Wysogotowo, March 26th 2013

PBG Group – 2012 Full Year Financial Results

One of the key factors with a bearing on the 2012 performance was recognition of impairment losses on some of the Group's assets. It should be noted, however, that the write-downs were caused by the difficult financial condition of the Company and its subsidiaries. The Company also recognised provisions for contingent liabilities under guarantees and sureties issued, provisions for liabilities incurred through joint and several liability assumed under contracts, and provisions for restructuring costs, whose total amount is estimated at approximately PLN 800m. It is important to note that potential cancellation/conversion of debt – which would enable the Company to return to a positive equity position – may not be recognised in the books until an arrangement with creditors, still being negotiated, is reached.

PBG:

- **In 2012, PBG took in revenue of PLN 224m, which was down by 77% year on year.**
- **Gross loss totalled PLN 121m, compared with gross profit of PLN 146m posted in 2011.**
- **EBITDA was at PLN -1.990bn, relative to PLN 197m a year earlier.**
- **Operating loss amounted to PLN 2.032bn, compared with operating profit of PLN 180m in 2011.**
- **Net loss totalled PLN 2.322bn. A year earlier the Company reported net profit of PLN 93m.**
- **The Company's equity was negative.**

PBG Group:

- **In 2012, the PBG Group took in revenue of PLN 1.84bn, which was down by 50% year on year.**
- **Gross loss totalled PLN 918m, compared with gross profit of PLN 349m posted in 2011.**
- **EBITDA was at PLN -3.379bn, relative to PLN 329m a year earlier.**
- **Operating loss amounted to PLN 3.519m, compared with operating profit of PLN 269m in 2011.**
- **Net loss attributable to owners of the parent was PLN 2.849bn, relative to net profit of PLN 161m in 2011.**
- **The RAFAKO Group, with revenue of PLN 1.145bn and net profit of PLN 10.7m, was the largest contributor to the PBG Group's performance.**
- **The Group's equity was negative.**
- **The value of the Group's order book as at the beginning of 2013 totalled PLN 5.9bn. Of that amount, PLN 1.3bn were contracts scheduled for execution in 2013, with the balance representing contracts planned for execution in the following years.**
- **Contracts in the power construction segment account for approximately 86% of the backlog value, with projects in the gas and crude oil segment accounting for the other 14% (as at January 1st 2013).**

- **The Group's total amounts due from customers for construction contract work as well as trade and other receivables were in excess of PLN 1.078bn as at the end of December 2012. Amounts due to customers for construction contract work as well as trade and other payables totalled PLN 976m.**

Summary of PBG's 2012 full year results

PBG's income statement (PLN '000)	2012	2011
Net revenue from sales of products, services, merchandise and materials	224,014	964,135
Cost of sales	344,710	817,801
Gross profit (loss)	**-120,696**	**146,334**
Administrative expenses	113,271	31,015
Profit on sales	**-233,967**	**115,319**
Other income	71,927	93,024
Other expenses	1,837,560	28,018
Restructuring costs	32,023	-
Operating profit (loss)	**-2,031,623**	**180,325**
Finance costs	308,452	63,355
Profit (loss) before tax	**-2,340,075**	**116,970**
Income tax expense	17,531	(24,079)
Net profit (loss)	**-2,322,544**	**92,891**

The Company's net loss as at the end of 2012 was PLN 2.323bn. Such a high loss was primarily due to revaluation of the Company's assets, as well as to gross loss of nearly PLN 121m. The 2012 results show a clear downward trend at all levels of the income statement. With revenue of PLN 224m, the Company's cost of sales reached nearly PLN 345m. Such low revenue relative to the historical sales volumes is connected with the Company's current situation – PBG is in company voluntary arrangement. The Company's financial performance was also negatively affected by the execution of the following contracts:

1. Construction of the Malczyce Barrage - due to the fact that the contracting party (Maxer in bankruptcy by liquidation) did not extend the contract to cover the remaining scope of work, uninvoiced revenue estimated at the beginning of the year was revised in the course of 2012, from PLN 15.8m (as at January 1st 2012) to the amount of invoices issued, i.e. PLN 5.6m. Other estimated receivables on costs incurred were not recognised in the process of the final contract settlement or there is high risk that these receivables will not be enforced against the contracting party (which relate to PLN 3.3m).
2. "Construction of the Wierzchowice Underground Gas Storage Facility" – the Company recognised PLN 56.5m under contractual penalties for failing to meet the originally agreed deadline.
3. "Conversion of boiler OP230" – the Company recognised PLN 12m under contractual penalties for failing to meet the originally agreed deadline and the required technological parameters.

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4. "Construction of underground fuel tanks for NATO contract" – the financial result on the contract was PLN 26.8m. The figure is attributable to review of the project's cost budget in Q2 2012, which led to a change (decrease) in previously presented amounts due under contracts.
5. "Construction of the LNG Terminal in Świnoujście" – in 2012, the contract earned PLN 682 thousand of profit. Following review of the cost budget at the end of 2012 by the LNG consortium, the project failed to generate the expected profit of approximately PLN 23m in 2012. The revaluation was a part of the consortium's deliberate strategy aimed at creating additional incentives encouraging faster completion of the contract and higher work efficiency, mitigating the risk of failure to meet the deadline. The consortium and the contracting party are currently discussing the amount of potential claims payable to the contracting party, as well as the possibility of extending the scope of the project to include work related to increasing the capacity of the facility, which has been publicly announced by the contracting party.

Further, over the past few months, PBG did not win any new orders and is currently finishing work under contracts in the current order book. As at January 1st 2013, the value of PBG's order book was approximately PLN 825m, of which about PLN 485m represents orders to be executed in 2013, with the balance of about PLN 340m scheduled for execution in the following years.

Administrative expenses, at PLN 113.3m, were nearly four times higher compared with the corresponding period of the previous year. Such significant growth was attributable to recognition of all expenses incurred to secure new contracts, which the Company was permitted to capitalise pursuant to IAS 11 prior to execution of the contracts. With the Company declared insolvent, there was an indication that these assets may not be realised and it was therefore necessary to charge them to profit or loss (PLN 55.5m). In 2012, PBG also recognised all expenses incurred to raise financing, which were previously capitalised, due to on-going negotiations on financing (PLN 18m).

Other expenses totalled PLN 1.838bn, including:

- PLN 780m provision for contingent (off-balance-sheet) liabilities under sureties and guarantees issued and under joint and several liability to subcontractors related to projects performed under consortium agreements;
- PLN 291m impairment losses on loans advanced, including on loans advanced to:
  - ✓ PBG Dom (PLN 98m), Energopol Ukraina (PLN 23m), Wschodni Invest (PLN 21m), Bathinex (PLN 14m), Metorex (PLN 8m), Awdar (PLN 18m), Infra (PLN 30m), Kan – Gaz (PLN 18m), Sowiński (PLN 26m);
  - ✓ PLN 88m impairment losses on loans advanced which under Art. 14.3 of the Commercial Companies Code were deemed contribution to the company that received such financing. Pursuant to Art. 14.3 of the Commercial Companies Code, shareholder's receivables under a loan advanced to a company are deemed the shareholder's contribution to the company if the company is declared bankrupt within two years from the date of the loan agreement. The Company recognised also PLN 134m impairment losses on receivables past due by more than 180 days (with due account taken of established security) and on receivables from the related entities which filed for bankruptcy by liquidation or for insolvency with arrangement option;

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- PLN 305m loss on investments in related entities. The amount comprises impairment losses on investments in subsidiaries (including: shares in Energomontaż Południe SA – PLN 149m, Wschodni Invest Sp. z o.o. – PLN 42m, PBG Dom – PLN 70m, Bathinex – PLN 12m, PBG Erigo – PLN 5m),
- PLN 34m remeasurement of fair value of investment property. The Company remeasured the following items:
  - ✓ Undeveloped land property located in Łeba, Gdańsk Province, – PLN 28m impairment loss resulting from remeasurement to fair value,
  - ✓ Developed land property located in Wysogotowo, near Poznań, Poznań Province, ("Fabryka Smaków" restaurant) – PLN 6m impairment loss resulting from remeasurement to fair value;
- The Company recognised impairment losses on the following categories of property, plant and equipment and intangible assets (a total of PLN 27m):
  - ✓ PLN 9m on office building "J" in Wysogotowo,
  - ✓ PLN 9m on property, plant and equipment leased by the Company. Impairment tests revealed that the carrying amount exceeds the recoverable amount, and thus the Company recognised impairment loss to reduce the carrying amount to the recoverable amount,
  - ✓ PLN 6m on the process line for resin impregnation of liners used in the trenchless rehabilitation of sewage systems,
  - ✓ PLN 3m on a project involving knowledge management and information security in IT systems.
- The Company recognised a PLN 91m loss on disposal of equity instruments, including:
  - ✓ PLN 56m on the shares of Hydrobudowa Polska SA w upadłości likwidacyjnej (in bankruptcy by liquidation), following foreclosure and sale by Polski Bank Przedsiębiorczości SA of the security for receivables under credit facility,
  - ✓ PLN 15m on the shares of RAFAKO,
  - ✓ PLN 19m on the shares of AQUA, following foreclosure by Polski Bank Przedsiębiorczości SA of the shares securing repayment of credit facility

Restructuring costs – the Company recognised a PLN 32m provision for restructuring costs.

Finance costs totalled PLN 310m. The key items included:

- PLN 236.7m of impairment losses on available-for-sale financial assets. The amount includes impairment losses on investments, including investments in HYDROBUDOWA POLSKA SA w upadłości likwidacyjnej (in bankruptcy by liquidation) – PLN 136m, APRIVIA SA w upadłości likwidacyjnej (in bankruptcy by liquidation) – PLN 72m, and PBG Technologia Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) – PLN 24.2m;
- PLN 38.1m of interest on outstanding bonds;
- PLN 19.2m of interest, fees and commission due to banks;
- PLN 13.6m impairment loss on interest accrued on bonds purchased from Strateg Capital Sp. z o.o. w upadłości układowej (in bankruptcy by liquidation).

The factors/developments described above contributed to a net loss of over PLN 2.3bn in the reported period; please note that the revaluation of the Company's assets was related to its difficult financial situation, but even more so with the difficult situation of its subsidiaries.

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Summary of PBG Group's 2012 full year results

PBG Group's income statement (PLN '000)	2012	2011
Net revenue from sales of products, services, merchandise and materials	1,839,592	3,670,739
Cost of sales	2,758,005	3,321,545
Gross profit (loss)	**-,918,413**	**349,194**
Distribution costs	59,693	9,206
Administrative expenses	274,483	128,277
Profit on sales	**-1,252,589**	**211,711**
Other income	499,421	121,246
Other expenses	2,734,089	63,645
Restructuring costs	32,023	-
Operating profit (loss)	**-3,519,280**	**269,312**
Finance costs	158,254	57,887
Share of profit (loss) of equity-accounted entities	-5,791	-7,181
Profit (loss) before tax	**-3,683,324**	**204,244**
Income tax expense	7,262	33,586
Net profit (loss)	**-3,690,586**	**170,658**
- owners of the Parent	**-2,849,295**	**160,883**
- non-controlling interests	-841,291	9,775

The PBG Group's revenue fell to PLN 1.84bn, that is by 50% year on year. Consolidated revenue was negatively affected by the following contracts described in the section devoted to PBG's separate performance: "Construction of the Malczyce barrage", "Conversion of boiler OP230" and "Construction of the LNG terminal in Świnoujście". Their impact on consolidated performance was exactly the same as on separate performance. Consolidated results on the contracts "Construction of the Wierzchowice Underground Gas Storage Facility" and "Construction of underground fuel tanks for NATO contract" were reduced by losses incurred by Hydrobudowa Polska (PLN -21m) and PBG Technologia (PLN -37m) on their respective scopes of work. Additionally:

1. At subsidiaries, provisions of PLN 54m were recognised to cover possible contractual penalties for failure to meet the originally agreed deadlines.
2. In the valuation of the running contracts subsidiaries recognised provisions for losses, in a total amount of PLN 32.6m as at the balance-sheet date.
3. The highest losses were sustained on road contracts at Hydrobudowa Polska and Aprivia.

Administrative expenses, at PLN 274m, were nearly two times higher compared with the corresponding period of the previous year. This increase was due to the factors specified above in the section devoted to PBG's separate results. Other contributors to the increase included consolidation of the results of Energomontaż Południe and RAFAKO for the full year 2012 (in 2011 Energomontaż Południe was consolidated since July, and RAFAKO since November).

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Other expenses of the PBG Group totalled PLN 2,734bn. The key items of other expenses were:

- Impairment loss on financial assets available for sale, of PLN 412.9m, recognised by the Parent. This item comprised impairment losses on the following assets:
  - ✓ PBG Technologia – PLN 24.2m,
  - ✓ Aprivia – PLN 72m,
  - ✓ Hydrobudowa Polska – PLN 136m,
  - ✓ Gas & Oil Engineering – PLN 6.3m,
  - ✓ Poner – 2.9m,
  - ✓ Galeria Kujawska – PLN 11m,
  - ✓ PBG Erigo Projekt Sp. z o.o. Platan Hotel SKA – PLN 8.5m,
  - ✓ Dromost – PLN 6.6m,
  - ✓ Betpol – PLN 46m,
  - ✓ PRID – PLN 22.4m,
  - ✓ PRG Metro – PLN 55.2m.
- Impairment losses on goodwill – PLN 219.2m, including:
  - ✓ Energomontaż Południe – PLN 191.5m,
  - ✓ Strateg Capital – 12.2m,
  - ✓ Bathinex – PLN 10.7m,
  - ✓ Energopol Ukraina – PLN 2.4m.
- Impairment losses on advanced loans, of PLN 148.8m. Impairment losses on advanced loans were recognised by the following companies (key items):
  KWG – PLN 18.2m, PBG DOM Group – PLN 50.8m; RAFAKO (on the loan advanced to Hydrobudowa) – PLN 12.8m, PBG – PLN 66m;
- Loss on investment in related entities of PLN 29.5m (including on shares in Strateg Capital – PLN 16.4m (result after accounting for the acquisition of control), shares in RAFAKO – PLN 14.7m (result on sale of 4.99% of the shares);

Restructuring costs – the Parent recognised a PLN 32m provision for restructuring costs.

Finance costs totalled PLN 158m. The key items included:

- Impairment losses on loans (classified in financing activity) of PLN 75.4m.
  These impairment losses were recognised by the following companies:
  - ✓ Hydrobudowa Polska Group – PLN 60m,
  - ✓ RAFAKO Group – PLN 13.5m,
  - ✓ Aqua – PLN 1.7m,
  - ✓ PBG – PLN 124 thousand.
- PLN 60.5m of interest, fees and commission due to banks;
- PLN 21.3m of interest on outstanding bonds;

The factors/events described above translated into a PLN 2.849bn net loss attributable to owners of the Parent.

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2013

The Group started the year 2013 with a backlog of orders worth PLN 5.9bn, of which PLN 1.3bn are due for execution in 2013. Contracts in the power construction and the gas, oil and fuels segments account for nearly 86% of the total value of the backlog. Please note that the order book no longer includes road or industrial construction contracts.

As large-scale plans are afoot to modernise Poland's power generation assets, power construction is set to become one of the most prospective business segments in the years to come. Therefore, the Group decided to shift its business focus even further towards services for the power industry. A stepping stone in the pursuit of that new strategy was the closing in 2012 of the acquisition of RAFAKO, around which the Group intends to develop its power construction business. In order to actively expand this business line, PBG Group companies will bid for all major power sector projects up for tender in Poland.

Despite the impairment losses on part of assets, the Company and its subsidiaries make every effort to maximise the recoverable amount of assets held. The recognition of so many impairment losses is largely attributable to the IFRS and IAS requirements and does not mean that the potential future proceeds from the disposal of assets will not be higher.

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