



THE COMPANY

1. INTERVIEW WITH JERZY WIŚNIEWSKI, PRESIDENT OF THE MANAGEMENT BOARD

1. Mr President, in your letter to shareholders covering the previous financial year you mentioned the planned transaction with the Spanish OHL involving the sale of a 51% interest in Hydrobudowa Polska and a 50.1% interest in Aprivia, pointing to the advantages the capital and business cooperation with OHL would bring the PBG Group. As we know today, the negotiations have been suspended and the deal will not be sealed this year. What is the potential impact of the suspension on the Group's future development plans?

It is hard to predict when we return to the negotiating table, but what I am certain of is that the postponement of the OHL transaction will have no adverse impact on our development plans. We aim to focus on winning new contracts in the power and heat, gas, infrastructure and hydraulic engineering sectors. We expect Hydrobudowa Polska, as a construction company, to secure a sizeable market share in each of the sectors. The OHL transaction was to generate over PLN 500m in proceeds, which we planned to spend on growing a new business segment - power engineering. The plans are still very much alive, but we have to find a financing source other than internal funds.

2. Can you reveal the reason why the negotiations have been suspended? Can you reassure Hydrobudowa Polska shareholders that the company's future is not threatened?

The decision was made by mutual agreement of the parties mainly in view of a significant decline of the price of Hydrobudowa Polska shares and the company's valuation on the Warsaw Stock Exchange relative to the originally agreed selling price. The negotiations may be resumed when the price of Hydrobudowa Polska shares recovers to the level seen at the beginning of the negotiations. It should be stressed that both OHL and PBG have reiterated their intention to continue cooperation in bidding for and delivering new construction projects in Poland and internationally.

Hydrobudowa Polska has an action plan in place to help the company leverage its potential to the full, enhance its efficiency and improve financial performance through business-centred consolidation within the PBG Group, which in turn is to help consolidate the its position as leader in project-related consortia and greatly reduce fixed costs. According to the 2011 financial forecast, the Hydrobudowa Polska Group is expected to turn some PLN 50m in net profit, on revenues close to PLN 1.6bn. This means a modest 1% rise in sales revenue and an impressive 37% increase in net profit relative to prior year. The forecast is conservative and was prepared relying mainly on the contract data sourced from the Group's current order book.

3. What changes in the PBG Group are to be expected this year? Have any strategic challenges emerged?

Changes will be implemented chiefly with respect to the PBG Group's structure and will be aimed at improving its efficiency. As for the latter question, I believe there are some huge challenges ahead of us. These include the delivery of highly complex EURO 2012 projects receiving extensive media coverage, and consistent implementation of our corporate strategy which now relies heavily on the power sector. I have plenty of ideas and a lot of enthusiasm to put them in practice. Our shareholders may once again be pleasantly surprised.

2. STRATEGY AND BUSINESS MODEL

BUSINESS MODEL

The PBG Group's business model is based on the provision of specialist construction services. The Group has been steadily increasing its revenues and profits by entering new markets and operating in segments where competition is limited due to the required qualifications, experience, and credentials. The operational and strategic management of the PBG Group is facilitated by a simple structure where a Leading Company is in charge of each area of operations. The Leading Company is responsible for procuring orders and executing projects, expanding the range of services, arranging financing, and consolidating other entities. The PBG Group develops its project management and engineering capabilities, while its own execution resources are focused on the performance of technologically advanced assignments. In the case of projects that require application of technologies or equipment manufactured abroad, the PBG Group will establish co-operation with foreign partners to perform contracts as a consortium. Under such model it is possible to perform contracts in accordance with the work schedule and within the assumed budget. Execution of specialist construction projects and focus on niche markets place the PBG Group among WSE-listed construction companies with highest profitability.

Currently, the PBG Management Board is focusing on forming a construction group specialising in managing complex and high-value projects. This will help drive the Group's further development and adjust its structure to the market conditions.

STRATEGY

PBG's strategy is to ensure steady and long-term growth of the group's value by building one of the largest engineering and construction organisations in Europe.

This is achieved by:

- expanding operations on new markets for specialist construction and engineering services in such areas as natural gas, power generation, crude oil, fuels, waste and biomass incineration plants;
- expanding the range of credentials and reference projects in the core business areas, through continuous development of the engineering skills, improvement of project management skills and execution of increasingly more complex projects;
- increasing sales revenue while maintaining attractive margins;
- winning and performing profitable high-value contracts by leveraging the combined potential of the Group companies in the market segments where competition is limited due to the required qualifications and credentials;
- diversifying operations to embrace new areas, such as operator services, PPP projects, and concessions;
- expanding property development business, both in Poland and abroad;
- expanding into new geographical markets, including Ukraine, Bulgaria, Romania, Russia, Qatar, and South America.

- involvement in the infrastructure and road construction market through the consolidation of Hydrobudowa Polska and APRIVIA.

In the near future the activities aimed at implementing the adopted strategy of pbg s.a. and its group will primarily focus on:

1. Strengthening the Company's position as the leader in the gas engineering sector in Poland.

In July 2010 a consortium including the PBG Group (Saipem – Techint – Snamprogetti – PBG – PBG Export) was selected by Polskie LNG as the general contractor for the “Development of the engineering design, construction and commissioning of LNG regasification terminal in Świnoujście” project. The PLN 2.2bn contract has the largest unit value in Polish history, and the PBG Group's share in the contract is 33%. In the last stage of the tender procedure, the consortium was competing against two other groups: Daewoo Engineering & Construction consortium (foreign competition) and a consortium including Tecnimont and Polimex Mostostal (domestic and foreign competition). It is the third significant contract of strategic importance to Poland in the gas and oil sector, following the LMG crude oil and natural gas mine, and underground gas storage facilities in Wierzchowce; both contracts were awarded to the PBG Group in last three years.

The strategy to actively acquire and execute high-value contracts in the gas sector will be continued. The largest tender in the segment in 2011 is the contract for development of natural gas reserves in Różańsk, with an estimated value of PLN 1bn. Additionally, a series of tenders will be announced for construction of gas transmission infrastructure connecting the LNG terminal with other parts of Poland. At present, PBG has submitted or is preparing to submit bids in such tenders for a total of approximately PLN 2bn.

2. Strengthening the position in the crude oil and fuel sectors in Poland through participation in tenders announced by such organisations as PGNiG, PKN Orlen, PERN, LOTOS and NATO.

3. Presence in the hydro-engineering market

In 2010, a long-awaited tender for the construction of the Racibórz retention tank on the Oder River, with an estimated value of approx. PLN 800m, was announced. The PBG Group participates in the procedure in a consortium with OHL. Moreover, several other hydro-engineering tenders are expected to be announced this year.

4. Construction of municipal waste incineration plants.

The PBG Group also sees development opportunities in the construction of waste incineration plants. Pursuant to the EU requirements, such facilities are to be built in urban agglomerations with population over 350,000. The waste incineration projects will first be launched by Poznań, Bydgoszcz, Szczecin, Kraków, and Konin. Eleven plants with an aggregate value of PLN 6bn are to be constructed in 2011-2012.

5. Expansion in the Polish power engineering market through:

- **formation of PBG Energia Sp. z o.o. responsible for the power engineering segment in the PBG Group;**
- **establishing strategic cooperation with strong players on the power engineering market which would facilitate joint winning and execution of contracts in Poland;**
- **building up own competences and credentials through winning and execution of contracts of increasingly larger unit values.**

In February 2010, PBG finalised the acquisition of 25% plus 1 share in Energomontaż Południe S.A. It was the first step in the process of entering the power engineering market. Moreover, PBG Energia Sp. z o.o. was established at the beginning of 2011, as a member of the PBG Group. PBG Energia Sp. z o.o. was established on the basis of PBG Export; as of April 1st, the company will cover the power engineering segment, so far operating within PBG S.A. PBG Energia Sp. z o.o. will be responsible for winning and execution of contracts in the power sector, as well as for the development on the power engineering segment within the Group. At present, the segment's order book contains projects acquired in the previous year, worth almost PLN 230m.

In connection with preparations to participate in the largest projects in Poland, the PBG Group has also established strategic alliances with foreign partners specialising in power engineering and having the necessary credentials.

A consortium including the PBG Group (PBG – Techint Compagnia Technica Internazionale – Ansaldo) participates in the tender for construction of two power units in the Opole Power Plant. The estimated value of the project is c.a. PLN 10bn. The tender is at its last stage now, and the winner is to be announced in Q3 2011. Winning the contract would significantly increase the value of the Group's order book and enhance its future financial performance. The PBG Group companies' interest in the consortium is 33%, which would translate into approximately PLN 3bn in revenue.

Moreover, in May 2010, PBG executed a strategic cooperation agreement with ALSTOM, a world leader in the power sector. The companies agreed that their complementary offerings, experience, as well as financial, human, and technical resources will allow them to successfully cooperate in winning and executing the largest power engineering contracts in Poland.

The PBG Group and ALSTOM currently participate in five tenders for delivery and construction of coal- and gas-fired power units. The aggregate value of projects the consortium bids for is estimated at approximately PLN 16bn. The following three tenders are for construction of coal-fired power units:

- Construction of power unit at the Koziernice II Power Plant. The estimated value of the project is PLN 5bn; the winner will be announced in Q4 2011;
- Construction of supercritical parameters power unit at the Jaworzno III Power Plant. The estimated value of the project is PLN 5bn; the winner will be announced in Q1 2012;
- Construction of a new power unit at the Turów Power Plant. The estimated value of these projects is estimated at PLN 2.5bn, and the winners are to be announced in Q1 2012.

The remaining two tenders are for delivery and construction of gas-fired power units. The first one is to be constructed at the Stalowa Wola Power Plant and the other one – at the Włocławek Power Plant. The cost of each of these projects is estimated at PLN 1.6bn, and the winners are to be announced by the end of 2011.

The PBG Group is also preparing to participate in other tenders in the power engineering sector for a total value over PLN 3.2bn. To summarise, PBG participates in tenders in the power engineering industry for a total of over PLN 30bn, which comprises only 16% of all tenders in the sector planned by 2020.

6. Expansion into foreign markets by:

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

- **executing export contracts in co-operation with Polish banks;**
- **winning contracts to construct natural gas and oil facilities, characterized by increasing unit value, for investors in Norway, Qatar, and South America;**
- **participating in tenders and execution of contracts related to the organisation of the World Football Championships in Russia in 2018 and Qatar in 2022.**

In 2010, PBG Group's foreign activities were conducted mainly by Energopol Ukraina and PBG Ukraina of Kiev, EXCAN of Edmonton (Canada) and GOE of Poprad (Slovakia).

Moreover, the PBG Group explores new opportunities of expansion into foreign markets such as Bulgaria or Romania. Last year, PBG Bulgaria was established to acquire, in cooperation with the local partners, contracts for infrastructure projects related to environmental protection, road construction, and natural gas and crude oil units. Development on these markets will be largely possible thanks to the EU subsidies for new member states (Bulgaria and Romania joined the EU in 2007).

The PBG Group is also interested in foreign gas and oil engineering markets in countries such as Norway, Qatar, or Brazil. They are currently one of the largest investment markets for oil and gas projects in the world, mainly due to their own natural gas and oil resources.

The PBG Group is particularly interested in Brazil, where massive crude oil reserves were discovered below the seabed of the Atlantic in 2007. In October 2010, Petrobras issued shares worth over USD 70bn. This issue will allow the company to finance its oil projects. Petrobras intends to allocate USD 224bn in the next five years for the development of the reserves, estimated to hold at least 50bn barrels of crude oil. The reserves hold one and a half times more crude oil than confirmed reserves of Libya or Nigeria, which are in turn the largest producers of crude oil in Africa.

The PBG Group sees its opportunity on the above mentioned markets, in cooperation with international partners, as it has all necessary credentials and years of experience necessary to build such facilities.

A new investment programme, related to the organisation of the World Football Championships in Qatar in 2022 also opens up new opportunities. The PBG Group was appreciated by the investors in Qatar as a contractor for three out of four stadiums designed for the 2012 European Football Championships in Poland. The total investment plan of USD 104bn assumes the construction of nine new stadiums as well as a number of infrastructure projects such as airports, motorways, railways, underground, hotels etc. The Management Board of PBG plans to launch a representative office in Qatar, which will allow the PBG Group to commence operations in the Middle East.

As for the Russian market, the PBG Group is interested in construction of sports venues and motorways. First bids to be submitted in the tender related both to the construction and operation of motorways in Russia are currently under preparation.

PBG Group's cooperation with the Spanish OHL Group, present for years on the global markets, may prove to be instrumental for the Group's foreign operations. First joint bids for the construction of motorways in Russia have already been submitted.

7. Investments related to the long-term infrastructure operation projects, Public Private Partnerships and licences

Investments in infrastructure operation projects, implementation of projects based on Public Private Partnerships and licenses. The projects involve construction and operation of motorways, generation of electricity from small hydro-electric power stations and biogas plants, generation of heat from the municipal waste incineration plants, operation of water supply and sewage disposal systems, un-

derground car parks, and other infrastructure facilities. The following four models of cooperation are taken into account:

- ◆ **BOT** – Build – Operate – Transfer;
- ◆ **DBFO** – Design – Build – Finance – Operate;
- ◆ **BOO** – Build – Own – Operate;
- ◆ **BTL** – Build – Transfer – Lease.

These types of projects will be aimed at diversifying operations and entering markets that are a source of long-term and stable sales revenue, irrespective of conditions prevailing in the construction business.

8. Presence on the infrastructure market in Poland through Hydrobudowa Polska S.A.

- ◆ **strengthening the position in the infrastructure area;**
- ◆ **participating in the performance of contracts related to the organisation of the 2012 European Football Championships.**

Currently a consortium including Hydrobudowa Polska is preparing to bid in a tender for construction of the new railway station in Łódź. The project's estimated value is PLN 2.5bn. The participation in the tender is possible thanks to extensive credentials involving tunnel construction in urban areas and microtunnelling. The winner will be selected by the end of H1 2011.

Hydrobudowa Polska S.A. actively procures contracts related to EURO 2012. On March 11th 2011, in consortium with OHL, it executed a contract for the construction of the Słowacki Route - connecting the Gdańsk Airport and the Port of Gdańsk worth almost PLN 130m (net).

At present, the value of joint bids submitted in the tenders amounts to PLN 5bn.

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

9. Involvement in the Polish road construction market through APRIVIA S.A. and investments in the quarry projects:

- ◆ **winning contracts of significant unit value;**
- ◆ **participation in projects that ensure access to aggregate deposits necessary for road and railway construction.**

There was a large number of road construction projects tendered in Poland in 2010, particularly for motorways and expressways. The strategy has proved successful. The PBG Group with its foreign partners executed projects for a total of nearly PLN 3.8bn; the Group's share in the amount is 50%. The projects include sections of the A1 and A4 motorways, and a section of the S5 expressway.

At present, road construction companies from the PBG Group participate in tenders for construction of national roads, expressways, and motorways for a total amount of PLN 4bn. By the end of 2011, the APRIVIA Group intends to submit bids totalling approximately PLN 18.5bn.

To supplement its credentials and enhance its chances of winning contracts, the PBG Group companies have established strategic co-operation with international companies, including Alpine Bau, SIAC, SRB Civil Engineering, or OHL.

Additionally, PBG is involved in a project securing access to aggregate deposits necessary for road and railway construction. In October 2010, control was acquired over Strateg Capital, a company responsible for the project implementation as well as quarry operation and sales of the aggrega-

te. It is expected that this year's production will be 1.7m tonnes, while the 2011 target is to reach 2m tonnes of aggregates annually.

10. Commercial and residential property development .

Participation in construction projects related to residential and commercial property development will be an important part of PBG's activities in the coming years. PBG Dom is the company responsible for this area of the Group's operations. Recent months have seen an improvement of market conditions in the segment. The property market is overcoming the crisis it suffered in 2009/2010, which gives hope that new projects will be executed and those put on hold - relaunched.

PBG Dom is currently working on nine active projects. These include apartment estates in Poznań, Gdańsk and Świnoujście, the Skalar Office building in Poznań, and Hampton by Hilton hotel in Świnoujście. The combined area of the current projects is nearly 120,000 m².

There are also thirteen projects under preparation or considered for acquisition. They include apartment estates and office buildings located countrywide, however particularly in Warsaw, Poznań, and Świnoujście.

11. Securing financing for PBG Group's operations through:

- **use of short-term and long-term funding sources to ensure financing for operations and investments;**
- **arrangement of long-term financing for projects;**
- **management of credit limits to ensure the ability to provide guarantees for planned tenders and for contracts.**

The credit and guarantee limits for the PBG Group have now exceeded the amount of PLN 3.5bn and are sufficient for the Group to bid in all strategically important tenders that are planned for 2011. Individual contracts are financed with the use of short-term working capital credit facilities, special purpose loans, and bonds.

In 2010, the Company secured additional debt financing to optimise the debt structure. PBG S.A. issued bonds for a total value of PLN 450m, in order to adjust the term structure of projects' financing to the time of their execution, which becomes increasingly longer due to the growing value of the projects.

In 2011, PBG will still aim at increasing the guarantee, insurance, and credit limits on a regular basis, and to release the highest possible number of them, in order to bid in all planned tenders.

STRATEGY IN PRACTICE

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

GRAPH 1: ORGANISATIONAL STRUCTURE OF THE PBG GROUP AS AT DECEMBER 31 2010 (PERCENTAGE OF VOTING RIGHTS HELD BY PBG S.A.)



GRAPH 2: CURRENT ORGANISATIONAL STRUCTURE OF THE PBG GROUP (PERCENTAGE OF VOTING RIGHTS HELD BY PBG S.A.)



Within the Group the **natural gas, crude oil, and fuels markets** are the responsibility of PBG S.A., which has been offering services in these segments since its inception. PBG is the leader on these markets in Poland. It has gained its current position through strategic co-operation with international companies, which has enabled PBG to introduce technologically advanced solutions on the Polish market. PBG was able to use the resulting credentials and necessary experience to win contracts for execution of the largest projects carried on the Polish gas, oil, and fuels market. The gas and oil market is particularly important for the Group, and over the next few years it will be a major contributor to the Group's financial result.

The PBG Group's strategy assumes that over the next three years the revenue from sales to the gas and oil sector would reach PLN 1bn annually.

PBG S.A. and PBG Energia Sp. z o.o. are responsible for the **power engineering market**. Moreover, the operations in this segment are currently supported by GasOil Engineering, Excan and Oil Engineering, AQUA, and Energomontaż Południe.

In accordance with the strategy, the Group's operations in the power engineering segment will enable it to further develop its revenue streams. Projects in the area of power engineering identified by the PBG Group will total over PLN 30bn in the next two years. The Group plans to be an active player on this market. The strategy of the PBG Group assumes that over the next three years the sales revenue of the power engineering segment would reach PLN several hundred million annually, starting from 2012.

PBG S.A. and supporting companies: PBG Ukraina, Energopol-Ukraina and PBG Bułgaria are primarily responsible for **foreign markets**. Winning foreign contracts and their execution will be based on cooperation with international companies such as OHL and local partners operating on a particular market. Currently, companies of the PBG Group bid or prepare to submit bids in tender procedures conducted in Romania, Bulgaria, Russia and Ukraine. Activities designed to facilitate the expansion of PBG into foreign markets were intensified. Due to emerging perspectives and opportunities of concluding strategic alliances with international business partners, income from the foreign markets may significantly affect the financial performance in the future. The strategy of the PBG Group assumes that revenues from the foreign markets would reach several hundred million złoty annually, starting from 2012.

PBG Dom is responsible for the **residential and commercial construction market**. The PBG Dom Group comprises 16 subsidiaries. These are special purpose vehicles, established in order to implement a given development or commercial project. The area related to construction and/or commercialisation of property may prove to be important for the entire PBG Group over a long term. PBG Dom's strategy assumes investment at a level of as much as PLN 100m annually over two years provided that the company identifies appropriate projects.

Hydrobudowa Polska S.A. is responsible for the **infrastructure and general construction market**. The Hydrobudowa Polska Group comprises Hydrobudowa 9 and PRG Metro. At present, disposal of 51% of shares in Hydrobudowa Polska S.A. to the Spanish OHL for PLN 431m is being negotiated. The transaction is to be executed in H1 2011. Following the transaction, PBG S.A. will remain the shareholder of Hydrobudowa Polska S.A., and will hold from 12% to 15% shares in the company. The PBG Management Board may seek opportunities to increase PBG's equity interest in Hydrobudowa Polska S.A. Further participation in the general and infrastructure construction market in Poland will be possible through consolidation of the Hydrobudowa Polska Group.

APRIVIA S.A. is responsible for the **road construction market**. The APRIVIA Group comprises Dromost, PRID and Betpol. At present, disposal of 50.1% of shares in APRIVIA S.A. to the Spanish OHL for PLN 75m is being negotiated. The negotiations are to be completed by the end of March and the transaction is to be executed in H1 2011. Following the transaction, PBG S.A. will hold 49.9% of shares in APRIVIA S.A. Further participation in the road construction market in Poland will be possible through consolidation of the APRIVIA Group.

3. MARKET OUTLOOK

NATURAL GAS, CRUDE OIL AND FUELS MARKET AND SHALE GAS

NATURAL GAS

The Polish market for gas contracting services is viewed as very promising due to the expected multi-billion investments in the gas sector, following mainly from the implementation of Poland's energy policy and the need to comply with the requirements of Poland's membership in the European Union. The obligation to perform the tasks resulting from, among other things, Poland's energy policy rests primarily with the PGNiG Group and OGP Gaz-System. Consequently, those companies are the leading investors in gas infrastructure projects and the projects led by them cover a wide range of investment tasks, from the construction of gas stations to the construction of gas production facilities or gas pipelines, which represent an attractive source of contracts for construction companies specialising in the provision of gas contracting services.

Energy Policy of Poland until 2030 of November 10th 2009 proposed by the Ministry of Economy outlines the main development directions for the Polish gas industry. In order to ensure Poland's energy security and economic growth, the Ministry of Economy set out eight main task groups for the state-controlled companies:

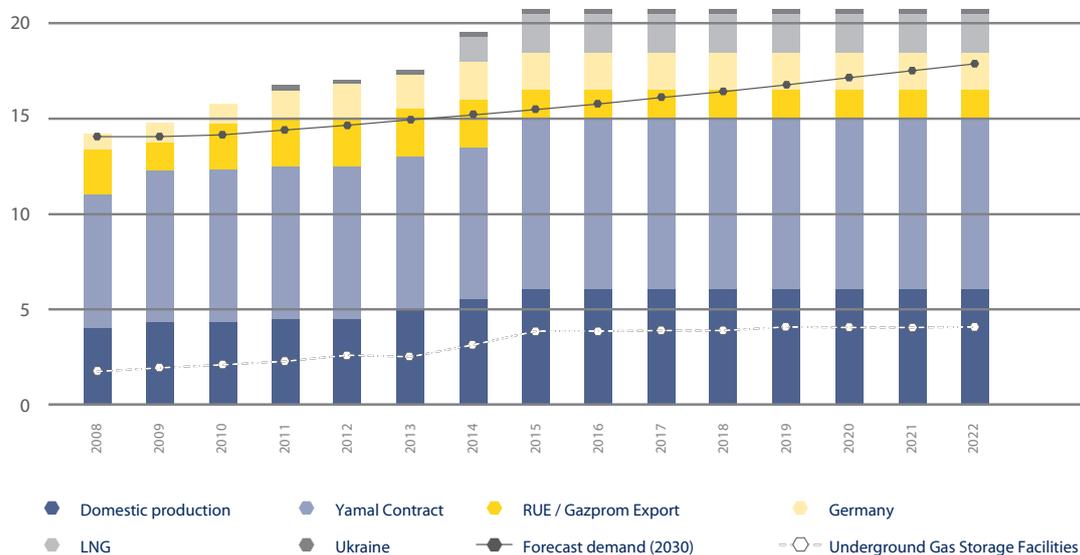
- discovery of new natural gas resources,
- increase of natural gas production capacity in Poland,
- acquisition of alternative sources of gas supply to Poland,
- extension of the natural gas transmission and distribution system,
- expansion of natural gas storage capacities,
- gaining access to natural gas fields outside Poland,
- gas production using coal gasification technology,
- commercial use of methane produced from surface wells.

Poland currently needs approximately 15 billion cubic meters of natural gas per year, approximately 30% of which is sourced from domestic production. The balance is imported mainly from Russia under the Yamal Contract.

In connection with the expected increase in natural gas demand in the coming years, as well as in the context of the 2009 gas crisis between Ukraine and Russia, and the Northern Pipeline construction plans becoming reality, investments in the gas infrastructure aimed at improving Poland's energy security have become the priority of the Polish government. Achieving the Polish government's objective of enhancing Poland's energy security will be possible only through the implementation of large-scale projects which require billions of PLN in capital expenditure. The development of the Polish gas infrastructure will be funded by the PGNiG Group and OGP Gaz-System as well as by the EU funds (under the Infrastructure and Environment Operational Programme). The PGNiG Group alone plans to spend PLN 25bn-32bn on the strategy-related projects by 2015. The EU funds will play a very important role in the financing of the projects. The European Commission earmarked EUR 28bn for the implementation of the Infrastructure and Environment Operational Programme in 2007–2013. Out of 15 priorities of the programme, two are related to the gas sector, namely:

- **Priority IX** – environmentally friendly energy infrastructure and energy efficiency – EUR 748m, and,
- **Priority X** – energy security, including diversification of energy sources – EUR 974m.

GRAPH 3: NATURAL GAS DEMAND FORECAST



SOURCE: KALISKI, MACIEJ, AND SZURLEJ, ADAM. "DEMAND FOR NATURAL GAS IN POLAND AND POSSIBILITIES OF ITS SATISFACTION", IN ENERGY POLICY, VOL. 12, NO. 2/2, 2009.

The flagship project aimed at enhancing Poland's energy security is the construction of the LNG terminal in Świnoujście. The project, which is currently valued at approximately PLN 2.65bn, is to be carried out by Polskie LNG Sp. z o.o., a special purpose company fully owned by OGP Gaz-System. The agreement with the contractor was signed on July 15th 2010. The contractor is a consortium of the following companies: PBG, Saipem (as the consortium leader), Techint Compagnia Tecnica Internazionale, Snamprogetti Canada, and PBG Export. The terminal is to be placed in service June 30th 2014. Initially, the Świnoujście terminal will be able to receive 5 billion cubic meters of gas per year.

Another project related to the diversification of gas supplies is the construction of the interconnector, i.e. a pipeline connecting Cieszyn with the Moravia network in the Czech Republic; the interconnector will enable Poland to import or export gas via the Czech transmission system. The project, valued at EUR 7m, is to be completed by 2011, and will handle approximately 0.5 billion cubic meters of gas supplies to Poland per year. The pipeline from Cieszyn to Moravia is of great importance to Poland's energy security, as it will be the second interconnector between the Polish gas network and the EU gas grid; it will also allow Poland to import gas from Norway and, in the future, from the Caspian Sea region.

The Baltic Pipe is another project which should also contribute to the diversification of Polish gas supplies. The project provides for the construction of a pipeline connecting Polish Niechorze with the Danish transmission system, facilitating gas imports from the Norwegian sources. The Norwegian gas was originally to be delivered to Denmark through the Skanled pipeline. However, the consortium (with PGNiG as one of its members) decided to suspend the project due to adverse economic conditions. Despite the suspension of the Skanled project, OGP Gaz-System decided to continue the work and plans to prepare the relevant technical design and perform a survey of the Baltic

seabed by the end of 2011. The capacity of the 240 km long Baltic Pipe is to be 3 billion cubic meters of gas per year.

SOURCE: STATEMENT BY JAN CHAHAJ, PRESIDENT OF OGP GAZ-SYSTEM, FOR PAP OF SEPTEMBER 24TH 2009.

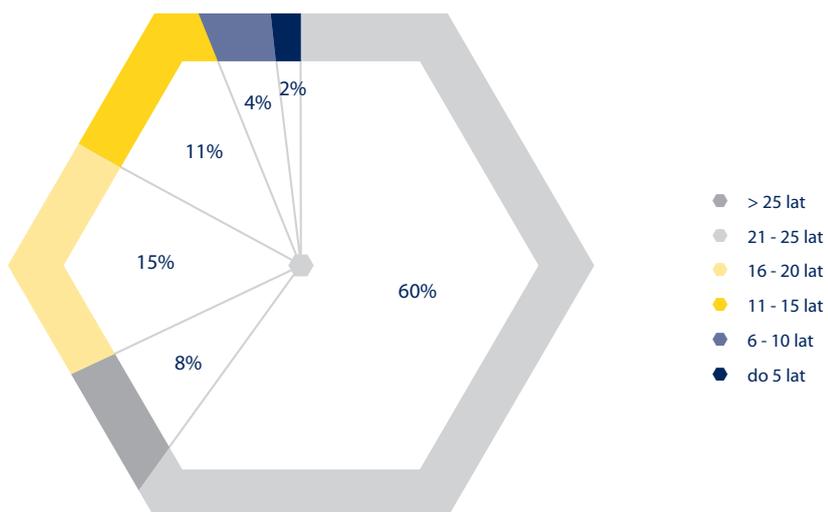
GRAPH 4: NATURAL GAS SUPPLY TO POLAND BY SOURCE



SOURCE: 2010 NATIONAL REPORT OF THE PRESIDENT OF THE ENERGY REGULATORY OFFICE.

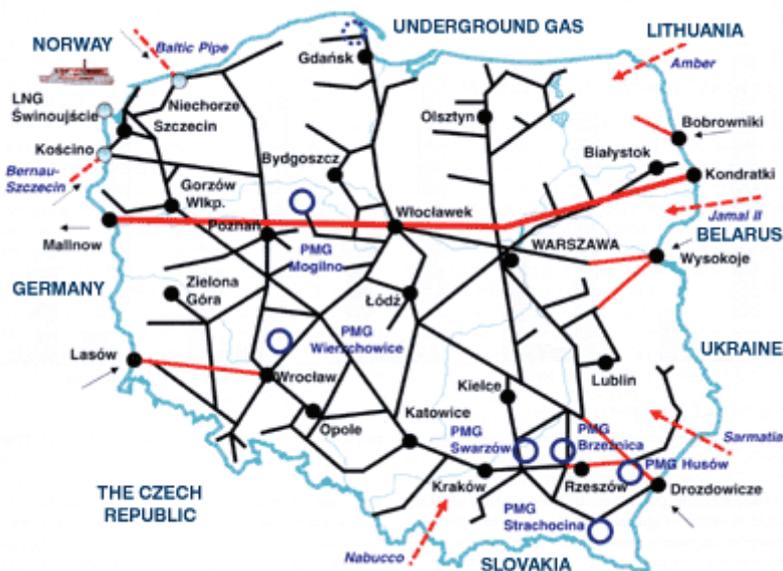
Pursuant to the 2010 Annual Report of the President of the Energy Regulatory Office (URE), the technical condition of the transmission infrastructure plays the key role in ensuring security of gas fuel supplies. Although in 2008 the transmission system’s operation was failure-free, its age and heavy depreciation may pose a threat to the continuity of gas supplies in the future.

GRAPH 5: AGE STRUCTURE OF GAS TRANSMISSION PIPELINES IN POLAND



SOURCE: 2010 NATIONAL REPORT OF THE PRESIDENT OF THE ENERGY REGULATORY OFFICE.

FIGURE 1: EXISTING AND PROJECTED NATURAL GAS TRANSMISSION NETWORK IN POLAND



SOURCE: [HTTP://RYNEKGAZU.PL](http://rynekgazu.pl)

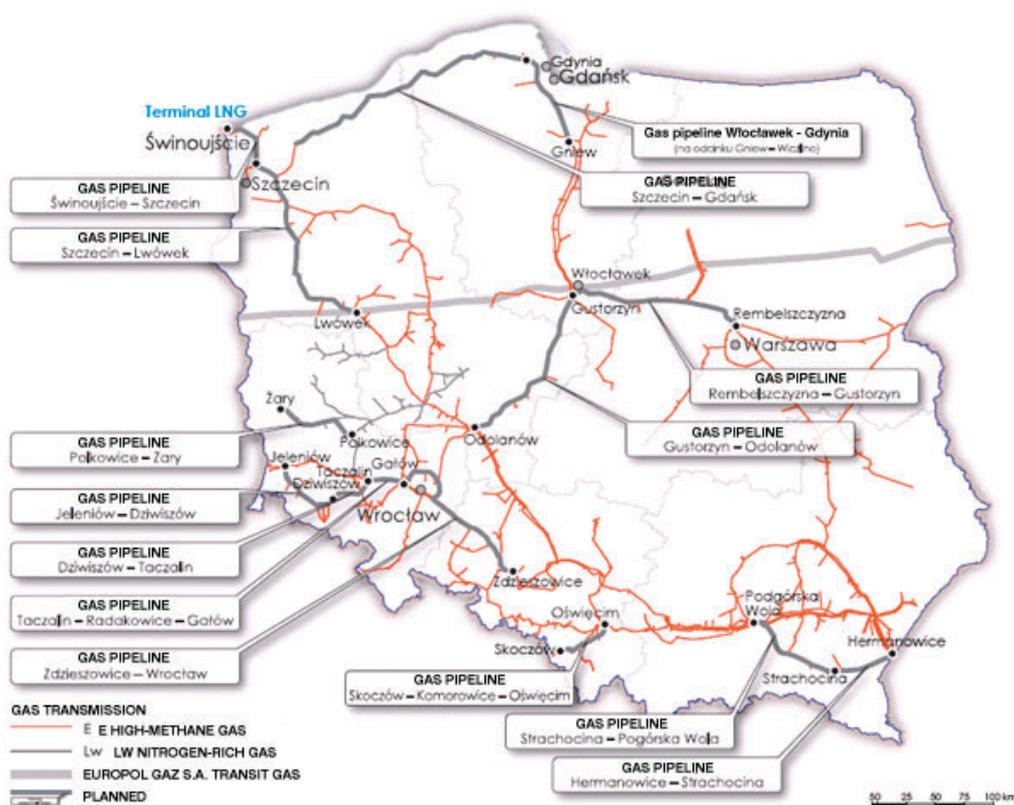
Furthermore, the President of URE highlights the underdevelopment of the gas transmission network, lack of capacity reserves and insufficient integration of the Polish gas system with systems of the neighbouring countries, in particular those of the EU Member States. The President of URE primarily points to the need of eliminating bottlenecks, i.e. points with reduced capacity. The greatest difficulties in transmitting high-methane gas and increasing the flow capacity to customers at exit points from the transmission system are seen in North-Western Poland where the largest amount of capital expenditure is required in the immediate future; the required spending also involves the construction of the LNG terminal in Świnoujście.

The investment tasks related to the development of the transmission network will be implemented by OGP Gaz-System, which in 2009–2014 intends to invest ca. PLN 8bn and construct over 1,000 km of new gas pipelines. The planned projects include:

TABLE 1: PLANNED GAS PIPELINE PROJECTS

No.	Project	Value (PLN)
1.	Construction of a 267 km gas pipeline from Szczecin to Gdańsk which will comprise an element of the Northern main gas transmission network connecting the Gdańsk and Szczecin urban areas. The investment project is an extension of the Goleniów-Nowogard-Ploty gas pipeline	1.13bn
2.	Construction of a gas pipeline from Szczecin to Lwówek to increase the capacity of the gas pipeline from Odolanów to Police – the new pipeline will become the main transmission line for the gas collected at the LNG terminal. The project will be executed in two stages: construction of the Szczecin-Gorzów Wielkopolski section (106 km), and the Gorzów Wielkopolski-Lwówek section (80 km)	865m
3.	Construction of a gas pipeline from Gustorzyn to Odolanów to connect Gustorzyn and Odolanów main system hubs and Wierzchowice and Mogilno Gas Storage Facilities, which will improve gas transmission capabilities	778m
4.	Upgrade of a gas pipeline from Rembelszczyzna to Gustorzyn, which will improve the safety of gas transmission through this connection, strengthen the supply systems leading to the Uniszki hub, and facilitate transmission of larger streams of gas fuel to North-Eastern Poland	767m
5.	Construction of a gas pipeline from Jeleniów to Dziwiszów to form a ring network, which will ensure improved reliability and flexibility of operation of the entire gas grid in the Province of Wrocław	185m
6.	Construction of a gas pipeline from Włocławek to Gdynia – another 64 km of pipeline is needed to complete the project	143m
7.	Construction of a gas pipeline from Polkowice to Żary required to secure stable and safe operation of the nitrogen-rich gas system	100m

FIGURE 2: TRANSMISSION GAS PIPELINE NETWORK – GAZ SYSTEM S.A.'S PROJECTS UNTIL 2014



SOURCE: GAZ-SYSTEM S.A.

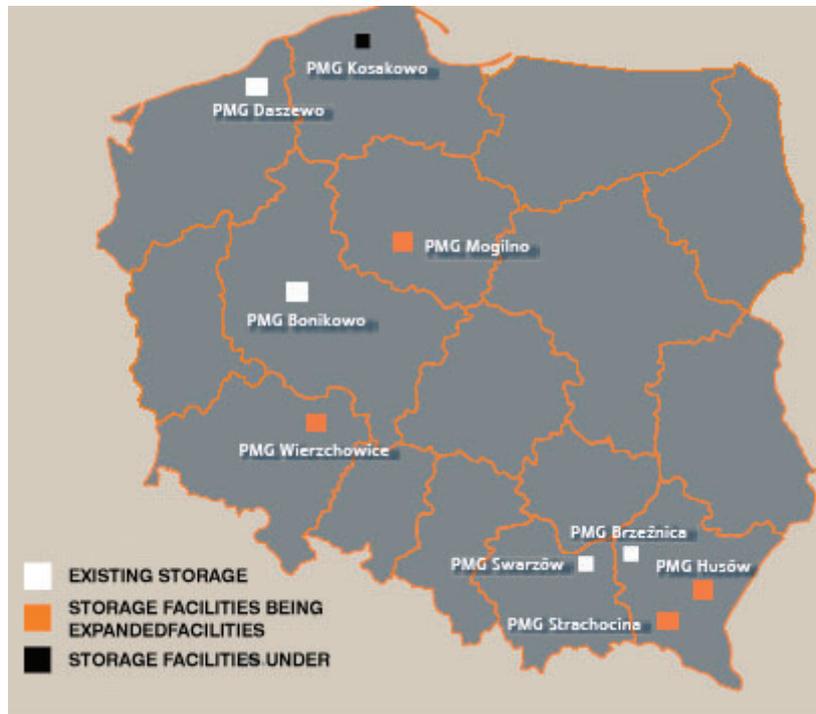
The development of the transmission network is expected to entail extension of the gas distribution network operated by the PGNiG Group.

Increasing gas production by domestic producers is another area requiring capital expenditure to ensure Poland's energy security. Projects in this area will be implemented by the PGNiG Group and will involve increasing gas production from Polish fields and providing access to the gas produced from fields located abroad, e.g. in Norway. In 2009, the PGNiG Group produced 4.1 billion cubic meters of gas from Polish fields. According to the PGNiG Group's strategy adopted in 2008, in the coming years the PGNiG Group intends to increase natural gas production to approximately 6.2 billion cubic meters per year by increasing production from the Polish fields to approximately 4.5 billion cubic meters and by launching production from foreign fields in 2011. After 2015, at least 1.5 billion cubic meters of the annual production of natural gas is to come from the equity gas reserves on the Norwegian Continental Shelf (i.e. gas produced by a consortium; PGNiG holds an interest in equity gas pro rata to its share in the consortium). The most important project related to increasing domestic gas production and doubling crude production is the development of Lubiatów-Międzychód-Grotów oil and gas fields. In 2008, the PGNiG Group and the PBG Group as the contractor executed a PLN 1.7bn contract for the development of an oil and gas field; the field is to be commissioned in 2013.

Another vital aspect of Poland's energy security is the implementation of projects designed to expand gas storage capacity. Gas storage facilities help maintain a required amount of reserves in case of short-term interruptions in gas supplies resulting from system failures or reduced supplies. In addition, the storage facilities guarantee a stable level of production throughout the year. In pe-

periods of lower demand, gas is injected into a storage facility, and at times of peak demand – the gas is drawn from the facilities. PGNiG operates six storage facilities with an aggregate storage capacity of 1.61 billion cubic meters, which represents 11.3% of the annual demand in Poland. The storage facilities are located in various types of geological structures and have different gas compression and output capacities.

FIGURE 3: NATURAL GAS STORAGE FACILITIES IN POLAND



SOURCE: PGNIG S.A.

PGNiG’s strategy provides for the expansion of storage capacity by approximately 2 billion cubic meters, to a target capacity of 3.8 billion cubic meters in 2015. The most extensive project is the expansion of the Wierzchowice Gas Storage Facility from 0.5 billion cubic meters to a target capacity of 3.5 billion cubic meters in 2015. The first stage of this project is currently underway and is scheduled to be completed in 2012, with the expansion of the gas storage capacity to 1.2 billion cubic meters. This contract, worth PLN 1.3bn, is performed by a PBG-led consortium. In addition to the construction of the new capacity at Wierzchowice, PGNiG is currently implementing the following capacity expansion projects:

- expansion of the Mogilno Storage Facility – **PLN 220m,**
- construction of the Kosakowo Storage Facility – **PLN 667m,**
- expansion of the Strachocina Storage Facility – **PLN 550m.**

TABLE 2: EXPANSION OF GAS STORAGE CAPACITY IN POLAND – PROJECTS PLANNED FOR 2010–2015

Facility	Type of project	Working capacity (BCM)	Target capacity (BCM)	Year of completion
Bonikowo	-	0,20	-	-
Brzeźnica	-	0,07	-	-
Daszewo	-	0,03	-	-
Husów	expansion	0,35	0,50	2011
Kosakowo	construction	-	0,25	2020
Mogilno	expansion	0,38	0,80	2018
Strachocina	expansion	0,15	0,33	2011
Swarzów	-	0,09	-	-
Wierzchowice	expansion	0,58	3,50	2015
Total		1,85	5,38	

SOURCE: PGNIG S.A.

In addition, the years 2009-2012 will see a number of large-scale investment projects (some of which are already under way) aimed to prepare Poland's infrastructure (mainly its transport system) to the 2012 European Football Championships hosted by Poland. When new motorways, expressways and beltways are built, the existing gas networks will also have to be altered.

New entrants on the Polish market include private distributors of natural gas (e.g. KRI S.A.) and gas exploration companies, such as FX Energy or Aurelian Gas&Oil. Those companies also have investment plans designed to develop the existing transmission and distribution networks, as well as gas production facilities.

PGNiG intends to allocate an amount in the range of **PLN 25bn–PLN 32bn** to the implementation of the PGNiG Group's Strategy until 2015. On the other hand, the **Gaz-System** Group's planned investment expenditure for 2007-2013 is approximately **PLN 8bn**.

SHALE GAS

In the context of recent reports on the growth prospects for the Polish natural gas sector, **shale gas** should be mentioned as a resource which may in the near future dramatically change Poland's position on the global market of production of and trade in natural gas. Poland appears to have an exceptionally large potential in this field. According to various analyses, from 1.5 trillion to 3 trillion cubic metres of gas may be trapped in shale in Poland. To put this figure in a context, the annual demand for natural gas in Poland is approximately 15bn cubic metres.

Depending on the source, capital expenditure on exploring for shale gas in Poland over the next three years is estimated at **USD 1.5bn–2bn**. The companies exploring for shale gas in Poland are to intensify their operations in the spring 2011. The largest players on the market have already announced drilling new boreholes. Each of the companies which obtained licences for shale gas exploration in Poland must expend around USD 15m on one complete borehole. This level of expenditure has been confirmed by the operators which have already been conducting drilling work in

Poland.

Particularly important for shale gas appraisal are the obligations under the licences granted for gas exploration and fulfilment of the criteria stipulated therein. Each investor is obliged to drill at least two boreholes, usually within three years. It is not enough to perform vertical drilling; while exploring for shale gas, it is also necessary to perform fracturing and horizontal drillings. All these operations are designed to arrive at a more accurate determination of reserves of a given deposit. The Ministry of Environment has already granted over 70 licences. Even assuming that not all investors perform their obligations under respective licences, over 100 boreholes will be drilled in Poland over the next three years, which puts their total expenditure at USD 1.5bn or higher.

First pilot work has been performed by Lane Energy and Conoco Phillips (working in cooperation) and ExxonMobil. Chevron has also been conducting exploratory work. In mid-February 2011, BNK Petroleum announced that its first drilling in Pomerania was a success. Consequently, BNK Petroleum plans to drill another two boreholes before the end of H1 2011. It is worth noting that all the largest global corporations specialising in natural gas production are present in Poland.

Market analysts and operators agree that the performance of licence obligations by the licensees will enable the reserve volumes and production feasibility to be estimated with considerable confidence; it will also facilitate production forecasting.

However, the first boreholes currently drilled in Poland mark only a starting point for a more accurate determination of shale gas reserves in Poland and, in a longer time horizon, gas production. The holders of exploration licences will have to apply for production permits if they find the production economically viable. Experts estimate that the process will take at least a year and a half. Therefore, the most reasonable appear to be the forecasts which project that the commercial production of shale gas in Poland will be possible in seven to ten years at the earliest.

Thus it is with a growing frequency that the problem has been emerging of transporting newly discovered and producible gas from deposits to networks. It will be necessary to build gas pipelines and other gas facilities. This is good news for the PBG Group and its parent company, PBG S.A. – a leader in gas facilities construction in Poland – as the potential construction market in the natural gas sector may grow significantly.

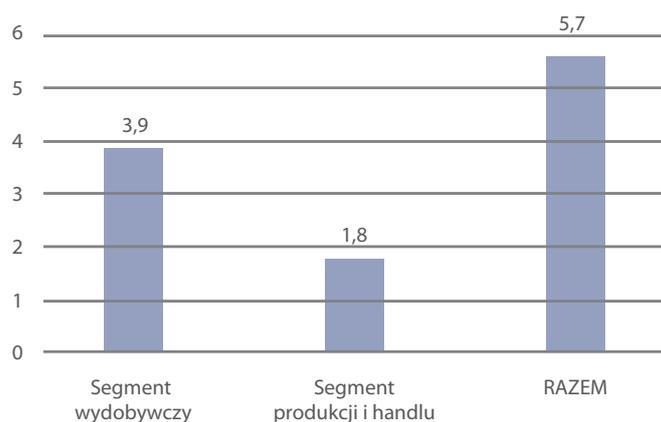
CRUDE OIL AND FUELS

The PGB Group's position in the **oil industry** is related to investment plans of PKN ORLEN S.A., LOTOS S.A., NATO, OLPP, PERN Przyjaźń S.A. as well as other organisations in the fuel sector.

Factors with a material bearing on the oil and fuel market include:

- ◆ **Investment plans of PKN Orlen S.A.** for 2011–2013 amounting to **PLN 6bn**;
- ◆ **Investment plans of Lotos S.A.** for 2011–2015 amounting to approximately **PLN 5.7bn**, including the final implementation of the 10+ Programme (objectives of the Programme include increasing crude processing capacity from 6m to 10.5m tonnes; improving the oil conversion ratio; mild hydrocracking unit (MHC); diesel oil hydrodesulphurisation unit (HDS); and residuum oil supercritical extraction (ROSE)). The other investment plans mainly relate to the production of crude oil on the Baltic Shelf (the planned budget exceeds PLN 3bn), as well as in the Norwegian Sea and the North Sea. Production is assumed to increase to 20% of the processed volume, that is to 1.2m tonnes per annum in 2015, and is expected to further grow thereafter.

GRAPH 6: CAPITAL EXPENDITURE PLANNED BY LOTOS FOR 2011–2015 (PLN BN)



SOURCE: LOTOS.

Also **Polskie Górnictwo Naftowe i Gazownictwo** plans to increase crude oil production:

- **In Poland:** from the planned ca. 570 thousand tonnes in 2011, to ca. 900 thousand tonnes in 2012. In 2011 and 2012, domestic production will amount to 480–500 thousand tonnes.
- **Abroad:** from the planned ca. 90 thousand tonnes in 2011, to ca. 400 thousand tonnes (on the Norwegian Continental Shelf).

In 2015, the increase in the production volume will be ca. 1.3m tonnes (from approximately 0.5m tonnes pa to approximately 1.8m tonnes). Domestic fields are expected to yield 1m tonnes of crude oil.

The planned budgets for natural gas and crude oil exploration are as follows:

- **PGNiG:**
until 2015, around **PLN 600–650m** annually in Poland;
until 2015, around **PLN 300–500m** annually abroad.
- **Orlenu:**
about **PLN 420m** in Poland and abroad.
- Moreover, **NATO's investments** in Poland in 2011–2014, are to reach **EUR 1bn**, including fuel storage depots (PLN 0.7bn).
- **Plans for construction of crude oil pipelines:** Adamów–Płock and Odessa–Brody.

The currently implemented plans of PERN Przyjaźń S.A. focus on development of the feedstock infrastructure. The infrastructure is being developed in two independent directions:

The eastern direction – construction of the third line of the Adamów–Płock pipeline is in progress. The new pipeline will help adjust the capacity of Polish pipelines to the existing transmission capacity of the northern section of the Friendship pipeline. Final completion of the project is planned for 2011–2012. The Friendship pipeline project has been launched in response to the growing demand for Russian crude. Poland is one of the major routes for oil exports from Russia. In addition to resolving urgent issues related to Poland's energy security, the new pipeline will also create conditions conducive to the development of crude transit through Poland.

The southern direction – PERN Przyjaźń S.A. together with Ukrtransnafta of Ukraine continue work on construction of the Brody–Płock pipeline, which will enable delivery of Caspian crude to refineries in Central and Western Europe. The initial assumption is that the transmission volume of Caspian crude transported via the Brody–Płock pipeline will be up to 25m tonnes annually.

FIGURE 4: PIPELINES IN POLAND



SOURCE: WWW.PERN.COM.PL

FIGURE 5: PIPELINES IN EUROPE



SOURCE: WWW.PERN.COM.PL

ENVIRONMENTAL PROTECTION AND HYDRO-ENGINEERING MARKET

One of the key documents applicable to environmental protection projects is the Infrastructure and Environment Operational Programme for 2007-2013, adopted and endorsed by the Europe-

an Commission on December 7th 2007 and subsequently approved by the Resolution of the Council of Ministers dated January 3rd 2008. The Programme – in line with the draft National Strategic Reference Framework (NSRF) for 2007-2013 – is one of the operational programmes that are essential to achieving the objectives stated in the NSRF, with the financial support from the Cohesion Fund and the European Regional Development Fund.

The main objective behind the Programme is to promote Poland (and also its individual regions) through projects implemented in six key areas including: transport, environment, power engineering, culture, health care and higher education. The following three specific objectives are perceived by the PBG Group as crucial to the Programme's success:

- Constructing infrastructure supporting Poland's economic development, combined with protection and improvement of the natural environment;
- Improving accessibility of economic centres in Poland by developing a network of motorways and expressways as well as using means of transport other than road vehicles;
- Ensuring Poland's long-term energy security through diversification of supply sources, reduction of energy consumption and development of renewable resources.

Implementation of the Programme entails an influx of structural funds from the EU, which additionally drives investments in technical infrastructure – the core area of the PBG Group's business. This is particularly true in the case of financing of water and sewage systems, as well as wastewater treatment plants. To illustrate the impact of EU funds on the water segment's revenues, suffice it to mention that the amount of financial support received by Poland in 2000-2003 to co-finance projects related to environmental protection and water engineering amounted to EUR 0.7bn. In 2004-2006, the total grants was EUR 4.2bn. The total amount of funds committed to the **implementation of the Infrastructure and Environment Operational Programme for 2007-2013 will reach EUR 38.9bn** (at current prices), of which the public contribution will amount to EUR 35.4bn. The public contribution will comprise EU funds of EUR 27.9bn (including EUR 22.2bn from the Cohesion Fund and EUR 5.7bn from the European Regional Development Fund), and funds from the Polish state budget of EUR 7.5bn. In addition to public funds, the Programme will also be financed with private money – financial support for the corporate sector will be provided on competitive terms. The total amount of private funds has been estimated at EUR 3.5bn, and may increase by EUR 2bn if the planned loans from the European Investment Bank (EIB) are granted to Poland.

GRAPH 7: EU FUNDS COMMITTED TO THE INFRASTRUCTURE AND ENVIRONMENT OPERATIONAL PROGRAMME (EUR BN)

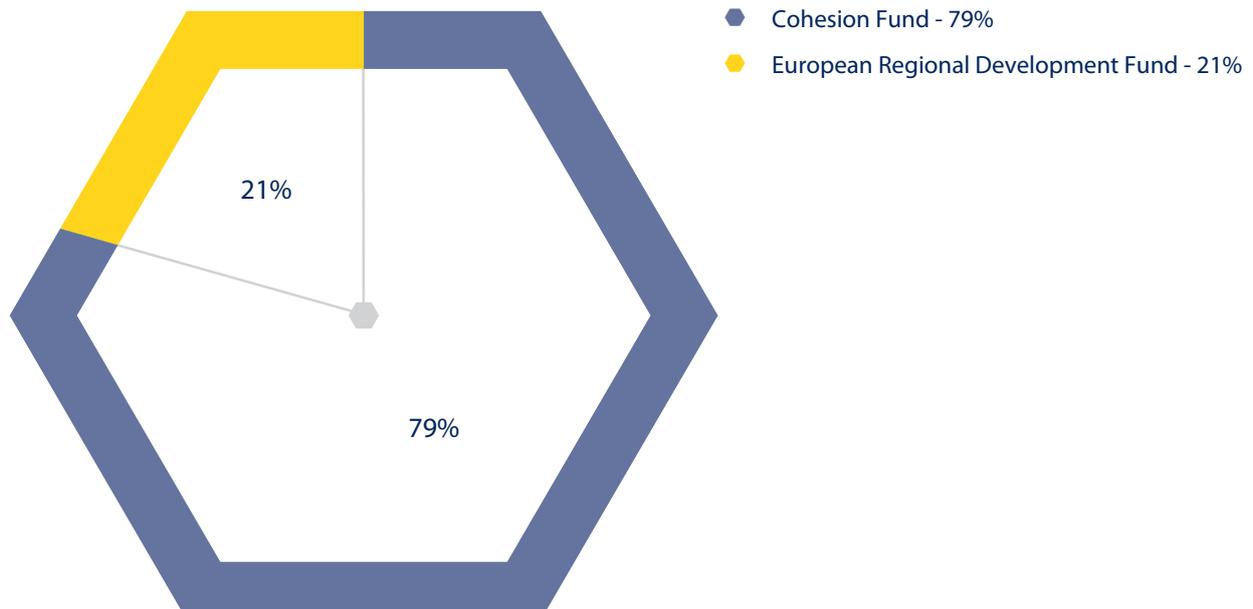


TABLE 3: ALLOCATION OF EU FUNDS UNDER THE INFRASTRUCTURE AND ENVIRONMENT OPERATIONAL PROGRAMME, BY PRIORITY

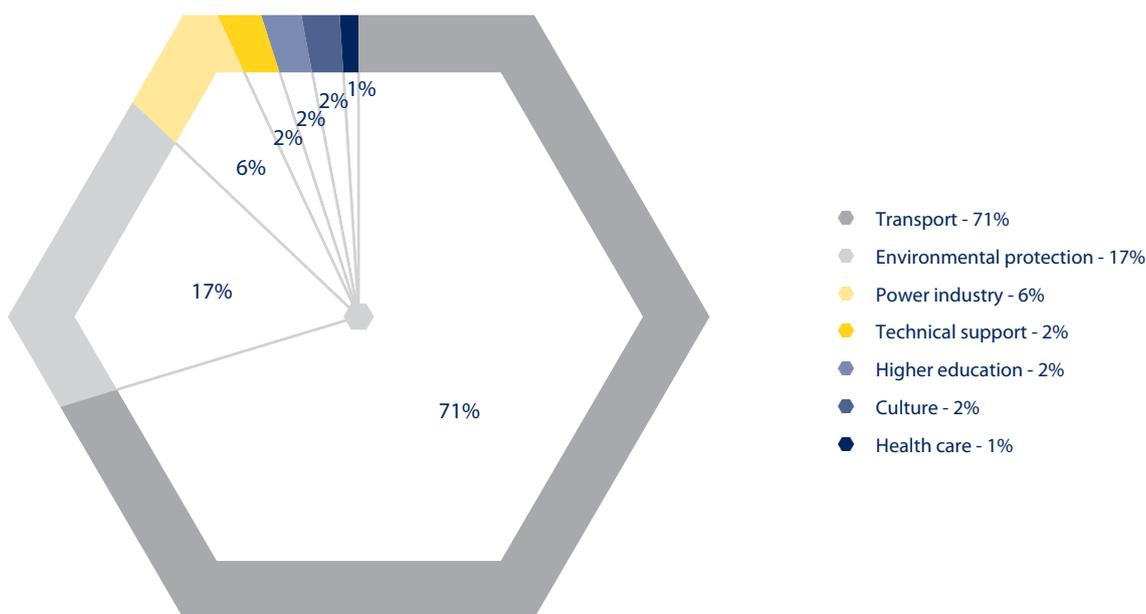
Infrastructure and Environment Programme		EU contribution [EUR '000]		%	
		EFRR	FS	EFRR	FS
1	2	3	4	5	6
P I	Water and wastewater management		2 783 943		12,6%
P II	Waste management and land conservation		1 215 740		5,5%
P III	Resource management and environmental risk prevention		556 788		2,5%
P IV	Projects designed to adapt businesses to meet environmental requirements	200 000		3,5%	
P V	Protection of the environment and environmental awareness promotion	89 800		1,6%	
P VI	The TEN-T road and air transport network		8 802 367		39,7%
P VII	Environment-friendly transport		7 676 019		34,6%
P VIII	Transport safety and domestic transport networks	2 945 490		51,3%	
P IX	Environment-friendly power infrastructure and energy efficiency		748 037		3,4%
P X	Energy security, including through diversification of energy sources	974 280		17,0%	
P XI	Culture and cultural heritage	489 970		8,5%	
P XII	Health security and improvement of health-care efficiency	349 990		6,1%	
P XIII	Higher education infrastructure	500 000		8,7%	
P XIV	Technical support – European Regional Development Fund	187 800		3,3%	
P XV	Technical support – Cohesion Fund		393 459		1,8%
Total allocation 2007-2013		5 737 330	22 176 353	100,0%	100,0%

SOURCE: PGNIG S.A.

Allocation of EU funds under the Infrastructure and Environment Operational Programme, by sector:

- Transport – **EUR 19.4bn;**
- Environmental protection – **EUR 4.8bn;**
- Power engineering – **EUR 1.7bn;**
- Technical support – **EUR 581m;**
- Higher education – **EUR 500m;**
- Culture – **EUR 490m;**
- Health care – **EUR 350m.**

GRAPH 8: ALLOCATION OF EU FUNDS UNDER THE INFRASTRUCTURE AND ENVIRONMENT OPERATIONAL PROGRAMME BY SECTORS (EURM)



The Programme – in line with the National Strategic Reference Framework (NSRF) endorsed by the European Commission on May 7th 2007 – is one of the operational programmes that are critical to achieving the objectives defined in the NSRF, using the funding from the Cohesion Fund and the European Regional Development Fund. In addition, the Infrastructure and Environment Operational Programme plays an important role in the implementation of the renewed Lisbon Strategy – the Programme expenditure on EU priority policy goals accounts for 66.24% of its entire budget financed with EU funds.

SOURCE: WWW.POIS.GOV.PL

It is estimated that the value of **water engineering** projects, implemented under the Infrastructure and Environment Operational Programme in 2007-2013 will not be lower than **EUR 4.8bn**. After pooling those funds with investors' equity (at the level approximating 20% of the budget of each planned project), they add up to nearly **EUR 6bn**.

SOURCE: WWW.FUNDUSZEEUROPEJSKIE.GOV.PL

The main beneficiaries of EU funds are local governments. The funding obtained by those bodies will translate into higher demand for services offered by the PBG Group. As far as environmental protection issues are concerned, the Cohesion Fund gives the highest priority to improving water and wastewater management, as well as to flood security. **26 projects have been approved for implementation in the first area, and 17 in the second area.**

The largest planned projects include:
Water and wastewater management:

TABLE 4: PLANNED PROJECTS IN WATER AND WASTEWATER MANAGEMENT

No	Project	Value (PLN)
1.	Water supply and wastewater treatment in Warsaw, phase IV	2.2bn
2.	Wastewater treatment in the Żywiec region	858m
3.	Comprehensive protection of the underground waters in the Kielce urban agglomeration	630m
4.	Optimisation of water and wastewater management in the Mikołów urban agglomeration	498m
5.	Expansion and modernisation of the water supply and sewage discharge systems in Lublin	488m
6.	Optimisation of water and wastewater management in the Parsęta river basin, phase II	459m
7.	Construction of a drainage system in the Puszcza Zielonka Landscape Park and its surrounding areas	361m
8.	Modernisation and development of the water and wastewater management system in Nowy Sącz	335m
9.	Optimisation of the water and wastewater management in the town of Żory	279m

Water retention and flood security:

TABLE 5: PLANNED PROJECTS IN THE AREA OF WATER RETENTION AND FLOOD SECURITY

No	Project	Value (PLN)
1.	Development of a flood control reservoir Racibórz Dolny on the Odra river	1.28bn
2.	Modernisation of the Wrocław Hydrotechnical System	680m
3.	Flood protection of Żuławy (6 projects)	647m
4.	Modernisation of the Wrocław Hydrotechnical System – reconstruction of the town's flood control system	572m
5.	Modernisation of the Nysa water reservoir	467m
6.	Modernisation of the artificial waterfall in Włocławek	153m

According to the estimates prepared by the Ministry of Environment, the aggregate value of projects related to **water infrastructure** will exceed **PLN 23bn** by 2020. The amount includes both greenfield expenditure and expenditure on modernisation of facilities deteriorated through wear and tear. The project **named “Program ODRA 2006”** is one of the most important investment projects in this area (with the estimated aggregate value of the key projects exceeding **EUR 0.52bn**). The programme’s objectives include the construction of a flood-control system, removal of flood damage and utilisation of the power-generation potential of rivers. The projects will be partially financed with EU aid funds. According to the Ministry of Environment’s budget plans, the amount of nearly **PLN 3.1bn** is to be allocated to financing flood-control structures in the years 2002–2016. The redevelopment and modernisation of flood embankments will cost PLN 364.5m.

INFRASTRUCTURE CONSTRUCTION MARKET

Development of these markets will be strongly influenced by projects related to the organisation of the European Football Championships **EURO 2012**. The aggregate value of projects in Poland and Ukraine is estimated at nearly **EUR 38bn**, of which 60% will be spent on projects in Poland. **Stadium refurbishment and construction projects** are expected to involve expenditure of around **EUR 2.9bn**. The largest projects concerning refurbishment and construction of Polish stadiums have already been contracted.

Upgrade, extension and construction of airports in eight cities in Poland is planned to cost up to **EUR 396m** from the EU budget plus EUR 390m in outlays incurred by the relevant local authorities. Investment plans concerning airports are included in the Infrastructure and Environment Operational Programme for 2007–2013, Priority VI: TEN-T Road and air transport network. Fourteen projects have been approved, whereas 8 are in the reserve list.

The key airport-related projects are listed below:

TABLE 6: KEY PROJECTS RELATED TO AIRPORTS IN POLAND

No.	Project	Value (PLN)
1.	Extension of the passenger terminal and the existing infrastructure of the Krakow airport	630m
2.	Upgrade of the Warsaw airport's infrastructure	575m
3.	Extension and upgrade of the Katowice airport	416m
4.	Extension and upgrade of the Poznań airport's infrastructure	395m
5.	Construction of the second passenger terminal, including the associated infrastructure, plus extension and upgrade of the Gdańsk airport infrastructure, including the upgrade of the airside infrastructure	360m
6.	Construction of a new passenger terminal and extension and upgrade of the existing infrastructure of the Rzeszów airport	335m
7.	Upgrade of the Wrocław airport's infrastructure	313m
8.	Extension and upgrade of the Szczecin-Goleniów airport	121m

Projects related to the construction of **waste incineration plants** in Poland's largest cities can potentially become key investment tasks for the PBG Group. Presence of such plants is one of the key requirements for Poland to meet in order to comply with the EU requirements on waste management.

Under the Accession Treaty of 2003, Poland undertook to reduce the amount of waste disposed on landfills by a half by 2013. Moreover, waste is subject to quality segregation, which means that only biodegradable waste may be disposed at landfills.

As of July 16th 2010, only 75% of biodegradable waste may be disposed on landfills. Poland failed to meet this requirement, which has prompted the European Commission to impose penalties amounting to EUR 40 thousand per day. If Poland does not comply with the accession obligations by 2013, the amount will be increased to EUR 250 per day.

These types of projects, equally important and necessary, also fall within the scope of the Infrastructure and Environment Operational Programme for 2007–2013, and precisely within Priority II of

the Programme, which concerns waste management and land conservation. Eighteen projects for a total amount of PLN 5.6bn have been submitted and approved.

The key projects include:

TABLE 7: INVESTMENT PROJECTS RELATED TO WASTE MANAGEMENT AND LAND SURFACE PROTECTION

No.	Project	Value (PLN)
1.	Waste management system for cities and towns of the Upper Silesia Metropolitan Union, along with construction of a waste incineration plant	1.08bn
2.	Municipal waste management in Kraków, along with the construction of a waste incineration plant	703m
3.	Municipal waste management in Łódź, along with the construction of a waste incineration plant	640m
4.	Construction of a waste incineration plant in Olsztyn	518m
5.	Integrated waste management system for the Białystok urban agglomeration	414m
6.	Construction of waste incineration plant for the Bydgoszcz-Toruń Metropolitan Area	400m
7.	Construction of waste incineration plant for the Szczecin Metropolitan Area	300m

There are three possible scenarios for the construction of waste incineration plants. The first scenario assumes that the projects will be financed with the EU funds. The second scenario provides for a public and private partnership, and co-financing from the EU. This is an innovative solution that has so far been implemented only with respect to a few projects executed in the European Union. Under the third scenario, the projects may be carried out by local authorities.

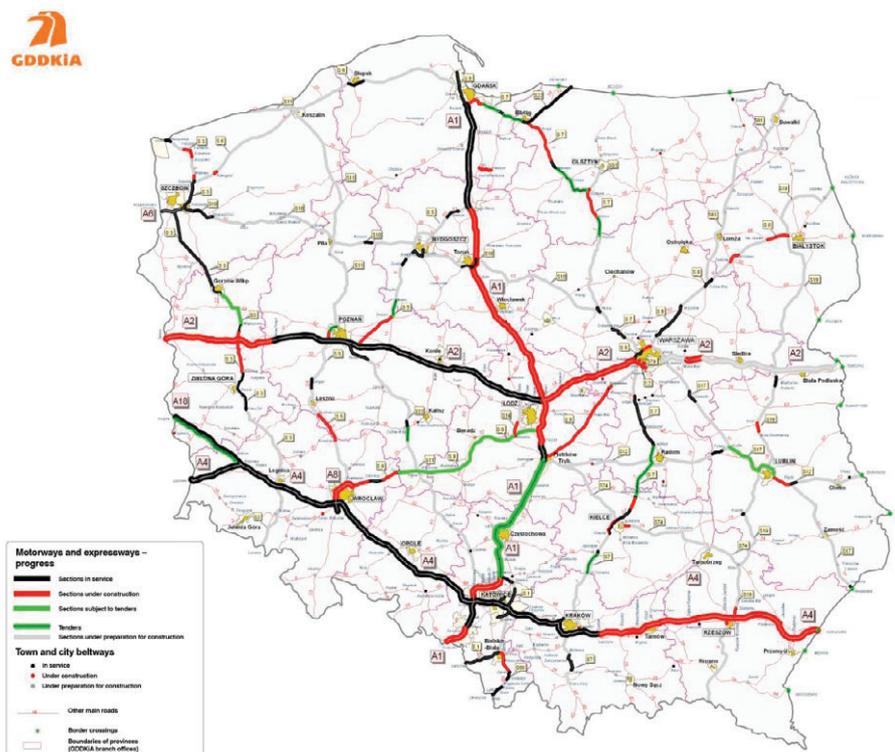
In order to improve its competitiveness in bids for construction of highly-complex facilities such as incineration plants, the PBG Group established cooperation with the world leader in this field. The scenario providing for a public and private partnership appears to be particularly attractive. It offers the company a possibility to extend its operations by becoming not only the constructor, but also the operator of the plant.

ROAD CONSTRUCTION MARKET

A long-term main roads construction programme for 2011-2015 provides for completion of the following tasks by the end of 2013:

- construction of a motorway network with a total length of approximately 810.4 km (including sections built under public-private partnership of 168.3 km);
- construction of an expressway network totalling approximately 782.5 km;

FIGURE 6: MAIN ROADS CONSTRUCTION PROGRAMME FOR 2011-2015



SOURCE: GENERAL DIRECTORATE FOR NATIONAL ROADS AND MOTORWAYS (GDDKIA)

- construction of 26 beltways of a total length of 203 km in towns congested by intense drive-through traffic, as well as prevention of new building developments in the bypass area;
- reconstruction of sections of main roads in order to improve road traffic safety as part of the Drogi zaufania programme (programme for the protection of health and lives of main road users, implemented by GDDKiA since 2007).

The total expenditure on construction and reconstruction of main roads in 2011-2013 amounts to PLN 9.4bn and covers:

- improvement of the main road surfaces to ensure that 66% of the main roads are in a good condition by 2012.

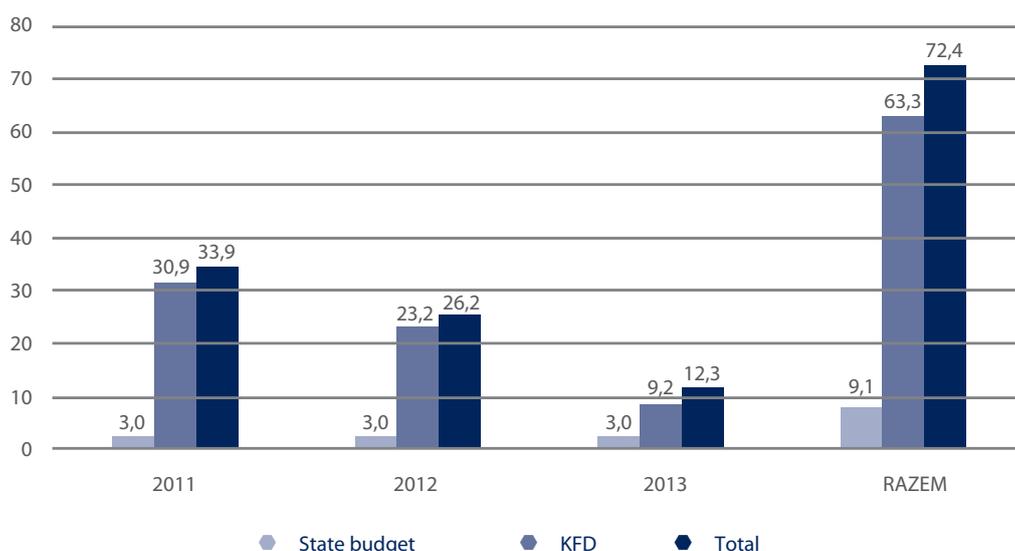
The priority projects to be implemented by 2013 involve the construction of the following motorways and expressways:

- A1 Motorway – completion of all sections;
- A2 Motorway – completion of the Świecko-Mińsk Mazowiecki section, start of construction works on the Mińsk Mazowiecki-Eastern border section;

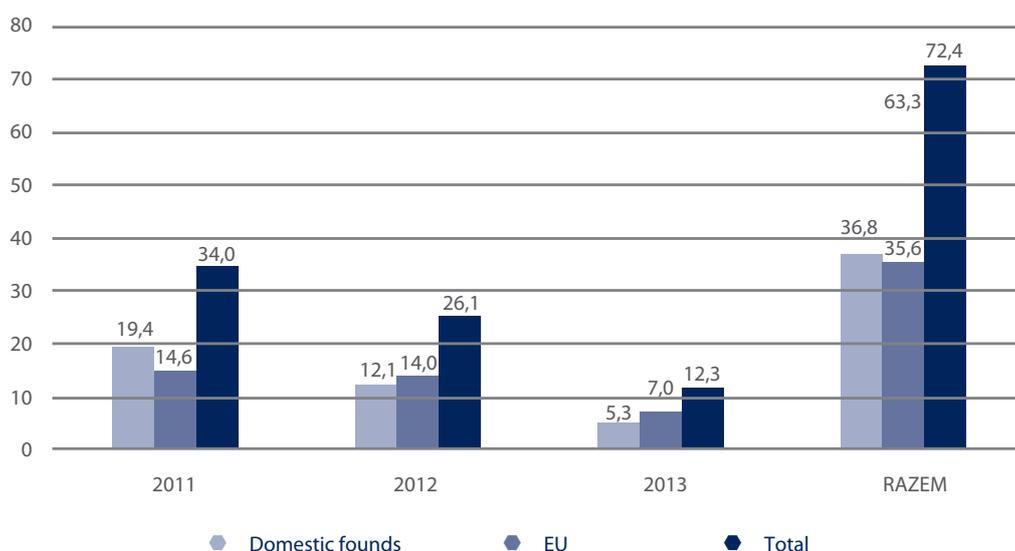
- A4/A18 Motorway – completion of all sections;
- A8 Motorway – completion of all sections;
- Expressways: S1, S2, S3, S5, S7, S8, S17, S19, S69.

Implementation of the programme in 2011–2013 requires a budget of **PLN 72.4bn**, including PLN 63.3bn from the National Road Fund (KFD) and the remaining PLN 9.1bn from the state budget. The funds (around **PLN 4.8bn**) of the Operational Programme Infrastructure and Environment saved in tenders for railway projects will also be assigned to the programme implementation. The increased pool of funds will facilitate the construction of sections of the S3 and S17 expressways, currently on the waiting list. Thus a total of **PLN 77.2bn** will be spent on road construction in 2011–2013.

GRAPH 9: FINANCING OF THE MAIN ROAD PROGRAMME UNTIL 2013



GRAPH 10: FINANCING OF THE MAIN ROAD PROGRAMME UNTIL 2013



Budgeting for the programme implementation until 2015 and earmarking of funds for individual tasks are planned for 2012, when the Multi-Year Road Construction Programme is to be updated.

In order to increase the pool of emergency funds to be used in the event of natural disasters, the European Union Solidarity Fund (EUSF) has been established, which may be used to support the

National Road Fund. After the flood that afflicted Poland in May and June 2010, the Polish government applied to the EUSF for assistance. The Ministry of Infrastructure requested the European Commission for PLN 902.3m assistance to be applied towards flood damage repairs.

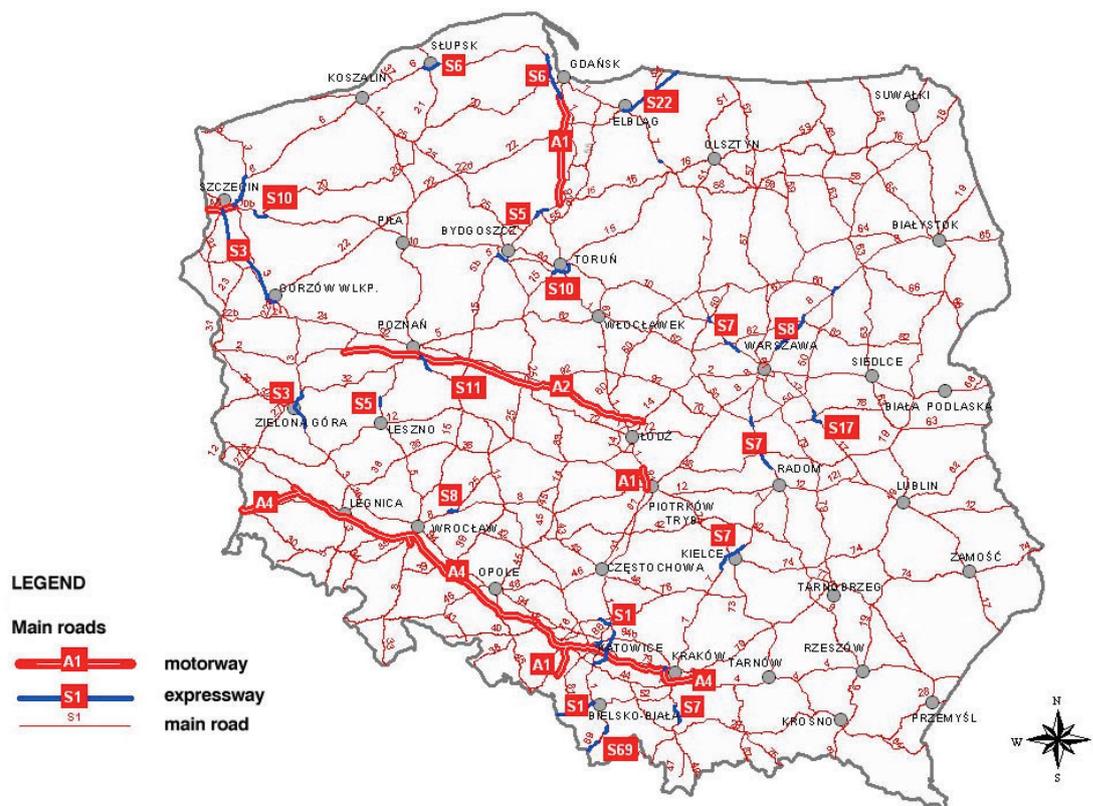
The following two tasks are being currently executed under the public-private partnership system:

- A1 Motorway, section Nowe Marzy–Toruń (62.4 km). Completion scheduled for 2011;
- A2 Motorway, section Świecko–Nowy Tomyśl (105.9 km). Completion scheduled for 2012..

Another two tasks are currently in the analysis phase under the public-private partnership system:

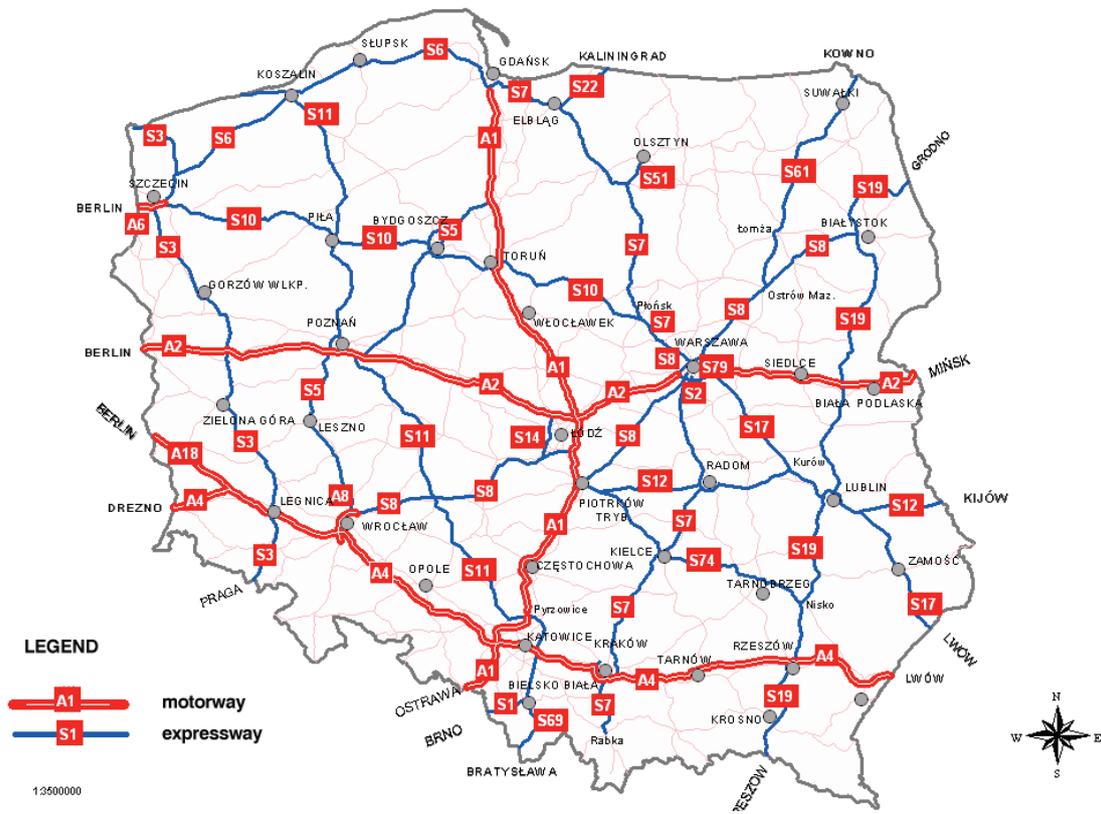
- A1 Motorway, section Tuszyn–Pyrzowice (138.9 km);
- A2 Motorway, section Warsaw–the state border.

FIGURE 7: MAIN ROAD NETWORK AS AT JANUARY 1ST 2011



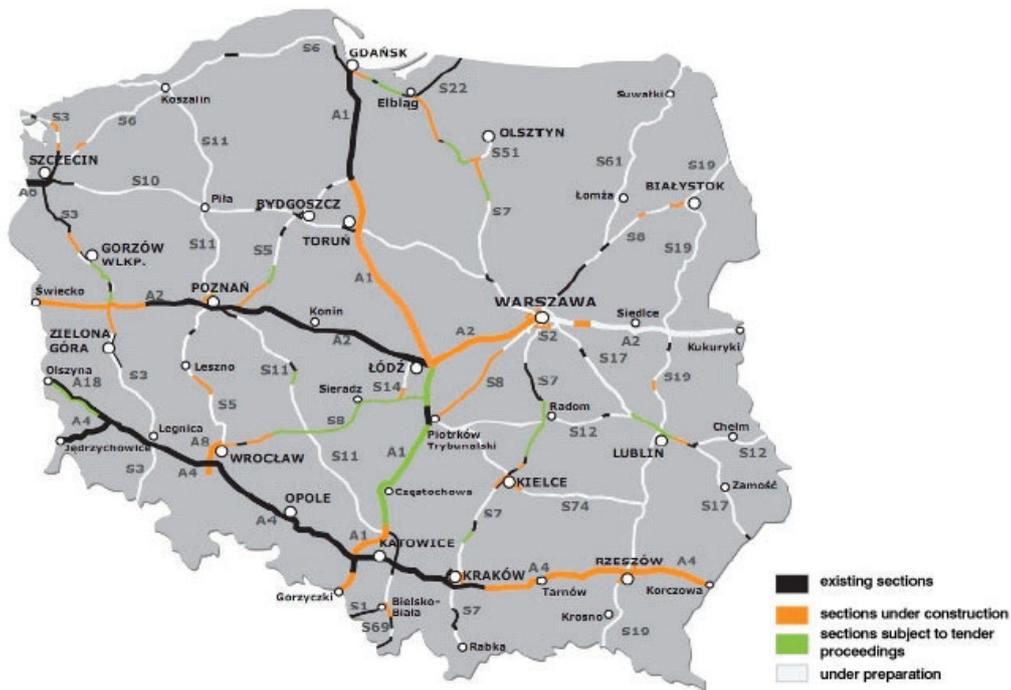
SOURCE: GENERAL DIRECTORATE FOR NATIONAL ROADS AND MOTORWAYS (GDDKIA).

FIGURE 8: TARGET MAIN ROAD SYSTEM



SOURCE: GENERAL DIRECTORATE FOR NATIONAL ROADS AND MOTORWAYS (GDDKIA)..

FIGURE 9: FIGURE 1: MAIN ROAD RECONSTRUCTION PROGRAMME FOR 2011–2015 (PROGRESS AS AT NOVEMBER 15TH 2010)



SOURCE: THE MINISTRY OF INFRASTRUCTURE..

An important circumstance is the hosting of the European Football Championships by Poland and Ukraine in 2012, which significantly accelerates projects involving **road construction**, the most important of those being:

TABLE 8: THE LARGEST INVESTMENT PROJECTS INVOLVING MOTORWAY CONSTRUCTION IN POLAND

No.	Project	Length (km)	Total value (PLN)
1.	Construction of A1 Motorway	298.7	21.4bn
2.	Construction of A2 Motorway	196.0	8.4bn
3.	Construction of A4 Motorway	297.4	13.2bn
4.	Construction of A8 Motorway (Wroclaw beltway)	35.0	4bn

Another investment programme is the National Programme for Local Road Reconstruction 2008–2011. It provides for the construction or reconstruction of around six thousand kilometres of municipal and county roads in 2009–2011.

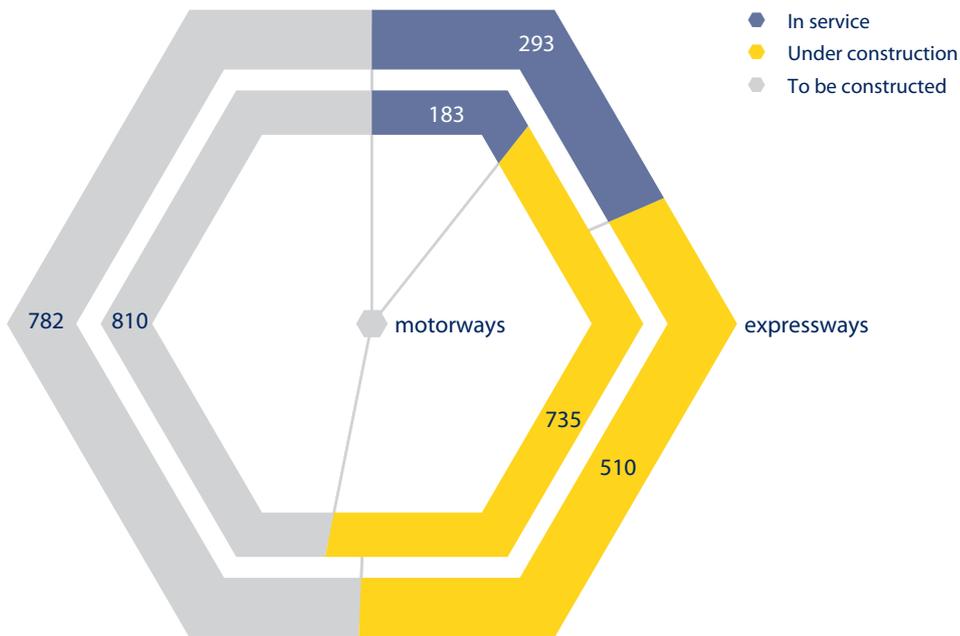
In each year in 2009–2011, the government plans to expense from the state budget an amount of **PLN 1bn** on the implementation of projects co-financed with task subsidies, while local governments are to contribute at least **PLN 1bn** of own funds. The funds provided by local or regional governments may be sourced from the governments' own funds, advanced by provincial governors or contributed by other entities. Funds from provincial budgets may only be used to finance special projects in justified cases.

The Programme budget totals **PLN 6bn**, including **PLN 3bn** from the central budget and **PLN 3bn** from local governments' budgets.

An amount of PLN 500m will be spent on the following projects under the Programme:

- Support of the reconstruction, construction or repair of key sections of municipal and county roads, designed to enhance traffic flow and transport safety;
- Support of the creation of interconnections between the municipal/county road network and the provincial/main road network, designed to improve the access to local business centres.

GRAPH 11: PROGRESS OF THE MOTORWAY AND MAIN ROAD CONSTRUCTION PROGRAMME AS AT NOVEMBER 15TH 2010 (IN KM)



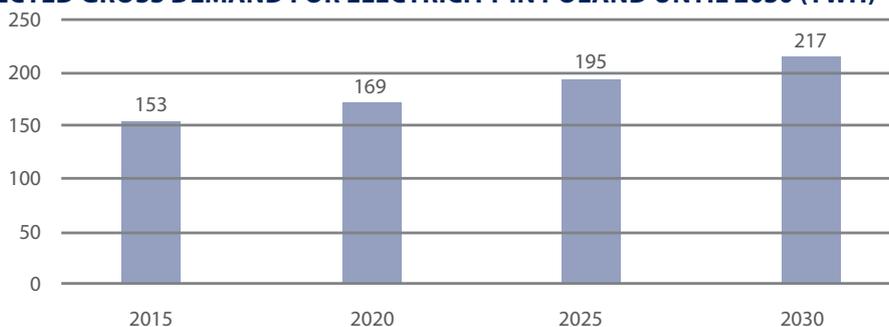
SOURCE: THE MINISTRY OF INFRASTRUCTURE.

The PBG Group sees a great potential for growth in the road construction segment. Historically, the PBG Group has focused on execution of low-value contracts on local markets. The Group will continue pursuing this strategy as it generates relatively high margins, reaching up to 10% in net profit terms. However, as the market grows, the PBG Group spots opportunities in the expressways and motorways construction segment. In 2010, the Group's efforts in this segment bore fruit in the form of several contracts, including the construction of A1 and A4 Motorways and S5 Expressway, for a total amount of over PLN 4bn.

POWER ENGINEERING

The market for power engineering projects in Poland will be one of the key growth drivers of the Polish construction sector in the coming years. Increasing capital expenditure in the power sector follows from a rising demand for power and the need to upgrade obsolete power plants. According to Eurostat, the annual consumption of electricity in Poland is 155 TWh (2010), ranking Poland sixth in Europe (after France, Germany, Great Britain and Spain). This is equivalent to consumption of 4 MWh per capita, in comparison with the average consumption of 6.5 MWh in the EU-15 countries.

GRAPH 12: PROJECTED GROSS DEMAND FOR ELECTRICITY IN POLAND UNTIL 2030 (TWH)



SOURCE: THE MINISTRY OF ECONOMY..

The Ministry of Economy forecasts a moderate growth of demand for electricity due to the projected use of the existing capacity reserves and implementation of efficiency measures throughout the entire economy. The demand for peak capacity will increase from 26 GW in 2010 to approximately 34.5 GW in 2030. The gross demand for electricity will rise from approximately 155 TWh in 2010 to approximately 217 TWh in 2030.

Poland is also required to implement the EU's 3X20% programme under Directive 2009/28/EC. The programme, scheduled for completion by 2020, provides for a 20% reduction in carbon dioxide emissions relative to 1990, a 20% share of energy from renewable sources in total energy supply and a 20% reduction of energy consumption.

Due to these requirements, nuclear power plants have been included in the cost-effective structure of Poland's electricity sources. Their construction, however, is hindered for organisational and technical reasons. According to "Poland's Energy Policy until 2030", the first nuclear unit will be completed in 2020. By 2030, three nuclear units should be in operation with a total net capacity of 4.5 GW (gross 4.8 GW). Additionally, in order to meet the EU's requirements with respect to renewable energy, Poland will have to generate approximately 31 TWh (gross) from renewable sources (18.4% of total electricity production), while in 2030 – 39.5 TWh (gross) from renewable sources (approximately 18.2%). Wind power plants will account for the largest share of overall production – in 2030 approximately 18 TWh or 8.2% of the estimated total gross energy production. The output of electricity generated in high efficiency cogeneration is expected to increase from 24.4 TWh in 2006 to 47.9 TWh in 2030. Its share in the domestic gross demand for electricity will rise from 16.2% in 2006 to 22% in 2030.

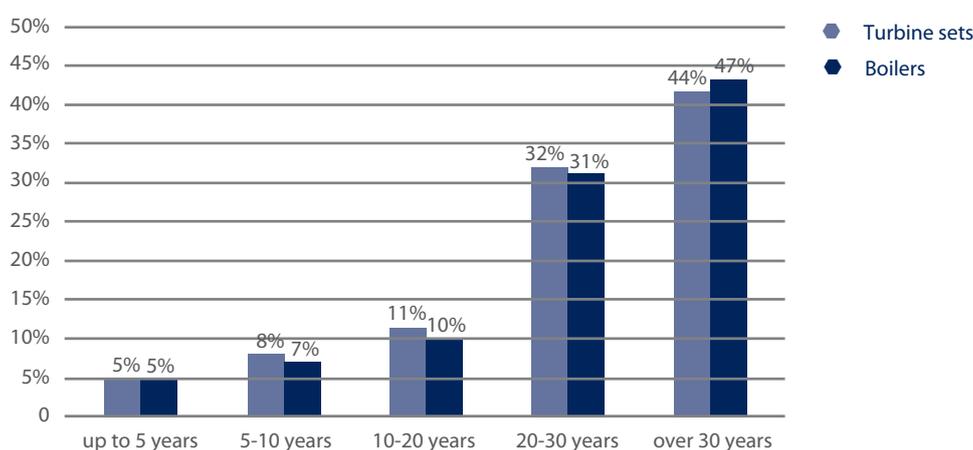
SOURCE: THE MINISTRY OF ECONOMY.

The average age of power units owned by Polish energy producers is 40 years, however, the in-service life of approximately one quarter of all units in Poland exceeds 40 years. Such old facilities emit large amounts of carbon dioxide which, according to the recommendation of the European Union, must be reduced by 20% by 2020. By the end of 2012, at least 4.1 GW capacities must be

upgraded. It is estimated that 15 GW of current generation capacities would have to be decommissioned by 2030 due to old age or environmental considerations. Depending on the source, over the next nine years **the power sector in Poland is expected to attract from PLN 150 to 200 billion in investments**. The four key players in the power sector, PGE, Tauron, Energa and Enea, plan to significantly increase their capital expenditure in the coming years. They want to focus not only on constructing new units powered by conventional energy sources but also on plants using renewable sources. The producers will also need to invest in keeping the existing units in operation. According to initial plans outlined by these operators, **PGE plans to invest PLN 30bn until 2013 and further PLN 63bn by 2023 (including in construction of a nuclear plant), Tauron wants to invest PLN 30bn by 2020, Energa – PLN 20bn by 2015, and Enea – PLN 20bn by 2020**. It should be noted that, apart from these four energy groups, major investment projects are to be implemented by foreign investors operating on the Polish market (RWE, Gdf Suez, CEZ, EDF and Fortum), as well as entities yet not directly involved in the power sector, such as PGNiG, PKN Orlen, Lotos, KGHM or Kulczyk Holding.

The Power Engineering in Poland 2010 – Development Forecasts and Planned Investments report prepared by PMR, shows that the most significant increase in the new production capacities is expected in 2014-2016, when the 8-10 GW power units will be placed in service. However, launching new production units in Poland and in the EU in 2016-2020 requires immediate investment decisions (due to the average age of the existing units), as well as formulation of assumptions for relevant tenders. According to the “capture ready” requirement, units with power capacities of at least 300 MW have to be prepared to include additional CO2 capturing and compression facilities. The concept of associated production of methanol and ammonium, in conjunction with generation of electricity through carbon gasification may come to dominate the Polish market in the near future, as it is perceived as a particularly interesting and innovative technology of carbon use in the power industry.

GRAPH 13: AVERAGE AGE OF THE POWER UNITS IN POLAND



SOURCE: THE ENERGY REGULATORY OFFICE.

TABLE 9: MAJOR TENDERS IN THE POWER ENGINEERING SECTOR IN 2011

No.	Project	Estimated value (PLN)
1.	Construction of power units No. 5 and No. 6 in PGE Elektrownia Opole S.A.	PLN 10bn
2.	Construction of a supercritical, coal-fired power unit (net power of min. 900 MWe) at Kozienice II Sp. z o.o.	PLN 5bn
3.	Development of new capacities in carbon technologies at PKE SA – construction of a supercritical power unit at the Jaworzno III Power Plant	PLN 5bn
4.	Construction of a new power unit at the Turów Power Plant	PLN 3.0bn
5.	Construction of a 430 MWe CCGT unit at the Stalowa Wola Power Plant	PLN 2.0bn
6.	Construction of a CCGT unit in Włocławek	PLN 2.0bn
7.	Design and performance of concrete works, supplementary equipment, air conditioning unit and a cooling tower for the power unit in Rybnik	PLN 1.5bn
8.	Installation of a flue gas catalytic denitrating unit for boilers OP-650 No. 4,5,6,7,8, at Elektrownia Kozienice S.A.	PLN 400m
9.	Fortum Wrocław – heat recovery steam generator (turbine power - 280-320 MW)	PLN 400m
10.	Construction of a 20 MWe biomass-fired power unit at ENERGA Kogeneracja Sp. z o.o. in Elbląg	PLN 200m

4. SEGMENT OPERATIONS

The PBG Group offers comprehensive design, mechanical, construction, process control and measurement services in the following areas:

- facilities for production, processing, transmission and storage of natural gas, crude oil and fuels;
- civil engineering in environmental protection, water engineering and rehabilitation of water and sewage piping;
- industrial and building construction;
- road construction.

We implement modern and environmentally friendly technologies, and continuously increase our execution capabilities. Our financial resources allow us to execute the largest construction contracts in Poland and participate in international projects. We manage our budgets consciously, thus winning the trust and confidence of financial institutions.

Knowledge and experience of well trained and specialist engineers and executive staff are the basis of our success. Matrix team management provides for flexibility in dealing with clients' needs or changing conditions of project execution.

We are a leader in execution of earth, construction, road, process, installation and electric works, as well as in industrial process control, measurements, and cathodic protection.

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

- **natural gas, crude oil and fuels;**
- **water;**
- **industrial and residential construction;**
- **road construction.**

4.1. NATURAL GAS, CRUDE OIL AND FUELS SEGMENT

We have introduced to the Polish market a method of working on active gas pipelines in air-tight conditions, invented by T.D. Williamson. In 1999 we were the first in Poland to design and perform, under a general contractor formula, an unmanned gas production facility. We were also the first in Poland to design and construct a liquefied natural gas (LNG) regasification unit. The unit is used to supply gas and heat to towns and municipalities, as well as to industrial customers. We design and build co-generation systems, as well as CNG and LCNG units.

The technologies we have developed and the experience acquired while developing the natural gas production facility are now being used in the development of an oil field. In 2003, we built our first unmanned crude production facilities. In 2005, following the introduction of more stringent requirements in the area of environmental protection, we were the first in Poland to construct a formation water purification system. A year later we designed and implemented a system of underground crude oil heating to facilitate its extraction.

Moreover, the PBG Group provides general contracting services relating to projects involving construction of new facilities and modernisation of the existing fuel terminals, together with auxi-

liary infrastructure. In the area of construction and repair of storage tanks, we also conduct work on active facilities. The Group is engaged in projects, commissioned by NATO, involving modernisation and extension of the existing storage facilities for propellants and lubricants and delivery and execution of underground storage tanks for F-16 jet fighters at the military bases throughout Poland. The execution of military construction projects requires access to classified information marked as "CONFIDENTIAL". We are one of the few contractors in Poland that meet the investor's requirements in that respect.

In the area of natural gas we design and deliver the following:

- glycol gas dehydration units
- molecular sieves
- amine units
- LNG gas liquefying units
- mercury removal systems
- hydrogen sulphide removal systems
- nitrogen removal units
- LPG and C5+ fractionation units
- LNG regasification stations
- pressure-reduction and measurement stations, measurement and settlement stations
- gas mixing plants and distribution nodes in transmission networks
- gas pipelines with auxiliary infrastructure
- compressors, etc.

The technologies we have developed and the experience acquired while developing the natural gas production unit are now being used in the development of an oil field.

In 2003, we built our first unmanned crude production facilities.

In 2005, in connection with more stringent requirements in the area of environmental protection, we were the first in Poland to construct a formation water purification system. A year later we designed and implemented a system of underground crude oil heating to facilitate its extraction.

In the area of crude oil we design and deliver the following:

- two-phase separation units
- three-phase separation units
- stabilising units
- chlorides removal units
- sulphur removal units
- hydrogen sulphide removal units
- -mercaptans removal units.

In the area of liquid fuel terminals we provide comprehensive services involving:

- civil engineering design and supervision
- overhead and underground process installations for fuel handling and storage
- gasoline vapour recovery units
- unloading and handling units
- additive dosing systems
- security and monitoring units
- sanitary units
- power and process-control systems
- power generator containers and emergency power supply systems
- control and monitoring units
- comprehensive fire protection systems
- elements of railway infrastructure (tracks, sidings)
- spill containments
- steelwork structures
- anti-corrosion protection
- concrete and asphalt roads and yards.

We also offer:

- shop prefabrication and assembly of steelwork structures for refinery furnaces
- overhauls and upgrading of refinery plants.

PBG GROUP COMPANIES OPERATING IN THE NATURAL GAS, CRUDE OIL AND FUELS SEGMENT



The Company provides comprehensive, specialist contracting services for natural gas, crude oil, and fuel facilities. It acts as a general contractor or sub-contractor with respect to: engineering design work, construction, repairs, operation, and maintenance in the field of: production of natural gas and crude oil; transmission of natural gas and crude oil; and storage of natural gas, fuels, LNG, LPG, C5+, and CNG. In the fuels segment, the PBG Group provides general contracting services involving construction of new facilities and modernisation of existing fuel terminals, together with auxiliary infrastructure.



Excan Oil and Gas Engineering LTD. is an engineering company involved in designing and marshalling deliveries for equipment used to build natural gas and crude oil facilities. The company is based in Edmonton (Alberta), Canada.

GasOil Engineering A.S.

GasOil is an engineering, design, and execution company with international presence. The company offers analyses, preparation of studies, design work, financial analysis, project management, turn-key deliveries and supervision over the execution of natural gas and crude oil contracts. The company is based in Poprad, Slovakia.

SALES

Poland is our key market for the services in the natural gas and crude oil segment. The addition to our Group of GasOil Engineering, which sells its services on international markets (including: Germany, the Czech Republic, Israel and Ghana) was an important move in terms of gaining a foothold on foreign markets. The largest customers for the Group's services in this segment are PGNiG and Gaz-System.

TABLE 10: SALES OF SERVICES IN THE NATURAL GAS AND CRUDE OIL SEGMENT

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
natural gas, crude oil and fuels (transmission, distribution, production)	791 883	483 128	+308 755	+64

The percentage share of the natural gas, crude oil and fuels segment in the Group's total sales revenue in 2010 was 29%, having increased by 64% year on year. In connection with execution of a PLN 1.4bn contract for development of an oil field for Polskie Górnictwo Naftowe i Gazownictwo S.A., and of a PLN 1.1 bn contract for construction of an underground gas storage facility in Wierzcho-wice in 2008, as well as the contract of the highest value in the market's history (currently PLN 2.2bn net) for construction of the LNG terminal in Świnoujście in 2010, PBG expects that its sales revenue from the natural gas and crude oil sector will rise in the years to follow. The contracts are currently the most significant among those carried out by the PBG Group.

4.2 WATER SEGMENT

Projects executed by the Group in the water segment are aimed to reduce the pollution of wa-ter, soil and air. Thus, our activities in this area help significantly improve the condition of the natural environment. The Group comprehensively executes water engineering, environmental protection, and water and sewage construction projects. We have the required equipment, financial means and human resources to secure and independently execute even the largest projects. We are the leader in the market of pipeline rehabilitation services. We use state-of-the-art technologies of trenchless rehabilitation, maintenance and repair of underground pipeline systems.

In the environmental protection field we deliver:

WATER

- water treatment plants
- water mains and supply systems
- rehabilitation of water supply systems
- process control and measurements
- electrical installations
- design services
- anti-corrosion protection

SEWAGE

- wastewater treatment plants
- trunk sewers and sewer systems
- rehabilitation of sewer systems
- process control and measurements
- electrical installations

WASTE

- waste management plants
- landfills
- reclamations
- process-control and measurements
- electrical installations.

In the hydro-engineering field we deliver:

- hydro-engineering tanks and reservoirs (dry and wet, flood protection, agricultural)
- river regulations
- damming structures, barrages
- locks
- hydroelectric power stations
- transport infrastructure constructions (bridges), etc.

PBG GROUP COMPANIES OPERATING IN THE WATER SEGMENT



Hydrobudowa Polska S.A. specialises in comprehensive execution and maintenance of civil and water engineering, environmental protection, and water supply and sewage projects.



Hydrobudowa 9 S.A. provides building services for environmental protection and water engineering structures, roads and building construction.



The company provides construction services for water supply, sewage, heating, and gas systems; land reclamation for water construction, sewage-treatment plants; and construction of roads and yards..



KWG S.A. specialises in the execution of infrastructure projects in the environmental protection sector, such as water supply and sewage systems, intermediate pumping stations and sewage treatment plants, as well as high-, medium- and low-pressure gas systems, pressure reduction and metering stations, and gas boiler houses.



AQUA S.A. is a leader in the Poznań region in engineering design, specialising 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. It provides a comprehensive execution of projects at all stages, from the initial concept to function and usability programmes to civil engineering design and supervision, to commissioning of the complete facilities. The company is listed on the New Connect market.

SALES

We provide services in the water segment across the entire country, as the Group works for various entities whose projects are executed at specifically designated locations. The Group's main customers include local government units and water utilities, including businesses owned by local governments.

TABLE 11: SALES OF SERVICES IN THE WATER SEGMENT

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
water (water engineering and environmental protection, pipeline rehabilitation)	644 019	996 045	-352 026	-35

The water segment is another crucial area of the PBG Group's operations. In 2010, it accounted for 24% of sales revenue, compared with 39% in 2009. Contracts in the water segment are co-financed by the European Union, are characterised by large unit values and related to environmental protection and water engineering projects. The 2007–2013 EU budget approved for Poland includes EUR 63bn for projects in such areas as infrastructure, environmental protection and water engineering, which makes us believe that the market will continue to offer attractive opportunities over the next several years.

4.3. INDUSTRIAL AND RESIDENTIAL CONSTRUCTION SEGMENT

Projects executed by the PBG Group in this business segment involve infrastructural construction services for residential and industrial property, as well as commercial property development based on own land and structures. At present, the largest contracts in this business segment include the construction and modernisation of stadiums in Poznań, Gdańsk and Warsaw in connection with the EURO 2012 Football Championships to be held in Poland.

In the field of industrial and building construction we arrange and deliver:

- ◆ sports venues – stadiums
- ◆ industrial infrastructure
- ◆ waste sorting facilities
- ◆ necessary permits and decisions
- ◆ levelling services
- ◆ drainage
- ◆ piling
- ◆ foundations
- ◆ yards
- ◆ concrete and steelwork structures
- ◆ connection of utilities to buildings and structures
- ◆ electric wiring
- ◆ central heating and hot water systems
- ◆ ventilation, air-conditioning, and heating.

We also:

- ◆ build residential and commercial compounds
- ◆ prepare new development concepts
- ◆ manage and trade in real property
- ◆ clarify the legal status of real property
- ◆ organise formal and legal structure of development projects.

PBG GROUP COMPANIES OPERATING IN THE INDUSTRIAL CONSTRUCTION SEGMENT

Projects related to sports facilities – **Hydrobudowa Polska, PBG**

Projects related to waste sorting plants – **Hydrobudowa Polska, Hydrobudowa 9**



P.R.G. Metro Sp. z o.o. is one of the general contractors of tunnels for the Warsaw underground railway, as well as its associated facilities, such as tunnel ventilation plants, turnout chambers, underground passes and microtunnels. In 2001, the company diversified into the water supply and sewage market. P.R.G. Metro strengthened the execution capacity of Hydrobudowa Polska S.A., allowing it to diversify into completely new markets (e.g. the construction of the Warsaw underground railway).

PBG GROUP COMPANIES OPERATING IN THE RESIDENTIAL CONSTRUCTION SEGMENT



PBG Dom Sp. z o.o. operates in the property development sector. Currently it is involved in the construction of a residential estate in Lusówko, near Poznań. The company also manages real property and land owned by all the PBG Group companies. PBG Dom is the Group's leading company in the residential construction segment.

PBG DOM INVEST I Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG INVEST III Sp. z o.o.

The company operates in the construction and property development sectors.

PBG DOM Invest III Sp. z o.o. sp. k.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest IV Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest V Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest VI Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest VII Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest VIII Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest IX Sp. z o.o.

A special purpose vehicle established to execute a property development project.

PBG DOM Invest X Sp. z o.o.

A special purpose vehicle established to execute a property development project.

Gdyńska Projekt Sp. z o.o.

The company's business consists in the purchase, sale, lease and management of real property. The company operates in the construction and property development sectors.

Górecka Projekt Sp. z o.o.

The company operates in the construction and property development sectors.

Złotowska 51 Sp. z o.o.

The company's business consists in the construction of dwelling units for sale or rent. The purpose of the investment in the company is to jointly execute a property development project.

City Development Sp. z o.o.

A special purpose vehicle established to execute a property development project.

Villa Poznań Sp. z o.o.

The company's purpose is to execute a property development project.

Kino Development Sp. z o.o.

A special purpose vehicle established to execute a property development project.

Quadro House Sp. z o.o.

A special purpose vehicle established to execute a property development project.

SALES

The industrial and residential construction services are provided to customers throughout Poland.

TABLE 12: SALES OF SERVICES IN THE INDUSTRIAL AND RESIDENTIAL CONSTRUCTION SEGMENT

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
industrial and residential construction (construction, infrastructure for industrial facilities)	995 284	877 489	+117 795	+13

In 2010, the share of the industrial and residential construction segment in the Group's total sales revenue was 36%, up 2% on 2009. As was expected in connection with the new opportunities on the market for infrastructural projects, such as construction of infrastructure facilities, waste sorting or incineration plants in the largest Polish cities, the PBG Group's sales revenue in the industrial construction segment grew significantly relative to the previous year and is likely to continue the growth in the coming years. Currently, the largest projects implemented in the segment include contracts for construction of the National Stadium in Warsaw for PLN 1.252bn and construction of the Baltic Arena stadium in Gdańsk for PLN 427m.

4.4. ROAD CONSTRUCTION SEGMENT

In the road construction segment, the PBG Group carries out projects relating to road and bridge construction works. The Group operates a bitumen mastic production plant and research laboratories, which oversee the production operations. Mineral and bitumen mastics produced by the Group meet the highest standards and are designed to be used for roads carrying heavy traffic volumes.

Our road construction offer includes:

- construction and modernisation of roads and streets of various functional categories
- execution of comprehensive road construction works, including:
 - earth works
 - sewage systems
 - drainage systems
 - support
 - bitumen and cement surface works
 - execution of bridge construction works
 - production of bitumen mastic in variety of standards
 - production of various classes of concrete
 - cold recycling of roads and yards
 - stabilisation and solidification of soil
 - production of mineral-bituminous mixes
 - road surface milling
 - construction waste recycling
 - equipment and transport services
 - wide range of laboratory tests.

PBG GROUP COMPANIES OPERATING IN THE ROAD CONSTRUCTION SEGMENT



APRIVIA S.A. is responsible for the consolidation of the road construction segment companies and the strengthening of the PBG Group's position in the area of road construction, including for securing and performing contracts and for arranging financing.



Dromost Sp. z o.o. 's business consists in construction of transport infrastructure and the production of bitumen mastics.



PRID S.A. provides services involving road and bridge construction and engineering works, including earth works, construction of sewage systems, culverts, various road bases, soil stabilisation, and surface works involving both bitumen and cement. The company operates a bitumen mastic production plant and a research laboratory.



BETPOL S.A. 's business consists mainly in the performance of road works, including cold recycling using foamed bitumen and milling of bitumen and cement surfaces. Betpol also produces cold-mixed mineral and bitumen blends and ready-mixed concrete. The company also provides services relating to demolition work, constructs steel structures and performs assembly and construction works, as well as installation and reinforced-concrete works. The addition of Betpol to the PBG Group has strengthened the Group's capabilities in road construction.



BROKAM Sp. z o.o. owns the land and holds a licence for production of aggregate. The addition of the company to the PBG Group provided the Group's road construction companies with access to the source of materials used in road construction.

BATHINEX Sp. z o.o.

The company owns land and a license for production of aggregate from the Brodziszów-Kłóśnik field with reserves of granodiorite, an acidic fine-crystalline intrusive igneous rock. The addition of the company to the PBG Group provided the Group's road construction companies with access to the source of materials used in road construction.

STRATEG CAPITAL Sp. z o.o.

Special purpose vehicle established to implement a quarry project in Tłumaczów, to manage the field and to sell aggregates

HBP DROGI Sp. z o.o.

Special purpose vehicle established to acquire and execute an infrastructural project.

SALES

At present, the road construction companies are seeking to win and are executing contracts for construction of local roads, expressways, and motorways across Poland.

TABELA 13: SPRZEDAŻ USŁUG Z SEGMENTU BUDOWY DRÓG

Sales revenue	2010 (PLN '000)	2009 (PLN '000)	Change (PLN '000)	Change (%)
roads (road construction)	298 868	187 022	+111 846	+60

In 2009, the share of revenue from the road construction segment in the Group's total sales was 7% and remained flat on the previous year. The segment's revenue grew by 32% over the end of 2008, from nearly PLN 141m to PLN 187m.

4.5. OTHER OPERATING AREAS

In addition, there are also seven other companies in the PBG Group which operate in separate areas, not covered in the description above.

CONTRACTING SERVICES



The company conducts production and assembly activities, including: production and assembly of steel structures, production and assembly of equipment and facilities, production and assembly of steel tanks, construction of complex industrial units, including in particular for the petrochemical industry. Additionally, in the future the company will also provide construction services..

PBG Operator Sp. z o.o.

Special purpose vehicle established to acquire and execute an infrastructural project.

FOREIGN OPERATIONS

PBG UKRAINA Publiczna Spółka Akcyjna (public company limited by shares)

PBG Ukraina was set up with a view to conducting business primarily involving research of the Ukrainian market and establishing contacts local companies operating in the construction and related-services sector.

Wschodni Invest Sp. z o.o.

Wschodni Invest Sp. z o.o. holds in its portfolio and manages the property development business of Energopol Ukraina.

Energopol Ukraina

The company holds a legal title to a land property with an area of 63,000 m² located in Kiev, where a 250,000 m² development project is planned. The company provides a wide range of services in the investment process, including general construction, production and design works. It is experienced in trading and works related to upgrading/modernising industrial facilities.

PBG Bułgaria Sp. z o.o.

Representative office whose purpose is to conduct research on the Bulgarian market and establish contacts with local companies operating in the construction and related-services sector.

NEW AREA OF ACTIVITY – POWER ENGINEERING



Energomontaż Południe S.A. specialises in the assembly, upgrade and repairs of equipment and facilities for utility and industrial power plants, and CHP plants. The company actively participates in the construction of new, complete power facilities. In this respect, Energomontaż performs work in the following areas: power boilers, related facilities and systems, steam pipelines, process pipelines, flue gas ducts, air ducts and steel structures. Energomontaż-Południe S.A. also provides assembly services and delivers process equipment to coking plants, cement plants, chemical plants and refineries.



The company bids for contracts in the power sector and supervises their execution.

SUPPORT FUNCTIONS

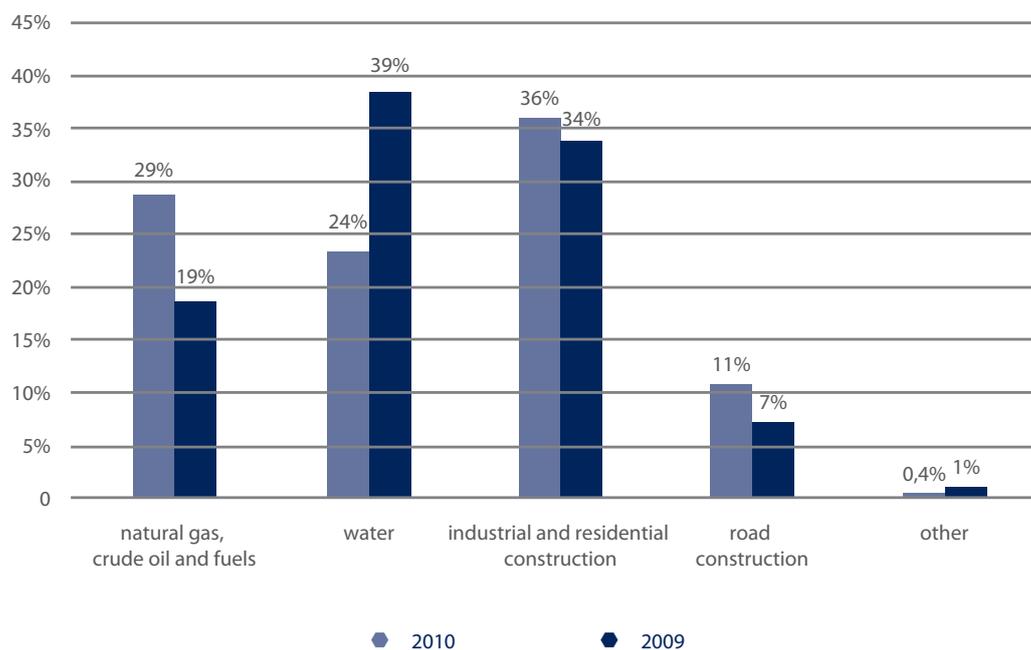


AVATIA Sp. z o.o.

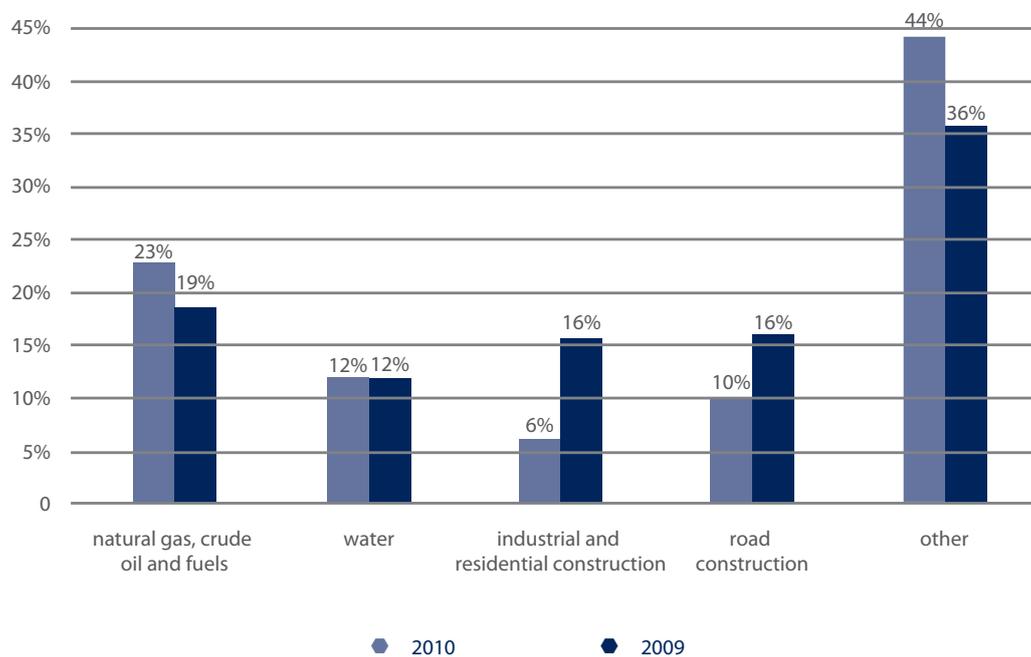
The company provides IT services, including IT consultancy, implementation of IT systems, data processing and services relating to IT and computer-based technologies. As a member of the PBG Group, Avatia provides IT support to the entire PBG Group.

BUSINESS SEGMENTS' SHARES IN THE GROUP'S OPERATIONS, AND MARGINS

GRAPH 14: SHARE OF THE PBG GROUP'S BUSINESS SEGMENTS IN SALES REVENUE IN 2009–2010



GRAPH 15: GROSS MARGINS IN THE PBG GROUP'S BUSINESS SEGMENTS IN 2009–2010



5. EMPLOYEES

The PBG Group adheres to high ethical business standards in building partner relations with its clients, communities, markets and employees. The Company's personnel are guided by the principles of professionalism, responsibility, reliability, credibility and fair competition in interactions with other entities, clients and in personal relations.

Experience, education and ambition of employees is the most important asset of the PBG Group. Each employee is ready to assume full responsibility for the assigned tasks. The exceptional organisational culture and family atmosphere develop awareness of the contribution that every one of us makes to the success of the Group.

The PBG Group effectively conveys to the employees its expectations and objectives to be met. OUR personnel duly perform their respective professional duties and maintain good relations with clients and partners, which in turn consistently improves the internal and external perception of the Group.

The Group's HR management policy focuses primarily on continuous training and improvement of employee skills, which provides the employees with the opportunity of professional development and, eventually, promotion. Regardless of a position in the hierarchy, all employees enjoy equal access to in-service training. The employer responds to the employees' needs and enables them to improve their qualifications in line with their job descriptions and prospects of further career development.

GRAPH 16: HEADCOUNT AT YEAR END (SPANNING FIVE YEARS)

