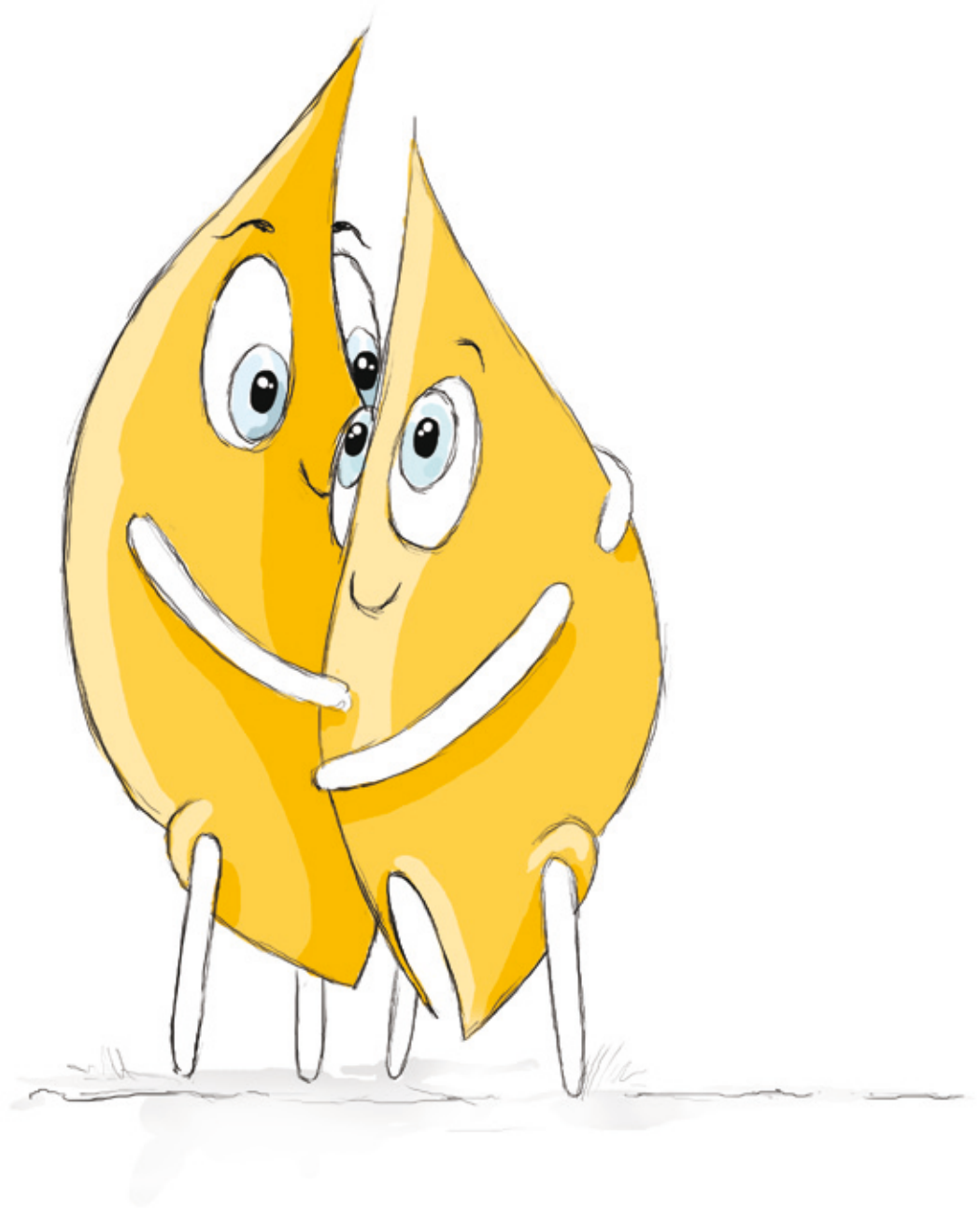


I Corporate governance report



1. Corporate governance report

Principles of Corporate Governance include formal and informal rules of operations, being aimed at regulating relationships between all entities which participate in the life of the Company – with shareholders, investors, recipients, suppliers, the managing staff and employees. Applying all its rules should be a priority matter for every company. It is like this in case of PBG SA. Thanks to that the Company is more credible and transparent.

Rules and the clarity of the information are deciding about the success in the business. Reducing the risk associated with investing in securities of the company is a purpose of good practice. In Poland principles of Corporate Governance were collected in the document “Good Practices of the Companies Listed on the Warsaw Stock Exchange” and for the first time authorities of the Warsaw Stock Exchange published them in September of 2002. The document determined elements of business ethics which listed companies should follow in their everyday activity. Next edition of principles - “ Good practices of the Companies Listed on the Warsaw Stock Exchange 2005” - were in effect from the beginning of year 2005 until the end of 2007. The next update of good practices occurred on January 1 2008. Then issued document “Best Practices of Companies Listed on the WSE “ was in force over the next two years.

The PBG SA company adopted principles of the Corporate Governance published in the document „ Good Practices of the Companies Listed on the WSE ”available at: <http://www.corp-gov.gpw.pl/publications.asp>.

In accordance with the duty „ comply or explain ” the PBG SA Management Board is declaring that in 2009 it obeyed all principles arising out of this document.

The current “Best Practices of Companies Listed on the WSE “, was modified on May 19, 2010. The document has been updated for changes in law, international trends in the scope of good stock exchange practices and expectations of market participants. The current good practices are considered to be a guide to the principles of corporate governance for companies that want to build long-term good relations with shareholders.

THE REPORT CONCERNING THE CORPORATE GOVERNANCE IS AN INTEGRAL PART OF THE PBG SA ANNUAL REPORT.

Meaning of declarations with the commentary of the Company concerning each principle of the Corporate Governance and report concerning applying principles of the Corporate Governance in the PBG for year 2009 the Company placed under the following Internet address:

<http://www.pbg-sa.pl/en/investor-relations/corporate-governance.html>

2. Members and committees of the Supervisory Board

SUPERVISORY BOARD MEMBERS

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

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

The Supervisory Board member should have the due wisdom and experience and be able to devote the essential amount of the time for performing its duties. High qualifications and the professional experience of Supervisory Board members are a premise enabling the objectivity and the independence for its for members in expressing opinions and judgements.

TABLE 1: COMPOSITION OF THE SUPERVISORY BOARD

Full name	Maciej Bednarkiewicz
Position	Chairman of the Supervisory Board
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 SA - Chairman of the Supervisory Board of Millennium Bank SA - Secretary of the Supervisory Board of PZU SA - Member of the Supervisory Board of Techmex SA - Chairman of the Supervisory Board of PBG SA since 2004
Full name	Jacek Kseń
Position	Deputy Chairman of the Supervisory Board
Qualifications	- Poznań University of Economics – Faculty of International Trade - Warsaw School of Economics (formerly: Szkoła Główna Planowania i Statystyki) – Ph.D. in international financial markets
Experience	- Currency Market trader at Bank Handlowy - President of the Management Board of BZ WBK SA - Chairman of the Supervisory Board of PLL LOT - Chairman of the Supervisory Board of Sygnity - Deputy Chairman of the Supervisory Board of Orbis - Deputy Chairman of the Supervisory Board of PBG SA

Full name	Wiesław Lindner
Position	Member of the Supervisory Board
Qualifications	- Poznań University of Economics
Experience	- Economics Department Manager; Deputy Economics Director; Deputy CEO; CEO at PGNiG - Chief Accountant at Zakład Naprawy Gazomierzy of Poznań - Member of the Supervisory Board of ATG Sp. z o.o. - Member of the Supervisory Board of PBG SA since 2004
Full name	Dariusz Sarnowski
Position	Member of the Supervisory Board
Qualifications	- Poznań University of Economics – Accounting
Experience	- Certified Chartered Auditor - 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 SA - Manager at Trade Institute – Reemtsma Polska SA - 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 SA - Member of the Supervisory Board of Browary Polskie BROK – STRZELEC SA - Member of the Supervisory Board of NZOZ Szpital w Puszczykowie Sp. z o.o. - Member of the Supervisory Board of Swarzędz SA - Member of the Supervisory Board of PBG SA since 2005
Full name	Adam Strzelecki
Position	Member of the Supervisory Board
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 SA - Shareholder and Member of the Supervisory Board of Zakład Doskonalenia Zawodowego Sp. z o.o. - Member of the Management Board of Włocławskie Towarzystwo Naukowe - Member of the Supervisory Board of PBG SA since 2004.
Full name	Jacek Krzyżaniak
Position	Member of the Supervisory Board until June 4th 2009
Qualifications	- Poznań University of Life Sciences – Agriculture Economics, 1992–1995
Experience	- Director at Fundacja Europa XXI - Member of the Management Board and CEO of WIL Lobbying Sp. z o.o. - Member of the Supervisory Board of Polski Fundusz Kapitałowy SA - Member of the Supervisory Board of PC Guard SA - Member of the Supervisory Board of Hydrobudowa Włocławek SA - Assistant to the Management Board of Technologie Gazowe Piecobiogaz - Investor Relations Director; Spokesman and Member of the Supervisory Board of PBG SA from 2004 to June 2009

At the December 31, 2009 the Supervisory Board of PBG was composed of five members.

The persons listed above were reappointed as members of the Supervisory Board for another term of office by the Annual General Shareholders Meeting on June 18th 2008. On June 4th 2009, Mr Jacek Krzyżaniak tendered his resignation from the Supervisory Board of PBG SA

The term of office of the Supervisory Board appointed in June 2008 expired on the date of the Annual General Shareholders Meeting which approved the Company's financial statements for 2008. On June 4th 2009, the Annual General Shareholders Meeting of PBG SA granted approval of duties to all members of the Supervisory Board listed above, and resolved to reappoint them as members of the Board. The Supervisory Board currently in office is composed of five members.

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

THE FOLLOWING COMMITTEES OPERATE WITHIN THE SUPERVISORY BOARD OF PBG SA:

- ✓ Audit Committee;
- ✓ Remuneration Committee.

The Audit Committee is composed of:

- ✓ Jacek Kseń,
- ✓ Dariusz Sarnowski.

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

- a) Assessing the extent to which a selected auditor satisfies the independence criteria; advising the Management Board on the appointment of the auditor and on the terms and conditions of a contract to be concluded with the auditor (including the auditor's fees). If the Supervisory Board resolves to appoint an auditor contrary to the recommendation, a detailed grounds for the decision are required;
- b) Analysing and assessing links and interdependencies existing within the Company, including within the Supervisory and Management Boards, to identify potential and actual conflicts of interest; taking actions with an eye to eliminating such conflicts of interest and ensuring the fullest possible exchange of information between the auditor and the Supervisory Board;
- c) reviewing separate and consolidated quarterly, semi-annual and annual financial statements.

The Remuneration Committee is composed of:

- ✓ Maciej Bednarkiewicz,
- ✓ Wiesław Lindner.

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

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

SUPERVISORY BOARD, MANNERS OF OPERATION

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

The Supervisory Board is composed of no less than five Members appointed by the General Shareholders Meeting by way of a secret ballot for a one-year term of office. Mandates of Supervisory Board Members expire on the date of the General Shareholders Meeting approving the financial statements for the last full financial year during the term of office. The number of Members is in each case determined by the General Shareholders Meeting.

Members of the Supervisory Board may be re-elected. At least half of the Members of the Supervisory Board should satisfy the criteria of being independent from the Company. A Supervisory Board Member is deemed to be independent when:

- ✓ He or she is not an employee of the Company or a Related Party;
- ✓ He or she is not a member of supervisory or management bodies of a Related Party;
- ✓ He or she is not a shareholder holding 5% or more of the total vote at the Company's General Shareholders Meeting or the general shareholders meeting of a Related Party;
- ✓ He or she is not a member of supervisory or management bodies of an entity holding 5% or more of the total vote at the Company's General Shareholders Meeting or the general shareholders meeting of a Related Party;
- ✓ He or she is not a descendant or ascendant, a spouse, a sibling, a parent of a spouse, or an adoptee of any of the persons listed above.

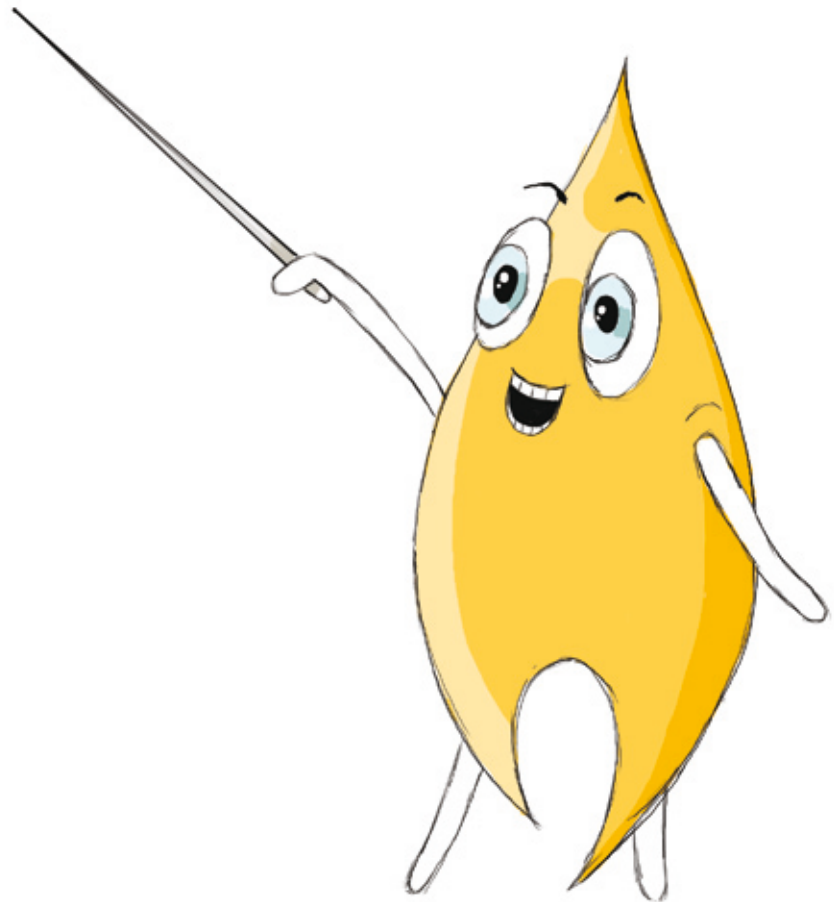
The criteria must remain satisfied during the entire term of office.

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

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

- ✓ Acquisition of an enterprise or an organised part of enterprise,
- ✓ Establishment and liquidation of the Company's divisions in Poland and abroad,
- ✓ Assumption of liability for third party obligations (sureties, guarantees and avals) whose value exceeds the Company's share capital; however, assumption of liability for obligations of the Group companies does not require such approval,
- ✓ Conduct by Members of the Management Board of activity competitive to the Company's business and participation in competitive companies as a general partner or member of the governing bodies,
- ✓ Acquisition, subscription for, disposal of and resignation from pre-emptive rights to, shares, except shares in public companies whose number does not exceed 1% of their total number,
- ✓ Payment of interim dividend,
- ✓ Provision by the Company of any benefits to Members of the Management Board for whatever reason, other than benefits under the employment relationship,
- ✓ Execution by the Company or its subsidiary undertaking of a material agreement with a related party (except agreements executed with the Group companies), a supervisory board member, a management board member or their related parties,
- ✓ Acquisition or disposal of property, a perpetual usufruct right or interest in property.
- ✓ Appointment of a qualified auditor,

- ✓ Acting on behalf of the Company in agreements and disputes between the Company and Management Board Members,
- ✓ Approval of the Rules of Procedure for the Management Board,
- ✓ Appointment and removal from office of Management Board Members,
- ✓ Issuing opinions on the matters submitted by the Management Board.



3. Report of the Supervisory Board

REPORT ON THE OPERATIONS OF THE SUPERVISORY BOARD OF PBG SA IN FY 2009 TOGETHER WITH THE SELF-ASSESSMENT OF THE SUPERVISORY BOARD'S WORK.

In FY2009, the Supervisory Board was made up of the following persons:

- ✓ From 01 January 2009 to 04 June 2009: Maciej Bednarkiewicz, Jacek Krzyżaniak, Jacek Kseń, Wiesław Lindner, Dariusz Sarnowski and Adam Strzelecki.
- ✓ From 04 June 2009 to 31 December 2009: Maciej Bednarkiewicz, Jacek Kseń, Wiesław Lindner, Dariusz Sarnowski and Adam Strzelecki.

At the meetings, the Supervisory Board discussed the issues of the audit and supervision over the current activities of the Company in all areas of its business. In 2009, the Supervisory Board held 8 meetings and adopted 25 resolutions concerning the following issues, among others:

- ✓ granting approval for acquiring company shares;
- ✓ the assessment of the Company's financial statements for FY 2008, the Management Board's report on the Company's operations in FY 2008 and the Management Board's motion concerning the allocation of profit in FY 2008;
- ✓ the assessment of PBG Capital Group's consolidated financial statements for FY 2008 and the report on the Group's operations in FY 2008;
- ✓ accepting the agenda of the Extraordinary Meeting of Shareholders presented by the Management Board, issuing opinions regarding draft resolutions for the Extraordinary Meeting of Shareholders;
- ✓ approving the report on the operations of the Audit Committee and Remuneration Committee;
- ✓ approving the report on the operations of the Supervisory Board which includes a brief assessment of the Company's standing;
- ✓ selecting members of the Management Board, establishing monthly remuneration for the members of the Management Board;
- ✓ preparing the consolidated text of the Articles of Association;
- ✓ preparing a list of persons authorised to take up series D shares under the Company's Incentive Scheme;
- ✓ selecting an entity competent to perform semi-annual reviews and audits of financial statements for FY 2009;
- ✓ assessing the financial report for H1 2009 and the financial report for 3Q 2009;
- ✓ the changes in the Management Board.

Having carried out self-assessment of operations, the Supervisory Board has concluded that duties and authorizations of the Supervisory Board are specified in the Supervisory Board Bylaws, the current version of which was adopted at the General Meeting on 4 June 2009. The Supervisory Board meets the criteria of independence specified in the Articles of Associations and in the Good Practice Implemented by Companies listed in the Warsaw Stock Exchange. The Supervisory Board set up the Audit Committee and Remuneration Committee from among its members. The composition of the Supervisory Board ensures its full competence in executing tasks resulting from the supervisory function and guarantees that the interest of the Company and its shareholders is of superior importance.

In the reporting period, the Supervisory Board was systematically and thoroughly informed by the Management Board about the Company's financial standing, undertakings carried out by the Company and the cooperation with customers. While performing its duties, the Supervisory Board obtained information necessary to perform them from documents and communications as well as presentations and clarifications presented by the Management Board and, if need be, the Company's employees or experts at the meetings of the Supervisory Board. The Supervisory Board has concluded that cooperation with the Management Board of PBG SA was seamless, and all matters reported to the Board were addressed at the meetings following a procedure which did not disturb the operations of the Management Board.

The work of the Supervisory Board was smooth, with the participation of all its Members. Detailed activities undertaken by the Supervisory Board are reflected in the minutes of the meetings which can be found in the Company's registered office.

All the meetings were held in compliance with the Supervisory Board Bylaws; as a result, the Supervisory Board was capable of adopting valid resolutions at each of the meetings.

It is the opinion of the Supervisory Board, that the Supervisory Board has appropriately fulfilled all of its duties resulting from the applicable law, the Articles of Association, bylaws and Good Practice Implemented by Companies listed in the Warsaw Stock Exchange.

Report on the operations of the Audit Committee.

1. Organisational meeting to establish the list of tasks for 2009.
2. Cyclical meetings with the auditor of PBG SA Group.
3. A meeting concerning the strategy of hedging against currency risk. The meeting was held both with the Management Board and the representative of the auditor.
4. Verifying the internal audit of the group's purchasing system on a random basis to define possible risks in this area.
5. Meetings with auditors other than the auditor of PBG SA Group.
6. Meetings with the Management Board of PBG DOM to identify risks within the development part.

Report on the operations of the Remuneration Committee.

1. an organisational meeting to establish the list of tasks in 2009;
2. cyclical meetings to review and analyse the remuneration policy in PBG SA,
3. meetings concerning the review of the bonus system in PBG SA

BRIEF ASSESSMENT OF THE COMPANY'S STANDING IN FY 2009.

In 2009, PBG SA celebrated the fifteenth year of its existence. However according to the Supervisory Board, this year was special not only because of the anniversary. The Company and its Capital Group has achieved the projected operational goals and accomplished financial forecasts, in spite of the difficult situation on the construction market and the ensuing fight for new contracts. At the same time, the Company is executing the largest and most organisationally complex contracts in the history of the Capital Group – the construction of three stadiums, contracts in the gas sector which are of crucial strategic importance for the energy safety of Poland - such as the construction of Underground Gas Storehouse in Wierzchowice and the construction of Lubiatów-Międzychód-Grotów petroleum and natural gas mine.

The Management Board of PBG SA, concerned about securing the financing of operations in FY 2009, used the share premium reserve again. In spite of the recession, the Company carried out the fourth issue of shares, securing funds for its further operations in the amount of over PLN 190 million, and issued the next tranche of three-year bonds of the total value of PLN 375 million. The Supervisory Board of PBG SA concludes that the Company recognizes emerging risks well and is able to reduce them effectively, which, in the present situation,

is a necessary element for conducting business and continuing the dynamic development of the Company.

In FY 2009, the investment operations in the capital area included mainly acquisitions of real estate companies, taking actions related to the commencement of operations in the energy sector by acquiring shares of Energomontaż Południe SA. Moreover, the structure of PBG Capital Group was continued to be organised, which consisted in setting up Capital Groups within the areas of operations of particular Group PBG companies. Hydrobudowa Konstrukcje Sp. z o.o., purchased by PBG SA, changed its name to PBG Technologia Sp. o.o., and, after being reinforced with the PBG SA team and Hydrobudowa 9 SA, constitutes the executive base of the Capital Group. PBG SA consistently continues its policy of searching for contracts abroad. In FY 2009, PBG Export Sp. z o.o. was established for this purpose. The subsidiary of PBG SA in Ukraine and a company set up by PBG SA in this country also carry out such activities.

The Supervisory Board expresses its favourable opinion about the Company's operations and the work of the Management Board as aiming to increase the Company's value for Shareholders.

The Supervisory Board of PBG SA

Wysogotowo, March 26, 2010

The full text of the document is available at:

<http://www.pbg-sa.pl/en/investor-relations/corporate-governance/supervisory-board-1895.html>



4. Management Board of the PBG

MEMBERS OF THE MANAGEMENT BOARD



From the left:
 Vice-president Tomasz Tomczak,
 Vice-president Mariusz Łożyński,
 President Jerzy Wiśniewski,
 Vice-president Tomasz Woroch,
 Vice-president Przemysław Szkudlarczyk.

The scope of competences of the Management Board includes any matters of the Company not reserved for competence of the General Shareholders Meeting or the Supervisory Board. The duties and Management Board By-Laws shall be defined in the formal document, which precise the function of Management Board. Particular Management Board Members manage areas of the Company's activity entrusted to them and their work is coordinated by the President of the Management Board.

Current Management Board term of office expires on June 4, 2012.

TABLE 2: COMPOSITION OF THE MANAGEMENT BOARD

Full name	Jerzy Wiśniewski
Position	President of the Management Board
Qualifications	<ul style="list-style-type: none"> - Poznań University of Technology – Institute of Civil Engineering - MBA – Rotterdam School of Management - Canadian International Management Institute – management programme
Experience	<ul style="list-style-type: none"> - PGNiG SA – manager in charge of gas transmission system operation - PBG SA – founder, major shareholder and President of the Management Board
Field of expertise	<ul style="list-style-type: none"> - Natural gas and crude oil - Environmental protection
Areas of responsibility at the PBG Group	Strategy and development
Full name	Tomasz Woroch
Position	Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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 SA – Vice-President of the Management Board
Field of expertise	<ul style="list-style-type: none"> - Natural gas and crude oil - Environmental protection
Areas of responsibility at the PBG Group	Contract execution in the environmental protection sector
Full name	Przemysław Szkudlarczyk
Position	Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> - Poznań University of Technology – Institute of Machines and Motor Vehicles - Warsaw University of Technology – gas engineering - MBA – Rotterdam School of Management - Canadian International Management Institute – management programme
Experience	<ul style="list-style-type: none"> - PGNiG SA – technical assistant (natural gas transmission) - Technologie Gazowe Piecobiogaz – development manager, member of the management board - KRI SA – president of the management board - Hydrobudowa Śląsk SA – proxy - - PBG SA – Vice-President of the Management Board
Field of expertise	<ul style="list-style-type: none"> - Natural gas and crude oil - Environmental protection
Areas of responsibility at the PBG Group	Economics and finance
Full name	Tomasz Tomczak
Position	Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> - Poznań University of Technology – Institute 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	<ul style="list-style-type: none"> - 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 SA – technical manager; Member of the Management Board; Vice-President of the Management Board
Field of expertise	<ul style="list-style-type: none"> - Natural gas and crude oil - Fuels
Areas of responsibility at the PBG Group	Contract execution in the natural gas, crude oil and fuels sectors
Full name	Mariusz Łożyński
Position	Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> - Poznań University of Technology – Institute of Civil Engineering
Experience	<ul style="list-style-type: none"> - 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 SA – 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

Field of expertise	- Natural gas and crude oil
Areas of responsibility at the PBG Group	bidding processes; securing contracts for the PBG Group; contract execution in the hydraulic engineering and renovation sectors
Full name	Tomasz Latawiec
Position	Członek Zarządu do dnia 30 września 2009
Qualifications	- Member of the Management Board until September 30th 2009
Experience	<ul style="list-style-type: none"> - Envipol Sp. z o.o. – site manager - Aquarius & Co. – site manager - K. Lobbe Aquasewer Sp. z o.o. – president of the management board - Pollex Polska Sp. z o.o. – president of the management board - INFRA SA – president of the management board - PBG SA – Member of the Management Board
Field of expertise	
Areas of responsibility at the PBG Group	Contract execution in the environmental protection sector

On June 4th 2009, the Supervisory Board reappointed the persons listed above as members of the Management Board for another term of office. On September 30th 2009, Mr Tomasz Latawiec tendered his resignation as member of the Management Board. Mr Latawiec cited family commitments as a reason for his resignation.

The Management Board's term of office lasts three years. If appointed during a term of office, a member of the Management Board remains in office until the expiration of the 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.

DESCRIPTION OF THE RULES CONCERNING APPOINTMENT AND DISMISSAL OF THE MANAGING PERSONS AND THEIR RIGHTS IN PARTICULAR THE RIGHTS

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

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

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

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

Bearing in mind the interest of the Company, the Management Board sets forth the strategy and the main objectives of the Company's operations, and submits them to the Supervisory Board for approval. The Management Board is responsible for implementation and performance of the same. The Management Board cares for transparency and effectiveness of the Company management system and the conduct of its business in accordance with legal regulations and best practice.

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

The Supervisory Board determines remuneration for Members of the Management Board, taking into account the remuneration's incentivising function in ensuring effective management of the Company.

Mandate of a Management Board Member expires:

- ✓ Upon removal of a given Member from the Management Board,
- ✓ On the date of the General Shareholders Meeting approving the financial statements for the last full year during the term of office,
- ✓ Upon death,
- ✓ Upon resignation.

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

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

- ✓ Conduct any activity competitive to the Company's business,
- ✓ Be a partner in any partnership under civil law or another type of partnership, or a member of a governing body of an incorporated company or any other legal entity which conducts activities competitive to the Company's business,
- ✓ Participate in a competitive company in which a given Member holds at least 10% of shares or rights entitling that Member to appoint at least one member of the management board.

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

- ✓ Decisions regarding major projects and the manner of their financing,
- ✓ Outlining the Company's strategic development plans and setting the Company's financial targets,
- ✓ Definition of the Company's organisational structure,
- ✓ Definition of the Company's rules of procedure and other internal regulations,
- ✓ Internal division of powers between individual Members of the Management Board,
- ✓ Outlining personnel and payroll policies, including assumptions underlying incentive schemes.

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

5. Remuneration report

REMUNERATIONS OF THE SUPERVISORY BOARD AND THE MANAGEMENT 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 SA, dated December 10th 2005.. The amount of remuneration depends on the respective scope of duties and responsibilities entrusted with an individual Supervisory Board member. Management Board members are appointed under the Resolution of the Supervisory Board. They are employed on the basis of employment agreements. In accordance with the Resolution of the Supervisory Board of PBG SA the Management Board members shall be entitled to the basis salary as well as bonuses and additional benefits resulting from the provisions on the remuneration. The value of the remuneration is made conditional from individual duties and from areas of the responsibility entrusted to individual members of the Management Board and of the Supervisory Board.

TABLE 3: REMUNERATION OF MANAGEMENT BOARD MEMBERS FOR HOLDING OFFICE AT THE PARENT UNDERTAKING

Remuneration (PLN'000)	Jan 1–Dec 31 2009			Jan 1–Dec 31 2008		
	Base remuneration	Other benefits*	Total	Base remuneration	Other benefits*	Total
Jerzy Wiśniewski	1 200	3	1 203	741	-	741
Tomasz Woroch	420	2	422	420	-	420
Przemysław Szkudlarczyk	300	2	302	300	-	300
Tomasz Tomczak	300	2	302	300	-	300
Mariusz Łożyński	300	2	302	245	-	245
Tomasz Latawiec	180	1	181	240	-	240
TOTAL	2 700	12	2 712	2 246	-	2 246

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

TABLE 4: REMUNERATION OF MANAGEMENT BOARD MEMBERS FOR HOLDING OFFICE AT SUBSIDIARY, JOINTLY-CONTROLLED OR ASSOCIATED UNDERTAKINGS

Remuneration (PLN'000)	Jan 1–Dec 31 2009			Jan 1–Dec 31 2008		
	Base remuneration	Other benefits*	Total	Base remuneration	Other benefits*	Total
Jerzy Wiśniewski	-	-	-	190	4	194
Tomasz Woroch	65	-	65	273	5	278
Przemysław Szkudlarczyk	36	-	36	59	-	59
Tomasz Tomczak	9	-	9	-	-	-

Mariusz Łożyński	-	-	-	-	-	-
Tomasz Latawiec	-	-	-	121	-	121
TOTAL	110	-	110	643	9	652

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

TABLE 5: REMUNERATION OF SUPERVISORY BOARD MEMBERS FOR HOLDING OFFICE AT THE PARENT UNDERTAKING

Remuneration (PLN'000)	Jan 1–Dec 31 2009			Jan 1–Dec 31 2008		
	Base remuneration	Other benefits*	Total	Base remuneration	Other benefits*	Total
Maciej Bednarkiewicz	120	1	121	120	-	120
Jacek Kseń	96	1	97	96	-	96
Wiesław Lindner	60	1	61	60	-	60
Jacek Krzyżaniak	15	1	16	36	-	36
Dariusz Sarnowski	36	1	37	36	-	36
Adam Strzelecki	36	1	37	36	-	36
TOTAL	363	6	369	384	-	384

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

TABLE 6: REMUNERATION OF SUPERVISORY BOARD MEMBERS FOR HOLDING OFFICE AT SUBSIDIARY, JOINTLY-CONTROLLED OR ASSOCIATED UNDERTAKINGS

Remuneration (PLN'000)	Jan 1–Dec 31 2009			Jan 1–Dec 31 2008		
	Base remuneration	Other benefits*	Total	Base remuneration	Other benefits*	Total
Maciej Bednarkiewicz	-	-	-	-	-	-
Jacek Kseń	-	-	-	-	-	-
Wiesław Lindner	-	-	-	-	-	-
Jacek Krzyżaniak	-	-	-	72	3	75
Dariusz Sarnowski	-	-	-	-	-	-
Adam Strzelecki	-	-	-	-	-	-
TOTAL	-	-	-	72	3	75

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

INCENTIVE SCHEME

The year 2009 was the last year of PBG's incentive scheme implemented by virtue of a resolution of the PBG SA's Supervisory Board dated April 28th 2004. The scheme was an excellent and highly-efficient incentive tool primarily for the members of the management staff and other key employees of the PBG Group. Under the scheme, 330,000 Series D shares were distributed. In accordance with the Scheme's Rules, the Eligible Persons were the Management Board Members, PBG employees, members of management boards of other Group companies, employees of the Group companies and natural persons or partners in partnerships associated with the Company under permanent co-operation agreements, as specified every year by the Supervisory Board in its resolutions. The Scheme could be implemented and launched in a given year provided that the Group posted operating profit for the previous financial year, as presented in the consolidated financial statements, in an amount corresponding to at least 75% of the target operating profit for a given year. Failure to meet the minimum target for the pervious year would result in suspension of the Scheme in the given year, which never happened. The amount of the Group's target operating profit in a given year was determined by the PBG Group's Supervisor Board by June 30th of the year to which the target referred.

Below we present information on the distribution of 330,000 Series D shares in each of the years of the Scheme's operation.

TABLE 7: DISTRIBUTION OF SERIES D SHARES

Year of award	For profit in	Number of awarded shares	Price per share	Number of shares awarded to the Members of PBG's Management Board
2005	2004	110 000	PLN 1,08	In 2005, shares were not awarded to the Members of the Management Board
For more information, see Current Report No. 73/2005 http://www.pbg-sa.pl/relacje-inwestorskie/informacje-ogolne/raporty-biezace/cena-nabycia-akcji-serii-d-w-ramach-programu-motywacyjnego-405.html				
2006	2005	110 000	PLN 1,12	18 813
For more information, see Current Report No. 73/2006 http://www.pbg-sa.pl/relacje-inwestorskie/informacje-ogolne/raporty-biezace/cena-nabycia-akcji-serii-d-w-ramach-programu-motywacyjnego.html				
2007	2006	85 000	PLN 1,16	4 250
For more information, see Current Report No. 79/2007 http://www.pbg-sa.pl/relacje-inwestorskie/informacje-ogolne/raporty-biezace/data-i-miejsce-skladania-zapisow-na-akcje-w-ramach-programu-motywacyjnego-oraz-cena-i-cena-nabycia-akcji.html				
2008	2007	12 500	PLN 1,22	In 2008, shares were not awarded to the Members of the Management Board
For more information, see Current Report No. 77/2008 http://www.pbg-sa.pl/relacje-inwestorskie/informacje-ogolne/raporty-biezace/77-2008-data-i-miejsce-skladania-zapisow-na-akcje-w-ramach-programu-motywacyjnego-oraz-cena-nabycia-akcji.html				
2009	2008	12 500	PLN 1,26	7 000
For more information, see Current Report No. RB 47/2009 http://www.pbg-sa.pl/relacje-inwestorskie/informacje-ogolne/raporty-biezace/47-2009-data-i-miejsce-skladania-zapisow-na-akcje-w-ramach-programu-motywacyjnego-oraz-cena-nabycia-akcji.html				

6. Risk and risk control report

RISKS AND THREATS

EXTERNAL RISKS AND THREATS

Economic Environment in Poland

Despite the global economic slowdown, Poland is withstanding the effects of the economic crisis much better than most European and global economies. According to the initial GDP estimates published by the Polish Central Statistics Office (GUS), the Gross Domestic Product grew in real terms by 1.7% in 2009. The GDP growth was, of course, much slower than in previous years, but it should be noted that the GDP growth rate of 1.7% ranks Poland as the leader among the EU countries. The main factor contributing to the positive GDP growth is internal consumption, which, despite its certain deterioration due to lower pay growth and growing unemployment, to name just two reasons, was still 2.3% higher than in 2008. Other important factors driving the economic growth include: a strong effect on the GDP of net exports which grew by 2.5%, and a very slight decrease (by 0.3%) in capital expenditure, which was boosted by EU funds and the Euro 2012 project.

The implementation of the strategic goals of the PBG Group and the projected financial results are affected by, inter alia, the aforementioned macroeconomic factors, which include: GDP growth, structural investments, general situation in the Polish economy and legislation changes. Unfavourable changes in macroeconomic indicators may result in reduced projected revenue or increased operating costs.

The economic forecasts for Poland in 2010 assume continued GDP growth. The 2009 figures allow us to remain optimistic about the future. According to the latest forecasts published by the European Commission and the National Bank of Poland, the Polish economy will grow over the year by 2.6% or 3%, respectively. According to the National Bank of Poland, the average annualised consumer price inflation will reach 1.8% this year, and the assumed inflation target will be reached as early as in the middle of 2010. The forecasts continue to assume strong domestic consumption, resulting from, inter alia, lower prices, labour market stabilisation and strong demand for new employees. According to the macroeconomic forecasts, in 2010 we should see a growth in investments of around 6%, which will result mainly from record-breaking activity in the segment of infrastructure projects co-financed with the funds from the EU and the state budget. This growth will be additionally supported by stock repletion and the maintenance of low interest rates by the Monetary Policy Council in the subsequent quarters, which, given the banks' regained willingness to increase their lending activity, should provide hope for better access to cheaper external financing sources. The Group currently executes projects co-financed by the European Union under the approved 2007-2013 EU budget, which earmarks EUR 63bn for Poland.

Competition Risk

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

The PBG Group mitigates competition risk through:

- ✓ seeking niche products and services,
- ✓ assuring high quality of offered services,

- ✓ consistent improvement of skills related to the state-of-the-art technologies, which enables the Group to develop and launch competitive service offerings,
- ✓ diversifying the areas of operation,
- ✓ concluding strategic alliances with reputable foreign companies operating on the Polish and foreign markets.

Expansion into new geographical markets may also mitigate competition risk.

The following domestic and international competitors are active in the PBG Group's existing markets:

TABLE 8: DOMESTIC AND INTERNATIONAL COMPETITORS

MARKET	BUSINESS SEGMENT	DOMESTIC COMPETITORS	INTERNATIONAL COMPETITORS
NATURAL GAS AND CRUDE OIL	UNDERGROUND GAS STORAGE FACILITIES	- Naftobudowa - Investgas	- ABB - Sofregas
	LNG PLANTS	- Polimex Mostostal	- Tractebel - Linde - Costain - Air Products - DAEWOO Engineering&Construction
	TRANSMISSION	- Naftomontaż Krosno - Gazobudowa Zabrze - Gazobudowa Poznań - Gazomontaż Wolomin - POL-AQUA - ZRUG Poznań	none
	REFINERIES	- Naftomontaż Krosno - Polimex Mostostal	- ABB
	DELIVERY OF SPECIALIST GAS EQUIPMENT AND AUXILIARY INFRASTRUCTURE	- Control Process - Bartimpex - Stalbud - Polimex Mostostal	- ABB - KAWASAKI
	EXTRACTION EQUIPMENT	- Naftomontaż Krosno	- Tractebel - Linde - Costain - Air Products
WATER	WATER AND SEWAGE INFRASTRUCTURE	- POL-AQUA - Hydrobudowa Gdańsk - Budimex - Polimex Mostostal - WARBUD	- SKANSKA - STRABAG - Ferrovia
	HYDRO-ENGINEERING	none	- SKANSKA - STRABAG - Bilfinger Berger - Ferrovia
	REHABILITATION OF WATER AND SEWAGE PIPELINES	none	- Per Aarslef - Diring&Scheidel - Ludwig Pfeifer
FUELS	FUEL TERMINALS	- POL-AQUA - Polimex Mostostal	- Bilfinger Berger

CONSTRUCTION	INDUSTRIAL CONSTRUCTION SPECIALIST CONSTRUCTION RESIDENTIAL CONSTRUCTION	<ul style="list-style-type: none"> - WARBUD - POL-AQUA - Budimex - Dom Development - Hochtief Polska - Echo Investment - Instal Kraków 	<ul style="list-style-type: none"> - SKANSKA - STRABAG
ROADS	ROAD CONSTRUCTION BRIDGE CONSTRUCTION	<ul style="list-style-type: none"> - Budimex - Mostostal Warszawa - Hochtief Polska - Polimex Mostostal - WARBUD - POL-DRÓG 	<ul style="list-style-type: none"> - SKANSKA - STRABAG - MOTA - COLAS
POWER	POWER GENERATING UNIT CONSTRUCTION	<ul style="list-style-type: none"> - Polimex Mostostal - Rafako - Mostostal Warszawa 	<ul style="list-style-type: none"> - Alstom - Hitachi - Siemens - Samsung

The PBG Group's position on the **natural gas and crude oil market** in all parts of Poland is strong thanks to the high quality of the services provided by the Parent Undertaking, experienced the personnel, modern equipment and references projects. The market is divided into two segments: the segment of specialist construction services which require appropriate know-how and references, where PBG SA essentially faces only foreign competitors; and the segment of less complex construction projects, such as pipelines construction, where PBG SA competes primarily against Polish businesses. The Group 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%.

The Group is also interested in the **fuel market**, however, this sector is not viewed as a strategic one and presently it does not significantly contribute to the Group's results. As a number of projects are planned with a view to increasing the volume of fuel stocks maintained by logistic companies in storage facilities, the PBG Group will monitor the market and participate in tenders when they are announced.

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

In other markets, PBG SA's shares are marginal.

Poland's Membership in the European Union

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

By acquiring a number of major contracts, PBG SA and its subsidiaries have demonstrated they are well positioned to compete against foreign companies.

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

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

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

Risk Related to Seasonality in the Sector

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

- ✧ Weather conditions in winter preventing performance of most types of work. The weather may be more severe than the average weather conditions and thus reduce the Group's revenues;
- ✧ Customers schedule most of their projects in such a way as to ensure they are completed in the final months of the year.

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

Adverse Changes in the Tax Legislation

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

The companies of the PBG Group monitor developments in the tax legislation, and introduce necessary modifications to mitigate the risk.

Exchange Rate

The Polish foreign currency market was volatile throughout 2009. For most of the year, the Polish currency weakened against the euro and the US dollar. Analysts' forecasts for 2010 assume possible further weakening of the zloty in the initial months of the year, and a return to an upward trend in the second half of 2010. A positive effect of the relatively strong economic growth will be offset by the large budget deficit and growing debt in the public finance sector. The exchange rate of the zloty will be shaped primarily by the USD exchange rate and the situation on global capital markets, that is factors which are not exactly related to Poland's economy. It should be noted that any attempts at long-term forecasting of exchange rates bear a high risk given the market volatility in recent years. The currency risk has a direct effect on the Group companies as they execute contracts co-financed with the EU funds, the majority of which are denominated in the euro. Moreover, a portion of costs related to the purchase of equipment necessary for the execution of the contracts is incurred in foreign currencies, including the euro and the Canadian dollar. The companies of the PBG Group minimise the FX risk using appropriate financial instruments and transferring a portion of the risk on to 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 RISK AND THREATS

Risk Related to Loss of Key Personnel

PBG SA's and other Group companies' business operations are chiefly based on the knowledge and experience of highly qualified personnel, in particular the engineers.

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

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

- ✓ high internal organisational culture, which helps employees identify themselves with the Company and the PBG Group,
- ✓ proper implementation of remuneration systems, which motivate employees and promote loyalty,
- ✓ knowledge management and an extensive training programme,
- ✓ ample opportunities for personal and career development in the dynamically growing companies.

Risk Related to Default on Contracts

Construction contracts include numerous clauses related to their proper and timely performance and proper removal of defects, which involves payment of performance bond or provision of security in the form of a bank guarantee or insurance policy.

The security is generally provided on the contract execution date and settled after work under the contract is completed. The amount of the security depends on the type of contract and in most cases it is 10% of the contract value. If PBG SA or any Group company fails to perform or improperly performs the concluded contracts, there exists a risk that a counterparty might claim payment of contractual penalties or terminate the contract.

To mitigate such risk the Group takes the following measures:

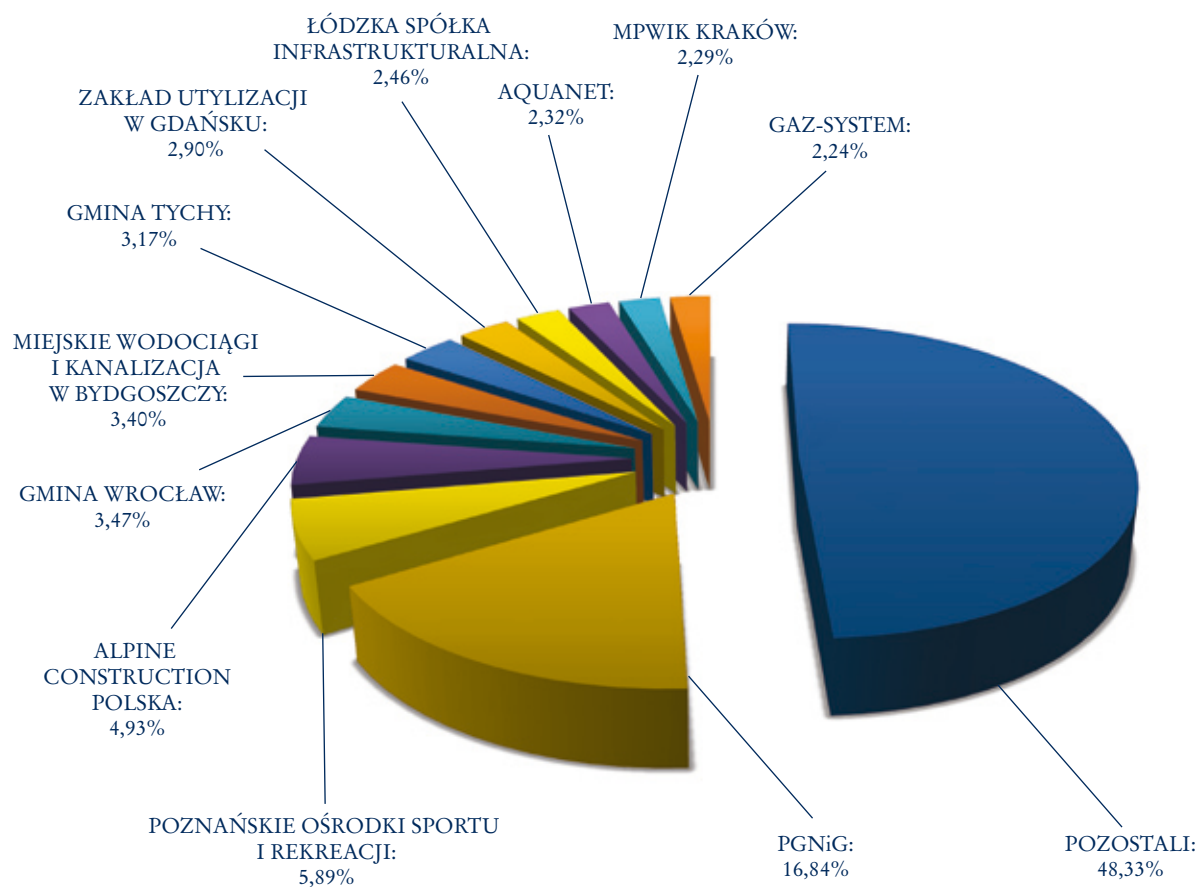
- ✓ the Group insures contracts and subcontractors;
- ✓ the Group continuously improves its organisation through a programme designed to provide professional project management training to a group of employees, and extensive use of IT tools in design and project management processes.

Risk of Dependence on Key Customers

At present, the main customer for services provided by the PBG Group's natural gas and crude oil segment is PGNiG. This is related to the execution of two contracts of substantial value for the customer, totalling nearly PLN 2.5bn. These are highest-ever contracts signed by PBG SA with PGNiG. However, please note that PBG SA's strategy covering the entire Group provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In the previous years, the Group companies, with the exception of the companies referred to above, acquired four contracts of substantial value. These contracts relate to the following projects: construction of waste incineration plants (concluded with Zakład Utylizacyjny of Gdańsk), extension of a stadium in Poznań (concluded with Euro Poznań 2012), construction of a stadium in Gdańsk (concluded with Biuro Inwestycji Euro Gdańsk 2012), and construction of the National Stadium in Warsaw (concluded with Narodowe Centrum Sportu). The aggregate value of the above contracts amounts to PLN 2.4bn. In order to mitigate the risk of being dependent on key customers, the PBG Group gradually attracts new customers for the Group's services, such as NATO, PKN ORLEN, PERN, LOTOS, Natfobazy, OLPP and foreign entities.

In 2009, the shares of key customers in the Group's total sales revenue did not exceed 20%.

FIGURE 1: PBG GROUP'S CUSTOMERS IN 2009



The Group companies seek to mitigate the risk further by:

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

Operating Risk

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

The Group mitigates the risk by:

- ✂ holding third-party insurance policies,
- ✂ upgrading the employees' state-of-the-art protective equipment on a regular basis,
- ✂ organising trainings for employees and enhancing their qualifications,
- ✂ performing constant supervision over the equipment used,
- ✂ organising continuous training and exercising health and safety at work oversight.

IDENTIFICATION AND MANAGEMENT OF FINANCIAL RISK

RISK RELATED TO FINANCIAL INSTRUMENTS

The PBG Group is exposed to many risks related to financial instruments, which mainly include:

- ✓ market risk, comprising currency risk and interest rate risk,
- ✓ credit risk,
- ✓ liquidity risk.

Financial risk management at the Group is coordinated by the Parent Undertaking, which closely cooperates with the management boards and chief financial officers of its subsidiaries. The following objectives play the most important role in the risk management process:

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

The PBG Group does not enter into speculative transaction on financial markets. In economic terms, the transactions concluded by the Group are entered into for the purpose of hedging against specific risks.

Moreover, the Group has formally designated some of the derivative instruments as cash flow and fair value hedging instruments under the requirements of IAS 39 (Hedging Derivative Instruments).

MARKET RISK

All market risk management objectives should be considered as a whole, and their achievement is determined primarily by the Group's internal situation and market conditions. The PBG Group applies a consistent and progressive approach to market risk management. The Group'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 Group:

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

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

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

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

Currency Risk

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

- ✓ as an active participant in the market for environmental protection and hydro-engineering projects, we execute contracts co-financed by the EU, which in most cases are denominated and settled in the euro;
- ✓ our development strategy provides for broader expansion into foreign markets; today, the Group's credentials already include several contracts executed abroad;
- ✓ the Group imports raw materials for large contracts (there is also a risk related to fluctuations in the other exchange rates, such as USD/PLN or CAD/PLN);
- ✓ the Group uses advanced technologies requiring specialist equipment, which it often purchases outside of Poland.

TABLE 9: THE PBG GROUP'S FINANCIAL ASSETS AND LIABILITIES, EXPRESSED IN FOREIGN CURRENCIES AND TRANSLATED INTO PLN USING THE CLOSING PRICE AS AT THE BALANCE-SHEET DATE

	Amount in foreign currency ('000):						Restated in PLN
	EUR	USD	GBP	CAD	SKK	UAH	
As at Dec 31 2009							
Financial assets (+), including:	81 393	8 225	-	1 867	-	7 877	353 326
Financial derivatives	-	-	-	-	-	-	28 961
Financial liabilities (-), including:	(38 533)	(1 053)	(58)	(885)	-	(1 290)	(226 978)
Financial derivatives	-	-	-	-	-	-	(58 809)
Total exposure to currency risk	42 860	7 172	(58)	982	-	6 587	126 348
As at Dec 31 2008							
Financial assets (+), including:	47 324	-	3	1 502	28 334	-	210 769
Financial derivatives	-	930	-	-	-	-	14 196
Financial liabilities (-), including:	(14 393)	-	-	(1 092)	(75 955)	-	(310 220)
Financial derivatives	-	(1 516)	-	-	-	-	(234 889)
Total exposure to currency risk	32 931	-	3	410	(47 621)	-	(99 451)
As at Dec 31 2007							
		(586)					
Financial assets (+), including:	51 270	-	-	121	36 976	-	227 964
Financial derivatives	-	124	-	-	-	-	44 100
Financial liabilities (-), including:	(12 494)	-	-	(23)	(95 162)	-	(60 085)
Financial derivatives	-	(1 234)	-	-	-	-	(490)
Total exposure to currency risk	38 776	-	-	98	(58 186)	-	167 879
		(1 110)					

Interest Rate Risk

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

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

With a view to hedging against the variable interest rate risk, the PBG Group uses interest rate swaps. The Group entered into an IRS transaction for 50% of the outstanding investment loan amount, maturing by December 31st 2013.

The IRS transaction consists in the swap of interest payments accruing at a variable 1M WIBOR rate for interest payments accruing at a fixed interest rate. The Group uses hedge accounting for cash flows with respect to the derivative transaction referred to above and partially hedging against interest rate risk to which the cash flows are exposed.

TABLE 10: FINANCIAL ASSETS AND LIABILITIES BEARING INTEREST AT VARIABLE INTEREST RATES AS AT THE BALANCE-SHEET DATE

	Dec 31 2009	Dec 31 2008	Dec 31 2007
Exposure to interest rate risk	Value at risk	Value at risk	Value at risk
	PLN '000	PLN '000	PLN '000
Financial assets	799 587,00	346 223,00	435 979,00
Financial liabilities	-1 127 088,00	-803 182,00	-721 834,00
Exposure to interest rate risk	-327 501,00	-456 959,00	-285 855,00

CREDIT RISK

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

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

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

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

TABLE 11: THE PBG GROUP'S MAXIMUM EXPOSURE TO CREDIT RISK MEASURED THROUGH CARRYING VALUE OF THE DISCLOSED FINANCIAL ASSETS

	Dec 31 2009	Dec 31 2008	Dec 31 2007
	PLN '000	PLN '000	PLN '000
Loans	272 481	40 778	14 622
Trade and other financial receivables	1 087 215	693 475	539 518
Financial derivatives	28 961	14 196	44 100
Debt securities	-	15 732	11 052
Investment fund units	-	-	-
Other classes of other financial assets	1 669	963	963
Cash and cash equivalents	660 281	288 750	409 342
Conditional payables under guarantees and sureties advanced	1 030 287	855 703	700 380
Total credit risk exposure	3 080 894	1 909 597	1 719 977

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

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

All entities with which the Group enters into derivative transactions operate in the financial sector. These are financial institutions (banks) with top (11%), mid-high (77%) or average (12%) credit rating. They have the sufficient equity and a robust and stable market position. The maximum share of a single entity in the total value of derivative transactions effected by the PBG Group is 43%.

TABLE 12: CURRENCY AND INTEREST RATE DERIVATE INSTRUMENT TRANSACTIONS ENTERED INTO BY THE PBG GROUP AS AT THE BALANCE-SHEET DATE

	Dec 31 2009	Dec 31 2008	Dec 31 2007
	PLN '000	PLN '000	PLN '000
Financial assets	28 961,00	14 196,00	44 100
Financial liabilities	59 809,00	234 889,00	490
Derivative instruments valuation, net	-30 848,00	-220 693,00	43 610

Thanks to the highly diversified composition of the group of counterparties, and due to the credit ratings of our partner financial institutions, the PBG Group is not exposed to credit risk inherent in the derivative transactions.

The Group has a long track record of work with many customers, which are active in diverse sectors. The table below presents the key customers based on the 2009 revenue.

TABLE 13: KEY CUSTOMERS IN 2009

No.	CUSTOMER	SHARE
	Razem	100,00%
1	PGNiG	16,84%
2	POZNAŃSKIE OŚRODKI SPORTU I REKREACJI	5,89%
3	ALPINE CONSTRUCTION POLSKA	4,93%
4	MIEJSKIE WODOCIĄGI I KANALIZACJA W BYDGOSZCZY	4,45%
5	GMINA WROCŁAW	3,65%
6	GMINA TYCHY URZĄD MIASTA TYCHY	3,34%
7	MPWiK KRAKÓW	3,11%
8	ZAKŁAD UTYLIZACYJNY	3,05%
9	ŁÓDZKA SPÓŁKA INFRASTRUKTURALNA SPÓŁKA	2,87%
10	AQUANET	2,44%
11	GAZ-SYSTEM	2,35%
12	MIEJSKIE PRZEDSIĘBIORSTWO WODOCIĄGÓW I KANALIZACJI W WARSZAWIE	2,32%
13	WAMAR	2,28%
14	OTHER	42,48%

At present, the main customer for the PBG Group's natural gas and oil services is PGNiG. This is related to the execution of two contracts of substantial value for the customer, totalling nearly PLN 2.5bn. However, the PBG Group'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 such risk, PBG gradually attracts new customers for the

Group's services, such as NATO, PKN ORLEN, PERN, LOTOS, Natfobazy, OLPP, EURO 2012 and foreign entities.

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

TABLE 14: PAST DUE AND NOT PAST DUE FINANCIAL RECEIVABLES AS AT THE BALANCE-SHEET DATE

Item	Dec 31 2009		Dec 31 2008		Dec 31 2007	
	Not past due	Past due	Not past due	Past due	Not past due	Past due
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Net trade receivables	761 649	253 969	395 295	257 551	412 961	93 792
Other net financial receivables	15 496	66	19 632	404	11 074	77
Financial receivables	777 145	254 035	414 927	257 955	424 035	93 869

TABLE 15: AGE STRUCTURE OF PAST DUE CURRENT RECEIVABLES AS AT THE BALANCE-SHEET DATE

Item	Dec 31 2009		Dec 31 2008		Dec 31 2007	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
<i>Past due current receivables:</i>						
Up to 1 month	139 962	15	123 343	59	35 859	77
From 1 to 6 months	83 417	36	117 540	48	48 801	-
From 6 to 12 months	13 741	-	13 989	-	4 062	-
Over one year	16 849	15	2 679	297	5 070	-
Past due financial receivables	253 969	66	257 551	404	93 792	77

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

With respect to trade receivables, the PBG Group is not exposed to credit risk inherent in being dependent on a single major partner or a group of partners sharing the same characteristics. Based on historical data on overdue payments, the receivables that are past due and for which no impairment 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 PBG Group operates in the market of specialist construction services for the natural gas, petroleum, fuel, water supply and sewerage, road and infrastructural sectors, there is no credit risk concentration.

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

LIQUIDITY RISK

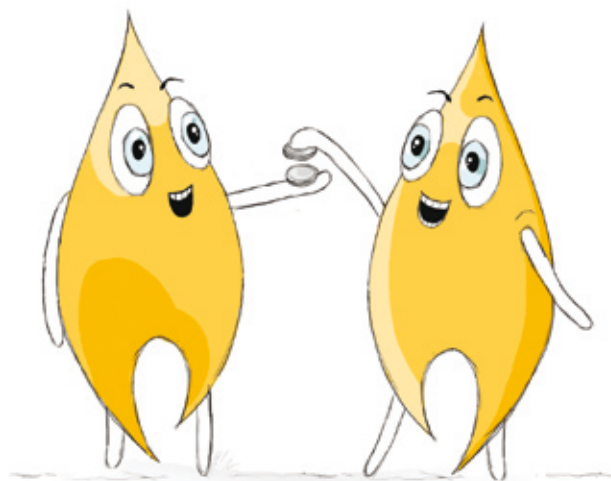
The PBG Group is exposed to the risk of losing liquidity, that is the loss of the ability to timely meet financial liabilities. The Group manages the liquidity risk by monitoring payment dates and demand for cash with respect to the servicing of current payables (current transactions are monitored on 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 16: MATURITY DATES OF THE PBG GROUP'S FINANCIAL LIABILITIES AS AT THE BALANCE-SHEET DATE

Item	Current:		Non-current:			Liabilities total (no discount)	Carrying value
	up to 6 months	from 6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
<i>As at Dec 31 2009</i>							
Total liquidity risk exposure	890 401	563 718	514 121	17 449	4 178	1 989 868	1 993 464
<i>As at Dec 31 2008</i>							
Total liquidity risk exposure	641 205	449 158	347 384	44 211	316	1 482 274	1 483 134
<i>As at Dec 31 2007</i>							
Total liquidity risk exposure	435 751	453 920	273 535	5 600	-	1 168 806	1 169 760

TABLE 17: AVAILABLE OVERDRAFT FACILITIES OF THE PBG GROUP AS AT THE BALANCE-SHEET DATE

	Dec 31 2009	Dec 31 2008	Dec 31 2007
	PLN '000	PLN '000	PLN '000
Overdrafts granted	381 629	302 601	236 883
Overdrafts used	170 723	136 952	102 513
Available overdrafts	201 906	165 649	134 370



7. PBG - awareness and sustainability in business



The value of our business depends primarily on the portfolio of successfully executed projects, on the generated revenue, and thirdly – on our human resources. We therefore do our best to achieve excellence at each of these three levels.

For over fifteen years now, PBG and other major Polish companies have been developing a reliable system for development and growth of modern and accountable market economy in Poland. We have been making an effort to increase the standard of living of Poles, stimulate development of the labour market, and implement strategic projects.

Our company as an organisation cannot function independently of the environment and the community, including a wide group of stakeholders: its employees, vendors, shareholders, subcontractors, business partners, competitors, and investors. All our activities have always been socially responsible. To give these activities a more structured and formal framework, and to ensure their on-going monitoring and measurable effects, the Corporate Social Responsibility (CSR) Team was set up in 2010. The Team reports directly to the top management and is made up of representatives of a number of different departments. The key task of the Team is to ensure a structured approach to all activities of PBG in all CSR areas.

Efficient management of the Company's potential, including its human resources, assets, leadership, strategy, and policy – it all adds up to the final outcome, our competitive position, transparency, customer satisfaction and confidence.

“In practice, CSR is what I have firmly believed in for years – and what every honest person keeps in mind when they come to work. It is an obligation to perform work with full responsibility, involvement, and awareness of the needs and interests of the Company, its business partners, as well as one's own. CSR is a method to translate the core values into business – the values I believe we all share and hold dear: respect for others, the environment we live in and work, as well as honesty, loyalty, tolerance, and open-mindedness.”

Jay Wisniewski-

RESPONSIBLE INVESTOR RELATIONS – RELIABILITY AND INTEGRITY

In July 2004, PBG SA made a successful debut on the Warsaw Stock Exchange. As the Company went public, many changes had to be made to adapt the organisation to the requirements of the capital market. PBG implemented new legal regulations applying to listed companies. The Act on Public Trading in Securities leaves no doubt about it: any issuer of securities admitted to public trading by the Polish Securities and Exchange Commission is under the obligation to disclose any and all information as may be required by investors to make informed investment choices. A company that has made a conscious decision to go public must be aware that its financial situation will be examined and information on its on-going activities will be published on a regular basis. This information may be of strategic importance.

MEETING OUR OBLIGATIONS IS A BARE MINIMUM

In life, we must be guided by principles. For a public company, Corporate Governance is a set of principles. Adoption of all Corporate Governance rules should be a priority for any company – an organisation that follows Corporate Governance principles is more reliable and easier to manage. Our first Corporate Governance Statement published in June 2004 was undoubtedly a great success for a newly listed company like ours. We confirmed compliance with 46 out of 48 Corporate Governance rules. In the next Corporate Governance Statement, PBG SA confirmed compliance with all 48 rules. The same declaration was made by the Company in the following years.

AWARENESS OF THE IMPORTANCE OF MARKET COMMUNICATION IS THE KEY

When the Company went public, a special Investor Relations unit was established. We have assigned high priority to all Investor Relations activities at PBG SA. Our Investor Relations Department reports directly both to the CEO and CFO. The main task of our IR team is to create an open communication platform for investors and shareholders of PBG SA to ensure easy access to information. We communicate with the market in accordance with the overriding principle of transparency. We guarantee equal access to information – to institutional and private investors alike.

MEETING INVESTOR EXPECTATIONS HALFWAY

Since 2009 we have been holding regular meetings with investors and equity analysts following the publication of interim financial results. These meetings are transmitted live on the Internet to ensure real-time participation of all interested parties. The Company's CEO and CFO are available to the investors during these meetings. Starting from 2010, conferences for investors will be translated into English by a simultaneous interpreter, and foreign investors and analysts will be able to follow the meeting.

In 2009, our website was thoroughly reorganised and updated. We introduced the mobile PBG web service to allow access to the website via mobile phone or PDA.

PBG was the first company in Poland to amend its articles of association to enable its investors to participate in the Company's shareholders meetings via the Internet. PBG always publishes its financial forecasts – and more importantly, never misses the targets. Publication of forecasts is not obligatory, but much appreciated by the investor community.

Since 2010, all interim reports have been published in two language versions – in Polish and in English. We also participate in events dedicated to private investors.

ENVIRONMENTAL PROTECTION

ENVIRONMENTAL MANAGEMENT SYSTEM

PBG SA has a documented environmental management strategy in place, in accordance with the applicable laws and requirements of the environmental management systems according to PN-EN ISO 14001 and SCC.

Back in 2004, the Company's Management Board decided to implement the Integrated Quality, Environmental, and Occupational Health & Safety Management System. The Integrated Management System policy includes our declaration of environmental management: "We satisfy the requirements of the current legislation, legal regulations, and other requirements for quality, environmental protection, and the identified environmental aspects" and "we prevent pollution of the environment".

We started out by identifying our environmental footprint – defined as all effects of the Company's activities on the environment. Each element of our environmental impact was analysed. Based on this assessment, we identified all areas of our business that could potentially cause major negative impacts. The list of environmental impacts is reviewed and updated on an on-going basis.

Since the implementation of the environmental management system, we have introduced a number of improvements to reduce our negative impact on the environment. The system has also helped us define a clear code of environmental conduct for all employees.

The Company received a certificate of compliance with PN-EN ISO 14001 on January 31st 2005. Annual audits have confirmed the Company's adherence to this standard.

As continuous improvement is our highest priority, we also implemented the European Management System in 2008 – in accordance with the SCC standard (Safety Checklist for Contractors).

CARING FOR THE ENVIRONMENT

In line with the adopted strategy, the Company makes every effort to keep the environmental impact of its activities at a minimum. Our priority areas include: monitoring of the use of natural resources and emissions of certain substances to the environment; reduced emissions of harmful substances; sustainable waste management; environmental emergency preparedness; raising environmental awareness among our employees; and ensuring compliance with the applicable regulations by all subcontractors during project implementation processes.

ENVIRONMENTAL PROTECTION AT THE HEAD OFFICE OF PBG SA

Air protection:

PBG SA owns production facilities used by its subsidiary undertaking PBG Technologia. Production halls are used to manufacture pre-formed elements of natural gas processing and transmission systems. The majority of manufacturing processes take place in a production hall fitted with filter and ventilation units consisting of a system of local exhausts and a block filter unit. The filter and ventilation system removes dusts emitted to air during hot work operations. The filtering efficiency is estimated at 99.8%.

All buildings owned by PBG SA are heated with natural gas – the most environmentally friendly fossil fuel. Gas is burned to produce energy, reducing emissions of air pollutants such as NO_x, SO₂, and dusts, emitted in large amounts when burning other fossil fuels, including black coal or fuel oil.

Most transport vehicles used by PBG SA conform to fuel quality standards designated as EURO 1-5. In 2009, the majority of vehicles used by PBG (accounting for 70% of the Company's total fuel consumption) were classified as EURO 3- and EURO 4-compliant.

Protection of ground waters:

Special requirements were adopted for ground water protection in the premises of PBG SA. Our Company is located in the protected area of the Wysogotowo water intake.

Storm water collected from parking spaces, vehicle circulatory areas, and roads is treated before discharge to the environment. We installed a stormwater drainage system as well as sedimentation tanks and separators to remove petroleum hydrocarbons contained in fuels and oils used in transport vehicles. After leaving the treatment system, water is removed to filtration and retention ditches or collected in a storage reservoir and used to water green areas. To ensure high efficiency of our water treatment systems, separators and sedimentation tanks are subject to scheduled checks and maintenance.

Emergency preparedness and response:

PBG SA has an extensive equipment and transport depot, also equipped with a waste oil tank. We are prepared for any leakage of petroleum products into the environment as a result of breakdowns of transport vehicles or damage to oil tanks. We developed an emergency response instruction available for all employees. We also purchased ECO Kits including sorption materials – loose sorbents, drying sheets and sleeves, as well as equipment used to collect sorbents contaminated with petroleum products.

Waste management:

PBG SA produces municipal waste, waste paper, electrical and electronic scrap, as well as used printer toners. In addition, PBG Technologia, our subsidiary, produces industrial waste. Selective waste collection is adopted for all types of waste to prevent any pollution of the environment – waste is collected in designated areas, in airtight containers, with the floor protected against any discharge of waste into the ground. Our waste production volumes are continuously monitored.

Raising staff awareness:

As part of our continuous environmental improvement processes, we have developed a training system for several groups of our employees. The programme is adjusted to the specific types of work performed by these resources.

ENVIRONMENTAL PROTECTION DURING PROJECT IMPLEMENTATION

The majority of construction work carried out under projects implemented by PBG SA as a General Contractor is currently outsourced. Contracts with our subcontractors contain provisions on their compliance with the applicable environmental regulations. These requirements include, but are not limited to: obtaining the necessary permits and administrative decisions; identification of all environmental aspects resulting from construction works; undertaking to keep the negative environmental impacts at a minimum, based on a presentation of the procedures adopted to prevent the identified environmental hazards to PBG SA representatives; undertaking to take all actions as may be necessary to avoid environmental pollution during construction work; taking the appropriate action to protect the plant cover in the construction site; and ensure sustainable waste management.

Projects awarded to PBG SA are implemented by its subsidiary undertaking PBG Technologia, using isolation solutions based on T.D. Williamson equipment. Isolation technologies are applied during repairs and upgrades of gas networks, as well as to connect new systems to the existing gas networks. They are used to prevent any discharge of gas into the air, thus avoiding emissions of methane – a major contributor to greenhouse effect.

Use of natural resources:

The years 2004-2009 saw a strong growth of your Company, accompanied by major development of our infrastructure. Back in 2004, PBG SA had two buildings combining office spaces and production facilities, as well as a separate production hall. Now we have eight buildings in total, including three production halls.

Volumes of utilities used by the Company are continuously monitored in all buildings managed by PBG SA. In the past several years, we successfully reduced the amounts of water, electricity, and natural gas used per employee and per square meter of the floor space. This reduction was possible with the installation of energy-saving equipment, optimisation of the number of electricity sources, as well as efficient utilisation of the available space.

FIGURE 2: WATER CONSUMPTION [CUBIC METERS] PER SQUARE METER OF FLOOR SPACE

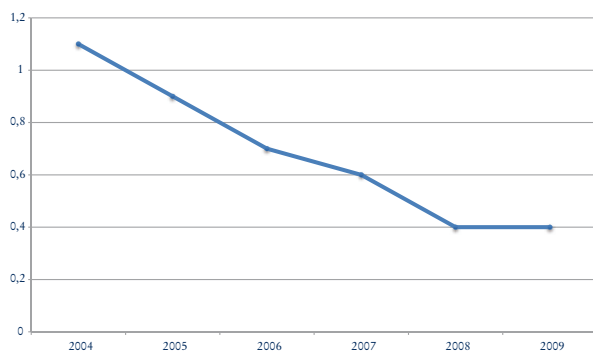


FIGURE 3: NATURAL GAS CONSUMPTION [CUBIC METERS] PER SQUARE METER OF FLOOR SPACE

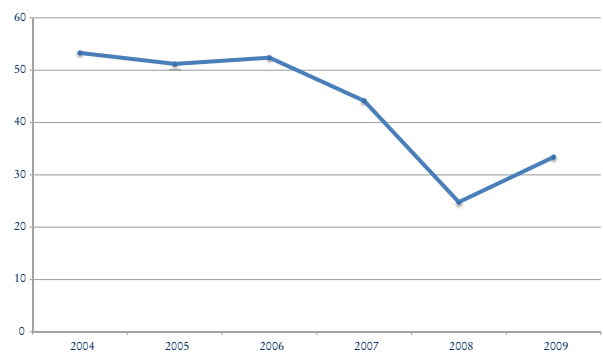


FIGURE 4: ELECTRICITY CONSUMPTION IN BUILDINGS MANAGED BY PBG SA

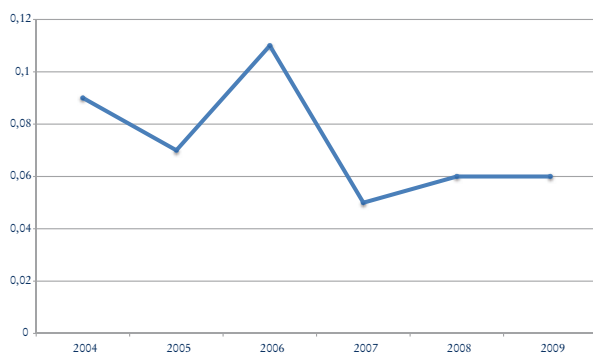
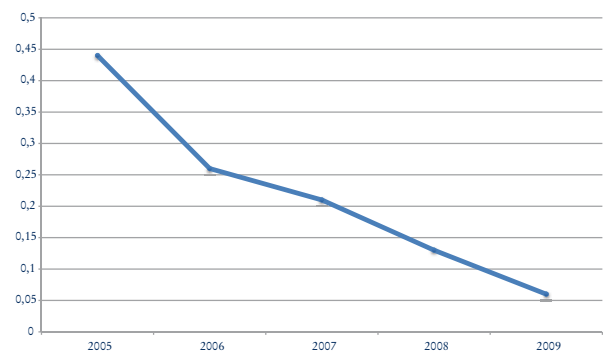
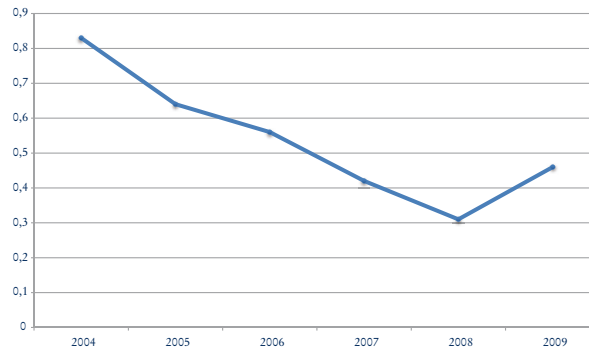


FIGURE 5: FUEL CONSUMPTION [MG] PER EMPLOYEE



PBG SA produces household sewage and stormwater, but no process sewage.

FIGURE 6: VOLUME OF SEWAGE [CUBIC METERS] PER SQUARE METER OF FLOOR SPACE



Combined heat and power generation is one example of environmentally friendly solutions employed to reduce the consumption of natural resources. In 2002, a combined heat and power station was installed at PBG SA to generate both electricity and heat. GZ-50 natural gas is the primary fuel used by the plant. LNG gas can be used as an alternative. Average monthly production of electricity is about 70 MWh, and this volume is consumed by equipment connected to the PBG network. Any additional electricity is sourced from the utility power system of Enea Operator SA. Heat generated by the CHP plant is waste heat used in hot tap water and central heating systems, as well as in absorption water chiller (to produce chilled water for fan coil units).

The Company has an energy efficiency system in place. In the past several years, all incandescent light bulbs have been replaced with energy-saving fluorescent lamps. The number of external and internal light sources was also reduced.

Other energy efficiency projects currently in progress include installation of two water heaters at one of the Company's production halls. This project will offer a range of benefits, including considerable reduction of gas consumption with the planned closing of two gas-fired water heaters (until now, the only existing heat source in the hall). Additional consumption of heat will improve the total energy production efficiency of the CHP plant, which will translate into an increase in revenues from rights to certificates of origin for energy produced from CHP sources. Heat generated by CHP plants is waste heat – as a result, the production hall will be heated at practically zero cost.

For a number of years now, PBG SA has used selective waste collection methods to enable subsequent use of recyclable waste and recovery or disposal of hazardous waste.

FIGURE 7: VOLUME OF HOUSEHOLD WASTE [MG] PER CAPITA

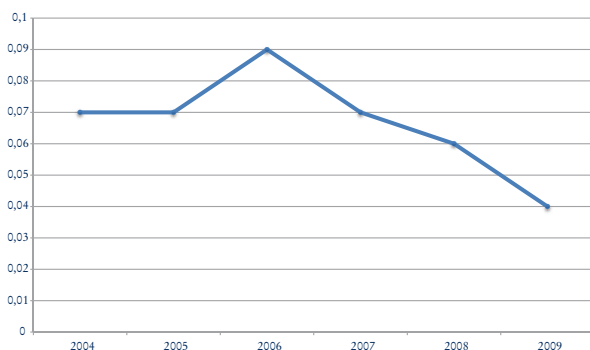
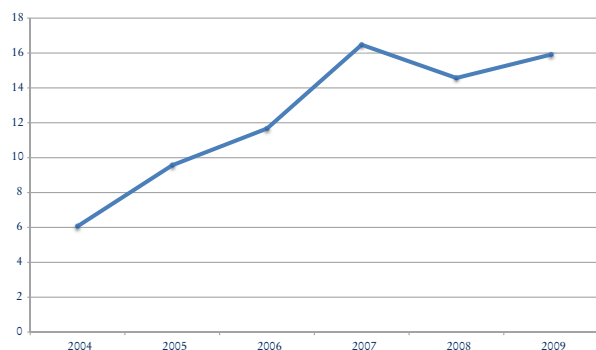


FIGURE 8: VOLUME OF SELECTIVELY COLLECTED WASTE [MG]



SPONSORING – PATRONAGE – CHARITY

The community is one of the core values for PBG SA. Since the very beginning, we have participated in a variety of cultural, arts, education, and sport projects, and we have been helping those in need. PBG SA is a sponsor and patron of many valuable projects and people who are passionate about what they do. There is a key difference between these activities: sponsoring is all about “I give that you might give”, whereas patronage is rather “I give so that you might be”.

In 2009, we decided to become a sponsor of the football team Lech Poznań and PBG Basket team. Our goal is to promote the name and logo of PBG SA in the community, improve the Company’s image and positive identification among our staff, strengthen the brand image, gain supporters, and use the good name and recognition of the sponsored teams to our benefit.

As for patronage, we decided to promote niche sports, including Marymont Young Archery Team and AZS AWF Poznań water polo team. They are not very popular and these teams have limited access to sources of financing, but they still want to pursue their passions and leverage their talents. It is therefore our goal to promote a healthy and active lifestyle, strengthen the Company’s image as a community-friendly organisation, and highlight the importance of the Company’s sense of responsibility, openness, and friendly attitudes.

We are also involved in a variety of charity activities. We specifically support institutions and organisations helping children and young people. Our employees take active part in our charity initiatives, which strengthens the Company’s image among its own staff as a sensitive and involved organisation. The idea is to provide assistance to those who are closest to us and truly in need. In 2009, we helped organisations such as Ochronka Jurek (orphan asylum), Stowarzyszenie Osób Niepełnosprawnych Zawsze Razem (association of people with disabilities and their families), Poznańskie Stowarzyszenie Oświatowe (Poznań Educational Association), Stowarzyszenie Współpracy ze Wschodem MEMORAMUS (Society of the Polish-Eastern Cooperation), as well as Związek Religijny Najświętszego Serca Jezusowego (a religious association in Kazakhstan). With our financial support, a group of children from the village of Smólsk had great summer and winter holidays.

For the fourth time in a row, we organised the blood donation event for our staff “Donate your blood to PBG SA Blood Bank”, with the goal to promote voluntary blood donation. PBG SA Blood Bank is available for all employees of PBG Group and their families, if need be.

ORGANISATIONS, ASSOCIATIONS, CLUBS

Membership in various organisations is both necessary and desirable – it stimulates the development of our financial, engineering, and human resources staff. Training programmes, conferences, seminars, and competitions – they all add up to the process of continuous improvement and evaluation of our performance. They also provide access to state-of-the-art technical and scientific knowledge and participation in the exchange of good and well-tested practices and hands-on experience.

These organisations and associations follow different models of operation and have different impacts. We adopted a breakdown into the following categories: industry-specific, lobbying, and regional organisations focused primarily on the development and improvement in the region.

QUALITY ORGANISATIONS

In 2002, we were certified for compliance with ISO 9001, received the Polish Quality Award (Polska Nagroda Jakości), and became an ordinary member of Polish Forum ISO 9000 Club (Klub Polskie Forum ISO 9000). The Club offers a wide range of management quality improvement programmes as well as contacts and audits by top quality specialists.

To implement the Company’s quality policy successfully through the Integrated Management System, we must participate in a number of programmes and ensure world-class improvements. In 2006, we became a member of EFQM (European Foundation of Quality Management). In Poland, EFQM operates through its National

Partner Organisation (NPO) EFQM, including Polskie Centrum Badań i Certyfikacji (PCBC, The Polish Centre for Testing and Certification), Krajowa Izba Gospodarcza (KIG, The Polish Chamber of Commerce), as well as Umbrella – Association of Consultants. We have been using the Club's training and consulting services, and sharing our good practices at a number of seminars and workshops. In 2006, 20 in-house assessors were trained in PBG SA.

NATIONAL INDUSTRY ASSOCIATIONS

In 2003, we took part in the establishment of the Chamber of the Natural Gas Industry (Izba Gospodarcza Gazownictwa, IGG) and became one its members. Back in 1997, we established contacts with Stowarzyszenie Naukowo-Techniczne Inżynierów i Techników Przemysłu Naftowego i Gazowniczego (SITPNiG, the Polish Association of the Oil and Gas Industry Engineers and Technicians). We established our division in the Poznań Branch of the Association – Unit no. 13. It is one of the largest units (71 members), actively operating in the Poznań Branch. We are responsible for the quality of its activities and define the scope of its initiatives, training programmes, and meetings, in co-operation with academic institutions in Poznań, focusing on the benefits of scientific and technical nature.

Since 2004, we have been a member of Stowarzyszenie Project Management Polska (Polish Project Management Association), an organisation for project management specialists. It is also the leading organisation of the International Management Project Association (IPMA). Some of our engineers hold IPMA certificates confirming their knowledge, experience, and competence in project management.

As of 2004, we have been a member of Stowarzyszenie Emitentów Gieldowych (The Polish Association of Listed Companies – SEG). SEG is an association of stock-exchange listed companies and its activities are focused primarily on the sharing of knowledge for the faster development of the capital market and modern market economy in Poland.

In 2007, we diversified our business by entering the road construction sector; as a result, we applied for membership in Ogólnopolska Izba Drogownictwa (the Polish Roadbuilding Association). In co-operation with the Association, we organised technical and scientific seminars and training sessions, including at Poznań University of Technology. Since 2007, we have been members of Izba Gospodarczej Budownictwa (Association of the Construction Industry) in Wrocław.

REGIONAL ORGANISATIONS

Wielkopolska Izba Przemysłowo-Handlowa (the Wielkopolska Chamber of Commerce and Industry, WIPH) is a business environment organisation in the region of Wielkopolska, involved in activities promoting the development of entrepreneurship in the region. PBG SA has been a member of WIPH since 2002. We have been using the offering of training programmes and seminars, organised mainly in our home town, as an opportunity for development in various areas of business and the industry.

Since 2005, the Company has also been a member of Stowarzyszenie Absolwentów Politechniki Poznańskiej (the Alumni Association of Poznań University of Technology). In addition to joint scientific and technical projects, we support the organisation and its quarterly magazine Absolwent (The Graduate).

HUMAN RESOURCES POLICY

Continuous development and improvement of skills of our employees is one of the cornerstones of the HR management policy at PBG SA. The idea is to provide our personnel with opportunities for their professional development and promotion. Matrix-based team management allows us to respond to customer requirements and ever-changing conditions of project implementation in a flexible way. The staff performance appraisal system is used as a tool to ensure optimisation of our headcount.

Experience, education, and ambitions of our people are our greatest strength. Every single employee is empowered to take full responsibility for the performance of their tasks.

The key method of staff recruitment is to offer competitive work conditions and salary, based on well-developed corporate culture to ensure identification of our employees with the Company and its Group; incentive and loyalty-based remuneration system; knowledge management and continuous organisational improvement based on the optimum training system; as well as extensive opportunities for development and career in PBG SA and its Group.

We have adopted an internal recruitment system. The Company does not work with any external recruitment consultants.

We recruit highly qualified professionals willing to share their knowledge and experience to the benefit of our Company, as well as young job seekers eager to use their knowledge and skills in their first job. We have been co-operating with technical universities and the Poznań University of Economics. We also recruit students for the holiday season – ambitious and hard-working interns always change the way we look at our job, bring fresh ideas and solutions. We expect involvement, enthusiasm, and willingness to develop from the applicants. Our current database of job applications is extensive.

PAYROLL SYSTEM

To ensure stability of employment, PBG SA developed a payroll system as part of the Company's labour and remuneration rules. A group of companies adopted a time- and bonus-based compensation system. Remuneration includes the following components: base pay – a fixed amount; performance or discretionary bonuses – variable incentive elements; and other allowances as defined in the applicable labour regulations.

Performance bonuses are granted to employees directly involved in project execution. A group of employees is assigned a specific task and receives remuneration for task performance in the form of a bonus. The bonus is distributed on a stage-of-completion basis, and its amount per employee is defined by the team leader or foreman. The entire team is involved in the efficient performance of the task. Discretionary bonuses are paid to administrative staff as a form of reward for their exceptional involvement, initiative, and creativity.

INCENTIVE SYSTEM

Our incentive system is employee-centred. We support our staff in their professional career and attach great weight to the improvement of staff satisfaction.

To this end, we use financial and other incentives. For every employee, amount of their remuneration is of key importance. With our bonus-based payroll system, involved and efficient employees are able to earn more, and positive performance appraisals can lead to promotions and higher salaries.

PBG SA is proud of its exceptional organisational culture. We are one of the best companies in Poland, and numerous awards and distinctions, as well as our financial performance, prove this statement true. Jerzy Wiśniewski, the Company's President, has been one of Poland's best managers in the past 20 years. Thanks to friendly attitudes and family-like atmosphere, our employees feel good at work. New buildings and great interior design make their work even more pleasurable. Since 2002, Polish and foreign artists have been invited to show their work at our art gallery – PBG Gallery. We hold about 10 exhibitions every year, and our employees are surrounded by art in their daily work.

Relations between seniors and subordinates are based on partnership. Clearly defined goals are communicated to all employees, and they are expected to work conscientiously and efficiently, as well as develop professionally. The employer's task is to stimulate staff development by financing training programmes. Improvement of skills and positive performance appraisals are the best way to get promoted.

Public distinctions are also a great incentive, including the PBG Ace – at the annual closing meeting, the best employees are awarded with this title and receive a statuette for their achievements. "Employee of Merit" is another distinction of this type; 24 employees have been awarded this title to date.

EMPLOYEE BENEFITS

Our employees receive co-financing for cultural events, cinema, theatre and opera tickets, sport events and leisure activities – including match, gym, fitness club, or swimming pool tickets and cards. Employees formed a number of clubs where they can pursue their interests and develop skills, such as the “Return” tennis club (the Company has its own tennis courts), football team, volleyball team, “Merlin” fishing club, as well as cycling club, to name but a few. We have been organising skiing events in winter for over 10 years now. We also organise team-building events for our employees and their families: a regular spring family event (two days including bowling and a number of family competitions), as well as the family picnic in autumn in the Company’s premises.

In addition, our employees can use low-interest loans for house refurbishment, purchase, or building. Any employees who suffered injuries in an accident may be entitled to a non-repayable allowance. Last year, the Company opened a restaurant on its premises where all employees can have lunch or organise family events. Their children can go on holidays or sport camps co-financed by the Company.

TRAINING PROGRAMMES

Continuous development and improvement of our staff is a cornerstone of the Company’s human resources policy. The training policy has been consistently implemented by PBG SA. Training needs are continuously analysed against the adopted training plans developed at the beginning of each year. Employees are free to communicate their needs on their own initiative. To a large extent, these plans are based on results of regular performance assessments. Co-financing of school-based education and training programmes is defined in relevant rules. Last year’s training budget reached nearly PLN 0.5 million. Our employees continuing higher education receive grants to their tuition and a leave. In 2009, e-learning training programmes proved immensely popular with our staff. In addition, our employees actively participate in symposiums and conferences, thus contributing to enhanced recognition of PBG SA brand in the market.

Foreign markets are an area for future development. Gaining sufficient language skills to effectively communicate in certain situations at work and out of work is now a must. Foreign language courses at the PBG Group started 10 years ago, with English and German on the top of the list. We have used services of Berlioz, Akces, and Native-English in the past. Our current provider is Verva – a company that offers language courses at different levels of advancement.