SEPARATE FINANCIAL STATEMENTS

FOR THE PERIOD JANUARY 1ST – DECEMBER 31ST 2010

WYSOGOTOWO, MARCH 17TH 2011

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All amounts in PLN '000 (unless otherwise stated)

1. ANNUAL SEPARATE FINANCIAL STATEMENTS

1.1. STATEMENT OF FINANCIAL POSITION

Item	IFRS as at Dec 31 2010	IFRS as at Dec 31 2009	IFRS as at Dec 31 2008
Assets			
Non-current assets	**999,753**	**685,605**	**561,260**
GOODWILL	1,606	1,606	1,606
Intangible assets	30,665	28,069	10,596
Property, plant and equipment	176,825	138,779	148,116
NON-REGENERATIVE NATURAL RESOURCES	-	-	0
Investment property	58,504	8,175	710
Investments in subsidiary undertakings	455,589	389,950	330,226
Investments in associated undertakings	64,385	-	-
Investments in joint ventures	736	-	-
Receivables	10,350	7,711	9,508
Loans advanced	86,058	64,005	1,530
Financial derivatives	171	6,415	12,916
Other non-current financial assets	110,504	35,546	37,825
Deferred tax assets	485	-	0
Non-current accruals and deferred income	3,875	5,349	8,227
Current assets	**1,768,472**	**1,559,113**	**779,104**
Inventories	4,844	17,297	32,623
Receivables under construction contracts	86,810	149,609	179,287
Trade and other receivables	572,949	366,374	274,264
Current income tax receivable	-	-	-
Loans advanced	507,715	453,317	33,683
Financial derivatives	187	13,166	1,280
Other current financial assets	122,516	20,294	87,274
Cash and cash equivalents	441,600	529,324	164,943
Current accruals and deferred income	31,851	9,732	5,750
Non-current assets classified as held for sale	-	-	-
Total assets	**2,768,225**	**2,244,718**	**1,340,364**

Company's name:	PBG S.A.		
Period covered by the financial statements:	01.01-31.12.2010	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 (unless otherwise stated)		

Item	IFRS as at Dec 31 2010	IFRS as at Dec 31 2009	IFRS as at Dec 31 2008
Equity and liabilities			
Equity	**1,189,607**	**1,049,309**	**761,202**
Share capital	14,295	14,295	13430
Treasury shares	-	-	-
Share premium account	733,348	733,348	551178
Valuation of hedging transactions	65	141	(11,651)
Other capitals	276,512	203,246	149,776
Retained earnings	165,387	98,279	58,469
– retained earnings/(deficit)	-	-	-
– net profit/(loss) for current year	165,387	98,279	58,469
Liabilities	**1,578,618**	**1,195,409**	**579,162**
Non-current liabilities	**911,205**	**491,980**	**288,824**
Loans, borrowings and other debt instruments	873,688	455,885	265549
Finance lease	525	1,597	-
Financial derivatives	412	553	1540
Other non-current liabilities	22,606	19,201	5072
Deferred tax liabilities	-	1,035	4099
Liabilities and provisions under employee benefits	322	271	302
Other non-current provisions	7,185	6,118	4206
Government subsidies	-	-	0
Non-current accruals and deferred income	6,467	7,320	8056
Current liabilities	**667,413**	**703,429**	**290,338**
Loans, borrowings and other debt instruments	62,814	236,299	109654
Finance lease	1,303	1,193	0
Financial derivatives	41	236	15291
Trade and other payables	544,962	400,127	154753
Liabilities under construction contracts	31,233	41,801	4452
Current income tax payable	19,401	17,789	3549
Liabilities and provisions under employee benefits	5,552	1,388	1183
Other current provisions	1,117	3,598	303
Government subsidies	-	-	-
Current accruals and deferred income	990	998	1153
Liabilities under non-current assets held for sale	-	-	-
Total equity and liabilities	**2,768,225**	**2,244,718**	**1,340,364**

1.2. INCOME STATEMENT

Item	IFRS Jan 1 – Dec 31 2010	IFRS Jan 1 – Dec 31 2009
Continuing operations		
Sales revenue	**909,953**	**827,463**
– from associated undertakings	66,055	202,758
Revenue from sales of products	11,126	11,317
Revenue from sales of services	893,876	807,545
Revenue from sales of goods for resale and materials	4,951	8,601
Cost of sales	**(735,076)**	**(679,400)**
– from associated undertakings	(111,658)	(337,467)
Cost of products sold	(10,133)	(13,759)
Cost of services sold	(719,992)	(657,198)
Cost of goods for resale and materials sold	(4,951)	(8,443)
Gross profit/(loss)	**174,877**	**148,063**
Selling costs	-	-
Administrative expenses	(29,486)	(29,113)
Other operating income	7,978	8,887
Other operating expenses	(2,379)	(2,241)
Share in profit of undertakings consolidated with equity method	-	-
Costs of restructuring	-	-
Operating profit/(loss)	**150,990**	**125,596**
Finance income	99,252	31,578
Finance expenses	(56,371)	(35,487)
Valuation of interests in joint ventures	647	-
Other gains/(losses) on investments	17	-
Pre-tax profit/(loss)	**194,535**	**121,687**
Corporate income tax	(29,148)	(23,408)
Net profit/(loss) from continuing operations	**165,387**	**98,279**
Discontinued operations		
Net loss from discontinued operations	-	-
Net profit/(loss)	**165,387**	**98,279**

1.3. NET EARNINGS (LOSS) PER ORDINARY SHARE

Item	IFRS Jan 1 – Dec 31 2010 PLN / share	IFRS Jan 1 – Dec 31 2009 (PLN per share)
Net profit/(loss) from continuing operations	165,387	98,279
Net profit/(loss) from continuing and discontinued operations	165,387	98,279
Weighted average number of ordinary shares ('000)	14,295	13,935
Diluted weighted average number of ordinary shares ('000)	14,295	13,935
from continuing operations		
– basic	11.57	7.05
– diluted	11.57	7.05
from continuing and discontinued operations		
– basic	11.57	7.05
– diluted	11.57	7.05

All amounts in PLN '000 (unless otherwise stated)

1.4. STATEMENT OF COMPREHENSIVE INCOME

Item	IFRS Jan 1 – Dec 31 2010	IFRS Jan 1 – Dec 31 2009
Net profit/(loss)	165,387	98,279
Other comprehensive income		
Remeasurement of property, plant and equipment	-	-
Available-for-sale financial assets:		
– income/(loss) disclosed under other comprehensive income in period comprehensive	-	-
– amounts transferred to profit or loss	-	-
Cash-flow hedges:		
– income/(loss) disclosed under other comprehensive income in period comprehensive	4,805	(3,820)
– amounts transferred to profit or loss	(4,899)	18,580
– amounts included in the initial value of hedged items	-	-
Income tax on items of other comprehensive income	18	(2,968)
Other comprehensive income after tax	(76)	11,792
Comprehensive income	**165,311**	**110,071**

All amounts in PLN '000 (unless otherwise stated)

1.5. CASH FLOW STATEMENT

Item	IFRS Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Cash flows from operating activities		
Net profit before income tax	**194,535**	**121,687**
Adjustments:		
Depreciation and impairment losses on property, plant and equipment	11,461	11,022
Amortisation and impairment losses on intangible assets	4,459	3,805
Change in fair value of investment property	58	-
Change in fair value of financial assets (liabilities) through profit or loss	(4,744)	(6,576)
Cash-flow hedges transferred from equity	(4,899)	18,580
Impairment losses on financial assets		-
(Gain)/ loss on disposal of non-financial non-current assets	(527)	(1,111)
Gain/(loss) on disposal of financial assets (other than derivative instruments)	-	-
Foreign exchange gains/(losses)	-	(2,419)
Interest costs	56,330	30,939
Interest income	(48,201)	(30,051)
Dividend received	(43,228)	-
Share in profit/(loss) of associated undertakings	-	-
Other adjustments	(5,271)	(4,512)
Total adjustments:	**(34,562)**	**19,677**
Change in inventories	12,453	15,326
Change in receivables	(201,377)	(90,088)
Change in liabilities	145,444	244,479
Change in provisions and accruals and deferrals	(18,706)	3,136
Effect of construction contracts	52,232	67,026
Changes in working capital	**(9,954)**	**235,367**
Gains/(losses) on settlement of derivative instruments	24,084	(16,134)
Interest paid on operating activities	-	-
Income tax paid	(29,040)	(15,199)
Net cash provided by/(used in) operating activities	**145,063**	**349,910**
Cash flows from investing activities		
Acquisition of intangible assets	(957)	(7,056)
Disposal of intangible assets	-	-
Acquisition of property, plant and equipment	(68,326)	(6,921)
Disposal of property, plant and equipment	1,139	7,455
Acquisition of investment property	(39,911)	-
Disposal of investment property	-	-
Acquisition of subsidiary undertakings, net	(137,783)	(63,923)
Disposal of subsidiary undertakings, net	1,071	1,650
Decrease in loans advanced	313,114	36,587
Loans advanced	(388,771)	(509,563)
Acquisition of other financial assets	(339,743)	(11,659)
Disposal of other financial assets	190,900	82,629
Government subsidies received	-	-
Interest received	14,097	14,772
Other income	-	-

Company's name:	PBG S.A.		
Period covered by the financial statements:	01.01-31.12.2010	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 (unless otherwise stated)		

Item	IFRS Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Other cash used in investing activities	-	(7,667)
Dividend received	43,228	-
Net cash provided by/(used in) investing activities	**(411,942)**	**(,463,696,)**
Cash flows from financing activities		
Net proceeds from issue of shares	-	182,170
Acquisition of treasury shares	-	-
Issue of debt securities	450,000	375,000
Redemption of debt securities	(125,000)	(75,000)
Interest paid on debt securities	(39,677)	(15,601)
Increase in loans and borrowings	9,220	147,981
Repayment of loans and borrowings	(95,745)	(146,004)
Decrease in finance lease liabilities	(1,156)	(929)
Interest paid	(10,421)	(182)
Interest on term deposits	11,947	11,439
Other income/expenses	-	(707)
Dividend paid	20,013	-
Net cash provided by/(used in) financing activities	**179,155**	**478,167**
Net change in cash and cash equivalents	**(87,724)**	**364,381**
Cash and cash equivalents at beginning of period	529,324	164,943
Effect of foreign exchange gains/(losses)	-	-
Cash and cash equivalents at end of period	**441,600**	**529,324**

Name:	PBG S.A.		
Reporting period:	Jan 1 – Dec 31 2010	Reporting currency:	PLN
Rounding:	All figures in thousands of złotys (unless indicated otherwise)		

1.6. STATEMENT OF CHANGES IN EQUITY

Item	Share capital	Treasury shares (-)	Share premium account	Capital on valuation of cash-flow hedges	Other capitals	Retained earnings	Total
Balance as at Jan 1 2010	**14,295**	**-**	**733,348**	**141**	**203,246**	**98,279**	**1,049,309**
Changes in accounting policies							-
Correction of fundamental errors							-
Balance after changes	**14,295**	**-**	**733,348**	**141**	**203,246**	**98,279**	**1,049,309**
Changes in equity in period Jan 1- Dec 31 2010							
Share issue	-	-	-	-	-	-	-
Share issue further to option execution (share-based payments)	-	-	-	-	-	-	-
Valuation of options (share-based payment scheme)	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(20,013)	(20,013)
Allocation of profit/(loss) to equity	-	-	-	-	73,266	(78,266)	(5,000)
Total transactions with owners of the Parent	-		-	-	73,266	(98,279)	(25,013)
Net profit for period Jan 1 – Dec 31 2010	-	-	-	-	-	165,387	165,387
Other comprehensive income:							
Remeasurement of property, plant and equipment	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-		-	-	-
Cash-flow hedges	-	-	-	(94)	-	-	(94)
Share in other comprehensive income of undertakings valued with equity method	-	-	-	-	-	-	-
Income tax on items of other comprehensive income	-	-	-	18	-	-	18
Total comprehensive income	-	-	-	(76)	-	165,387	165,311
Transfer to retained earnings (sale of remeasured property, plant and equipment)	-	-	-		-	-	-
Balance as at Dec 31 2010	**14,295**	**-**	**733,348**	**65**	**276,512**	**165,387**	**1,189,607**

Company's name:	PBG S.A.		
Period covered by the financial statements:	01.01-31.12.2010	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 (unless otherwise stated)		

Item	Share capital	Treasury shares (-)	Share premium account	Share premium account	Other capitals	Retained earnings	Total
Balance as at Jan 1 2009	**13,430**	**-**	**551,178**	**(11,651)**	**149,776**	**58,469**	**761,202**
Changes in accounting policies							-
Correction of fundamental errors	-	-	-	-	-	-	-
Balance after changes	**13,430**	**-**	**551,178**	**(11,651)**	**149,776**	**58,469**	**761,202**
Changes in equity in period Jan 1- Dec 31 2009							
Share issue	865	-	182,170	-	-	-	183,035
Share issue further to option execution (share-based payments)	-	-	-	-	-	-	-
Valuation of options (share-based payment scheme)	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Allocation of profit/(loss) to equity	-	-	-	-	53,469	(58,469)	(5,000)
Total transactions with owners of the Parent	865	-	182,170		53,469	(58,469)	178,035
Net profit for period Jan 1 – Dec 31 2009						98,279	98,279
Other comprehensive income:							
Remeasurement of property, plant and equipment	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-
Cash-flow hedges	-	-	-	14,760	-	-	14,760
Share in other comprehensive income of undertakings valued with equity method	-	-	-	-	-	-	-
Income tax on items of other comprehensive income	-	-	-	(2,968)	-	-	(2,968)
Total comprehensive income	-	-	-	11,792	-	98,279	110,071
Transfer to retained earnings (sale of remeasured property, plant and equipment)	-	-	-	-	-	-	-
Balance as at Dec 31 2009	**14,295**	**-**	**733,348**	**141**	**203,246**	**98,279**	**1,049,309**

2. GENERAL INFORMATION

2.1. PGB S.A.

PBG S.A. is the Parent Undertaking of the PBG Group. The Company was incorporated on January 2nd 2004, by virtue of Notary's Deed of December 1st 2003. The Company may conduct operations in all parts of Poland pursuant to the provisions of the Commercial Companies Code. PGB S.A. is entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for Poznań – Nowe Miasto and Wilda, VII Commercial Division of the National Court Register, under KRS No. 0000184508. The Parent Undertaking's Industry Identification Number (REGON) is 631048917. PBG S.A. shares are listed on the Warsaw Stock Exchange.

The Company's registered office is located at ul. Skórzewska 35 in Wysogotowo near Poznań, 62-081 Przeźmierowo. The Company's registered office is at the same time the principal place of business. On October 1st 2009, a representative office of PBG S.A. was registered in Ukraine. Its purpose is to conduct research in the Ukrainian market and establish contacts with companies operating in the construction and related services sector.

2.2. MANAGEMENT BOARD AND SUPERVISORY BOARD

As at the date of approval of these financial statements for release, i.e. March 17th 2011, the **composition of the PBG Management Board** was as follows:

- Jerzy Wiśniewski – President,
- Tomasz Woroch – Vice-President,
- Przemysław Szkudlarczyk – Vice-President,
- Tomasz Tomczak – Vice-President,
- Mariusz Łożyński – Vice-President.

In the period from January 1st 2009 to the date of approval of these financial statements for release, there were no changes in the composition of the Company's Management Board.

As at the date of approval of these financial statements for release, i.e. March 17th 2011**, the composition of the PBG Supervisory Board** was as follows:

- Maciej Bednarkiewicz - Chairperson,
- Małgorzata Wisniewska - Deputy Chair
- Dariusz Sarnowski - Secretary,
- Adam Strzelecki - Member,
- Marcin Wierzbicki - Member.

In the period from January 1st 2010 to the date of approval of these financial statements for release, the following changes in the composition of the Supervisory Board occurred:

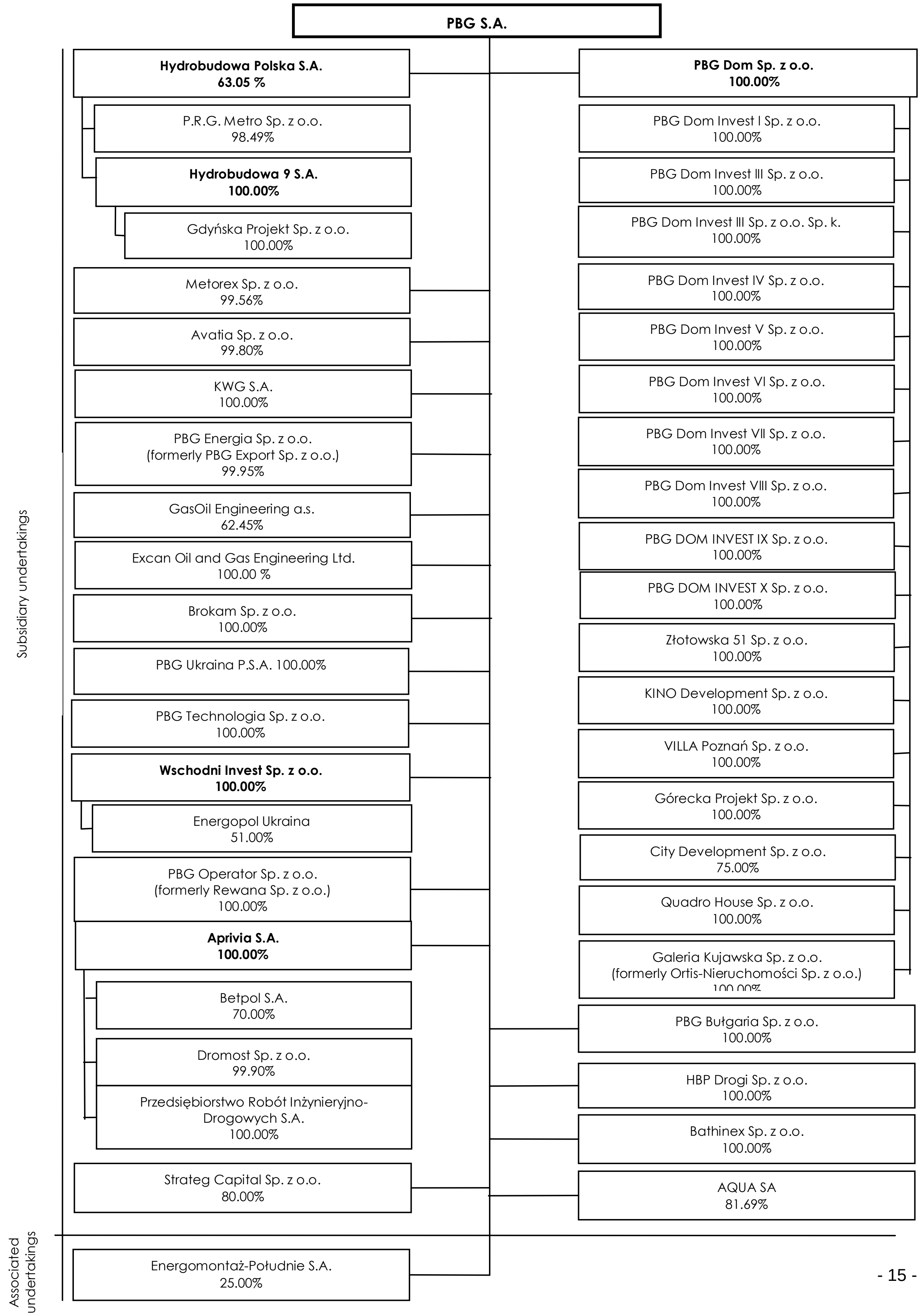
On April 21st 2010, under Resolution No. 22 of the Annual General Shareholders Meeting of PBG S.A. Jacek Kseń and Wiesław Lindner ceased to sit on the Supervisory Board as a result of the expiry of their term of office. Małgorzata Wiśniewska and Marcin Wierzbicki replaced the leaving members of the Supervisory Board.

2.3. BUSINESS PROFILE

The core business of the Company are engineering activities and related technical consultancy (according to the Polish Classification of Activities – PKD 71.12 Z).

Company's name:	***PBG S.A.***		
Period covered by the financial statements:	***January 1st - December 31st 2010***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 (unless otherwise stated)***		

2.4. STRUCTURE OF THE PBG GROUP AS AT DECEMBER 31ST 2010



2.5. APPROVAL FOR RELEASE

These separate financial statements for the year ended December 31st 2010 were approved for release by the Company's Management Board on March 17th 2011 (see Section 8).

2.6. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS, REPORTING CURRENCY AND THE LEVEL OF ROUNDING

2.6.1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements of PBG S.A. were prepared in accordance with the International Financial Reporting Standards (IFRS) as at December 31st 2010, as endorsed by the European Union.

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2.6.2. REPORTING CURRENCY AND THE LEVEL OF ROUNDING

The reporting currency in these financial statements of PBG S.A. is the Polish złoty, which is the functional and presentation currency, and all amounts are expressed in thousands of Polish złoty (PLN '000), unless indicated otherwise.

2.6.3. GOING CONCERN ASSUMPTION

The Company's annual separate financial statements have been prepared on the assumption that PBG S.A. would continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no facts or circumstances are known that would indicate any threat to the Company continuing as a going concern.

The financial statements will be available on PBG S.A.'s website, at http://www.pbg-sa.pl/relacje-inwestorskie/informacje-ogolne/raporty-okresowe.html, from the dates given in the current report on dates of publication of the 2010 annual separate and consolidated financial statements.

2.6.4. MANAGEMENT BOARD'S REPRESENTATION

Pursuant to the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities of October 19th 2005, PBGS.A.'s Management Board hereby represents that to the best of our knowledge, these financial statements and the comparative information have been prepared in accordance with the accounting policies applied by PBG S.A., give a true, clear and fair view of the Company's assets, its profit or loss, and that the Directors' Report gives a true picture of the development, achievements and position of the Company, including its key risks and threats.

These financial statements have been prepared in accordance with the accounting policies compliant with the International Financial Reporting Standards as endorsed by the European Union, and their scope complies with the requirements of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities of October 19th 2005 (Dz. U. No 209, item 1744); these financial statements cover the period from January 1st to December 31st 2010 and the comparative period from January 1st to December 31st 2009.

the PBG Management Board hereby represents that the auditor, being an entity qualified to audit financial statements, was appointed in compliance with the applicable laws and that the entity and auditors who conducted the audit meet the auditor independence requirements to deliver an unbiased and independent auditor's opinion in compliance with the applicable laws.

Pursuant to the corporate governance rules as adopted by the PBG Management Board, the auditor was appointed by the Supervisory Board on June 11th 2010.

The Supervisory Board made the decision with a view to ensuring a fully independent and unbiased selection as well as independent and unbiased work of the auditor.

2.7. AMENDMENTS TO STANDARDS AND INTERPRETATIONS

2.7.1. EFFECTIVE AMENDMENTS TO STANDARDS AND INTERPRETATIONS APPLIED AS OF 2010

The following new or revised standards and interpretations effective at January 1st 2010 have an impact on the accounting policies applied in the preparation of these financial statements:

- IFRS 3 (amendment) Business Combinations and IAS 27 (amendment) Consolidated and Separate Financial Statements. The revised IFRS 3 introduces a new approach to measurement of goodwill (entity approach) under which the goodwill relating to an acquisition is measured as at the date of obtaining control and with respect to the entire acquiree and not, as it was the case previously, in proportion to the interest held by the acquirer. The previously applicable principles providing for multi-step settlement of obtaining control are no longer valid. The standards also introduce changes with respect to measurement of non-controlling interests (previously: minority interests).
- IAS 39 (amendment) Financial Instruments: Recognition and Measurement. The amendments clarify what qualifies as a hedging instrument or hedged item and provide guidelines to the assessment of hedge effectiveness.
- IFRS 1 (amendment) First-Time Adoption of IFRS. The amendments consist in reorganisation of the standard's body.
- IFRS 5 (amendment) - amendments to IFRS 5 introduced as part of the "Annual Improvements Project 2008".
- Amendments introduced as part of the "Annual Improvements Project 2009" to the following standards: IFRS 2, 5, 8; IAS 1, 7, 17, 18, 36, 38, 39; IFRIC 9, 16.
- IFRS 2 (amendment) Share-based Payment. The amendments clarify the manner of recognition of share-based payment schemes covering several group undertakings.
- IFRS 1 (amendment) First-Time Adoption of IFRS. The standard introduces additional exemptions concerning measurement of assets related to exploration and appraisal of mineral reserves and determination of the nature of lease agreements.
- IFRIC 12 Service Concession Arrangments. IFRIC 12 regulates the recognition of assets and liabilities under service contracts with governments.

- IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 15 relates to recognition of revenue by entities operating in the real estate construction business.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 provides guidance as to accounting treatment of hedges of interest in net assets of foreign operations.
- IFRIC 17 Distributions of Non-cash Assets to Owners. In accordance with the interpretation, non-cash dividend should be measured at fair value of the assets distributed, and any difference between such fair value and the carrying amount should be recognised in profit or loss.
- IFRIC 18 Transfers of Assets from Customers. The interpretation is related to agreements under which a customer transfers an item of property, plant and equipment used to supply electricity, gas or water.

The standards and interpretations which have been published by the IASB but have not been endorsed for use by the European Union are discussed below in the section devoted to standards and interpretations which are not yet effective.

Application of the standards and interpretations listed above had no material effect on the financial statements.

2.7.2. APPLICATION OF STANDARDS AND INTERPRETATIONS PRIOR TO THEIR EFFECTIVE DATE

In these financial statements, the Company did not choose the option of early application of any standard or interpretation other than the amendments to IAS 1 introduced as part of the "Annual Improvements Project 2010", which are effective for annual periods beginning on January 1st 2011. The Company has applied from January 1st 2010 the provisions of IAS 1.106A which allow the required reconciliations for components of other comprehensive income to be presented in the notes to the financial statements rather than the statement of changes in equity (see Note 4.18 Equity).

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2.7.3. ISSUED STANDARDS AND INTERPRETATIONS WHICH AS AT DECEMBER 31ST 2010 ARE NOT EFFECTIVE YET AND THEIR BEARING ON THE FINANCIAL STATEMENTS

The following new or revised standards and interpretations, effective for annual periods beginning after 2010, were issued by the date of these financial statements:

- IAS 32 (amendment) Financial Instruments: Presentation – effective for annual periods beginning on or after February 1st 2010. The standard changes the approach to classification of instruments settled in own equity instruments denominated in foreign currencies. The amendment will have no material impact on the separate financial statements.
- IAS 24 (amendment) Related Party Disclosures – effective for annual periods beginning on or after January 1st 2011. The amended standard provides for exemptions from disclosures related to state-controlled entities and introduces a new definition of related parties. The amendment will have no impact on the separate financial statements.
- IFRS 9 Financial Instruments: Classification and Measurement – effective for annual periods beginning on or after January 1st 2013 (not endorsed by the European Commission). The new

standard will replace the existing IAS 39. The part of IFRS 9 which has so far been published includes guidance concerning classification and measurement of financial assets, classification and measurement of financial liabilities and derecognition of financial assets and liabilities. The Group is currently assessing the impact of IFRS 9 on the separate financial statements.

- IFRS 1 (amendment) First-Time Adoption of International Financial Reporting Standards – effective for annual periods beginning on or after July 1st 2010. The amendment introduces additional relief for first-time adopters of IFRS with respect to comparative disclosures concerning financial instruments. The amendment will have no impact on the separate financial statements.
- Amendments introduced as part of the "Annual Improvements Project 2010": IFRS 1, 3, 7; IAS 1, 21, 28, 31, 34; IFRIC 13 – effective for annual periods beginning on or after January 1st 2011 (IFRS 3, IAS 21, 28, 31 – July 1st 2010). These amendments will have no material impact on the separate financial statements.
- IFRS 7 (amendment) Financial Instruments: Disclosures – effective for annual periods beginning on or after July 1st 2011 (not endorsed by the European Commission). The amendment introduces additional disclosure requirements concerning transfer of financial assets, both resulting in derecognition of financial assets and in recognition of the matching liability. The amendment will have no material impact on the separate financial statements.
- IFRS 1 (amendment) First-Time Adoption of International Financial Reporting Standards – effective for annual periods beginning on or after July 1st 2011 (not endorsed by the European Commission). Thus far, under IFRS 1 the possibility to take advantage of certain reliefs or exemptions depended on whether the transaction concerned took place before or after January 1st 2004 . In line with the amendment, that date is replaced by the date of transition to IFRS. Furthermore, changes have been introduced regarding application of IFRS after a period when an entity operated in severe hyperinflation environment, price indices were not available and there was no stable foreign currency. The amendments will have no impact on the separate financial statements.
- IAS 12 (amendment) Income Taxes – effective for annual periods beginning on or after January 1st 2012 (not endorsed by the European Commission). The amended standard provides guidance on how to calculate deferred tax when the tax laws provide for a different treatment depending on whether the value of investment property is recovered through its use (rents) or sale, and the entity is not planning to sell the property. The amendment to IAS 12 supersedes SIC 12, because the provisions of SIC 12 have been incorporated in IAS 12. The amendment will have no material impact on the separate financial statements.
- IFRIC 14 (amendment) IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – effective for annual periods beginning on or after January 1st 2011. The amended interpretation modifies the principles of recognition of prepaid contributions. The amendment will have no material impact on the separate financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – effective for annual periods beginning on or after July 1st 2010. The interpretation introduces accounting requirements for cases where financial liabilities are not settled by payment but through the issue of entity's own equity instruments. According to preliminary estimates, the application of the interpretation will have no material impact on the separate financial statements.

The Company intends to implement the above standards and interpretations as of their effective dates.

2.8. ACCOUNTING POLICIES

The annual separate financial statements were prepared based on the historical cost approach, except with respect to investment property, financial derivatives and available-for-sale financial assets, all of which are measured at fair value. The carrying amount of recognised hedged assets and liabilities is adjusted for fair value changes which may be attributed to the risk against which such assets and liabilities are hedged.

2.8.1. SUBSTANCE-OVER-FORM RULE

In accordance with the substance-over-form rule, the financial statements should present information which reflect the economic substance of events and transactions in addition to their legal form.

2.9. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with IAS 1 (see also Section 2.7.1 above). The Company presents a separate income statement directly above the statement of comprehensive income. The items of the income statement are presented on the basis of their function, whereas the statement of comprehensive income is prepared using the indirect method.
Where the Company implements changes in accounting policies or corrects errors retrospectively, it presents its balance sheet prepared also as at the beginning of the comparative period.

2.10. OPERATING SEGMENTS

In distinguishing operating segments, the PBG Management Board is guided by the product lines and services within particular industries, representing the main services and goods provided by the Company. Each of the segments is managed separately within each product line or service, given the nature of the Group's services and products, requiring different technologies, resources and execution approaches.
In compliance with IFRS 8, results of the operating segments are based on the internal reports regularly reviewed by the Company's Management Board. The Company Management Board analyses the operating segments' results at the operating profit (loss) level. Measurement of the operating segments' results used in the management calculations is consistent with the accounting policies followed in the preparation of the financial statements.
The Company presents sales revenue, costs and result (gross margin) by segments. Balance-sheet assets and equity and liabilities are not presented by business segments given the fact that some of the non-current assets are used in production that is classified in various segments, inventory of materials cannot be allocated to the particular segments, and it is impossible to make a segmental allocation of trade payables and revenue/income and costs of other operating activity and financial activity.

2.11. BUSINESS COMBINATIONS

Business combinations which fall within the scope of IFRS 3 are accounted for using the acquisition method.

On acquisition of control, assets and liabilities of the acquiree are measured at their fair value and in compliance with IFRS 3 assets and liabilities, including contingent liabilities, are identified, irrespective of whether they were disclosed in the financial statements prior to the acquisition.

Any excess of the cost (cost of business combination) over the fair value of the acquired identifiable net assets of the acquiree is recognised under assets of the balance sheet as goodwill. The goodwill corresponds to the payment made by the acquirer in expectation of future economic benefits derivable from assets which cannot be individually identified or disclosed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

If the cost (cost of business combination) is lower than the fair value of the acquired identifiable net assets of the acquiree, the difference is recognised immediately in the income statement. Gains from bargain purchases are disclosed under other operating income.

In the case of business combinations involving jointly controlled entities, PBG S.A. does not apply the provisions of IFRS 3, but instead accounts for such transactions using the pooling of interests method, as follows:

- the acquiree's assets and liabilities are recognised at their carrying amount. carrying amount is deemed to be equal to the value initially determined by the controlling entity rather than the value determinable based on the separate financial statements of the acquiree,
- intangible assets and contingent liabilities are recognised in line with the policies followed by the entity prior to the business combination, in compliance with the applicable IFRSs,
- no goodwill is created - any difference between the cost of the business combination and the acquired interest in the net assets of the controlled entity is recognised directly in equity under reserve funds,
- minority interests are measured in proportion to the carrying amount of the net assets of the controlled entity,
- comparative data is restated in such a way as if the combination had taken place at the beginning of the comparative period. If the date on which the entity became a subordinated entity falls later than the beginning of the comparative period, the comparative data is presented from the moment when the entity first became a subordinated entity.

2.12. FOREIGN CURRENCY TRANSACTIONS

The financial statements are presented in the Polish złoty (PLN), which is also the functional currency of PBG S.A..

Transactions expressed in currencies other than the Polish złoty are translated into PLN using the exchange rate effective for the transaction date (spot rate).

As at the balance-sheet date, monetary items expressed in currencies other than the Polish złoty are translated into PLN using the appropriate closing exchange rate effective for the end of the reporting period (spot rate) i.e. the exchange rate quoted by the Company's primary bank during the first listing on the balance-sheet date.

Non-monetary balance-sheet items expressed in foreign currencies are translated using the historical exchange rate effective for the transaction date.

All amounts in PLN '000 (unless otherwise stated)

Foreign currency differences arising on settlement of transactions or translation of monetary items other than derivative instruments, are disclosed at net amounts under finance income or expenses, as appropriate, except for those differences which in line with the adopted accounting policy are capitalised in the value of assets (see section related to borrowing costs).

Foreign currency differences arising on measurement of foreign-currency denominated derivatives are recognised in the income statement, unless the derivatives serve as cash-flow hedges. Derivatives which serve as cash-flow hedges are disclosed in line with the principles of hedge accounting.

2.13. BORROWING COSTS

Borrowing costs which may be directly attributed to an acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of such asset. Borrowing costs include interest and foreign exchange gains or losses where they are regarded as an adjustment to Interest expense.

2.14. GOODWILL

Goodwill is recognised as the excess of cost (cost of business combination) over the fair value of identifiable net assets of the acquiree (see section devoted to business combinations). Goodwill is not amortised, but instead it is annually tested for impairment as prescribed by IAS 36 (see section devoted to impairment of non-financial non-current assets).

3. DETAILED POLICIES RELATING TO MEASUREMENT OF ASSETS AND LIABILITIES

3.1. INTANGIBLE ASSETS

Intangible assets include trademarks, patents and licences, computer software, costs of development work and other intangible assets which meet the recognition criteria specified in IAS 38. This item also includes such intangible items which have not yet been placed in service (intangible assets under construction) and prepayments for intangible assets.

As at the balance-sheet date, intangible assets are carried at cost less amortisation and impairment losses. Intangible assets with finite lives are amortised using the straight-line method over their useful lives. Useful lives of individual intangible items are reviewed annually, and when necessary – adjusted from the beginning of the next financial year.

The expected useful lives of the particular groups of intangible items are as follows:

PBG S.A.	Amortisation rate
Trademarks	20-50 %
Patents and licences	20-50 %
Computer software	20-50 %
Other intangible assets	20-50 %

Intangible assets with indefinite lives are not amortised, but instead they are annually tested for impairment. The Company does not carry any intangible assets with indefinite lives.

Software maintenance costs incurred in subsequent periods are charged to expense of the period as incurred.

Research costs are charged to the income statement as incurred.

The expenditure directly related to development work is recognised as intangible assets only when the following criteria are met:

- technical feasibility of the asset for sale or use has been established,
- the Company intends to complete the asset and either use it or sell it,
- the Company is able to either use or sell the intangible asset,
- the intangible asset will bring economic benefits and the Company is able to demonstrate that (existence of a market or usefulness of the item for the Company),
- the Company has all the technical, financial and other means necessary to complete the development work and either sell or use the asset,
- the expenditure incurred in the course of development work can be measured reliably and attributed to the given intangible item.

Expenditure incurred on development work performed as part of a given project is carried forward to the next period when it can be assumed that it will be recovered in the future. Future benefits are estimated in accordance with the principles set forth in IAS 36.

Following initial recognition of expenditure on development work, the historical cost model is used, according to which individual assets are carried at cost less accumulated amortisation and accumulated impairment losses. Completed development work is amortised using the straight-line method over the period during which they are expected to generate benefits.

Gains or losses on disposal of intangible assets are calculated as the difference between the generated sales proceeds and the net value of the given intangible assets and are recognised in the income statement as other operating income or other operating expenses.

The policies relating to the recognition of impairment losses are discussed in detail in Section 3.4.

Any prepayments made in connection with a planned purchase of intangible assets are presented in the financial statements of the Company in the balance-sheet item"intangible assets".

3.2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes tangible assets:

- which are held by the company with a view to being used in the production process, in supply of goods or provision of services, or for administrative purposes,
- which will be used for a period longer than one year,
- in respect of which it is probable that the future economic benefits associated with the asset will flow to the company,
- whose value can be measured reliably.

Property, plant and equipment is initially recognised at cost. Such cost is increased by any expenses directly associated with the purchase and preparation or adaptation of the item for use.

Following initial recognition, items of property, plant and equipment are carried at cost less depreciation and impairment losses. Property, plant and equipment under construction is not depreciated until the construction or erection work is completed and the item is placed in service. If expenditure on tangible assets under construction is permanently stopped, the total of the incurred expenses connected with work performed up to that point is charged to expense of the period. A project may be suspended if there is reasonable intention to continue the project in subsequent periods. Projects are suspended by virtue of a decision by the PBG Management Board.

Depreciation is charged based on the straight-line method over the estimated useful life of a given assets. For the particular groups of items of property, plant and equipment, the useful lives are as follows:

PBG S.A.	Depreciation rate
Land (perpetual usufruct rights)	not depreciated
Buildings and structures	1.5% - 2.5%
Plant and equipment	5% - 46%
Vehicles	10% - 46%
Other tangible assets	10% - 40%

Depreciation is first charged in the month in which a tangible asset becomes available for service. Useful lives and depreciation methods are reviewed once a year, leading to an adjustment of the depreciation charges in the subsequent years whenever necessary.

Tangible assets may be divided into components of material value to which separate useful lives can be attributed. Costs of general overhauls and material spare parts and fittings can also be considered such components, provided that they will be used for a period longer than one year. Day-to-day maintenance expenses incurred after the item has been placed in service, including costs of maintenance and repairs, are charged to the income statement as incurred.

An item of property, plant and equipment may be derecognised on disposal or when no future economic benefits are expected from its further use. Any gains or losses generated on the sale, liquidation or withdrawal from use are calculated as the difference between the sale proceeds and the net value of the given tangible item, and are recognised in the income statement as other operating income or other operating expenses.

Any prepayments made in connection with a planned purchase of property, plant and equipment are presented in the financial statements of PGB S.A. in the balance-sheet item "property, plant and equipment".

In accordance with the policies adopted by the Company, any *land perpetual usufruct rights* acquired on the basis of administrative decisions are recognised on the balance sheet at fair value. Fair value is deemed to be equal to the market value of the perpetual usufruct right, if information on such market value is available to the Company, or to the value estimated by an expert appraiser.

Any excess of so determined fair value over the cost incurred to acquire the land perpetual usufruct right based on an administrative decision is also disclosed in the equity and liabilities side of the balance sheet, under retained earnings.

Land perpetual usufruct rights purchased on the secondary market are measured at cost and are not subject to revaluation.

Land perpetual usufruct rights are not amortised.

3.3. LEASED ASSETS

Finance leases, which transfer to the Company substantially all the risks and rewards incident to ownership of the leased asset, are recognised in the balance sheet at commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability, in such a way as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rent is recognised as an expense in the period in which it is incurred.

The depreciation policy for tangible assets held under finance leases is consistent with that for assets owned by the Company. However, if there is no reasonable certainty that the Company will obtain ownership before the end of the lease, the asset is depreciated over the shorter of the life of the asset and the lease term.

Leases whereby the lessor retains substantially all the risks and rewards incident to ownership of the leased asset, are classified as operating leases. Operating lease payments are recognised as an expense in the income statement over the lease term on a straight-line basis.

3.4. IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS

The following assets are tested for impairment on an annual basis:

- goodwill (the first impairment test is performed before the end of the acquisition period),
- intangible assets with infinite lives,
- intangible assets which have not yet been placed in service.

Other intangible assets and items of property, plant and equipment are reviewed on an annual basis to look for any indication that they may be impaired.

Key external indicators of impairment include a situation where during the period an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use, or where the carrying amount of the net assets of the reporting entity is more than its market capitalisation. Furthermore, some of most important indicators of impairment include a situation where significant adverse changes have taken place in the technological, market or economic environment in which the Company operates.

Internal indicators of impairment which should be considered in assessing whether there is any indication that an asset may be impaired include first of all a situation where the actual net cash flows flowing from the asset are significantly worse than those budgeted or where an asset has become obsolete or has been physically damaged.

If it is found that certain developments or circumstances may indicate that the carrying amount of a given asset may not be recoverable, the asset is tested for impairment.

To test for impairment, assets are grouped at the lowest level at which they generate cash flows independently of other assets or asset groups (cash-generating units). Asset items which independently generate cash-flows are tested for impairment individually.

Goodwill is allocated to those cash-generating units that are expected to benefit from the synergies of a business combination, provided that a cash generating unit is at least an operating segment.
If the carrying amount of assets or cash-generating units to which such assets belong exceeds their recoverable amount, then the carrying amount is reduced to the level of the recoverable amount. Recoverable amount is equal to the higher of fair value less costs to sell or value in use. To calculate the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment loss is allocated in the following order: first, the carrying amount of goodwill is reduced, and then the carrying amounts of the other assets of the cash-generating unit are reduced pro rata.
Impairment losses are recognised in the income statement under other operating expenses.
Impairment losses on goodwill cannot be reversed in subsequent periods. As far as other assets are concerned, as at subsequent balance-sheet dates they are analysed for any indication that the impairment loss could be reversed. Reversed impairment losses are recognised in the income statement as other operating income.

3.5. INVESTMENT PROPERTY

Investment property is held to earn rentals and/or for capital appreciation. It is measured based on the fair value model.
Investment property is initially measured at cost, including transaction costs. As at subsequent balance-sheet dates, investment property is measured at fair value (determined by an independent property valuer, taking into account the location and type of the property and the current market environment) or is tested for impairment.
Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which the changes emerged, under other operating income or expenses.
Investment property is derecognised on disposal or permanent withdrawal from use, when no future economic benefits are expected to be derived from the property.
Any prepayments made in connection with a planned purchase of investment property or land are presented in the financial statements of the Company in the balance-sheet item "investment property".

3.6. NON-REGENERATIVE NATURAL RESOURCES

Non-regenerative natural resources are initially recognised at cost. The cost is increased by any expenses directly associated with the purchase and preparation or adaptation of the item for use.

Any costs incurred after non-regenerative natural resources have been placed in service are recognised in the income statement as incurred.

Following initial recognition, non-regenerative natural resources are carried at cost less depreciation and impairment losses.

Depreciation is charged using the activity depreciation method.

If on preparation of financial statements circumstances exist which indicate that the carrying amount of non-regenerative natural resources may not be recoverable, the asset is reviewed for impairment. Impairment losses are recognised in the income statement under other operating expenses.

An item of non-regenerative natural resources may be derecognised on disposal or when no future economic benefits are expected from its further use. Any gains or losses generated on the sale/liquidation or withdrawal of non-regenerative natural resources from use are calculated as the difference between the sale proceeds and the net value of the resources, and are recognised in the income statement.

3.7. FINANCIAL INSTRUMENTS

Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity is a financial instrument.

A financial asset or a financial liability is recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and liabilities is recognised using trade date accounting.

A financial asset is derecognised when the rights to economic benefits specified in the contract and the risks associated with the contract are either discharged or cancelled or expire.
The Company removes a financial liability from the balance sheet when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires.

On acquisition, PBG S.A. recognises financial assets and liabilities at fair value, that is most frequently the fair value of the payment made in the case of an asset or of the amount received in the case of a liability. Transaction costs are included in the initial value of all financial assets and liabilities, except in the case of financial assets and liabilities at fair value through profit or loss.

As at each balance-sheet date, financial assets and liabilities are measured in accordance with the principles discussed below.

3.7.1. FINANCIAL ASSETS

For the purpose of measurement subsequent to initial recognition, financial assets other than hedging derivatives are classified by the Company as follows:

- loans and receivables,
- financial assets at fair value through profit or loss,
- held-to-maturity investments, and
- available-for-sale financial assets.

These categories are used to determine how a particular financial asset is measured at the balance-sheet date and how any gains or losses on its revaluation are recognised in the income statement or in other comprehensive income. Gains or losses recognised in the income statement are presented as finance income or expenses, except for impairment losses on trade receivables, which are presented as other operating expenses.

Except for the financial assets at fair value through profit or loss, all the financial assets are reviewed as at each balance-sheet date to look for any indication that they may be impaired. Impairment losses are recognised if there is objective evidence that a financial asset is impaired. Indications of impairment are analysed separately for each category of financial assets, as discussed below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, using the effective interest method. Current receivables are measured at amounts expected to be received, as the effect of their discounting would be negligible.
Financial assets classified as loans and receivables are shown on the balance sheet as:

- non-current assets, under "non-current receivables" or "other non-current financial assets",
- current assets, under "other current financial assets" or "trade and other receivables". Impairment losses on doubtful receivables are estimated when the collection of the full amount of the receivable is no longer probable. All receivable balances of significant value are subject to individual assessment in the case of debtors who are in arrears with their payments or when objective evidence has been obtained that the debtor may not pay the receivable (e.g. the debtor is in a difficult financial position, judicial proceedings are conducted against the debtor, there have been changes in the economic environment adverse to the debtor). In the case of those receivables which are not subject to individual assessment, indications of impairment are analysed for the particular groups of assets identified from the point of view of credit risk (e.g. credit risk specific to the sector, region or structure of customer base). The ratio of impairment losses recognised in respect of any particular group is based on the recently observable trends as to debtors' payment difficulties.

Financial assets at fair value through profit or loss include *assets* which are classified as *held for trading* or which were designated on initial recognition as ones to be measured at fair value with fair value changes in profit or loss because they met the criteria defined in IAS 39.
A financial asset belongs to this category if it was acquired primarily to be sold within a short period of time or if it was designated by the Company upon initial recognition to recognise the assets at fair value through profit or loss. A financial asset or liability may be designated on initial recognition as at fair value through profit or loss only if such designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or
- applies to a group of financial instruments which, in accordance with a documented risk management policy or investment strategy, is managed and evaluated on a fair value basis.

This category includes all derivatives disclosed in the balance sheet in a separate item called "other financial assets", other than hedging derivatives, which are measured in accordance with the requirements of hedge accounting, mainly investment certificates in investment funds.
In the category of financial assets at fair value through profit or loss the Company recognises investments in joint ventures. Such presentation provides more useful information as this asset category is managed and its

results are measured at fair value, in accordance with documented risk management policies or an investment strategy, while while information on this category is on this basis provided at the entity to its key mangament personnel (within the meaning of IAS 24 *Related Rarty Disclosures* (revised in 2003), for instance to the entity's management board of or chief exectuive officer.

Instruments in this category are measured at fair value, and any effects of revaluation are recognised in the income statement. Gains and losses on revaluation of financial assets are defined as the change in fair value as determined on the basis of prices prevailing on an active market as at the balance-sheet date or – if there is no active market – on the basis of valuation techniques.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that an entity intends and is able to hold to maturity, other than the assets which are classified as loans and receivables.

In this category the Company classifies bonds/notes and other debt securities held to maturity , shown in the balance sheet under "other financial assets".

Held-to-maturity investments are measured at amortised cost, using the effective interest method. If there is evidence that a held-to-maturity investment may be impaired(e.g. credit rating of an issuer of bonds or notes), the assets are measured at the present value of the estimated future cash flows. Any changes in the carrying amount of an investment, including impairment losses, are recognised in the income statement.

Available-for-sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified into any of the categories discussed above.

The Company classifies in this category quoted bonds or notes that are not held to maturity and shares in companies other than its subsidiaries or associates. In the balance sheet, these assets are presented under "other financial assets".

Shares of non-listed companies are measured at cost less impairment losses, due to the fact that it is not possible to reasonably determine their fair value. Impairment losses are recognised in the income statement.

All other available-for-sale financial assets are measured at fair value. Any gains and losses on such measurement are recognised as other comprehensive income and accumulated in equity as capital reserve from revaluation of available-for-sale financial assets, except for impairment losses and foreign exchange gains or losses on monetary items, which are recognised in the income statement. Any interest which would be recognised on measurement of these financial assets at amortised cost using the effective interest method, is also included in the income statement.

Reversals of impairment losses on available-for-sale financial assets are recognised in other comprehensive income, except in the case of impairment losses on debt instruments, the reversals of which are recognised in the income statement if the increase of value of the instrument may be objectively associated with an event that occurred after impairment was recognised.

On derecognition, all accumulated gains and losses previously recognised in other comprehensive income is transferred from equity to the income statement and presented in other comprehensive income as reclassification due to transfer to profit or loss.

Investments in subsidiary and associated undertakings

The Company classifies as *subsidiary undertakings* those undertakings in the case of which it has the power to govern their financial and operating policies so as to obtain benefits from their activities. Such power to govern is held through holding of a majority of the total vote in such undertakings' governing bodies, i.e. their managment and supervisory boards. Any assessment as to whether the Company has control of a given undertaking is made taking into account the existence and effect of potential voting rights that are currently exercisable or convertible.

Investments in associated undertakings are investments over which the Company has significant influence but not control.

Investments in subsidiary and associated undertakings are recognised at cost in line with IFRS 5.

Investments in jointly-controlled undertakings

The Company holds shares in undertakings which under IAS 31 are classified as shares in joint ventures. The standard provides detailed rules for recognising shares in joint ventures, as well as reporting asstes, liabilities, revenues and costs of joint ventures in financial statements.

Par. 3 of IAS 31 defines a joint venture as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Joint control is the division of control over a business defined in the agreement, occurring only if the strategic financial and operating decisions related to the business require a unanimous approval of the controlling parties (shareholders).

3.7.2. FINANCIAL LIABILITIES

Financial liabilities other than derivative hedging instruments are presented in the balance sheet under the following items:

- loans, borrowings and other debt instruments,
- finance leases,
- Trade and other payables
- financial derivatives.

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities held for trading or designated as ones to be measured at fair value through profit or loss. Financial liabilities measured at fair value through profit or loss include non-hedging derivatives. Current trade payables are measured at amounts expected to be paid, as the effect of their discounting would be negligible.

Any gains or losses on measurement of financial liabilities are recognised in the income statement under finance income/expenses.

3.7.3. HEDGE ACCOUNTING

As PBG S.A. executes long-term construction contracts settled in foreign currencies, in accordance with the adopted corporate risk management strategy, it is required to use hedge accounting in order to limit the impact of financial risk on operating results to the largest extent possible. The Company's hedging strategy assumes hedging of individual contracts the future inflows from which will be received or denominated in a foreign currency. The strategy is based on the principle of matching hedging instruments to the planned

transactions under the contract, but always taking into account the actual net exposure, given the budget exchange rate determined in accordance with the relevant definition, possible foreign-currency denominated expenses, the time horizon and the quantitative distribution of the currency flows in the particular quarters.
In accordance with the adopted strategy, the key financial risk management tools used by the Company include forward contracts and interest rate swaps. The Company's strategy also permits purchase of currency options and interest rate options.

The Company applies defined accounting policies with respect to derivatives which serve as cash-flow hedges. To use hedge accounting, the Company must meet certain conditions specified in IAS 39, concerning documentation of the hedging policy, probability of occurrence of the hedged transaction and effectiveness of the hedge. In the period covered by these financial statements, PBG S.A. designated certain of its forward contracts as cash-flow hedges. The forward contracts were concluded by the Company as part of its foreign exchange risk management, in connection with legally binding sale and purchase transactions settled in foreign currencies.

All the hedging derivatives are measured at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity as capital reserve from revaluation of cash-flow hedges. The ineffective portion of the hedge is immediately recognised in the income statement.
At the moment when the hedged item affects the income statement, the accumulated gains and losses on measurement of hedging derivatives, previously recognised in other comprehensive income, are transferred from equity to the income statement. The reclassification is presented in "statement of comprehensive income" under "cash-flow hedges – amount transferred to profit or loss".
If the hedged transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, any gains or losses on revaluation of hedging derivatives, previously recognised in other comprehensive income, are transferred from equity and included in the initial value (the cost) of the hedged item. The reclassification is presented in "statement of comprehensive income" under "cash-flow hedges –amount included in the initial value of hedged items".
If it becomes probable that the planned future hedged transaction will not be executed, all gains and losses on measurement of cash-flow hedges are immediately transferred to the income statement.

3.8. INVENTORIES

Inventories include:

- materials,
- semi-finished products and work in progress,
- finished products,
- goods for resale,
- prepayments for materials or goods for resale classified as inventories.

Inventories are measured at the lower of cost and net realisable value. Cost includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of finished products and work in progress includes direct costs(mainly materials and labour) and an appropriate mark up of indirect production costs, calculated on the assumption of normal utilisation of the production capacity.

Decreases in inventories of finished products are accounted for using the weighted average of the actual production cost. Decreases in inventories of materials and goods for resale are measured using the FIFO ("first in, first out") method.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

In the case of property developers, all expenditures incurred to complete a project are capitalised in inventories, as work in progress.

Impairment losses on tangible current assets resulting from recognition of value impairment or valuation as at balance-sheet date are charged to other operating expenses. If the circumstances resulting in the impairment loss cease to exist, the value of tangible current assets is credited to other operating income.

Circumstances necessitating an impairment loss on inventories include in particular:

- a decline of inventories' value in use (damage, obsolescence),
- the level of inventories being in excess of what the Company needs or is able to sell,
- a long inventory cycle,
- a decline of inventories' market value due to lower prices offered by competitors.

As at each balance-sheet date, the Company reviews the age structure of inventories by category, and determines the required impairment losses.

Any prepayments made in connection with a planned purchase of inventories are presented in the financial statements of the Company in the balance-sheet item "Inventories".

3.9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and cash at banks, demand deposits and highly liquid short-term investments (with maturities up to three months), which can be easily turned into cash and the risk that they fluctuate in value is negligible.

3.10. NON-CURRENT ASSETS AND GROUPS OF NET ASSETS HELD FOR SALE

Non-current assets (or disposal groups comprising non-current assets) are classified as held for sale if their carrying amount will be recovered mainly through sale, rather than continued use of the asset. That condition is deemed satisfied only if an asset (or a disposal group) is available for immediate sale in its present condition on typical and customarily applied terms, and its sale is highly probable within one year from there classification.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Some of the Company's non-current assets classified as held for sale (e.g. financial assets and deferred tax assets) receive the same accounting treatment as they did before the reclassification. Non-current assets classified as held for sale are not depreciated.

3.11. EQUITY

Share capital is valued at the par value of shares issued, as specified in the Company's articles of association and the relevant entry in the National Court Register.

Any shares in the Company acquired and held by the Company or by its consolidated subsidiaries reduce the amount of equity. Treasury shares are carried at acquisition cost.

Share premium account is the capital raised when the issue price of shares is in excess of their par value, after deducting the costs of the issue.

Other capital reserves include:

- capital reserve from valuation of share-based payment schemes,
- capital reserve from accumulation of other comprehensive income, including:
  - fair value remeasurement of property, plant and equipment (see section on property, plant and equipment),
  - valuation of available-for-sale financial assets (see section on financial instruments),
  - valuation of cash-flow hedges (see section on hedge accounting).

Retained earnings include earnings retained from previous periods (including the amounts allocated to equity by virtue of shareholders'resolutions) and the current year's earnings.

Transactions with owners of the Company are presented separately in "The statement of changes in equity".

3.12. SHARE-BASED PAYMENTS

The Company operates incentive schemes under which key members of its management staff are granted shares in PBG S.A. or its subsidiary undertakings.

The value of compensation for the services rendered by the Company's management staff is determined indirectly, by reference to the fair value of equity instruments granted. The fair value of shares is measured at the grant date, with the reservation that vesting conditions which are not market related(i.e. meeting a pre-defined level of financial performance) are not taken into account when estimating the fair value.

The compensation cost and the corresponding increase in equity are recognised based on the best available estimates of the number of shares vesting in a given period. The Company will revise such estimates if subsequent information indicates that the number of shares granted differs from previous estimates. Revisions to estimates of the number of shares granted are recognised in net profit (loss) of the current period – no adjustments are made in relation to prior periods.
After an incentive scheme comes to an end, the capital reserve from valuation of shares granted, less the issue costs, is transferred to the share premium account.

3.13. EMPLOYEE BENEFITS

Provisions for employee benefits and the related liabilities reported in the balance sheet include:

- provisions for holidays in arrears,
- other non-current employee benefits, under which the Company discloses length-of-service awards and retirement severance payments.

3.13.1. CURRENT EMPLOYEE BENEFITS

Current employee benefit obligations are undiscounted and shown on the balance sheet at amounts due.

3.13.2. PROVISIONS FOR HOLIDAYS IN ARREARS

The Company recognises a provision for the cost of accumulating compensated absences, which will have to be incurred in connection with employee entitlements accrued as at the balance-sheet date.
The provision for holidays in arrears is calculated on the basis of the actual number of vacation days accrued in the current period, plus the number of vacation days accrued in prior periods. The provision for the cost of accumulating compensated absences is recognised under provisions for employee benefits, net of any amounts already paid. The provision for accumulating compensated absences is classified as a current provision and is not discounted.

3.13.3. RETIREMENT SEVERANCE PAYMENTS AND LENGTH-OF-SERVICE AWARDS

In accordance with the remuneration systems in place at PBG S.A., its employees are entitled to retirement severance payments. Retirement severance payments are one-off benefits, paid out when the employee retires. The amount of a retirement severance payment depends on the length of employment and average remuneration of a given employee.
PBG S.A. recognises a provision for future liabilities under retirement severance payments in order to allocate costs to the periods in which the benefits become vested.
Under IAS 19, retirement severance payments are post-employment defined-benefit plans.
The present value of the provisions as at each balance-sheet date is assessed by an independent actuary or using the projected unit credit method. The accrued provisions are equal to discounted future payments which relate to the period until the balance-sheet date. Information concerning demographics and employment turnover is sourced from historical data.
Actuarial gains and losses and past service costs are recognised immediately in the income statement.

3.14. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company must recognise a provision if it is under a present obligation (legal or constructive) resulting from past events whose settlement is likely to result in an outflow of economic benefits and whose amount can be reliably estimated. The timing and amount of the liability may be uncertain.

The circumstances with respect to which provisions are created include:

- warranties to provide after-sale support of products and services,
- pending lawsuits and disputes,
- losses on construction contracts, accounted for in accordance with IAS 11,

- restructuring, only if the Company is required to undertake the restructuring under separate regulations or a binding agreement to that effect has been signed.

Provisions are recognised in the amount of estimated future expenditure required to settle a present obligation, based on the most reliable evidence available on the date on which the financial statements are prepared, including evidence as to risks and uncertainties. If the effect of the time value of money is material, the provision is measured by discounting expected future cash flows to their present value, using a discount rate that reflects current market assessments of the time value of money and the risks, if any, specific to the liability. If discounting is used, any increase in the amount of the provision reflecting the passage of time is recognised as finance expense.

Provisions for warranties given are made to meet a future obligation to make a payment or provide a service (in connection with current operations) to unknown persons, if the amount of the liability can be estimated, even though its timing is unknown. Provisions are measured at a probability-weighted value, as assessed by the Management Board (based on the probability that a future obligation will arise) by analysing the costs of warranty repairs under ongoing construction contracts. Provisions for warranties given are charged to cost of sales under a long-term contract, based on the relation of direct expenditures already incurred to total estimated direct costs. The costs related to accrued provisions for warranties given do not increase the basis for determining the stage of a contract's completion. At PBG S.A., provisions for warranties given are broken down into individual construction contracts. They are maintained to the extent it is probable that a warranty claim or a claim for repair work will arise, until the right to make the claim expires. If any provisions remain unused (after their effective period), they are reversed to other operating income. Depending on how long a provision is maintained, it is classified in the balance-sheet as a non-current provision or a current provision.

Provisions for losses on construction contracts are recognised if it is probable that the total cost to complete a construction contract exceeds the total revenue under the contract. The anticipated loss is immediately expensed to the income statement. Its amount is determined irrespective of the commencement of contract work, the stage of the contract's completion or expected profits on contracts which are not single construction contracts. Any change in provisions for expected losses increases or reduces operating expenses.

If the Company expects the costs covered by a provision to be recoverable (e.g. under an insurance agreement), the recoverable amount is recognised as a separate item of assets, but only if it is reasonably certain that it will actually be recovered. However, the value of the asset must not exceed the value of the provision.

Any unused provisions are reversed on the day when they are no longer needed.

Provisions are used if the obligation for which they were created arises.

If the probability of an outflow of resources to settle a present obligation is remote, no contingent liability is recognised in the balance sheet, except for contingent liabilities identifiable in a business combination, as part of the allocation of acquisition costs under IFRS 3 (see section concerning business combinations).
For information on contingent liabilities, see the descriptive part of the financial statements in Note 4.3.1.

Any inflows of economic benefits to the Company which do not yet meet the criteria to qualify as assets are classified as contingent assets, and as such are not placed on the balance sheet.

3.15. PREPAYMENTS AND ACCRUED INCOME

Under "Prepayments and accrued income" (presented on the assets side of the balance sheet) PBG S.A. discloses prepaid costs relating to future reporting periods, mainly lease payments and for instance costs relating to obtaining construction contracts (if the probability of obtaining the contract is high).

The item "Accruals and deferred income" (presented in the balance sheet under equity and liabilities) includes deferred income, including financial support received to finance property, plant and equipment, accounted for under IAS 20 (Government Grants). Accrued expenses are recognised under non-current or current accruals and deferred income.
Grants are recognised only when it is reasonably certain that the Company will satisfy the conditions attached to a given grant and that the grant will actually be received.
A grant relating to a particular item of costs is recognised as income over the period necessary to match it with the related cost, for which it is intended to compensate.
A grant intended to finance an asset is recognised in the income statement on a systematic basis, as income over periods during which a given asset is depreciated. Instead of deducting the grant from the asset's carrying amount, PBGS.A. presents it in its balance sheet as deferred income, under"Accruals and deferred income".

3.16. SALES REVENUE

Sales revenue is measured at the fair value of the consideration received or receivable and represents the receivables for products, goods for resale and services provided in the ordinary course of business, less discounts, VAT and other sales-related taxes (i.e. excise duty). Sales revenue is recognised to the extent its is probable that the economic benefits associated with the transaction will flow to the Company and where its amount can be reliably estimated.

3.16.1. SALE OF GOODS FOR RESALE AND PRODUCTS

Revenue from sale of goods for resale and products is recognised when the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods. That condition is deemed satisfied when the goods for resale or products are indisputably transferred to the buyer.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Company.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.16.2. SALE OF SERVICES

The services provided by the Company include property leasing and execution of construction contracts.

Revenues under leases of investment property are recognised on the straight-line basis over the lease periods, as specified in the relevant agreements.

The Company executes construction contracts charged at fixed prices, which fall within the scope of IAS 11.
If the outcome of a construction contract can be estimated reliably, revenue should be recognised in proportion to the stage of completion of contract activity. The stage of a contract's completion, expressed as a percentage, is determined as the proportion that contract costs incurred for work performed by the balance-sheet date bear to the estimated total contract costs.
If the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are expected by the Company to be recoverable.

If it is probable that the total contract costs will exceed the total contract revenue, an expected loss on a construction contract should be immediately recognised as an expense.

If the Company performs an agreement for construction services which pursuant to IAS 31 it classifies as a "joint venture" then, in accordance with paragraph 7 of IAS 31, there are three types of joint ventures, depending on their form and structure:

- Jointly controlled operations

This is the most frequent type of consortium. Its duration is precisely defined and not too long. An association of companies offers to jointly perform a project with a clear division of duties among the consortium members, which perform such duties on their own account. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own liabilities and raises its own finance, which represent its own obligations. The leader chosen from among the consortium members has the powers to sign the contract on behalf of the consortium, and is also in charge of the economic settlements with the principal, including issue of invoices. A simple joint venture arrangement regulates the manner of distribution of the revenue from sales of joint products and of all the jointly incurred expenses among the consortium members. The consortium partners issue invoices to the consortium leader and this way ultimately participate in the profits generated by the joint venture.

The separate financial statements of the individual consortium members account for the assets, liabilities, revenue and expenses in such proportion as corresponds with the agreed division of duties. The consortium members may prepare management accounts in order to assess the performance of the joint venture.

- Jointly controlled assets

This is another form of a joint venture, which involves the joint control by the venturers of the assets contributed to, or acquired for the purpose of, the joint venture, and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer participates in the project performance by taking a share of the output from the assets and bearing an agreed share of the expenses incurred.

- Jointly controlled entity

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other economic entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

In the case of a number of consortium agreements, the consortium members decide not to establish a new entity but only to appoint one of them (a leader) to represent them in relations with third parties. In such a case, even though no separate new entity is established, the economic substance of the role performed by the leader is tantamount to is serving as such a separate entity.

A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purpose of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with International Financial Reporting Standards.

As at the date of these financial statements, the Company is performing work under contracts which in accordance with IAS 31 it classifies as:

- Jointly controlled operations;

  Consortium Agreement between PBG SA (Consortium Leader), Tecnimont SpA, Société Française d'Etudes et de Réalisations d'Equipements Gaziers "SOFREGAZ", Plynostav Pardubice Holding A.S. - Plynostav Regulace Plynu A.S. (Consortium Partners), and Polskie Górnictwo Naftowe i Gazownictwo SA, for general construction on investment project "Construction of the Surface Installations of the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn nm3, sub-phase: 1.2bn nm3". The fee under the agreement is PLN 1,089,000 thousand.

  Consortium Agreement between PBG SA (Consortium Leader), Technip KTI SpA and Thermo Desing Engineering Ltd, for the execution of project "LMG Project – Central Facility, well areas and other infrastructure". The value of the agreement in PLN 1,397,000 thousand.

- Jointly controlled entity;

  Creation of JOIN VENTURE ALPINE BAU GMBH – PBG SA – Aprivia SA – Hydrobudowa Polska SA Spółka Cywilna to carry out the project "Construction of the Kaczkowo–Korzeńsko section of the S5 Poznań (A-2 – Głuchowo interchange) – Wrocław (A-8 – Widawa interchange) expressway, the Ring Road of Bojanowo and Rawicz". The planned VAT-exclusive revenue from the project is PLN 777,240 thousand.

  The Consortium Agreement between Saipem SpA, Techint Sp, Snamprogetti Canada INC, PBG SA, PBG Export Sp. z o.o. for the execution of project "delivery of the working design, construction and commissioning of the Liquefied Natural Gas Regasification Terminal in Świnoujście". The cobtractual fee payable to the Consortium is PLN 2,415,213 thousand.

INTEREST AND DIVIDENDS

Interest income is recognised as it accrues, using the effective interest rate method. Dividends are recognised as at the dividend record date.

3.17. COSTS

Costs are recognised by the Company in accordance with the matching and prudence principles.

Cost of sales as at the balance-sheet date is adjusted to account for changes in the fair value of financial instruments designated as cash-flow hedges, if the transaction is no longer effective or if the hedged item is realised.

Costs are analysed by cost centres and by nature, but the basic cost accounting format of the income statement is the "costs by function" analysis.

The total cost of products, goods for resale and materials sold includes:

- cost of products sold,
- cost of services sold,
- cost of goods for resale and materials sold,
- administrative expenses.

In addition, the costs of a reporting period affecting the net profit/(loss) include **other operating expenses**, related directly to operating activities, including in particular:

- loss on disposal of property, plant and equipment and intangible assets,
- donations granted,
- provisions for disputes, fines and damages, and other costs related indirectly to operating activities,

as well as **finance expenses**, related to financing of the Company's operations, including in particular:

- interest on bank loans,
- interest on short and long-term loans, borrowings and other sources of financing, including discounting of liabilities,
- net foreign-exchange losses.

3.18. INCOME TAX (CURRENT AND DEFERRED)

Mandatory decreases of profit (increases of loss) include current and deferred income tax which was not recognised in other comprehensive income or directly in equity.

Current tax is calculated based on the taxable profit (tax base) for a given financial year. The profit (loss) established for tax purposes differs from pre-tax profit (loss) established for accounting purposes due to the carry forward or carry back of the income which is taxable and the expenses which are deductible, and the exclusion of expenses and income items which will never be subject to deduction/taxation. The tax charges are calculated based on the tax rates effective for a given financial year.

Deferred tax is calculated using the balance-sheet method as the tax to be paid or recovered in the future based on the differences between the carrying amounts of assets and liabilities and their values for tax purposes, used to determine the tax base.
A deferred tax liability is recognised for all taxable temporary differences, while a deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the identified deductible temporary differences can be utilised. No deferred tax liability or asset is recognised when a temporary difference relates to the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect the accounting or the taxable profit. No deferred tax liability arises from goodwill which is not subject to amortisation under applicable tax regulations.
Deferred tax is calculated using the tax rates applicable at the time when the asset is realised or the liability is settled, based on tax laws that have been enacted by the balance-sheet date.

The amounts of deferred tax assets are reviewed at each balance-sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.
Deferred tax is recognised in the income statement, except to the extent that it arises from items recognised directly in equity. If the tax relates to items that are credited or charged directly to equity, the tax is also charged or credited directly to equity.

3.19. MANAGEMENT'S SUBJECTIVE JUDGEMENTS AND ESTIMATION UNCERTAINTY

The preparation of financial statements requires the Company's Management Board to exercise judgment in making numerous estimates and assumptions, which have an effect on the accounting policies applied and the amounts of assets, liabilities, income and expenditure reported. Actual results may differ from the Management Board's estimates. Information on estimates and assumptions which have a significant effect on the financial statements is disclosed below.

3.19.1. USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT

Every year, the Company's Management Board reviews the useful lives of non-current assets subject to depreciation. According to the Management Board's assessment as at December 31st 2010, the useful lives of assets adopted by the Company for depreciation purposes reflect the periods during which future economic benefits associated with the assets are expected to flow to the Company. However, actual periods during which the assets will generate future economic benefits may differ from the assumptions, due to such factors as technical obsolescence. For carrying amounts of non-current assets subject to depreciation, see Sections 4.1 and 4.3.

All amounts in PLN '000 (unless otherwise stated)

3.19.2. REVENUE ASSOCIATED WITH CONSTRUCTION CONTRACTS

Revenue and receivables associated with construction contracts disclosed in financial statements depend on the Management Board's estimates regarding the stage of completion of the contract activity and the profit margins expected to be achieved on individual contracts. The budgeted costs related to specific projects which are not yet incurred are monitored on an ongoing basis by the management staff supervising the progress of construction work, as a result of which the budgets of individual contracts are revised at least monthly. However, the costs not yet incurred and the profit margins on contract work involve a degree of uncertainty, especially in the case of highly complex projects, which take several years to complete. Below is presented the outcome of the construction contracts in progress at balance-sheet date, budgeted by the Management Board.

ESTIMATES

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Revenue under construction contracts	2,423,055	2,680,515
Change of contract revenue	223,855	298,601
Total contract revenue	2,646,910	2,979,116
Contract costs incurred until balance-sheet date	1,157,691	1,054,216
Expenses to be incurred by the completion of the contract	1,022,535	1,438,729
Estimated total cost of the contract	2,180,247	2,492,945
Estimated total construction contract results, including:	**466,684**	**486,171**
gains	**466,684**	**492,733**
losses (-)	-	-6,562

Receivables under construction contracts disclosed in the financial statements total PLN 86,810 thousand (2009: PLN 149,609 thousand) and along with revenue under these contracts reflect the best Management Board's estimates of the results and the stage of completion of particular construction contracts.

3.19.3. PROVISIONS

The value of provisions for employee benefits, including retirement severance payments and holidays in arrears, is assessed using the projected unit credit method. Provisions for employee benefits disclosed in the consolidated financial statements total PLN 564 thousand (2009: PLN 457 thousand). The amount of provisions is affected by the assumptions concerning the discount rate and the salary increase index.

A one percentage point decrease in discount rate and a one percentage point increase in the salary increase index would raise the amount of provisions, defined as at December 31st 2010, by PLN 67 thousand.

3.19.4. DEFERRED TAX ASSETS

The probability that a deferred tax asset will be utilised against future taxable profit is based on the Company's budget, approved by the Management Board. If the financial performance forecast suggests that the Company will achieve taxable income, the deferred tax assets are recognised in the full amount.

3.19.5. IMPAIRMENT OF NON-FINANCIAL ASSETS

In assessing value in use, the Management Board estimates future cash flows and the rate used to discount future cash flows to their present value (see section on impairment of non-financial assets). When determining the present value of future cash flows, assumptions need to be made regarding future financial performance. Such assumptions relate to future events and circumstances. Actual values may differ from the estimates, which may necessitate significant adjustments to the Company's assets in subsequent reporting periods.

3.20. CHANGES IN ACCOUNTING POLICIES AND PRIOR PERIOD ERRORS

An accounting policy may be changed only if the change:

- is required by new or revised accounting laws, where the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance, or cash flows.

If an accounting policy is changed, it is assumed that the new accounting policy has always been applied. The corresponding adjustments are recognised as adjustments to equity – under retained earnings/deficit. To ensure data comparability, the relevant financial statements (comparative information) for prior periods must be adjusted accordingly, so that the new accounting policy is also reflected in financial statements for prior periods.

The items of financial statements valued on the basis of an accounting estimate are reviewed to take account of any subsequent alteration in the circumstances on which the estimate was based or any newly gained information or experience.

Corrections of material prior period errors are charged against equity – under retained earnings/deficit. When preparing financial statements, it must be assumed that the error was already corrected in the period in which it occurred. Accordingly, the amount of the correction relating to a prior reporting period should be included in the income statement for that period.

No corrections of material errors affecting the comparative data for prior periods were made in these financial statements.

In 2010, PBG introduced the following presentation changes:

- A separate item is presented in the balance sheet on loans advanced (caused by relevance of the item) under "loans". In prior periods, the Company recognised loans under other current and non-current financial assets. The amount under loans as at:
  December 31st 2009 – non-current: PLN 64,005 thousand,
  December 31st 2009 – current: PLN 453,317 thousand.

- Liabilities under employee benefits presented previously under other liabilities were transferred to "liabilities and provisions under employee benefits". The amounts as at the respective dates are:
  December 31st 2009 – PLN 1,202 thousand.

Pursuant to IAS 1 paragraphs 10f and 39, if an entity has reclassified items in its financial statements, it is required to present statements of financial position for at least three reporting periods, two of each other statements and related notes. In the opinion of the Company's Management Board, the changes it has introduced in the presentation of the above-discussed items of the statement of financial position in the financial statements for the current reporting period have no material effect on the entire financial statements and therefore the Management Board presented the third reporting period in the case of the statement of financial position and the notes affected by the changes.

3.21. NO NETTING (SEPARATE VALUATION PRINCIPLE)

In accordance with this principle, assets and liabilities cannot be netted (offset), unless required or permitted by IAS.

Items of revenue and expenses can be netted if, and only if:

- it is required or permitted by IAS, or

- profit, loss and the associated costs arising under the same or similar transactions or events are immaterial.

The Company presents the results of the following transactions through netting:

- gains and losses on the disposal of non-current assets, including investments and operating assets, are recognised at the difference between the proceeds from the disposal and the carrying amount of the asset and related selling costs,
- expenditure related to a provision, reimbursed under a contractual arrangement with a third party (e.g. a supplier's warranty agreement) is netted against the related reimbursement,
- deferred tax assets and liabilities are recognised as a net asset or liability,
- prepayments received for the performance of work under construction contracts are netted against revenue due under such contracts, provided the contractual provisions allow such netting,
- gains and losses arising from a group of similar transactions are reported on a net basis, i.e. foreign-exchange gains and losses or gains and losses arising on financial instruments held for trading and hedging instruments, charged against net profit/(loss), gains or losses from discounting long-term payables/receivables , etc.,
- receivables and liabilities under output/input VAT relating to future periods.

3.22. STATEMENT OF CASH FLOWS

The statement of cash flows is prepared using the indirect method.

3.23. EARNINGS PER SHARE (EPS)

EPS is calculated by dividing net profit for a given period attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

Diluted EPS for each period is calculated by dividing net profit for a given period, adjusted for the effects of all dilutive potential ordinary shares, attributable to ordinary shares, by the adjusted weighted average number of ordinary shares.

All amounts in PLN '000 (unless otherwise stated)

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION AND THE INCOME STATEMENT

4.1. INTANGIBLE ASSETS

Intangible assets used by the Group include trademarks, patents, licences, computer software, internally generated intangible assets arising from development work, and other intangible assets. Intangible assets which as at the balance-sheet date have not been placed in service are disclosed under "Intangible assets under construction". The item also includes prepayments for intangible assets.

Item	As at Dec 31 2010	As at Dec 31 2009
Trademarks	-	-
Patents and licences	19,999	21,918
Computer software	3,292	3,518
Costs of development work	-	-
Other intangible assets	6,918	285
Net carrying amount	**30,209**	**25,721**
Intangible assets under construction	456	2,348
Prepayments for intangible assets	-	-
Total intangible assets	**30,665**	**28,069**
Intangible assets classified as held for sale	-	-
Intangible assets	**30,665**	**28,069**

All amounts in PLN '000 (unless otherwise stated)

CHANGES IN INTANGIBLE ASSETS DURING THE PERIOD

Item	Trademarks	Patents and licences	Computer software	Costs of development work	Other intangible assets	Intangible assets under construction	Prepayments for intangible assets	Total
January 1st – December 31st 2010								
Net carrying amount as at Jan 1 2010	**0**	**21,918**	**3,518**	**0**	**285**	**2,348**	**0**	**28,069**
Increase attributable to business combinations	-	-	-	-	-	-	-	**-**
Increase attributable to acquisition	-	187	1,671	-	7,369	1,024	-	**10,251**
Decrease attributable to disposal (-)	-	(281)	-	-	-	(2,644)	-	**(2,925)**
Increase or decrease attributable to remeasurement to fair value	-	-	-	-	-	-	-	**-**
Impairment losses (-)	-	-	-	-	-	-	-	**-**
Reversal of impairment losses	-	-	-	-	-		-	**-**
Amortisation (-)	-	(1,825)	(1,897)	-	(736)	-	-	**(4,458)**
Other changes	-	-	-	-	-	(272)	-	**(272)**
Net carrying amount as at Dec 31 2010	**0**	**19,999**	**3,292**	**-**	**6,918**	**456**	**0**	**30,665**

All amounts in PLN '000 (unless otherwise stated)

Item	*Trademarks*	*Patents and licences*	*Computer software*	*Costs of development work*	*Other intangible assets*	*Intangible assets under construction*	*Prepayments for intangible assets*	*Total*
January 1st – December 31st 2009								
Net carrying amount as at Jan 1 2009	**-**	**6,030**	**3,712**	**-**	**854**	**-**	**-**	**10,596**
Increase attributable to business combinations	-	-	-	-	-	-	-	**-**
Increase attributable to acquisition		18,711	244	-	-	166		**19,121**
Decrease attributable to disposal (-)	-	(25)	-	-	-	-	-	**(25)**
Increase or decrease attributable to remeasurement to fair value	-	-	-	-	-	-	-	**-**
Impairment losses (-)	-	-	-	-	-	-	-	**-**
Reversal of impairment losses	-	-	-	-	-	-	-	**-**
Amortisation (-)	-	(2,649)	(587)	-	(569)	-	-	**(3,805)**
Other changes		(149)	149	-	-	2,182		**2,182**
Net carrying amount as at Dec 31 2009	**-**	**21,918**	**3,518**	**-**	**285**	**2,348**	**-**	**28,069**

INTANGIBLE ASSETS FROM JANUARY 1ST TO DECEMBER 31ST 2010 (CONTINUED)

Item	Trademarks	Patents and licences	Computer software	Costs of development work	Other intangible assets	Intangible assets under construction	Prepayments for intangible assets	**Total**
As at Dec 31 2010								
Gross carrying amount	-	25,980	8,651	-	10,215	456	-	45,302
Accumulated depreciation/amortisation and impairment losses (-)	-	(5,981)	(5,359)	-	(3,297)	-	-	(14,637)
Net carrying amount as at Dec 31 2010	**-**	**19,999**	**3,292**	**-**	**6,918**	**456**	**-**	**30,665**
As at Dec 31 2009								
Gross carrying amount	-	26,427	7,437	-	2,846	2,348	-	39,058
Accumulated depreciation/amortisation and impairment losses (-)	-	(4,509)	(3,919)	-	(2,561)	-	-	(10,989)
Net carrying amount as at Dec 31 2009	**-**	**21,918**	**3,518**	**-**	**285**	**2,348**	**-**	**28,069**

All amounts in PLN '000 (unless otherwise stated)

The most significant intangible asset owned by the Company is a licence covering design, technical and engineering concepts for fitments/fittings systems, and particularly for underground liquid fuel storage tanks, along with relevant patents, know-how, and documents confirming practical applications. The carrying amount of the asset as at December 31st 2010 was PLN 12,801 thousand (PLN 14,552 thousand in 2009). The remaining amortisation period is eight years.

In addition, PBG S.A. acquired, under a purchase agreement, tangible and intangible assets forming an organised part of business, for a total of PLN 7,500 thousand. The organised part of business included tangible assets (plant and equipment) forming a process line permanently linked with intangible assets (production technology), and human resources related solely to the trenchless sewerage rehabilitation method. Upon the acquisition of the organised part of business, know-how was recognised under other intangible assets, with a carrying amount of PLN 6,918 thousand as at December 31st 2010. The remaining amortisation period is 14 years.

Intangible assets with indefinite useful lives are not used by the Company in its operations (see Section on accounting policies).

Accumulated amortisation of intangible assets was disclosed in the income statements under:

Item	As at Dec 31 2010	As at Dec 31 2009
Cost of sales	2,626	2,125
Administrative expenses	1,832	1,680
Selling costs	-	-
Total amortisation of intangible assets	**4,458**	**3,805**

In 2010 and 2009, the Company did not recognise any impairment losses that would be disclosed in the income statement.

As at December 31st 2010, the Company did not use intangible assets as collateral for its liabilities.

FULLY AMORTISED INTANGIBLE ASSETS STILL IN USE

Item	As at Dec 31 2010	As at Dec 31 2009
Gross value of all fully amortised intangible assets still in use	6,800	4,438
Total fully amortised intangible assets	**6,800**	**4,438**

As at December 31st 2010, the Company reviewed the useful lives of intangible assets adopted earlier, in line with IAS 36 and the adopted accounting policies. In 2010, gross value of all fully amortised intangible assets that are still in use by PBG amounted to PLN 6,800 thousand (2009: PLN 4,438 thousand). Intangible assets with zero value include mainly intangible assets which, in line with the Company's accounting policies, are subject to one-off amortisation due to low unit value and intangible assets which are still used by the Company despite being fully amortised.

All amounts in PLN '000 (unless otherwise stated)

4.2. GOODWILL

GOODWILL

Item	As at Dec 31 2010	As at Dec 31 2009
Goodwill	1,606	1,606
Net goodwill	**1,606**	**1,606**

As required under IAS 36 and the applied accounting policies, goodwill attributable to each of the business segments listed above was tested for impairment as at December 31st 2010.

In order to perform the annual impairment tests, goodwill is allocated to relevant cash-generating units which are separate operating segments.

The company value was estimated based on the income-based DCF approach. The recoverable amount calculation took into account the future five-year savings, estimated per annum in a conservative manner at PLN 1,697 thousand, less the functioning cost of the Procurement Platform, recognised at the 2010 cost level, and amounting PLN 178 thousand.. The discount rate was set at 9.41%. It results from the assumed risk-free rate equal to the average yield of five-year treasury bonds of 5.642% and Damodaran's risk premium for Poland at6.5%. The β coefficient assumed for the calculations is 1.0. The use the fixed price model for the calculations required the discount factor to be adjusted for inflation, assumed at 2.5% (NBP's long-term goal). When the savings, less departmental costs, were discounted the recoverable amount was determined at PLN 5,846 thousand. Therefore, there is no premise for recognising an impairment loss.

4.3. PROPERTY, PLANT AND EQUIPMENT

Item	As at Dec 31 2010	As at Dec 31 2009
Land	6,455	6,391
Buildings and structures	68,832	74,930
Plant and equipment	22,618	25,835
Vehicles	29,358	10,455
Other tangible assets	13,185	12,333
Net carrying amount	**140,448**	**129,944**
Property, plant and equipment under construction	36,377	1,252
Prepayments for tangible assets	-	7,583
Total property, plant and equipment	**176,825**	**138,779**
Property, plant and equipment classified as held for sale	-	-
Property, plant and equipment	**176,825**	**138,779**

Company's name:	***PBG S.A.***		
Period covered by the financial statements:	***January 1st - December 31st 2010***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 (unless otherwise stated)***		

CHANGES IN PROPERTY, PLANT AND EQUIPMENT DURING THE PERIOD

Item	Land	Buildings and structures	Plant and equipment	Veh icles	Other tangible assets	Property, plant and equipment under construction	Prepayments for tangible assets	Total
January 1st – December 31st 2010								
Net carrying amount as at Jan 1 2010	**6,391**	**74,930**	**25,835**	**10,455**	**12,333**	**1,252**	**7,583**	138,779
Increase attributable to acquisition	33	34	2,396	22,199	1,687	35,229	-	61,578
Increase attributable to construction	-	-	-	-	-	-	-	-
Increase attributable to executed lease agreements	-	-	-	358	-	-	-	358
Increase attributable to reclassification to another asset category Assets	31	-	-	-	-	-	-	31
Decrease attributable to disposal (-)	-	(412)	(143)	(595)	(41)	-	-	(1,191)
Decrease attributable to liquidation (-)	-	-	(11)	(10)	(17)	-	-	(38)
Decrease attributable to reclassification to another asset category (-) assets (-)	-	(3,544)	-	-	-	(104)	(7,583)	(11,231)
Increase or decrease attributable to remeasurement to fair value	-	-	-	-	-	-	-	-
Impairment losses (-)	-	-	-	-	-	-	-	-
Reversal of impairment losses	-	-				-	-	-
Amortisation (-)	-	(2,176)	(5,459)	(3,049)	(777)	-	-	(11,461)
Other changes	-	-	-	-	-	-	-	-
Net carrying amount as at Dec 31 2010	**6,455**	**68,832**	**22,618**	**29,358**	**13,185**	**36,377**	**-**	**176,825**

All amounts in PLN '000 (unless otherwise stated)

Item	Land	Buildings and structures	Plant and equipment	Veh icles	Other tangible assets	Property, plant and equipment under construction	Prepayments for tangible assets	Total
January 1st – December 31st 2009								
Net carrying amount as at Jan 1 2009	**6,729**	**76,713**	**28,982**	**15,938**	**12,294**	**7,407**	**53**	148,116
Increase attributable to acquisition	-	164	4,623	896	1,092	441	7,530	14,746
Increase attributable to construction	-	-	-	-	-	-	-	-
Increase attributable to executed lease agreements	-	-	-	-	-	-	-	-
Increase attributable to reclassification to another asset category Assets	-	123	-	53	-	-	-	176
Decrease attributable to disposal (-)	-	-	(2,063)	(3,871)	(243)	-	-	(6,177)
Decrease attributable to liquidation (-)	-	(115)	(3)	(3)	(5)	-	-	(126)
Decrease attributable to reclassification to another asset category (-) assets (-)	(338)	-	-	-	-	(6,596)	-	(6,934)
Increase or decrease attributable to revaluation to fair value	-	-	-	-	-	-	-	-
Impairment losses (-)	-	-	-	-	-	-	-	-
Reversal of impairment losses	-	-	-	-	-	-	-	-
Amortisation (-)	-	(1,955)	(5,704)	(2,558)	(805)	-	-	(11,022)
Other changes	-	-	-	-	-	-	-	-
Net carrying amount as at Dec 31 2009	**6,391**	**74,930**	**25,835**	**10,455**	**12,333**	**1,252**	**7,583**	**138,779**

All amounts in PLN '000 (unless otherwise stated)

PROPERTY, PLANT AND EQUIPMENT Jan 1 – Dec 31 2010 (CONTINUED)

Item	Land	Buildings and structures	Plant and equipment	Veh icles	Other tangible assets	Property, plant and equipment under construction	Prepayments for tangible assets	Total
As at Dec 31 2010								
Gross carrying amount	6,455	76,893	47,896	39,660	20,416	36,377	-	227,697
Total accumulated depreciation and impairment losses (-)	-	(8,061)	(25,278)	(10,302)	(7,231)	-	-	(50,872)
Net carrying amount as at Dec 31 2010	**6,455**	**68,832**	**22,618**	**29,358**	**13,185**	**36,377**	**-**	**176,825**
As at Dec 31 2009								
Gross carrying amount	6,391	82,352	45,993	18,241	18,898	1,252	7,583	180,710
Total accumulated depreciation and impairment losses (-)	-	(7,422)	(20,158)	(7,786)	(6,565)	-	-	(41,931)
Net carrying amount as at Dec 31 2009	**6,391**	**74,930**	**25,835**	**10,455**	**12,333**	**1,252**	**7,583**	**138,779**
	6,455	76,893	47,896	39,660	20,416	36,377	-	227,697

All amounts in PLN '000 (unless otherwise stated)

As at December 31st 2010, property, plant and equipment with a carrying amount of pln 58,125 thousand (2009: PLN 61,617 thousand) served as collateral for the Company's liabilities. For information on collateral for liabilities, see Section 4.8.6.

PROPERTY, PLANT AND EQUIPMENT WITH RESTRICTED OWNERSHIP TITLE OR USED AS COLLATERAL FOR LIABILITIES

Liability / restricted title	Type of security	Collateral	Carrying amount and as at Dec 31 2010	Carrying amount and as at Dec 31 2009
Credit facility from Pekao S.A.	registered pledge	vehicles	2,831	2,992
Credit facility from Pekao S.A.	registered pledge	construction equipment	3,956	5,815
Credit facility from Pekao S.A.	registered pledge	power generators	213	341
Credit facility from Pekao S.A.	registered pledge	other	36	-
Credit facility from ING S.A.	mortgage	buildings	51,089	52,469
Total carrying amount of property, plant and equipment			**58,125**	61,617

Depreciation of property, plant and equipment was recognised in the following items of the income statement:

Item	As at Dec 31 2010	As at Dec 31 2009
Cost of sales	6,332	6,100
General and administrative expenses	5,129	4,922
Selling costs	-	-
Total depreciation of property, plant and equipment	**11,461**	**11,022**

As at December 31st 2010, the Company reviewed the useful lives of property, plant and equipment assumed earlier in line with IAS 16 and the adopted accounting policies. In 2010, gross value of all fully amortised property, plant and equipment that is still in use by PBG amounted to PLN 2,751 thousand (2009: PLN 2,681 thousand). Tangible assets equal to zero include mainly the property, plant and equipment which, in line with the Company's accounting policies, are subject to one-off depreciation due to low unit value.

FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT STILL IN USE

Item	As at Dec 31 2010	As at Dec 31 2009
Gross value of all fully depreciated property, plant and equipment still in use	2,751	2,681
Total fully depreciated property, plant and equipment	**2,751**	**2,681**

As at the balance-sheet date, there were no premises for recognition of impairment loss on property, plant and equipment. Therefore, the Company did not recognise any impairment losses, as was the case in 2009.

All amounts in PLN '000 (unless otherwise stated)

OFF-BALANCE SHEET TANGIBLE ASSETS

Item	As at Dec 31 2010	As at Dec 31 2009
Tangible assets used under rental or similar agreement, including lease agreement, including:	1,434	2,093
- value of land under perpetual usufruct	-	-
- finance lease agreements	1,434	2,093
Off-balance sheet tangible assets, total	**1,434**	**2,093**

Furthermore, the Group leases (or rents) other tangible assets, which mostly comprise real estate used in the operating activities, including construction camps, office premises, accommodation for project employees, land properties for storage of equipment, materials, etc.
Costs related to using these assets are recognised in the income statement.

4.4. LEASED ASSETS

The Company as a lessee uses property, plant and equipment under finance lease agreements. The following table presents the carrying amount of assets under finance lease agreements:

carrying amount OF PROPERTY, PLANT AND EQUIPMENT IN FINANCE LEASE

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other tangible assets	Property, plant and equipment under construction	Total
As at Dec 31 2010							
Gross carrying amount	-	-	3,577	517	-	-	4,094
Accumulated depreciation/amortisation and impairment losses	-	-	(1,367)	(101)	-	-	(1,468)
Net carrying amount	-	-	2,210	416	-	-	2,626
As at Dec 31 2009							
Gross carrying amount	-	-	3,577	159	-	-	3,736
Accumulated depreciation/amortisation and impairment losses	-	-	(659)	(17)	-	-	(676)
Net carrying amount	-	-	2,918	142	-	-	3,060

The following table presents future minimum lease payments outstanding as at the balance-sheet date:

Finance lease liabilities

Item	Payments under finance lease agreements, payable in:			
	up to 1 year	from 1 to 5 years	over 5 years	Total
As at Dec 31 2010				
Future minimum lease payments	1,303	525	-	1,828
Finance expenses (-)	(107)	(56)	-	(163)
Present value of the future minimum lease payments	1,196	469	-	1,665
As at Dec 31 2009				

All amounts in PLN '000 (unless otherwise stated)

Finance lease liabilities

Item	Payments under finance lease agreements, payable in:			
	up to 1 year	from 1 to 5 years	over 5 years	Total
Future minimum lease payments	1,193	1,598	-	2,791
Finance expenses (-)	(183)	(104)	-	(284)
Present value of the future minimum lease payments	1,010	1,494	-	2,504

The most important finance lease agreements include the lease of excavators with an initial value of the leased asset of PLN 3,157 thousand. The agreement was concluded on February 24th 2009 for the period of three years, after which the Group has the right to purchase the leased asset. The interest on lease instalments is based on 1M WIBOR rate, and their repayment is secured with a blank promissory note. For detailed information on collateral for the Company's liabilities, see Note 4.10.6.

In the period covered by these financial statements no expenses under contingent lease payments were recognised and no sublease payments occurred as the assets are used only within the Company.

4.5. NON-REGENERATIVE NATURAL RESOURCES

PBG S.A. does not carry any non-regenerative natural resources.

4.6. INVESTMENT PROPERTY

Changes in the carrying amount in the reporting period were as follows:

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Amount at beginning of period	**8,175**	**710**
Additions resulting from real property acquisitions	10,455	-
Additions resulting from subsequent expenditure recognised in the carrying amount of an asset	-	167
Additions resulting from reclassification from another asset category:	**-**	**6,723**
- from property, plant and equipment (land)	-	338
- from property, plant and equipment (buildings and structures)	-	132
- from property, plant and equipment under construction	-	6,253
- from current assets (goods)	-	-
Decrease attributable to disposal of real property	-	-
Decrease attributable to reclassification to another asset category assets:	**-**	**-**
- to property, plant and equipment (land)	-	-
- to property, plant and equipment (buildings and structures)	-	-
- to tangible assets under construction	-	-
- to current assets (goods)	-	-
Net gains or losses from fair value adjustments	(58)	-
Other changes	39,932	575
Amount at end of period	**58,504**	**8,175**

All amounts in PLN '000 (unless otherwise stated)

INVESTMENT PROPERTY

Real estate	As at Dec 31 2010	As at Dec 31 2009
"Fabrica Smaków" Restaurant	7,407	7,465
Modzerowo Real Property	731	710
High-pressure gas pipeline	10,455	-
Pre-payment for investment property	39,911	-
Total investment property	**58,504**	**8,175**

The PBG Group's balance-sheet item Investment property shows only buildings and structures as well as undeveloped real property acquired to derive economic benefits from capital appreciation or from other sources, such as earning rentals.

The investment property comprises:

- "Fabrica Smaków" restaurant in Wysogotowo, carrying amount of PLN 6,937 thousand;
- Hardened surface at the restaurant site, carrying amount of PLN 132 thousand;
- Land under the restaurant, carrying amount of PLN 338 thousand;
- Investment project, high-pressure gas pipeline in Przysucha, carrying amount of PLN 10,455 thousand.
- Real estate in Modzerowo (land and building), carrying amount of PLN 731 thousand.

The fair value of the "Fabrica Smaków" restaurant, the land under the restaurant, and hardened yard at the restaurant site was determined based on the estimated future cash flows attributable to lease of the property in 2011-2048, using an inflation-adjusted discount rate of 7.24%. Based on these assumptions, the value of discounted cash flows was estimated at PLN 7,407 thousand, which is expected to be generated by leasing the property in 2011-2048. The amount relates to the fair value of investment as at December 31st 2010 and it may be expected to generate the same amount of economic benefits under the above assumptions. As at the balance-sheet date, the Company recognised a PLN 58 thousand impairment loss, decreasing the value of the "Fabrica Smaków" restaurant to the market value.

In the reporting period, the Company earned rentals and recognised the following direct cost of servicing the real properties:

INVESTMENT PROPERTY AS AT DECEMBER 31ST 2010
(ADDITIONAL DISCLOSURES REQUIRED UNDER IAS 40)

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Amounts recognised in statement of comprehensive income:		
- income from investment property rental	685	571
- direct operating cost (including the cost of repair and servicing) attributable to the investment property that earned rentals in the period	(76)	(82)

All amounts in PLN '000 (unless otherwise stated)

- direct operating cost (including the cost of repair and servicing) attributable to the investment property that did not earn rentals in the period	-	-
Total	**609**	**489**

The investment property is let under irrevocable agreements entered into for indefinite time.

In 2010, the Group executed an investment agreement whereby it agreed to acquire in the future:

- Real property, improved with buildings, in Łeba,
- shares in joint-ownership of real property in Łeba

As at December 31st 2010, the contractual amount of the liability was PLN 39,900 thousand. The Company settled the liability with a PLN 39,900 thousand prepayment. As at the end of 2009, the Company carried no similar contractual obligations.

4.7. IINVESTMENTS IN SUBSIDIARY UNDERTAKINGS

For investment valuation at the subsidiary undertakings, the Company uses the cost of acquisition model based on IAS 27.

The table below presents PBG S.A.'s interest in consolidated subsidiary undertakings.

Company's name:	PBG S.A.		
Period covered by the financial statements:	January 1st - December 31st 2010	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 (unless otherwise stated)		

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Item	Subsidiary undertaking's registered office	Interest in share capital	Dec 31 2010		Dec 31 2009	
			Cost of acquisition	Accumulated impairment losses	Cost of acquisition	Accumulated impairment losses
Aprivia S.A.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	100.00%	71,999	-	71,999	-
Avatia Sp. z o.o.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	99.80%	50	-	50	-
Brokam Sp. z o.o.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	100.00%	12,566	-	12,566	-
Excan Oil and Gas Engineering Ltd.	201, 9637-45 Avenue Edmonton AB T6E5Z8 Canada	100.00%	782	-	782	-
Gas Oil Engineering a.s.	Karpatska, 3256/15 POprad 05801 SLOVAKIA	62.45%	7,490	-	7,490	-
Hydrobudowa Polska S.A.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	63.05%	196,584	-	194,237	-
KWG S.A.	Al. Wojska Polskiego129 70-490 Szczecin POLAND	100.00%	1,734	-	1,734	-
Metorex Sp. z o.o.	ul. Żwirki i Wigury 17A 87-100 Toruń POLAND	99.56%	2,717	-	2,717	-
PBG Dom Sp. z o.o.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	100.00%	55,023	-	12,380	-
PBG Export Sp. z o.o	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	99.95%	999	-	999	-
Wschodni Invest Sp. z o.o.	ul. Mazowiecka 41 60-623 Poznań POLAND	100.00%	41,616	-	41,616	-
PBG Technologia Sp. z o.o.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	100.00%	24,190	-	24,190	-
PBG Ukraina	ul. Kondratiuka 1 04-201 Kiev UKRAINE	100.00%	758	-	758	-

All amounts in PLN '000 (unless otherwise stated)

AQUA SA	Ul. Kanclerska 28, 60-327 Poznań POLAND	81.69%	22,779	-	8 433	-
Bathinex Sp. z o.o.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	100.00%	6,012	-	-	-
HBP Drogi Sp. z o.o.	ul. Skórzewska 35 62-081 Przeźmierowo POLAND	100.00%	6	-	-	-
Strateg Capital Sp. z o.o.	Ul. Ratajczaka 19, 61-814 Poznań POLAND	80.00%	202	-	-	-
PBG Operator Sp. z o.o.	ul. Mazowiecka 42, 60-623 Poznań POLAND	100.00%	5	-	-	-
PBG Bułgaria Sp. z o.o.	Nikołaj Chajtov 2, 1113 Sofia BULGARIA	100.0%	76	-	-	-
Prepayments		,	10,000		10 000	
		Total	455 589	-	389,950	-
		carrying amount of investments	**455 589**		**389,950**	

The cost of shares in the separate financial statement is understood as the purchase cost paid to the seller with additional acquisition costs. At the consolidated level, the Parent Undertaking removes the incurred costs from the acquisition cost establishing the positive or negative goodwill.

Changes in Financial Assets in the Period January 1st – December 31st 2010

Disposal of Infra S.A.

On May 31st 2010, the PBG Management Board entered into an agreement with a natural person to sell all 4,997,500 Infra shares owned by PBG S.A., with a par value of PLN 1.00 per share. PBG S.A. sold Infra S.A. shares for PLN 8,450,000.00.

Prior to the transaction, PBG S.A. held a 99.95% interest in Infra S.A.'s share capital and total vote.

Incorporation of a subsidiary undertaking – PBG Bułgaria Sp. z o.o.

On July 27th 2010, a subsidiary undertaking, PBG Bułgaria Sp. z o.o. of Sofia, was incorporated.

The company's share capital is BGN 35 thousand. All shares in the company's share capital have been paid for in cash. PBG S.A. holds 100% of PBG Bułgaria Sp. z o.o.'s share capital and total vote.

The company's business consists in a broad range of industrial activities.

Acquisition of shares in PBG Operator Sp. z o.o. (former Revana Sp. z o.o.)

On August 30th 2010, PBG S.A., the Parent Undertaking, purchased 50 shares in PBG Operator Sp. z o.o. of Poznań with a par value of PLN 100.00 per share.

The company's share capital amounts to PLN 5 thousand and is divided into 50 shares with a par value of PLN 100.00 per share.

The shares purchased for PLN 5 thousand constitute 100% of the company's share capital.

PBG Operator Sp. z o.o. provides financial intermediation services. PBG S.A. does not intend to change the company's business.

On October 29th 2010, the District Court for Poznań – Nowe Miasto and Wilda of Poznań registered the change of the company name to HBP Operator Sp. z o.o.

Acquisition of Shares in HBP Drogi Sp. z o.o. (former Villalobos Sp. z o.o.) by PBG S.A.

On October 5th 2010, PBG S.A. purchased 50 shares in HBP Drogi Sp. z o.o. of Poznań with a par value of PLN 100.00 per share.

The company's share capital amounts to PLN 5 thousand and is divided into 50 shares with a par value of PLN 100.00 per share.

The shares acquired for PLN 5 thousand represent 100% of the share capital of HBP Drogi Sp. z o.o.

On October 26th 2010, the District Court for Poznań – Nowe Miasto and Wilda of Poznań, registered the change of the company to HBP Drogi Sp. z o.o.

Acquisition of Shares in Strateg Capital Sp. z o.o. by PBG S.A.

On October 13th 2010, PBG S.A. executed the following agreements whereby it acquired a total of 153 shares in Strateg Capital Sp. z o.o. for PLN 153 thousand:

- an agreement with INVEST ECOPAP Sp. z o.o. under which PBG S.A. acquired 152 shares for PLN 152 thousand;
- an agreement with ESMER HOLDING LIMITED under which PBG S.A. acquired 1 share for PLN 1 thousand.

Prior to the transaction, PBG S.A. held 47 shares representing 18.80% of the share capital and total vote at the General Shareholders Meeting of STRATEG CAPITAL Sp. z o.o.

Following the transaction, PBG S.A. held 200 shares with a total par value of PLN 200 thousand, representing 80.00% of the share capital and total vote at the General Shareholders Meeting of STRATEG CAPITAL Sp. z o.o.

Strateg Capital Sp. z o.o. is a special purpose company established by PBG S.A. to manage the project related to the launch of an aggregate mine in Tłumaczów. The mine's target annual capacity is approximately 3m tonnes of aggregate.

PBG S.A. does not intend to change the company's business profile.

Acquisition of Shares in Bathinex Sp. z o.o. by PBG S.A.

On October 14th 2010, PBG S.A. executed an agreement whereby it increased its stake in Bathinex Sp. z o.o.

The share capital of Bathinex Sp. z o.o. amounts to PLN 50 thousand and is divided into 50 shares with a par value of PLN 1 thousand per share.

Prior to the transaction, PBG S.A. held 9 shares in Bathinex Sp. z o.o., representing 18% of its share capital. Following the acquisition of 41 shares from ECOPAP Sp. z o.o., PBG S.A.'s interest in the share capital of Bathinex grew to 100%.

Bathinex Sp. z o.o.'s business comprises quarrying and processing of stone used in the construction and road work sector. The company owns the Brodziszów-Kłośnik Mine where it exploits reserves of granodiorite, an acidic fine-crystalline intrusive igneous rock.

PBG S.A. does not intend to change the Bathinex Sp. z o.o. business profile.

Acquisition by PBG S.A. of a controlling interest in AQUA S.A. of Poznań

On December 21st 2010, PBG S.A. executed off-session block transactions on the NewConnect market in which the Company acquired from natural persons (shareholders of AQUA S.A.) 710,770 ordinary bearer shares in AQUA S.A. of Poznań for a total of PLN 22,744,640.

The shares acquired by PBG S.A. represent 81.69% of AQUA's share capital and confer the right to 710,770 votes, representing 81.69% of the total vote at the General Shareholders Meeting of AQUA S.A. Thus, AQUA S.A. became a member of the PBG Group as a direct subsidiary of PBG S.A.

AQUA S.A. is a public company listed on the NewConnect market (multilateral trading facility) operated by the WSE.

AQUA S.A. is a leading engineering design company in the Greater Poland region, with long-standing experience in the provision of engineering design services. It specialises in large municipal projects such as water intakes, water and sewage treatment plants, sewer systems, sewage pumping stations, water supply systems and pumping stations as well as other facilities and road-related infrastructure. AQUA S.A. provides specialist engineering design services across Poland and its business covers all stages of the design process. The acquisition of AQUA S.A. shares will improve the Group's engineering capabilities.

The PBG Management Board views the acquisition of AQUA S.A. shares as a long-term investment; PBG S.A. may acquire more shares in the company in the future.

All amounts in PLN '000 (unless otherwise stated)

The value of investments in the subsidiary undertakings are tested for impairment on an annual basis, or more often if there are indications of possible impairment. For listed companies, the indication of impairment is the loss of the market value of shares held below their carrying amount. If an indication of impairment occurs, the Company establishes the recoverable amount for the investment, which is assumed to be its usable value determined based on a DCF analysis of future cash flows. In 2010 the Company did not recognise any impairment losses for the above investments.

4.8. Investments in associated undertakings

The table below presents the list of investments in the associated undertakings, which pursuant to Company's accounting policies are carried at acquisition cost.

INVESTMENTS IN ASSOCIATED UNDERTAKINGS AS AT DECEMBER 31ST 2010

Item	Registered office of the associated undertaking	Share in share capital	Dec 31 2010	
			Carrying amount	Market value
Energomontaż Południe	ul. Mickiewicza 15 40-951 Katowice, Poland	25.00%	64,375	66,359

In 2010, the value of investments in associated undertakings was affected by acquisition of 25% of equity instruments of Energomontaż Południe of Katowice. The acquisition price was PLN 64,375 thousand.

4.9. INVESTMENTS IN JOINTLY-CONTROLLED UNDERTAKINGS

Formation of JOINT VENTURE ALPINE BAU GmbH/PBG S.A./APRIVIA S.A./HYDROBUDOWA POLSKA S.A.

On August 11th 2010, partnership JOINT VENTURE ALPINE BAU GmbH/PBG S.A./Aprivia S.A./Hydrobudowa Polska S.A. of Rawicz was formed.

Total contribution to the company's capital made by the partners is PLN 15 thousand. Amounts contributed by each party to the joint venture:

- Alpine Bau GmbH – PLN 9 thousand
- PBG S.A. – PLN 2 thousand
- Aprivia S.A. – PLN 2 thousand
- Hydrobudowa Polska S.A. – PLN 2 thousand

The parties will participate in distribution of profits or coverage of loss pro rata to their interests contributed to the company.

The company has been formed to conduct business activity consisting in construction and related activities.

The business objective of JOINT VENTURE ALPINE BAU GmbH/PBG S.A./Aprivia S.A./Hydrobudowa Polska S.A. is execution of a project under the Consortium Agreement on construction of the Kaczkowo-Korzeńsko section (the Bojanowo and Rawicz beltway) of the S5 Poznań (A2 – the Głuchowo interchange) – Wrocław (A8 – the Widawa interchange) expressway.

The company has been established for a definite period equal to the term of the Master Agreement.

Consortium for execution of the LNG contract

The business objective of the consortium is execution of project related to the Consortium Agreement for construction of the LNG regasification terminal in Świnoujście.

4.10. FINANCIAL ASSETS AND LIABILITIES

4.10.1. CATEGORIES OF ASSETS AND LIABILITIES

The value of financial assets disclosed in the balance sheet relates to the following categories of financial instruments, defined in IAS 39:

1 - loans and receivables	5 - available-for-sale financial assets
2 - financial assets at fair value through profit or loss - held for trading	6 - hedging derivatives
3 - financial assets at fair value through profit or loss - designated on initial recognition as ones to be measured at fair value	7 - assets outside the scope of IAS 39
4 - held-to-maturity investments	

Company's name:	***PBG S.A.***		
Period covered by the financial statements:	***January 1st - December 31st 2010***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 (unless otherwise stated)***		

Item	Section number in financial statements	*Categories of financial instruments according to IAS 39							**Total**
		Loans and receivables	Financial assets at fair value through profit or loss - held for trading	assets at fair value through profit or loss - designated on initial recognition as ones to be measured at fair value	Held-to-maturity investments	Available-for-sale financial assets	Hedging derivatives	Outside IAS 39	
As at Dec 31 2010									
Non-current assets:									
Receivables	4.10.2	8,963	-	-	-	-	-	1,387	**10,350**
Loans advanced	4.10.2	86,058	-	-	-	-	-	-	**86,058**
Financial derivatives	4.10.3	-	-	-	-	-	171	-	**171**
Other non-current financial assets	4.10.4	-	-	-	77,059	33,445	-	-	**110,504**
Current assets:		-	-	-	-	-	-	-	
Trade and other receivables	4.10.2	501,863	-	-	-	-	-	236	**502,099**
Loans advanced	4.10.2	507,715	-	-	-	-	-	-	**507,715**
Financial derivatives	4.10.3	-	-	-	-	-	187	-	**187**
Other current financial assets	4.10.4	-	-	106,902	15,614	-	-	-	**122,516**
Cash and cash equivalents	4.17.2	441,600	-	-	-	-	-	-	**441,600**
Total financial assets		**1,546,199**	**-**	**106,902**	**92,673**	**33,445**	**358**	**1,623**	**1,781,200**
As at Dec 31 2009									
Non-current assets:			-	-	-	-	-	-	
Receivables	4.10.2	6,087	-	-	-	-	-	1,624	**7,711**
Loans advanced	4.10.2	64,005	-	-	-	-	-	-	**64,005**
Financial derivatives	4.10.3	-	-	-	-	-	6,415	-	**6,415**
Other non-current financial assets	4.10.4	-	-	-	963	34,583	-	-	**35,546**
Current assets:		-	-	-	-	-	-	-	
Trade and other receivables	4.10.2	299,288	-	-	-	-	-	225	**299,513**
Loans advanced	4.10.2	453,317	-	-	-	-	-	-	**453,317**
Financial derivatives	4.10.3	-	-	-	-	-	13,166	-	**13,166**
Other current financial assets	4.10.4	-	-	-	15,357	4,937	-	-	**20,294**
Cash and cash equivalents	4.17.2	529,324	-	-	-	-	-	-	**529,324**
Total financial assets		**1,352,021**	**-**	**-**	**16,320**	**39,520**	**19,581**	**1,849**	**1,429,291**

Company's name:	***PBG S.A.***		
Period covered by the financial statements:	***01.01-31.12.2010***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 (unless otherwise stated)***		

The value of financial liabilities disclosed in the balance sheet relates to the following categories of financial instruments, defined in IAS 39:

1 - financial liabilities at fair value through profit or loss - held for trading	4 - hedging derivatives
2 - financial liabilities at fair value through profit or loss - designated on initial recognition as ones to be measured at fair value	5 - liabilities outside the scope of IAS 39
3 - financial liabilities measured at amortised cost	

Item	Section number in financial statements	*Categories of financial instruments according to IAS 39					**Total**
		Financial liabilities at fair value through profit or loss - held for trading	Financial liabilities at fair value through profit or loss - designated on initial recognition as ones to be measured at fair value	Financial liabilities measured at amortised cost	Hedging derivatives	Outside IAS 39	
As at Dec 31 2010							
Non-current liabilities:							
Loans, borrowings and other debt instruments	4.10.5	-	-	873,688	-	-	**873,688**
Finance lease	4.4	-	-	-	-	525	**525**
Financial derivatives	4.10.3	-	-	-	412	-	**412**
Other liabilities	4.20	-	-	22,606	-	-	**22,606**
Current liabilities:							
Trade and other payables	4.20	-	-	404,118	-	-	**404,118**
Loans, borrowings and other debt instruments	4.10.5	-	-	62,813	-	-	**62,813**
Finance lease	4.4	-	-	-	-	1,303	**1,303**
Financial derivatives	4.10.3	-	-	-	41	-	**41**
Total financial liabilities		**-**	**-**	**1,363,225**	**453**	**1,828**	**1,365,506**
As at Dec 31 2009							
Non-current liabilities:							
Loans, borrowings and other debt instruments	4.10.5	-	-	455,885	-	-	**455,885**
Finance lease	4.4.	-	-	-	-	1,598	**1,598**
Financial derivatives	4.10.3	-	-	-	553	-	**553**
Other liabilities	4.20	-	-	19,201	-	-	**19,201**
Current liabilities:							
Trade and other payables	4.20	-	-	303,589	-	-	**303,589**
Loans, borrowings and other debt	4.10.5	-	-	236,299	-	-	**236,299**

All amounts in PLN '000 (unless otherwise stated)

instruments							
Finance lease	4.4	-	-	-	-	1,193	**1,193**
Financial derivatives	4.10.2	-	-	-	236	-	**236**
Total financial liabilities		**-**	**-**	**1,014,974**	**789**	**2,791**	**1,018,554**

All amounts in PLN '000 (unless otherwise stated)

4.10.2. FINANCIAL RECEIVABLES AND LOANS

For the purposes of presentation, loans and receivables are presented under separate items in the balance sheet (IFRS 7.6). In the non-current part of the balance sheet, receivables are disclosed under "non-current receivables", and loans under "non-current loans". In accordance with IAS 1, the current portion contains information on trade and other receivables, as well as loans. Balance sheet items related to loans and receivables are presented below.

Receivables and loans advanced

Item	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2008
Non-current assets:			
Financial receivables	10,350	7,711	9,508
Loans	86,058	64,005	1,530
Non-current receivables and loans	**96,408**	**71,716**	**11,038**
Current assets:			
Trade and other Financial receivables	502,099	299,513	251,012
Borrowings	507,715	453,317	33,683
Current receivables and loans	**1,009,814**	**752,830**	**284,695**
Receivables and loans, including:	**1,106,222**	**824,546**	**295,733**
Receivables	**512,449**	**307,224**	**260,520**
Loans	**593,773**	**517,322**	**35,213**

Loans advanced are valued at amortised cost, using the effective interest rate method. The carrying amount of loans bearing interest at a variable interest rate is considered to be a reasonable approximation of fair value. The Company calculated the fair value of loans bearing interest at a fixed interest rate (see Note 4.10.7).

As at December 31st 2010, loans advanced in PLN with a carrying amount of PLN 593,773 thousand (2009: PLN 517,322 thousand), bore interest at variable interest rates based on WIBOR plus bank margins from 1 to 2.5 percentage points. The loans mature in 2011–2015. The Company also advanced loans in EUR, USD, and UAH. The carrying amount of the foreign currency loans as at December 31st 2010 amounted to PLN 70,521 thousand (2009: loans in EUR and USD, with a carrying amount of PLN 34,886 thousand). The foreign currency loans bear interest at 3M LIBOR + 3% bank margin and 1M WIBOR + 1% bank margin. The USD loans mature in 2011, and the EUR loans - in 2014.

In 2010, PBG S.A. acquired registered investment certificates in Dialog Plus - Direct Investment Fund – High-Potential Property", a closed-end non-diversified venture-type investment fund. The Company acquired a total of 131,250 certificates with a par value of UAH 1,000 each. The value of the securities as disclosed in these separate financial statements is PLN 48,743 thousand. The Company acquired the certificates using proceeds from the issue of bonds aimed at raising funds to support, among other things, the preparation of investment projects which would provide income and positive cash flows in a long-term term.

The Company measures the certificates at amortised cost. Due to their economic substance, the certificates are presented as loans.

All amounts in PLN '000 (unless otherwise stated)

Proceeds from redemption of the certificates by the non-diversified fund will be applied towards financing Energopol Ukraina's operations.

Below are presented changes in the carrying amount of loans, including impairment losses.

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Gross amount		
Balance at beginning of period	517,322	35,213
Business combinations	-	-
Loans advanced	461,710	511,982
Interest accrued at the effective interest rate	35,620	13,426
Repayment of loans with interest (-)	(426,329)	(40,469)
Disposal of subsidiary undertakings (-)	-	-
Other changes (net translation differences)	5,450	(2,617)
Gross amount at end of period	593,773	517,535
Impairment losses		
Balance at beginning of period	-	-
Impairment losses recognised as expenses in reporting period	-	213
Reversed impairment losses recognised as revenue in reporting period (-)	-	-
Used impairment losses (-)	-	-
Other changes (net translation differences)	-	-
Impairment losses at end of period	-	213
carrying amount at end of period	**593,773**	**517,322**

Impairment losses on loans are disclosed under "finance expenses" in the income statement (see Section 4.25). An impairment loss was also recognised for a loan to a company in difficult financial situation.

4.10.3. FINANCIAL DERIVATIVES

The Company uses derivatives to manage the currency risk related to a portion of purchase and sale transactions.

In accordance with the corporate risk management strategy adopted by the PBG Group, all the Group companies executing long-term construction contracts which are settled in foreign currencies have the duty to use hedge accounting in order limit the impact of financial risk on operating results as far as possible. The Company's hedging strategy assumes hedging of individual contracts the future inflows from which will be received or denominated in a foreign currency. The strategy is based on the principle of matching hedging instruments to the planned transactions under the contract, but always taking into account the actual net exposure, given the budget exchange rate determined in accordance with the relevant definition, possible foreign-currency denominated expenses, the time horizon and the quantitative distribution of the currency flows in the particular quarters.

In accordance with the adopted strategy, the key financial risk management tools used by the Company include forward contracts and interest rate swaps. The Company's strategy also permits purchase of currency options and interest rate options.

All derivatives are measured at fair value, determined on the basis of market data (exchange rates and interest rates).

The table below presents cash-flow hedges by category.

DERIVATIVES SERVING AS CASH FLOW HEDGES (HEDGES FOR RISKS)

Item	Nominal value of foreign-currency transaction ('000)	carrying amount of instruments *		Term		Effect on result in period	
		Financial assets	Financial liabilities	from	to	from	to
As at Dec 31 2010							
EUR forward contracts – hedge of purchase transaction	952	-	32	Jan 31 2011	May 31 2011	Jan 31 2011	May 31 2011
EUR forward contracts – hedge of sale transaction	-	-	-	-	-	-	-
USD forward contracts – hedge of purchase transactions	272	-	9	Feb 14 2011	Oct 14 2011	Feb 14 2011	Oct 14 2011
USD forward contracts – hedge of sale transactions	-	-	-	-	-	-	-
CAD forward contracts – hedge of purchase transactions	-	-	-	-	-	-	-
USD forward contracts – hedge of sale transaction	-	-	-	-	-	-	-
Interest rate swaps	15,405	-	412	Dec 31 2013	Dec 31 2013	Jul 23 2008	Dec 31 2013
Total hedging derivatives		**-**	**453**				
As at Dec 31 2009							
EUR forward contracts – hedge of purchase transaction	-	-	-				
EUR forward contracts – hedge of sale transaction	800	149	-	Mar 29 2010	Mar 29 2010	Mar 29 2010	Mar 29 2010
USD forward contracts – hedge of purchase transactions	3,250	-	100	Feb 26 2010	Mar 30 2010	Feb 26 2010	Mar 30 2010
USD forward contracts – hedge of sale transaction	-	-	-				
CAD forward contracts – hedge of purchase transactions	30,720	18,444	-	Mar 29 2010	Sep 28 2012	Mar 29 2010	Sep 28 2012
CAD forward contracts – hedge of sale transaction	-	-	-				
Interest rate swaps	20,696		553	Jul 23 2008	Dec 31 2013	Jul 23 2008	Dec 31 2013
Total hedging derivatives		**18,593**	**653**				

* fair value

DERIVATIVES SERVING AS FAIR VALUE HEDGES (HEDGES FOR RISKS)

Item	Nominal value of foreign-currency transaction ('000)	carrying amount of instruments *		Term		Effect on result in period	
		Financial assets	Financial liabilities	from	to	from	to
As at Dec 31 2010							
EUR forward contracts – hedge of EUR fair value	-	-	-	-	-	-	-
EUR forward contracts – hedge of USD fair value	19,300	357	-	Jan 31 2011	April 30 2012	Jan 31 2011	April 30 2012
CAD forward contracts – hedge of CAD fair value	-	-	-	-	-	-	-
Total hedging derivatives		**357**	**-**				
As at Dec 31 2009							
EUR forward contracts – hedge of EUR fair value	4,900	927	-	Jan 15 2010	Jun 28 2010	Jan 15 2010	Jun 28 2010
USD forward contracts – hedge of USD fair value	5,000	61	137	Dec 31 2010	Dec 31 2010	Dec 31 2010	Dec 31 2010
CAD forward contracts – hedge of CAD fair value	-	-	-	-	-	-	-
Total hedging derivatives							

* fair value

The Company expects to execute all planned transactions for which hedge accounting is applied

EFFECT OF FOREIGN EXCHANGE HEDGES ON THE RESULTS OF PBG S.A.

In the 2010 financial year, PBG S.A. hedged financial assets and future currency exposures with hedging transactions involving forward contracts. The Company held no currency options. The hedging transactions were concluded as part of the implemented hedging policy, in order to hedge future cash flows on sales revenue (under the existing long-term contracts), cost of sales and future fair value of financial assets. The transactions covered contracts with investors (project sponsors) and suppliers (mainly denominated in EUR, CAD and USD).

For 2010, the result on derivatives ***(both open and closed)***, as recognised in the income statement as at December 31st 2010, was at PLN 5,290 thousand and comprised:
- adjustment to sales revenue of PLN 318 thousand,
- PLN 4,581 thousand reduced cost of sales,
- PLN 391 thousand was recognised under finance income.

PBG hedges its EUR-denominated cash flows (cost of sales) with open positions on the currency market, in an amount of EUR 952 thousand for 2011 (H1 2011: EUR 191 thousand). The relevant transactions were concluded at the weighted average forward exchange rate of PLN 4.02/EUR 1.
According to data sourced from banks, as at December 31st 2010, the carrying amount of ***open hedge positions*** for EUR-denominated cash flows was PLN 32 thousand.
PBG hedges its USD-denominated cash flows (cost of sales) with open positions on the currency market, in an amount of USD 272 thousand for 2011 (H1 2011: USD 85 thousand). The relevant transactions were concluded at the weighted average forward exchange rate of PLN 3.06/1 USD.
According to data sourced from banks, as at December 31st 2010, the carrying amount of ***open hedge positions*** for USD-denominated cash flows was negative at PLN -9 thousand.

As at December 31st 2010, the fair value of ***open derivative positions*** was positive at PLN 317 thousand of which PLN 358 thousand related to fair value of cash flow hedges and PLN -41 thousand related to fair value of hedges on financial assets. The fair value of open hedge position varies in response to changing market conditions. Accordingly, the final result on those transactions may differ significantly from the valuation presented above.

Hedging contracts are executed in compliance with PBG S.A.'s strategy for hedging business activities against currency risk.

EFFECT OF INTEREST RATE HEDGES ON THE RESULTS OF PBG S.A.

With a view to hedging against the variable interest rate risk, the Company uses interest rate swaps.

Pursuant to the requirements of the credit facility agreement for the financing of projects, the Company was obliged to manage interest rate risk. In the performance of the Bank's requirements, on July 23rd 2008, the Company entered into an IRS transaction for 50% of the outstanding loan amount, maturing by December 31st 2013.

All amounts in PLN '000 (unless otherwise stated)

For 2010, the result on derivatives used to hedge interest rates as recognised in the income statement as at December 31st 2010 was negative at PLN -503 thousand, including:

- PLN 503 thousand increased finance expenses,

As at December 31st 2010, the fair value of open positions used to hedge interest rates was negative at PLN -412 thousand.

INFLUENCE OF CASH FLOW HEDGING ON THE INCOME STATEMENT

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Revenue		
Sales revenue	318	(17,989)
Other operating income	-	-
Finance income	28	(591)
Total income	**346**	**(18,580)**
Cost		
Operating expenses	(4,581)	**-**
Other operating expenses	-	**-**
Finance expenses	547	**-**
Total expenses	**(4,034)**	**-**
Effect on net profit/(loss)	**4,380**	**(18,580)**

In the period covered by these financial statements, no amounts accumulated in the revaluation capital reserve were transferred to the initial value of hedged items.

4.10.4. OTHER FINANCIAL ASSETS

The Company presents the following investments under other financial assets:

Item	Non-current assets		Current assets	
	Dec 31 2010	Dec 31 2009	Dec 31 2010	Dec 31 2009
Held-to-maturity investments:				
Treasury debt securities	-	-	-	-
Commercial debt securities	77,059	-	-	-
Term deposits	-	963	963	706
Other	-	-	14,651	14,651
Held-to-maturity investments	**77,059**	**963**	**15,614**	**15,357**
Available-for-sale financial assets:				
Shares of listed companies	-	-	-	-
Shares of non-listed companies	33,445	34,583	-	-
Debt securities	-	-	-	4,937
Other	-	-	-	-
Available-for-sale financial assets	**33,445**	**34,583**	**-**	**4937**
Financial assets at fair value through profit or loss:				
Shares of listed companies	-	-	-	-
Debt securities	-	-	-	-
Investment fund units	-	-	106,902	-
Other	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**-**	**106,902**	**-**

All amounts in PLN '000 (unless otherwise stated)

Item	Non-current assets		Current assets	
	Dec 31 2010	Dec 31 2009	Dec 31 2010	Dec 31 2009
Total other financial assets	**110,504**	**35,546**	**122,516**	**20,294**

HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments are commercial bonds with a carrying amount of PLN 76,000 thousand (2009: PLN 4,937 thousand). The commercial bonds bear interest at fixed interest rate of 10% and mature in 2017. The bonds are measured at amortised cost using the effective interest rate method. The fair value of the bonds is presented in Note 4.10.7.

Under held-to-maturity investments,the Company also discloses additional contributions to equity of subsidiary undertakings:

- Additional contribution to equity of PBG Dom Sp. z o.o. in accordance with Resolution No. 4 of the Extraordinary General Shareholders Meeting of PBG Dom, dated June 11th 2007; PBG S.A., as the company's sole owner, was obliged to pay an additional contribution of PLN 400 for each share held, which amounted to an aggregate of PLN 8,000,000;
- additional contribution to equity of PBG Dom Sp. z o.o. in accordance with Resolution No. 1 of the Extraordinary General Shareholders Meeting of PBG Dom, dated December 17th 2008; PBG S.A., as the company's sole owner, was obliged to pay an additional contribution of PLN 30.35 for each share held, which amounted to an aggregate of PLN 3,750,410.20;
- additional contribution to equity of PBG Dom Sp. z o.o. in accordance with Resolution No. 1 of the Extraordinary General Shareholders Meeting of PBG Dom, dated December 22nd 2008; PBG S.A., as the company's sole owner, was obliged to pay an additional contribution of PLN 23.47 for each share held, which amounted to an aggregate of PLN 2,900,234.84.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

As part of its available-for-sale assets PBG S.A. does not hold any shares in publicly listed companies.

The Company measures shares of non-listed companies at acquisition price less impairment losses, because reliable estimation of their fair value is infeasible. The Company does not intend to sell the shares held in non-listed companies in the nearest future.
The Company's equity interests in non-listed companies include:

- minority (19.97%) interest in KRI S.A. with a carrying amount of PLN 25,315 thousand (in 2009: PLN 25,315 thousand)
- minority (19.00%) interest in Poner Sp. z o.o. with a carrying amount of PLN 4,159 thousand (in 2009: PLN 0 thousand),
- minority (7.82%) interest in Naftomontaż Sp. z o.o. with a carrying amount of PLN 3,500 thousand (in 2009: PLN 3,500 thousand),

- minority (18.92%) interest in Remaxbud Sp. z o.o. with a carrying amount of PLN 421 thousand (in 2009: PLN 421 thousand),
- minority (15.00%) interest in Lubickie Wodociągi Sp. z o.o. with a carrying amount of PLN 30 thousand (in 2009: PLN 30 thousand),
- minority (18.70%) interest in Energia Wiatrowa Sp. z o.o. with a carrying amount of PLN 18 thousand (in 2009: PLN 18 thousand),

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The most significant items in this category are units in funds managed by Union Investment Towarzystwo Funduszy Inwestycyjnych SA (acquired for trading) and by Fundusz Inwestycyjny Spatium. Fair value of the units was calculated as the product of the number of units held and their value.
Gains recognised in financing activities and related to this category of financial assets are presented in Note 4.25.
Financial assets measured at fair value through profit or loss also include investments classified by the Company as "investments in joint ventures" under to IAS 31.

All amounts in PLN '000 (unless otherwise stated)

4.10.5. LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS

The table below sets forth the amounts of loans, borrowings and other debt instruments measured at amortised cost and recognised in the financial statements.

Item	Non-current liabilities		Current liabilities	
	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2010	As at Dec 31 2009
Financial liabilities measured as amortised cost:				
Bank loans	48,688	80,885	41,692	42,588
Overdraft facilities	-	-	9,217	45,747
Borrowings	-	-	-	16,522
Debt securities	825,000	375,000	11,904	131,442
Financial liabilities measured as amortised cost	**873,688**	**455,885**	**62,813**	**236,299**
Financial assets designated to be measured at fair value through profit and loss:	-	-	-	-
Bank loans	-	-	-	-
Debt securities	-	-	-	-
Other	-	-	-	-
Financial assets designated to be measured at fair value through profit and loss	-	-	-	-
Loans, borrowings and other debt instruments	**873,688**	**455,885**	**62,813**	**236,299**

The Company does not classify any loans or borrowings as financial liabilities designated as ones to be measured at fair value with fair value changes in profit or loss. All loans, borrowings and other debt instruments are measured at amortised cost, using the effective interest rate method. Section 4.10.7 includes the presentation of fair values of loans, borrowings and other debt instruments.

The majority of loans contracted by PBG S.A. companies bear interest at variable interest rates. The interest rate used most often is based on 1M WIBOR plus margin which depends on the borrower's creditworthiness. The loans bore interest at rates ranging from 4.91% to 5.66%, with interest payable on a monthly basis.

As at the end of reporting period, the base interest rates applied in loan agreements concluded by PBG S.A. were as follows:

Reference rate	**Dec 31 2010**	**Dec 31 2009**
1M WIBOR	3.66	3.76
3M WIBOR	3.95	4.27
6M WIBOR	4.16	4.39
1M EURIBOR	0.78	0.46
Promissory note rediscount	4.00	3.75

As at December 31st 2010, the total value of available current-account facilities was PLN 155,000 thousand (December 31st 2009: 95,000 thousand). Of that amount, PLN 9,217 thousand was used as at December 31st 2010 (December 31st 2009: PLN 45,747 thousand).

Within the limits obtained, overdraft facilities are renewed for annual periods.

In order to enhance the diversification of financing sources, in November 2007 an agency and dealer agreement was signed with ING Bank Śląski S.A. for arrangement and execution of a bond issue programme for PBG S.A. and Hydrobudowa Polska S.A. Under the annex of September 27th 2010, the amount of the programme was increased to PLN 1,000,000 thousand and the agreement's term was extended until December 31st 2015.

Under this programme, on October 22nd 2010, PBG S.A. issued the second tranche of bonds (Series D) with a value of PLN 450m, maturing on October 22nd 2013, and redeemed series B bonds with a value of PLN 69m. The debt under bond issue currently amounts to PLN 825m.
The bonds bear interest at a variable rate based on the 6M WIBOR rate.

Liabilities under the outstanding bonds are secured with sureties under civil law, up to the issue total value, granted by Hydrobudowa Polska S.A., Hydrobudowa 9 SA and PBG Technologia Sp. z o.o.

To hedge against the variable interest rate risk, the Company uses interest rate swaps.

Under the conditions of an agreement for a credit facility for financing capital investments, PBG S.A. was obliged to limit interest rate risk. In the performance of the Bank's requirements, on July 23rd 2008, the Company entered into an IRS transaction for 50% of the outstanding loan amount, maturing by December 31st 2013.
The IRS transaction consists in the swap of interest payments accruing at a variable 1M WIBOR rate for interest payments accruing at a fixed interest rate.
The Company uses hedge accounting for cash flows with respect to the derivative transaction referred to above and partially hedging against interest rate risk to which cash flows are exposed.

All amounts in PLN '000 (unless otherwise stated)

LOANS AND BORROWINGS BY MATURITY

Item	Current:		Non-current:			Liabilities total (no discount)	carrying amount
	up to 6 months	from 6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
As at Dec 31 2010							
Bank loans	-	42,233	48,688	-	-	90,921	90,380
Overdraft facilities	-	9,217	-	-	-	9,217	9,217
Borrowings	-	-	-	-	-	-	-
Debt securities	-	-	825,000	-	-	825,000	836,904
Finance lease	593	710	525	-	-	1,828	-
Financial derivatives	-	-	-	-	-	-	-
Trade and other financial payables	400,622	2,695	9,748	22	-	413,087	412,112
Total liquidity risk exposure	**401,215**	**54,855**	**883,961**	**22**	**-**	**1,340,053**	**1,348,613**
As at Dec 31 2009							
Bank loans	26,888	16,645	70,745	10,139	-	124,417	123,473
Overdraft facilities	45,747	-	-	-	-	45,747	45,747
Borrowings	16,500	-	-	-	-	16,500	16,523
Debt securities	-	125,000	375,000	-	-	500,000	506,441
Finance lease	586	607	1,597	-	-	2,790	2,790
Financial derivatives	-	236	554	-	-	790	790
Trade and other financial payables	300,458	3,131	2,023	957	382	306,951	306,363
Total liquidity risk exposure	**390,179**	**145,619**	**449,919**	**11,096**	**382**	**997,195**	**1,002,127**

LOANS AND BORROWINGS BY CURRENCY

Item	As at Dec 31 2010		As at Dec 31 2009	
	In foreign currency	Translated into PLN	In foreign currency	Translated into PLN
a) Polish złoty (PLN)	x	99,597	x	185,743
b) euro (EUR)				
c) US dollar (USD)	-	-	-	-
d) Swiss frank (CHF)	-	-	-	-
e) pound sterling (GBP)	-	-	-	-
f) Canadian dollar (CAD)	-	-	-	-
g) other currencies	-	-	-	-
Total loans and borrowings	**x**	**99,597**	**x**	**185,743**

The table below presents the nature and scale of risk to which the Company is exposed under the contracted loans, borrowings and other debt instruments (see also Note 4.32 pertaining to risks).

Company's name:	PBG S.A.		
Period covered by the financial statements:	*January 1st - December 31st 2010*	Reporting currency:	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 (unless otherwise stated)*		

LOANS AS AT DECEMBER 31ST 2010

Company's name and registered office	Contractual loan amount		Maturity date	Interest rate	Outstanding principal				Collateral
					non-current portion		current portion		
	PLN	Currency			PLN	Currency	PLN	Currency	
BOŚ Poznań Branch, Poznań	11,231	PLN	Dec 15 2011	0.4 X promissory notes rediscount rate	-	PLN	1,283	PLN	1. Blank promissory note with an aval by Mr Jerzy and Ms Małgorzata Wiśniewski, Mr Marek Grunt and his wife, and Mr Tomasz Woroch and his wife. 2. Bank guarantee issued by BRE BANK S.A., Poznań Branch.
PEKAO S.A., Poznań	10,000	PLN	31-05-2010	1M WIBOR + bank margin	-	PLN	10,000	PLN	1. Assignment of claims subject to a condition precedent under contracts for at least 150% of the amount of currently used facility, 2. Power of attorney over borrower's present and future accounts, 3. Written representation by the borrower on submission to enforcement
PEKAO S.A., Poznań	34,210	PLN	Dec 31 2013	1M WIBOR + bank margin	13,684	PLN	6,842	PLN	1. Power of attorney over borrower's accounts at the bank; 2) Representation on submission to enforcement, 3) Registered pledge over 14,244,999 shares in BETPOL S.A.; 4) Surety under civil law issued by HYDROBUDOWA POLSKA S.A.
PEKAO S.A., Poznań	200,000	PLN	30-06-2013	1M WIBOR + bank margin	-	PLN	3	PLN	1. Transfer of claims under the contract 2. Power of attorney over present and future accounts at the borrower's bank; 3. Representation on voluntary submission to enforcement. 4. Surety issued by borrower's subsidiary undertaking and a representation on submission to enforcement
PEKAO S.A., Poznań	14,000	PLN	Apr 30 2012	1M WIBOR + bank margin	-	PLN	2,048	PLN	1. Blank promissory note with a promissory note declaration 2. Registered pledge over a financial asset. 3. Power of attorney over present and future bank accounts at Bank PEKAO S.A. 4. Representation on voluntary submission to enforcement.
PEKAO S.A., Poznań	18,700	PLN	Sep 30 2013	1M WIBOR + bank margin	6,545	PLN	3,740	PLN	1. Power of attorney over borrower's accounts at the bank; 2) Representation on submission to enforcement, 3) Registered pledge over 25,000 shares in PRID SA; 4) Surety under civil law issued by HYDROBUDOWA POLSKA S.A.

Company's name:	***PBG S.A.***		
Period covered by the financial statements:	***01.01-31.12.2010***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 (unless otherwise stated)***		

Company's name and registered office	Contractual loan amount		Maturity date	Interest rate	Outstanding principal				Collateral
					non-current portion		current portion		
	PLN	Currency			PLN	Currency	PLN	Currency	
WEST LB, Poznań	56,000	PLN	Jan 31 2012	1M WIBOR + bank margin	26,000	PLN	12,000	PLN	1. Registered pledge over 24,329,508 shares in HYDROBUDOWA POLSKA S.A. 2. Representation on voluntary submission to enforcement
ING Bank Śląski S.A., Katowice	30,000	PLN	Nov 25 2011	1M WIBOR + bank margin	-	PLN	9,217	PLN	1. Representation on submission to enforcement issued by the borrowers 2. Corporate guarantees issued by the borrowers 3. Assignment with monitoring under contracts amounting to 150% of the current debt 4. Transfer of claims under Trade Contract 5. Financial Pledge Agreements over Cash
ING Bank Śląski S.A., Katowice	10,000	PLN	Mar 30 2013	1M WIBOR + bank margin	2,459	PLN	1,967	PLN	1. Power of attorney to the bank account at ING Bank Śląski S.A. 2. Deposit mortgage of up to PLN 13,000,000 over property located in Wysogotowo, Tarnowo Podgórne commune, Land and Mortgage Register entry No. KW PO1P/00218712/9; 3. Assignment of rights under insurance policy covering the above property
ING Bank Śląski S.A., Katowice	36,000	PLN	Dec 31 2011	1M WIBOR + bank margin	-	PLN	4,316	PLN	1. First deposit mortgage of up to PLN 18,000,000 over property located in Wysogotowo, Tarnowo Podgórne commune, Land and Mortgage Register entry No. 91.909; 2. first deposit mortgage of up to PLN 18,000,000 over property located in Wysogotowo, Land and Mortgage Register entry No. KW PO1P/00218712/9; 3) assignment
Credit cards	-	-	-	-	-	-	34	-	-
Accrued interest	-	-	-	-	-	-	142	-	-
Adjustment at effective interest rate	-	-	-	-	-	-	(683)	-	-
Total	x	x	x	x	**48,688**	x	**50,909**	x	x

Company's name:	***PBG S.A.***		
Period covered by the financial statements:	***January 1st - December 31st 2010***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 (unless otherwise stated)***		

ING Bank Śląski S.A., Katowice	36,000	PLN	Dec 31 2011	4,316	PLN	4,316		PLN	**1.**First deposit mortgage of up to PLN 18,000,000 over property located in Wysogotowo, Tarnowo Podgórne commune, Land and Mortgage Register entry No. 91.909. **2.** First deposit mortgage of up to PLN 18,000,000 over property located in Wysogotowo, Land and Mortgage Register entry No. KW PO1P/00218712/9. **3.** Assignment of rights under insurance policy covering the above property. **4.** Transfer of rights under project co-financing agreement of January 13th 2005. **5.** Power of attorney to the bank account at ING Bank Śląski S.A. **6.** Surety under civil law issued by Infra and HBP. **7.** Blank promissory note. **8.** Letter of intent by Mr Jerzy Wiśniewski to the effect that Mr Wiśniewski will remain the holder of 35% of the total vote at the General Shareholders Meeting of PBG S.A.
Credit cards						23			
Accrued interest						181			
Adjustment using effective interest rate						(1,126)			
Total	x	x	x	**80,885**	x	**88,335**		x	x

4.10.6. COLLATERAL FOR LIABILITIES

Liabilities that the Company has taken under loans, borrowings, other debt instruments, and finance lease are covered by the following collateral (as at the balance-sheet date):

- security and contractual mortgage established on real property up to PLN 8,742 thousand (2009: PLN 49,000 thousand),
- registered pledge over plant and machinery with the assignment of related insurance policy up to PLN 2,047 thousand (2009: PLN 9,148 thousand),
- pledge over equity interests held in other companies up to PLN 68,811 thousand (2009: PLN 11,106 thousand),
- assignment of receivables under outstanding contracts up to PLN 334,018 thousand (2009: PLN 2,068,952 thousand),
- financial pledge over cash up to PLN 86,362 thousand
- promissory note with a promissory note declaration up to PLN 807,420 thousand (2009: PLN 2,418 thousand),
- representation on submission to enforcement,
- assignment of current and future receivables credited to a bank account.

At the balance-sheet date, as in the comparative periods, PBG S.A. was in default with any payment of principal or interest. The Company fulfils the covenants provided for in the loan agreements. For relevant information see the Consolidated Financial Statements of the PBG Group.

All amounts in PLN '000 (unless otherwise stated)

4.10.7. FURTHER INFORMATION ON FINANCIAL INSTRUMENTS

Fair value

The table below presents carrying amount of assets and liabilities compared to their fair value:

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Class of financial instrument	Dec 31 2010		Dec 31 2009	
	Fair value	carrying amount	Fair value	carrying amount
Assets:				
Borrowings	593,773	593,773	517,322	517,322
Trade and other receivables	512,449	512,449	307,224	307,224
Financial derivatives	358	358	19581	19,581
Debt securities	77,059	77,059	-	-
Shares of listed companies	-	-	4,937	4,937
Shares of non-listed companies	33,445	33,445	34,583	34,583
Investment fund units	106,902	106,902		-
Other classes of other financial assets	16,577	16,577	17,989	17,989
Cash and cash equivalents	441,600	441,600	529,324	529,324
Liabilities:				
Bank loans	90,380	90,380	123,473	123,473
Overdraft facilities	9,217	9,217	45,747	45,747
Borrowings	-	-	16,522	16,522
Debt securities	836,904	836,904	506,442	506,442
Finance lease	1,828	1,828	2,791	2,791
Financial derivatives	453	453	789	789
Trade and other payables	412,112	412,112	306,363	306,363

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments for which there is an active market is determined on the basis of quoted market prices (bid price and asking price). If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Inputs to the valuation technique make maximum use of active market variables (foreign exchange rates, interest rates, etc.).

For further information on the method of measurement and fair value of financial assets and liabilities, which, in accordance with the accounting policies applied by the Company, are disclosed in the Company's balance sheet at fair value, see Note 4.11.

Fair value of financial assets and liabilities for which there is no active market and which, in accordance with the accounting policies applied by the Company, are disclosed in the Company's balance sheet at amortised cost, has been determined for the purpose of preparation of this Note as present value of estimated future cash flows, discounted at the market interest rate.

The Company did not measure fair value of trade receivables and trade payable, carrying amount of these items has been regarded a sufficient approximation of their fair value.

4.11. FURTHER INFORMATION ON THE METHOD OF MEASUREMENT FOR FINANCIAL INSTRUMENTS DISCLOSED IN THE BALANCE SHEET AT FAIR VALUE

PBG S.A. has applied amendments to IFRS 7 *Financial Instruments: Disclosures*, effective as of January 2009. The amendments require enhanced disclosures concerning financial instruments disclosed in the separate balance sheet at fair value. In the first year of adoption of the amended IFRS 7, the Company need not provide disclosures for comparative periods. For this reason, only fair value of financial instruments measured as at December 31st 2009 has been presented.

The table below presents fair value of financial assets and liabilities, classified in accordance with 3-level fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 – inputs for the asset or liability, other than quoted prices included within Level 1, based on observable market variables,
- Level 3 – inputs for the asset or liability that are not based on observable market variables.

All amounts in PLN '000 (unless otherwise stated)

Class of financial instrument	Section	Level 1	Level 2	Level 3	Total fair value
As at Dec 31 2010					
Assets:					
Shares of listed companies	-	-	-	-	-
Shares of non-listed companies *	-	-	-	-	-
Traded derivatives	-	-	-	-	-
Derivative hedging instruments	a)	-	19,581	-	19,581
Debt securities measured at fair value	b)	-	6,606	-	6,606
Total assets		**-**	**26,187**	**-**	**26,187**
Liabilities:					
Traded derivatives (-)	-	**-**	**-**	**-**	**-**
Derivative hedging instruments (-)	a)	**-**	(789)	-	(789)
Loans measured at fair value (-)	-	**-**	**-**	**-**	**-**
Total liabilities (-)	-	**-**	**(789)**	**-**	**(789)**
Net fair value	**-**	**-**	**25,398**	**-**	**25,398**

* Shares carried at cost have are not included as their fair value cannot be measured reliably.

In the reporting period there were no major transfers between Level 1 and Level 2 fair value measurements.

a) Derivatives

Most of derivatives are currency instruments measured using a model based on market parameters, i.e. foreign exchange rates and interest rates (level 2 financial instruments).

b) Debt securities measured at fair value

The Group classified traded debt securities as level 1. These are treasury securities whose fair value was determined based on stock exchange prices.

4.12. RECLASSIFICATIONS

PBG S.A. did not make any reclassifications of financial assets which would lead to a change of the measurement method for such assets, requiring such assets to be measured at fair value, at cost, or at amortised cost.

4.13. EXCLUSION FROM THE BALANCE SHEET

As at December 31st 2010, the Company had no assets whose transfers would not result in an exclusion from the balance sheet.

4.14. DEFERRED CORPORATE INCOME TAX

The table below presents deferred tax assets and deferred tax liabilities disclosed in the financial statements:

All amounts in PLN '000 (unless otherwise stated)

DEFERRED TAX FOR JANUARY 1ST - DECEMBER 31ST 2010

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Excess of deferred tax assets over deferred tax liabilities as at beginning of period	**(1,035)**	**(4,099)**
Deferred tax assets as at beginning of period	35,656	38,575
Deferred tax liabilities as at beginning of period	36,691	42,674
Y-o-y change:		
(Decrease) / Increase in financial result	1,504	6,032
Increase in / deduction from equity	16	(2,968)
Deferred tax assets as at the date of acquisition of subsidiary undertaking	-	-
Excess of deferred tax assets over deferred tax liabilities as at end of period	**485**	**(1,035)**
Deferred tax assets as at end of period	32,526	35,656
Deferred tax liabilities as at end of period	32,041	36,691

All amounts in PLN '000 (unless otherwise stated)

Deferred tax assets:

DEFERRED TAX FROM JANUARY 1ST TO DECEMBER 31ST 2010

Item	As at Jan 1st 2010 (at the rate of 19%)	Increase/(decrease) in financial result attributable to change in temporary differences and tax loss	Increase/(decrease) in equity attributable to change in temporary differences	As at Dec 31 2010 (at the rate of 19%)
Deferred tax assets				
- liabilities under future employee benefits	51	10	-	**61**
- employee benefits (holidays)	36	10	-	**46**
- provision for warranty costs	1,276	301	-	**1,577**
- unpaid salaries and wages, including overheads, in reporting period	-	209	-	**209**
- interest on loans	34	(7)	-	**27**
- interest on liabilities	6	10	-	**16**
- liabilities under loans measured at adjusted acquisition cost (using effective interest rate method)	-	-	-	**-**
- revaluation of hedging financial instruments or investment property recognised at fair value (through equity)	105	-	(28)	**77**
- revaluation of financial instruments or investment property recognised at fair value (through profit or loss)	125	(125)	-	**-**
- expenses related to balance-sheet income	23,988	(4,756)	-	**19,232**
- impairment losses on receivables	34	54	-	**88**
- foreign exchange losses	209	(209)	-	**-**
- audit costs	16	5	-	**21**
- discount of non-current settlements	36	(36)	-	**-**
- tax loss	570	(570)	-	**-**
- other	4	(4)	-	**-**
- liabilities under bonds	1,224	1,038	-	**2,262**
- long-term contracts - liabilities	7,942	(2,008)	-	**5,934**
- measurement of a joint venuture investment	-	2,976	-	**2,976**
Gross deferred tax assets	**35,656**	**(3,102)**	**(28)**	**32,526**

All amounts in PLN '000 (unless otherwise stated)

DEFERRED TAX FROM JANUARY 1ST TO DECEMBER 31ST 2009

Item	As at Jan 1st 2009 (at the rate of 19%)	Increase/(decrease) in financial result attributable to change in temporary differences and tax loss	Increase/(decrease) in equity attributable to change in temporary differences	As at Dec 31 2009 (at the rate of 19%)
Deferred tax assets				
- liabilities under future employee benefits	57	(6)	-	**51**
- employee benefits (holidays)	44	(8)	-	**36**
- provision for warranty costs	857	419	-	**1,276**
- unpaid salaries and wages, including overheads, in reporting period	-	-	-	**-**
- interest on loans	4	30	-	**34**
- interest on liabilities	4	2	-	**6**
- liabilities under loans measured at adjusted cost of acquisition (using effective interest rate method)	-	-	-	**-**
- revaluation of hedging financial instruments or investment property recognised at fair value (through equity)	3,021	-	(2,916)	**105**
- revaluation of financial instruments or investment property recognised at fair value (through profit or loss)	338	(213)	-	**125**
- expenses related to balance-sheet income	32,765	(8,777)	-	**23,988**
- impairment losses on receivables	30	4	-	**34**
- foreign exchange losses	54	155	-	**209**
- audit costs	16	-	-	**16**
- discount of non-current settlements	-	36	-	**36**
- tax loss	-	570	-	**570**
- other	323	(319)		**4**
- liabilities under bonds	216	1,008	-	**1,224**
- over-invoicing	846	7,096		**7,942**
Gross deferred tax assets	**38,575**	**(3)**	**(2,916)**	**35,656**

All amounts in PLN '000 (unless otherwise stated)

Deferred tax liabilities:

Item	As at Jan 1st 2010 (at the rate of 19%)	(Increase)/decrease in financial result attributable to change in temporary differences and tax loss	(Increase)/decrease in equity attributable to change in temporary differences	As at Dec 31 2010 (at the rate of 19%)
Deferred tax liabilities				
- interest on borrowings	1,639	3,101	-	**4,740**
- interest on deposits and own cash	223	(171)	-	**52**
- interest on receivables	-	-	-	**-**
- interest on financial assets (e.g. bonds and debt notes)	84	118	-	**202**
- balance-sheet income in current period – subsequent period for tax purposes	28,156	(5,967)	-	**22,189**
- difference between net carrying amount and tax base of own tangible assets	2,300	1,502	-	**3,802**
- difference between net carrying amount and tax base of tangible assets under operating lease	51	102	-	**153**
- revaluation of financial instruments or investment property recognised at fair value (through equity)	138	-	(44)	**94**
- revaluation of financial instruments recognised at fair value (through profit or loss)	3,777	(3,712)	-	**65**
- liabilities under loans measured at adjusted cost of acquisition (using effective interest rate method)	214	(84)	-	**130**
- foreign exchange gains	-	254	-	**254**
- discount of non-current settlements	-	185	-	**185**
- other	-	77	-	**77**
- impairment loss on investments	109	(11)	-	**98**
Gross deferred tax liabilities	**36,691**	**(4,606)**	**(44)**	**32,041**

All amounts in PLN '000 (unless otherwise stated)

Item	As at Jan 1st 2009 (at the rate of 19%)	(Increase)/decrease in financial result attributable to change in temporary differences and tax loss	(Increase)/decrease in equity attributable to change in temporary differences	As at Dec 31 2009 (at the rate of 19%)
Deferred tax liabilities				
- interest on borrowings	321	1,318	-	1,639
- interest on deposits and own cash	36	187	-	223
- interest on receivables	-	-	-	-
- interest on financial assets (e.g. bonds and debt notes)	894	(810)	-	84
- balance-sheet income in current period – subsequent period for tax purposes	37,033	(8,877)	-	28,156
- difference between net carrying amount and tax base of own tangible assets	1,570	730	-	2,300
- difference between net carrying amount and tax base of tangible assets under operating lease	82	(31)	-	51
- revaluation of financial instruments or investment property recognised at fair value (through equity)	86	-	52	138
- revaluation of financial instruments recognised at fair value (through profit or loss)	2,611	1,166	-	3,777
- liabilities under loans measured at adjusted cost of acquisition (using effective interest rate method)	22	192	-	214
- foreign exchange gains	-	-	-	-
- discount of non-current settlements	-	-	-	-
- other	19	(19)	-	-
- impairment loss on investment property	-	109	-	109
Gross deferred tax liabilities	**42,674**	**(6,035)**	**52**	**36,691**

All amounts in PLN '000 (unless otherwise stated)

Income tax related to each item of other comprehensive income is as follows:

Item	Jan 1 – Dec 31 2010		
	Pre-tax	Tax	After-tax
Other comprehensive income:			
Remeasurement of property, plant and equipment	**-**	**-**	-
Available-for-sale financial assets:			
– income/(loss) disclosed under other comprehensive income in period comprehensive	**4,805**	**(913)**	3,892
– amounts transferred to profit or loss	**(4,899)**	**931**	(3,968)
Cash-flow hedges			
- income (loss) disclosed under other comprehensive income in period comprehensive	**-**	**-**	-
– amounts transferred to profit or loss	**-**	**-**	-
– amounts included in the initial value of hedged items	**-**	**-**	-
Share in other comprehensive income of undertakings valued with equity method	**-**	**-**	-
Total	**(94)**	**18**	**(76)**

Item	Jan 1 – Dec 31 2009		
	Pre-tax	Tax	After-tax
Other comprehensive income:			
Remeasurement of property, plant and equipment	**-**	**-**	-
Available-for-sale financial assets:			
– income/(loss) disclosed under other comprehensive income in period comprehensive	**(3,820)**	**726**	(3,094)
– amounts transferred to profit or loss	**18,580**	**(3,694)**	14,886
Cash-flow hedges			
– income/(loss) disclosed under other comprehensive income in period comprehensive	**-**	**-**	-
– amounts transferred to profit or loss	**-**	**-**	-
– amounts included in the initial value of hedged items	**-**	**-**	-
Share in other comprehensive income of undertakings valued with equity method	**-**	**-**	-
Total	**14,760**	**(2,968)**	**11,792**

All amounts in PLN '000 (unless otherwise stated)

4.15. INVENTORIES

STRUCTURE OF INVENTORIES

Item	As at Dec 31 2010	As at Dec 31 2009
Materials	142	575
Semi-finished products and work in progress	3,989	13,433
Finished products	-	-
Goods for resale	385	3,126
Prepaid deliveries	328	163
Total carrying amount of inventories	**4,844**	**17,297**

In 2010, the Company recognised the costs of sold inventories and unallocated indirect production costs of PLN 7,583 thousand (2009: PLN 41,890 thousand) in operating activities in the separate income statement.
Inventories owned by PBG S.A. are not pledged as collateral to secure the Company's liabilities nor are they the subject of any covenants restricting their use or disposal.
The Company creates impairment losses on inventories if it can be reasonably assumed that the cost of acquisition or production of inventories may not be recovered or if the selling price of inventories significantly declines. In particular, the Company creates impairment losses on inventories which are damaged or if they have become wholly or partially obsolete.
In 2010, the Company did not recognise any impairment losses (2009: PLN 297 thousand).

4.16. TRADE AND OTHER RECEIVABLES

The table below presents trade and other receivables disclosed by PBG under receivables:

NON-CURRENT RECEIVABLES

Item	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2008
Financial receivables	**10,350**	**7,711**	**9,508**
Trade receivables	2,863	6,050	7,619
Impairment losses on trade receivables (-)	-	-	
Trade receivables (net)	**2,863**	**6,050**	**7,619**
Receivables on sale of property, plant and equipment	-	-	
Retained amounts (security deposits)	400	37	41
Receivables under finance lease	1,387	1,624	1,848
Other financial receivables	5,700	-	
Impairment losses on other receivables (-)	-	-	
Other financial receivables (net)	**7,487**	**1,661**	**1,889**
Non-financial receivables			
Tax and other benefits receivable	-	-	-
Prepayments and advances	-	-	
Other non-financial receivables	-	-	
Impairment losses on other receivables (-)	-	-	
Total non-current receivables	**10,350**	**7,711**	**9,508**

All amounts in PLN '000 (unless otherwise stated)

Non-current receivables include receivables for performed services and receivables on sale of shares with extended payment terms. The amounts do not bear interest. As repayment periods exceed five years in certain cases, these receivables have been discounted. Non-current receivables are discounted based on 1M WIBOR + 1 p.p. As at December 31st 2010, the discount rate was 4.66% (December 31st 2009: 4.76%).
Non-current receivables are subject to relatively high credit risk. The PBG Management Board monitors debtors' standing on an on-going basis; in the event of any threat to recovering the full amount receivable, impairment loss is recognised.
In the presented financial statements, non-current receivables have been posted in net amounts, subject to the discount and impairment losses.

Non-current receivables include finance lease receivables since, according to PBG S.A.'s accounting policies, assets leased to other parties under finance lease agreements are presented in the Company's balance sheet as receivables at amounts equal to the net investment.
Gross carrying amount of finance lease receivables as at December 31st 2010 was PLN 1,879 thousand, including current portion of PLN 313 thousand, (2009: PLN 1,624 thousand, including current portion of PLN 225 thousand)
The finance lease concerns perpetual usufruct right to land property located in Szczecin and the ownership right to an office building built thereon.

CURRENT RECEIVABLES:

Item	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2008
Financial receivables	**502,099**	**299,513**	**251,012**
Trade receivables	462,941	289,058	229,972
Impairment losses on trade receivables (-)	(193)	(287)	(322)
Net trade receivables	**462,748**	**288,771**	**229,650**
Receivables on sale of property, plant and equipment	3,795	117	1,941
Retained amounts (security deposits)	31,519	6,100	7,441
Receivables under finance lease	236	225	213
Receivables under court proceedings	-	-	-
Receivables on disposal of equity interests	2,760	4,300	5,950
Other financial receivables	1,041	18	5,844
Impairment losses on other receivables (-)	-	(18)	(27)
Other financial receivables (net)	**39,351**	**10,742**	**21,362**
Non-financial receivables	**70,850**	**66,861**	**23,252**
VAT receivable	-	-	-
Taxes, customs duties and subsidies receivable	-	-	-
Prepayments and advances	69,961	57,545	19,098
Amounts payable to employees	787	343	260
Other non-financial receivables	188	8,973	3,894
Impairment losses on other receivables (-)	(86)	-	-
Total receivables	**572,949**	**366,374**	**274,264**

All amounts in PLN '000 (unless otherwise stated)

The Company believes that the carrying amount of trade receivables represents a reasonable approximation of their fair value (see Note 4.10.7)

CURRENT TRADE AND OTHER RECEIVABLES (GROSS) BY CURRENCY

Item	As at Dec 31 2010		As at Dec 31 2009	
	In foreign currency	Translated into PLN	In foreign currency	Translated into PLN
a) Polish złoty (PLN)	x	563,401	x	326,977
b) euro (EUR)	2,436	9,390	9,803	39,369
c) US dollar (USD)	10	29	10	28
d) Swiss frank (CHF)	-	-	-	-
e) Bulgarian lev (BGN)	64	129	-	-
f) Canadian dollar (CAD)	-	-	-	-
g) other currencies	-	-	-	-
Total	x	**572,949**	x	**366,374**

Changes in impairment losses on receivables which were recognised in the period covered by these financial statements are shown in the table below:

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Balance at beginning of period	**305**	**349**
Impairment losses recognised as expenses in reporting period	-	131
Reversed impairment losses recognised as revenue in reporting period (-)	(8)	(122)
Impairment losses used in the reporting period (-)	(18)	(53)
Balance at end of period	**279**	**305**

PAST DUE CURRENT RECEIVABLES BY PERIOD OF DELAY

Item	Dec 31 2010		Dec 31 2009	
	Not past due	Past due	Not past due	Past due
Current receivables:				
Trade receivables	350,258	112,683	249,804	39,254
Impairment losses on trade receivables (-)	-	(193)	-	(287)
Net trade receivables	350,258	112,490	249,804	38,967
Other financial receivables	35,413	3,938	7,969	2,791
Impairment losses on other receivables (-)	-	-	-	(18)
Other net financial receivables	35,413	3,938	7,969	2,773
Financial receivables	385,671	116,428	257,773	41,740

All amounts in PLN '000 (unless otherwise stated)

AGING ANALYSIS OF PAST DUE CURRENT RECEIVABLES NOT COVERED BY RECOGNISED IMPAIRMENT LOSSES

Item	Dec 31 2010		Dec 31 2009	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Past due current receivables:				
Up to 1 month	68,350	3,770	9,146	2,683
From 1 to 6 months	44,140	168	30,108	108
From 6 to 12 months	-	-	-	-
Over one year	193	-	-	-
Past due financial receivables	**112,683**	**3,938**	**39,254**	**2,791**

Further credit risk analysis of the receivables, including the aging analysis of past due receivables not covered by impairment losses, was presented in Note 4.32.

In accordance with PBG's policy (Section D.7.3), the Company recognises impairment losses for full amounts of receivables past due by more than 180 days. As at December 31st 2010, past due receivables amounted to PLN 193 thousand. This amount was covered by impairment charges in previous years. In 2010, the Company did not recognise any impairment losses.

As at December 31st 2010, receivables with a carrying amount of PLN 129,718 thousand (2009: PLN 102,649 thousand) served as collateral for the Company's liabilities. For information on collateral for liabilities, see Note 4.10.6.

4.17. CASH AND CASH EQUIVALENTS

Item	As at Dec 31 2010	As at Dec 31 2009
Cash at bank accounts kept in PLN	436,992	510,847
Cash at foreign currency accounts	4,231	16,843
Cash in hand	98	457
Short-term deposits	-	-
Other	279	1,177
Total	**441,600**	**529,324**

Cash and cash equivalents comprise cash at banks and cash in hand, as well as current financial assets with maturities up to three months. The book value of such assets reflects their fair value.

Given that the Company only cooperates with reputable banks, the risk related to cash deposits is significantly reduced. As at December 31st 2010 cash with a carrying amount of PLN 86,500 thousand (2009: PLN 0 thousand) was subject to a restricted legal title by virtue of a financial pledge agreement over bank account receivables under a credit facility granted to Strateg Capital Sp. z o.o., a subsidiary. For information on collateral for liabilities see Note 4.10.6.

All amounts in PLN '000 (unless otherwise stated)

EQUITY

4.17.1. SHARE CAPITAL

As at December 31st 2010, the Company's share capital amounted to PLN 14,295 thousand (2009: PLN 13,430 thousand) and was divided into 14,295,000 shares (2009: 14,295,000 shares) with a par value of PLN 1 per share. All shares were paid up in full.
4,240,000 series A shares are voting preference shares, with each share carrying the right to 2 votes at the Company's General Shareholders Meeting. The remaining shares are not preference and each entitles to one vote the Company's General Shareholders Meeting.
Changes in the number of shares in the period covered by these financial statements result from the following transactions concluded with owners:

SHARE CAPITAL

Item	As at Dec 31 2010	As at Dec 31 2009
Number of Shares	14,295	14,295
Par value per share (PLN)	1	1
Share capital	**14,295**	**14,295**

As at December 31st 2010, the share capital structure was as follows:

Series / Issue	Share Preference Type	Type of Limitation of Rights Issue	Number of shares	Value of Series / Issue at Par Value	Payments to Share Capital
series A	voting preference 2:1	none	4,240,000	4,240	contribution in kind
series A	none	none	1,460,000	1460	cash
series B	none	none	1,500,000	1,500	cash
series C	none	none	3,000,000	3,000	cash
series D	none	none	330,000	330	cash
series E	none	none	1,500,000	1,500	cash
series F	none	none	1,400,000	1,400	cash
series G	none	none	865,000	865	cash
				14,295	

As at the date of release of the separate financial statements of PBG S.A., none of the PBG Group member companies held shares in the Company.

All amounts in PLN '000 (unless otherwise stated)

LIST OF SHAREHOLDERS HOLDING AT LEAST 5% OF THE TOTAL VOTE AT THE GENERAL SHAREHOLDERS MEETING AS AT THE SUBMISSION DATE OF THE ANNUAL FINANCIAL STATEMENTS

Shareholder	Number of Shares	Total Par Value (PLN)	% of Share Capital Held	% of Votes held in Total Number of Votes
Jerzy Wiśniewski	3,735,054 shares, including: 3,735,054 series A registered preference shares	3,735,054	26.13%	41.42%
ING Otwarty Fundusz Emerytalny	1,369,469 ordinary shares	1,369,469	9.58%	7.59%
Clients of Pioneer Pekao Investment Management SA	3,085,288 ordinary shares	3,085,288	21.58%	17.11%

CHANGES IN THE STRUCTURE OF SHARE BLOCKS SUBSEQUENT TO DECEMBER 31ST 2010

There were no changes in the ownership structure of the issuer's share blocks occurring by the publication date of the annual financial statements. In the period from January 1st 2011 to the publication date of the separate financial statements, the following changes occurred in the ownership structure of the blocks of issuer shares:

Change in the number of Company shares held the major investor

On January 13th 2011, Mr. Jerzy Wiśniewski, a major shareholder in the Company, sold 500,000 series A registered shares in PBG S.A. in a transaction executed outside the regulated market.

Prior to the transaction, Mr. Wiśniewski held 4,235,054 registered preference shares in the Company, representing 29.63% of the Company's share capital and conferring the right to exercise 8,470,108 votes at its General Shareholders Meeting, which represented 45.70% of the total vote.

Following the transaction, Mr Wiśniewski holds 3,735,054 registered preference shares in the Company, representing 26.13% of the Company's share capital and conferring the right to exercise 7,470,108 votes at its General Shareholders Meeting, which represent 41.42% of the total vote.

The sale of the Company shares was executed following a written notification by the founder shareholders of PBG S.A. of their waiver of the right of first refusal over the shares.

The Company's share capital amounts to PLN 14,295,000.00. The sale of Series A registered shares resulted in expiry of the preference attached to the shares and a decrease in the total number of votes at the Company's General Shareholders Meeting from 18,535,000 to 18,035,000 votes.

As of February 3rd 2011, the Management Board of the Polish National Depository for Securities (KDPW), acting under Resolution No. 76/11 of January 31st 2011, assigned code PLPBG0000052 to 500,000 ordinary bearer shares of PBG S.A., created upon conversion of registered shares, the conversion having been carried out at a shareholder's request dated January 14th 2011.

1) 3,740,000 PBG S.A. registered shares are identified with code PLPBG0000037;

2) 500,000 PBG S.A. ordinary bearer shares are identified with code PLPBG0000052.

As of March 4th 2011, the Management Board of the Polish NDS of Warsaw assimilated 500,000 Series A PBG shares identified with code PLPBG00000052 with 10,055,000 PBG shares identified with code PLPBG0000029. As a result, as of March 4th 2011, the free float of PBG shares was 10,555,000.

Notifications of increase in Pioneer Pekao Investment Management S.A.'s holding of PBG S.A. shares

In the period from January 28th to March 8th 2011, Pioneer Pekao Investment Management SA (PPIM) acquired PBG shares, as a result of which:

- on January 28th 2011 its total shareholding in PBG S.A., as regards financial instruments held in the portfolios managed by PPIM as part of its portfolio management services, increased to 15.05% of the total vote at PBG S.A.'s General Shareholders Meeting.
- on February 4th 2011 the Fund's total shareholding in PBG S.A., as regards shares included in its portfolio managed by PPIM in performance of its investment fund portfolio management services, increased to 15.09% of the total vote at PBG S.A.'s General Shareholders Meeting;
- on March 2nd 2011 the Fund's total shareholding in PBG S.A., as regards financial instruments held in the portfolios managed by PPIM as part of its portfolio management services, increased to 17.05% of the total vote at PBG S.A.'s General Shareholders Meeting;
- on March 8th 2011 the Fund's total shareholding in PBG S.A., as regards financial instruments held in the portfolios managed by PPIM as part of its portfolio management services, increased to 17.05% of the total vote at PBG S.A.'s General Shareholders Meeting;

Notifications of increase in Pioneer Pekao Investment Management's holding of PBG S.A. shares

In performance of the investment fund portfolio management agreement between Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA and Pioneer Pekao Investment Management (PPIM), on behalf of the following Funds:

1. Pioneer Fundusz Inwestycyjny Otwarty (Pioneer Open-End Investment Fund),
2. Specjalistyczny Fundusz Inwestycyjny Otwarty Telekomunikacji Polskiej (Telekomunikacja Polska Specialised Open-End Investment Fund),
3. Pioneer Zmiennej Alokacji Specjalistyczny Fundusz Inwestycyjny Otwarty (Pioneer Variable Allocation Specialised Open-End Investment Fund),
4. Pioneer Zmiennej Alokacji 2 Specjalistyczny Fundusz Inwestycyjny Otwarty (Pioneer Variable Allocation 2 Specialised Open-End Investment Fund),
5. Pioneer Zmiennej Alokacji 3 Specjalistyczny Fundusz Inwestycyjny Otwarty (Pioneer Variable Allocation 3 Specialised Open-End Investment Fund),
6. Pioneer Zabezpieczony Rynku Polskiego Specjalistyczny Fundusz Inwestycyjny Otwarty (Pioneer Protected Polish Market Specialised Open-End Investment Fund)

in the period from January 28th to March 2nd 2011, PPIM acquired PBG shares, as a result of which:

- on January 28th 2011 the shareholdings held by the above Funds in PBG S.A., as regards shares included in their portfolios managed by PPIM in performance of its investment fund portfolio management services, increased to 15.03% of the total vote at PBG S.A.'s General Shareholders Meeting;
- on March 2nd 2011 the shareholdings held by the above Funds in PBG S.A., as regards shares included in their portfolios managed by PPIM in performance of its investment fund portfolio management services, increased to 17.07% of the total vote at PBG S.A.'s General Shareholders Meeting.

4.17.2. SHARE PREMIUM ACCOUNT

The share premium account represents excess of the issue price over of par value of series B, C, D, E, F, and G shares; as at December 31st, 2010 it was PLN 733,348 thousand (2009: PLN 733,348 thousand).

4.17.3. VALUATION RESERVE FROM HEDGING TRANSACTIONS

As at December 31st 2010, the valuation reserve from hedging transactions was PLN 65 thousand and comprised:

- balances underlying valuation of derivative instruments that comply with the requirements of hedge accounting, hedge cash flows, or effective part of the hedge.

All amounts in PLN '000 (unless otherwise stated)

4.18. OTHER CAPITALS

Item	Capital reserve from valuation of share-based payment schemes	Other accumulated total income by title:						Total other capitals
		Remeasurement of property, plant and equipment	Available-for-sale financial assets	Cash flow hedges	Exchange differences on translation of foreign operations	Share in other comprehensive income of undertakings valued with equity method	Total other comprehensive income	
Balance as at Jan 1 2010	**-**	**-**	**-**	**141**	**-**	**-**	**141**	**141**
Correction of fundamental error	-	-	-	-	-	-	**-**	-
Valuation of options (share-based payment scheme)	-	-	-	-	-	-	**-**	-
Shares issued in connection with option exercise (transfer to share premium account)	-	-	-	-	-	-	**-**	-
Total other comprehensive income for January 1st – December 31st 2010	-	-	-	(94)	-	-	**(94)**	(94)
Income tax on items of other comprehensive income	-	-	-	18	-	-	**18**	18
Transfer to retained earnings (sale of remeasured property, plant and equipment)	-	-	-	-	-	-	**-**	-
Balance as at Dec 31 2010	**-**	**-**	**-**	**65**	**-**	**-**	**65**	**65**
Balance as at Jan 1 2009	**-**	**-**	**-**	**(11,652)**	**-**	**-**		**(11,652)**
Valuation of options (share-based payment scheme)	-	-	-				**-**	-
Shares issued in connection with option exercise (transfer to share premium account)	-	-	-	-	-	-	**-**	-
Other comprehensive income for January 1st – December 31st 2009	-	-	-	14,760	-	-	**14,760**	14,760
Income tax on items of other comprehensive income	-	-	-	(2,967)	-	-	**(2,967)**	(2,967)
Transfer to retained earnings (sale of remeasured property, plant and equipment)	-	-	-	-	-	-	**-**	-
Balance as at Dec 31 2009	**-**	**-**	**-**	**141**	**-**	**-**	**11,793**	**11,793**

All amounts in PLN '000 (unless otherwise stated)

4.19. EMPLOYEE BENEFITS

COST OF EMPLOYEE BENEFITS

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009	for the period Jan 1 – Dec 31 2008
Salaries and wages	35,477	35,142	36,335
Social security	5,194	5,311	6,135
Share-based payment schemes	-	-	-
Future benefits, including:			
- provision for retirement severance payments	55	(17)	(24)
- provision for length-of service awards	-	-	-
- provision for unused holidays	55	(44)	55
Other costs related to employee benefits	969	1,349	1,651
Total cost of employee benefits	**41,750**	**41,741**	**44,152**

Liabilities and provisions under employee benefits recognised in the separate balance sheet include:

LIABILITIES AND PROVISIONS UNDER EMPLOYEE BENEFITS

Item	Non-current liabilities and provisions		Current liabilities and provisions	
	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2010	As at Dec 31 2009
Salaries and wages payable	-	-	2,736	-
Social security contributions payable	-	-	2,462	1,163
Provision for retirement severance payments	322	271	-	-
Provision for length-of-service awards	-	-	-	-
Provision for unused holidays	-	-	242	186
Other provisions for employee benefits	-	-	-	-
Other liabilities under employee benefits	-	-	112	39
Total liabilities and provisions for liabilities under employee benefits	**322**	**271**	**5,552**	**1,388**

The following items caused a change in other long-term employee benefits:

All amounts in PLN '000 (unless otherwise stated)

CHANGES IN PROVISIONS FOR EMPLOYEE BENEFITS

Item	Provision for retirement severance payments	Provision for length-of service awards	Provision for unused holidays	Provision for other employee benefits	Total
January 1st – December 31st 2010					
Provisions as at Jan 1 2010	**271**	**-**	**186**	**-**	**457**
Increase in provisions recognised as cost in the period (newly-created provisions)	-	-	-	-	-
Increase in provisions due to revaluation of estimates	63	-	738	-	801
Release of provisions recognised as income in the period (-)	-	-	-	-	-
Use of provisions (-)	(4)	-	-	-	(4)
Decrease in provisions due to revaluation of estimates	(8)	-	(682)	-	(690)
Other changes in provisions (net currency translation differences)	-	-	-	-	-
Provisions as at Dec 31 2010, including:	**322**	**-**	**242**	**-**	**564**
- non-current provisions	322	-		-	322
- current provisions	-	-	242	-	242

January 1st – December 31st 2009					
Provisions as at Jan 1 2009	**303**	**-**	**230**	**-**	**533**
Increase in provisions recognised as cost in the period (newly-created provisions)	-	-	-	-	-
Increase in provisions due to revaluation of estimates	63	-	595	-	658
Release of provisions recognised as income in the period (-)	-	-	-	-	-
Use of provisions (-)	-15	-	-	-	(15)
Decrease in provisions due to revaluation of estimates	-80	-	-639	-	(719)
Other changes in provisions (net currency translation differences)	-	-	-	-	-
Provisions as at Dec 31 2009, including:	**271**	**-**	**186**	**-**	**457**
- non-current provisions	271	-	0	-	271
- current provisions	-	-	186	-	186

Jan 1 – Dec 31 2008					
Provisions as at Jan 1 2008	**327**	**-**	**175**	**-**	**502**
Increase in provisions recognised as cost in the period (newly-created provisions)	-	-	-	-	-
Increase in provisions due to revaluation of estimates	-	-	55	-	55
Release of provisions recognised as income in the period (-)	(24)	-	-	-	(24)
Use of provisions (-)	-	-	-	-	-
Decrease in provisions due to revaluation of estimates	-	-	-	-	-
Other changes in provisions (net currency translation differences)	-	-	-	-	-
Provisions as at Dec 31 2008, including:	**303**	**-**	**230**	**-**	**533**
- non-current provisions	303	-	-	-	303
- current provisions	-	-	230	-	230

All amounts in PLN '000 (unless otherwise stated)

OTHER PROVISIONS

PROVISIONS DISCLOSED IN THE FINANCIAL STATEMENTS AND THEIR CHANGES IN THE RESPECTIVE PERIODS ARE SHOWN BELOW:

Item	Non-current provisions		Current provisions	
	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2010	As at Dec 31 2009
Provisions for warranties/guarantees	7,185	6,118	1,117	598
Provision for losses on construction contracts	-	-	-	3,000
Other provisions for liabilities	-	-	-	-
Other	-	-	-	-
Total other provisions for liabilities, including:	**7,185**	**6,118**	**1,117**	**3,598**

Item	Provisions for warranties/guarantees	Provision for losses on construction contracts	Other provisions for liabilities	Total
Provisions as at Jan 1 2010	**6,716**	**3,000**	**-**	**9,716**
Increase in provisions recognised as cost in period (newly-created provisions)	3,105	-	-	3,105
Increase in provisions due to revaluation of estimates	-	-	-	-
Release of provisions recognised as income in the period (-)	(1,171)	-	-	(1,171)
Use of provisions (-)	(348)	(3,000)	-	(3,348)
Decrease in provisions due to revaluation of estimates	-	-	-	-
Provisions as at Dec 31 2010, including:	**8,302**	**-**	**-**	**8,302**
- non-current provisions	7,185			7,185
- current provisions	1,117	-	-	1,117
Provisions as at Jan 1 2009	**4,509**	**-**	**-**	**4,509**
Increase in provisions recognised as cost in period (newly-created provisions)	2,760	3,000	-	5,760
Increase in provisions due to revaluation of estimates	-	-	-	-
Release of provisions recognised as income in period (-)	(291)	-	-	(291)
Use of provisions (-)	(262)	-	-	(262)
Decrease in provisions due to revaluation of estimates	-	-	-	-
Provisions as at Dec 31 2009, including:	**6,716**	**3,000**	**-**	**9,716**
- non-current provisions	6,118	-	-	6,118
- current provisions	598	3,000	-	3,598

The Company creates provisions in compliance with the policies specified in Section 3.14.

Provision for warranty repairs is a key item in the financial statements of the Company. It increased by 23.62% year-on-year, primarily owing to the fact that PBG S.A. must create provisions for warranty maintenance services if it is contractually bound to do so.

All amounts in PLN '000 (unless otherwise stated)

4.20. TRADE AND OTHER LIABILITIES

Trade and other liabilities of the Company (see also Section 4.10.1) are as follows:

Item	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2008
Financial liabilities	**22,606**	**19,201**	**5,072**
Trade liabilities	-	88	63
Purchase of tangible assets	14,395	14,246	
Retained amounts (security deposits)	8,006	2,686	49
Other financial liabilities	205	2,181	4,960
Non-financial liabilities	**-**	**-**	-
Tax and other benefits payable	-	-	**-**
Prepaid deliveries	-	-	-
Prepayments received for construction services	-	-	-
Other non-financial liabilities	-	-	-
Total liabilities	**22,606**	**19,201**	**5,072**

Non-current liabilities comprise amounts retained as security for completion of construction work by subcontractors, liabilities under insurance services, and liabilities under purchase of license rights. The amounts do not bear interest. Due to long repayment periods, exceeding six years in certain cases, these liabilities are discounted. Non-current liabilities are discounted using the rate equal to 1M WIBOR + 1 p.p. As at December 31st 2010, the discount rate was 4.66%, and as at December 31st 2009 the rate was 4.76%.
2010 saw an increase in non-current financial liabilities under retained amounts.

NON-CURRENT LIABILITIES BY CURRENCY

Item	As at Dec 31 2010		As at Dec 31 2009	
	In foreign currency	Translated into PLN	In foreign currency	Translated into PLN
a) Polish złoty (PLN)	x	22,606	x	19,139
b) euro (EUR)			18	62
c) US dollar (USD)	-	-	-	-
d) Swiss frank (CHF)	-	-	-	-
e) pound sterling (GBP)	-	-	-	-
f) Canadian dollar (CAD)	-	-	-	-
g) other currencies	-	-	-	-
		22,606		**19,201**

CURRENT LIABILITIES

Item	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2008
Financial liabilities	**404,118**	**303,589**	**138,261**
Trade payables	394,112	296,236	130,741
Purchase of tangible assets	2,879	811	3
Investment purchases	-	-	-
Debt purchases	-	-	-
Share purchases	1,651	1,071	1,115
Retained amounts (security deposits)	5,476	5,471	5,306
Other financial liabilities	-	-	1,096

All amounts in PLN '000 (unless otherwise stated)

Non-financial liabilities	**140,844**	**96,538**	**16,492**
VAT payable	49,729	20,920	1,595
Taxes, customs duties and subsidies payable	905	576	732
Prepaid deliveries	85,893	69,633	9,038
Prepayments received for construction services	-	-	-
Other non-financial liabilities	4,317	5,409	5,127
Total liabilities	**544,962**	**400,127**	**154,753**

CURRENT TRADE AND OTHER LIABILITIES (GROSS) BY CURRENCY

Item	As at Dec 31 2010		As at Dec 31 2009	
	In foreign currency	Translated into PLN	In foreign currency	Translated into PLN
a) Polish złoty (PLN)	x	539,262	x	388,176
b) euro (EUR)	615	2,503	2,567	10,833
c) US dollar (USD)	561	1,716	4	12
d) Swiss frank (CHF)	-	-	-	-
e) pound sterling (GBP)	-	-	58	274
f) Canadian dollar (CAD)	483	1,477	297	832
g) other currencies	25	4	-	-
		544,962		**400,127**

The Company believes that the carrying amount of trade liabilities represents a reasonable approximation of their fair value (see Section 4.10.7).

For information on liabilities under construction contracts, see Section 4.23.

All amounts in PLN '000 (unless otherwise stated)

4.21. PREPAYMENTS AND ACCRUED INCOME

Item	Non-current prepayments		Current prepayments	
	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2010	As at Dec 31 2009
Prepayments and accrued income				
- Insurance contracts	2,123	3,961	3,624	2,893
- Guarantees	1,092	1,010	996	778
- Turn-of-reporting-period expenses	-	-	-	438
- prepaid reusable materials	-	-	-	-
- Expenses incurred prior to construction contract execution	-	-	14,098	2,060
- cost of share issue	-	-	-	-
- Cost of future acquisitions	-	-	203	3,162
- subscriptions, training	-	-	19	18
- other	660	378	12,911	383
Total prepayments and accrued income	**3,875**	**5,349**	**31,851**	**9,732**
Accruals and deferred income				
- subsidies received	-	-	-	-
- balance sheet audit provision	-	-	108	83
- deferred income	6,467	7,317	879	914
- other	-	3	3	1
Total accruals and deferred income	**6,467**	**7,320**	**990**	**998**

In 2010, prepayments increased compared with 2009. In particular, increase in prepayments occurred under "Expenses incurred prior to construction contract execution" in connection with to PBG S.A.'s activities aimed at winning new contracts and diversifying its business scope.

Under deferred income, PBG S.A. recognises subsidies obtained in 2004–2006 under the EU programme "Sectoral Operational Programme Improvement of the Competitiveness of Enterprises" to fund new fixed assets to improve the Company's competitiveness. Benefits from the subsidy are recognised throughout the fixed asset depreciation period until December 31st 2011. In 2010, the Company recognised other operating income on the subsidies at PLN 1,000 (2009: PLN 1,000). As at the balance-sheet date, there are no terms and conditions not yet met that could contribute to the subsidy becoming repayable.

4.22. CONSTRUCTION CONTRACTS

In 2010, the Company recognised in the income statement uninvoiced revenue under construction contracts in the amount of PLN -20,838 thousand (2009: PLN 84,072 thousand).

The amounts recognised in the balance sheet result from construction contracts in progress as at the balance-sheet date. Receivables under construction contracts are recognised as the total of expenses incurred under the construction contracts increased by profit (or reduced by loss), and reduced by partial invoices (see Section 3.19.2 on accounting policies, under "Basis of preparation and accounting policies"). The amounts of receivables and payables resulting from construction contracts are shown in the table below:

All amounts in PLN '000 (unless otherwise stated)

CONSTRUCTION CONTRACTS

Item	as at Dec 31 2010	as at Dec 31 2009
Revenue from the contract as initially set	2,423,055	2,680,515
Change	223,855	298,601
Total contract revenue	**2,646,910**	**2,979,116**
Expenses incurred by the balance-sheet date	1,157,691	1,054,216
Expenses to be incurred by the completion of the contract	1,022,535	1,438,729
Estimated total cost of the contract	**2,180,247**	**2,492,945**
Estimated profit	**466,663**	**486,171**
Stage of completion as at the balance-sheet date	**0,53**	**-**
Advances received as at the balance-sheet date	115,862	72,940
Advances that can be set off with receivables under construction contracts	29,969	3,308
Retentions total	30,779	6,001
Expenses incurred by the balance-sheet date related to the contract performance	1,157,691	1,054,216
Profit or loss recognised by the balance-sheet date	267,310	164,144
Revenue estimated as at the balance-sheet date	**1,425,022**	**1,218,360**
Amounts invoiced by the balance-sheet date	1,339,476	1,111,976
Receivables under the contract as at the balance-sheet date	**116,779**	**148,185**
Receivables under the contract payable to the consortium members as at the balance-sheet date	-	4,732
Receivables under the contracts payable to the consortium as a whole as at the balance sheet date, reduced by advances that can be set off	**86,810**	**149,609**
Payables under the contract as at the balance-sheet date	**31,233**	**41,801**

The PBG Management Board, owing to binding confidentiality agreements, disclosed the information required by IAS 11(construction contracts) in aggregate amounts, without itemising the individual contracts.

Amounts in the financial statements that relate to construction contracts are best estimates of the Company's Management Board, although there is a certain degree of uncertainty as to their actual values, which is discussed in the item on uncertainty of estimates (see Section 3.16.2 "Basis of preparation and accounting policies").

In 2008, the Company's Management Board executed two contracts as a consortium leader. Projects contemplated in these contracts are joint ventures in accordance with IAS 31. If the Company, as a consortium leader, considers an agreement executed between the principal and the consortium as a construction contract, such long-terms contracts are settled based on revenue and expense budgets for the portion of the contract completed only by the Company, and expenses received from other consortium members and revenue invoices issued to the principal as the billing entity and concerning work performed by consortium members, are not recognised in the Company's income statement.

All amounts in PLN '000 (unless otherwise stated)

Contracts which, under IAS 31, are recognised as performed as part of the joint venture with the consortium's partners are:

Lubiatów-Międzychód-Grotów contract, valued at PLN 1,397,000 thousand, will be recognised in the Company's sales at PLN 1,085,77 thousand;

Underground Gas Storage Facility Wierzchowice contract, valued at PLN 1,089,000 thousand, will be recognised in the Company's sales at PLN 461,539 thousand;

In 2010, the Company's Management Board signed, as a Consortium partner, a contract for the delivery of a working design, construction and commissioning of the Liquefied Natural Gas Regasification Terminal in Świnoujście. Initially, the contract was valued at PLN 2,415,213 thousand.

On February 10th 2011, following the cancellation of the construction of the ORV system by Polskie LNG, the contractual amount decreased by PLN 206,070 thousand and currently amounts to PLN 2,209,143 thousand.

Pursuant ot IAS 31, the Company discloses the contract as a "jointly controlled entity" in its separate financial statements (see Section 3.16.2), and according to IAS 39 the investement is remeasured to fair value through profit or loss. As at the balance-sheet date, the Company could not estimate the fair value of the investment, its fair-value remeasurement was not disclosed in the separate financial statements.

In the same manner, the Company accounts for the construction of the Kaczkowo-Korzeńsko section (the Bojanowo and Rawicz beltway) of the S5 Poznań (A2 – the Głuchowo interchange) – Wrocław (A8 – the Widawa interchange) expressway. The revenue from the contract is estimated at PLN 777,240 thousand.

4.23. OPERATING INCOME AND EXPENSES

SALES REVENUE

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
natural gas, crude oil and fuels	701,915	441,085
Water	73,082	126,421
Residential and industrial construction	98,458	226,783
Road construction	24,045	-
Other	12,453	33,174
Total sales revenue	**909,953**	**827,463**

SALES REVENUE BY SUPPLIER'S COUNTRY

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
- domestic customers	907,427	827,463
- foreign customers	62	-
Total sales revenue	**907,489**	**827,463**

All amounts in PLN '000 (unless otherwise stated)

COSTS BY TYPE

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Depreciation/amortisation	15,919	14,828
Raw materials and energy used	14,096	48,895
Contracted services	666,556	567,397
Taxes and charges	1,391	1,598
Employee benefits	41,640	41,802
Other costs by type	16,647	13,532
Total costs by type	**756,249**	**688,052**
Goods for resale and materials sold	4,951	8,443
Change in products, production in progress (-)	3,361	12,017
Cost of products and services for own needs (-)	-	-
Cost of sales, selling costs, general and administrative expenses	**764,561**	**708,512**

COSTS BY SUPPLIER'S COUNTRY

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
- domestic suppliers	638,248	591,435
- foreign suppliers	96,827	87,965
Total sales revenue	**735,075**	**679,400**

OTHER OPERATING INCOME

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Gain on disposal of non-financial non-current assets	526	1,111
Fair value measurement of investment property	-	-
Reversals of impairment losses on property, plant and equipment and intangible assets	-	-
Reversals of impairment losses on receivables	3	122
Reversals of impairment losses on inventories	-	297
Release of unused provisions	1,171	291
Fines and damages received	1,907	420
Subsidies	884	890
Lease revenue	2,706	3,013
Other income (the most material items must be specified)	-	1,198
Other income (the most material items must be specified)	-	654
Other income (immaterial items of other income, total)	781	891
Other operating income, total	**7,978**	**8,887**

All amounts in PLN '000 (unless otherwise stated)

OTHER OPERATING EXPENSES

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Loss on disposal of non-financial non-current assets	-	-
Fair value measurement of investment property	58	-
Impairment losses on goodwill	-	-
Impairment losses on property, plant and equipment and intangible assets	-	297
Impairment losses on receivables	-	131
Impairment losses on inventories	-	297
Provisions for fines and damages	-	-
Fines and damages paid	782	266
Donations granted	602	499
Non-tax-deductible costs	433	157
Company Social Benefits Fund	478	42
Other expenses (shares written-off)	362	528
Other expenses (immaterial items of other expenses, total)	97	281
Other operating expenses, total	**2,379**	**2,241**

4.24. FINANCE INCOME AND EXPENSES

FINANCE INCOME

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Interest income related to financial instruments not measured at fair value through profit or loss:		
Cash and cash equivalents (deposits)	11,048	12,708
Loans and receivables	35,730	13,435
Debt securities held to maturity	1,422	3,908
Interest income related to financial instruments not measured at fair value through profit or loss	48,200	30,051
Gains arising from valuation and settlement of financial instruments measured at fair value through profit or loss:		
Traded derivatives	-	-
Derivative hedging instruments	4,744	778
Shares of listed companies	-	-
Debt securities	-	-
Investment fund units	-	-
Gains on valuation and settlement of financial instruments measured at fair value through profit or loss:	4,744	778
Foreign exchange gains/(losses) (+/-):		
Cash and cash equivalents	4,636	-
Loans and receivables	(2,601)	-
Financial liabilities measured at amortised cost	-	-
Foreign exchange gains/(losses) (+/-)	2,035	-
Gains on available-for-sale assets transferred from equity	-	-
Dividends from available-for-sale financial assets	43,228	-

All amounts in PLN '000 (unless otherwise stated)

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Reversals of impairment losses on loans	-	-
Reversals of impairment losses on held-to-maturity investments	-	-
Interest on financial assets covered by impairment losses	-	-
Discount (long-term settlements)	555	482
Commission on sureties issued	485	267
Other finance income	5	-
Total finance income	**99,252**	**31,578**

FINANCE EXPENSES

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Interest expense related to financial instruments not measured at fair value through profit or loss:		
Financed lease liabilities	193	182
Bank loans	10,719	9,693
Overdraft facilities		
Borrowings	82	23
Debt securities	45,139	20,905
Trade and other payables	197	136
Interest expense related to financial instruments not measured at fair value through profit or loss	**56,330**	**30,939**
Losses on valuation and settlement of financial instruments measured at fair value through profit or loss:	-	-
Traded derivatives	-	-
Derivative hedging instruments	-	-
Shares of listed companies	-	-
Debt securities	-	-
Investment fund units	-	-
Losses on valuation and settlement of financial instruments measured at fair value through profit or loss	-	-
Foreign exchange gains/(losses) (-/+):		
Cash and cash equivalents		(4,993)
Loans and receivables		9,094
Financial liabilities measured at amortised cost	-	-
Foreign exchange gains/(losses) (-/+)	-	4,101
Losses arising from available-for-sale assets transferred from equity		
Impairment losses on loans	-	-
Impairment losses on held-to-maturity investments	-	-

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Impairment losses on available-for-sale financial assets	-	-
Discount (long-term settlements)	-	45
Commission on sureties issued	20	213
Other finance expenses	21	189
Total finance expenses	**56,371**	**35,487**

Impairment losses on receivables related to operating activities are recognised by the Company under other operating expenses (see Section 4.24).

The valuation and settlement of hedging derivatives mainly affect operating income or operating expenses disclosed by the Company(as described in Section 4.10.3 devoted to hedges).

4.25. GAINS/LOSSES ON INVESTMENTS

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
a) Gain/loss on investments in related undertakings	**-**	**-**
- disposal of subsidiary undertaking	17	-
- disposal of subsidiary undertaking	-	-
Gain/loss on investments	**17**	**-**

4.26. INCOME TAX

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Current income tax	30,652	29,439
Deferred income tax	(1,504)	(6,031)
Adjustments to current income tax for previous periods	-	-
Total	**29,148**	**23,408**

All amounts in PLN '000 (unless otherwise stated)

INCOME TAX FROM JANUARY 1ST TO DECEMBER 31ST 2010

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Pre-tax profit	**194,535**	**121,687**
Tax rate applied by the Parent Undertaking	19%	19%
Tax calculated at the domestic tax rate applied by the Parent Undertaking	**36,962**	**23,121**
Reconciliation of income tax in connection with:		
- application of a different tax rate at the Group Companies (+/-)		
- non-taxable income (-)	(8,381)	(115)
- permanent non-tax-deductible expenses (+)	568	403
- utilisation of tax losses previously not recognised (-)	-	-
- not recognised asset for deferred tax on deductible temporary differences (+)	-	-
- not recognised asset for deferred tax on tax losses (+)	-	-
- corrections of tax expense for previous periods (+/-)	-	-
Corporate income tax	**29,148**	**23,408**
Average tax rate applied	15%	19%

4.27. EARNINGS PER SHARE AND DIVIDEND PROPOSED

EARNINGS PER SHARE

Earnings per share are computed as the quotient of net profit attributable to shareholders to the weighted average number of ordinary shares outstanding within the given period.

While computing both the basic and diluted earnings (loss) per share, the Company substitutes the amount of net profit (loss)attributable to shareholders of the Company, thus avoiding the dilutive effect on profit (loss).

The table below presents the computation of the basic and diluted earnings (loss) per share, with the reconciliation of the diluted weighted average number of shares.

Item	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Continuing operations		
Net earnings/(loss) from continuing operations	165,387	98,279
Weighted average number of ordinary shares	14,295,000	13,934,580
Dilutive effect of convertible options		
Diluted weighted average number of ordinary shares	14,295,000	13,934,580

All amounts in PLN '000 (unless otherwise stated)

Basic earnings/(loss) per share from continuing operations (PLN)	**11.57**	**7.05**
Diluted earnings/(loss) per share from continuing operations (PLN)	**11.57**	**7.05**
Discontinued operations	-	-
Net earnings/(loss) from discontinued operations		
Weighted average number of ordinary shares	-	-
Dilutive effect of convertible options	-	-
Diluted weighted average number of ordinary shares	-	-
Basic earnings (loss) per share from discontinued operations (PLN)	**-!**	**-**
Diluted earnings (loss) per share from discontinued operations (PLN)	**-**	**-**
Continuing and discontinued operations	165,387	98,279
Net profit/(loss)	14,295,000	13,934,583
Weighted average number of ordinary shares		
Dilutive effect of convertible options	14,,295,000	13,934,583
Diluted weighted average number of ordinary shares	**11.57**	**7.05**
Basic earnings (loss) per share from continuing and discontinued operations (PLN)	**11.57**	**7.05**
Diluted earnings (loss) per share from continuing and discontinued operations (PLN)	**11.,57**	**7.05**

DIVIDEND PAID AND PROPOSED

Pursuant to the resolution of the Annual General Shareholders Meeting of April 21st 2010, the Company paid dividend for 2009 in the amount of PLN 20,013 thousand, i.e. PLN 1.40 per share. The payment was recognised in the Company's separate financial statements for 2009 as a decrease in profit, under retained earnings in the statement of changes in equity.

By the publication date of the Company's financial statements, the Management Board of PBG SA did not take decisions on the payment of dividend and distribution of profit for 2010.

4.28. CASH FLOWS

The following adjustments to pre-tax profit (loss) were made to determine cash flows from operating activities:

Item	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Adjustments:		
Amortisation of intangible assets	4,459	3,805
Impairment losses on goodwill	-	-
Impairment losses on property, plant and equipment	-	-
Depreciation of property, plant and equipment	11,461	11,022
Change in fair value of investment property	58	-
Change in fair value of financial assets (liabilities) measured through profit or loss	4,744	(6,576)
(Profit)/loss on sale of property, plant and equipment	527	(1,111)
(Profit)/loss on sale of available-for-sale financial assets (held for trading)	-	-
Gains/(losses) on fair value measurement of investment property	-	-

Item	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
(Gains)/losses on change in fair value of financial assets measured at fair value	-	-
Cash flow hedges transferred from equity	-	-
Foreign exchange gains/(losses)	(,4899)	18,580
Interest costs	56,330	(2,419)
Interest income	48,201	30,939
Dividend received	43,228	(30,051)
Share in profit/(loss) of associated undertakings	5,271	-
Share in profit/(loss) of associated undertakings	-	-
Foreign exchange gains/(losses)	-	-
Interest costs	56,330	30,939
Interest received	(48,201)	(30,051)
Dividend received	(43,228)	-
Share in profit/(loss) of associated undertakings	(5,271)	-
Total adjustments	**(34,562)**	**10,474**
Change in inventories	12,453	15,326
Change in receivables	(201,377)	(60,410)
Change in liabilities	145,444	281,827
Change in provisions and accruals and deferrals	(18,706)	3,136
Other adjustments	52,232	(4,512)
Changes in working capital	**9,954**	**235,367**

For the purposes of preparing the statement of cash flows, the Company classifies cash in the manner adopted for the presentation thereof in the balance sheet (see Section 4.17).

CASH FLOW STATEMENT - CASH AND CASH EQUIVALENTS

Item	As at Dec 31 2010	As at Dec 31 2009
Cash and cash equivalents disclosed in the balance sheet	**441,600**	**529,324**
Adjustments:	-	-
Exchange differences arising on measurement of carrying amount of cash denominated in	-	-
Unrealised interest on cash (-)	(279)	(1,177)
Other	-	-
Cash and cash equivalents disclosed in statement of cash flows	**441,321**	**528,147**

4.29. RELATED PARTIES

Related parties of the Company include key management staff, associated undertakings, subsidiary undertakings, and other related parties, which include undertakings controlled by the owners of the parent as well as members of the supervisory and management bodies. The main other related parties include:

No.	**Item**
1.	Apartamenty Poznańskie Sp. z o.o.
2.	APPCOM Ewa Kędra Lusówka
3.	APP Projekt Sp. z o.o.
4.	BUNIOL SPORT Jakub Kasperczak
5.	DIIPP Autostrady Sp. z o.o.
6.	DM Developer Sp.z o.o.
7.	DMP Finanse Sp. z o.o.

All amounts in PLN '000 (unless otherwise stated)

8.	DOMDAR Sp. z o.o.
9.	Dwór w Smólsku
10.	EAST WAST Development Poznań Sp. z o.o.
11.	ECOPAP Sp. z o.o.
12.	F.H. "RENEE" s.c. Jerzy Trybuchowski, Piotr Trybuchowski
13.	Firma Produkcyjno Handlowa TADEX Tadeusz Kasperczak
14.	Fundacja im. Andrzeja Bardzińskiego
15.	GMP Piotr Kurosz
16.	INFRA S.A.
17.	INVEST ECOPAP Sp. z o.o. Spółka Komandytowa
18.	IWESJR Jerzy Ciechanowski
19.	JASTRPORT Sp. z o.o.
20.	Kancelaria Biegłych Rewidentów "AUDYT" Sp. z o.o.
21.	Kancelaria Prawna Maciej Bednarkiewicz, Andrzej Wilczyński i Wspólnicy Sp. Komandytowa
22.	Kan-Gaz Sp. z o.o.
23.	KAN-GAZ Eugeniusz Kurosz Sp. z o.o.
24.	Księgowość Anna Nowak i Wspólnicy Spółka Komandytowa
25.	MIERZEJA DEVELOPMENT Sp. z o.o.
26.	Michał Tamborski i Syn Spółka Jawna
27.	MJW PATRIMONIUM Sp. z o.o.
28.	MONOLIT SYSTEM Sp. z o.o.
29.	NEPTIS Sp. z o.o.
30.	P.H. Ba-Wa s.c.
31.	Piecobiogaz SA
32.	POMERANIA DEVELOPMENT Sp. z o.o.
33.	Poner Sp. z o.o.
34.	Poznańskie Stowarzyszenie Oświatowe
35.	PRADA Violetta Wilczyńska, Andrzej Wilczyński Spółka Jawna
36.	Przedsiębiorstwo Budowlano - Montażowe i Prefabrykacji betonów "KAMAL" Sp. z o.o.
37.	R AND L Sp. z o.o.
38.	RC DEVELOPMENT Sp. z o.o.
39.	SARNOWSKI I WIŚNIEWSKI Spółka Audytorska Sp. z o.o.
40.	SKOCZYŃSKI WACHOWIAK STRYKOWSKI Kancelaria Prawna Spółka Komandytowa
41.	Specjalistyczne Usługi Gazownicze "GAZ SERWIS" Sp. z o.o.
42.	TGP INVEST Sp. z o.o.
43.	TMPM Sp. z o.o.
44.	Trans-Bau Project Sp. z o.o.
45.	VERSA SA
46.	Wiertmar Sp. z o.o.
47.	Zawisza Bydgoszcz SA

Transactions with related parties are executed on an arm's-length basis, with the nature and terms of those transactions determined by day-to-day operations.

All amounts in PLN '000 (unless otherwise stated)

Transactions with Key Management Personnel

The Company's management personnel includes the members of its Management Board. In the period covered by these financial statements, the remuneration of the key personnel was as follows:

DETAILS CONCERNING RELATED PARTIES – AMOUNTS PAID TO MANAGEMENT PERSONNEL
January 1st – December 31st 2010

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Benefits paid to management personnel		
Current employee benefits	3,920	2,712
Benefits for employment termination	-	-
Post-employment benefits	-	-
Share-based payments	-	-
Other benefits	-	-
Total	**3,920**	**2,712**

For detailed information on the remuneration of members of the Management Board of the Company, see Section 7.

The Company did not grant any loans to the members of its key management personnel in the period covered by these financial statements nor in the periods covered by the comparative data.

Company's name:	***PBG S.A.***		
Period covered by the financial statements:	***01.01-31.12.2010***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 (unless otherwise stated)***		

<u>Transactions with subsidiary undertakings, associated undertakings, jointly controlled undertakings and other related undertakings</u>

Related parties – selected financial information (PLN '000)

Related undertaking	Receivables as at Dec 31 2010	Liabilities as at Dec 31 2010	Financial assets	Loans and borrowings	Inventories as at Dec 31 2010	Financial liabilities (securities)	Sales revenue in 2010	Purchases in 2010	Finance income in 2010	Finance expenses in 2010
CONSOLIDATED UNDERTAKINGS										
PBG TECHNOLOGIA	1396	14647	-	1000	-	-	4177	**39660**	**-**	**117**
PBG EXPORT	-	2768	-	-	-	-	81	**6046**	**18**	**-**
INVEST WSCHODNI	-	-	-	90367	-	-	-	**-**	**3958**	**-**
GK APRIVIA SA	14,597	3,386	-	4,650	-	-	17,586	23,027	295	-
AVATIA Sp. z o.o.	2,091	756	-		-	-	1,870	3,261	-	-
Brokam Sp. z o.o.	1	-	-	628	-	-	4	-	52	-
Bathinex	614	-	-	31,480	-	-	103	-	483	-
Strateg Capital	4,100	-	77,059	34,524	-	-	3,089	-	2,291	-
HBP Drogi	1	-	-	-	-	-	1	-	-	-
PBG Operator	1	-	-	-	-	-	1	-	-	-
UKRAINE	261	-	-	-	-	-	-	-	-	-
Excan Oil and Gas Engineering Ltd.	-	1,337	-	-	-	-	4	2,880	-	99
Gas & Oil Engineering a.s.	1,668	4,647	-	-	-	-	1	4,730	-	-
The Hydrobudowa Polska Group	52,033	21,711	-	-	-	-	47,034	38,523	100	1,044
The Infra Group	-	-	-	-	-	-	450	3	1,096	-
The PBG Dom Group	229	55	14,651	216,968	-	-	783	74	6,870	-

Company's name:	*PBG S.A.*		
Period covered by the financial statements:	*January 1st - December 31st 2010*	Reporting currency:	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 (unless otherwise stated)*		

Related undertaking	Receivables as at Dec 31 2010	Liabilities as at Dec 31 2010	Financial assets	Loans and borrowings		Financial liabilities (securities)	Sales revenue in 2010	Purchases in 2010	Finance income in 2010	Finance expenses in 2010
KWG S.A.	181	-	-	45,916	-	-	266	- 3	2,893	-
Metorex Sp. z o.o.	119	-	-	-	-	-	109	-	-	-
Total	**77,292**	**49,307**	**91,710**	**425,533**	**-**	**-**	**75,559**	**118,201**	**18,056**	**1,260**
NON-CONSOLIDATED EQUITY-RELATED UNDERTAKINGS										
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
NON-CONSOLIDATED PERSONALLY-RELATED UNDERTAKINGS										
Total	**48,081**	**17,233**	**-**	**51,373**	**-**	**-**	**49,151**	**73,228**	**-**	**-**

All amounts in PLN '000 (unless otherwise stated)

4.30. CONTINGENT ASSETS AND LIABILITIES

As at the end of individual periods, contingent liabilities were as follows:

CONTINGENT LIABILITIES UNDER GRANTED GUARANTEES AND SURETIES AS AT DEC 31 2010

Item	IFRS as at Dec 31 2010	IFRS as at Dec 31 2009
To non-consolidated related undertakings:		
Trade and other payable repayment surety	305	-
Performance bond sureties	16,282	-
Total non-consolidated related undertakings	**16,587**	**-**
To other undertakings:		
Loan and borrowing repayment surety	271,554	253,941
Trade and other payables repayment surety	34,353	86,965
Performance bond sureties	476,115	534,848
Sureties for existing and future lease agreements	10,053	17,152
Guarantee security surety		37,088
Credit and guarantee limit surety	167,059	202,697
Surety for limit for derivative transactions	5,467	-
Performance bonds	331,148	26,717
Guarantees of removal of defects and faults	22,629	196,629
Bid-bond guarantees	17,230	17,723
Trade liability repayment guarantee	18,922	93,407
Advance payment bonds	205,585	-
Retention bonds	-	11,983
Total other related undertakings:	**1,560,115**	**1,479,150**
Total contingent liabilities	**1,576,702**	**1,479,150**

4.31. RISK RELATED TO FINANCIAL INSTRUMENTS

Risk Related to Financial Instruments

The Company is exposed to numerous risks related to financial instruments. The Company's financial assets and liabilities by categories are presented in Note 4.31. The Company is exposed to the following risks:

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

Financial risk management is coordinated by the Management Board. The following objectives play the most important role in the risk management process:

- hedging short-term and medium-term cash flows,
- stabilising the fluctuations in the Company's financial result,
- achieving financial forecasts by meeting budget targets,

- achieving a satisfactory rate of return on long-term investments and securing optimal financing sources for investment activities.

The Company does not enter into speculative transaction on financial markets. In economic terms, the transactions concluded by the Company are entered into for the purpose of hedging against specific risks. Moreover, the Company has formally designated some of the derivative instruments as cash flow and fair value hedges in line with IAS 39 (Hedging Derivative Instruments). The effects of hedge accounting on the individual items of the consolidated profit and loss account and other comprehensive income items are presented in Note 4.10.3.

Presented below are major risks relevant to the Company.

1.1. Market risk

All market risk management objectives should be considered as a whole, and their achievement is determined primarily by the Company's internal situation and market conditions.

The Company applies a consistent and progressive approach to market risk management.
The Company has developed a financial risk management strategy to manage the market risks resulting from the above factors. The strategy sets out relevant management policies for each of the exposures by defining the process of measuring the exposure, parameters of risk hedging, instruments used for hedging purposes, as well as the time horizon for each type of risk source. The market risk management policies are applied by the designated organisational units under the supervision of the Risk Committee, the Management Board and the Supervisory Board of PBG S.A.

Market Risk Management Techniques

The key methods used to manage market risk involve hedging strategies based on derivative instruments and natural hedging. All derivative-market strategies take into account the following factors: current and projected market conditions, the Company's internal situation, and applicable derivative instruments. The Company uses only the instruments which it is able to measure internally using the standard valuation models applicable to each such instrument. In obtaining the market value of financial instruments, the Company relies on information received from leading banks and financial news services.
The following types of financial instruments may be used by the Company:
- forwards
- interest rate swaps (IRS)
- swaps.

Hedge Accounting – Effective Hedge Requirement under IAS 39

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

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

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

Sensitivity Analysis with Respect to Currency Risk

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

- our development strategy provides for broader expansion into foreign markets; The Company is already performing contracts outside Poland (the main risk is the risk related to changes in the UAH/PLN exchange rate);
- the Company imports raw materials for large contracts (there is a risk related to fluctuations in other exchange rates, such as USD/PLN or e/PLN);
- the Company uses advanced technologies requiring specialist equipment, which it often purchases outside of Poland.

The Company's financial assets and liabilities in foreign currencies, translated into PLN at the closing rate as at the balance-sheet date, are shown below:

Item	Amount in foreign currency ('000):								Restated amount ('000)	Amount in PLN ('000):	Carrying amount ('000)
	EUR	USD	GBP	CAD	UAH	BGN	NOK	RUB	PLN	PLN	PLN
As at Dec 31 2010											
Financial assets (+):											
Borrowings	8	6,547	-	-	138,429	-	-	-	70,521	523,252	593,773
Trade and other financial receivables	2,436	10	-	-	-	64	-	-	9,548	502,892	512,440
Financial derivatives	-	-	-	-	-	-	-	-	-	358	358
Other financial assets	-	-	-	-	-	-	-	-	-	233,020	233,020
Cash and cash equivalents	582	102	-	595	4	-	-	-	4,231	437,369	441,600
Financial liabilities (-):											
Loans, borrowings and other debt instruments	-	-	-	-	-	-	-	-	-	(936,502)	(936,502)
Finance lease	-	-	-	-	-	-	-	-	-	(1,828)	(1,828)
Financial derivatives	-	-	-	-	-	-	-	-	-	(453)	(453)
Trade and other financial payables	(615)	(561)	-	(483)	-	-	(1)	(23)	(5,700)	(421,024)	(416,724)
Total exposure to currency risk	**2,411**	**6,098**	**-**	**112**	**138,433**	**64**	**(1)**	**(23)**	**78,600**	**346,084**	**424,684**

Company's name:	*PBG S.A.*		
Period covered by the financial statements:	*01.01-31.12.2010*	**Reporting currency:**	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 (unless otherwise stated)*		

As at Dec 31 2009											
Financial assets (+):											
Borrowings	3,841	6,942	-	-	-	-	-	-	34,834	482,488	517,322
Trade and other financial receivables	9,803	10	-	-	-	-	-	-	39,425	267,799	307,224
Financial derivatives	-	-	-	-	-	-	-	-		19,581	19,581
Other financial assets	-	-	-	-	-	-	-	-		55,840	55,840
Cash and cash equivalents	3,997	12	-	-	279	-	-	-	16,843	512,481	529,324
Financial liabilities (-):											
Loans, borrowings and other debt instruments	-	-	-	-	-	-	-	-	-	(692,184)	(692,184)
Finance lease	-	-	-	-	-	-	-	-	-	(2,791)	(2,791)
Financial derivatives	-	-	-	-	-	-	-	-		(789)	(789)
Trade and other financial payables	(2,567)	(4)	(58)	(297)	-	-	-	-	(11,999)	(310,791)	(322,790)
Total exposure to currency risk	**15,074**	**6,960**	**(58)**	**(297)**	**279**	**-**	**-**	**-**	**79,103**	**331,634**	**410,737**

All amounts in PLN '000 (unless otherwise stated)

Presented below is a sensitivity analysis of the financial result and other comprehensive income to the value of the Company's financial assets and liabilities as well as the effect of movements in EUR/PLN , USD/PLN and UAH/PLN exchange rates.

The sensitivity analysis assumes a 10% growth or decline in the EUR/PLN, USD/PLN and UAH/PLN exchange rates vs. the mid exchange rate quoted by the National Bank of Poland for a given balance-sheet date.

Mid exchange rate of the National Bank of Poland	Dec 31 2010	Dec 31 2009
EUR/PLN	3.9603	4.1082
USD/PLN	2.9641	2.8503
CAD/PLN	2.9691	2.7163
UAH/PLN	0.3722	0.3558

Please note that currency derivatives offset exchange rate volatility. Thus, it is assumed that risk exposure is connected with financial instruments held by the Company as at each balance-sheet date, and that the exposure is adjusted through the Company's derivative instrument position.

Sensitivity analysis as at Dec 31 2010	**Exchange rate growth**										**Exchange rate decline**									
	10%										**-10%**									
	Effect on net profit/(loss) (PLN '000)					**Effect on other comprehensive income (PLN '000)**					**Effect on net profit/(loss) (PLN '000)**					**Effect on other comprehensive income (PLN '000)**				
	EUR	**USD**	**CAD**	**UAH**	**Total**	**EUR**	**USD**	**CAD**	**UAH**	**Total**	**EUR**	**USD**	**CAD**	**UAH**	**Total**	**EUR**	**USD**	**CAD**	**UAH**	**Total**
	4.36	3.26	3.27	0.41		4.36	3.26	3.27	0.41		3.56	2.67	2.67	0.33		3.56	2.67	2.67	0.33	
Financial assets	**1,641**	**(3,719)**	**177**	**5,152**	**3,251**	**(66)**	**53**	**-**	**-**	**(13)**	**(1,641)**	**3,719**	**(177)**	**(5,152)**	**(3,351)**	**66**	**(53)**	**-**	**-**	**13**
Borrowings	3	1,941	-	5,152	7,096	-	-	-	-	-	(3)	(1,941)	-	(5,152)	(7,096)	-	-	-	-	-
Trade and other financial receivables	965	3	-	-	968	-	-	-	-	-	(965)	(3)	-	-	(968)	-	-	-	-	-
Financial derivatives	443	(5,693)	-	-	(5,250)	(66)	53	-	-	(13)	(443)	5,693	-	-	5,250	66	(53)	-	-	13
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	230	30	177	-	438	-	-	-	-	-	(230)	(30)	(177)	-	(438)	-	-	-	-	-
Financial liabilities	**(244)**	**(166)**	**(143)**	**-**	**(553)**	**-**	**-**	**-**	**-**	**-**	**244**	**166**	**143**	**-**	**553**	**-**	**-**	**-**	**-**	**-**
Loans, borrowings and other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other financial payables	(244)	(166)	(143)	-	(553)	-	-	-	-	-	244	166	143	-	553	-	-	-	-	-
Effect on net profit/(loss)	**1,397**	**(3,886)**	**33**	**5,152**	**2,828**	**-**	**-**	**-**	**-**	**-**	**(1,397)**	**3,886**	**(33)**	**(5,152)**	**(2,698)**	**-**	**-**	-	-	-
Effect on other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(66)**	**53**	**-**	**-**	**(13)**	**-**	**-**	**-**	**-**	**-**	**66**	**(53)**	**-**	**-**	**13**

Company's name:	*PBG S.A.*		
Period covered by the financial statements:	*January 1st - December 31st 2010*	Reporting currency:	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 (unless otherwise stated)*		

Sensitivity analysis as at Dec 31 2009	Exchange rate growth										Exchange rate decline									
	10%										-10%									
	Effect on net profit/(loss) (PLN '000)					Effect on other comprehensive income (PLN '000)					Effect on net profit/(loss) (PLN '000)					Effect on other comprehensive income (PLN '000)				
	EUR	USD	CAD	UAH	Total	EUR	USD	CAD	UAH	Total	EUR	USD	CAD	UAH	Total	EUR	USD	CAD	UAH	Total
	4.52	3.14	2.99	0.39		4.52	3.14	2.99	0.39		3.70	2.57	2.44	0.32		3.70	2.57	2.44	0.32	
Financial assets	**5,228**	**1,495**	**8,222**	**10**	**14,956**	**(323)**	**(9)**	**-**	**-**	**(332)**	**(5,228)**	**(1,495)**	**(8,222)**	**(10)**	**(14,956)**	**323**	**9**	**-**	**-**	**332**
Borrowings	1,578	1,979	-	-	3,557	-	-	-	-	-	(1,578)	(1,979)	-	-	(3,557)	-	-	-	-	-
Trade and other financial receivables	4,027	3	-	-	4,030	-	-	-	-	-	(4,027)	(3)	-	-	(4,030)	-	-	-	-	-
Financial derivatives	(2,019)	(490)	8,222	-	5,714	(323)	(9)	-	-	(332)	2,019	490	(8,222)	-	(5,714)	323	9	-	-	332
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	1,642	3	-	10	1,655	-	-	-	-	-	(1,642)	(3)	-	(10)	(1,655)	-	-	-	-	-
Financial liabilities	**(1,055)**	**(1)**	**(81)**	**-**	**(1,136)**	**-**	**-**	**-**	**-**	**-**	**1,055**	**1**	**81**	**-**	**1,136**	**-**	**-**	**-**	**-**	**-**
Loans, borrowings and other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other financial payables	(1,055)	(1)	(81)	-	(1,136)	-	-	-	-	-	1,055	1	81	-	1,136	-	-	-	-	-
Effect on net profit/(loss)	**4,174**	**1,494**	**8,142**	**10**	**13,819**	**-**	**-**	**-**	**-**	**-**	**(4,174)**	**(1,494)**	**(8,142)**	**(10)**	**(13,819)**	**-**	**-**	-	-	-
Effect on other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(323)**	**(9)**	**-**	**-**	**(332)**	**-**	**-**	**-**	**-**	**-**	**323**	**9**	**-**	**-**	**332**

Exposure to currency risk varies over the year, depending on the volume of transactions executed in foreign currencies. Nevertheless, the above sensitivity analysis can be regarded as a representative measure which quantifies the Company's exposure to currency risk.

Interest rate risk

Management of interest rate risk concentrates on the minimisation of the impact of fluctuations in interest cash flows on financial assets and liabilities which bear interest at variable interest rates. The Company is exposed to the interest rate risk in connection with the following categories of financial assets and liabilities:
- granted loans,
- acquired treasury debt securities, bank debt securities, commercial debt securities, including bonds and treasury bills
- deposits,
- received loans and borrowings,
- debt securities in issue
- finance leases,
- interest rate swaps (IRS).

With a view to hedging against the variable interest rate risk, the Company uses interest rate swaps.

Under the conditions of an agreement for a credit facility for financing capital investments, PBG S.A. was obliged to limit interest rate risk. In the performance of the Bank's requirements, on July 23rd 2008, the Company entered into an IRS transaction for 50% of the outstanding loan amount, maturing by December 31st 2013.

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

Sensitivity analysis with respect to interest rate risk

Below we present sensitivity analysis concerning net profit (loss) and other comprehensive income with respect to potential interest rate fluctuations by 1% (upwards or downwards). The calculation is based on changes in the average interest rate applicable during the period by (+/-) 1 % and with respect to financial assets and liabilities sensitive to interest rate changes (i.e. those which bear interest at a variable interest rate).

Sensitivity analysis as at Dec 31 2010	Value at risk	interest rate rise		interest rate fall	
		1%		-1%	
	PLN '000	Effect on net profit/(loss)	Effect on other comprehensive income	Effect on net profit/(loss)	Effect on other comprehensive income
Financial assets	**1,130,413**	**11,304**	**-**	**(11,304)**	**-**
Borrowings	455,793	4,558	-	(4,558)	-
Debt securities	77,059	771	-	(771)	-
Investment fund units	106,902	1,069	-	(1,069)	-
Other classes of other financial assets	49,059	491	-	(491)	-
Cash and cash equivalents	441,600	4,416	-	(4,416)	-
Financial liabilities	**(953,734)**	**(9,383)**	**(154)**	**9,383**	**154**
Loans	(99,597)	(996)	-	996	-
Borrowings	-	-	-	-	-
Debt securities	(836,904)	(8,369)	-	8,369	-
Finance lease	(1,828)	(18)	-	18	-
Financial derivatives (IRS)	(15,405)	-	(154)	-	154
Effect on net profit/(loss)	**-**	**1,916**	**-**	**(1,916)**	**-**
Effect on other comprehensive income	**-**	**-**	**(154)**	**-**	**154**

Sensitivity analysis as at Dec 31 2009	Value at risk	interest rate rise		interest rate fall	
		1%		-1%	
	PLN '000	Effect on net profit/(loss)	Effect on other comprehensive income	Effect on net profit/(loss)	Effect on other comprehensive income
Financial assets	**962,602**	**9,626**	**-**	**(9,626)**	**-**
Borrowings	377,438	3,774	-	(3,774)	-
Debt securities	4,937	49	-	(49)	-
Investment fund units	-	-	-	-	-
Other classes of other financial assets	50,903	509	-	(509)	-
Cash and cash equivalents	529,324	5,293	-	(5,293)	-
Financial liabilities	**(715,670)**	**(6,950)**	**(207)**	**6,950**	**207**
Loans	(169,220)	(1,692)	-	1,692	-
Borrowings	(16,522)	(165)	-	165	-
Debt securities	(506,442)	(5,064)	-	5,064	-
Finance lease	(2,790)	(28)	-	28	-
Financial derivatives (IRS)	(20,696)	-	(207)	-	207
Effect on net profit/(loss)	**-**	**2,676**	**-**	**(2,676)**	**-**
Effect on other comprehensive income	**-**	**-**	**(207)**	**-**	**207**

The Company holds financial instruments which bear interest at a fixed-interest rate, which are measured in the balance sheet at acquisition cost adjusted using the effective interest rate method.

All amounts in PLN '000 (unless otherwise stated)

Financial instruments' sensitivity to interest rate risk is computed as a product of the balance of balance-sheet items sensitive to interest rate fluctuations and the applicable interest rate variation.

Credit Risk

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

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

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

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

The Company's maximum exposure to credit risk is measured through carrying value of the following financial assets:

Item	as at Dec 31 2010	as at Dec 31 2009
Borrowings	593,773	517,322
Trade and other financial receivables	512,449	307,224
Financial derivatives	358	19,581
Debt securities	77,059	4,937
Investment fund units	106,902	-
Other classes of other financial assets	49,059	50,903
Cash and cash equivalents	441,600	529,324
Conditional payables under guarantees and sureties advanced	1,576,702	1,479,150
Total credit risk exposure	**3,357,902**	**2,908,441**

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

Cash and bank deposit-related credit risk.

All entities with which the Company enters into deposit transactions operate in the financial sector. These are exclusively banks registered in Poland, or with Polish operations as subsidiaries of foreign banks, owned by European financial institutions which, in most cases, have upper medium credit ratings[1], and those with sufficient equity as well as a robust and stable market position. Considering the above, as well as the short-term nature of placements, it is reasonable to argue that the credit risk for cash and bank deposits is low.

Risk related to investments in debt securities and investment fund units

The Company is exposed to this type of credit risk due to changes in the fair value of commercial debt securities and units in a specialised investment fund. As at December 31st 2010, the carrying amount of investments in debt securities was PLN 183,961 thousand. The fair value of units is measured at the product of the value and number of units held, while commercial debt securities are measured at amortised cost using the effective interest rate method.

Derivative transaction-related credit risk

All entities with which the Company enters into derivative transactions operate in the financial sector. These are financial institutions (banks) with upper medium ratings[1], with sufficient equity as well as a robust and stable market position. The maximum share of a single entity in the total value of derivative transactions effected by the Company was 58%.
Currency and interest rate derivate transactions entered into by the Company as at December 31st 2010 and December 31st 2009.

Item	Dec 31 2010	Dec 31 2009
	PLN '000	PLN '000
Financial assets	357	19,581.00
Financial liabilities	(453)	(790.00)
Derivative instruments valuation, net	**(96)**	**18,791.00**

Thanks to the highly diversified composition of the group of counterparties and cooperation with financial institutions with upper medium ratings, [1], as well as given the fair value of liabilities under the derivative transactions, the Company is not exposed to credit risk inherent in derivative transactions.

Credit risk inherent in trade receivables and other financial receivables

The Company has a long track record of work with a number of customers operating in diverse sectors. Based on the 2010 revenue, the largest customers included:

No.	Customer	% share
	Total	**100.00%**
1	PGNIG S.A.	**56.60%**
2	STRATEG CAPITAL SP. Z O.O.	**5.33%**

[1] An upper medium grade rating is rating from A+ to A- at Standard&Poor's and Fitch and from A1 to A3 at Moody's.

All amounts in PLN '000 (unless otherwise stated)

3	MAXER S.A	**5.24%**
4	KGHM	**4.96%**
5	GAZ-SYSTEM	**4.59%**
6	ZIOTP	**3.70%**
7	HYDROBUDOWA POLSKA	**2.96%**
8	CONTROL PROCESS SA	**2.86%**
9	POMERANIA DEVELOPMENT SP. Z O. O.	**2.47%**
10	HYDROBUDOWA 9	**1.86%**
11	Aprivia S.A.	**1.71%**
12	Other	**7.71%**

At present, the main customer for the Company's natural gas and oil services is PGNiG. This is related to the execution of two contracts of substantial value for that customer, totalling nearly PLN 2.5bn. These are highest-ever contracts signed by PBG S.A. with PGNiG. However, please note that the Company's strategy provides for the delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues. In order to mitigate the risk of dependence on its key customers, PBG gradually expands its customer base, winning new contracts from such organisations as NATO Defense Investment Division or KGHM, and foreign entities.

The Company seeks to mitigate the risk further by:

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

All amounts in PLN '000 (unless otherwise stated)

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

Item	Dec 31 2010		Dec 31 2009	
	Not past due	Past due	Not past due	Past due
Current receivables:				
Trade receivables	350,258	112,683	249,804	39,254
Impairment losses on trade receivables (-)	-	(193)	-	(287)
Net trade receivables	**350,258**	**112,490**	**249,804**	**38,967**
Other financial receivables	35,413	3,938	7,969	2,791
Impairment losses on other receivables (-)	-	-	-	(18)
Other net financial receivables	35,413	3,938	7,969	2,773
Financial receivables	**385,671**	**116,428**	**257,773**	**41,740**

Item	Dec 31 2010		Dec 31 2009	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Past due current receivables:				
Up to 1 month	68,350	3,770	9,146	2,683
From 1 to 6 months	44,140	168	30,108	108
From 6 to 12 months	-	-	-	-
Over one year	193	-	-	-
Past due financial receivables	**112,683**	**3,938**	**39,254**	**2,791**

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

With respect to trade receivables, the Company is not exposed to credit risk inherent in being dependent on a single major partner or a group of partners sharing the same characteristics. Based on historical data on overdue payments, the receivables that are past due and for which no impairment losses have been recognised do not show a marked deterioration in quality, as most of them fall into the "up to 1 month" category, and there is no threat to their effective collectability.

The Company operates in the market of specialist construction services for the natural gas, petroleum, fuel, water supply and sewerage, road and infrastructural sectors, therefore there is no credit risk concentration.

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

Liquidity Risk

The Company is exposed to the risk of losing liquidity, that is the loss of the ability to timely meet financial liabilities. The Company manages the liquidity risk by monitoring payment dates and demand for cash with respect to the servicing of current payables (current transactions are monitored on a weekly basis) and long-term demand for cash based on cash flow projections that are updated monthly. The demand for cash is compared with the available sources of funding (in particular by evaluating the ability to source funds under credit facilities) and with the ability to place free funds.

The maturities of the Company's financial liabilities as at the balance–sheet date are presented in the table below:

Item	Current:		Non-current:			Liabilities total (no discount)	Carrying value
	up to 6 months	from 6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at Dec 31 2010							
Bank loans	-	42,233	48,688	-	-	90,921	90,380
Overdraft facilities	-	9,217	-	-	-	9,217	9,217
Borrowings	-	-	-	-	-	-	-
Debt securities	-	-	825,000	-	-	825,000	836,904
Finance lease	593	710	525	-	-	1,828	-
Financial derivatives	-	-	-	-	-	-	-
Trade and other financial payables	400,622	2,695	9,748	22	-	413,087	412,112
Total liquidity risk exposure	401,215	54,855	883,961	22	-	1,340,053	1,348,613
As at Dec 31 2009							
Bank loans	26,888	16,645	70,745	10,139	-	124,417	123,473
Overdraft facilities	45,747	-	-	-	-	45,747	45,747
Borrowings	16,500	-	-	-	-	16,500	16,523
Debt securities	-	125,000	375,000	-	-	500,000	506,441
Finance lease	586	607	1,597	-	-	2,790	2,790
Financial derivatives	-	236	554	-	-	790	790
Trade and other financial payables	300,458	3,131	2,023	957	382	306,951	328,237
Total liquidity risk exposure	390,179	145,619	449,919	11,096	382	997,195	1,024,001

The table shows the contractual value of the payables, net of discount related to valuation at amortised cost, hence the amounts may vary from those recognised in the separate balance sheet. In the case of derivative instruments, fair values are shown as at the respective balance-sheet dates.

As at the respective balance-sheet dates, the Company had the following available overdraft facilities:

Item	As at Dec 31 2010	As at Dec 31 2009
Overdrafts received	155,000	95,000
Overdrafts used	9,217	45,747
Available overdrafts	145,783	49,253

All amounts in PLN '000 (unless otherwise stated)

5. CAPITAL MANAGEMENT

The Company manages capital to ensure it may continue as a going-concern and to secure the expected rate of return to shareholders and other parties with interest in the Company's financial standing.

The Company monitors the level of capital based on the carrying amount of equity plus subordinated loans from the owner and minus capital on valuation of cash-flow hedges. Based on the thus calculated capital amount, the Company calculates the ratio of capital to total financiaing sources. The Company's target for the ratio is not less than 0.43.

Moreover, in order to monitor the debt service coverage ratio, the Company calculates the debt ratio (i.e. the ratio of liabilities under lease, loans, borrowings and other debt instruments) to EBITDA (operating profit/(loss) less depreciation/amortisation). The Company's target for the debt/EBITDA ratio is not more than 1.86.

The above targets are in line with the relevant covenants of the loan agreements, described in detail in Note 4.10.5.

PBG S.A. is not subject to any external capital requirements.

In the period covered by these separate financial statements, the above ratios were as follows:

Item	As at Dec 31 2010	As at Dec 31 2009
Capital:		
Equity	1,189,607	1,049,309
Capital on valuation of cash-flow hedges (-)	-	141
Share	1,189,607	1,049,450
Total financing sources:		
Equity	1,189,607	1,049,309
Loans, borrowings and other debt instruments	936,502	692,184
Finance lease	1,828	2,790
Total financing sources	2,127,937	1,744,283
Capital to financing sources ratio, total	**0.56**	**0.60**
EBITDA		
Operating profit/(loss)	150,990	125,596
Depreciation/amortisation	6,717	4,446
EBITDA	157,707	130,042
Debt:		
Loans, borrowings and other debt instruments	936,502	692,184
Finance lease	1,828	2,790
Debt	938,330	694,974
Debt to EBITDA	**5.95**	**5.34**

6. EVENTS SUBSEQUENT TO THE BALANCE-SHEET DATE

After December 31st 2010 the following events occurred which did not require disclosure in the separate financial statements for 2010:

MERGERS, ACQUISITIONS, ESTABLISHMENT OF NEW SUBSIDIARIES

Change of name of PBG's Subsidiary.

On February 3rd 2011, the District Court for Kraków – Śródmieście of Kraków, XI Commercial Division of the National Court Register, registered the change of company name from PBG Export Sp. z o.o. to PBG Energia Sp. z o.o. The change of the name follows from the change is the company's business profile.

On January 31st 2011, PBG Invest 1 Sarl was established in Luxembourg. PBG S.A. holds 100% of shares in the company.

INVESTMENT PROJECT AGREEMENTS

Notice from Polskie LNG of cancellation of the construction of the ORV system under the contract for the construction of the LNG terminal in Świnoujście

On February 10th 2011, further to Current Report No. 35/2010 of July 15th 2010, the PBG Management Board reported that it received, as a Partner in the Consotrium of Saipem SA – Techint Compagnia Tecnica Internazionale S.p.A. - Snamprogetti Canada Inc. - PBG S.A. – PBG Export Sp. z o.o., from the Consortium Leader - Saipem S.p.A., a notice that Polskie LNG SA cancelled the construction of the ORV system under the contract for the construction of the LNG terminal in Świnoujście, concluded with the Consortium on July 15th 2010.

As provided for in the contract, the contract price payable to the Consortium was reduced by PLN 206,070 thousand (VAT-exclusive) upon delivery of a written notice in accordance with the contract. The PBG Management Board informed the public of Polskie LNG's right to partially cancel the contract in Current Report No. 35/2010.

Following the cancellation, the VAT-exclusive contract price fell from PLN 2,415,213 thousand to PLN 2,209,143 thousand.

Other provisions of the contract remained unchanged.

AGREEMENTS WITH FINANCIAL INSTITUTIONS

Execution of an annex to the credit facility agreement with Bank Gospodarki Żywnościowej S.A.

On January 24th 2011, the PBG Management Board executed an annex to the credit facility agreement used to provide liquidity for day-to-day operations, executed on April 27th 2007 by members of the PBG Group (PBG S.A., HYDROBUDOWA POLSKA S.A., HYDROBUDOWA 9 S.A., and APRIVIA S.A.) and Bank Gospodarki Żywnościowej S.A. of Warsaw.

Under the annex, the amount of the facility was increased from PLN 120m to PLN 125m for a period until November 30th 2011 and the final repayment date for the entire facility was extended to December 30th 2019.

The credit facility granted under the annex may be used as follows:

1. up to PLN 80m until November 30th 2011, or an equivalent amount in EUR or USD;

a. in the form of PLN, EUR or USD revolving facilities to be used to finance current needs in the area of procurement, production and sale of goods or provision of services, cash settlements, inventories, prepayments and amounts due to business partners,

b. until December 30th 2019 - in the form of revolving facilities for the financing of payments under guarantees,

c. until December 30th 2019 - in the form of revolving facilities for the financing of liabilities under transactions executed on the basis of the "Framework agreement defining the terms and conditions of entering into and executing financial market transactions with BGŻ S.A." and/or the "Agreement governing the execution of FX transactions on the terms negotiated between the client and Bank Gospodarki Żywnościowej S.A."

2. up to PLN 120m or an equivalent amount in EUR or USD::

   a. until November 30th 2011 - in the form of bank guarantees: bid bonds, advance payment bonds, performance bonds, maintenace bonds, retention bonds, payment bonds, guarantees securing payment of customs duty, guarantees securing payment of excise tax, and guarantees securing VAT payments. The longest guarantee validity period:

      i. for PBG S.A. is 8 years and 30 days from the guarantee issue date,

      ii. for HYDROBUDOWA POLSKA SA, HYDROBUDOWA 9 SA, and APRIVIA SA - until January 13th 2012. The Bank may issue guarantees until November 30th 2011 at the latest.

Until November 30th 2011, up to PLN 5m of the credit facility may be used for the purposes of transactions executed with the Borrower under the "Framework agreement defining the terms and conditions of entering into and executing financial market transactions with BGŻ S.A." and/or the "Agreement governing the execution of FX transactions on the terms negotiated between the client and Bank Gospodarki Żywnościowej S.A."within a limit set by the Bank; with the proviso that the maximum maturity of a transaction within the limit may extend to 5 years and for Hydrobudowa Polska SA, Hydrobudowa 9 SA, and Aprivia SA - until January 13th 2012. The Bank may enter into financial market transactions until November 30th 2011 at the latest.

As the repayment date was extended, the PBG Group subsidiaries submitted a representation on submission to enforcement for an amount of up to PLN 207m, with the bank being entitled to apply to the court for an enforcement order (klauzula wykonalności) giving effect to the bank's enforceable title (tytuł egzekucyjny) by December 30th 2022.

At the same time, the security consisting in assignment of receivables under the contracts performed by the Group subsidiaries was reduced from 150% to 100% of utilised Limit.

Value of the agreement with Ergo Hestia lowered

On February 17th 2011, the Management Board of Hydrobudowa Polska SA reported that Sopockie Towarzystwo Ubezpieczeń Ergo Hestia SA reduced the guarantee facility granted to the member companies of the PBG Group, namely PBG S.A., Hydrobudowa Polska SA, Hydrobudowa 9 SA, and to Infra SA, currently outside the Group. The guarantee facility was provided under the cooperation agreement for the provision of insurer guarantees under an approved limit, dated April 2nd 2008.

Pursuant to the agreement, the facility was reduced from PLN 120,000 thousand to PLN 100,000 thousand.

All amounts in PLN '000 (unless otherwise stated)

7. OTHER INFORMATION

KEY ITEMS TRANSLATED INTO THE EURO

In the periods covered by the financial statements and the comparative financial information, average and mid-exchange rates quoted by the National Bank of Poland were used to translate the złoty into the euro, and in particular:

a) net revenue from sales of products, goods for resale and materials, operating profit, pre-tax profit, net profit, as well as net cash provided by/(used in) operating activities, net cash provided by/(used in) investing activities, net cash provided by/(used in) financing activities and net change in cash and cash equivalents for 2010 were calculated using the average EUR exchange rate based on the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland for the last day of the individual months, i.e. PLN 4.0044.

a) net revenue from sales of products, goods for resale and materials, operating profit, pre-tax profit, net profit, as well as net cash provided by/(used in) operating activities, net cash provided by/(used in) investing activities, net cash provided by/(used in) financing activities and total net cash flows for 2009 were calculated using the average EUR exchange rate based on the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland for the last day of the individual months, i.e. PLN 4.3406.

c) total assets, liabilities and provisions for liabilities, non-current liabilities, current liabilities, equity and share capital as at December 31st 2010 were calculated using the EUR mid-exchange rate effective for that date (December 31st 2010), i.e. PLN 3.9603.

c) total assets, liabilities and provisions for liabilities, non-current liabilities, current liabilities, equity and share capital as at December 31st 2009 were calculated using the EUR mid-exchange rate effective for that date (December 31st 2009), i.e. PLN 4.1082.

Item	Dec 31 2010	Dec 31 2009
Exchange rate effective for the last day of the period	3.9603	4.1082
Average exchange rate for the period, calculated based on the arithmetic mean of exchange rates effective for the last day of each individual month in a given period	4.0044	4.3406
The highest exchange rate in period	4.1770 - May 7 2010	4.8999 – Feb 18 2009
The lowest exchange rate in period	3.8356 - Apr 6 2010	3.9170 – Jan 7 2009

All amounts in PLN '000 (unless otherwise stated)

Key items of the balance sheet, income statement and statement of cash flows from the financial statements and the comparative financial information, translated into the euro are presented below.

SELECTED FINANCIAL DATA TRANSLATED INTO THE EURO AS AT DECEMBER 31ST 2010

Item	for the period Jan 1 – Dec 31 2010 PLN	for the period Jan 1 – Dec 31 2009 PLN	for the period Jan 1 – Dec 31 2010 EUR	for the period Jan 1 – Dec 31 2009 EUR
Income statement				
Sales revenue	909,953	827,463	227,238	190,633
Operating profit/(loss)	150,990	202,758	37,706	46,712
Pre-tax profit/(loss)	194,535	11,317	48,580	2,607
Net profit/(loss) from continuing operations	165,387	807,545	41,301	186,045
Net profit/(loss)	165,387	8,601	41,301	1,982
Earnings/(loss) per ordinary share (PLN / EUR)	11.57	7.05	2.89	1.62
Diluted earnings/(loss) per ordinary share (PLN / EUR)	11.57	7.05	2.89	1.62
PLN / EUR average exchange rate	x	x	4.0044	4.3406
				Cash flow statement
Net cash provided by/(used in) operating activities	(29,151)	349,910	(7,280)	80,613
Net cash provided by/(used in) investing activities	-	(463,696)	-	(106,828)
Net cash provided by/(used in) financing activities	-	478,167	-	110,161
Net change in cash and cash equivalents	(29,151)	364,381	(7,280)	83,947
PLN / EUR average exchange rate	x	x	4.0044	4.3406

Item	As at Dec 31 2010 PLN	As at Dec 31 2009 PLN	As at Dec 31 2010 EUR	As at Dec 31 2009 EUR
Balance sheet				
Assets	2,768,051	2,244,718	698,950	546,399
Non-current liabilities	911,205	491,980	230,085	119,756
Current liabilities	667,242	703,429	168,483	171,226
Equity	1,189,604	1,049,309	300,382	255,418
Share capital	14,295	14,295	3,610	3,480
Number of Shares	14,295	14,295	3,610	3,480
Weighted average number of ordinary shares	14,295	13,935	3,610	3,392
Diluted weighted average number of ordinary shares	14,295	13,935	3,610	3,392
Book value per share (PLN / EUR)	83.22	73.40	21.01	17.87
Dividend per share declared or paid (PLN / EUR)	-	-	-	-
PLN / EUR exchange rate as at end of period**	x	x	3.9603	4.1082

All amounts in PLN '000 (unless otherwise stated)

REMUNERATION PAID TO MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS OF THE COMPANY

REMUNERATION PAID TO MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS FOR HOLDING OFFICES IN THE PARENT UNDERTAKING FROM JANUARY 1ST TO DECEMBER 31ST 2010

Item	Base remuneration	Other benefits	Total
Remuneration paid to Management Board members			
Wiśniewski Jerzy	2,550	-	2,550
Woroch Tomasz	420	-	420
Szkudlarczyk Przemysław	320	-	320
Tomczak Tomasz	320	-	320
Łożyński Mariusz	310	-	310
Total	**3,920**	**-**	**3,920**
Remuneration paid to Supervisory Board members			
Bednarkiewicz Maciej	120	-	120
Kseń Jacek	32	-	32
Lindner Wiesław	20	-	20
Sarnowski Dariusz	52	-	52
Strzelecki Adam	36	-	36
Wierzbicki Marcin	24	-	24
Wiśniewska Małgorzata	64	14 refund of travel expenses	78
			-
Total	**348**	**14**	**362**

REMUNERATION PAID TO MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS FOR HOLDING OFFICES IN THE PARENT UNDERTAKING IN THE PERIOD FROM JANUARY 1ST TO DECEMBER 31ST 2009

Item	Base remuneration	Other benefits	Total
Remuneration paid to Management Board members			
Jerzy Wiśniewski	1,200	3	1,203
Tomasz Woroch	420	2	422
Przemysław Szkudlarczyk	300	2	302
Tomasz Tomczak	300	2	302
Mariusz Łożyński	300	2	302
Tomasz Latawec	180	1	181
Total	**2,700**	**12**	**2,712**
Remuneration paid to Supervisory Board members			
Maciej Bednarkiewicz	120	1	121
Jacek Kseń	96	1	97
Wiesław Lindner	60	1	61
Dariusz Sarnowski	36	1	37
Adam Strzelecki	36	1	37
Krzyżaniak Jacek	15	1	16
Total	**363**	**6**	**369**

All amounts in PLN '000 (unless otherwise stated)

AVERAGE HEADCOUNT **IN FULL TIME JOB EQUIVALENTS**

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
White-collar employees	384	364
Blue-collar employees	70	128
Total	**454**	**493**

CHANGES IN STAFF

Item	for the period Jan 1 – Dec 31 2010	for the period Jan 1 – Dec 31 2009
Number of persons employed	81	88
Number of persons dismissed	(39)	(290)
Total	**42**	**(202)**

FEE OF THE ENTITY QUALIFIED TO AUDIT FINANCIAL STATEMENTS

Grant Thornton Frąckowiak Sp. z o.o. is appointed to audit and review the financial statements of the companies of PBG S.A.Below are presented fees paid to the auditor for the provision of its services:

Item	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Audit of annual financial statements	108	83
Review of financial statements	56	47
Tax advisory	6	-
Other services	22	57
Total	**192**	**187**

MATERIAL EVENTS IN PREVIOUS YEARS, DISCLOSED IN THE FINANCIAL STATEMENTS FOR THE CURRENT REPORTING PERIOD

No events relating to previous years are disclosed in these annual financial statements of PBG S.A.

All amounts in PLN '000 (unless otherwise stated)

8. DISCLOSURE APPROVAL

These financial statements for the year ended December 31st 2010 (and comparative data) were approved for publication by the Company's Management Board on March 17th 2011.

Signatures of all Management Board members

Date	Name	Position	Signature
March 17th 2011	Jerzy Wiśniewski	President of the Management Board	…………………………..
March 17th 2011	Tomasz Woroch	Vice-President of the Management Board	…………………………..
March 17th 2011	Przemysław Szkudlarczyk	Vice-President of the Management Board	…………………………..
March 17th 2011	Tomasz Tomczak	Vice-President of the Management Board	…………………………..
March 17th 2011	Mariusz Łożyński	Vice-President of the Management Board	…………………………..

Signature of the person responsible for the preparation of the consolidated financial statements

Date	Name	Position	Signature
March 17th 2011	Małgorzata Jankowska	Chief Accountant	…………………………..