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

for six months ended June 30th 2011

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CHAPTER I: CORPORATE BODIES

I. COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD. CHANGES IN H1 2011

1. Composition of the Supervisory Board

The composition of the Supervisory Board in the period from **January 1st** to **June 30th 2011 (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.

The persons listed above were reappointed as members of the Supervisory Board for another term of office by the Annual General Shareholders Meeting on April 21st 2010. The term of office of the Supervisory Board appointed in April 2010 expired on the date of the Annual General Shareholders Meeting which approved the Company's financial statements for 2010. On June 28th 2011, the Annual General Shareholders Meeting of PBG S.A. ("PBG") granted discharge to the Supervisory Board members in respect of their duties. On the same day the General Shareholders Meeting appointed members of the Supervisory Board for the next term of office. The Supervisory Board currently in office is composed of five members.

Full name	**Maciej Bednarkiewicz**
Position	**Chairman of the Supervisory Board** *Independent Member of the Board; Mr. Bednarkiewicz does not conduct any activity competitive to PBG*
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 – since 2004

Full name	**Małgorzata Wiśniewska**
Position	**Deputy Chairman of the Supervisory Board** *Dependent Member of the Board; she does not conduct any activity competitive to PBG*
Qualifications	➢ Graduate of the Civil Engineering Faculty at Poznań University of Technology ➢ MBA, Rotterdam School of Management ➢ Canadian International Management Institute, management programme ➢ Postgraduate programme in Management and Public Relations at the Faculty of Finance and Banking at the Poznań School of Banking
Experience	➢ Assistant Designer at Przedsiębiorstwo Uprzemysłowione Budownictwa Rolniczego of Poznań ➢ In turn: Quality System Director, Public Relations Director, Member of the Management Board and Vice-President of the Management Board of PBG ➢ 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 in the period November 21st 2006 – August 31st 2008 and since April 21st 2010

Full name	**Dariusz Sarnowski**
Position	**Secretary of the Supervisory Board** *Independent Member of the Board; Mr. Sarnowski does not conduct any activity competitive to PBG*
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 Management Board of Dmp Inwestycje Sp. z o. o. ➢ President of the Management Board of Salus-Med Sp. z o.o. ➢ President of the Management Board of Ecdf Ksiegowość Sp. z o.o. ➢ Member of the PBG Supervisory Board since 2005.

Full name	**Adam Strzelecki**
Position	**Member of the Supervisory Board** *Independent Member of the Board; Mr. Strzelecki does not conduct any activity competitive to PBG*
Qualifications	➢ Nicolaus Copernicus University of Toruń – Faculty of Law and Administration; Doctor of Law ➢ 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. z o.o. ➢ Member of the Supervisory Board of Hydrobudowa Polska S.A. ➢ 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 Supervisory Board** *Independent Member of the Board; Mr. Strzelecki does not conduct any activity competitive to PBG*
Qualifications	➢ Warsaw School of Economics – Management and Marketing ➢ 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. z o.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 an Internet store 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 since April 21st 2010

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

2. Composition of the Management Board

The composition of the Management Board in the period from January 1st to June 30th 2011 (and thereafter) has been as follows:

- Jerzy Wiśniewski – President;
- Tomasz Woroch – Vice-President;
- Przemysław Szkudlarczyk – Vice-President;
- Tomasz Tomczak – Vice-President;
- Mariusz Łożyński – 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 – founder, major shareholder and President of the Management Board
Area of expertise	➢ Natural gas and crude oil ➢ Environmental protection
Areas of responsibility at the 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 – Vice-President of the Management Board
Area of expertise	➢ Natural gas and crude oil ➢ Environmental protection
Areas of responsibility at the Group	**Development and contract execution in the energy 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 – Vice-President of the Management Board
Area of expertise	➢ Natural gas and crude oil ➢ Environmental protection
Areas of responsibility at the 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 in cooperation 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 – technical manager; Member of the Management Board; Vice-President of the Management Board
Area of expertise	➢ Natural gas and crude oil ➢ Fuels
Areas of responsibility at the 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 – 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 Group	**Bidding processes; securing contracts for the Group; contract execution in the hydraulic engineering sector**

The Supervisory Board appointed the persons listed above as members of the Management Board on June 4th 2009. The duration of the Management Board's term of office is three years. If appointed during a term of office, a member of the Management Board remains in office until the expiry 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 this Report, there had been no changes in the composition of the Management Board.

II. COMPANY SHARES OR RIGHTS TO THE COMPANY SHARES (OPTIONS) HELD BY SUPERVISING AND MANAGING PERSONNEL OF PBG

Table 1: Company shares or rights to the Company shares (options) held by the supervising personnel of PBG

Supervising person	Number of shares	
	As at Jun 30 2011	As at the date of filing of this Report
Małgorzata Wiśniewska	3,279	3,279

Table 2: Company shares or rights to Company shares (options) held by the managing personnel of PBG

Managing person	Number of shares	
	As at Jun 30 2011	As at the date of filing of this Report
Jerzy Wiśniewski	3,735,054	3,735,054
Przemysław Szkudlarczyk	4 390	4 390
Tomasz Tomczak	3,250	3,250
Tomasz Woroch	1,778	1,778
Mariusz Łożyński	3,553	3,553

III. REMUNERATION, BONUSES AND BENEFITS PAID TO THE SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS

1. 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, 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 3: Remuneration of Supervisory Board members for holding office at the Parent Undertaking

Remuneration (PLN'000)	Jan 1-Jun 30 2011			Jan 1-Jun 30 2010		
	Base remuneration	Other benefits*	Total	Remuneration base	Other benefits	Total
Maciej Bednarkiewicz	60	-	60	60	-	60
Małgorzata Wiśniewska	48	15	63	16	-	16
Dariusz Sarnowski	30	-	30	22	-	22
Adam Strzelecki	18	-	18	18	-	18
Marcin Wierzbicki	18	-	18	6	-	6
Jacek Kseń**	-	-	-	32	-	32
Wiesław Lindner***	-	-	-	20	-	30
TOTAL	**174**	**15**	**189**	**174**	**-**	**174**

** Other benefits: third-party liability insurance for members of the Supervisory Board*
*** Deputy Chairman of the Supervisory Board of PBG until April 21st 2010*
**** Secretary of the Supervisory Board of PBG until April 21st 2010*

Table 4: Remuneration of Supervisory Board members for holding office at subsidiary, jointly-controlled or associated undertakings

Remuneration (PLN'000)	Jan 1-Jun 30 2011			Jan 1-Jun 30 2010		
	Base remuneration	Other benefits*	Total	remuneration base	Other benefits	Total
Maciej Bednarkiewicz	-	-	-	-	-	-
Dariusz Sarnowski	-	-	-	-	-	-
Adam Strzelecki	-	-	-	-	-	-
Marcin Wierzbicki	-	-	-	-	-	-
Małgorzata Wiśniewska	121	-	121	104	-	104
Jacek Kseń**	-	-	-	-	-	-
Wiesław Lindner***	-	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**104**	**-**	**104**

** Other benefits: third-party liability insurance for members of the Supervisory Board*
*** Deputy Chairman of the Supervisory Board of PBG until April 21st 2010*
**** Secretary of the Supervisory Board of PBG until April 21st 2010*

2. 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 5: Remuneration of Management Board members for holding office at the Parent Undertaking

Remuneration of Management Board members (PLN '000)	Jan 1-Jun 30 2011			Jan 1-Jun 30 2010		
	Base remuneration	Other benefits*	Total	remuneration base	Other benefits	Total
Jerzy Wiśniewski	900	-	900	600	-	600
Tomasz Woroch	210	-	210	210	-	210
Przemysław Szkudlarczyk	210	-	210	150	-	150
Tomasz Tomczak	210	-	210	150	-	150
Mariusz Łożyński	180	-	180	150	-	150
TOTAL	**1,710**	**-**	**1 710**	**1,260**	**-**	**1,260**

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

Table 6: Remuneration of Management Board members for holding office at subsidiary, jointly-controlled or associated undertakings

Remuneration of Management Board members (PLN '000)	Jan 1-Jun 30 2011			Jan 1-Jun 30 2010		
	Base remuneration	Other benefits*	Total	remuneration base	Other benefits	Total
Jerzy Wiśniewski	-	-	-	-	-	-
Tomasz Woroch	-	-	-		-	-
Przemysław Szkudlarczyk	18	-	-	18	-	18
Tomasz Tomczak	6	-	-	6	-	6
Mariusz Łożyński	-	-	-	-	-	-
Total	**24**	**-**	**24**	**24**	**-**	**24**

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

IV. 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 and its management staff, which would provide for compensation in the event of a given person resigning or being removed from office.

CHAPTER II: RISKS AND FINANCIAL RISK MANAGEMENT

I. RISKS AND THREATS

EXTERNAL RISKS AND THREATS

1. Economic environment in Poland

The first half of 2011 saw economic recovery, both in Poland and globally. The scale of recovery varied across regions, especially in the Eurozone, where the economic activity was undermined by the public debt turmoil in several Eurozone countries. With the concurrent economic slowdown and the fiscal problems of the United States, there were more uncertainties as to the outlook for GDP growth in the major global economies over the coming quarters.

According to forecasts of the Central Statistics Office (GUS), in H1 2010, the Polish GDP will grow slightly above 4.0% year on year, with the growth estimated to have slowed down somewhat in Q2. In Q1 2011 the Polish economy grew at a rate of 4.4% year on year; according to the Ministry of Finance, the growth rate should also be maintained in Q2 2011. The main drivers of the economic growth in the first half of the year mainly included the strong growth of construction output and declining consumer goods inflation. Other factors also contributed to the lower inflation, including the appreciation of the Polish złoty, seen in early April 2011, low demand pressures and changes of unit labour cost in the economy, as well as negative base effects. Overall, industrial output grew in H1 2011 by 7.4% year on year. The slight drop in GDP seen in the second quarter was attributable mainly to lower industrial output, reduced retail sales and a decrease in exports caused by global economic turbulences. A research into the economic situation conducted by the National Bank of Poland reveals, however, that economic slowdown cannot be avoided, and according to recent GDP projections, the growth rate will decline to 4.0% at the end of 2011, against the March forecast of 4.2%. The growth rate revision is primarily due to the slower pace of investments by businesses following from higher prices of energy resources, lower GDP growth and higher interest rates in Poland.

Source: www.nbp.pl and www.stat.gov.pl/gus.

The implementation of the strategic goals of the Company and the Group and the actual financial performance are affected by the aforementioned macroeconomic factors, which include: GDP growth changes, structural investments, general situation in the Polish economy and legislation changes. Favourable changes in the macroeconomic environment may result in higher revenues, with operating costs remaining relatively unchanged, owing to such factors as the relatively high unemployment rate and absence of remuneration pressures.

2. Competition risk

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

PBG 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,
- entering into strategic alliances with reputable foreign companies operating on the Polish and foreign markets.

Expansion into new geographical markets may also help mitigate the competition risk.

The following domestic and international competitors are present on the Company'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 - PGNiG Technologie - Gazoprojekt - ZRUG Pogórska Wola - Nafta Gaz Serwis - Control Process	- FCC CONSTRUCCION
	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 - 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 references, where PBG essentially faces only foreign competitors; and the segment of less complex construction projects, such as pipelines construction, where PBG competes primarily against Polish businesses. The Company is able to secure a large number of orders on the natural gas and crude oil market: in 2009 its share in this market was estimated at approximately 50%.

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

3. Poland's Membership in the European Union

Following Poland's accession to the European Union, international companies providing services similar to the Company's offering 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 contracts of significant unit values, PBG has demonstrated it is well positioned to compete against foreign companies.

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

To use the opportunities arising from Poland's accession to the EU in a most efficient manner, PBG:

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

4. Risk Related to Seasonality in the Sector

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

- Weather conditions in winter preventing performance of most types of work. The weather may be more severe than the average weather conditions and thus reduce the Company'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 Company'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. There is a risk that the tax legislation currently in effect may change and the new regulations may be less favourable to PBG or its customers, which may directly or indirectly affect the financial performance of the Company.

The Company monitors developments in the tax legislation, and modifies its policies accordingly to mitigate the risk.

6. Exchange Rate

The Polish foreign currency market was highly volatile throughout H1 2011. Q1 2011 saw a sharp strengthening of the Polish złoty against the US dollar. This was attributable to an improved sentiment on global markets, which was also felt on the Warsaw exchange. However, there were no earlier signals of the high volatility of the foreign exchange market, which was seen in Q2 2011. The steep appreciation of the Swiss franc has raised concerns among borrowers holding franc-denominated loans. The weakening of the Polish złoty against the US dollar can also be seen, although to a lesser extent. The global risk aversion seen in Q2 2011 led to depreciation of the Polish złoty against the euro by 11 grosz, pushing the price of the euro above the PLN 4 barrier. The direct drivers of the current situation are, undoubtedly, the escalating fiscal problems of certain Eurozone countries. The future of the Polish currency will be determined by whether the governments of indebted countries implement effective austerity programmes designed to cure public finances.

Source: www.nbp.pl.

The currency risk has a direct effect also on the Company because a portion of costs related to purchases of equipment necessary for the execution of contracts is incurred in foreign currencies, including the euro, as well as the US and Canadian dollars. PBG 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 of loss of key personnel

PBG's business is chiefly based on the knowledge and experience of highly qualified personnel, in particular the engineers.

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

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

- high internal organisational culture, which helps employees identify themselves with the Company,
- proper implementation of remuneration systems, which motivate employees and promote loyalty,
- knowledge management and an extensive training programme,

- ample opportunities for personal and career development in a dynamically growing company.

2. Risk of 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 fails to perform or improperly performs the concluded contracts, there exists a risk that a counterparty of the Company might claim payment of contractual penalties or terminate the contract.

To mitigate such risk PBG 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 natural gas and crude oil and fuels segment are PGNiG and Polskie LNG (a wholly-owned subsidiary of Gaz-System). This is related to the execution of three contracts of substantial value for these customers, totalling nearly PLN 5bn (including nearly PLN 2.5bn for PGNiG and over PLN 2.2bn for Polskie LNG). However, PBG's strategy provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In order to mitigate the risk of being dependent on key customers, PBG gradually attracts new customers for its services, such as POLSKIE LNG, KGHM, NATO, PKN ORLEN, PERN, LOTOS, Natfobazy, OLPP and foreign entities.

The Company seeks 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.

4. Operating risk

The Company's 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 Company mitigates the risk by:

- holding third-party insurance policies,
- upgrading the employees' state-of-the-art protective equipment on a regular basis,
- organising training programmes 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

1. Risk related to financial instruments

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

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

- credit risk,
- liquidity risk.

Financial risk management at the Company is coordinated by the Management Board. The following are the key objectives of the risk management process:

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

In economic terms, the transactions concluded by the Company are entered into for the purpose of hedging against specific risks. Moreover, the Company 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 Company 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.

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

1.1.1. Currency risk

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

- our development strategy provides for broader expansion into foreign markets;

- we import raw materials for large contracts (there is a risk related to fluctuations in exchange rates, such as EUR/PLN or USD/PLN),

- the Company uses advanced technologies requiring specialist equipment, which it often purchases outside of Poland.

Effect of exchange rate hedging on the Company's performance

In the 2011 financial year, PBG hedged financial assets and future currency exposures with hedging transactions involving forward contracts. The hedging transactions were concluded as part of the implemented hedging policy, in order to hedge future cash flows, cost of sales and future fair value of financial assets. The transactions covered contracts with suppliers (mainly denominated in EUR and USD).

In 2011, the result on derivatives (***both hedging and trading),*** as recognised in standalone income statement as at June 30th 2011, was PLN 3,518 thousand, including:
- PLN 295 thousand reduced cost of sales,
- PLN 3,223 thousand was recognised under finance income.

The Company hedges a portion of its EUR-denominated cash flows (attributable to cost of sales) by holding open currency positions for 2011 in the amount of EUR 14,160 thousand. The relevant transactions were concluded at the weighted average forward exchange rate of PLN 3.94/EUR 1.
As at June 30th 2011, the carrying value of open hedge positions for EUR-denominated cash flows was PLN 920 thousand.
The Company hedges its USD-denominated cash flows (cost of sales) with open positions on the currency market, in an amount of USD 187 thousand for 2011. The relevant transactions were concluded at the weighted average forward exchange rate of PLN 3.03/USD 1.
As at June 30th 2011, the carrying value of open hedge positions for USD-denominated cash flows was negative at PLN -45 thousand.

As at June 30th 2011, the fair value **of hedging instruments** was positive at PLN 2,440 thousand, of which PLN 875 thousand related to the fair value of cash flow hedges, and PLN 1,565 thousand related to hedges on financial assets.
As at June 30th 2011, the fair value **of instruments held for trading** was positive at PLN 2,009 thousand.

The fair value of open hedge position varies in response to changing market conditions. Accordingly, the final result on those transactions may differ significantly from the valuation presented above.

Hedging contracts are executed in compliance with the Company's strategy for exchange rate risk hedging.

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.
PBG hedges interest rate risk with interest rate swaps.

Effect of interest rate hedging on the Company's performance

For the first six months of 2011, the result on trading derivatives used to hedge interest rates as recognised in the standalone income statement as at June 30th 2011 was negative at PLN -428 thousand, including:

- PLN 182 thousand charged to finance expenses in respect of the difference between the fixed and variable market rate,
- IRS fair value of PLN 246 thousand disclosed under finance expenses in respect of an early closure of a hedged item.

1.2. Credit risk

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

The Company has a long track record of cooperation with a number of customers in diverse sectors, who enjoy stable financial position and meet their liabilities towards the Company in a timely manner.

At present, the main customers for services provided by the Company's natural gas and crude oil segment is PGNiG. This is related to the execution of two contracts with a significant unit value for this customer, totalling nearly PLN 2.5bn. These are highest-ever contracts executed by PBG with PGNiG. However, please note that the Company's strategy provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In order to mitigate the risk of dependence on its key customers, the Company gradually attracts new customers for its services, such as Polskie LNG, Dalkia Łódź and KGHM.

With respect to trade receivables, the Company is not exposed to credit risk inherent in being dependent on a single major partner or a group of partners sharing the same characteristics. Based on historical data on overdue payments, the receivables that are past due and for which no impairment charges 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 Company operates in the market of specialist construction services for the natural gas, petroleum, fuels, water supply and sewerage, road and infrastructural sectors, thus there is no credit risk concentration. In order to reduce its credit risk exposure, the Company uses offsetting (compensating) arrangements where such solution is accepted by both parties.

1.3. Liquidity risk

The Company is exposed to the risk of losing liquidity, that is the loss of the ability to timely meet financial liabilities. The Company manages the liquidity risk by monitoring payment dates and 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 8: Available credit limits in current accounts of the Company as at the balance-sheet date

	Jun 30 2011	Jun 30 2010
	PLN '000	PLN '000
Credit limits granted	581,000	372,929
Drawn balances	416,029	257,484
Available credit limits in current account	**164,971**	**115,445**

CHAPTER III: PBG S.A.

I. STRATEGY AND BUSINESS MODEL

1. Business Model

The Group's business model is based on the provision of specialist construction services. The Group has been increasing 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 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 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 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.

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

2. Strategy

PBG'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 in 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, and the Republic of South Africa.
- participating in the infrastructure and road construction market.

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

1. Expansion in the Polish power engineering market through:

- acquisition of a majority interest in RAFAKO S.A., one of the leading contractors and suppliers of technology in the European power engineering market;
- maintaining the majority interest in Energomontaż-Południe S.A.;
- strategic cooperation with major players on the global power engineering market to facilitate joint acquisition and execution of contracts in Poland;
- building up own competences and credentials through winning and execution of contracts of increasingly larger unit values.

In June 2011, PBG executed a preliminary agreement on acquisition of a special purpose vehicle, wholly-owned by Elektrim S.A., which holds a 50% interest plus one share in RAFAKO S.A. PBG is to acquire 34,800,001 shares, representing in aggregate 50% of the share capital plus one share in RAFAKO S.A. and the same proportion of the total vote at its general shareholders meeting, for PLN 540.840m. The transaction will be completed subject to anti-trust clearance from the President of the Office of Competition and Consumer Protection (UOKiK) and adjusting the corporate structure of the Elektrim Group for the purpose of the transaction. PBG currently conducts a due diligence examination to assess the company's financial, economic, legal, tax and technology position. The purchase price may be reduced if any material circumstances affecting the value of RAFAKO are identified. After the conditions precedent are satisfied, PBG will acquire 50% of the share capital plus one share in RAFAKO. As the next stage, a tender offer for RAFAKO shares will be announced in order to achieve 66% of the total vote at its general shareholders meeting. The tender offer price will equal the transaction price of PLN 15.54 per share. RAFAKO is one of four European companies, alongside ALSTOM, Hitachi Power Europe and Doosan Babcock, which have a comprehensive technology for building conventional power generation units. It is one of Europe's largest producers of boilers and environmental protection equipment for the power sector. The company has over 60 years of operating history.

Moreover, in June 2011, PBG completed a tender offer for the shares of Energomontaż-Południe S.A., thus acquiring a controlling interest in the company. Energomontaż-Południe specialises in execution of power engineering projects. Following the inclusion of RAFAKO and Energomontaż-Południe in the Group and the acquisition of controlling interests in the companies, PBG will be able to offer comprehensive general contracting services in the power engineering sector.

Also, PBG believes it can pursue other opportunities on the power engineering market in the cooperation with experienced foreign partners. In May 2010, the Company 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 Group and ALSTOM currently participate in five tenders for delivery and construction of coal- and gas-fired power units. 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.
To summarise, PBG participates in tenders in the power engineering industry for a total of approximately PLN 16bn, which comprises only 10%-20% of all tenders in the sector planned by 2020 (capital expenditure plans of power producers are estimated at PLN 150bn-200bn).

2. Strengthening the Company's position as the leader in the gas engineering sector in Poland.
Presently, PBG takes part in three projects of strategic importance to the country. These are: the LMG crude oil and natural gas mine, the underground gas storage facility in Wierzchowice and the LNG terminal in Świnoujście. 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 project involving development of natural gas reserves in Różańsk, with an estimated value of PLN 1bn. Additionally, a series of tenders have been or will be announced for construction of gas transmission infrastructure connecting the LNG terminal with other parts of Poland. At present, PBG has submitted and is preparing to submit bids in such tenders for a total of nearly PLN 3.3bn.

3. 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.

4. 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 approximately PLN 800m, was announced. The Group participates in the procedure jointly with OHL (the pre-qualification procedure is currently underway). Moreover, several other hydro-engineering tenders are expected to be announced this year.

5. Construction of municipal waste incineration plants.
The Group also sees development opportunities in the planned construction of waste incineration plants in Poland. 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, Kraków, and Białystok. Eleven plants with an aggregate value of PLN 6bn are to be constructed in 2011-2012.
6. Expansion into foreign markets through:

- **strategic cooperation with OHL and other global companies;**
- **expanding operations in Ukraine;**
- **launching operations in Bulgaria and Romania, through cooperation with local and international partners.**

In H1 2011, 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 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 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 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.

Group's cooperation with the Spanish OHL Group, an organisation with long-standing presence on the global markets, may prove to be instrumental for the Group's foreign operations. Preliminary bids for the construction of stadiums in Canada have already been submitted jointly with the OHL Group.

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 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:

- **consolidation of Hydrobudowa Polska S.A., and**
- **consolidation of APRIVIA S.A.**

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

9. Commercial and residential property development

Participation in construction projects related to residential and commercial property development will be an important part of PBG's business in the coming years. PBG Dom is the company responsible for this area of the Group's operations. Formal and legal changes are currently being introduced to the capital structure of the PBG Dom Group. The most important of those changes involve establishing a company, based on PBG Dom, which will serve as a property bank (PBG Nieruchomości), and spinning off of a property development company, together with its human resources and projects in progress (PBG Erigo).

At present, nine active projects are being implemented. These include apartment estates in Poznań, Gdańsk and Świnoujście, the Skalar Office building in Poznań, and Hampton by Hilton hotel in Świnoujście. The combined area of the current projects is nearly 43.5 thousand m².

Another five projects are in the pipeline. They include apartment estates and office buildings located countrywide, however particularly in Poznań, and Gdańsk.

10. Securing financing for Group's operations through:

- **use of short- and long-term funding sources to ensure financing for current operations and investments;**
- **arrangement of financing for long-term projects;**
- **management of credit limits to ensure the Group's ability to provide guarantees for planned tenders and for contracts;**
- **maintenance of the maximum net debt at the level of up to 3.5 x EBITDA, taking steps designed to reduce debt;**

The credit and guarantee limits for the Group are now in excess of PLN 3.74bn and are sufficient for the Group to bid in all strategically important tenders planned for 2011. Individual contracts are financed with the use of short-term working capital credit facilities, special purpose loans, and bonds.

The Company also secured financing for its planned investments, including the acquisition of a majority interest in Rafako S.A.

The acquisition of control over Energomontaż-Południe and Rafako will lead to a significant increase in debt ratios. Therefore, steps are being undertaken to reduce debt, including through sale of non-core assets of the Group.

3. Strategy in practice

One of the factors contributing to the achievement of the Group's strategic objectives is the way in which the Group is organised in the individual areas of its operations. The PBG Management Board defines the development directions of a given company and determines its role in the Group. Each company is responsible for project execution in line with its business profile and resources.

Figure1: Organisational structure of the Group as at June 30th 2011 (percentage of voting rights held by PBG)

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

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

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, 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 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 Group assumes that over the next three years the revenue from sales to the gas and oil sector would reach several million złoty annually.

PBG and PBG Energia Sp. z o.o. are currently responsible for **the power construction market.** Moreover, the operations in this segment are also supported by Energomontaż-Południe. Rafako will be ultimately responsible for the power engineering segment and its consolidation within the Group. 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 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 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 and supporting companies: PBG Ukraina, Energopol-Ukraina, PBG Bułgaria and PBG Africa are primarily responsible for operations on **foreign markets**. Winning foreign contracts and their execution will be based on cooperation with international companies such as OHL and local partners operating on a particular market. In light of the new prospects and opportunities for strategic alliances with international partners, revenues from foreign markets may significantly affect the financial performance in the future.

PBG Dom is responsible for the **residential and commercial construction market**. The PBG Dom Group comprises 25 subsidiaries. These are special purpose vehicles, established in order to implement a given residential or commercial project. The area related to construction and/or commercialisation of property may prove to be important for the entire Group over a long term.

Hydrobudowa Polska S.A. is responsible for the **infrastructure and general construction market.** The Hydrobudowa Polska Group comprises Hydrobudowa 9 and PRG Metro. To increase the efficiency of operations, a decision was made to incorporate Hydrobudowa 9 into Hydrobudowa Polska, which should happen at the turn of 2011 and 2012. This business segment should have a significant impact on the Group's performance in the future through planned infrastructure projects to be financed from the 2013–2020 EU budget.
APRIVIA S.A. **is responsible for the road construction market.** The APRIVIA Group comprises Dromost, PRID and Betpol.

In the Directors' Report on the operations of PBG in 2010 the Company reported that Spanish OHL (OBRASCÓN HUARTE LAIN CONSTRUCCIÓN INTERNATIONAL) planned to acquire controlling interests in Hydrobudowa Polska and APRIVIA, for which PBG was to receive PLN 506m. In May 2011, the PBG Management Board reported that PBG and OHL made a joint decision to suspend negotiations. The reason for suspending the negotiations was the difference between the current valuation of the Hydrobudowa Polska shares and the price originally agreed for the transaction. Although the negotiations have been suspended, the parties have confirmed their intention to complete the planned transaction, which involves the acquisition by OHL of a 51% interest in HYDROBUDOWA (107,384,807 HYDROBUDOWA shares for PLN 431,000,000) and a 50.1% interest in APRIVIA (36,068,525 APRIVIA shares for PLN 75,000,000). PBG and OHL intend to continue their negotiations when the market valuation of HYDROBUDOWA shares returns to the level considered by the parties when they began the negotiations.
All the information on the planned transaction with OHL, published in Current Reports, is available at:

1. 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;

2. 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;
3. 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;
4. http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2011-informacja-na-temat-negocjacji-z-ohl.html.

II. BUSINESS PROFILE

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

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

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

Figure 3: Services performed by PBG, by segment

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	▪ Construction industry

▪ Budownictwo przemysłowe - Obiekty sportowe, stadiony, szpitale ▪ Spalarnie śmieci ▪ Budownictwo mieszkaniowe ▪ Budownictwo komercyjne	▪ 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.

For detailed figures on the shares of particular segments in the sales revenue, see the section below on changes on the Company's markets.

III. CHANGES ON THE GROUP'S MARKETS

In the first six months of 2011, revenue streams from the individual areas of operations of the Company were generated on the domestic market and were as follows:

Table 10: Industry segments of PBG

Sales revenue	1H2011 (PLN '000)	H1 2010 (PLN '000)	Change (PLN '000)	Change (%)
natural gas, crude oil and fuels (transmission, distribution, production, fuel storage)	382,675	206,835	175,840	+85
water (water engineering and environmental protection, pipeline rehabilitation)	47,267	21,578	25,689	+119
industrial and residential construction (construction, infrastructure for industrial facilities)	48,892	43,572	5,320	+12
roads (road construction)	6,088	21,940	-15,852	-72
other (sale of goods for resale, materials and products, other services)	1,983	0	1,983	0
Total sales revenue	**486,906**	**293,925**	**146,491**	**+50**

Geographical presence

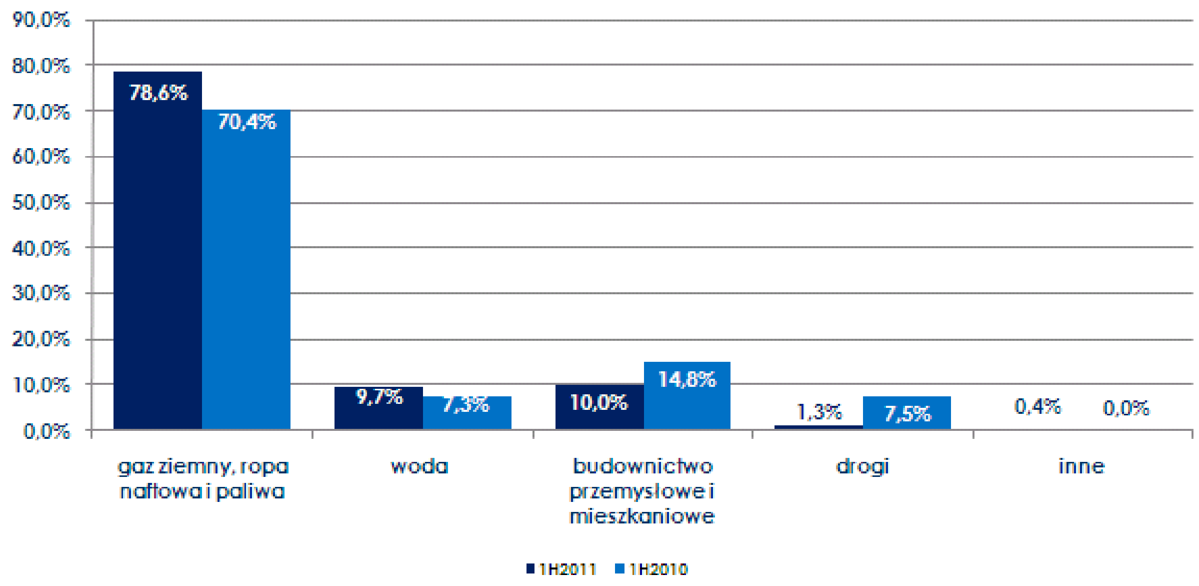
The Company's operations focus primarily on the domestic market, which the Company perceives as its key market because of the planned projects in the power engineering sector; road, hydro-engineering and transport infrastructure projects (co-financed by the EU); as well as gas infrastructure projects (including compressor stations and gas pipelines). 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 performed contracts for customers in Latvia, Pakistan and Norway. Steps are currently being taken to expand Group's operations into foreign markets, including in Ukraine, Russia, Romania, Bulgaria, and the Republic of South Africa. In some of these countries, PBG has already established, or is establishing, its presence in the form of representative offices or special purpose vehicles. Furthermore, first steps are being taken to attract local sub-contractors or partner companies.

In a long-term perspective, foreign markets may become a significant source of revenue for the Group.

Share of business segments in the Company's total sales revenue

In six months ended June 30th 2011, the shares of the Company's individual business segments in total revenue was as follows:

Figure 1: Percentage share of the Company's individual business segments in its sales revenue in H1 2011 and H1 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
1H2010	H1 2010
1H2011	H1 2011

In H1 2011, the **natural gas, crude oil and fuels segment** had the largest share in the Company's sales revenue of 78.6% (up by over 8% year on year). PBG expects that its sales revenue will remain stable in the coming years as the market offers promising opportunities and the Company's order book includes such projects as a PLN 1.4bn contract for construction of a crude production facility; a PLN 1.1bn contract for construction of the underground gas storage facility in Wierzchowice; or a PLN 2.2bn contract for construction of the LNG terminal.

The second largest business segment of PBG was **the industrial and residential construction segment**, providing general and specialist construction and industrial infrastructure services. The segment's share in the Company's total sales revenue was 10.0%, compared with 14.8% in the same period last year (down by 4.8 p.p.). In H1 2011, the largest projects implemented in the segment included contracts for construction of the

National Stadium in Warsaw for PLN 1.252bn and construction of the Baltic Arena in Gdańsk for PLN 427m (the stadium has been placed in operation).

In six months ended June 30th 2011, **the water segment** accounted for 9.7% of total sales revenue and was PBG's third largest segment. Contracts executed in the water segment are co-financed by the European Union and include environmental protection and water engineering projects. Hydrobudowa Polska is the Group's leading subsidiary focusing on environmental protection. Currently, the largest project implemented in the water segment is the construction of the Malczyce barrage worth more than PLN 260m.

The fourth specialist segment operated is **road construction**. PBG entered the road construction market by acquiring in 2007 and 2008 companies providing road construction services, which was followed by the establishment of Aprivia. These are now the leaders of the market and are the major contributors to the segment's financial result. In H1 2011, the road construction segment accounted for only 1.3% of the Company's total sales revenue.

Customer and suppliers with at least 10% share in the Company's total sales revenue

In the period covered by this Report, customers and suppliers with at least 10% share in the Group's total sales revenue included:

- customers: PGNiG S.A.;
- suppliers: Sofregaz, Tecnimont Polska, Tecnimont KT SPA, Control Process.

IV. BRANCHES

PBG has no branches.

CHAPTER IV: COMPANY'S OPERATIONS IN SIX MONTHS ENDED 2011

I. TOTAL NUMBER OF SHARES HELD IN RELATED UNDERTAKINGS

Table 10: Number of shares held in related undertakings

Related undertaking	Business profile	Relation		Number of shares shares	Par value of shares as at Dec 31 2010	% of share capital held
		Parent	Type of relation			
PBG Technologia Sp. z o.o.	Manufacture and assembly of steel structures, plants and installations, steel tanks, execution of comprehensive installation projects for the industry, in particular the petrochemical sector, general construction	PBG	subsidiary	46,100	PLN 23,050,000.00	100%
PBG Energia Sp. z o.o.	Procurement of orders in Poland and abroad in the energy segment and the supervision of the execution of orders	PBG	subsidiary	19,990	PLN 999,500.00	99.95%
Metorex Sp. z o.o.	Construction of water-pipe networks, sewage systems, heat and gas distribution networks, wastewater treatment plants, road and square pavement	PBG	subsidiary	682	PLN 51,150.00	99.56%
Hydrobudowa Polska S.A.	Comprehensive execution of hydro-engineering, engineering and industrial construction projects	PBG	subsidiary	132,748,692	PLN 132,748,692.00	63.05%
KWG S.A.	Execution of infrastructure projects in the environmental protection sector	PBG	subsidiary	28,700	PLN 2,870,000.00	100%
Excan Oil and Gas Engineering Ltd., Canada	Export activities in the technology sector and procurement of orders in the natural gas and crude oil sectors	PBG	subsidiary	-	CAD 250,000.00	100%
GasOil Engineering AS Slovakia	Engineering, design and contracting company; project management, turn-key delivery, and the supervision of projects in the natural gas and crude oil sectors	PBG	subsidiary	-	EUR 414,647.48	62.45%
WSCHODNI INVEST Sp. z o.o.	Special Purpose Vehicle	PBG	subsidiary	37,740	PLN 3,774,000.00	100%
PBG Dom Sp. z o.o.	Large-volume building construction	PBG	subsidiary	550,000	PLN 55,000,000.00	100%
Brokam Sp. z o.o.	Owner of an undeveloped property where granodiorite reserves are located	PBG	subsidiary	12,000	PLN 12,000,000.00	100%
PBG Avatia S.A.	IT services; a member of the Group providing IT support services to all Group members	PBG	subsidiary	998	PLN 49,900.00	99.80%
Aprivia S.A.	Company responsible for the consolidation of the road construction segment companies and the strengthening of the Group's position in the area of road construction, including for the procurement and performance of contracts and the arrangement of financing	PBG	subsidiary	71.993.065	PLN 71,993,065.00	100%
PBG Ukraina PSA	Representative office whose purpose is to conduct research in the Ukrainian market and establish contacts with companies operating in the construction and related services sector	PBG	subsidiary	222,227	UAH 888,908.00	100%
Bathinex Sp. z o.o.	The company's business comprises quarrying and processing of stone used in the construction and roadwork sector. The company owns the Brodziszów-Kłośnik Mine where it exploits reserves of	PBG	subsidiary	50	PLN 50,000.00	100%

	granodiorite, an acidic fine-crystalline intrusive igneous rock.					
PBG Operator Sp. z o.o.	Special Purpose Vehicle	PBG	subsidiary	50	PLN 5,000.00	100%
HBP Drogi Sp. z o.o.	Special Purpose Vehicle	PBG	subsidiary	50	PLN 5,000.00	100%
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	PBG	subsidiary	200	PLN 200,00.00	80%
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	PBG	subsidiary	-	BGN 35,000.00	100%
AQUA SA	AQUA S.A. is an engineering design company which specialises in large municipal projects such as water intakes, water and sewage treatment plants, sewer systems, sewage pumping stations, water supply systems and pumping stations as well as other facilities and road-related infrastructure	PBG	subsidiary	710,770	PLN 710,770.00	81.69%
Energomontaż-Południe S.A.	The company provides services regarding installation, modernisation and repairs of equipment and power and industrial units	-	subsidiary	17,743,002	PLN 17,743,002.00	25% + one share
PBG Invest I Sarl	Special Purpose Vehicle	PBG SA	subsidiary	12,500	EUR 12,500.00	100.00%

Table 11: Shares held in other entities as at the date of approval of these financial statements

No.	Company name:	Number of shares held by PBG	Par value of shares (PLN)	Shares held in the share capital and in the total number of votes (%)
1.	CP ENERGIA S.A.	9,788,627	9,788,627	13.98
2.	SPATIUM Aktywów Niepublicznych III Fundusz Inwestycyjny Zamknięty	450	450,000.00	3.09
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.	Towarzystwo Ubezpieczeń Wzajemnych TUZ	60	600.00	0.01
8.	Rafako S.A.	3,761,669	7,523,338	5.41

II. CONCLUDED AGREEMENTS SIGNIFICANT TO THE COMPANY'S OPERATIONS

Table 12: Agreements material to PBG's operations and concluded within the period covered by this Report and subsequent to the balance-sheet date

Date	Parties	Subject matter	Key terms
Feb 10 2011 Reduction of scope of work and agreement value	**Principal:** Polskie LNG SA **Contractor:** Saipem S.p.A., Saipem S.A., Techint Compagnia Tecnica Internazionale S.p.A, Snamprogetti Canada Inc. and PBG PBG Export Sp. z o.o.	Notice from Polskie LNG of cancellation of the construction of the ORV system under the contract for construction of the LNG terminal in Świnoujście concluded on July 15th 2010. The PBG Management Board reported on Polskie LNG's right to partially cancel the contract in Current Report No. 35/2010.	Contract value: **PLN 2,209,143.00 (VAT exclusive)** Other provisions of the contract remained unchanged.
For more information see: PBG Current Report No. 12/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2011-oswiadczenie-polskiego-lng-o-odstapieniu-od-budowy-systemu-orv-w-ramach-realizacji-umowy-na-budowe-terminalu-lng-w-swinoujsciu.html			
Mar 11 2011 agreement executed in the ordinary course of business	**Principal:** Municipality of Gdańsk **Contractor:** PBG, 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 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			
Apr 7 2011 Execution of the letter of intent as part of the international expansion strategy in the oil and gas sector.	**Parties to the agreement:** PBG and Obrascon Huarte Lain SA	The Parties declared their intent to enter into cooperation in the oil and gas sector, including the construction of oil and gas processing units, pipelines, and oil and fuel tanks, first in Mexico, Brazil and other South American countries. The Parties will assess the possibilities of expansion into other South American markets where OHL has been present, such as Mexico, Bolivia, Peru, Ecuador and Columbia. Moreover, the Parties declared their intention to enter into cooperation regarding the construction of transport infrastructure, civil engineering and other specialist construction projects in Africa, as well as Russia, Turkmenistan, Uzbekistan and Kazakhstan. The Letter of Intent is the parties' expression of interest in continuing their cooperation; see Current Report No. 49/2010 of September 15th 2010, No. 50/2010 of September 21st 2010 and No. 65/2010 of December 29th 2010.	Close cooperation between PBG and OHL with a view to acquiring contracts. The Letter of Intent will remain in force for 12 months from its execution.
For more information see: PBG Current Report No. 26/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/26-2011-podpisanie-listu-intencyjnego-w-sprawie-wspolpracy-z-firma-ohl-s-a.html			
May 26 2011 agreement executed in the ordinary course of business	**Principal:** HYDROBUDOWA POLSKA S.A., SIAC Construction Ltd PBG and APRIVIA S.A. **Contractor:** Dolnośląskie Surowce Skalne S.A.	Contract for execution of compacted base, as well as asphalt base courses and bituminous pavements as part of the execution of project "Construction of A-4 Motorway Tarnów-Rzeszów between the Krzyż and Dębica Pustynia interchanges".	Contract value: **PLN 225,895,342.85 (VAT exclusive)** (preliminary estimate, the price to be finally determined upon contract completion) Completion date: Jul 14 2012

For more information see: PBG Current Report No. 35/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/35-2011-zawarcie-znaczacej-umowy-podwykonawczej-w-ramach-budowy-autostrady-a-4.html			
Jun 14 2011 agreement executed in the ordinary course of business	**Parties to the agreement:** Narodowe Centrum Sportu Sp. z o.o. and ALPINE BAU DEUTSCHLAND AG, ALPINE BAU GmbH, ALPINE Construction Polska Sp. z o.o., HYDROBUDOWA POLSKA S.A. and PBG	Settlement agreement between Narodowe Centrum Sportu and the Consortium of companies involved in the construction of the multi-purpose national Stadium in Warsaw. Under the agreement, HYDROBUDOWA POLSKA S.A. became the new Consortium Leader. All members of the Consortium continue to be jointly and severally responsible for the performance of the contract. The settlement agreement also provides for the extension of the contract completion date to November 29th 2011.	Completion date: Nov 29 2011
For more information see: PBG Current Report No. 37/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/37-2011-zawarcie-ugody-z-narodowym-centrum-sportu-dotyczacej-budowy-stadionu-narodowego-w-warszawie.html			
Jun 27 2011 agreement executed in the ordinary course of business (information on exceeding the significant agreement threshold)	**Principal:** The Municipality of Dąbrowa Górnicza **Contractor:** KWG S.A., Hydrobudowa 9 S.A. and Hydrobudowa Polska S.A.	"Construction of the Piekło compressor station, forcing pipeline and water supply infrastructure," with a value of **PLN 52,134,237.67 (VAT exclusive).** The total value of contracts executed by the Group with the Municipality of Dąbrowa Górnicza in the last 12 months has exceeded the significant agreement threshold and amounted to **PLN 125,204,186.28 (VAT exclusive).**	The agreement of the largest value is a PLN 73,069,948.61contract of September 13th 2010 **(VAT exclusive).**
For more information see: PBG Current Report No. 46/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/46-2011-zawarcie-przez-spolki-z-grupy-kapitalowej-pbg-umowy-znaczacej-z-gmina-dabrowa-gornicza.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 13: Changes in organisational relations in the period under review and subsequent to the balance-sheet date

Date	Parties	Transaction type	Description	Objective
Apr 7 2011	CP Energia S.A. KRI S.A.	**Business combinations CP Energia S.A. and KRI S.A.**	Merger of the companies by way of a non-cash contribution of 100% percent of KRI shares to CP Energia. In return for the contribution, the then existing shareholders of KRI acquired new issue Series J shares in CP Energia. Following the capital increase at CP Energia, the former shareholders of KRI currently hold 65% of total vote at the General Shareholders Meeting of CP Energia.	Formation of strong organisation on the natural gas market.
For more information see: CPE Current Report No. 18/2011: http://www.cpenergia.pl/relacje-inwestorskie/raporty/time/2011-04.aspx				

May 12 2011	PBG Obrascon Huarte Lain SA	**Suspension of negotiations concerning the disposal of controlling interests in Group companies, Hydrobudowa Polska S.A. and Aprivia S.A.**	PBG and OHL made a joint decision to suspend negotiations concerning disposal by PBG of equity interests in its subsidiaries, HYDROBUDOWA POLSKA and APRIVIA. The suspension was connected with share prices of construction companies listed on the WSE having seen a steady decline, which has affected the market value of HYDROBUDOWA shares relative to their price at the start of negotiations with OHL. Although the negotiations have been suspended, the parties have confirmed their intention to complete the planned transaction, which involves the acquisition by OHL of a 51% interest in HYDROBUDOWA and a 50.1% interest in APRIVIA for a total price of PLN 506m, including 107,384,807 HYDROBUDOWA shares for PLN 431,000,000 and 36,068,525 APRIVIA shares for PLN 75,000,000. PBG and OHL plan to resume the negotiations after the market value of HYDROBUDOWA shares returns to the level accepted by the parties at the start of the negotiations.	Suspension of the negotiations until the market value of the shares returns to the level accepted by the parties at the start of the negotiations.
For more information see: PBG Current Report No. 32/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2011-informacja-na-temat-negocjacji-z-ohl.html				
May 26 2011	PBG, Energomontaż-Południe S.A.	**Tender offer for shares in** Energomontaż-Południe S.A. **Fulfilment of legal condition set out in the tender offer for shares**	Fulfilment of a legal condition set out in the tender offer: the President of the UOKiK (Office of the Competition and Consumer Protection) granted its unconditional approval (ref. DKK-57/2011) for a business combination involving the takeover of control over Energomontaż-Południe S.A. by PBG through acquisition of the company shares in a tender offer. The tender offer was announced on April 8th 2011 through the agency of Dom Maklerski BZ WBK SA.	Execution of transaction involving the takeover of controlling interest in Energomontaż-Południe. Transaction connected with the expansion onto the power market.
For more information see: PBG Current Report No. 34/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/34-2011-ziszczenie-sie-warunku-okreslonego-w-wezwaniu-do-zapisywania-sie-na-sprzedaz-akcji-spolki-energomontaz-poludnie-spolka-akcyjna.html				
Jun 15 2011	PBG Energomontaż-Południe S.A.	**Tender offer for shares in** Energomontaż-Południe S.A. **Reaching the minimum number of shares to be tendered for sale in the Tender Offer**	7,056,554 shares in Energomontaż-Południe S.A. were tendered for sale. The tendered shares confer the right to 7,056,554 votes (or 9.9% of total vote) at the general shareholders meeting. The indicated minimum number of shares to be tendered, that is 5,748,732 Company shares conferring the right to 5,748,732 votes (or 8.10% of total vote) at the general shareholders meeting, was exceeded. PBG had undertaken to purchase the shares under the Tender Offer upon this minimum number having been exceeded.	Execution of transaction involving the takeover of controlling interest in Energomontaż-Południe. Transaction connected with the expansion onto the power market.
For more information see: PBG Current Report No. 38/2011 http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/38-2011-osiagniecie-minimalnej-liczby-akcji-objetych-zapisami-zlozonymi-w-wezwaniu-na-sprzedaz-akcji-spolki-energomontaz-poludnie-spolka-akcyjna.html				
Jun 17 2011	PBG Energomontaż-Południe S.A.	**Tender offer for shares in** Energomontaż-Południe S.A. **Reduction in the tender offer**	122 orders were placed under the Tender Offer, covering a total of 37,821,417 shares in Energomontaż-Południe S.A., which, given the number of shares for which the Tender Offer was announced (29,098,518), yields an allocation rate of 76.94%, and, consequently, a reduction rate of 23.06%. PBG will acquire the company shares on the dates indicated in the Tender Offer.	Execution of transaction involving the takeover of controlling interest in Energomontaż-Południe. Transaction connected with the expansion onto the power market.
For more information see: PBG Current Report No. 40/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/40-2011-liczba-zapisow-oraz-liczba-akcji-objetych-zapisami-zlozonymi-w-wezwaniu-na-sprzedaz-akcji-spolki-energomontaz-poludnie-spolka-akcyjna-proporcjonalna-redukcja-w-wezwaniu.html				
Jun 22 2012	PBG Energomontaż-Południe S.A.	**Tender offer for shares in** Energomontaż-Południe S.A. **Summary of the tender offer**	As at the Tender Offer date, PBG held 17,743,002 shares in Energomontaż-Południe S.A., conferring the right to 17,743,002 votes, or 25.00% of the total vote, at the company's General Shareholders Meeting. Upon the closing of the Tender Offer, PBG was notified that following the pro rata reduction of orders in the Tender Offer, Energomontaż-Południe will hold own shares and, together with PBG, will hold over 66% of the share capital. On June 20th 2011, PBG decided to execute a share sale transaction outside of the regulated market, whereby it sold 820,000 shares in Energomontaż-Południe S.A., comprising 1.155% of the company's	The execution of transaction involving the takeover of controlling interest in Energomontaż-Południe. Transaction connected with the expansion onto the power market.

			share capital. The aim of the transaction, executed following the closing of the Tender Offer and prior to the acquisition of shares as part of the Tender Offer, was to achieve the shareholding publicly declared by PBG in the Tender Offer, where PBG would hold no more than 66% of the total vote at the General Shareholders Meeting of Energomontaż-Południe S.A. Currently, PBG holds 46,021,520 shares in Energomontaż-Południe S.A. which represent 64.84% of the share capital and of the total vote, while the joint shareholdings of PBG and Energomontaż-Południe S.A. comprise 46,699,770 Company shares, conferring the right to 46,699,770 votes, i.e. 65.80% of the total vote at the General Shareholders Meeting, and represent 65.80% of the Company's share capital.	
For more information see: PBG Current Report No. 41/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/41-2011-podsumowanie-wezwania-na-sprzedaz-akcji-spolki-energomontaz-poludnie-spolka-akcyjna.html				
Jun 27 2011	PBG Elektrim S.A.	**Execution of preliminary agreement for acquisition** of Rafako S.A. shares	PBG executed a preliminary share sale agreement, whereby it undertook to acquire from Elektrim, through SPV2, Elektrim's subsidiary, 100% of shares in a limited liability company which, as at the date of the execution of the final agreement will hold 34,800,001 shares in Rafako S.A., representing 50% of the share capital plus 1 share and the same proportion of the total vote in Rafako S.A. In performance of the agreement, as at the Closing Date, SPV1 will hold: 34,746,440 Rafako shares representing 49.92% of its share capital, which as at the date of the agreement were held by Elektrim S.A., and 53,561 Rafako shares representing 0.077% of its share capital, which will be acquired by Elektrim or its subsidiary. The total consideration to be paid for the acquired shares will amount to: (i) PLN 540,000,000.00 (VAT exclusive) plus (ii) the equivalent of the acquisition price of 53,561 Rafako shares, which however will not exceed PLN 840,000.00. The acquisition price may be reduced based on the outcome of due diligence. The conclusion of the final share sale agreement is subject to the fulfilment of conditions precedent, including PBG obtaining concentration clearance from the President of the Polish Office of Competition and Consumer Protection. The final share sale agreement would be signed within three weeks of obtaining the clearance from the President of the Polish Office of Competition and Consumer Protection.	Expansion onto the power market.
For more information see: PBG Current Report No. 42/2011: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/42-2011-podpisanie-przedwstepnej-umowy-sprzedazy-dotyczacej-akcji-rafako-s-a.html				

IV. RELATED-PARTY TRANSACTIONS

In the discussed period, PBG S.A executed transactions with related parties, whose value exceeded the złoty equivalent of EUR 500,000. These transactions were typical for the day-to-day operations of PBG 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 Group companies which are parties to individual agreements. This approach follows from the funding strategy adopted by the Group.

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

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

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

The Group conducts its operations through specialist entities, whose business profiles are complementary to each other in terms of the services provided. The 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 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 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 Undoubtedly, granting a surety for a liability or a collateral for its repayment by a related undertaking enables quicker execution of a contract and can contribute to more efficient management of the Group members and more effective use of the Group's resources.

V. NON-RECURRING FACTORS AND EVENTS

In H1 2011, PBG did not recognise any factors or non-recurring events that would affect the Company's profit or loss.

VI. MAJOR RESEARCH AND TECHNICAL ACHIEVEMENTS

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

VII. CONTROL SYSTEMS FOR EMPLOYEE PLANS

PBG does not operate any employee plans.

VIII. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

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

IX. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES

In the period covered by this Report, PBG 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 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 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, registered by the Polish National Depository for Securities under code PLPBG0000052. As of March 4th 2011, the Management Board of the Polish NDS assimilated 500,000 Series A PBG shares under code PLPBG0000052 with 10,055,000 PBG 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

Currently, 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 who also serves as the President of the Company's Management Board.

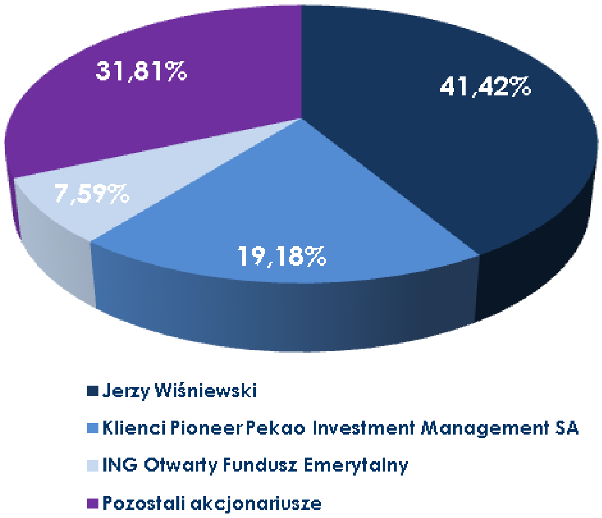
Table 14: Share capital of PBG

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 15: Shareholders holding over 5% of shares

As at Jun 30 2011				
Shareholder	**Number of shares**	**Total par value (PLN)**	**% of share capital**	**% of total vote**
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 S.A.	3,459,824 ordinary shares	3,459,824	24.20%	19.18%
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**	**% of total vote**
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	3,459,824 ordinary shares	3,459,824	24.20%	19.18%
ING Otwarty Fundusz Emerytalny	1,369,463 ordinary shares	1,369,463	9.58%	7.59%

Figure 2: PBG shareholders holding over 5% of shares



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

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

III. CHANGES IN THE COMPANY'S SHAREHOLDER STRUCTURE

In the period covered by this Report and subsequent to the balance-sheet date, no significant changes in the Company's shareholder structure occurred, nor was the Company notified of any such changes by the date of this Report.

Table 16: Changes in PBG's shareholding structure in H12010 and after the balance-sheet date

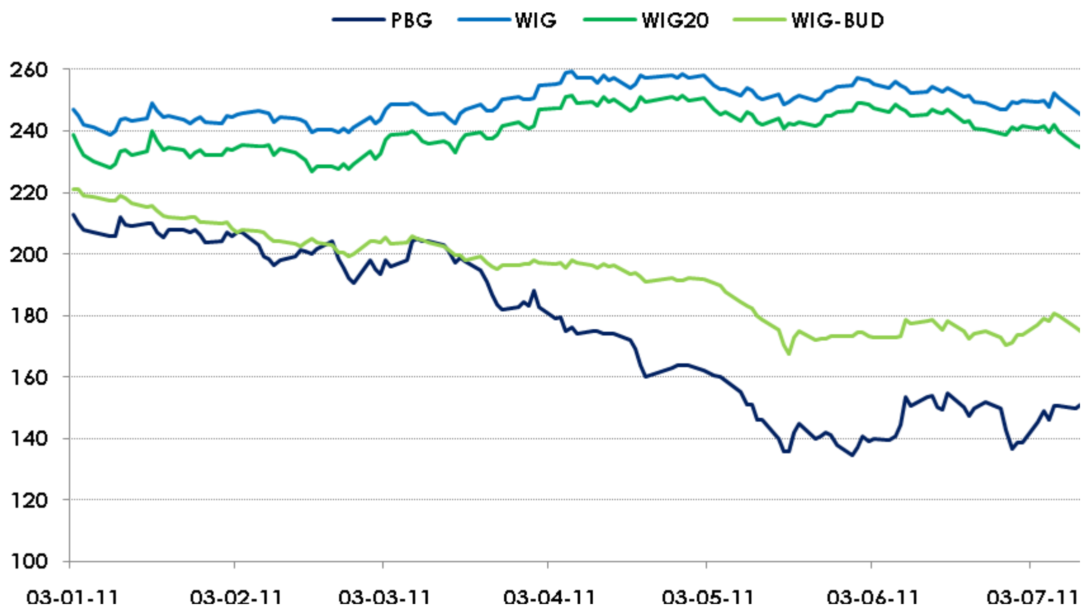
Notification date	Threshold	Number of Shares	% of total vote at GM (%)	Date of change
Clients of Pioneer Pekao Investment Management S.A. (PPIM):				
January 20th 2011	> 14%	2,598,850	14.41%	January 14th 2011
January 28th 2011	> 15%	2,709,863	15.03%	January 25th 2011
February 4th 2011	> 15%	2,721,635	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
April 29th 2011	> 19%	3,459,824	19.18%	April 21st 2011
Jerzy Wiśniewski – founder and main shareholder of PBG				
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 shares over the next two years.

IV. KEY INFORMATION ON PBG SHARES

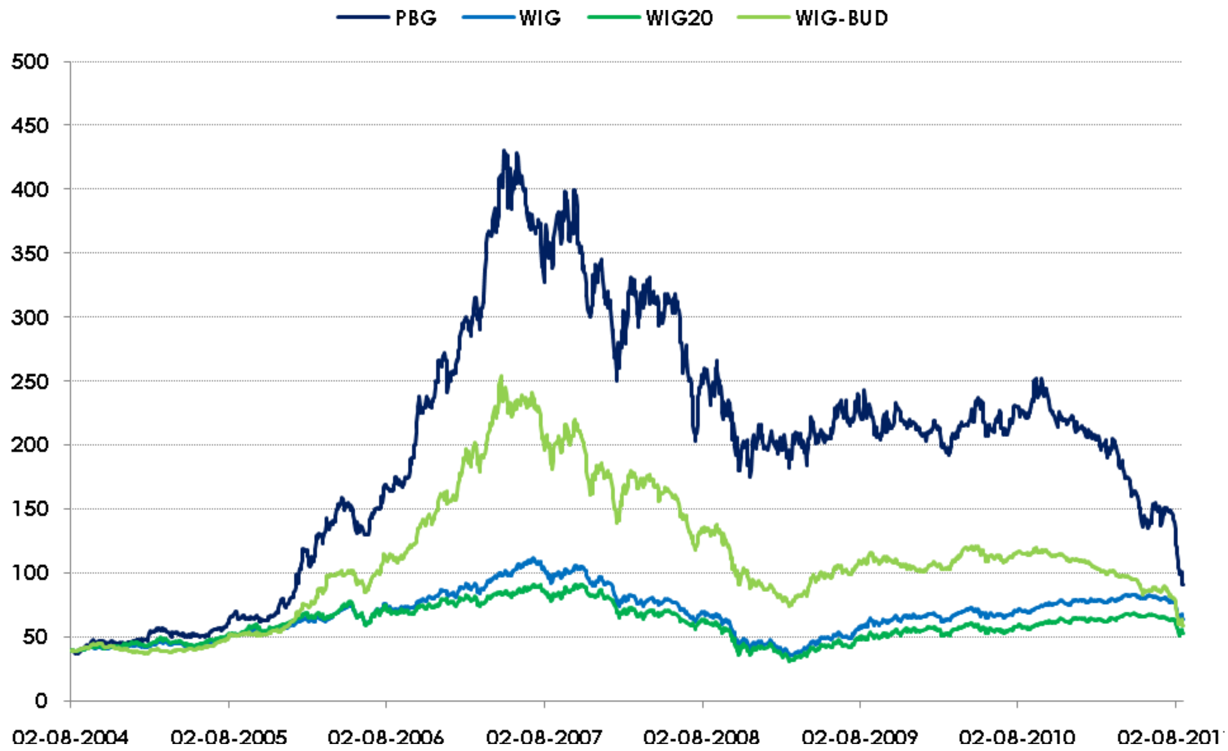
1. Share price

Figure 3: Price of PBG shares in January 1st–June 30th 2011



03-01-11	**Jan 3 2011**
03-02-11	**Feb 3 2011**
03-03-11	**Mar 3 2011**
03-04-11	**Apr 3 2011**
03-05-11	**May 3 2011**
03-06-11	**Jun 3 2011**
03-07-11	**Jul 3 2011**

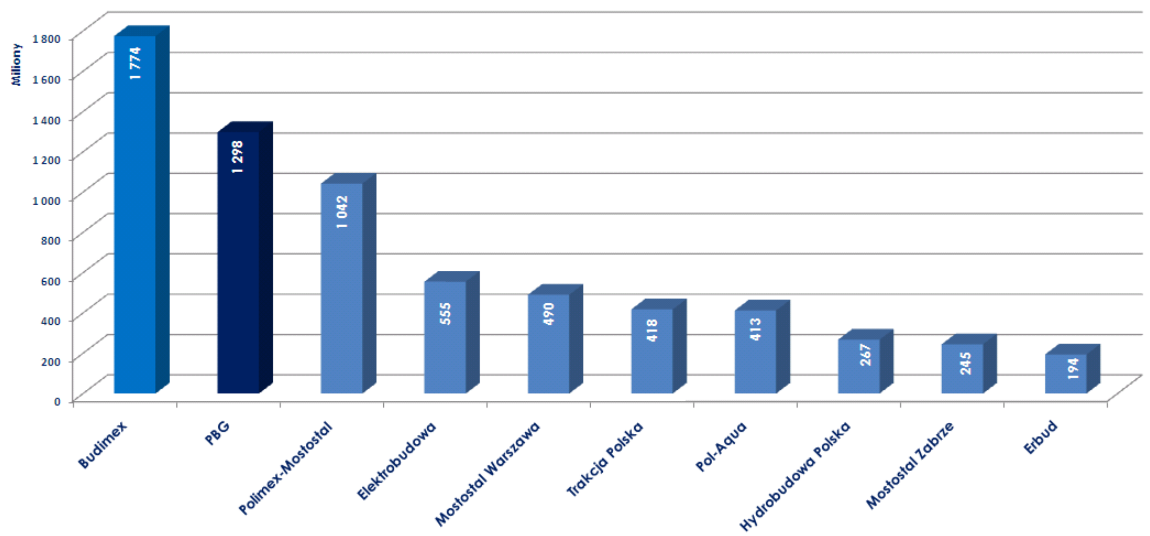
Figure 4: Price of PBG shares from the first-time listing to August 13th 2011



02-08-2004	Aug 2 2004
02-08-2005	Aug 2 2005
02-08-2006	Aug 2 2006
02-08-2007	Aug 2 2007
02-08-2008	Aug 2 2008
02-08-2009	Aug 2 2009
02-08-2010	Aug 2 2010
02-08-2011	Aug 2 2011

2. Market value relative to peers

Figure 5: Largest construction companies in terms of capitalisation listed on the WSE (as at August 22nd 2011)



Miliony	Million

3. Key information on PBG shares

Table 17: Information on Company shares (per share)

Key information (per share)		H1 2011	H1 2010	y-o-y change
Earnings	**PLN**	3.2	5.7	-44
Equity	**PLN**	84.6	77.6	+9
52-week high	**PLN**	213.9	237.5	-10
52-week low	**PLN**	131	188.3	-30
Share price at half-year end	**PLN**	138.5	209	-34
P/E ratio (max.)		12.7	17.1	-27
P/E ratio (min.)		8.1	13.6	-37
P/E ratio at half-year end		8.6	14.6	-45
Number of shares at the end of period	**number of shares**	14,295,000	14,295,000	-
Number of outstanding shares	**number of shares**	10,555,000	10,055,000	+5
Capitalisation at half-year end	**PLN '000**	1,979,858	2,987,655	-34
Average daily trading value	**PLN '000**	7,600	10,306	-31
Average daily trading volume	**number of shares**	45,845	24,222	-33

V. SHARE BUY-BACKS

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

VI. HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL RIGHTS

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

VII. RESTRICTIONS ON VOTING RIGHTS

PBG'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 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. COMPANY AND ITS SHARES

Table 18: 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

CHAPTER VI: FINANCIAL REVIEW

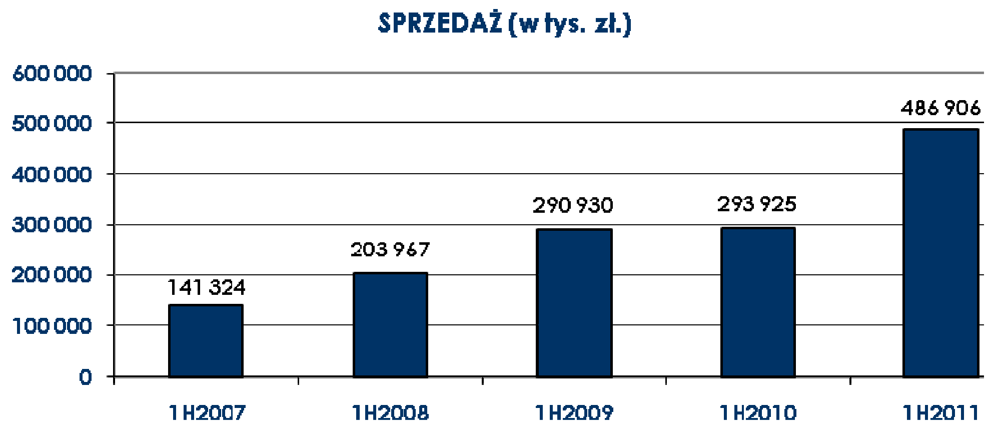
I. ANALYSIS OF THE COMPANY'S FINANCIAL STANDING

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 H1 2011, the Company recorded a high 66% year-on-year increase in sales revenue. The revenue increased from **PLN 293,925 thousand in H1 2010** to **PLN 486,906 thousand in H1 2011.** In the period under review, cost of sales grew by 70%, to PLN 406,393 thousand as at the end of H1 2011.

Figure 6: Historical development of sales revenue (last five years)



Sprzedaż (w tys. Zł)	Sales (PLN '000)
1H2007	H1 2007
1H2008	H1 2008
1H2009	H1 2009
1H2010	H1 2010
1H2011	H1 2011

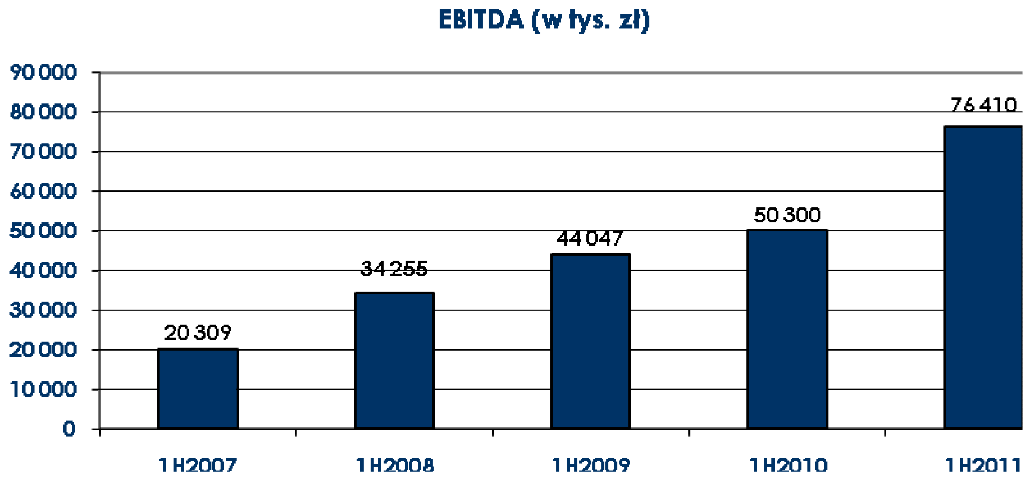
Over the last several years, the Company's sales of services have been growing steadily. This is attributable to the Company's continuous growth and the growing number of large-value contracts, with the resultant expansion the order book.

As at July 1st 2011, the value of the Company's order book was over PLN 1.8bn, of which approximately PLN 600m represents orders to be executed in 2011, with the balance, i.e. approximately PLN 1.2bn, scheduled for execution in subsequent years.

2. EBITDA

As at the end of H1 2011, the Company recorded EBITDA of **PLN 76,410 thousand**, a 52% boost on the respective figure of **PLN 50,300 thousand** posted as at the end of H1 2010.

Figure 7: Development of EBITDA (last five years)

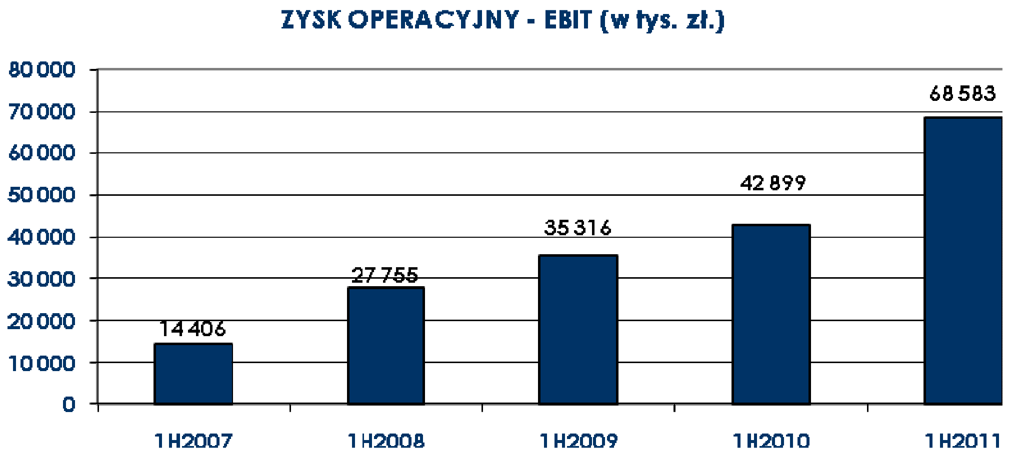


EBITDA (w tys. Zł)	EBITDA (PLN '000)
1H2007	H1 2007
1H2008	H1 2008
1H2009	H1 2009
1H2010	H1 2010
1H2011	H1 2011

3. EBIT

In the first six months of 2011, the Company recorded a 60% year-on-year increase in EBIT, from **PLN 42,899 thousand** to **PLN 68,583 thousand.**

Figure 8: Development of EBIT (last five years)



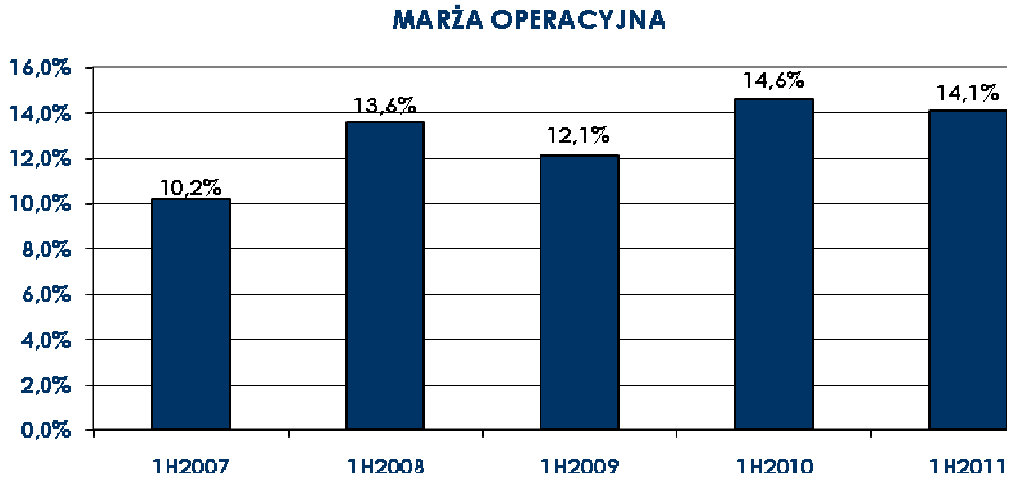
ZYSK OPERACYJNY (w tys. Zł)	EBIT (PLN '000)
1H2007	H1 2007
1H2008	H1 2008
1H2009	H1 2009

1H2010	H1 2010
1H2011	H1 2011

4. Operating margin

In H1 2011, operating margin stood at 14.1% and was slightly lower than in the same period of 2010.

Figure 9: Development of operating margin (last five years)



Marża operacyjna (w tys. Zł)	Operating margin
1H2007	H1 2007
1H2008	H1 2008
1H2009	H1 2009
1H2010	H1 2010
1H2011	H1 2011

In H1 2011, the high operating margin was attributable to the consistent achievement of financial targets in the area of general and administrative expenses, which remained relatively unchanged year on year. The decrease in general and administrative expenses is due primarily to the assignment of some employees to the performance of the largest contracts and the resulting disclosure of the related labour costs under cost of sales (i.e. contract variable costs).

5. Profitability ratios

Table 19: Profitability ratios

ITEM	FORMULA	H1 2011	H1 2010
ROA	(net profit / total assets)*100%	1.9%	3.7%
ROE	(net profit / equity) *100%	4.2%	7.3%
Gross margin	(gross profit / sales revenue)*100%	16.5%	18.9%
Sales margin	(profit on sales / sales revenue)*100%	13.5%	14.0%

Operating margin	(operating profit / sales revenue)*100%	14,1%	14.6%
Net margin	(net profit / sales revenue)*100%	10.4%	27.6%

In H1 2011, sales revenue advanced by 66% over H1 2010, while cost of sales were up by 70%. This means that variable costs grew faster than the Company's revenue, which had an adverse effect on virtually all margins in the income statement. PBG's margins as at the end of H1 2011 were lower than as at the end of H1 2010, but still remained high. The gross margin stood at 16.5%, down by 2.4 p.p. from 18.9% as at the end of H1 2010, sales margin and operating margin both declined year on year by 0.5 p.p., to 13.5% and 14.1%, respectively, whereas net margin dropped by 17.2 p.p., to 10.4%. However, it must be noted that the net margin of 27.6% as at the end of H1 2010 was attributable to a non-recurring event, which was related to dividend payment by Infra S.A. in excess of PLN 43.2m.

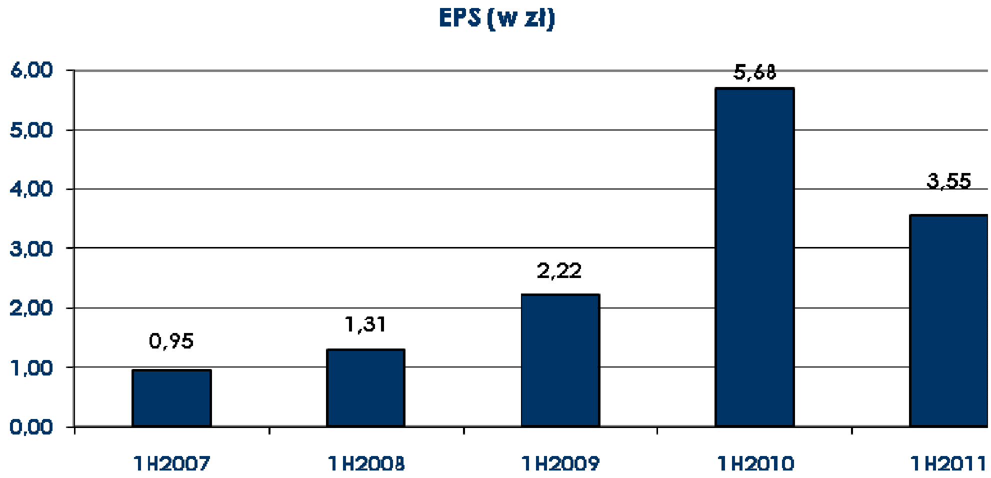
As at the end of H1 2011, ROA decreased by 1.8 p.p., from 3.7% to 1.9%, relative to the end of H1 2010. As at the end of H1 2011, return on equity was 4.2%, down by 3.1 p.p. over the end of H1 2010. In other words, for every PLN 1 of equity invested in H1 2011, the Company generated more than PLN 0.04 of net profit.

It must be pointed out that the improvement in ROA and ROE was chiefly due to the increase in the Company's net profit following recognition of the dividend received from Infra S.A.

6. Earnings per share

In H1 2011, earnings per share declined by 44% year on year, from PLN 5.68 to PLN 3.55. However, it needs to be highlighted that if the net profit for H1 2010 did not account for the non-recurring event consisting in PLN 43.2m of dividend received from Infra S.A., this would have been the best result for the last five years.

Figure 10: Development of earnings per share (last five years)



EPS (w zł)	EPS (PLN)
1H2007	H1 2007
1H2008	H1 2008
1H2009	H1 2009
1H2010	H1 2010
1H2011	H1 2011

7. Turnover ratios

Table 20: Turnover ratios

ITEM	FORMULA	H1 2011	H1 2010
Average collection period (days)	Average trade receivables * 180 / sales	159	289
Inventory cycle (days)	Average inventory * 180 / cost of sales	5	12
Average payment period (days)	Average trade payables * 180 / cost of sales	177	246

In H1 2011, the average collection and average payment periods as well as the inventory cycle were shorter relative to the corresponding period of the previous year. The average collection period decreased by 130 days, to 159 days at as the end of H1 2011. The inventory cycle was 5 days, i.e. 7 days less than in H1 2010. The average payment period was 69 days shorter, at 177 days. The cash conversion cycle shortened.
In H1 2011, 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 negative at -13 days. The cash conversion cycle compares two periods, which are: the length of time necessary for an entity to recover cash, and the length of time in which cash is available to an entity for repayment of its liabilities. An optimum cash conversion cycle should be close to zero. The length of the cash conversion cycle generally considered to be safe ranges from -30 days to +30 days. A positive and long cash conversion cycle indicates potential problems with maintaining liquidity, whereas a negative and very short cash conversion cycle may mean excessive liquidity.

8. Liquidity ratios

Table 21: Liquidity ratios

ITEM	FORMULA	H1 2011	H1 2010
Current ratio	(current assets / current liabilities)*100	2,77	2.13
Quick ratio	(current assets – inventory / current liabilities)*100	2,76	2.10
Cash ratio	(end cash balance / current liabilities)*100	0,77	0.59

As at the end of H1 2011, the current ratio improved relative to the same period of the previous year. It was 2.77 compared with 2.13 as at the end of H1 2010, which is believed to be a safe level. Both in H1 2011 and H1 2010, the Company would have been able to meet its current liabilities if they had become immediately payable, and additionally it would have had a large surplus of current assets to use for other purposes.
The quick ratio improved as well. As at the end of H1 2011 it stood at 2.76, having increased from 2.10 year on year. In the discussed periods, ratios remained within a range believed to be safe, and in both cases indicated that the Company was able to meet its liabilities in a timely manner.
The cash ratio improved from 0.59 as at the end of H1 2010 to 0.77 as at the end of H1 2011, which means that the Company is able to cover 77% of its current liabilities with its most liquid assets.

9. Debt

Table 22: Debt ratios

ITEM	FORMULA	H1 2011	H1 2010
Equity and liabilities structure	Equity / external funds	0,86	1.03
Asset structure	Non-current assets / current assets	0.78	0.71
Interest coverage ratio	Gross profit + interest / interest	3,55	4,07

The structure of equity and liabilities changed in H1 2011. In H1 2010, the Company's equity covered 103% of its debt and in H1 2011 the coverage of debt with equity decreased to 86%.
The asset structure ratio grew by 7 p.p. year on year. The share of non-current assets in current assets stood at 71% and 78% in H1 2010 and H1 2011, respectively, which indicates lower flexibility of the Company's assets and lengthening of the period when funds remain tied-up.
The interest coverage ratio dropped by 0.52 p.p. in the period. The ratio's value at 3.55 means that the Company's pre-tax profit exceeds the value of interest by over three-fold and that interest is repaid on a timely basis.

II. CHANGES IN THE INCOME STATEMENT AND COST ANALYSIS

1. Income statement

Table 23: Changes in the income statement

PBG Income statement (PLN '000)	H1 2011	H1 2010	H1 2010/H1 2009
Sales revenue	486 906	293,925	166%
Cost of sales	406 393	238,467	170%
Gross profit/(loss)	**80 513**	**55,458**	**145%**
Selling costs	-	-	0%
General and administrative expenses	14 776	14,390	103%
Profit on sales	**65 737**	**41,068**	**160%**
Other operating income	3,845	2,627	146%
Other operating expenses	999	796	126%
Operating profit/(loss)	**68 583**	**42,899**	**160%**
Finance income	35 188	78,789	45%
Finance expenses	43 793	31,437	139%
Profit (loss) on investments	(50)	17	0%
Pre-tax profit/(loss)	**59 858**	**90,268**	**66%**
Income tax	9 101	9,009	101%
Net profit	**50 757**	**81 259**	**62%**

As at the end of H1 2011, the Company's net profit was PLN 50.8m, down by 38%, or PLN 30.5m, relative to the end of H1 2010. The high net profit recorded in H1 2010 was owed to dividend of more than PLN 43m received from a subsidiary (Infra). Moreover, the upward trends continue in financial results for H1 2011 at all levels of the income statement. Gross profit on sales advanced by 45% year on year, to PLN 80.5m, profit on sales grew by 60%, to PLN 65.7m, while operating profit rose also by 60%, to PLN 68.6m.

2. Operating leverage

Table 24: Operating leverage

ITEM	FORMULA	H1 2011	H1 2010
Operating leverage (DOL)	percentage change in EBIT/percentage change in sales revenue	0.96	1,2

In the period under review, the operating leverage dropped, from 1.2 as at the end of H1 2010 to 0.96 as at the end of H1 2011, i.e. by 0.24 percentage point. This means that a 1% change in sales would result in a 0.96% change in operating profit, thus, the Company's operating risk decreased.

3. Cost

Table 25: Cost ratios

ITEM	FORMULA	H1 2011	H1 2010
Basic cost ratio	the sum of ratio * and ratio **	0,865	0.860
Cost of sales ratio*	cost of sales / sales revenue	0,835	0.811
General and administrative expenses ratio**	general and administrative expenses / sales revenue	0,030	0.049

In the first six months of H1 2011, the cost of sales was PLN 406m, up 70% on the end of H1 2010. There was a change in the share of variable costs in total sales revenue. Cost of sales accounted for 83.5% of sales as at the end of H1 2011 versus 81.1% as at the end of H1 2010, which represents an increase of 2.4 p.p..

In H1 2011, general and administrative expenses amounted to PLN 14.8m and were only 3% higher relative to H1 2010. The share of general and administrative expenses in sales revenue fell from 4.9% in H1 2010 to 3% in H1 2011, which represents a decrease of 1.9%. The significant decrease in the share of general and administrative expenses in sales revenue 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 was similar to the level recorded in H1 2010 at 86.5%.

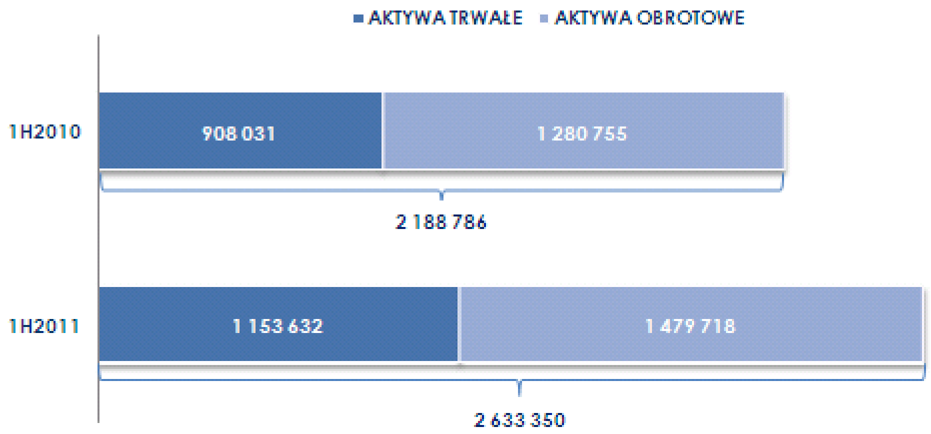
III. ASSETS, FINANCIAL POSITION AND FUNDING OF THE ASSETS

1. Assets

The assets' structure changed slightly in the period under review. As at the end of H1 2011, the share of non-current assets in total assets stood at 44% and was up by 2% year on year. On the other hand, over H1 2011 the share of current assets in total assets fell year on year, to 56%. The largest item of non-current assets, accounting for 56% of total non-current assets, were investments in subsidiary undertakings. The largest item of capital expenditure incurred by the Company in H1 2011 was PLN 119.3m related to the acquisition of nearly 40% of Energomontaż-Południe shares, resulting in acquisition of full control over the company and 64.84% of the total vote at the company's General Shareholders Meeting. The second largest item of non-current assets was property, plant and equipment, which accounted for 16% of total non-current assets.

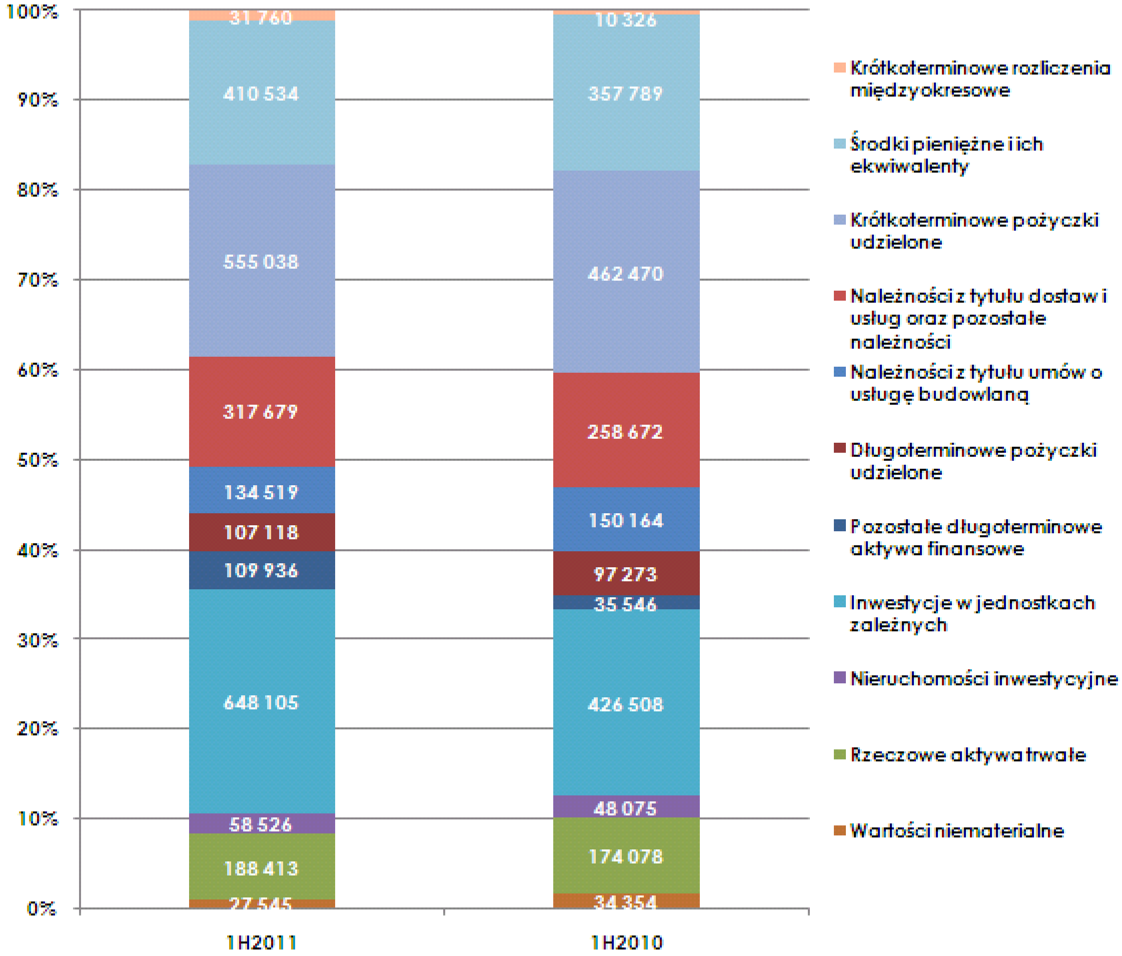
In the period under review, the structure of current assets also changed. In the six months ended on June 30th 2011, short-term loans advanced were the largest item of current assets, accounting for 37% of total current assets, comprising mostly loans granted to Group companies (PLN 380m) and to other entities (PLN 143m). They were followed by cash and cash equivalents, with a 28% share in total current assets. The third largest item of current assets is trade and other receivables, with a 21% share in total current assets.

Figure 11: Assets (PLN '000)



1H2010	H1 2010
1H2011	H1 2011
Aktywa trwałe	Non-current assets
Aktywa obrotowe	Current assets

Figure 12: Percentage shares of individual asset items in total assets (assets >1%)



Krótkoterminowe rozliczenia międzyokresowe	Current prepayments and accrued income
Środki pieniężne i ich ekwiwalenty	Cash and cash equivalents
Krótkoterminowe pożyczki udzielone	Current loans advanced
Należności z tytułu dostaw i usług oraz pozostałe zobowiązania	Trade and other receivables
Należności z tytułu umów o usługę budowlaną	Receivables under construction contracts
Długoterminowe pożyczki udzielone	Non-current loans advanced
Pozostałe długoterminowe aktywa finansowe	Other non-current financial assets
Inwestycje w jednostkach stowarzyszonych	Investments in associated undertakings
Nieruchomości inwestycyjne	Investment property
Rzeczowe aktywa trwałe	Property, plant and equipment
Wartości niematerialne	Intangible assets

Table 26: Asset ratios (%)

ITEM	FORMULA	H1 2011	H1 2010
Basic asset structure	(non-current assets / current assets)*100	77,96%	70.90%
Non-current assets to total assets	(non-current assets / total assets)*100	43,81%	41.49%
Current assets to total assets	(current assets / total assets)*100	59,19%	58.51%
Inventories to current assets	(inventories / current assets)*100	0,31%	1.33%

Current receivables to current assets	(current receivables / current assets)*100	31,27%	32.17%

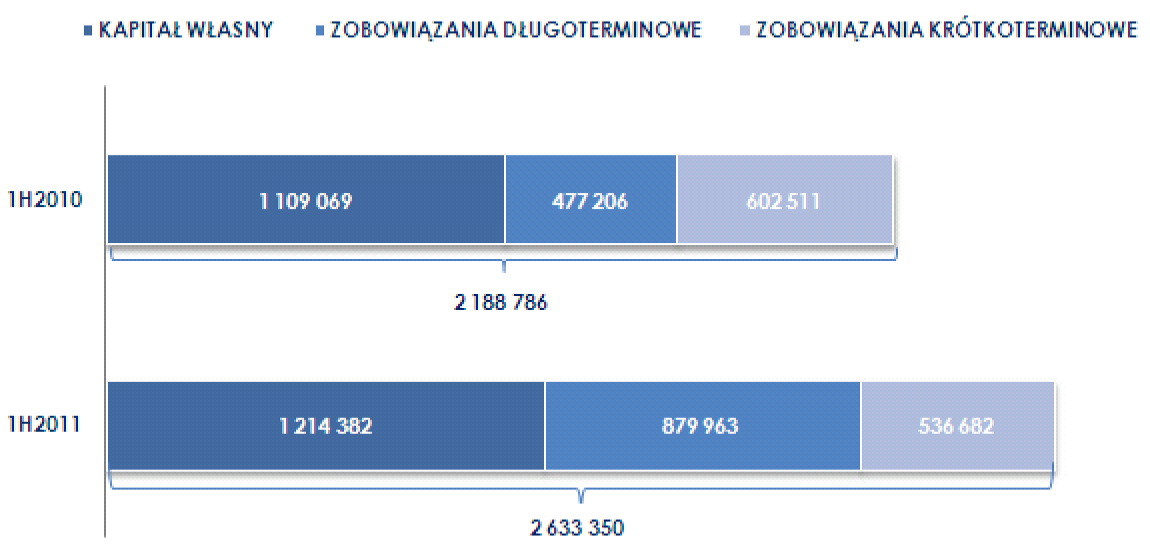
The key asset structure ratio is discussed in detail in Section 1.9, Chapter VI.

There were visible changes in the value of particular items of assets and in the structure of total assets. In the first six months of H1 2011, non-current assets grew by 27% relative to H1 2010. A smaller increase was recorded in current assets, which grew by 15%. These ratios show that the share of non-current assets in total assets was 2.4% up on H1 2010. The increase in the share of non-current assets in total assets was accompanied by a decrease in the share of current assets, which currently account for 56% of the Company's assets.

2. Equity and liabilities

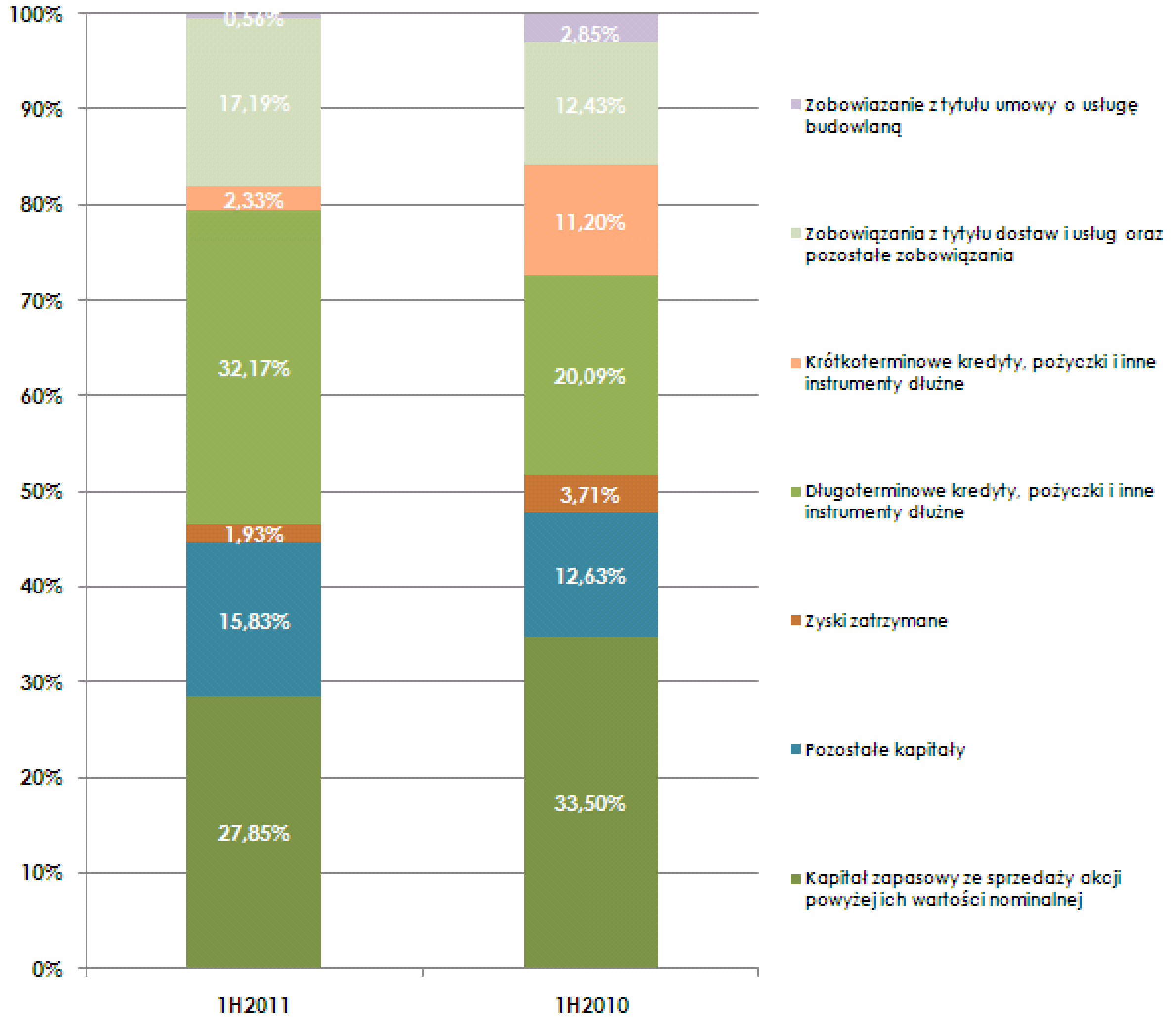
In the period under review, the Company's asset financing structure changed. Equity comprised 46% of total equity and liabilities. The share of non-current liabilities in the balance-sheet total increased by 12%, to 33%. The share of current liabilities fell to 20% as at the end of H1 2011 (27% as at the end of H1 2010). The largest item under non-current liabilities was long-term loans, borrowings and other debt instruments, which comprised bonds with a value of PLN 450m issued by the Company in 2010 and bonds with a value of PLN 375m issued in 2009.

Figure 13: Equity and liabilities (PLN '000)



Kapitał własny	**Equity**
Zobowiązania długoterminowe	**Non-current liabilities**
Zobowiązania krótkoterminowe	**Current liabilities**

Figure 14: Percentage shares of individual equity and liabilities items in total equity and liabilities (equity an liabilities >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
Krótkoterminowe kredyty, pożyczki i inne instrumenty dłużne	Short-term loans, borrowings and other debt instruments
Długoterminowe kredyty, pożyczki i inne instrumenty dłużne	Long-term loans, borrowings and other debt instruments
Zyski zatrzymane	Retained earnings
Pozostałe kapitały	Other capitals
Kapitał zapasowy ze sprzedaży akcji powyżej ich wartości nominalnej	Share premium account

Table 27: Financial ratios (%)

ITEM	FORMULA	H1 2011	H1 2010
Basic equity and liabilities structure ratio	(equity / debt capital)*100	86	103
Debt capital to total capital ratio	(debt capital / total equity and liabilities)*100	54	49
Debt capital to equity ratio – debt ratio	(debt capital / equity)*100	116	97
Long-term capital to equity and liabilities ratio	(long-term capital / total equity and liabilities)*100	33	22
Short-term debt capital to equity and liabilities ratio	(short-term debt capital / total equity and liabilities)*100	20	28

Capital reserves to equity and liabilities ratio	(capital reserves / total equity and liabilities)*100	0,64	0.58

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

The share of debt capital in total capital increased by over 4 p.p. relative to the end of H1 2010 and represented 54% of the asset financing structure. The debt ratio grew by 19%, to 116%, which means that for each złoty of its equity, the Company has PLN 1.16 of debt capital, which compares with PLN 0.97 as at the end of H1 2010.

The share of long-term capital in total capital was 33%, having increased significantly from 22% as at the end of H1 2010. However, current debt ratio went down by 7%, to 20% as at the end of H1 2011. This positive change is owed to consistent implementation of PBG's strategy focused on adjusting the Company's debt structure to the duration of contracts, which require to be financed for longer given the increasing value of individual contracts.

Table 28: Asset financing ratios – vertical analysis (%)

ITEM	FORMULA	H1 2011	H1 2010
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%	106	122
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-current assets as at end of period)*100%	182	175
Current debt capital to current assets ratio	(short-term debt capital as at end of period / current assets as at end of period)*100%	36	47

The analysis of financial data indicates that there are positive relations in the Company's asset financing. It needs to be highlighted that both in H1 2011 and in H1 2010, 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 29: Amounts disclosed in the statement of cash flows (PLN '000)

	H1 2011	H1 2010
Net cash provided by/(used in) operating activities	+23 254	+47,039
Net cash provided by/(used in) investing activities	-85 288	-173,171
Net cash provided by/(used in) financing activities	-61 390	-45,403
Net cash at end of period	+410 534	+357,789

In H1 2011, the statement of cash flows featured trends similar to those seen in H1 2010. In H1 2011, the balance of cash flows generated in the Company's operating activities was positive at PLN 23m. The balance of cash flows generated in investing activities in the period under review was negative and amounted to PLN -85.3m, which primarily resulted from expenditure incurred on the acquisition of a nearly 40% interest in Energomontaż-Południe for PLN 119.3m. In the period under review, the Company advanced loans for a total of PLN 169.5m, of which PLN 158m accounted for loans advanced to its subsidiaries. These are primarily borrowings extended to finance current projects or acquisition of real estate. With respect to other entities, large loans included PLN 50m extended to Infra. The balance of cash flows generated in financing activities in the period under review was negative and amounted to PLN -61.4m. In period under review, loans contracted by the Company totalled PLN 47m, while repaid loans amounted to more than PLN 80m.

Table 30: Nature of cash flows

	H1 2011	H1 2010
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 31: Data used by PBG to compute net debt (PLN '000)

	H1 2011	H1 2010	y-o-y change
Long-term loans and borrowings	22 167	64,639	-66
Short-term loans and borrowings	44 603	113,038	-61
Bonds	825,000	500,000	+65
Net cash	410 534	357,789	+15
Net debt	**481 236**	**319,888**	+50

As at June 30th 2011, net debt was PLN 481m, having increased 50% relative to the end of H1 2010. This figure comprises interest-bearing debt, including PLN 22.2m in long-term loans and borrowings, PLN 44.6m in short-term loans and borrowings and PLN 825m in bonds (issued by the Company in two tranches: PLN 375m in 2009 and PLN 450m in 2010). Net cash of PLN 410.5m as at the end of H1 2011 was deducted from the above figures.

VI. NET WORKING CAPITAL

Table 32: Net working capital (PLN '000)

	H1 2011	H1 2010	y-o-y change
Net working capital based on the short-term formula (current assets – short-term liabilities)	946 036	678 244	+140

In the discussed period, the Company reported a material increase in working capital. As at the end of H1 2011, working capital was PLN 946m compared with PLN 678m as at the end of H1 2010, which represented a 40% 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 33: Percentage share of net working capital in assets

	H1 2011	H1 2010	y-o-y change
Net working capital in total assets	36	31	+6

Working capital's share in total assets as at the end of H1 2011 was 36%, 5% up on H1 2010.

VII. INVESTMENTS

1. Equity investments

In H1 2011, PBG, the Group's Parent undertaking, acquired nearly 40% of shares in Energomontaż Południe S.A. for PLN 119.3m, and increased its stake in the company to nearly 65%. It was the Group's largest investment in H1 2011 (the acquisition was in line with the objectives of the share issue carried out in 2009 and the Company's strategy).

2. Expenditure on property, plant and equipment

In H1 2011, PBG 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 9m.

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

Financial resources available to the 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 COMPANY'S FINANCIAL PERFORMANCE IN Q2 2011

In Q2 2011, sales revenue increased, while margins declined at all levels of the income statement relative to the figures for the corresponding period of the previous year.

In Q2 2011, PBG generated sales revenue of nearly PLN 308m, **while its gross profit on sales reached** PLN 52.2m, **having grown by as much as 47% relative to Q2 2010.** Furthermore, **operating profit** amounted to **PLN 44.3m**, while **net profit was PLN 33.6m**. Year on year, operating profit went up by 58%, **while net profit decreased by 49%**. A year-on-year analysis of changes in net profit reveals a material one-off event in Q2 2010, i.e. recognition of an over PLN 43m dividend received from Infra S.A. (PBG subsidiary).

Table 34: Income statement for Q2 2011 and Q2 2010

PBG's income statement	for the period Apr 1–Jun 30 2011	for the period Apr 1–Jun 30 2010	Growth rate 2Q 2011/ 2Q 2010
Sales revenue	**307,796**	183,100	168%
Cost of sales	255,551	147,657	173%
Gross profit/(loss)	**52,245**	**35,443**	**147%**
Selling costs	-	-	0%
General and administrative expenses	8,147	8,243	99%
Profit on sales	**44,098**	**27,200**	**162%**
Other operating income	598	1,344	44%
Other operating expenses	322	437	74%
Operating profit/(loss)	**44,374**	**28,107**	**158%**
Finance income	16,836	64,238	26%
Finance expenses	22,038	17,515	126%

Other gains/(losses) on investments	(50)	17	0%
Pre-tax profit/(loss)	**39,122**	**74,847**	**52%**
Income tax	5,558	6,118	91%
Net profit/(loss)	**33,564**	**68,729**	**49%**

REVENUE, INCOME, COSTS AND EXPENSES

1. Sales revenue

In Q2 2011, the Company's sales revenue amounted to nearly **PLN 308m, having increased by 68%** relative to the end of Q2 2010.

2. Cost of sales

In Q2 2011, cost of sales reached almost **PLN 256m, which represented a 73%** rise over the end of Q2 2010. There was a change in the share of variable costs in total sales revenue. Cost of sales accounted for 83% of sales revenue as at the end of Q2 2011 versus 80.6% as at the end of Q2 2010, which represents an increase of 2.4 pp.

3. General and administrative expenses

As at the end of Q2 2010, general and administrative expenses amounted to **PLN 8.1m, having decreased by 1%** year on year. The share of general and administrative expenses in sales revenue changed significantly over the period – it declined from 4.5% to 2.7% relative to Q2 2010.

4. Other operating income

Other operating income in Q2 2011 settled at almost PLN 0.6m**, having fallen** by 56% year on year**.**

5. Other operating expenses

As at the end of Q2 2011, other operating expenses totalled **PLN 0.32m, having dropped by 26%** compared with the end of Q2 2010.

6. Finance income

Year on year, Q2 2011 saw a 74% decline in finance income, which stood at PLN 16.8m. High net income in H1 2010 was attributable to the recognition of a PLN 43.2m dividend received from Infra S.A. The transaction affected the separate accounts, however, it was eliminated from the consolidated financial statements.

7. Finance expenses

As at the end of Q2 2011, finance expenses amounted to PLN 22m, having increased by 26% year on year.

FINANCIAL RESULT

1. Items of the Income Statement

As at the end of Q2 2011, the Company posted net profit of **PLN 33.6m,** representing a **51% drop relative to Q2 2010.** However, it needs to be noted that if the net profit for H1 2010 did not account for the non-recurring event consisting in PLN 43.2m of dividend received from Infra S.A., this would have been the best-ever result recorded by the Company. The Company also maintained its operating efficiency. In Q2 2010 [?], the financial result at all levels of the income statement continued its growth. **Gross profit on sales rose by 47%** while **operating profit advanced by 58%.**

2. EBITDA

In Q2 2011, capital expenditure on acquisition of property, plant and equipment, and non-tangible assets totalled PLN 5m, relative to PLN 43m in the corresponding period of the previous year. In Q2 2011, depreciation/amortisation charges amounted to PLN 4m (PLN 4.1m in Q2 2010).**As at the end** of Q2 2011, EBITDA (EBIT before depreciation/amortisation) was **PLN 48.4m, up by** 50%**, or** PLN 16.2m**on Q2 2010.**

3. Profitability ratios

In Q2 2011, the growth of sales revenue (168%) was lower than the increase in cost of sales (173%). Thus, the Company's gross sales margin in Q2 2011 was down by 2.4% year on year: from 19.4% to 17.0%. The other profitability ratios (operating margin and net margin) also deteriorated relative to the end of Q2 2010. The operating margin decreased by 1%, from 15.4% to 14.4%. whereas the net margin declined by 26.6% year on year, from 37.5% in Q2 2010 to 10.1% in Q2 2011.

Table 35: Q2 2011 and Q2 2010 profitability ratios

Profitability ratios	Q2 2011	Q2 2010	% change
Gross margin[1]	**17.0%**	**19.4%**	**-2.4**
Operating margin[2]	**14.4%**	**15.4%**	**-1.0**
Net margin[3]	**10.9%**	**37.5%***	**-26.6**

[1]*gross profit on sales/sales revenue *100*
[2]*operating profit /sales revenue *100*
[3]*net profit/ sales revenue *100*
High net margin was a result of a PLN 43.2m dividend recognised in the Company's finance income.

IX. FINANCIAL OUTLOOK

In 2011, the Company plans to maintain its financial ratios at levels ensuring stable operations. Current operations and projects will be financed using internally generated funds, short-term facilities and investment loans. 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 investment projects.

X. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

The Company's financing strategy, implemented in 2004, was continued in 2011.
As at June 30th 2011, the amount of bank and insurance limits awarded to PBG for the financing of its day-to-day operations and capital expenditure and to execute FX transactions was PLN 3.608bn.

To further diversify the financing sources, in November 2007 an agency and dealer agreement was executed with ING Bank Śląski S.A. for arrangement and execution of a bond issue programme for PBG 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.

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

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

1. maintain diversified funding sources,
2. gain wider access to available bank and insurance products,
3. standardise the products and services offered to PBG,
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 PBG to directly link these products to particular contracts and to adjust the products to the profile of PBG's cash flows, which, as viewed from the financial institutions' perspective, significantly reduced the operating risk of the Company. The rules of controlling and monitoring PBG's performance by the financial institutions permitted direct settlement of PBG's debt liabilities with cash flows under particular contracts.

Threats related to 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 PBG 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 Company'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.

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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**