

Subject: Report of the Supervisory Board of PBG S.A. on its activities in 2011, assessment of the Company's standing

**REPORT OF THE SUPERVISORY BOARD  
OF PBG SPÓŁKA AKCYJNA  
ON ITS ACTIVITIES IN 2011 TOGETHER WITH AN ASSESSMENT OF THE COMPANY'S STANDING**

**1. Report of the Supervisory Board of PBG S.A. on its activities in 2011 and the Supervisory Board's self-assessment**

In 2011, that is from January 1st to December 31st 2011, the Supervisory Board was composed of: 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 Company's day-to-day operations in all aspects of its business. In 2011, the Supervisory Board held seven meetings, at which it adopted resolutions on such matters as:

- approving the establishment of a company in the Republic of South Africa and acquisition by the Company of 100% of the shares in the newly established company;
- approving the establishment of a company in Sweden;
- approving indirect acquisition of shares in RAFAKO S.A.;
- approving acquisition of shares in STRATEG MINING SERVICES Sp. z o.o. of Poznań;
- approving disposal of shares in a subsidiary;
- approving disposal of shares in GasOil Engineering a.s. of Poprad, Slovakia;
- assessing the Company's financial statements for 2010, the Directors' Report on the Company's operations in 2010 and the Management Board's recommendations regarding distribution of the 2010 profit;
- assessing the consolidated financial statements of the PBG Group for 2010 and the Directors' Report on the operations of the Group in 2010;
- giving opinion on the agenda of the Company's Annual General Meeting, submitted by the Management Board;

- adopting the Report of the Supervisory Board's activities, containing a brief assessment of the Company's standing;
- selecting an auditor of the Company's and the Group's financial statements for 2011, 2012 and 2013;
- preparing the consolidated text of the Company's Articles of Association;
- appointing the Audit Committee and the Remuneration Committee;
- adopting the Rules of Internal Audit at the Company.

In its self-assessment, the Supervisory Board states that the powers and duties of the Supervisory Board are described in the Rules of Procedure of the Supervisory Board, the current version of which was approved by the General Meeting on April 21st 2010. The Supervisory Board meets the independence criteria set forth 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 Company's financial position, current projects, acquisitions and cooperation with business partners. When performing its duties, the Supervisory Board gathered all the necessary information from 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 efficiently, with all its members participating in the 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 the meetings were convened in compliance with the Rules of Procedure of the Supervisory Board; therefore, the Supervisory Board had the capacity to adopt valid resolutions at each meeting.

In the opinion of the Supervisory Board members, the PBG Supervisory Board duly performed all its obligations under the applicable laws, the Company's Articles of Association, relevant Company rules 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. 3 of July 8th 2011.

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 has been composed of:

- Małgorzata Wiśniewska – Chairwoman of the Committee until June 28th 2011,
- Dariusz Sarnowski – Chairman of the Committee since July 8th 2011,
- Marcin Wierzbicki – until his resignation on April 2nd 2012,
- Piotr Bień – since April 26th 2012.

### **Activities of the Audit Committee in 2011**

1. Organisational meeting to determine the Committee's tasks for 2011/2012;
2. Meetings with the auditor of PBG accounts and meetings with other auditors;
3. Meeting with the Management Board concerning 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. 4 of July 8th 2011.

The Remuneration Committee is responsible in particular for:

- establishing the remuneration policy at the Company;
- monitoring implementation of the remuneration policy at the Company with respect to members of the Management Board and 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 has been composed of:

- Maciej Bednarkiewicz – Chairman of the Committee;
- Adam Strzelecki – until his resignation on April 3rd 2012,
- Andreas Madej – since April 26th 2012.

#### **Activities of the Remuneration Committee in 2011**

- 1) Organisational meeting to prepare a work plan for 2011/2012;
- 2) Regular meetings to develop a remuneration policy and bonus system for 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 2011**

Acting in line with the corporate governance rules included in the Code of Best Practice for WSE Listed Companies as implemented by the Company, including in particular Rule III.1.1.1 of the Code, the Supervisory Board performed an assessment of the standing of PBG Spółka Akcyjna in 2011.

The annual financial statements of PBG S.A. and the consolidated financial statements of the PBG Group have been prepared by the Company's Management Board on the assumption that both PBG S.A. and the PBG Group would continue as going concerns in the foreseeable future.

The current level of the Group's debt is significantly higher than in the previous years. The significant increase in the debt financing of the Group's companies has been driven by:

1. Execution of large, low-margin road construction contracts, primarily on the A-1 and A-4 motorways, which require significant expenditures at the execution stage.
2. Construction of the National Stadium in Warsaw, where the General Contractor has incurred significant expenditure to complete the construction work; however, the final settlement is still being negotiated with the contracting authority.
3. Expenditure on the acquisitions of Energomontaż Południe S.A. and RAFAKO S.A. in a total amount of PLN 712m in 2011; the transactions were executed in line with PBG S.A.'s strategy of developing its operations in the power sector. When making the decision to acquire RAFAKO S.A. in June 2011, the Management Board of PBG S.A. intended to finance the transaction with the proceeds from a special purpose bank facility. Once preliminary arrangements had been made with financial institutions, a preliminary share purchase agreement was executed. The final share purchase agreement was concluded in November 2011. However, following the financing bank's decision to withdraw from the transaction, the Company was forced to finance the acquisition of RAFAKO S.A. with own funds. In total, the price of 66% of the RAFAKO shares was PLN 592.7 m.
4. Payment of PLN 135m by one of the banks cooperating with RAFAKO S.A. to Alstom Power Sp. z o.o. under a guarantee. In the opinion of RAFAKO S.A., the payment was made in violation of the law and the company will seek to prove that in arbitration proceedings.

All these factors adversely affected the PBG Group's ability to secure further financing for the running construction projects.

The Supervisory Board of PBG S.A. would like to emphasise the fact that, with a view to improving the Company's standing, the Management Board of PBG S.A. commenced:

1. the process of raising additional capital and financing, comprising:
  - securing a PLN 200m bridge facility,
  - securing a PLN 360m facility to refinance the RAFAKO S.A. acquisition,
  - issuing bonds convertible into shares. Under a resolution of the Extraordinary General Meeting held on April 3rd 2012, PBG S.A. is authorised to issue up to 12 thousand bonds with a par value of PLN 100 thousand per bond. The total par value of the securities can reach up to PLN 1.2bn.

2. The deleveraging process, which involves disposal of selected non-core assets, as well as scaling back exposure to business areas requiring significant capital expenditure which will not be of key interest to the Group in the coming years. In order to do so, the Group will be required to dispose of real property and projects with a total value in excess of PLN 100m.
3. The restructuring process, which involves restructuring of the key areas of the Group's operations. New solutions will help the Group to pursue its development strategy in a more efficient way; the goal is to focus on high-margin segments, i.e. power engineering and oil, gas and fuels. But the restructuring is also to bring about improvements in the Group's economic efficiency through savings and similar measures, and help adapt the current corporate structure to the Group's scale of operations and strategy.

In the opinion of the PBG Management Board, the above measures will secure the financing needed to implement PBG S.A.'s and its Group's current strategy and to carry out their day-to-day operations.

The Auditor's opinion, referring to Note 2.5.3 to the financial statements of the PBG Group, stresses the following issues:

- Problems with continued financing of the Group's operations. Substantial expenditures (exceeding the Management Board's earlier projections) on the execution of pending construction contracts and financing the acquisition of RAFAKO with the Group's own funds (PLN 560m) deteriorated the Group's financial liquidity, threatening its ability to finance the ongoing construction projects and thus posing a threat to its continuing as a going concern;
- The ongoing process of debt restructuring was not completed by the publication date;
- No assurance can be given that steps taken by the Management Board to raise additional capital and financing will be successful.

In the light of the circumstances discussed above, in the opinion of the PBG Management Board, as well as of the PBG Supervisory Board, as at the date of approval of the annual financial statements of PBG S.A., no facts or circumstances are known that would indicate any threat to the Company's continuing as a going concern.

## 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 reviewed the following documents presented by the Company's Management Board: the 2011 financial statements of the Company, the Directors' Report on the operations of the Company in 2011, the consolidated financial statements of the PBG Group for 2011, the Directors' Report on the operations of the PBG Group in 2011, and the Management Board's recommendations regarding distribution of profit, and has also reviewed the opinions and reports 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 2011:

- present fairly and clearly all the information necessary to assess the Company's assets and financial standing as at December 31st 2011, as well as its financial performance for the financial year January 1st–December 31st 2011;
- were prepared in all material respects correctly, i.e. 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 and the Company's Articles of Association;

### 2. the Directors' Report on the Company's operations in 2011:

- presents fairly and clearly the economic events which occurred at the Company in 2011 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 2011:

- present fairly and clearly all the information necessary to assess the PBG Group's assets and financial standing as at December 31st 2011, as well as its financial performance for the financial year January 1st–December 31st 2011;

- were prepared in all material respects correctly, i.e. 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 2011:

- presents fairly and clearly the economic events which occurred at the Group in 2011 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.

The Supervisory Board hereby approves the Management Board's recommendation regarding distribution of net profit, whereby the amount of PLN 92,891 thousand (ninety-two million, eight hundred and ninety-one thousand złoty) is to be contributed to the Company's statutory reserve funds.

Taking into consideration the results of assessment of the aforementioned statements and reports, as well as the overall conditions and circumstances in which the Company and the Group operated in 2011, in submitting this report the Supervisory Board recommends that the Annual General Meeting of PBG Spółka Akcyjna :

- approve the Company's financial statements for 2011,
- approve the consolidated financial statements of the PBG Group for 2011,
- approve the Directors' Report on the Company's operations in 2011:
- approve the Directors' Report on the operations of the PBG Group in 2011:



- adopt a resolution concerning the distribution of the 2011 profit as recommended by the Management Board,
- approve the Report of the Supervisory Board of PBG S.A. on its activities in 2011,
- grant discharge to members of the Supervisory and Management Boards in respect of their duties in 2011.

**Supervisory Board**  
**PBG Spółka Akcyjna**

*Wysogotowo, May 15th 2012*

Legal basis:

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

For PBG S.A.:

Magdalena Eckert-Boruta