A. and APRIVIA S.A. In 2011, this cooperation is to bring PBG over PLN 500m in proceeds from the sale of majority stakes in the aforementioned companies. But most of all, it will secure OHL's support (OHL Partnership) in acquiring and performing projects outside Poland and ensure revenues from foreign contracts for the PBG Group.

The Company has interesting business prospects in the Polish power sector. In 2010, PBG S.A. formed teams which are now ready to begin work on the acquisition of power engineering contracts in the Polish market. The effectiveness of those efforts is confirmed by the positive completion of pre-qualification stages of the tender procedures for contracts for the construction of power-generating units in Opole, Koźienice, Jaworzno and Stalowa Wola.

The Supervisory Board concludes that the Management Board of the Company implements the development strategy for the Company in a stable and consistent manner. It recognises risks arising in the day-to-day activities of the Company and manages them competently. The policy of PBG's Management Board is to perform under the existing contracts in a reliable and stable manner, but also to put a great emphasis on securing new markets which will provide the Group with revenue in the years to come. The financial performance of the Company and its Group serves as the best evidence of the effectiveness of the adopted strategy. The PBG Supervisory and Management Boards are of the opinion that despite the ongoing crisis and difficult weather conditions in the first quarter of 2010 the financial performance of the Company and its Group was satisfactory.

#### **5. Report submitted pursuant to Art. 382.3 of the Polish Commercial Companies Code.**

The Supervisory Board of PBG S.A., acting pursuant to Art. 382.3 of the Commercial Companies Code, hereby represents that it has thoroughly analysed the following documents presented by the Company's Management Board: the 2010 financial statements of the Company, the Directors' Report on the operations of the Company in 2010, the consolidated financial statements of the PBG Group for 2010, the Directors' Report on the operations of the PBG Group 2010, and the Management Board's recommendations relating to the distribution of profit, and has also reviewed the opinions of auditors on the audit of the aforementioned financial statements and reports.

Having analysed the above documents, the Supervisory Board concludes that:

1. the financial statements of the Company for 2010:

- present fairly and clearly all the information necessary for the assessment of the Company's assets and financial standing as at December 31st 2010, as well as its financial performance for the financial year January 1st - December 31st 2010;
- were prepared in all material respects correctly, comply with the accounting principles (policies) stipulated in the International Accounting Standards, the International Financial Reporting Standards and interpretations thereto published in the European Commission's regulations, and to the extent not covered by those

Standards, in compliance with the requirements of the Polish Accountancy Act and the secondary legislation thereto;

- present the data in accordance with the requirements of the Finance Minister's Regulation of February 19th 2009 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 (Dz.U. of 2009, No. 33, item 259, as amended);
- comply with the applicable laws and the Company's Articles of Association;

2. the Directors' Report on the Company's operations in 2010:

- presents fairly and clearly the economic events which occurred at the Company in 2010 and the activities of the Management Board in the period;
- complies with the requirements stipulated by the applicable laws;
- contains information consistent with the information presented in the financial statements;

3. the consolidated financial statements of the PBG Group for 2010:

- present fairly and clearly all the information necessary for the assessment of the PBG Group's assets and financial standing as at December 31st 2010, as well as its financial performance for the financial year January 1st - December 31st 2010;
- were prepared in all material respects correctly, that is in compliance with the accounting principles (policies) stipulated in the International Accounting Standards, the International Financial Reporting Standards and interpretations thereto as published in the European Commission's regulations, and to the extent not covered by those Standards, in compliance with the requirements of the Polish Accountancy Act and the secondary legislation thereto;
- present the data in accordance with the requirements of the Finance Minister's Regulation of February 19th 2009 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 (Dz.U. of 2009, No. 33, item 259, as amended);
- comply with the applicable laws;

4. the Directors' report on the operations of the PBG Group in 2010:

- presents fairly and clearly the economic events which occurred at the Group in 2010 and the activities undertaken in the period;
- complies with the applicable laws;
- the amounts and information contained in the Directors' Report on the operations of the Group and derived from the consolidated financial statements are consistent with the consolidated financial statements.

The Supervisory Board also concludes that the aforementioned documents were prepared in accordance with the facts and on the basis of properly maintained accounting records.

Considering the above, the Supervisory Board recommends that the Annual General Shareholders Meeting approves the financial statements of the Company for the 2010 financial year, the Directors' Report on the operations of the Company for the 2010 financial year, the consolidated financial statements of the PBG Group for the 2010 financial year, and the Directors' Report on the operations of the PBG Group for the 2010 financial year.

The Supervisory Board approves of the recommendation of the Management Board of PBG S.A. relating to the distribution of profit, according to which:

- a.) *PLN 20,013,000.00 (twenty million, thirteen thousand) is to be allocated to dividend payment in the amount of PLN 1.40 per share,*
- b.) *PLN 5,000,000.00 (five million) is to be allocated to the Company Social Benefit Fund,*
- c.) *PLN 140,374,798.55 (one hundred and forty million, three hundred and seventy-four thousand, seven hundred and ninety-eight złoty and 55 grosz) is to be allocated to the Company's statutory reserve funds, of which PLN 5,000,000 is to be contributed to the PBG Foundation.*

Accordingly, the Supervisory Board recommends that the Annual General Shareholders Meeting approves the recommendations of the Management Board relating to the distribution of profit earned by the Company in 2010.

Legal basis of the Report:

Code of Best Practice for WSE-Listed Companies, Rule III.1.1.

On behalf of PBG S.A.:

Magdalena Eckert-Boruta