

# **PBG CAPITAL GROUP**

## **Interim consolidated financial statement FOR Q3 FY 2008**

**In accordance with the International Financial Reporting Standards (IFRS)**

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## 1 INTERIM CONSOLIDATED FINANCIAL STATEMENT OF PBG CAPITAL GROUP FOR Q3 FY08

## SELECTED FINANCIAL DATA

Item	for the period 01.01 – 30.09.2008	for the period 01.01 – 30.09.2007	for the period 01.01 – 30.09.2008	for the period 01.01 – 30.09.2007
	PLN		EUR	
Revenues from sales	1 370 043	814 543	400 048	212 597
Operating profit (loss)	142 640	75 811	41 650	19 787
Profit (loss) before tax	122 886	85 323	35 882	22 269
Net profit (loss) from continuing operations	108 781	70 250	31 764	18 335
Net profit (loss), of which:	108 781	70 250	31 764	18 335
- shareholders of the Parent Company	84 515	62 335	24 678	16 270
- minority shareholders	24 266	7 915	7 086	2 066
Net cash from operations	(327 748)	(243 828)	(95 701)	(63 639)
Net cash used in investments	(128 199)	(112 449)	(37 434)	(29 349)
Net cash from financial activity	313 472	421 358	91 533	109 975
Net balance of cash and cash equivalents	(142 475)	65 081	(41 602)	16 986
Weighted average number of ordinary shares	13 430 000	13 119 000	13 430 000	13 119 000
Weighted average diluted number of ordinary shares	13 430 000	13 119 000	13 430 000	13 119 000
Earnings (loss) per ordinary share (in PLN / EUR)	6.29	4.75	2.12	1.24
Diluted earnings (loss) per ordinary share (in PLN / EUR)	6.29	4.75	2.12	1.24
Average exchange rate of PLN / EUR*			3.4247	3.8314
Item	as at 30.09.2008	as at 30.09.2007	as at 30.09.2008	as at 30.09.2007
	PLN		EUR	
Assets	2 662 255	1 775 728	781 109	470 080
Long-term payables	375 103	113 221	110 056	29 972
Short-term payables	1 108 771	917 366	325 315	242 850
Equity	1 178 381	745 141	345 739	197 258
Share capital	13 430	13 430	3 940	3 555
Number of shares	13 430 000	13 430 000	13 430 000	13 430 000
Book value per share - BVPS (in PLN / EURO)	77.41	53.40	22.71	14.14
Dividend per share – declared or paid (in PLN / EURO)	-	-	-	-
PLN / EURO exchange rate as at period end **			3.4083	3.7775

## 1. Selected items of assets and liabilities converted to Euro at the exchange rate announced by the President of the National Bank of Poland as at 30 September 2008:

EUR 1 = PLN 3,4083

- a) book value per share (BVPS) in PLN = equity in PLN '000 (as at 30.09.2008) / number of shares (in thousands) as at 30.09.2008:

$$1,039,598 / 13,430 = \text{PLN } 77.41$$

- b) book value per share (BVPS) (in EUR) = equity in EUR '000 (as at 30.09.2008) / number of shares (in thousands) as at 30.09.2008:

$$305,020 / 13,430 = \text{EUR } 22.71$$

- c) diluted number of shares as at 30.09.2008: 13,430 thousand of shares

- d) diluted book value per share in PLN = equity in PLN '000 (as at 30.09.2008) / diluted number of shares (in thousands):

$$1,039,598 / 13,430 = \text{PLN } 77.41$$

- e) diluted book value per share in EUR = equity in EUR '000 (as at 30.09.2008) / diluted number of shares (in thousands):

$$305,020 / 13,430 = \text{EUR } 22.71$$

**2. Selected items from the Profit and Loss Account for 9 months of 2008 were converted to EURO at the exchange rate calculated as an arithmetic average of exchange rates set by the President of NBP in the past 9 months of 2008:**

January	31.01.2008	3.6260
February	29.02.2008	3.5204
March	31.03.2008	3.5258
April	30.04.2008	3.4604
May	30.05.2008	3.3788
June	30.06.2008	3.3542
July	31.07.2008	3.2026
August	29.08.2008	3.3460
September	30.09.2008	3.4083
		<b>30,8225 / 9 = 3.4247 (average exchange rate for 9 months)</b>

**Earnings for the past 9 months: 84,515**

Weighted average number of shares (in thousands) 13,430

- a) earnings per share (EPS) in PLN = net profit as at 30.09.2008 in PLN '000 / weighted average number of shares for the past 9 months in thousands

$$84,515 / 13,430 = \text{PLN } 6.29$$

- b) earnings per ordinary share (EPS) in EUR = EPS in PLN / average exchange rate of EURO for the past 9 months:

$$6.29 / 3.4083 = \text{EUR } 1.84 \text{ per share}$$

## INTERIM CONSOLIDATED BALANCE SHEET

Item	as at 30.09.2008	as at 30.06.2008	as at 31.12.2007	as at 30.09.2007	as at 30.06.2007
Assets					
<b>Fixed assets</b>	<b>898 327</b>	<b>830 157</b>	<b>717 926</b>	<b>616 441</b>	<b>641 673</b>
Intangible assets	14 105	13 564	13 262	8 682	7 436
Goodwill acquired in business combination	300 255	298 693	267 426	228 343	212 665
Tangible fixed assets (Property, Plant & Equipment)	382 944	355 340	306 786	279 886	356 699
Non-renewable natural resources	27 834	27 834	27 834	-	-
Investment property	27 116	27 137	30 383	8 378	5 052
Investments in subsidiaries	62 389	34 207	4 000	-	-
Investments in associates accounted for using the equity method	-	-	-	-	-
Other long-term financial assets	53 253	49 374	41 834	58 919	26 343
- related parties	1 685	1 654	98	18 568	9 771
- other entities	51 568	47 720	41 736	40 351	16 572
Long-term receivables	19 747	19 707	21 614	27 422	29 468
- related parties	57	-	-	-	-
- other entities	19 690	19 707	21 614	27 422	29 468
Deferred income tax assets	1 786	-	-	-	-
Long-term prepaid expenses	8 898	4 301	4 787	4 811	4 010
<b>Current assets</b>	<b>1 763 928</b>	<b>1 715 113</b>	<b>1 540 909</b>	<b>1 159 287</b>	<b>1 070 936</b>
Inventories	64 857	60 769	40 145	58 101	36 013
Receivables from contracting parties for works completed under contracts for construction/long-term services	649 151	582 637	439 585	463 415	437 611
- related parties	58 170	53 389	29 425	43 818	28 943
- other entities	590 981	529 248	410 160	419 597	408 668
Trade receivables	638 337	556 484	534 463	356 094	315 205
- related parties	7 089	28 899	9 806	1 070	1 070
- other entities	631 248	527 585	524 657	355 024	314 135
Current income tax receivables	713	195	-	42	1 793
Other short-term receivables	56 707	52 495	43 276	104 360	55 801
- related parties	-	-	-	-	-
- other entities	56 707	52 495	43 276	104 360	55 801
Other short-term financial assets	65 683	102 208	58 410	34 452	29 531
- related parties	31	-	-	4 123	4 011
- other entities	65 652	102 208	58 410	30 329	25 520
Cash and cash equivalents	268 116	340 167	410 305	127 548	180 480
Short-term prepaid expenses	20 364	20 158	14 725	15 275	14 502
Non-current assets classified as held for sale	-	-	-	-	-
<b>Total assets</b>	<b>2 662 255</b>	<b>2 545 270</b>	<b>2 258 835</b>	<b>1 775 728</b>	<b>1 712 609</b>

## INTERIM CONSOLIDATED BALANCE SHEET – CONTINUED

Item	as at 30.06.2008	as at 30.06.2008	as at 31.12.2007	as at 30.09.2007	as at 30.06.2007
<i>Liabilities</i>					
<b>Equity</b>	<b>1 178 381</b>	<b>1 158 776</b>	<b>785 220</b>	<b>745 141</b>	<b>724 991</b>
<b>Equity of shareholders of the Parent Company</b>	<b>1 039 598</b>	<b>971 864</b>	<b>750 670</b>	<b>717 221</b>	<b>705 188</b>
Share capital	13 430	13 430	13 430	13 430	13 430
Treasury shares	-	-	-	-	-
Share premium reserve	551 178	551 178	551 178	551 178	551 178
Reserve from the valuation of hedging transactions and foreign exchange differences on consolidation	(1 596)	21 682	8 759	402	130
Other reserves	352 330	295 858	65 998	81 724	87 524
Retained profit/accumulated loss	124 256	89 716	111 305	70 487	52 926
- profit (loss) carried forward from previous years	39 741	39 741	6 997	8 152	11 359
- net profit (loss) for the current year of the Parent Company shareholders	84 515	49 975	104 308	62 335	41 567
<b>Minority interest</b>	<b>138 783</b>	<b>186 912</b>	<b>34 550</b>	<b>27 920</b>	<b>19 803</b>
<b>Payables</b>	<b>1 483 874</b>	<b>1 386 494</b>	<b>1 473 615</b>	<b>1 030 587</b>	<b>987 618</b>
<b>Long-term payables</b>	<b>375 103</b>	<b>349 639</b>	<b>331 739</b>	<b>113 221</b>	<b>232 777</b>
Long-term credits and loans	114 141	84 249	50 033	52 628	65 121
- related parties	589	-	-	-	-
- other entities	113 552	84 249	50 033	52 628	65 121
Other long-term financial payables	209 339	208 880	208 544	8 753	114 472
Other long-term payables	18 818	17 790	20 556	14 448	10 650
- related parties	-	-	-	-	-
- other entities	18 818	17 790	20 556	14 448	10 650
Deferred income tax provision	11 789	13 049	18 595	18 014	16 676
Provisions for employee benefits	4 650	4 841	4 184	3 356	4 788
Other long-term provisions	8 289	12 032	20 675	6 614	6 102
Government grants	-	-	-	-	-
Long-term accruals and deferred income	8 077	8 798	9 152	9 408	14 968
<b>Short-term payables</b>	<b>1 108 771</b>	<b>1 036 855</b>	<b>1 141 876</b>	<b>917 366</b>	<b>754 841</b>
Short-term credits and loans	451 445	368 767	350 402	311 631	275 501
- related parties	1	-	2 306	-	-
- other entities	451 444	368 767	348 096	311 631	275 501
Other short-term financial payables	16 379	5 873	116 260	114 984	4 015
Trade payables	405 321	409 725	387 161	279 821	235 114
- related parties	2 402	19 453	4 820	-	-
- other entities	402 919	390 272	382 341	279 821	235 114
Payables under construction contract	27 692	6 473	19 594	3 892	28 271
- related parties	791	498	4 241	3	-
- other entities	26 901	5 975	15 353	3 889	28 271
Deferred income tax liabilities	14 065	9 171	17 800	8 680	2 406
Other short-term payables	99 714	117 536	122 987	99 015	97 776
- related parties	-	-	-	-	-
- other entities	99 714	117 536	122 987	99 015	97 776
Provisions for employee benefits	439	704	1 120	1 143	1 107
Other short-term provisions	86 137	110 467	118 805	92 232	101 136
Government grants	-	-	-	-	-
Short-term accruals and deferred income	7 579	8 139	7 747	5 968	9 515
Liabilities related to non-current assets held for sale	-	-	-	-	-
<b>Total liabilities</b>	<b>2 662 255</b>	<b>2 545 270</b>	<b>2 258 835</b>	<b>1 775 728</b>	<b>1 712 609</b>

## NET EARNINGS (LOSS) PER ORDINARY SHARE

Item	as at 30.09.2008	as at 30.06.2008	as at 31.12.2007	as at 30.09.2007	as at 30.06.2007
Annualised net profit (loss) from continuing operations	84 515	49 975	104 308	62 335	41 567
Annualised net profit (loss) from continuing and discontinued operations	-	-	-	-	-
Weighted average number of ordinary shares	13 430 000	13 430 000	13 197 000	13 119 000	12 963 000
Weighed average diluted number of ordinary shares	13 430 000	13 430 000	13 197 000	13 119 000	12 963 000
<i>from continuing operations</i>					
- basic	6.29	3.72	7.90	4.75	3.21
- diluted	6.29	3.72	7.90	4.75	3.21
<i>from continuing and discontinued operations</i>					
- basic	6.29	3.72	7.90	4.75	3.21
- diluted	6.29	3.72	7.90	4.75	3.21

## INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT

Item	Q3 01.07.2008 - 30.09.2008	3 quarters to date 01.01.2008 - 30.09.2008	Q3 01.07.2007 - 30.09.2007	3 quarters to date 01.01.2007 - 30.09.2007
<i>Continuing operations</i>				
<b>Revenues from sales</b>	<b>543 223</b>	<b>1 370 043</b>	<b>360 242</b>	<b>814 543</b>
- related parties	-	-	-	-
Revenues from sale of products	15 196	51 017	181	6 977
Revenues from sale of services	513 824	1 290 524	356 394	781 223
Revenues from sale of goods and materials	14 203	28 502	3 667	26 343
<b>Selling costs</b>	<b>(461 482)</b>	<b>(1 161 681)</b>	<b>(316 312)</b>	<b>(693 902)</b>
- related parties	-	-	-	-
Costs of products sold	(12 778)	(42 897)	(154)	(1 523)
Costs of services sold	(436 303)	(1 092 976)	(313 466)	(672 715)
Costs of goods and materials sold	(12 401)	(25 808)	(2 692)	(19 664)
<b>Gross profit (loss) on sales</b>	<b>81 741</b>	<b>208 362</b>	<b>43 930</b>	<b>120 641</b>
Costs of sales	-	-	(165)	(723)
General administrative expenses	(27 640)	(72 959)	(21 301)	(53 382)
Other operating revenues	3 847	16 240	12 472	18 479
Other operating expenses	(198)	(9 003)	(1 942)	(9 204)
Share in profits of related parties accounted for using the equity method	-	-	-	-
Restructuring costs	-	-	-	-
<b>Operating profit (loss)</b>	<b>57 750</b>	<b>142 640</b>	<b>32 994</b>	<b>75 811</b>
Financial revenues	8 479	24 545	344	10 231
Financial expenses	(12 149)	(44 299)	(16 186)	(28 901)
Other profits (losses) from investments	-	-	12 032	28 182
<b>Profit (loss) before tax</b>	<b>54 080</b>	<b>122 886</b>	<b>29 184</b>	<b>85 323</b>
Income tax	(9 297)	(14 105)	(9 935)	(15 073)
<b>Net profit (loss) from continuing operations</b>	<b>44 783</b>	<b>108 781</b>	<b>19 249</b>	<b>70 250</b>
<i>Discontinued operations</i>				
Net loss from discontinued operations	-	-	-	-
<b>Net profit (loss)</b>	<b>44 783</b>	<b>108 781</b>	<b>19 249</b>	<b>70 250</b>
<b>Net profit (loss), of which:</b>	<b>44 783</b>	<b>108 781</b>	<b>19 249</b>	<b>70 250</b>
- shareholders of the Parent Company	34 540	84 515	20 768	62 335
- minority shareholders	10 243	24 266	(1 519)	7 915

## PBG SA MANAGEMENT DISCUSSION AND ANALYSIS OF THE CAPITAL GROUP'S FINANCIAL RESULTS

### Significant events and factors influencing financial results of PBG Capital Group in Q3 FY 2008

Consistent implementation of the strategy focused on the strengthening of the Group's position on specialist installation markets and expanding business activities to new areas resulted in significant growth of practically all key items of the Profit and Loss Account vs. the previous corresponding period.

- **Revenues from sales** of over **PLN 543 million**, i.e. up by 51% vs. Q3 FY07;
- **Gross profit on sales** was up by **86%** from PLN 43.9 million to **PLN 81.7 million**;
- **Operating profit** was up by **75%** from nearly PLN 33 million to **PLN 57.7 million**;
- **Net profit** of the Parent Company shareholders in Q3 exceeded **PLN 34.5 million**, up by 66% vs. the previous corresponding period;
- As at 1 September 2008, value of the Capital Group's **portfolio of contracts** exceeded **PLN 4.87 billion**. Contracts signed in the water segment represent the highest share of this portfolio; in this segment, environmental investments co-financed with the EU funds are implemented. The second largest segment of the Group's business is natural gas and crude oil.

Portfolio of contracts as at 1 September 2008	
Natural gas and crude oil	33.1%
Fuels	5.9%
Water	39.1%
waterworks and sewerage systems	30.8%
hydrotechnical facilities	1.6%
renovations	6.7%
Residential and industrial construction	20.0%
Road building	1.9%
	100.0%

The following construction contracts were the key sources of revenue from ordinary activities of PBG Capital Group entities in Q3:

#### A). Water

- 1) contract for "Extension of the sewerage system of the Ołtaszyn housing estate" signed by and between Wrocław Municipality and Hydrobudowa Polska SA – recorded revenues: PLN 30.6 million;
- 2) contract for "Construction of waterworks network for Left-Bank Szczecin" signed by and between Zakład Wodociągów i Kanalizacji Sp. z o.o. and Hydrobudowa 9 PIB SA – recorded revenues: PLN 20 million;



- 3) contract for "Improvement of wastewater management in the Municipality of Zabrze – Grzybowo and Rokitnica districts" signed by and between the Municipality of Zabrze with Zabrzeńskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. Zabrze and Hydrobudowa Polska SA – recorded revenues: PLN 17.9 million;
- 4) contract for "Extension and conversion of the wastewater treatment plant in Piaseczno" signed by and between Piaseczno Municipality and Hydrobudowa Polska SA – recorded revenues: PLN 17.1 million;
- 5) contract for the task "Upgrade of the Left-Bank Wastewater Treatment Plant in Poznań" signed by and between the City of Poznań and Hydrobudowa 9 PIB SA – recorded revenues: PLN 12.3 million;
- 6) contract for "Task no. A1/ Strachocin-Wojnów housing estate networks " signed by and between Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o. o. Wrocław and Hydrobudowa 9 PIB SA – recorded revenues: PLN 11.3 million;
- 7) contract for "Improvement of water and wastewater management in the Municipality of Zabrze – Reconstruction of the "Śródmieście" Wastewater Treatment Plant", concluded by and between the Municipality of Zabrze and Zabrzeńskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o. o. Zabrze, and Hydrobudowa Polska SA – recorded revenues: PLN 11 million;
- 8) contract for "The Vistula Lower Terrace collector – stage 1 and 2 – Kraków" concluded by and between by the Municipality of Kraków and Miejskie Przedsiębiorstwo Wodociągów SA, and Hydrobudowa 9 PIB SA – recorded revenues: PLN 10 million;

**B). Construction of buildings**

- 1) contract for "Ruczaj Street housing estate in the district of Wilanów in Warsaw" signed by and between Z.W. Sowiński Spółka Komandytowa and PBG SA – recorded revenues: PLN 18.1 million;
- 2) contract for "Preparatory works for construction and design works for a building in Świnoujście" concluded by and between Pomerania Development and PBG SA – recorded revenues: PLN 14.5 million;

**C). Crude oil and natural gas**

- 1) contract for "Replacing LS gas with E-group gas in the eastern part of the Wielkopolskie Province, including the City of Poznań, in two stages", concluded by and between PGNiG SA and PBG SA – planned revenues: PLN 11.2 million;

**D). Liquid fuels**

- 1) contract for "Supply and construction of underground gas storage facilities in Poland" signed by and between Zakład Inwestycji Organizacji Traktatu Północnoatlantyckiego (NATO Investment Department) and PBG SA – recorded revenues: PLN 13.4 million.

In Q3 FY08 and up until now, the following significant events were recorded by PBG Capital Group (by area of the Group's business):

**1. Crude oil and natural gas:**

- The Group's parent company – PBG SA signed a contract with PGNiG SA for construction of an oil mining facility Międzychód-Lubiatów-Grotów (LMG) of the total value of nearly PLN 1.4 billion;
- The Group's parent company – PBG SA was awarded a contract in a public procurement procedure in the natural gas sector for the construction of an Underground Gas Storage Facility in Wierzchowice of the total value of nearly PLN 1.1 billion;

**2. Water, including:****Hydro-technology and environmental protection:**

- Further consolidation of companies in the water segment. 100% interest in Hydrobudowa 9 PBI SA was taken over by Hydrobudowa Polska SA;
- Actions were taken to extend the Group's core business on to new similar markets by participating in public procurement procedures for the upgrade of the Lech Football Stadium in Poznań and preparing offers for the construction of football stadiums in other Polish cities (Wrocław, Gdańsk, Warszawa);
- The Consortium of PBG Capital Group companies was awarded a contract in a public procurement procedure for the extension of the Lech Football Stadium in Poznań of the total value of nearly PLN 400 million;
- 84.55% interest in PRG Metro Sp. z o. o. was taken over by Hydrobudowa Polska SA. The company PRG Metro will improve project implementation potential of HPB Group and extend its core business by adding specialist construction services related to tunneling, and in particular construction of the underground tunnels;
- As at the end of Q3, the Group's portfolio of contracts exceeded **PLN 1.8 billion**, and HBP Capital Group signed contracts for the total amount of over **PLN 426 million** in Q3 alone;

**3. Renovation of waterworks and sewerage systems:**

- Implementation of the largest contracts in the area of renovation of waterworks and sewerage systems in Poland;

**4. Construction of buildings:**

- Activities connected with the optimum utilisation of the Capital Group's real property were continued by the company **PBG Dom Sp. z o.o.**;
- Concentration of real-property activities of **PBG Dom Sp. z o.o.** – resale of the interest in Apartamenty Poznańskie Sp. z o.o. held by PBG to PBG Dom;
- The following special-purpose entities were acquired by **PBG Dom Sp. z o.o.** to implement real estate development projects: Budwil Sp. z o. o. and Dawil Sp. z o. o.;

**5. Roads:**

- o Further consolidation of companies in the road building segment. Interest in Dromost Sp. z o.o., PRID SA and Betpol SA was transferred from PBG SA to Aprivia SA. Aprivia is wholly-owned by PBG;
- o Road companies were prepared to the conclusion and implementation of contracts in the road construction and upgrade market with ever-increasing unit value;
- o Sources of supply of road construction materials were secured through investments in aggregate mines.

**Financing:**

1. Bank and insurance limits for the financing of the Group's current activities were increased, reaching **PLN 1.75 billion** as at the end of June.

**The following activities will have impact on the Group's future results:**

1. Implementation of the portfolio of contracts exceeding **PLN 4.87 billion**.
2. Participation in tenders and potential award of the most important contracts for:
  - o Construction of the underground gas storage facility in Wierzchowice,
  - o Construction of gas networks and LNG systems for KRI,
  - o Construction or upgrade of football stadiums,
  - o Construction of the Warsaw Underground.
3. Further consolidation and strengthening of Capital Group companies operating in the area of hydro-technology and environmental protection – better utilisation of the project implementation potential of Hydrobudowa Polska Capital Group and more efficient utilisation of human resources, equipment and materials.
4. Other acquisitions by the company **Infra SA** in the renovation business.
5. Award of important foreign contracts and acquisitions of foreign companies.

The following table presents profitability ratios recorded in the reporting period.

**Profitability ratios**

profitability ratios	3 quarters to date 2008	3 quarters to date 2007	Q3 2008	Q3 2007
Gross profit margin <sup>1</sup>	15.2%	14.8%	15.0%	12.2%
Operating profit margin <sup>2</sup>	10.4%	9.3%	10.6%	9.2%
Net profit margin <sup>3</sup>	6.2%	7.7%	6.4%	5.8%

<sup>1</sup> gross profit on sales / revenues from sales \*100

<sup>2</sup> operating profit / revenues from sales \*100

<sup>3</sup> Net profit for shareholders of the Parent Company / revenues from sales \*100

For 3 quarters of 2008 to date, increase in profitability ratios of the Capital Group was recorded for practically all items of the Profit and Loss Account. Gross profit margin reached 15.2%, up by 0.4% vs.

the previous corresponding period. Operating profit margin totalled 10.4%, up by 1.1% vs. the previous corresponding period.

The share of variable costs in revenues from sales in the reporting period dropped from 87.8% to 85.0% vs. the previous corresponding period, i.e. down by 2.8%. The share of general administrative expenses in the reporting period dropped from 5.9% to 5.1%, i.e. down by 0.8%.

For 3 quarters to date, PBG Capital Group generated net profit margin of over 6% vs. 7.7% generated at the end of Q3 2007. The higher net profit margin for 3 quarters to date in 2007 was attributable to single, non-recurring events recorded by PBG SA and a subsidiary company Hydrobudowa Śląsk SA (currently Hydrobudowa Polska SA). Following the transaction of sale of shares in KRI SA and PGS Sp. z o.o. by PBG SA, PBG Capital Group recorded about PLN 12 million in profit for Q3 2007. As for Hydrobudowa, the company recorded over PLN 16 million in profit from sale of shares of Mostostal Zabrze SA under financial revenues. This interest was taken over by Hydrobudowa Polska SA on the basis of a debt-to equity swap. As a result of these events, PBG Capital Group recorded over PLN 28 million in financial revenues, which significantly increased its net profit margin.

If we analyse Q3 2008 alone and compare it to results generated in Q3 2007, we will see that gross return on sales was up from 12.2% to 15.0%, i.e. by 3.2%; operating profit margin was up from 9.2% to 10.6%, i.e. by 1.4%; and net profit margin was up from 5.8% to 6.4%, i.e. by 0.6%.

It must be also noted that profitability ratios recorded by PBG Capital Group still depend to a large extent on acquisitions made back in 2007, restructuring of the acquired companies, as well as completion and settlement of "old" contracts from the portfolio of Hydrobudowa 9 PIB SA.

In addition, profit margins recorded at net level also depend on the increasing financial expenses, resulting, *inter alia*, from the ever-increasing interest rates.

### **Analysis of other operating revenues and expenses as well as financial revenues and expenses**

#### **Other operating revenues**

For 3 quarters of 2008 to date, operating revenues totalled over PLN 16.2 million, including revenues from compensatory damages (nearly PLN 3 million), and re-invoicing. In comparison with the previous corresponding period, the value of other operating revenues was down by 12%.

#### **Other operating expenses**

As at the end of Q3 2008, other operating expenses totalled PLN 9 million – down by 2% vs. the previous corresponding period. Re-invoices are a significant item under other operating expenses, representing over PLN 1 million for 3 quarters to date.

#### **Financial revenues**

Financial revenues for 3 quarters to date of 2008 totalled over PLN 24.5 m and were up by 140% vs. the previous corresponding period. Bank interest (PLN 12.7 million) and other interest (PLN 3 million) were the main items under financial revenues. Other significant items included revenues from financial market transactions (PLN 2.9 million) and foreign exchange differences (PLN 3.7 million).

**Financial expenses**

For 3 quarters to date, financial expenses exceeded PLN 44.2 million. The main items under financial expenses included bank interest and commissions (over PLN 25.2 million) and interest on bonds (PLN 13.8 million). Other interest totalled about PLN 2.8 million. Financial expenses were up by 53% vs. the previous corresponding period.

**INTERIM CONSOLIDATED CASH FLOW STATEMENT**

Item	3 quarters to date 01.01.2008 - 30.09.2008	3 quarters to date 01.01.2007 - 30.09.2007
<i>Cash flow from operations</i>		
<b>Net profit before tax</b>	<b>122 886</b>	<b>85 323</b>
<b>Adjustments:</b>	<b>1 684</b>	<b>(6 033)</b>
Amortisation of intangible assets	2 180	1 616
Goodwill impairment losses	-	-
Impairment losses on tangible fixed assets	-	(381)
Depreciation of tangible fixed assets	28 972	18 201
Profit (loss) from sale of tangible fixed assets	(1 305)	(1 030)
(Profit) loss on sale of available-for-sale (held-for-trading) financial assets	(33 943)	(27 819)
Profit (loss) on valuation of investment property carried at fair value	-	-
(Profit) loss on revaluation of fair value of financial assets carried at fair value	(4 523)	(3 156)
Share in profits (losses) of associates	-	-
Foreign exchange (gains) losses	(13 036)	(8 366)
Interest expense	41 310	21 944
Interest received	(17 969)	(7 014)
Dividends received	(2)	(28)
<b>Cash flow from operations before changes in working capital</b>	<b>124 570</b>	<b>79 290</b>
Change in inventories	(24 629)	(28 840)
Change in receivables	(321 374)	(278 353)
Change in payables	(36)	54 190
Change in provisions, prepaid expenses, accruals and deferred income	(65 308)	(62 988)
Other adjustments	(14 803)	1 332
<b>Cash generated in business operations</b>	<b>(301 580)</b>	<b>(235 369)</b>
Interest paid	(303)	(200)
Income tax paid	(25 865)	(8 259)
<b>Net cash from operations</b>	<b>(327 748)</b>	<b>(243 828)</b>
<i>Cash flow from investments</i>		
Outflows – acquisition of intangible assets	(4 115)	(2 012)
Inflows – sale of intangible assets	-	18
Outflows – acquisition of tangible fixed assets	(61 244)	(66 140)
Inflows – sale of tangible fixed assets	8 150	13 954
Outflows – acquisition of investment property	(1 516)	(5 818)
Inflows – sale of investment property	-	14 107
Acquisition of held-to-maturity financial assets	(3 000)	-
Inflows – redemption of held-to-maturity financial assets	-	-
Outflows – acquisition of financial assets available for sale (held for trading)	(956)	(13 830)
Inflows – sale of financial assets available for sale (held for trading)	40 482	39 454
Outflows – acquisition of subsidiaries (less cash received)	(101 901)	(88 758)
Inflows – sale of subsidiaries	2 500	6 250
Other outflows – additional paid-in capital	-	-
Inflows from government grants received	-	1 769
Loans granted	(9 677)	(15 901)
Repayment of loans granted	3 076	4 047
Interest received	-	427
Dividends received	2	28
Other inflows	-	167
Other outflows on investments	-	(211)

<b>Net cash used in investments</b>	<b>(128 199)</b>	<b>(112 449)</b>
<i>Cash flow from financial activity</i>		
Net inflows – issue of shares	292 296	333 090
Buy-back of treasury shares	-	-
Inflows – issue of debt securities	-	-
Repayment of bonds	(110 000)	-
Repayment of interest on bonds	(8 680)	(4 333)
Redemption of debt securities	-	-
Inflows – credits and loans incurred	250 080	193 157
Repayment of credits and loans	(87 572)	(91 546)
Repayment of interest on credits and loans	(27 100)	(10 263)
Inflows from interest on deposits	9 805	4 580
Repayment of finance lease liabilities	(3 081)	(2 248)
Interest paid	(1 860)	(65)
Dividends paid out	-	-
Commissions on bank credits and loans	(241)	(1 014)
Other outflows	(175)	-
<b>Net cash from financial activity</b>	<b>313 472</b>	<b>421 358</b>
<b>Net balance of cash and cash equivalents</b>	<b>(142 475)</b>	<b>65 081</b>
<b>Opening balance of cash and cash equivalents</b>	<b>410 305</b>	<b>62 199</b>
Change in cash resulting from foreign exchange differences	335	268
<b>Closing balance of cash and cash equivalents</b>	<b>268 165</b>	<b>127 548</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN THE PERIOD FROM 01.01.2008 TO 30.09.2008

Item	Equity of the Parent Company shareholders				Minority interest	Total equity
	Share capital	Other reserves	Retained profit/accumulated loss	Total		
<b>As at 01.01.2008</b>	<b>13 430</b>	<b>625 935</b>	<b>111 305</b>	<b>750 670</b>	<b>34 550</b>	<b>785 220</b>
Correction of fundamental error				-		-
<b>Balance after adjustments</b>	<b>13 430</b>	<b>625 935</b>	<b>111 305</b>	<b>750 670</b>	<b>34 550</b>	<b>785 220</b>
<i>Changes in equity in the period 01.01.-30.09.2008</i>						
Revaluation gains (losses)	-	(649)	649	-	-	-
Available-for-sale investments:	-	-	-	-	-	-
- valuation gains recognised in equity	-	-	-	-	-	-
- recognised in profit (loss) on sales	-	-	-	-	-	-
Cash flow hedges:	-	(11 521)	-	(11 521)	-	(11 521)
- gains (losses) recognised in equity	-	(8 895)	-	(8 895)	-	(8 895)
- gains (losses) recognised in profit or loss of the period	-	(2 626)	-	(2 626)	-	(2 626)
- profits (losses) included in the valuation of the carrying amount of hedged items	-	-	-	-	-	-
Foreign exchange differences – valuation of related parties operating abroad	-	134	-	134	-	134
Tax related to items recognised in equity or transferred from equity	-	1 680	-	1 680	-	1 680
<b>Net profit recognised directly in equity</b>	<b>-</b>	<b>(10 356)</b>	<b>649</b>	<b>(9 707)</b>	<b>-</b>	<b>(9 707)</b>
Net profit for the period 01.01.2008-30.09.2008	-		84 515	84 515	24 266	108 781
<b>Total gains and losses recorded in the period 01.01 – 30.09.2008</b>	<b>-</b>	<b>(10 356)</b>	<b>85 164</b>	<b>74 808</b>	<b>24 266</b>	<b>99 074</b>
Dividends	-	-	-	-	-	-
Share capital issued	-	-	-	-	-	-
Options convertible to shares issued	-	-	-	-	-	-
Changes in Capital Group structure (acquisitions/disposals)	-	220 270	-	220 270	79 900	300 170
Other adjustments	-	(67)	567	500	67	567
Distribution of financial result	-	66 130	(72 780)	(6 650)	-	(6 650)
<b>As at 30.09.2008</b>	<b>13 430</b>	<b>901 912</b>	<b>124 256</b>	<b>1 039 598</b>	<b>138 783</b>	<b>1 178 381</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN THE PERIOD 01.01-31.12.2007

Item	Equity of the Parent Company shareholders				Minority interest	Total equity
	Share capital	Other reserves	Retained profit/accumulated loss	Total		
<b>As at 01.01.2007</b>	<b>12 030</b>	<b>291 191</b>	<b>64 867</b>	<b>368 088</b>	<b>12 079</b>	<b>380 167</b>
Changes in the adopted accounting principles (policy)	-	-	(915)	(915)	-	(915)
Correction of fundamental error	-	-	2 674	2 674	-	2 674
<b>Balance after adjustments</b>	<b>12 030</b>	<b>291 191</b>	<b>66 626</b>	<b>369 847</b>	<b>12 079</b>	<b>381 926</b>
<i>Changes in equity in the period 01.01.-31.12.2007</i>						
Revaluation gains (losses)	-	311	-	311	-	311
Available-for-sale investments:	-	-	-	-	-	-
- valuation gains (losses) recognised in equity	-	-	-	-	-	-
- recognised in profit (loss) on sales	-	-	-	-	-	-
Cash flow hedges:	-	15 893	-	15 893	-	15 893
- gains (losses) recognised in equity	-	16 458	-	16 458	-	16 458
- gains (losses) recognised in profit or loss of the period	-	(565)	-	(565)	-	(565)
- profits (losses) included in the valuation of the carrying amount of hedged items	-	-	-	-	-	-
Foreign exchange differences – valuation of related parties operating abroad	-	168	-	168	-	168
Tax related to items recognised in equity or transferred from equity	-	(2 837)	-	(2 837)	-	(2 837)
<b>Net profit recognised directly in equity</b>	<b>-</b>	<b>13 535</b>	<b>-</b>	<b>13 535</b>	<b>-</b>	<b>13 535</b>
Net profit for the period 01.01.- 31.12.2007	-	-	102 050	102 050	15 371	117 421
<b>Total gains and losses recorded in the period 01.01 – 31.12.2007</b>	<b>-</b>	<b>13 535</b>	<b>102 050</b>	<b>115 585</b>	<b>15 371</b>	<b>130 956</b>
Dividends	-	-	-	-	-	-
Share capital issued	1 400	333 090	-	334 490	-	334 490
Presentation adjustments	-	(742)	742	-	-	-
Distribution of financial result	-	48 929	(53 429)	(4 500)	-	(4 500)
Changes in Capital Group structure (acquisitions/disposals)	-	(60 068)	-	(60 068)	(3 923)	(63 991)
Changes in minority interests resulting from the negative equity of subsidiaries	-	-	(4 684)	(4 684)	11 023	6 339
<b>As at 31.12.2007</b>	<b>13 430</b>	<b>625 935</b>	<b>111 305</b>	<b>750 670</b>	<b>34 550</b>	<b>785 220</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN THE PERIOD 01.01-30.09.2007

Item	Equity of the Parent Company shareholders				Minority interest	Total equity
	Share capital	Other reserves	Retained profit/accumulated loss	Total		
<b>As at 01.01.2007</b>	<b>12 030</b>	<b>292 519</b>	<b>63 539</b>	<b>368 088</b>	<b>12 079</b>	<b>380 167</b>
Changes in the adopted accounting principles (policy)	-	-	(1 268)	(1 268)	-	(1 268)
Correction of fundamental error	-	(1 328)	1 328	-	-	-
<b>Balance after adjustments</b>	<b>12 030</b>	<b>291 191</b>	<b>63 599</b>	<b>366 820</b>	<b>12 079</b>	<b>378 899</b>
<i>Changes in equity in the period 01.01.-30.09.2007</i>						
Revaluation gains (losses)	-	-	-	-	-	-
Available-for-sale investments:	-	-	-	-	-	-
- valuation gains recognised in equity	-	-	-	-	-	-
- recognised in profit (loss) on sales	-	-	-	-	-	-
Cash flow hedges:	-	3 295	-	3 295	600	3 895
- gains (losses) recognised in equity	-	4 282	-	4 282	600	4 882
- gains (losses) recognised in profit or loss of the period	-	(987)	-	(987)	-	(987)
- profits (losses) included in the valuation of the carrying amount of hedged items	-	-	-	-	-	-
Foreign exchange differences – valuation of related parties operating abroad	-	(32)	-	(32)	-	(32)
Tax related to items recognised in equity or transferred from equity	-	(520)	-	(520)	-	(520)
<b>Net profit recognised directly in equity</b>	<b>-</b>	<b>2 743</b>	<b>-</b>	<b>2 743</b>	<b>600</b>	<b>3 343</b>
Net profit for the period 01.01-30.09.2007	-	-	62 335	62 335	7 915	70 250
<b>Total gains and losses recorded in the period 01.01-30.09.2007</b>	<b>-</b>	<b>2 743</b>	<b>62 335</b>	<b>65 078</b>	<b>8 515</b>	<b>73 593</b>
Dividends	-	-	-	-	-	-
Share capital issued	1 400	333 090	-	334 490	-	334 490
Options convertible to shares issued	-	-	-	-	-	-
Changes in Capital Group structure (acquisitions/disposals)	-	(41 140)	(3 527)	(44 667)	7 326	(37 341)
Other adjustments	-	(1 509)	1 509	-	-	-
Distribution of financial result	-	48 929	(53 429)	(4 500)	-	(4 500)
<b>As at 30.09.2007</b>	<b>13 430</b>	<b>633 304</b>	<b>70 487</b>	<b>717 221</b>	<b>27 920</b>	<b>745 141</b>

## **2 NOTES TO THE INTERIM CONDENSED CONSOLIDATED REPORT AND CONDENSED FINANCIAL STATEMENT FOR Q3 FY 2008**

### **2.1 About the Parent Company and the Capital Group**

#### **2.1.1. Parent Company**

The Parent Company of the Capital Group, PBG Spółka Akcyjna with its registered office in Wysogotowo near Poznań at ul. Skórzewska 35, 62-081 Przeźmierowo, was established on 2 January 2004 by the Notarial Deed drawn up on 1 December 2003. The company was registered in the National Court Register, entry no. 0000184508. The Company operates in the territory of Poland pursuant to the provisions of the Code of Commercial Companies.

PBG S.A. was established as a result of a transformation of Technologie Gazowe Piecobiogaz sp. z o.o. (resolution no. 1 of the Extraordinary General Meeting of Partners of Technologie Gazowe Piecobiogaz Sp. z o.o. of 1 December 2003). The Issuer's legal predecessor was established in 1997 by Mr. Jerzy Wiśniewski and Mrs. Małgorzata Wiśniewska.

#### **Authorities of the Parent Company PBG SA**

##### **Board of Directors:**

As at 30 September 2008, composition of the Company's Board of Directors was as follows:

- Jerzy Wiśniewski – President of the Board of Directors,
- Tomasz Woroch – Vice President of the Board of Directors,
- Przemysław Szkudlarczyk – Vice President of the Board of Directors,
- Tomasz Tomczak – Vice President of the Board of Directors,
- Mariusz Łożyński – Member of the Board of Directors,
- Tomasz Latawiec – Member of the Board of Directors.

Until the date of this report, composition of the Company's Board of Directors had not changed.

##### **Supervisory Board:**

As at 30 September 2008, composition of the Company's Supervisory Board was as follows:

- Maciej Bednarkiewicz – Chairman of the Supervisory Board,
- Jacek Kseń – Vice Chairman of the Supervisory Board,
- Wiesław Lindner – Secretary of the Supervisory Board,
- Jacek Krzyżaniak – Member of the Supervisory Board,
- Dariusz Sarnowski – Member of the Supervisory Board,
- Adam Strzelecki – Member of the Supervisory Board.

On 1 September 2008, Małgorzata Wiśniewska handed in her resignation from membership in the Supervisory Board of PBG SA, as she became President of the Board of Directors in Infra SA, a subsidiary company of PBG SA.

**2.1.2. Core business of PBG Capital Group**

Core business of the Parent Company includes general construction works in the area of linear facilities: pipelines, power lines, traction lines, telecommunication lines – transmission lines (Polish Classification of Economic Activities PKD 4521 C).

PBG Capital Group is involved in transmission, distribution and trade of natural gas and heat, construction of hydro-technical, engineering and industrial facilities, installation of water supply and sewage, heat and gas systems, as well as waste water treatment plants, and trade in materials and equipment in the gas, oil, water supply and sewage sectors.

**2.1.3. The role of PBG SA in the Capital Group and changes in Group's structure**

PBG SA is the Parent Company in the Capital Group. In Q3 FY08, composition of PBG Capital Group changed as presented below.

**Reduction of equity interest held in Hydrobudowa 9 PIB SA**

On 24 July 2008, share capital increase of Hydrobudowa 9 PIB SA by the issue of series D shares was registered. As a result, the interest held by PBG SA in the total number of votes of this Company dropped and now totals 67.52%.

After the registration of the increased share capital of Hydrobudowa 9 PIB SA, PBG holds 9,588,331 of the Company's shares, representing 65.96% of the Company's share capital and carrying 18,704,949 votes at the Company's General Meeting of Shareholders, i.e. 67.52% of the Company's total vote.

Before the registration of the increased share capital of Hydrobudowa 9 PIB SA, PBG held 9,588,331 of the Company's shares, representing 69.26% of the Company's share capital and carrying 18,704,949 votes at the Company's General Meeting of Shareholders, i.e. 69.25% of the Company's total vote.

**Increase of registered capital of the subsidiary company PBG Dom Sp. z o.o.**

On 5 August 2008, the Local Court in Poznań – Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, registered the increased registered capital of the subsidiary company PBG Dom Sp. z o.o. The Company's registered capital was increased from PLN 2,357,200.00 to PLN 12,357,000.00, i.e. by PLN 10,000,000.00, by creating 100,000 shares of the nominal per-share value of PLN 100.00.

All new shares were taken over by PBG SA, the sole partner of PBG Dom Sp. z o.o. After the increase in registered capital from 123,572 shares, PBG SA may exercise 123,572 votes representing 100% of the total vote.

**Termination of a preliminary contract of sale regarding the acquisition of equity interest in the company J.A. Sokół – Melafir Sp. z o.o.**

On 22 August 2008, the Board of Directors of PBG SA terminated a preliminary contract of sale concluded on 22 June 2007 by and between PBG SA and a natural person.

The object of this contract was the acquisition of equity interest in the company J.A. Sokół – Melafir Sp. z o.o. with its registered office in Tłumaczów. PBG SA and the Seller had undertaken to conclude the final contract of sale, whereunder the Seller would sell all 500 shares of the company J.A. Sokół - Melafir Sp. z o.o. to PBG SA, free of any encumbrances, for the total price of PLN 32,000,000.00.

The final contract of sale was to be concluded subject to the following conditions precedent:

- results of the audit conducted by PBG SA in the Acquiree must be positive;
- a license to extract melaphyre from the deposit "Tłumaczów - Gardzień" must be brought back into effect and become binding.

On 22 August 2008, PBG SA represented by its authorised representative and the natural person acting as a Party to the said preliminary contract of sale agreed to terminate this contract as no agreement was reached whether the first condition precedent (positive audit result) had been satisfied.

#### **Acquisition of shares in Dawil Sp. z o.o. by the subsidiary PBG Dom Sp. z o.o.**

On 26 August 2008, the subsidiary company PBG Dom Sp. z o.o. acquired shares of Dawil Sp. z o.o. from a natural person. The Company's registered capital amounts to PLN 50,000.00 and is divided into 500 shares of nominal value PLN 100.00 per share. Under this transaction, PBG Dom Sp. z o.o. acquired 500 shares for the total price of PLN 50,000.00, representing 100% in the company's share capital and total vote.

Dawil Sp. z o.o. is a special-purpose entity established to implement a property development project. PBG Dom Sp. z o.o. does not preclude any further investments in the Company's shares. The Company's name is to be changed to PBG Dom Invest I Sp. z o.o.

#### **Establishment of a company Górecka Projekt Sp. z o.o. by the Subsidiary Company Hydrobudowa 9 PIB SA**

On 11 September 2008, Hydrobudowa 9 PIB SA established a subsidiary company Górecka Projekt Sp. z o.o. with its registered office in Poznań. The Company's registered capital amounts to PLN 50,000.00 and is divided into 1000 shares of nominal value PLN 50.00 per share. One share carries one vote. All shares of Górecka Projekt Sp. z o.o. shall be taken over by Hydrobudowa 9 PIB SA and paid up in cash.

Górecka Projekt Sp. z o.o. is a special-purpose entity established to implement a commercial project – construction of an office building. The Company's core business is in construction projects, including the development of residential and non-residential buildings, buying and selling of own real estate, rental and management of real property, as well as consultancy.

In the future, Hydrobudowa 9 PIB SA may increase of the Company's registered capital and pay for new shares with the perpetual usufruct of a real property.

**Acquisition of shares in P.R. G. Metro Sp. z o. o. by Hydrobudowa Polska SA**

On 12 September 2008, Hydrobudowa Polska SA obtained a decision of the President of the Office for Competition and Consumer Protection authorising the Company to take control over P.R.G. Metro Sp. z o. o.

With this decision, the second (and last) condition precedent for the acquisition of shares of P. R. G. Metro Sp. z o. o. was satisfied and the Company became a member of Hydrobudowa Polska Capital Group.

Hydrobudowa Polska SA paid PLN 29,590,879.50 for the total of 465 shares of nominal per-share value of PLN 1,000.00, representing 84.55% of the registered capital of P.R.G. Metro Sp. z o.o. Hydrobudowa Polska SA will finance this transaction with its own funds from the issue of series K shares.

The inclusion of PRG Metro Sp. z o.o. to Hydrobudowa Polska will strengthen the project implementation potential and increase diversification of business by adding new areas of activity, in particular construction of the underground (subway).

P. R. G. Metro Sp. z o.o. is one of the General Contractors of tunnels for the Warsaw Underground, and the associated facilities such as ventilation units, junction chambers, micro-tunnels, and underground pedestrian passes. Since 2001, the Company's portfolio has also included water and sewerage services.

Hydrobudowa Polska SA has undertaken to keep the Company's core business as it is and is planning its further development in the area of specialist construction works, including construction of tunnels, subway tunnels, and the associated facilities.

**Increased share capital of a subsidiary Hydrobudowa Polska SA and inclusion of Hydrobudowa 9 PIB SA to Hydrobudowa Polska Capital Group**

On 30 September 2008, the Local Court in Poznań – Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, registered the increased share capital of the subsidiary company Hydrobudowa Polska SA from PLN 173,673,200.00 to PLN 210,558,445.00 following the issue of 36,885,245 series L shares on the nominal value PLN 1.00 per share.

Series L shares were offered to all shareholders of Hydrobudowa 9 PIB SA (including PBG SA) by means of private subscription. All series L shares were taken over in exchange for a non-monetary contribution in the form of 14,536,685 fully paid shares of the company Hydrobudowa 9 PIB SA, of the nominal per-share value PLN 0.10 and total nominal value PLN 1,453,668.50, representing 100% of shares of Hydrobudowa 9 PIB SA.

Following the increase of share capital of Hydrobudowa Polska SA, the interest held by PBG SA increased from 60.69% to 61.61%, and Hydrobudowa 9 PIB SA became a member of Hydrobudowa Polska Capital Group.

Results of Hydrobudowa 9 PIB SA will be consolidated indirectly with results generated by PBG Capital Group, based on 100% consolidation with results of Hydrobudowa Polska SA.

## PBG Capital Group subsidiaries as at 30 September 2008

Company	Registered office	Core business	Consolidation method	Group's share (in %)		
				30.09.2008	31.12.2007	30.09.2007
Aprivia SA	ul. Skórzewska 35, 62-081 Przeźmierowo POLAND	Construction of roads and highways PKD 4211Z	full	100.00%	-	-
Avatia Sp. z o.o.	ul. Skórzewska 35, 62-081 Przeźmierowo POLAND	Reproduction of recorded media PKD 1820Z	full	99.80%	-	-
Bathinex Sp. z o.o.	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Quarrying of precious stones and stone for construction PKD 1411Z	full	100.00%	100.00%	-
Betpol SA	ul. Fordońska 168a, 85-766 Bydgoszcz	Construction of roads and highways PKD 4211Z	full	70.00%	-	-
Brokam Sp. z o.o.	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Quarrying of precious stones and stone for construction PKD 1411Z	full	100.00%	100.00%	-
Dromost Sp. z o.o.	Żabno 4A, 63-112 Brodnica POLAND	Production, trade and services for specialist road and bridge construction works PKD 45 23A	full	87.40%	87.40%	87.40%
Excan Oil and Gas Engineering Ltd	#201,9637-45 Avenue Edmonton AB T6E 5Z8 CANADA	Intermediation of contracts, coordination of design and engineering works, trade	full	100.00%	100.00%	-
GasOil Engineering a.s.	Karpatska, 3256/15 Poprad 05801 SLOVAKIA	Design services, investor's supervision services	full	62.45%	62.45%	-
Hydrobudowa Polska SA	ul. Skórzewska 35, Wysogotowo k. Poznania 62-081 Przeźmierowo POLAND	Construction of transmission pipelines and distribution networks – PKD 2007, and construction of water projects – PKD 45 24B	full	61.61%	76.00%	-
Hydrobudowa Polska Konstrukcje Sp. z o.o. (1)	ul. Żwirki i Wigury 58, 43-190 MIKOŁÓW	Manufacture of metal structures and parts of structures – PKD 2511Z	full Subsidiary of Hydrobudowa Polska SA consolidated at the level of the consolidated financial statement of Hydrobudowa Polska SA	61.61%	-	-

P.R.G. Metro Sp. z o. o. (2)	ul. Wólczyńska 156 01-919 Warsaw	Other specialist construction works n.e.c. PKD 4399Z	non-consolidated subsidiary of Hydrobudowa Polska SA	52.09%	-	-
Hydrobudowa 9 PIB SA (3)	ul. Sienkiewicza 9, 60-900 Poznań POLAND	General construction of buildings and civil engineering works, n.e.c. – PKD 4521F	full Subsidiary of Hydrobudowa 9 PIB SA consolidated at the level of the consolidated financial statement of Hydrobudowa Polska SA	61.61%	69.26%	68.47%
Gdyńska Projekt Sp. z o.o. (4)	ul. Sienkiewicza 22, 60-900 Poznań POLAND	Buying and selling of own real estate – PKD 6810Z	full Subsidiary of Hydrobudowa 9 PIB SA consolidated at the level of the consolidated financial statement of Hydrobudowa Polska SA	61.61%	-	-
Górecka Projekt Sp. z o.o. (5)	ul. Sienkiewicza 22, 60-900 Poznań POLAND	Construction projects connected with construction of buildings – PKD 4110 Z, and development and selling of own real estate – PKD 7011 Z	Subsidiary of Hydrobudowa 9 PIB SA consolidated at the level of the consolidated financial statement of Hydrobudowa Polska SA	61.61%	-	-
Infra SA	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Plumbing, heat and air-conditioning installation - PKD 4322Z	full	99.95%	99.95%	99.95%
PRIS Sp. z o.o. (6)	ul. Leona Popielskiego 14, 52-019 Wrocław POLAND	Manufacture of builders' ware of plastic PKD 2523Z	full subsidiary of Infra SA consolidated at the level of the consolidated financial statement of Infra SA	50.99%	50.99%	-
Wiertmar Sp. z o.o. (7)	Kopanka 13/15, 92-701 ŁÓDŹ POLAND	General construction of buildings PKD 4521A	full subsidiary of Infra SA consolidated at the level of the consolidated financial statement of Infra SA	50.97%	-	-

KWG SA (formerly KB GAZ SA)	ul. Krasickiego 4, 71-333 Szczecin POLAND	General construction works in the area of linear facilities: pipelines, power lines, civil engineering works, n.e.c. – PKD 4521C	full	100.00%	100.00%	100.00%
Metorex Sp. z o.o.	ul. Żwirki i Wigury 17A, 87-100 Toruń POLAND	General construction of buildings and civil engineering works – NACE 4521	full	99.56%	99.56%	99.56%
PBG Dom Sp. z o.o.	ul. Skórzewska 35 Wysogotowo k/Poznań 62-081 Przeźmierowo POLAND	General construction of buildings PKD 4521A	full	100.00%	84.85%	-
Apartamenty Poznańskie Sp. z o.o. (8)	ul. Pamiętkowa 3/46, 61-512 Poznań POLAND	General construction of buildings PKD 4521A	full Subsidiary of PBG Dom Sp. z o.o. consolidated at the level of the consolidated financial statement of PBG Dom Sp. z o.o.	51.00%	51.00%	51.00%
Budwil Sp. z o.o. (9)	ul. Mazowiecka 42, 60-623 Poznań POLAND	Development and selling of own real estate PKD 7011 Z	full Subsidiary of PBG Dom Sp. z o.o. consolidated at the level of the consolidated financial statement of PBG Dom Sp. z o.o.	51.00%	-	-
Dawil Sp. z o.o. (10)	ul. Mazowiecka 42, 60-623 Poznań	Construction projects connected with construction of buildings – PKD 4110 Z, and development and selling of own real estate – PKD 7011 Z	full Subsidiary of PBG Dom Sp. z o.o. consolidated at the level of the consolidated financial statement of PBG Dom Sp. z o.o.	100.00%	-	-
Przedsiębiorstwo Robót Inżynieryjno Drogowych SA	ul. Poznańska 42, 64-300 Nowy Tomyśl POLAND	Construction of roads and railways PKD - 4523A and Construction of highways, roads, airfields and sport facilities – NACE 4523	full	100.00%	100.00%	-

The table shows the Parent Company's interest in equity of Capital Group companies in %.

Percentage share in the Capital Group companies was calculated as follows: % share of the Parent Company PBG in a Subsidiary \* % share of this Subsidiary in its subsidiary.

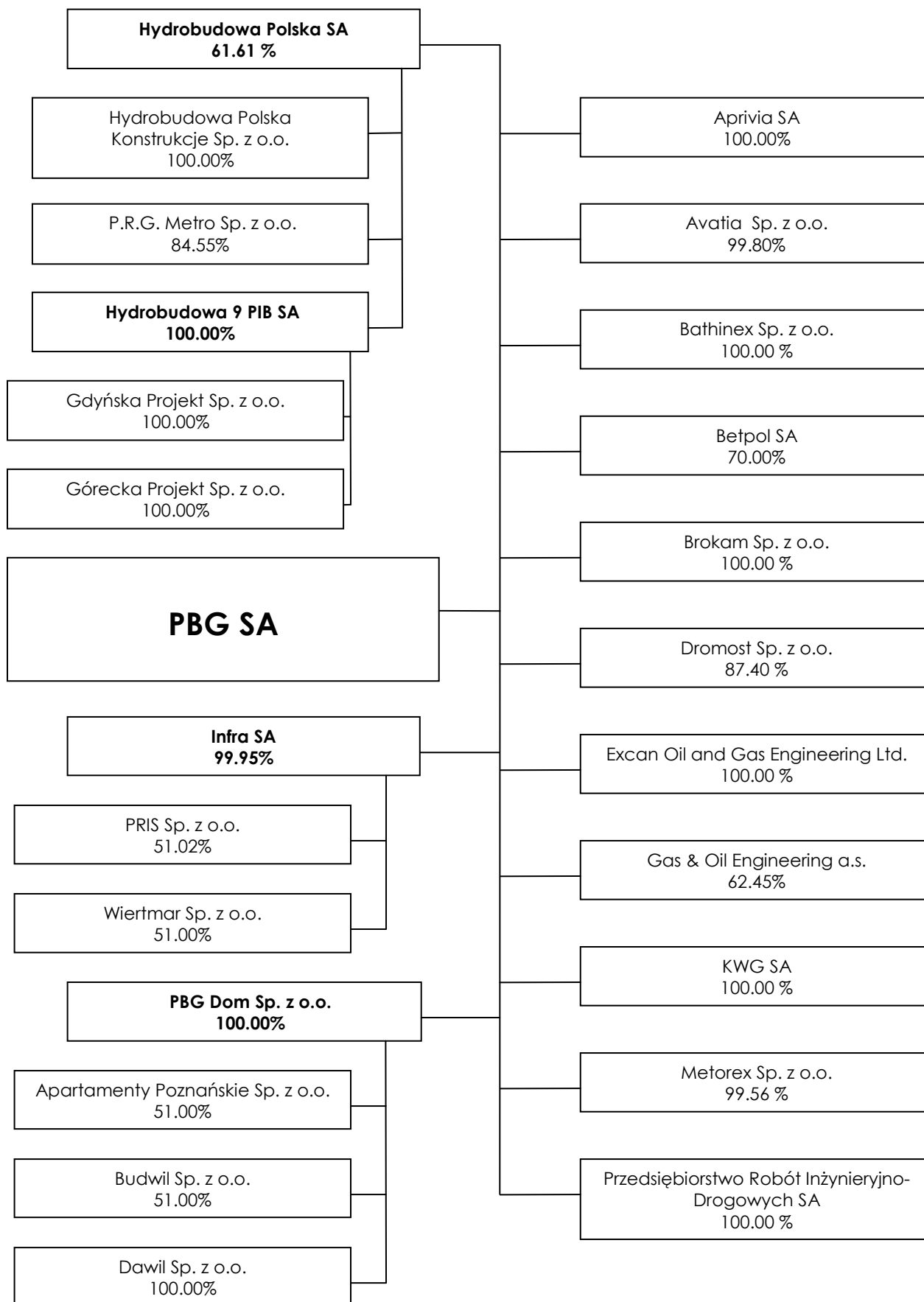


1. Hydrobudowa Polska Konstrukcje Sp. z o.o. has been a subsidiary of Hydrobudowa Polska SA as of 16 May 2008. Hydrobudowa Polska SA holds 100% stake in Hydrobudowa Polska Konstrukcje Sp. z o.o.
2. P.R.G. Metro Sp. z o. o. has been a subsidiary of Hydrobudowa Polska SA as of 12 September 2008. Hydrobudowa Polska SA holds 84.55% stake in P. R. G. Metro Sp. z o. o.
3. Hydrobudowa 9 PIB SA has been a subsidiary of Hydrobudowa Polska SA as of 30 September 2008. As at 30 September 2007, Hydrobudowa 9 PIB SA was a direct subsidiary of PBG SA – 68.47% stake, as at 30 September 2008 it has been a direct subsidiary of Hydrobudowa Polska SA – 100% stake.
4. Gdyńska Projekt Sp. z o.o. has been a subsidiary of Hydrobudowa 9 PIB SA as of 2 April 2008. Hydrobudowa 9 PIB SA holds 100% stake in Gdyńska Projekt Sp. z o.o.
5. Górecka Projekt Sp. z o.o. has been a subsidiary of Hydrobudowa 9 PIB SA as of 11 September 2008. Hydrobudowa 9 PIB SA holds 100% stake in Górecka Projekt Sp. z o.o.
6. PRIS SA has been a subsidiary of Infra SA as of 31 August 2007. Infra SA holds 51.02% stake in PRIS SA;
7. Wiertmar Sp. z o. o. has been a subsidiary of Infra SA as of 2 April 2008. Infra SA holds 51.00% stake in Wiertmar Sp. z o. o.
8. Apartamenty Poznańskie Sp. z o.o. has been a subsidiary of PBG Dom Sp. z o. o. as of 27 June 2008. As at 30 September 2007, Apartamenty Poznańskie Sp. z o.o. was a subsidiary of PBG SA - 51% stake, as at 30 June 2008 it has been a subsidiary of PBG Dom Sp. z o. o. - 51% stake.
9. Budwil Sp. z o.o. has been a subsidiary of PBG Dom Sp. z o.o. as of 8 April 2008. PBG Dom Sp. z o.o. holds 51% stake in Budwil Sp. z o.o.
10. Dawil Sp. z o.o. has been a subsidiary of PBG Dom Sp. z o.o. as of 26 August 2008. PBG Dom Sp. z o.o. holds 100% stake in Dawil Sp. z o.o.

### **Non-consolidated companies**

As the preparation of the opening balance of P.R. G. Metro Sp. z o. o. is still in progress, the Board of Directors of PBG S.A. decided not to present results generated by P.R. G. Metro Sp. z o. o. in the consolidated financial statement of PBG for Q3 FY 2008. These results will be presented in the consolidated statement for Q4 FY08.

STRUCTURE OF PBG CAPITAL GROUP AS AT 30 SEPTEMBER 2008



## **2.2 Accounting principles employed in the preparation of the consolidated and separate report for Q4 FY 2008**

This financial statement was drawn up in accordance with IAS 34 "Interim financial reporting", adopting the same principles for the current and comparative periods. The specific accounting principles adopted by the Capital Group, as well as principles regarding the reporting currency and approximation, are described in detail in the FY07 report available at the Company's website: <http://www.inwestor.pbg-sa.pl/nowa/pl/detale.asp?id=1986>

### **2.3 Changes in adopted accounting principles**

PBG Capital Group introduced a presentation adjustment in relation to the accounting principles adopted in the report for FY 2007.

Cash flow hedges are recognised at fair value taking into account changes in fair value:

- the portion considered an effective hedge is recognised directly in equity,
- the ineffective portion is recognised in profit or loss.

In financial statements published previously, revenues and expenses related to the ineffective portion of a hedge were recognised in financial revenues or expenses in the Profit and Loss Account.

Based on an analysis conducted with an auditor, a decision was made to change the principles of presentation to ensure the true and fair presentation of economic events in separate and consolidated financial statements.

A specific transaction of purchase/sale of a financial instrument should be matched with a specific business event (project, construction) for the purposes of which it was concluded.

All entries related to financial instruments recognised in profit or loss should be presented in the "operations" part of the P&L Account: under revenues from sales or selling costs, respectively.

Comparative data was adjusted accordingly.

#### **2.3.1. Impact of new standards and interpretations on the Capital Group's financial statement**

The following standards and interpretations entered into force as of 1 January 2007:

- IFRS 7: Financial Instruments: Disclosures,
- Amendments to IAS 1 Presentation of Financial Statements – Equity-related disclosures.

PBG Capital Group verified new interpretations, standards and amendments to existing standards. New interpretations, standards and amendments to existing standards have no significant effect on the Group's accounting principles (policy).

The following new standards and interpretations have been published by the International Accounting Standards Board (IASB) or International Financial Reporting Standards Interpretation Committee (IFRIC), but have not come into effect yet:

- IAS 23: Borrowing Costs (effective as of 1 January 2003, not yet adopted by the European Union),
- Amendment to IAS 1: Presentation of Financial Statements (effective as of 1 January 2009, not yet adopted by the European Union),
- IFRS 8: Operating Segments (effective for annual periods beginning on or after 01 January 2009)
- Revised IFRS 3: Business Combinations (effective for annual periods beginning on or after 01 July 2009; amendment of this standard will have no effect on the Capital Group's financial statement),
- Revised IAS 27: Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 01 July 2009, not yet adopted by the European Union),
- IFRIC Interpretation 11: Group and Treasury Share Transactions (effective for annual periods beginning on or after 01 March 2007),
- IFRIC Interpretation 12: Service Concession Arrangements (effective for annual periods beginning on or after 01 January 2008),
- IFRIC Interpretation 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January 2008).

According to the Board of Directors of the Parent Company, application of the above standards and interpretations shall have no significant effect on the Group's accounting principles (policy).

**Average PLN exchange rates in the period covered by the financial statement and comparative financial data against EURO as set by the National Bank of Poland.**

a) net profits from sales of products, goods and materials, operating profit, gross profit and net profit, as well as net cash flow from operations, net cash flow from investments, net cash flow from financial activity, and total net cash flow for three quarters 2008 were calculated based on the average exchange rate of EURO – arithmetic average of exchange rates set by the National Bank of Poland as at month end in each month, i.e. : PLN 3.4247

a) net profits from sales of products, goods and materials, operating profit, gross profit and net profit, as well as net cash flow from operations, net cash flow from investments, net cash flow from financial activity, and total net cash flow for three quarters 2007 were calculated based on the average exchange rate of EURO – arithmetic average of exchange rates set by the National Bank of Poland as at month end in each month, i.e. : PLN 3.8314

c) total assets, liabilities and provisions for liabilities, long-term payables, short-term payables, and share capital as at 30 September 2008 were calculated at the average exchange rate of EURO as at 30 September 2008, i.e. : PLN 3.4083

d) total assets, liabilities and provisions for liabilities, long-term payables, short-term payables, and share capital as at 30 September 2007 were calculated at the average exchange rate of EURO as at 30 September 2007, i.e. : PLN 3.7775.

## **2.4 Business segments**

PBG Capital Group has defined a business segment as the primary reporting format, and a geographical segment based on the criterion of customer location as the secondary reporting format.

PBG Capital Group and its Parent Company operate in four main segments:

- **natural gas and crude oil,**
- **water,**
- **fuels,**
- **residential and industrial construction,**
- **roads,**
- **other.**

Individual segments cover the following services:

- **Natural gas and crude oil:**
  - overground natural gas and crude oil mining facilities
  - natural gas liquefaction facilities and LNG storage and regasification facilities
  - LPG separation and storage stations, C5+
  - desulphurisation plants
  - overground facilities of underground natural gas depots
  - crude oil tanks
  - natural gas and crude oil transport systems, including:
    - meter and regulator stations, measurement and settlement stations, mixing plants, distribution stations,
    - compressor stations, etc.
  - natural gas distribution
  - LNG transport and facilities.
- **Water:**
  - process and sanitary facilities for water and sewerage systems, such as:
    - waterworks
    - sewerage systems
    - water mains and interceptors
    - water intake points
    - wastewater treatment plants
  - hydrotechnical facilities, such as:
    - water dams
    - storage reservoirs

- flood defences (dykes)
- renovation of waterworks and sewerage systems
- **Fuels:**
  - fuel depots
  - underground gas depots
  - LNG storage and vaporisation stations
- **Residential and industrial construction:**
  - general construction
  - industrial infrastructure.
- **Roads:**
  - road building.

PBG Capital Group presents its revenues from sales, expenses and result (gross profit margin) broken down into these segments, but does not present its assets and liabilities in the Balance Sheet by segments, as some tangible fixed assets (PP&E) are used in production classified under several different segments and it is not possible to allocate the inventory of materials to individual segments; it is also not possible to allocate trade payables as well as other operating and financial revenues and expenses to specific segments.

Information on business segments is presented in the Table below:

Business segments – data for the period from 1 January 2008 to 30 September 2008

Item	Business segments					Other	Consolidation adjustments and non-consolidation	Consolidated amount
	natural gas and crude oil	water	fuels	residential and industrial construction	roads			
<i>Financial results of business segments for the period from 1 January 2008 to 30 September 2008</i>								
<b>Total revenues</b>	<b>197 502</b>	<b>858 999</b>	<b>117 734</b>	<b>88 336</b>	<b>89 920</b>	<b>176 192</b>	<b>(158 640)</b>	<b>1 370 043</b>
External sales	197 502	858 999	117 734	88 336	89 920	176 192	(158 640)	1 370 043
Intersegment sales	-	-	-	-	-	-	-	-
<b>Total expenses</b>	<b>(159 505)</b>	<b>(817 341)</b>	<b>(95 458)</b>	<b>(69 769)</b>	<b>(76 026)</b>	<b>(99 828)</b>	<b>156 246</b>	<b>(1 161 681)</b>
<b>Segment result</b>	<b>37 997</b>	<b>41 658</b>	<b>22 276</b>	<b>18 567</b>	<b>13 894</b>	<b>76 364</b>	<b>(2 394)</b>	<b>208 362</b>
Expenses not allocated to segments	x	x	x	x	x	x	x	(72 959)
Other operating revenues/expenses	x	x	x	x	x	x	x	7 237
<b>Operating profit</b>	x	x	x	x	x	x	x	<b>142 640</b>
Financial revenues	x	x	x	x	x	x	x	24 545
Financial expenses	x	x	x	x	x	x	x	(44 299)
Share in profits of related parties accounted for using the equity method	x	x	x	x	x	x	x	-
<b>Profit before tax</b>	x	x	x	x	x	x	x	<b>122 886</b>
Income tax	x	x	x	x	x	x	x	(14 105)
<b>Net profit</b>	x	x	x	x	x	x	x	<b>108 781</b>

## **2.5 Key achievements or failures of the Capital Group in Q3 FY08 and summary of the respective key events**

In Q3 FY08, PBG Capital Group generated PLN **543.223k in net revenues** from sales of products, goods and materials, achieving the **return on sales (before tax) of PLN 81.741k**.

The key sources of income in Q3 from the Group's core business included the following construction contracts:

- a. contract for "Extension of the sewerage system of the Ołtaszyn housing estate" signed by and between Wrocław Municipality and Hydrobudowa Polska SA – recorded revenues: PLN 30,602 k;
- b. contract for "Construction of the sewerage and water supply system for left-bank Szczecin (Part 1 – K2 collector, Part 2 - W collector)" concluded by and between Zakład Wodociągów i Kanalizacji Spółka z o.o. in Szczecin and Hydrobudowa 9 PIB SA – recorded revenues: PLN 20,031k;
- c. contract for "Ruczaj Street housing estate in the district of Wilanów in Warsaw" signed by and between Z.W. Sowiński Spółka Komandytowa and PBG SA – recorded revenues: PLN 18,111k;
- d. contract for "Improvement of wastewater and water management in the Municipality of Zabrze, districts of Grzybowo and Rokitnica", part of the project "Improvement of wastewater management in the Municipality of Zabrze" signed by and between the Municipality of Zabrze with Zabrzeńskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. Zabrze and Hydrobudowa Polska SA – recorded revenues: PLN 17,893k;
- e. contract for "Extension and conversion of the wastewater treatment plant in Piaseczno" signed by and between Piaseczno Municipality and Hydrobudowa Polska SA – recorded revenues: PLN 17,117k;
- f. contract for "Preparatory works for construction and design works for a building in Świnoujście" concluded by and between Pomerania Development and PBG SA – recorded revenues: PLN 14,549k;
- g. contract for "Supply and construction of underground gas storage facilities in Poland" signed by and between Zakład Inwestycji Organizacji Traktatu Północnoatlantyckiego (NATO Investment Department) and PBG SA – recorded revenues: PLN 13,364k;
- h. contract for "Upgrade of the Left-Bank Wastewater Treatment Plant in Poznań" signed by and between the City of Poznań and Hydrobudowa 9 PIB SA – recorded revenues: PLN 12,271k;
- i. contract for "Task no. A1/ Strachocin-Wojnów housing estate networks " signed by and between Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o. o. Wrocław and Hydrobudowa 9 PIB SA – recorded revenues: PLN 11,341k;



- j. contract for "Replacing LS gas with E-group gas in the eastern part of the Wielkopolskie Province, including the City of Poznań, in two stages", concluded by and between PGNiG SA and PBG SA – planned revenues: PLN 11,169k;
- k. contract for "Improvement of water and wastewater management in the Municipality of Zabrze – Reconstruction of the "Śródmieście" Wastewater Treatment Plant", concluded by and between the Municipality of Zabrze and Zabrzeńskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o. o. Zabrze, and Hydrobudowa Polska SA – recorded revenues: PLN 10,983k;
- l. contract for "The Vistula Lower Terrace collector – stage 1 and 2 – Kraków" concluded by and between by the Municipality of Kraków and Miejskie Przedsiębiorstwo Wodociągów SA, and Hydrobudowa 9 PIB SA – recorded revenues: 10,089k

### **Summary of major events related to the key achievements or failures of the Capital Group in Q3 FY08 communicated by the Parent Company in current reports in the reporting period**

The key events in Q3 FY08 included:

#### **MERGERS, ACQUISITIONS, AND ESTABLISHMENT OF NEW SUBSIDIARIES**

##### **- reduction of equity interest held in Hydrobudowa 9 PIB SA**

On 24 July 2008, share capital increase of Hydrobudowa 9 PIB SA by the issue of series D shares was registered. As a result, the interest held by PBG SA in the total number of votes of this Company dropped and now totals 67.52%.

After the registration of the increased share capital of Hydrobudowa 9 PIB SA, PBG holds 9,588,331 of the Company's shares, representing 65.96% of the Company's share capital and carrying 18,704,949 votes at the Company's General Meeting of Shareholders, i.e. 67.52% of the Company's total vote.

##### **- increase of registered capital of the subsidiary company PBG Dom Sp. z o.o.**

On 5 August 2008, the Local Court in Poznań – Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, registered the increased registered capital of the subsidiary company PBG Dom Sp. z o.o. The Company's registered capital was increased from PLN 2,357,200.00 to PLN 12,357,000.00, i.e. by PLN 10,000,000.00, by creating 100,000 shares of the nominal per-share value of PLN 100.00.

All new shares were taken over by PBG SA, the sole partner of PBG Dom Sp. z o.o. After the increase in registered capital from 123,572 shares, PBG SA may exercise 123,572 votes representing 100% of the total vote.

**- termination of a preliminary contract of sale regarding the acquisition of equity interest in the company J.A. Sokół – Melafir Sp. z o.o.**

On 22 August 2008, the Board of Directors of PBG SA terminated a preliminary contract of sale concluded on 22 June 2007 by and between PBG SA and a natural person.

The object of this contract was the acquisition of equity interest in the company J.A. Sokół – Melafir Sp. z o.o. with its registered office in Tłumaczów. PBG SA and the Seller had undertaken to conclude the final contract of sale, whereunder the Seller would sell all 500 shares of the company J.A. Sokół - Melafir Sp. z o.o. to PBG SA, free of any encumbrances, for the total price of PLN 32, 000,000.00.

The final contract of sale was to be concluded subject to the following conditions precedent:

- results of the audit conducted by PBG SA in the Acquiree must be positive;
- a license to extract melaphyre from the deposit "Tłumaczów - Gardzień" must be brought back into effect and become binding.

On 22 August 2008, PBG SA represented by its authorised representative and the natural person acting as a Party to the said preliminary contract of sale agreed to terminate this contract as no agreement was reached whether the first condition precedent (positive audit result) had been satisfied.

**- increased share capital of a subsidiary Hydrobudowa Polska SA and inclusion of Hydrobudowa 9 PIB SA to Hydrobudowa Polska Capital Group**

On 30 September 2008, the Local Court in Poznań – Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, registered the increased share capital of the subsidiary company Hydrobudowa Polska SA from PLN 173,673,200.00 to PLN 210,558,445.00 following the issue of 36,885,245 series L shares on the nominal value PLN 1.00 per share.

All series L shares were taken over in exchange for a non-monetary contribution in the form of 14,536,685 fully paid shares of the company Hydrobudowa 9 PIB SA, of the nominal per-share value PLN 0.10 and total nominal value PLN 1,453,668.50, representing 100% of shares of Hydrobudowa 9 PIB SA.

Following the increase of share capital of Hydrobudowa Polska SA, the interest held by PBG SA increased from 60.69% to 61.61%, and Hydrobudowa 9 PIB SA became a member of Hydrobudowa Polska Capital Group.

**CHANGES IN SUBSIDIARIES**

**PBG Dom Sp. z o.o.**

**- acquisition of shares in Dawil Sp. z o.o.**

On 26 August 2008, the subsidiary company PBG Dom Sp. z o.o. acquired shares of Dawil Sp. z o.o. from a natural person. The Company's registered capital amounts to PLN 50,000.00 and is divided into 500 shares of nominal value PLN 100.00 per share. Under this transaction, PBG Dom Sp. z o.o. acquired 500 shares for the total price of PLN 50,000.00, representing 100% in the company's share capital and total vote.

**Hydrobudowa 9 PIB SA****- establishment of a company Górecka Projekt Sp. z o.o. by the Subsidiary Company Hydrobudowa 9 PIB SA**

On 11 September 2008, Hydrobudowa 9 PIB SA established a subsidiary company Górecka Projekt Sp. z o.o. with its registered office in Poznań. The Company was registered by the Local Court in Poznań – Nowe Miasto/Wilda, VIII Commercial Division of the National Court Register in the Register of Entrepreneurs of the National Court Register on 19 September 2008. The Company's registered capital amounts to PLN 50,000.00 and is divided into 1,000 shares of nominal value PLN 50.00 per share. One share carries one vote. All shares of Górecka Projekt Sp. z o.o. shall be taken over by Hydrobudowa 9 PIB SA and paid up in cash.

**Hydrobudowa Polska SA****- acquisition of shares in P.R. G. Metro Sp. z o. o. by Hydrobudowa Polska SA**

On 12 September 2008, Hydrobudowa Polska SA obtained a decision of the President of the Office for Competition and Consumer Protection authorising the Company to take control over P.R.G. Metro Sp. z o. o.

With this decision, the second (and last) condition precedent for the acquisition of shares of P. R. G. Metro Sp. z o. o. was satisfied and the Company became a member of Hydrobudowa Polska Capital Group.

Hydrobudowa Polska SA paid PLN 29,590,879.50 for the total of 465 shares of nominal per-share value of PLN 1,000.00, representing 84.55% of the registered capital of P.R.G. Metro Sp. z o.o. Hydrobudowa Polska SA will finance this transaction with its own funds from the issue of series K shares.

**ISSUE OF SHARES AND SALE OR ACQUISITION OF SHARES BY SHAREHOLDERS OF PBG SA****Transactions involving PBG SA shares**

Between 27 August 2008 and 1 September 2008, a Member of the Board of Directors of PBG SA entered into a transaction involving shares of PBG SA. 434 ordinary bearer shares of PBG SA were sold on the stock exchange at the average price of PLN 245.60 per share.

**INVESTMENT AGREEMENTS****Material agreement concluded with Zakład Utylizacyjny Spółka z o.o. in Gdańsk**

On 6 August 2008, the Consortium of Capital Group Companies (hereinafter referred to as "the Contractor"), i.e. Hydrobudowa Polska SA as Consortium Leader, PBG SA and Hydrobudowa 9 PIB SA as Consortium Partners, in cooperation with Korporacja Budowlana Doraco Sp. z o. o. and Vauche SA with its registered office in France as Consortium Partners, signed a contract with Zakład Utylizacyjny Spółka z o.o. with its registered office in Gdańsk (hereinafter referred to as "the Contracting Party") for

the task "Design and construction of waste neutralisation plant in Gdańsk Szadółki, building and engineering works".

This contract covers the design and construction of waste neutralisation plant in accordance with the requirements of BAT (Best Available Technique) based on the existing Waste Removal Plant in Gdańsk – Szadółki, with the supply of process lines for the sorting station and composting plant.

The new Waste Neutralisation Plant will serve the entire area of the City of Gdańsk and municipalities of Żukowo i Kolbudy in terms of municipal waste neutralisation. This contract is part of a larger project "Upgrade of Municipal Waste Management in Gdańsk".

The total net amount of this contract is PLN 299,001,006.00.

This contract shall be implemented within 24 months from the date of signing.

The parties have agreed on the following share of works:

- Hydrobudowa Polska SA - Consortium Leader and General Contractor shall perform and be responsible for 21% of works under this task;
- PBG SA - Consortium Partner shall perform and be responsible for 16% of works under this task,
- Hydrobudowa 9 PIB Polska SA - Consortium Partner shall perform and be responsible for 21% of works under this task,
- Korporacja Budowlana Doraco Sp. z o. o. – Consortium Partner, shall perform and be responsible for 21% of works under this task,
- Vauche SA – Consortium Partner, shall perform and be responsible for 21% of works under this task.

#### **Contract for the task "LMG Project – the Central Unit, wellsites, pipelines and other"**

On 11 August 2008, the Board of Directors of PBG SA as Consortium Leader, together with the Italian company Technip KTI S.P. A. and Canadian company Thermo Design Engineering Ltd. as Consortium Partners, concluded a contract with Polskie Górnictwo Naftowe i Gazownictwo SA (Polish Gas and Oil Company) for General Contractor services under the task "LMG Project – the Central Unit, wellsites, pipelines and other".

The total gross amount of this contract is PLN 1,704,340,000.00 (i.e. PLN 1,397,000,000.00 net). The contract shall be performed by the Consortium within 56 months from the date of signing.

In addition, on 11 August 2008, the Board of Directors of PBG SA concluded a material agreement with Technip KTI S.P.A for the performance of works under the task "LMG Project – the Central Unit, wellsites, pipelines and other". As the Consortium Partner, Technip KTI S.P.A. shall provide specialist end-to-end systems, including:

- \* amine treatment of sour gas from oil separation and stabilisation,
- \* conversion of hydrogen sulphide from sour gases and storage of liquid sulphur,
- \* removal of organic sulphur compounds from gas products and LPG,
- \* treatment of post-regeneration gas.

PBG SA as the Consortium Leader shall pay PLN 306,084,000.00 net to Technip KTI S.P.A. for the entire scope of works performed.

The Parties agreed that both in the scope covered by the Contract with the Contracting Party, and in all contracts concluded within the Consortium for the task "LMG Project", all terms and conditions of the Contract concluded by PBG SA on behalf of the Consortium with Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Company) shall apply.

### **Contract for the task "Construction of the Waste Management Plant in Trzebania, municipality of Osieczna"**

On 5 September 2008, the Board of Directors of PBG SA concluded a material agreement with Miejski Zakład Oczyszczania SP. z o.o. with its registered office in Leszno. The Contract for the total gross amount of EUR 30,400,518.41 (EUR 24,918,457.71 net) shall be performed by the Consortium of PBG Capital Group Companies (Hydrobudowa 9 PIB SA as Consortium Leader, PBG SA and Hydrobudowa Polska SA as Consortium Partners) as well as research and design centres "Ekosystem" Sp. z o. o. with its registered office in Zielona Góra and Ekotab projekt Sp. z o. o. with its registered office in Poznań. This Contract shall cover the task "Construction of the Waste Management Plant in Trzebania, municipality of Osieczna".

Works under this Contract shall be performed by 30 June 2010 in accordance with the Conditions of Contract for Plant and Design-Build for Electrical and Mechanical Works, as well as Building and Engineering Works Designed by the Contractor.

## **AGREEMENTS WITH FINANCIAL INSTITUTIONS**

### **Framework agreement concluded with HDI – Gerling Polska Towarzystwo Ubezpieczeń SA**

On 14 July 2008, the Board of Directors of PBG SA and the following subsidiaries: Hydrobudowa Polska SA, Infra SA and Hydrobudowa 9 PIB SA, concluded a framework agreement with HDI-Gerling Polska Towarzystwo Ubezpieczeń SA. The object of the agreement is to determine a guarantee line for contractual guarantees.

Under the said agreement, HDI-Gerling Polska SA shall open a credit line from 14 July 2008 to 14 June 2009 for contractual guarantees granted to all PBG Capital Group Companies. These guarantees include:

- bid bonds – up to 180 days;
- proper performance bonds – up to 36 months;
- defects liability bonds – up to 60 months;
- performance bonds – up to 72 months, and if the contract is financed with EU funds – up to 84 months;
- advance payment guarantees – up to 18 months.

The total maximum amount of HDI-Gerling Polska SA's commitment under guarantees granted as part of the line was set at PLN 80,000,000.00 and it covers all guarantees issued before 14 July 2008.

Five blank promissory notes with a promissory note declaration per each insurer, each of them guaranteed by other insurers, shall secure the repayment of HDI-Gerling Polska SA receivables under

guarantees granted under the guarantee line and with reference to guarantees granted under the agreement of 19 September 2007.

**Annex to the facility liability limit agreement concluded with Raiffeisen Bank Polska SA**

On 25 July 2008, the Board of Directors of PBG SA concluded an annex to the agreement on a facility liability limit of 28 September 2007 with Raiffeisen Bank Polska SA with its registered office in Warsaw. Under the annex, another subsidiary, Aprivia SA., joined PBG S.A. and the following PBG Capital Group companies: Infra SA, Metorex Sp. z o. o., Dromost Sp. z o. o., Hydrobudowa 9 PIB SA, and PRID SA.

The annex also increased the liability limit facility granted to the Companies, from PLN 75,000,000.00 to PLN 125,000,000.00.

The Companies may use the limit in the following forms: revolving credit, letter of credit, and guarantee.

Receivables of Raiffeisen Bank Polska S.A. are secured with:

- 1) Authorisation to debit bank accounts of each Borrower in the Bank,
- 2) Judgment note (agreement for judgment) under Art. 97 of the Banking Law up to the total amount of the current debt including interest and other charges, but not exceeding PLN 187,500,000.00.
- 3) Assignment of receivables from the financed contract in the minimum amount of 150% of the utilised limit.

Other provisions of the agreement were not amended.

**Financial agreements with PEKAO SA**

On 07 August 2008, the Board of Directors of PBG SA concluded financial agreements with Bank PEKAO SA related directly to the signing and performance of the contract "LMG Project – the Central Unit, wellsites, pipelines and other":

1. Agreement for the credit line of PLN 286,000,000.00 for contract financing, under which the limit was broken down into the following Bank Product Limits:
  - a) Performance Bond Limit – up to PLN 86,000,000.00,
  - b) Credit Limit – up to PLN 200,000,000.00, of which up to (the equivalent of) PLN 40,000,000.00 denominated in PLN, USD, EUR, CAD, SKK, CZK, NOK, SEK, or DKK for Guarantees or Letters of Credit.
2. Agreement for the Performance Bond up to PLN 85,217,000.00 valid until 30 April 2013, with Polskie Górnictwo Naftowe i Gazownictwo SA as the Beneficiary.

The Parties agreed as follows:

- a) Performance Bond shall be granted in PLN,
- b) Credit Facility shall be granted in PLN,
- c) Guarantees and Letters of Credit shall be granted in PLN or in currencies specified in documents submitted by the Borrower, but no other than USD, EUR, CAD, SKK, NOK, CZK, SEK, or DKK.

Maturity of each Bank Product shall be agreed on a case-by-case basis pursuant to the Line Agreement and terms and conditions of the Contract, but must not exceed:

- a) the expected Contract performance date,
- b) final payment date,
- c) final repayment date set at 30 June 2013.

The following legal security for Bank Products was established:

- a) assignment of receivables with a condition precedent from the Contract with irrevocable specification of Credit Account,
- b) authorisation to debit the Borrower's current and future accounts in the Bank,
- c) the Borrower's judgment note (agreement for judgment),
- d) surety of the Borrower's subsidiary Hydrobudowa Polska SA together with its judgment note (agreement for judgment).

This agreement was considered material based on the criterion of total equity.

3. Considering the Bank's commitment in the Limit granted for Contract financing, the Annex was signed to reduce the total value of Bank Products already granted from PLN 147,755,113.25 to the total maximum amount of PLN 92,682,661.91.

The Parties agreed the following maximum amount of limits for Bank Products made available to PBG SA:

- a) revolving facility in the form of a credit line – up to PLN 20,000,000.00 or its equivalent in EUR or USD,
- b) Investment facility in the form of a credit line up to: PLN 14,182,661.91,
- c) Limit for bank guarantees up to PLN 30,000,000.00,
- d) Limit for derivatives up to PLN 25,000,000.00,
- e) Limit for letters of credit up to PLN 20,000,000.00,
- f) Limit for cards up to PLN 500,000.00,

Other terms and conditions of the said agreement shall remain unchanged.

Bank fees and charges were agreed at arm's length.

#### **Agreement with Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" SA**

On 29 August 2008, the Board of Directors of PBG SA with its subsidiaries Hydrobudowa Polska SA, Infra SA, and Hydrobudowa 9 PIB SA concluded a material agreement with Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" SA with its registered office in Warsaw on contract guarantees granted within the specified guarantee limit.

Under the said agreement, TUIR "WARTA" SA granted a revolving guarantee limit to Capital Group Companies, within which contract performance bonds shall be granted with the following validity dates:

- a) bid bonds and advance payment guarantees – up to 3 years,
- b) performance bonds – up to 4 years (plus 30 days to release the security),
- c) defects liability bond – up to 5 years (plus 15 days to release the security), provided that the total maximum term of performance bonds related to a single contract (subject to the above limitations) is 6 years. In the case of guarantees related to construction contracts co-financed with the EU funds,

concluded in public procurement proceedings, and contracted by public Beneficiaries, this term shall be 7 years (plus 45 days to release the security).

The Parties agreed that the maximum guarantee limit for all Guarantees for which TUiR "WARTA" SA is responsible shall not exceed PLN 150,000,000.00 at any time. The agreement shall be valid until 28 April 2009. The fee payable to TUiR "WARTA" SA for guarantees granted within the limit was agreed at arm's length.

Receivables of TUiR "WARTA" SA related to guarantees granted within the limit are secured by:

- 1) PBG SA corporate guarantee,
- 2) five promissory notes per each insurer, each of them guaranteed by other insurers,
- 3) judgment note (agreement for judgment) issued by all Applicants pursuant to Art. 777 § 1 section 5 of the Code of Civil Proceedings, whereunder each Applicant shall be subject to enforcement proceedings under claims of TUiR "WARTA" SA resulting from guarantees granted upon request of any Applicant acting as Party to the agreement.

#### **Annex to framework agreement concluded with ING Bank Śląski SA**

On 8 September 2008, the Board of Directors of PBG SA concluded Annex no. 5 to the framework agreement concluded on 6 September 2007 by and between ING Bank Śląski SA and PBG Capital Group companies: PBG SA, Hydrobudowa Polska SA, Infra SA, Hydrobudowa 9 PIB SA, Avatia Sp. z o.o. , and PRIS Sp. z o.o. Under the said Annex, the credit limit was increased from PLN 100,000,000.00 to PLN 150,000,000.00.

Borrowers submitted their judgment notes (agreements for judgment) up to PLN 225,000,000.00, and the Bank may apply for an immediate execution of the enforceable title by 5 September 2015.

In addition, a corporate guarantee provided by each Company acting as Party to the agreement was increased from PLN 100,000,000.00 to PLN 150,000,000.00.

These corporate guarantees shall remain in effect until all obligations arising from the Framework Agreement in respect of the Bank have been settled. Corporate guarantees were granted at arm's length.

Other provisions of the agreement were not amended.

#### **Surety granted under the framework agreement with Raiffeisen Bank Polska SA**

On 27 August 2008, the Board of Directors of PBG SA granted its surety for liabilities of a subsidiary Company Hydrobudowa 9 PIB SA. This surety shall be valid until 31 December 2013, and was granted in relation to the increased security limit of Hydrobudowa 9 PIB SA to Euro 20,000,000.00 under the Framework Agreement on Derivatives and Forward Transactions of 23 June 2008 concluded with Raiffeisen Bank Polska SA.

PBG SA provided its judgment note (agreement for judgment) under Art. 97 of the Act of 29 August 1997 – Banking Law up to the total amount of the current debt including interest and other charges, but not exceeding EUR 30,000,000.00, for any claims of the Bank arising from Transactions concluded under the said Framework Agreement and Additional Agreement.

The amount of fee related to this surety was agreed at arm's length.



**OTHER EVENTS****Authorisation (proxy)**

On 25 July 2008, the Board of Directors of PBG SA granted a proxy to Mr. Paweł Buczkowski, Hydrotechnical Construction Director at PBG SA. As the Company's Proxy, Mr. Paweł Buczkowski shall be responsible for the water and hydrotechnical sector and the Company's cooperation in this field with PBG Capital Group Companies, on behalf of the Board of Directors.

Mr Paweł Buczkowski is not involved in any business competitive to PBG SA. He is not listed in the Bankruptcy Register pursuant to the Act on the National Court Register.

**Change of the name of statutory auditor of the Group's financial statements**

On 25 August 2008, the entity currently authorised to audit financial statements of PBG SA and PBG Capital Group, HLB Frąckowiak i Wspólnicy Sp. z o.o, changed its name. The company's name is now Grant Thornton Frąckowiak Sp. z o.o., and the auditor became the exclusive and official partner of Grant Thornton International in Poland.

As of the same date, the auditor no longer represents HLB International.

**Resignation from the Supervisory Board**

On 1 September 2008, Mrs Małgorzata Wiśniewska handed in her resignation from the position of Member of the Supervisory Board of PBG SA. as she became President of the Board of Directors in Infra SA, a subsidiary company of PBG SA.

**2.6 Factors and events of extraordinary nature with significant impact on the consolidated financial results**

There were no events of extraordinary nature which could have significant impact on the financial results in Q3 FY 2008.

**2.7 Explanation of seasonal or cyclical nature of the Issuer's operations in the reporting period**

Given the type of the Group's core business, i.e. building and installation services, weather conditions are the determining factor. Low temperatures make it difficult to perform earthworks and installation works, and may affect the amount of revenues from sales.

The strategy adopted by PBG Capital Group is to sign contracts of high individual value. Revenues from these contracts are less seasonal and more uniformly distributed throughout the financial year.

**2.8 Dividend paid (or declared), in total and per one share, broken down into ordinary and preference shares**

No dividend was paid or declared by the Company.

**2.9 Events occurring after 30 September 2008 (Events After the Balance Sheet Date) with potential significant impact on the future consolidated results of the Capital Group and separate financial results of PBG S.A., not included herein****MERGERS, ACQUISITIONS, AND ESTABLISHMENT OF NEW SUBSIDIARIES****Increase of registered capital of the subsidiary company Aprivia SA and establishment of Aprivia Capital Group**

On 08 October 2008, the following entries were made in the National Court Register in Poznań: the increased share capital of a subsidiary company Aprivia SA and the related sale of assets of significant value by PBG SA contributed in kind to cover the increased share capital of Aprivia SA.

Share capital of Aprivia SA was increased by issuing 71,493,065 registered series B shares in a closed subscription to be taken over by the Company's sole shareholder – PBG SA.

Following the registration, the Company's share capital was increased from PLN 500,000.00 to PLN 71,993,065.00 and is now divided into 500,000 series A shares of nominal value PLN 1.00 per share and 71,493,065 series B shares of nominal value PLN 1.00 per share. The issue price of shares is equal to their nominal value and amounts to PLN 1.00 per share. 71,993,065 registered shares carry 143,986,130 votes (i.e. 2 votes per share).

After the share capital increase, PBG SA remains the Company's sole shareholder holding 100% of share capital and 100% votes at the General Meeting of Shareholders, and the book value of Aprivia SA in PBG SA accounts increased from PLN 505,737.00 to PLN 71,998,802.00.

Series B shares of Aprivia SA were taken over by PBG SA in exchange for a contribution in kind:

a) 22,379,325 series B shares were taken over in exchange for 25,000 shares of the company PRID SA with its registered office in Nowy Tomyśl, of nominal value PLN 20.00 per share (PBG SA held 100% in share capital and the company's book value was PLN 22,379,325.00);

a) 45,971,637 series B shares were taken over in exchange for 14,245,000 shares of the company Betpol SA with its registered office in Bydgoszcz, of nominal value PLN 1.00 per share (PBG SA held 70% in share capital and the company's book value was PLN 45,971,636.00);

a) 3,142,103 series B shares were taken over in exchange for 6,000 shares of the company Dromost Sp. z o.o. with its registered office in Żabno, of nominal value PLN 500.00 per share (PBG SA held 87.39% in share capital and the company's book value was PLN 3,142,102.23).

After the registration, PRID SA, Betpol SA, and Dromost Sp. z o.o. were taken over by Aprivia SA and the following book value was recorded in accounts of Aprivia SA:

- PRID SA: PLN 22,379,325.00 – Aprivia SA holds 100% of share capital and 100% of votes at the General Meeting of Shareholders;
- Betpol SA: PLN 45,971,637.00 – Aprivia SA holds 70% of share capital and 70% of votes at the General Meeting of Shareholders;
- Dromost Sp. z o.o.: PLN 3,142,103.00 – Aprivia SA holds 87.39% of share capital and 87.39% of votes at the General Meeting of Shareholders.

PBG SA is a parent company of Aprivia SA, and after the registration of the increased share capital Aprivia SA became a parent company of the above entities contributed in kind, which at the same time were derecognised from assets held directly by PBG SA. Mr Rafał Wilczyński, authorised representative (proxy) of PBG SA, is a member of the Supervisory Board of Aprivia SA. There are no other relations between members of the Issuer's Management or Supervisory Board and Aprivia SA. Aprivia SA has no intention of changing the core business of companies contributed in kind and considers it a long-term investment. Shares in these companies were taken over by issuing 71,493,065 series B shares.

These assets were considered material as they represent over 20% of share capital of the involved entities – both the company increasing its share capital and companies contributed in kind.

## **OTHER EVENTS**

### **Transactions involving PBG SA shares**

Between 30 September and 1 October 2008, a Member of the Board of Directors of PBG SA entered into a transaction involving shares of PBG SA. 6,625 ordinary bearer shares of PBG SA were sold on the stock exchange at the average price of PLN 228.93 per share.

### **Award in a public procurement procedure for an investment task "Construction of the overground part of Wierzchowice Underground Gas Storage Depot, phase 3.5 billion nm<sup>3</sup>, sub-phase 1.2 billion nm<sup>3</sup>"**

On 3 October 2008, the Board of Directors of Polskie Górnictwo Naftowe i Gazownictwo SA took a decision in a public procurement procedure for the investment related to the extension of capacity of an underground gas storage depot in Wierzchowice: "Construction of the overground part of Wierzchowice Underground Gas Storage Depot, phase 3.5 billion nm<sup>3</sup>, sub-phase 1.2 billion nm<sup>3</sup>". The contract was awarded to the consortium of companies: PBG SA, Tecnimont S.P. A. Italy, Societe Francaise D'Etudes Et De Realisations D'Equipments Gaziers Sofregaz France, Plynostav Pardubice Holding A. S. the Czech Republic, Plynostav - Regulace Plynu A. S. the Czech Republic.

Gross value of the selected bid is PLN 1,328,580,000.00 (PLN 1,089,000,000.00 net).

## 2.10 Representation of the Board of Directors on the feasibility of forecasts adopted for the respective financial year published earlier, taking into account results published in the consolidated and condensed separate quarterly report vs. forecast results.

The Board of Directors of the Parent Company hereby represents that based on the results published in the interim consolidated and condensed separate quarterly report, the Board has decided to uphold its opinion that the forecast of FY08 results shall be achieved in line with the adopted assumptions, and results presented for the respective quarter support the feasibility of this forecast.

## 2.11 Shareholders holding at least 5% of votes at the General Meeting of Shareholders of PBG SA – directly or indirectly through subsidiaries

Shareholders holding at least 5% of the total vote at PBG SA General Meeting of Shareholders, either directly or indirectly (via subsidiaries) as at the date of submission of the consolidated quarterly report; the number of shares held by these entities; percentage share in share capital; resulting number of votes carried by these shares and their percentage share in the total vote at the General Meeting; as well as changes in the structure of ownership of large blocks of PBG SA shares after the submission date of the previous consolidated quarterly report – based on the information held by the Parent Company

Shareholder	Number of votes	Total nominal value in PLN	% of share capital held	% of votes in the total vote
Jerzy Wiśniewski	4,495,054 shares, of which: 4,495,054 registered preference shares	4,495,054	33.47	50.14
ING Nationale - Nederlanden Polska PTE SA	912,991 ordinary shares	912,991	6.80%	5.09%
BZWBK AIB TFI SA	899,265 ordinary shares	899,265	6.70%	5.02%

Changes in the Issuer's share ownership structure in Q3 2008:

### Notification from ING Towarzystwo Funduszy Inwestycyjnych SA

On 25 July 2008, the Board of Directors of PBG SA was notified by ING Towarzystwo Funduszy Inwestycyjnych SA, acting for and on behalf of the following Investment Funds: ING Fundusz Inwestycyjny Otwarty Średnich i Małych spółek, ING Fundusz Inwestycyjny Otwarty Akcji, ING Fundusz Inwestycyjny Otwarty Zrównoważony, ING Fundusz Inwestycyjny Otwarty Stabilnego Wzrostu, ING Specjalistyczny Fundusz Inwestycyjny Otwarty Akcji 2 and ING Parasol Specjalistyczny Fundusz Inwestycyjny Otwarty, that the total number of votes at the AGM of PBG held by all Investment Funds managed by ING Towarzystwo Funduszy Inwestycyjnych SA, dropped below 5% of the total vote as a result of disposal of PBG shares on 22 July 2008.

Before the change in shareholding structure, Investment Funds managed by ING Towarzystwo Funduszy Inwestycyjnych S.A. held 932,570 PBG SA shares in total, representing 6.94% of the Company's share capital and carrying 5.20% of votes at the Company's AGM.

As at 22 July 2008, Investment Funds managed by ING Towarzystwo Funduszy Inwestycyjnych S.A. jointly held 881,570 shares of PBG SA, representing 6.56% of the Company's share capital and carrying 4.92% of votes at the Company's AGM.

As at the date of this notification, Investment Funds managed by ING Towarzystwo Funduszy Inwestycyjnych S.A. hold 859,112 PBG SA shares, representing 6.40% of the Company's share capital and carrying 4.79% of votes at the Company's AGM.

### **Notification from BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych SA**

On 31 July 2008, the Board of Directors of PBG SA received "Notification of the acquisition of shares as a result of which the entity has become a holder of shares representing more than 5% of the total vote".

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. acting on behalf of Arka BZ WBK Akcje Fundusz Inwestycyjny Otwarty, Arka BZ WBK Zrównoważony Fundusz Inwestycyjny Otwarty, and Lukas Fundusz Inwestycyjny Otwarty (hereinafter referred to as the Funds) informed that as a result of acquisitions of shares settled on 29 July 2008, the above Funds became holders of shares representing more than 5% of the total number of votes at the General Meeting of Shareholders of PBG SA.

Before this transaction, the Funds held 883,265 shares of PBG SA, representing 6.58% in the Company's share capital and carrying 883,265 votes at the General Meeting of Shareholders of PBG SA, which represented 4.93% of the total vote.

Following this transaction, 899,265 shares of PBG SA were registered in securities accounts of the Funds, which represent 6.70% of the Company's share capital. These shares carry 899,265 votes, representing 5.02% share in the total vote at the General Meeting of Shareholders of PBG SA.

### **2.12 Summary of changes in the Issuer's shares or right to shares (options) held by members of the Board of Directors or Supervisory Board of PBG S.A.**

Changes in the ownership structure of the Issuer's shares or rights to Issuer's shares (options) held by members of Board of Directors and the Supervisory Board of PBG SA since the date of submission of the previous quarterly report, based on the information held by the Parent Company as at 6 October 2008:

	Number of shares	
	04.08.2008	06.11.2008
<u>Members of the Board of Directors:</u>		
Przemysław Szkudlarczyk	2,000	2,000
Tomasz Tomczak	750	750
Tomasz Woroch	8,837	1,778
Mariusz Łożyński	1,553	1,553
Tomasz Łatawiec	500	500

<u>Members of the Supervisory Board:</u>		
Maciej Bednarkiewicz	-	-
Wiesław Lindner	-	-
Jacek Krzyżaniak	250	250
Małgorzata Wiśniewska	3,279	3,279
Dariusz Sarnowski	-	-
Adam Strzelecki	-	-
Jacek Kseń	50	50

### **2.13 Proceedings currently in progress in the public court, arbitration court or public administration office, including the following information:**

a) proceedings regarding payables or receivables of the Issuer or its subsidiary, whose value equals at least 10% of the Issuer's equity, specifying: object of these proceedings, value of the claim, date of initiation, parties to the proceedings, and the Issuer's position,

b) two or more proceedings regarding payables or receivables whose value equals at least 10% of the Issuer's equity, specifying the total value of proceedings separately for payables and receivables, as well as the Issuer's position, and (separately for the most significant proceedings for payables and receivables) specifying the object of these proceedings, value of the claim, date of initiation, and parties to the proceedings;

The value of proceedings initiated both by and against PBG SA and PBG Capital Group subsidiaries does not exceed 10% of the Issuer's equity.

### **2.14 Related-party transaction(s) concluded by the Issuer or its subsidiary of value exceeding the equivalent of EURO 500,000 in PLN**

In Q3 FY08, the value of related-party transactions exceeded the equivalent of EURO 500,000 expressed in PLN in the period since the beginning of the fiscal year, but these transactions were typical and routine, concluded at arm's length, whose type, terms and conditions were determined by current operations of the Issuer and its subsidiaries.

### **2.15 Related party transactions**

**PBG Capital Group****Qsr3/2008***(unless specified otherwise, all amounts are in PLN thousands)*

(in PLN '000)

Related party	Receivables as at 30.09.2008	Payables as at 30.09.2008	Financial assets	Loans received	Financial liabilities (securities)	Revenues from sales in 2008	Acquisitions in 2008	Financial revenues in 2008	Financial expenses in 2008
<b>PBG SA</b> (Parent Company)	17 252	42 176	71 534	-	-	11 495	79 916	5 643	385
Metorex Sp. z o.o.	2 212	10 061	-	-	-	11 057	6 300	73	77
GK Infra	11 841	27 283	-	-	8 576	30 240	8 017	2	393
GK Hydrobudowa Polska	61 222	17 842	-	-	-	63 253	41 151	116	3 155
KWG SA	-	88	-	-	20 107	51	101	-	1 331
Dromost Sp. z o.o.	3 718	41	-	-	5 386	11 043	689	-	217
GK PBG Dom	153	18	-	51	28 401	1 150	31	-	495
PRID SA	566	108	-	-	-	1 243	106	-	-
Gas & Oil Engineering a.s.	123	5	-	-	-	2 211	29	-	-
Excan Oil and Gas Engineering Ltd.	287	252	-	-	-	2 953	-	-	-
Brokam Sp. z o.o.	-	-	-	161	-	-	3	-	6
Bathinex Sp. z o.o.	-	1	-	6 821	2 031	-	4	-	309
AVATIA Sp. z o.o.	414	6	-	-	-	1 938	221	-	-
APRIVIA SA	42	15	-	-	-	140	16	-	-
Betpol Sp. z o.o.	10	37	-	-	-	54	39	-	-
<b>Total</b>	<b>97 840</b>	<b>97 933</b>	<b>71 534</b>	<b>7 033</b>	<b>64 501</b>	<b>136 828</b>	<b>136 623</b>	<b>5 834</b>	<b>6 368</b>

## 2.16 Credit or loan guarantees or other guarantees granted by the Issuer or its subsidiaries to one entity or its subsidiaries of the total value representing 10% of the Issuer's equity

In Q3 FY08, the following guarantees and sureties were granted:

- on 27 June 2008, an annex was signed to the credit line agreement for the financing of current operations no. U/00910614330/0003/2007/4000 dated 27 April 2007, concluded by Bank Gospodarki Żywnościowej SA and the following PBG Capital Group companies: PBG S. A, Hydrobudowa Polska SA, and INFRA SA. Under the said annex, the final date of credit line repayment in the amount of PLN 85,000,000.00 was extended until 26 June 2014. The annex also changed the level of securities in the form of assignments from contracts implemented by PBG Capital Group companies from 200% to 150% of the utilised limit. In addition, the Borrowers submitted a joint representation containing their judgment note (agreement for judgment) pursuant to the provisions of the Code of Civil Proceedings, under the Bank's enforceable title for the enforcement of monetary consideration up to PLN 127,500,000.00 The Bank shall have the right to demand the immediate execution of its enforceable title by 26 May 2017.

## 2.17 Contingent payables and receivables

Liability	Contingent liability	as at 30.09.2008	as at 30.06.2008	as at 31.12.2007	as at 30.09.2007	as at 30.06.2007
<b>SURETIES GRANTED TO OTHER ENTITIES</b>						
surety	loan and credit repayment	45 639	9 031	12 438	13 301	7 382
surety	repayment of trade payables	5 218	3	217	-	6 783
surety	contractual guarantees	9 684	6 187	5 536	3 280	457
surety	present and future lease agreements	-	189	155	-	304
surety	defects liability bond	-	-	-	325	325
<b>TOTAL SURETIES</b>		<b>60 541</b>	<b>15 410</b>	<b>18 346</b>	<b>16 906</b>	<b>15 251</b>

Liability	Contingent liability	as at 30.09.2008	as at 30.06.2008	as at 31.12.2007	as at 30.09.2007	as at 30.06.2007
<b>GUARANTEES GRANTED TO OTHER ENTITIES</b>						
guarantee	performance bond	520 310	404 447	483 879	390 678	308 599
guarantee	defects liability bond	18 512	23 138	19 756	23 341	90 035
guarantee	bid bond	10 196	34 873	15 470	14 001	15 588
guarantee	payment of trade payables	21 672	23 721	20 753	20 564	22 563
guarantee	advance payment guarantee	113 496	80 967	94 747	96 262	81 072
guarantee	retention money guarantee	2 681	3 119	7 429	7 129	6 052
<b>TOTAL GUARANTEES</b>		<b>686 867</b>	<b>570 265</b>	<b>642 034</b>	<b>551 975</b>	<b>523 909</b>

As of Q2 FY 2007, the financial statement of PBG Capital Group includes non-consolidated off-balance sheet items, guarantees and sureties granted to third parties for liabilities of the Parent Company and its subsidiaries, which were presented in the consolidated statement as trade and credit liabilities or guarantees granted at the request of the Capital Group companies to third parties.



**2.18 Additional information relevant for the assessment of the Issuer's financial standing, assets, human resources, or the Issuer's financial result, and any changes thereof, as well as information relevant for the assessment of the Issuer's repayment ability**

On 30 October 2008, President of the Board of Directors of a subsidiary company Hydrobudowa Polska SA, Mr Tomasz Woroch, as well as Vice-President of the Board of Directors of Hydrobudowa Polska SA, Mr Tomasz Starzak, resigned from their respective positions in the Board of Directors of Hydrobudowa Polska SA.

Decision of Mr Tomasz Woroch is connected with the successful merger between Hydrobudowa Włocławek SA and Hydrobudowa Śląsk SA, and inclusion of Hydrobudowa 9 PIB SA to Hydrobudowa Polska Capital Group.

**2.19 Factors likely to influence results generated by the Issuer in the next quarter or afterwards (according to the Issuer)**

In the fourth quarter of FY 2008, the Issuer will continue construction works under the concluded construction contracts, including in particular:

- a. contract for "Extension of the sewerage system of Ołtaszyn housing estate", signed by and between the Municipality of Wrocław and Hydrobudowa Polska SA – planned revenues: PLN 25,831 k;
- b. contract for "Extension and reconstruction of the wastewater treatment plant in Piaseczno", signed by and between the Municipality of Piaseczno and Hydrobudowa Polska SA – planned revenues: PLN 20,779k;
- c. contract for "Improvement of wastewater and water management in the Municipality of Zabrze, districts of Grzybowo and Rokitnica", part of the project "Improvement of wastewater management in the Municipality of Zabrze" signed by and between the Municipality of Zabrze with Zabrzeńskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. Zabrze and Hydrobudowa Polska SA – recorded revenues: PLN 20,533k;
- d. contract for the task "Preparatory works for the performance of construction and design works for a facility in Świnoujście" concluded by and between Pomerania Development and PBG S.A. – planned revenues: PLN 20,051k;
- e. contract for "Upgrade of the Left-Bank Wastewater Treatment Plant in Poznań" signed by and between the City of Poznań and Hydrobudowa 9 PIB SA – planned revenues: PLN 18,735k;
- f. contract for "Pakiet 9000 construction works – outdoor works: road works, underground water and sewerage systems in the premises of Modni Packing", signed by and between Modni Parking and Betpol SA – planned revenues: PLN 17,844 k;

- g. contract for "Construction of Malczyce barrage on the Odra river", concluded by and between Maxer SA (currently in liquidation) and PBG SA – planned revenues: PLN 17,072k;
- h. contract for "Upgrade and extension of the wastewater treatment plant in Ciernie and upgrade of the wastewater treatment plant in Jugowice" concluded by and between Wałbrzyski Związek Wodociągów i Kanalizacji and Hydrobudowa 9 PIB SA – planned revenues: PLN 15,281k;
- i. contract for "The Vistula Lower Terrace collector – stage 1 and 2" concluded by and between by the Municipality of Kraków with Miejskie Przedsiębiorstwo Wodociągów SA and Hydrobudowa 9 PIB SA – planned revenues: PLN 15,076k;
- j. contract for "Construction and upgrade of the water and sewerage system in the Municipality of Szklarska Poręba" concluded by and between Karkonoski System Wodociągów i Kanalizacji Sp. z o.o. a and Hydrobudowa 9 PIB SA – planned revenues: PLN 13,974k;
- k. contract for "Extension of the wastewater treatment plant Fordon in Bydgoszcz, part 1" concluded by and between Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. and Hydrobudowa 9 PIB SA – planned revenues: PLN 13,889k;
- l. contract for "Supply and construction of underground gas storage facilities in Poland" signed by and between Zakład Inwestycji Organizacji Traktatu Północnoatlantyckiego (NATO Investment Department) and PBG SA – planned revenues: PLN 12,487k;
- m. contract for "Upgrade of the water and sewerage system in Bydgoszcz" concluded by and between Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. and Infra SA – planned revenues: PLN 12,355k;
- n. contract for "Upgrade of the water supply and sewerage system in Łódź" – concluded by and between Łódzka Spółka Infrastrukturalna Sp. z o.o. and Infra SA – planned revenues: PLN 12,028k;
- o. contract for "Ruczaj Street housing estate in the district of Wilanów in Warsaw" signed by and between Z.W. Sowiński Spółka Komandytowa and PBG SA – planned revenues: PLN 11,896k;
- p. contract for "Sewerage and rainwater system in Wilkowyje and Mąkołowiec districts in Tychy", signed by and between the Municipality of Tychy and Hydrobudowa Polska SA – planned revenues: PLN 11,689k;
- q. contract for "Integrated water and sewerage management in the Parsęta River basin" concluded by and between Miejskie Wodociągi i Kanalizacja Sp. z o.o. in Kołobrzeg and KWG SA – planned revenues: PLN 10,490k

## 3 INTERIM CONDENSED FINANCIAL STATEMENT OF PBG SA FOR Q3 FY 2008

## SELECTED FINANCIAL DATA

Item	for the period 01.01 – 30.09.2008	for the period 01.01 – 30.09.2007	for the period 01.01 – 30.09.2008	for the period 01.01 – 30.09.2007
	PLN		EUR	
Revenues from sales	374 755	271 753	109 427	70 928
Operating profit (loss)	49 555	29 658	14 470	7 741
Profit (loss) before tax	42 715	43 397	12 473	11 327
Net profit (loss) from continuing operations	34 195	35 044	9 985	9 147
Net profit (loss)	34 195	35 044	9 985	9 147
Net cash from operations	(31 527)	(41 079)	(9 206)	(10 722)
Net cash used in investments	(25 524)	(184 862)	(7 453)	(48 249)
Net cash from financial activity	(58 375)	291 482	(17 045)	76 077
Net balance of cash and cash equivalents	(115 426)	65 541	(33 704)	17 106
Weighted average number of ordinary shares	13 430 000	13 119 000	13 430 000	13 119 000
Weighed average diluted number of ordinary shares	13 430 000	13 119 000	13 430 000	13 119 000
Profit (loss) per ordinary share (in PLN / EUR)	2.55	2.67	0.74	0.70
Diluted profit (loss) per ordinary share (in PLN / EUR)	2.55	2.67	0.74	0.70
Average exchange rate of PLN / EUR*			3.4247	3.8314

Item	as at 30.09.2008	as at 30.09.2007	as at 30.09.2008	as at 30.09.2007
	PLN		EUR	
Assets	1 316 365	1 067 807	386 223	282 676
Long-term payables	287 149	37 718	84 250	9 985
Short-term payables	278 532	328 074	81 722	86 850
Equity	750 684	702 015	220 252	185 841
Share capital	13 430	13 430	3 940	3 555
Number of shares	13 430 000	13 430 000	13 430 000	13 430 000
Book value per share - BVPS (in PLN / EURO)	55.90	52.27	16.40	13.84
Dividend per share – declared or paid (in PLN / EURO)	-	-	-	-
PLN / EURO exchange rate as at period end **			3.4083	3.7775

## 1. Selected items of assets and liabilities converted to Euro at the exchange rate announced by the President of the National Bank of Poland as at 30 September 2008:

EUR 1 = PLN 3.4083

- a) book value per share (BVPS) in PLN = equity in PLN '000 (as at 30.09.2008) / number of shares (in thousands) as at 30.09.2008:
- $$750,684 / 13,430 = \text{PLN } 55.90$$
- b) book value per share (BVPS) (in EUR) = equity in EUR '000 (as at 30.09.2008) / number of shares (in thousands) as at 30.09.2008:
- $$220,252 / 13,430 = \text{EUR } 16.35$$
- c) diluted number of shares as at 30.09.2008: 13,430 thousand of shares
- d) diluted book value per share in PLN = equity in PLN '000 (as at 30.09.2008) / diluted number of shares (in thousands):
- $$750,684 / 13,430 = \text{PLN } 55.90$$
- e) diluted book value per share in EUR = equity in EUR '000 (as at 30.09.2008) / diluted number of shares (in thousands):

$$220,252 / 13,430 = \text{EUR } 16.40$$

**2. Selected items from the Profit and Loss Account for 9 months of 2008 were converted to EURO at the exchange rate calculated as an arithmetic average of exchange rates set by the President of NBP in the past 9 months:**

January	31.01.2008	3.6260
February	29.02.2008	3.5204
March	30.09.2008	3.5258
April	30.04.2008	3.4604
May	30.05.2008	3.3788
June	30.09.2008	3.3542
July	31.07.2008	3.2026
August	29.08.2008	3.3460
September	30.09.2008	3.4083
		30.8225 / 9 months = 3.4247

**Profit for the past 9 months** **34,195**

Weighted average number of shares (in thousands) 13,430

- a) earnings per share (EPS) in PLN = annualised net profit in PLN '000 / weighted average number of shares for the past 9 months (in thousands)

$$34,195 / 13,430 = \text{PLN } 2.55$$

- b) earnings per ordinary share (EPS) in EUR = EPS in PLN / average exchange rate of EURO for the past 9 months:

$$2.55 / 3.4247 = \text{EUR } 0.74 \text{ per share}$$

## INTERIM CONDENSED BALANCE SHEET OF PBG SA

Item	as at 30.09.2008	as at 30.06.2008	as at 31.12.2007	as at 30.09.2007	as at 30.06.2007
<b>Assets</b>					
<b>Fixed assets</b>	<b>589 084</b>	<b>576 391</b>	<b>533 871</b>	<b>464 231</b>	<b>444 757</b>
Intangible assets	11 776	10 978	10 281	4 079	4 121
Tangible fixed assets (Property, Plant & Equipment)	153 970	144 575	132 946	117 208	113 749
Investment property	710	710	710	-	-
Investments in subsidiaries	334 567	337 563	255 249	280 084	262 232
Other long-term financial assets	73 351	73 540	125 187	52 883	54 520
- related parties	22 015	25 910	83 695	36 763	38 470
- other entities	51 336	47 630	41 492	16 120	16 050
Long-term receivables	10 386	8 614	9 094	9 516	10 135
- related parties	-	-	-	-	6
- other entities	10 386	8 614	9 094	9 516	10 129
Deferred income tax assets	-	-	-	-	-
Long-term prepaid expenses	4 324	411	404	461	-
<b>Current assets</b>	<b>727 281</b>	<b>633 073</b>	<b>774 738</b>	<b>603 576</b>	<b>546 224</b>
Inventories	30 586	31 203	21 737	18 026	10 982
Receivables from contracting parties for works completed under contracts for construction/long-term services	169 144	133 054	112 488	133 559	126 412
- related parties	9 910	8 836	8 649	9 631	8 086
- other entities	159 234	124 218	103 839	123 928	118 326
Trade receivables	223 040	174 367	216 742	188 310	161 574
- related parties	17 252	10 985	16 199	30 334	22 090
- other entities	205 788	163 382	200 543	157 976	139 484
Current income tax receivables	-	-	-	-	1 204
Other short-term receivables	9 775	11 805	8 622	48 284	22 043
- related parties	-	418	1 763	54	54
- other entities	9 775	11 387	6 859	48 230	21 989
Other short-term financial assets	72 695	58 421	79 093	124 005	109 400
- related parties	57 519	42 088	66 276	112 916	105 131
- other entities	15 176	16 333	12 817	11 089	4 269
Cash and cash equivalents	213 243	214 811	328 669	85 558	111 073
Short-term prepaid expenses	8 798	9 412	7 387	5 834	3 536
Non-current assets classified as held for sale	-	-	-	-	-
<b>Total assets</b>	<b>1 316 365</b>	<b>1 209 464</b>	<b>1 308 609</b>	<b>1 067 807</b>	<b>990 981</b>

Item	as at 30.09.2008	as at 30.06.2008	as at 31.12.2007	as at 30.09.2007	as at 30.06.2007
<b>Liabilities</b>					
<b>Equity</b>	<b>750 684</b>	<b>736 327</b>	<b>720 225</b>	<b>702 015</b>	<b>679 109</b>
Share capital	13 430	13 430	13 430	13 430	13 430
Treasury shares	-	-	-	-	-
Share premium reserve	551 178	551 178	551 178	551 178	551 178
Capital from measurement of hedging transactions	2 105	4 345	1 840	(631)	(812)
Other reserves	149 776	149 776	104 948	104 262	104 262
Retained profit/accumulated loss	34 195	17 598	48 829	33 776	11 051
- profit (loss) carried forward from previous years	-	-	(1 268)	(1 268)	(1 268)
- net profit (loss) of the current year	34 195	17 598	50 097	35 044	12 319
<b>Payables</b>	<b>565 681</b>	<b>473 137</b>	<b>588 384</b>	<b>365 792</b>	<b>311 872</b>
<b>Long-term payables</b>	<b>287 149</b>	<b>259 684</b>	<b>235 039</b>	<b>37 718</b>	<b>150 116</b>
Long-term credits and loans	68 824	41 407	18 803	22 407	23 838
- related parties	-	-	-	-	-
- other entities	68 824	41 407	18 803	22 407	23 838
Other long-term financial payables	200 000	200 000	200 047	84	109 736
Other long-term payables	3 446	1 186	300	485	457
- related parties	-	-	-	-	-
- other entities	3 446	1 186	300	485	457
Deferred income tax provision	3 100	4 573	3 606	3 093	3 881

Provisions for employee benefits	286	286	327	252	252
Other long-term provisions	3 513	3 434	2 618	1 989	2 106
Government grants	-	-	-	-	-
Long-term accruals and deferred income	7 980	8 798	9 338	9 408	9 846
<b>Short-term payables</b>	<b>278 532</b>	<b>213 453</b>	<b>353 345</b>	<b>328 074</b>	<b>161 756</b>
Short-term credits and loans	107 120	101 483	97 154	74 949	78 375
- related parties	-	-	-	-	-
- other entities	107 120	101 483	97 154	74 949	78 375
Other short-term financial payables	7 235	2 202	113 372	112 805	2 472
Trade payables	143 733	96 474	109 439	124 222	68 361
- related parties	42 176	35 140	33 704	42 045	10 008
- other entities	101 557	61 334	75 735	82 177	58 353
Payables under contract for construction services	9 796	3 178	3 768	3 892	1 550
- related parties	15	83	25	3	-
- other entities	9 781	3 095	3 743	3 889	1 550
Deferred income tax liabilities	4 046	1 373	4 731	3 883	-
Other short-term payables	3 518	6 478	22 863	5 914	8 505
- related parties	-	126	139	47	22
- other entities	3 518	6 352	22 724	5 867	8 483
Provisions for employee benefits	-	-	-	-	-
Other short-term provisions	977	617	973	693	865
Government grants	-	-	-	-	-
Short-term accruals and deferred income	2 107	1 648	1 045	1 716	1 628
Liabilities related to non-current assets held for sale	-	-	-	-	-
<b>Total liabilities</b>	<b>1 316 365</b>	<b>1 209 464</b>	<b>1 308 609</b>	<b>1 067 807</b>	<b>990 981</b>

## INTERIM CONDENSED PROFIT AND LOSS ACCOUNT OF PBG SA

Item	Q3 01.07.2008 - 30.09.2008	3 quarters to date 01.01.2008 - 30.09.2008	Q3 01.07.2007 - 30.09.2007	3 quarters to date 01.01.2007 - 30.09.2007
<i>Continuing operations</i>				
<b>Revenues from sales</b>	<b>170 788</b>	<b>374 755</b>	<b>130 429</b>	<b>271 753</b>
- related parties	4 171	9 139	3 412	14 721
Revenues from sale of products	6 139	15 143	-	-
Revenues from sale of services	157 770	351 171	125 539	251 740
Revenues from sale of goods and materials	6 879	8 441	4 890	20 013
<b>Selling costs</b>	<b>(141 289)</b>	<b>(303 899)</b>	<b>(112 454)</b>	<b>(236 542)</b>
- related parties	(29 784)	(71 439)	(39 624)	(73 652)
Costs of products sold	(5 265)	(13 463)	-	-
Costs of services sold	(129 525)	(282 461)	(107 873)	(222 546)
Costs of goods and materials sold	(6 499)	(7 975)	(4 581)	(13 996)
<b>Gross profit (loss) on sales</b>	<b>29 499</b>	<b>70 856</b>	<b>17 975</b>	<b>35 211</b>
Costs of sales	-	-	-	-
General administrative expenses	<b>(8 406)</b>	<b>(23 215)</b>	<b>(7 184)</b>	<b>(19 043)</b>
Other operating revenues	1 950	4 886	5 420	16 060
Other operating expenses	(1 243)	(2 972)	(959)	(2 570)
Restructuring costs	-	-	-	-
<b>Operating profit (loss)</b>	<b>21 800</b>	<b>49 555</b>	<b>15 252</b>	<b>29 658</b>
Financial revenues	4 728	16 407	3 132	10 902
Financial expenses	(6 809)	(24 167)	(3 675)	(11 113)
Other profits (losses) from investments	-	920	13 950	13 950
<b>Profit (loss) before tax</b>	<b>19 719</b>	<b>42 715</b>	<b>28 659</b>	<b>43 397</b>
Income tax	(3 122)	(8 520)	(5 934)	(8 353)
<b>Net profit (loss) from continuing operations</b>	<b>16 597</b>	<b>34 195</b>	<b>22 725</b>	<b>35 044</b>
<i>Discontinued operations</i>	-	-	-	-
Net loss from discontinued operations	-	-	-	-
<b>Net profit (loss)</b>	<b>16 597</b>	<b>34 195</b>	<b>22 725</b>	<b>35 044</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULTS OF PBG S.A.****I. Key events and factors with significant impact on the Company's financial results (data related to Q3 FY 2008)**

In Q3 2008, the increase in revenues from sales was accompanied by a significant increase in profitability at practically all levels of the P&L Account vs. the corresponding period in FY 2007.

**1.1.** In Q3 FY08, PBG SA generated nearly PLN 171 million in revenues from sales and PLN 29.5 million in gross profit on sales. Compared to the previous corresponding period, these results represent 31% and 64%, respectively. In addition, in Q3 FY08 PBG SA recorded operating profit of PLN 21.8 million (up by 43%) and net profit of PLN 16.6 million.

**1.2.** The key sources of income in Q3 FY08 from the Company's core business included the following construction contracts:

- a) contract for "Ruczaj Street housing estate in the district of Wilanów in Warsaw" signed by and between Z.W. Sowiński Spółka Komandytowa and PBG SA – recorded revenues: PLN 18.1 million;
- b) contract for "Preparatory works for construction and design works for a building in Świnoujście" concluded by and between Pomerania Development and PBG SA – recorded revenues: PLN 14.5 million;
- c) contract for "Supply and construction of underground gas storage facilities in Poland" signed by and between Zakład Inwestycji Organizacji Traktatu Północnoatlantyckiego (NATO Investment Department) and PBG SA – recorded revenues: PLN 13.4 million;
- d) contract for "Replacing LS gas with E-group gas in the eastern part of the Wielkopolskie Province, including the City of Poznań, in two stages", concluded by and between PGNiG SA and PBG SA – recorded revenues: PLN 11.2 million.

**II. Comments to revenues and expenses in the P&L Account****2.1. Revenues from sale of services**

For 3 quarters 2008 to date, the Company's revenues from sale of services totalled over PLN 351 m and were up by 39%. The largest increase was recorded in the natural gas and crude oil segment – up by 48%. The second largest segment in the Company's business was residential and industrial construction. The share of this segment in total revenues from sale of services totalled 28% in the reporting period. Fuels and water segments ranked third in terms of their share in total revenues from sale of services – 14% each. The lowest share in revenues from sale of services was recorded for road building and other services – 1% and 2% of total revenues from sale of services, respectively.

**2.2. Costs of services sold**

For 3 quarters 2008 to date, costs of services sold totalled nearly PLN 282.5m and were up by only 27% vs. Q3 2007. The share of these variable costs in revenues from sale of services changed considerably. As at the end of Q3 2008, they represented 75% of revenues, compared to 82% as at the end of Q3 2007 – i.e. down by as much as 7%.

### **2.3. General administrative expenses**

As at the end of Q3 2008, general administrative expenses totalled PLN 23.2 m and were up by 22% vs. the corresponding period in 2007. It must be noted, however, that as at the end of Q3 2008, general administrative expenses accounted for 6.2% in revenues from sales compared to 7% as at the end of Q3 2007 – i.e. down by over 0.8%.

### **2.4. Other operating revenues**

For 3 quarters 2008 to date, other operating revenues totalled nearly PLN 5m, including revenues from rent, damages, and re-invoicing. Compared to the corresponding period in 2007, other operating revenues were down by 70%.

### **2.5. Financial revenues**

Financial revenues for 3 quarters 2008 to date totalled nearly PLN 16.4 m and were up by 50% vs. the corresponding period in 2007. The main items under financial revenues include bank interest (over PLN 9 m), interest on loans granted (over PLN 2.8 m) and interest on bonds issued by Capital Group companies and taken over by PBG SA (PLN 4.2 m).

### **2.6. Financial expenses**

As at the end of Q3 2008, financial expenses totalled PLN 24.1 million – more than a twofold increase vs. the previous corresponding period. The main item under financial expenses was interest on bonds issued by PBG SA at the end of 2007 – over PLN 13.8m. Significant values were recorded also for interest and commissions on bank credits – PLN 8.8m. In addition, foreign exchange losses recognised under financial expenses reached nearly PLN 1.5 m.

## **III. Management's discussion and analysis of the financial results**

### **3.1. Results disclosed in the Profit and Loss Account**

As at the end of Q3 2008, the Company's net profit totalled nearly PLN 34.2 m – down by 2% vs. the result recorded as at the end of Q3 2007. It must be noted, however, that a non-recurring event occurred in 2007 – sale of the equity interest in KRI SA and PGS sp. z o.o., resulting in nearly PLN 14 million in profit recorded by the Company. This event considerably increased the Company's net result. With the exception of net profit, the increasing trend in financial results was maintained at practically all levels of the P&L Account: gross profit on sales was up by 101% vs. the corresponding period in 2007, and operating profit was up by 67%.

### **3.2. EBITDA**

In 3 quarters 2008 to date, expenditure on tangible fixed assets and intangible assets totalled over PLN 20.7m compared to PLN 18.1 m in the corresponding period in 2007. It resulted in the increase in depreciation costs – over PLN 10m vs. nearly PLN 9m in the previous corresponding period. EBITDA (EBIT – operating profit plus amortisation and depreciation) as at the end of Q3 2008 totalled PLN



59.6m and was up by nearly PLN 21m vs. the result recorded for the corresponding period in 2007 – i.e. up by 54%.

### 3.3. Profitability ratios

As at the end of Q3 2008, the higher growth in revenues from sales (138%) compared to costs of products sold (128%) had a positive impact on the Company's profitability ratios at practically all levels of the P&L Account. It must be also noted that the Company's margins (gross margin on sale and operating margin) reached very high levels. On the other hand, a drop was recorded for net margin for 3 quarters 2008 to date – 9.1% vs. 12.9% as at the end of Q3 2007. This drop in net profit margin resulted mainly from a non-recurring event in 2007 – sale of the equity interest in KRI SA and PGS sp. z o.o., resulting in nearly PLN 14 million in profit recorded by the Company in 2007. If we analyse Q3 2008 alone and compare it to results generated in Q3 2007, we will see that gross return on sales was up from 13.8% to 17.3%. i.e. by 3.5%; operating margin was up from 11.7% to 12.8%. i.e. by 1.1%. and net profit margin was down from 17.4% to 9.7%. i.e. by 7.7%. Reduction of net profit margin in comparative periods resulted from the above-mentioned profit recorded by the Company in Q3 2007.

Profitability ratios	3 quarters to date 2008	3 quarters to date 2007	Q3 2008	Q3 2007
Gross profit margin <sup>1</sup>	18.9%	13.0%	17.3%	13.8%
Operating profit margin <sup>2</sup>	13.2%	10.9%	12.8%	11.7%
Net profit margin <sup>3</sup>	9.1%	12.9%	9.7%	17.4%

<sup>1</sup> gross profit on sales / revenues from sales \*100

<sup>2</sup> operating profit / revenues from sales \*100

<sup>3</sup> net profit / revenues from sales \*100

### NET EARNINGS (LOSS) PER ORDINARY SHARE

Item	as at 30.09.2008 PLN / share	as at 30.06.2008 PLN / share	as at 31.12.2007 PLN / share	as at 30.09.2007 PLN / share	as at 30.06.2007 PLN / share
Net profit (loss) from continuing operations	34 195	17 598	50 097	35 044	12 319
Net profit (loss) from continuing and discontinued operations	-	-	-	-	-
Weighted average number of ordinary shares	13 430 000	13 430 000	13 197 000	13 119 000	12 963 000
Weighed average diluted number of ordinary shares	13 430 000	13 430 000	13 197 000	13 119 000	12 963 000
<i>from continuing operations</i>					
- basic	2.55	1.31	3.80	2.67	0.95
- diluted	2.55	1.31	3.80	2.67	0.95
<i>from continuing and discontinued operations</i>					
- basic	2.55	1.31	3.80	2.67	0.95
- diluted	2.55	1.31	3.80	2.67	0.95

## CASH FLOW STATEMENT OF PBG SA

Item	3 quarters to date 01.01.2008 - 30.09.2008	3 quarters to date 01.01.2007 - 30.09.2007
<i>Cash flow from operations</i>		
<b>Net profit before tax</b>	<b>42 715</b>	<b>43 397</b>
<b>Adjustments:</b>	<b>3 413</b>	<b>5 375</b>
Amortisation of intangible assets	1 076	958
Goodwill impairment losses	-	-
Impairment losses on tangible fixed assets	-	-
Depreciation of tangible fixed assets	8 963	8 024
Profit (loss) from sale of tangible fixed assets	(552)	(214)
(Profit) loss on sale of available-for-sale (held-for-trading) financial assets	(4 611)	(3 397)
Profit (loss) on valuation of investment property carried at fair value	-	-
(Profit) loss on revaluation of fair value of financial assets carried at fair value	(1 685)	(2 814)
Share in profits (losses) of associates	-	-
Foreign exchange (gains) losses	-	-
Interest expense	17 577	9 257
Interest received	(17 355)	(6 439)
Dividends received	-	-
<b>Cash flow from operations before changes in working capital</b>	<b>46 128</b>	<b>48 772</b>
Change in inventories	(8 849)	(8 836)
Change in receivables	(65 398)	(103 923)
Change in payables	21 515	34 941
Change in provisions, prepaid expenses, accruals and deferred income	(348)	(1 422)
Other adjustments	(15 688)	(4 655)
<b>Cash generated in business operations</b>	<b>(22 640)</b>	<b>(35 123)</b>
Interest paid	-	-
Income tax paid	(9 857)	(5 956)
<b>Net cash from operations</b>	<b>(32 497)</b>	<b>(41 079)</b>
<i>Cash flow from investments</i>		
Outflows – acquisition of intangible assets	(3 821)	(1 504)
Inflows – sale of intangible assets	-	-
Outflows – acquisition of tangible fixed assets	(16 846)	(16 628)
Inflows – sale of tangible fixed assets	552	2 011
Outflows – acquisition of investment property	-	-
Inflows – sale of investment property	-	-
Outflows – acquisition of available-for-sale financial assets	(29 400)	(47 512)
Inflows – sale of available-for-sale financial assets	50 000	-
Outflows – acquisition of held-for-trading financial assets	(955)	(2 290)
Inflows – sale of held-for-trading financial assets	5 566	5 687
Outflows – acquisition of subsidiaries	(79 318)	(101 685)
Inflows – sale of subsidiaries	2 500	6 250
Other outflows – additional paid-in capital	-	(8 000)
Inflows from government grants received	-	1 769
Loans granted	(9 093)	(46 901)
Repayment of loans granted	48 898	22 047
Interest received	7 363	1 894
Dividends received	-	-
Other inflows	-	-
Other outflows on investments	-	-
<b>Net cash used in investments</b>	<b>(24 554)</b>	<b>(184 862)</b>
<i>Cash flow from financial activity</i>		
Net inflows – issue of shares	-	333 090
Buy-back of treasury shares	-	-
Inflows – issue of debt securities	-	-
Repayment of bonds	(110 000)	-
Repayment of interest on bonds	(8 680)	(4 333)
Redemption of debt securities	-	-
Inflows – credits and loans incurred	69 589	46 525
Repayment of credits and loans	(9 593)	(84 214)
Repayment of interest on credits and loans	(8 897)	(3 904)
Inflows from interest on deposits	9 217	4 508

Repayment of finance lease liabilities	(11)	(190)
Interest paid	-	-
Dividends paid out	-	-
Commissions on bank credits and loans	-	-
Other outflows	-	-
<b>Net cash from financial activity</b>	<b>(58 375)</b>	<b>291 482</b>
<b>Net balance of cash and cash equivalents</b>	<b>(115 426)</b>	<b>65 541</b>
<b>Opening balance of cash and cash equivalents</b>	<b>328 669</b>	<b>20 017</b>
Change in cash resulting from foreign exchange differences	-	-
<b>Closing balance of cash and cash equivalents</b>	<b>213 243</b>	<b>85 558</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF PBG SA FROM 01.01.2007 TO 30.09.2008

Item	Share capital	Other reserves	Retained profit/accumulated loss	Total
<b>As at 01.01.2008</b>	<b>13 430</b>	<b>657 966</b>	<b>48 829</b>	<b>720 225</b>
Changes in the adopted accounting principles (policy)	-	-	-	-
Corrections of fundamental errors	-	-	-	-
<b>Balance after adjustments</b>	<b>13 430</b>	<b>657 966</b>	<b>48 829</b>	<b>720 225</b>
<i>Changes in equity in the period 01.01-30.09.2008</i>				
Revaluation gains (losses)	-	-	-	-
Available-for-sale investments:	-	-	-	-
- valuation gains recognised in equity	-	-	-	-
- recognised in profit (loss) on sales	-	-	-	-
Cash flow hedges:	-	410	-	410
- gains (losses) recognised in equity	-	-	-	-
- gains (losses) recognised in profit or loss of the period	-	2 269	-	2 269
- profits (losses) included in the valuation of the carrying amount of hedged items	-	(1 859)	-	(1 859)
Tax related to items recognised in equity or transferred from equity	-	(146)	-	(146)
<b>Net profit recognised directly in equity</b>	<b>-</b>	<b>264</b>	<b>-</b>	<b>264</b>
Net profit (loss) for the period from 01.01 to 30.09.2008	-	-	34 195	34 195
<b>Total gains and losses recorded in the period 01.01 - 30.09.2008</b>	<b>-</b>	<b>264</b>	<b>34 195</b>	<b>34 459</b>
Dividends	-	-	-	-
Distribution of the financial result	-	44 829	(48 829)	(4 000)
Share capital issued	-	-	-	-
Options convertible to shares issued	-	-	-	-
<b>As at 30.09.2008</b>	<b>13 430</b>	<b>703 059</b>	<b>34 195</b>	<b>750 684</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF PBG SA FROM 01.01.2007 TO 31.12.2007

Item	Share capital	Other reserves	Retained profit/accumulated loss	Total
<b>As at 01.01.2007</b>	<b>12 030</b>	<b>289 054</b>	<b>35 239</b>	<b>336 323</b>
Changes in the adopted accounting principles (policy)	-	-	(1 268)	(1 268)
Corrections of fundamental errors	-	-	-	-
<b>Balance after adjustments</b>	<b>12 030</b>	<b>289 054</b>	<b>33 971</b>	<b>335 055</b>
<i>Changes in equity in the period 01.01-31.12.2007</i>				
Revaluation gains (losses)	-	-	-	-
Available-for-sale investments:	-	-	-	-
- valuation gains (losses) recognised in equity	-	-	-	-
- recognised in profit (loss) on sales	-	-	-	-
Cash flow hedges:	-	2 475	-	2 475
- gains (losses) recognised in equity	-	3 040	-	3 040
- gains (losses) recognised in profit or loss of the period	-	(565)	-	(565)
- profits (losses) included in the valuation of the carrying amount of hedged items	-	-	-	-
Tax related to items recognised in equity or transferred from equity	-	(577)	-	(577)
<b>Net profit recognised directly in equity</b>	<b>-</b>	<b>1 898</b>	<b>-</b>	<b>1 898</b>

Net profit (loss) for the period from 01.01 to 31.12.2007	-		50 097	50 097
<b>Total gains and losses recorded in the period 01.01 – 31.12.2007</b>	-	<b>1 898</b>	<b>50 097</b>	<b>51 995</b>
Dividends	-	-	-	-
Distribution of the financial result	-	33 239	(35 239)	(2 000)
Acquisition of a subsidiary	-	685	-	685
Share capital issued	1 400	333 090	-	334 490
Options convertible to shares issued	-	-	-	-
<b>As at 31.12.2007</b>	<b>13 430</b>	<b>657 966</b>	<b>48 829</b>	<b>720 225</b>

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF PBG SA FROM 01.01.2007 TO 30.09.2007**

Item	Share capital	Other reserves	Retained profit/accumulated loss	Total
<b>As at 01.01.2007</b>	<b>12 030</b>	<b>289 054</b>	<b>35 239</b>	<b>336 323</b>
Changes in the adopted accounting principles (policy)	-	-	(1 268)	(1 268)
Corrections of fundamental errors	-	-	-	-
<b>Balance after adjustments</b>	<b>12 030</b>	<b>289 054</b>	<b>33 971</b>	<b>335 055</b>
<i>Changes in equity in the period 01.01-30.09.2007</i>				
Revaluation gains (losses)	-	-	-	-
Available-for-sale investments:	-	-	-	-
- valuation gains (losses) recognised in equity	-	-	-	-
- recognised in profit (loss) on sales	-	-	-	-
Cash flow hedges:	-	(477)	-	(477)
- gains (losses) recognised in equity	-	511	-	511
- gains (losses) recognised in profit or loss of the period	-	(988)	-	(988)
- profits (losses) included in the valuation of the carrying amount of hedged items	-		-	-
Tax related to items recognised in equity or transferred from equity	-	(97)	-	(97)
<b>Net profit recognised directly in equity</b>	-	<b>(574)</b>	-	<b>(574)</b>
Net profit (loss) for the period from 01.01 to 30.09.2007	-	-	35 044	35 044
<b>Total gains and losses recorded in the period 01.01 – 30.09.2007</b>	-	<b>(574)</b>	<b>35 044</b>	<b>34 470</b>
Dividends	-	-	-	-
Distribution of the financial result	-	33 239	(35 239)	(2 000)
Share capital issued	1 400	333 090	-	334 490
Options convertible to shares issued	-	-	-	-
<b>As at 30.09.2007</b>	<b>13 430</b>	<b>654 809</b>	<b>33 776</b>	<b>702 015</b>

**Signatures of all Members of the Board of Directors**

Jerzy Wiśniewski – President of the Board of Directors .....

Tomasz Woroch – Vice President of the Board of Directors .....

Przemysław Szkudlarczyk – Vice President of the Board of Directors .....

Tomasz Tomczak – Vice President of the Board of Directors. ....

Mariusz Łożyński – Member of the Board of Directors .....

Tomasz Latawiec – Member of the Board of Directors .....

**Signature of a person responsible for the preparation of the financial statement**

Eugenia Bachorz –Proxy, Capital Group Accounting Coordination Director .....

*Wysogotowo, 06 November 2008*