DIRECTORS' REPORT ON THE OPERATIONS OF PBG S.A.

for the period January 1st–June 30th 2018

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1. Composition of the Supervisory Board

In the period January 1st–June 30th 2018, the composition of the Supervisory Board of PBG S.A. ("PBG", the "Company") of the ninth term of office, which commenced on November 17th 2016, was as follows:

Helena Fic – Chair of the Supervisory Board;
Małgorzata Wiśniewska – Deputy Chair of the Supervisory Board;
Andrzej Stefan Gradowski − Secretary of the Supervisory Board (from January 25th 2017);
Dariusz Sarnowski – Member of the Supervisory Board;
Faustyn Wiśniewski – Member of the Supervisory Board;
Maciej Stańczuk – Member of the Supervisory Board;
Przemysław Lech Figarski – Member of the Supervisory Board.

Five of the members of the Supervisory Board were appointed by the Main Shareholder, Mr Jerzy Wiśniewski, in the exercise of powers vested in him personally, as provided for in Art. 50 of the Articles of Association of PBG (the "Articles of Association"), while two members, i.e. Mr Maciej Stańczuk and Mr Przemysław Lech Figarski, were appointed by the Company's General Meeting.

Biographical notes of the Supervisory Board members:

Helena Fic
Chair of the Supervisory Board, member of the Remuneration Committee
In 2000−2005, Ms Helena Fic worked as a lawyer at PUT KOMA S.A. Poznań (currently: INEA S.A.). In 2005−2012, she worked for law firm Kancelaria Prawna Maciej Bednarkiewicz, Andrzej Wilczyński i Wspólnicy sp. k. as a legal counsel. Currently, she runs her own practice Kancelaria Radcy Prawnego Helena Fic (sole proprietorship) and is a partner in Fic i Wspólnicy Kancelaria Radców Prawnych sp. k.
In 2000, Ms Helena Fic received a *Magister* degree in law from the Adam Mickiewicz University of Poznań.

Małgorzata Wiśniewska
Deputy Chair of the Supervisory Board, member of the Remuneration Committee
In 1984−1991, Ms Małgorzata Wiśniewska was an assistant designer at Przedsiębiorstwo Uprzemysłowionego Budownictwa Rolniczego of Poznań. From January 1st 1998 to January 2nd 2004, Ms Wiśniewska worked for the Company as Quality System Director, Public Relations Director and Member of the Management Board. From January 2nd 2004 to November 14th 2006, she served as Vice President of the Management Board. Ms Małgorzata Wiśniewska is also a supervisory board member at certain Group companies, including PBG Dom Sp. z o.o., PBG ERIGO Sp. z o.o., PBG AVATIA Sp. z o.o. (until March 21st 2018), and RAFAKO S.A.
Ms Małgorzata Wiśniewska is a graduate of the Faculty of Civil Engineering at the Poznań University of Technology. She completed post-graduate studies in management and public relations at the Faculty of Finance and Banking of the Poznań School of Banking, and a one-year management programme run by the Canadian International Management Institute. In addition, she completed a two-year MBA programme (Executive Master of Business Administration) organised by the Gdańsk Foundation for Management Development and the University of Gdańsk in association with the Rotterdam School of Management.

Andrzej Stefan Gradowski
Secretary of the Supervisory Board, until June 29th 2017 member of the Remuneration Committee and from June 29th 2017 Chair of the Audit Committee, independent
Since 1996, Andrzej Stefan Gradowski has been the owner of G.C. Consulting Sp. z o.o. In 1996–2002, he was as an adviser to the president of BZ WBK S.A. In 2002, he became a member of the supervisory boards of MACOPHARMA S.A. and LOOK Investment S.A. In 2010–2012 he served as a supervisory board member at Alterco S.A. and Trigon S.A.

Mr Andrzej Stefan Gradowski earned a *Magister* degree from the Warsaw School of Economics, and then completed post-graduate management programmes in Dublin and London.

Dariusz Sarnowski

Member of the Supervisory Board, member of the Audit Committee

Mr Dariusz Sarnowski began his professional career in 1996 at W. Frąckowiak i Partnerzy Sp. z o.o., as an assistant in the Consulting Department, and subsequently in the Audit Department. In 1998, Mr Dariusz Sarnowski worked as an inspector at BZ WBK S.A.'s Capital Markets Department Advisory Division, in 1999 as a manager at the Trade Institute - Reemtsma Polska S.A. (currently Imperial Tobacco Polska S.A.), and in 2000 as an assistant at BDO Polska Sp. z o.o.'s Audit Department. In 2000–2003, he worked for HLB Frąckowiak i Wspólnicy Sp. z o.o. as an assistant, senior and finally head of the Audit Department. In 2003−2004, Mr Dariusz Sarnowski served as vice president of the management board of Usługi Audytorskie DGA Sp. z o.o. In 2004−2009, he held the position of president of the management board at Sarnowski & Wiśniewski Spółka Audytorska Sp. z o.o., and in 2009−2015 he was member of the management board of SWGK Audyt Sp. z o.o.

Since 2011, Mr Dariusz Sarnowski has been a member of the management board of SWGK Podatki Sp. z o.o. and SWGK Księgowość Sp. z o.o., and since 2014 he has served as president of the management board of SWGK Consulting Sp. z o.o.

Mr Dariusz Sarnowski graduated from the Poznań University of Economics with a Magister degree in company management. He was certified as a statutory auditor by the National Chamber of Statutory Auditors.

Maciej Stańczuk

Member of the Supervisory Board, member of the Audit Committee, independent

Mr Maciej Stańczuk was a management board member at Polski Bank Rozwoju and president of the management board of WestLB Bank Polska (currently Nest Bank S.A.), where he served for 20 years. Mr Stańczuk was acting president of the management board of Polimex-Mostostal S.A. from May 9th 2014 to April 2nd 2015. Previously, from February 2014, he had been vice president of the management board of Polimex-Mostostal S.A.

Mr Maciej Stańczuk graduated from the Faculty of Foreign Trade of the Central School of Planning and Statistics in Warsaw (currently the Warsaw School of Economics) and Faculty of Economics of the University of Göttingen. He then went on to complete a post-graduate programme at the Faculty of International Economic Relations of the University of Mannheim. He also completed the Advanced Management Programme at the IESE Business School of the University of Navarra.

Przemysław Lech Figarski

Member of the Supervisory Board

From 1989, Mr Przemysław Lech Figarski worked for Bank PEKAO S.A., where he was responsible for product implementation and development, to be subsequently appointed as management board member. From January 2012 to May 2014, Mr Figarski served as vice president of the management board at Bank Ochrony Środowiska S.A.

Since 2016, he has been vice president of the management boards of Dotpay S.A., eCard S.A. and Mobiltek S.A., as well as member of the management board of Eurokoncept Sp. z o.o.

Mr Przemysław Figarski graduated from the Kraków University of Economics, where his principal field of study was international economic relations, and where he earned a *Magister* degree in economics.

Faustyn Wiśniewski

Member of the Supervisory Board, until June 29th 2017 member of the Audit Committee

Mr Faustyn Wiśniewski commenced his professional career in 2010 as a sole trader. Since 2015, he has been director of international business development at PBG oil and gas Sp. z o.o., and since 2016 − regional director for international markets at RAFAKO S.A.

Mr Faustyn Wiśniewski earned a Bachelor of Business Administration degree from the European University of Geneva. Then he earned an MBA from the European University of Montreux, Switzerland, and OMB − International Business from the same university.

The Supervisory Board's term of office is three years.
By June 30th 2018 and by the date of authorisation of this Report for issue, the composition of the Supervisory Board had not changed.

2. Composition of the Management Board

Members of the Management Board in the period January 1st–June 30th 2018 were appointed to the Management Board whose term of office commenced November 20th 2016 by Mr Jerzy Wisniewski, the Entitled Founder, in the exercise of his powers under Art. 50.9 and 50.10 of the Company's Articles of Association.

Composition of the Management Board in the reporting period:
Jerzy Wiśniewski – President of the Management Board;
Mariusz Łożyński – Vice President of the Management Board
Dariusz Szymański – Vice President of the Management Board;
Kinga Banaszak-Filipiak − Member of the Management Board.

Biographical notes of the Management Board members:

Jerzy Wiśniewski – President of the Management Board
Mr Jerzy Wiśniewski began his professional career in 1984 as head of the gas transmission system operations at PGNiG S.A. In 1994−1998, he was the owner of Piecobiogaz J. Wiśniewski, M. Wiśniewska s.c. He also worked for Gazmontaż S.A. In 1998−2004, he was a shareholder and president of the management board of Technologie Gazowe Piecobiogaz Sp. z o.o. (the legal predecessor of PBG); in 2004−2012 and then since 2014 he has served as President of the PBG Management Board. Since 2012, he has sat on the supervisory board of RAFAKO, currently as its chairperson.
Mr Jerzy Wiśniewski is a graduate of the Faculty of Civil Engineering at the Poznań University of Technology. He completed an MBA programme run by the Gdańsk Foundation for Management Development, University of Gdańsk and Rotterdam School of Management – Erasmus Graduate School of Business. In addition, he completed the 'Management 2000' professional development course for managers organised by the Canadian International Management Institute. He also completed a course for candidates to supervisory boards at state-owned companies. Mr Wiśniewski holds numerous certificates confirming his qualifications in construction.

Mariusz Łożyński – Vice President of the Management Board
Mariusz Łożyński began his professional career in 1983 as senior assistant at Biuro Projektów Organizacji i Mechanizacji Robót Elektrownianych. He was a senior assistant designer at GEOBUD Poznań and served as office director at Concret-Service Poznań. In 1991−1999, he worked for KULCZYK TRADEX. In 1999, Mariusz Łożyński joined Poznańskie Towarzystwo Ciepłownicze in a managerial position, and in 2000 started to work for PBG's legal predecessor Technologie Gazowe Piecobiogaz Sp. z o.o. ("TGP"), first as head of the engineering unit, then head of the contract execution support department and manager in charge of contract preparation. After TGP had been transformed into PBG S.A., Mr Mariusz Łożyński was responsible for contract acquisition, first as director and commercial proxy, and then as Member and subsequently Vice President of the Management Board.
Mariusz Łożyński is a graduate of the Faculty of Civil Engineering at the Poznań University of Technology. In 2002, Mariusz Łożyński completed the 'Management 2000' professional development course for managers organised by the Canadian International Management Institute.

Dariusz Szymański – Vice President of the Management Board
Mr Dariusz Szymański began his professional career in 2001, setting up his own legal counsel practice. In 2005−2015, he served as president of the management board of Pomerania Development Spółka z o.o. In 2008−2012, he was a partner at law firm Skoczyński Wachowiak Strykowski Kancelaria Prawna. In 2007−2015, Mr Dariusz Szymański was president of the management boards at the following companies: Domus S.A., Domdar Spółka z o.o., Jastarport Spółka z o.o., Mierzeja Development Spółka z o.o., Słowian Invest Spółka z o.o., Avelar Spółka z o.o., Colima Spółka z o.o., Tambora Spółka z o.o., and Tacamo Spółka z o.o.
Mr Dariusz Szymański is also a sole trader running his own legal counsel practice.

Mr Szymański graduated from the Faculty of Law and Administration of the Adam Mickiewicz University in Poznań. He is a legal counsel at the Regional Chamber of Legal Counsels in Poznań.

Kinga Banaszak-Filipiak – Member of the Management Board
Ms Kinga Banaszak-Filipiak has been with the Company since 2005, holding the positions of analyst, research director, capital market relations director and then investor relations director, also serving as press officer. She has been on the PBG Management Board since 2013, first as Vice President and, since November 20th 2016, as Member of the Management Board. At PBG Oil and Gas Sp. z o.o. she served as vice president of the Management Board in 2013–2014, and since 2014 as supervisory board member. She sat on the supervisory board of TESGAS S.A. in 2009–2012. Since 2014, she has been a partner and now president of the management board of FCS Business Solutions Sp. z o.o. She is also a member of the management board of FCS Księgowość Sp. z o.o.
Ms Kinga Banaszak-Filipiak graduated in European Studies from the Poznań School of Banking (WSB), where she earned a *Magister* degree in International Finance. She completed a supplementary master's programme, receiving a diploma in International Relations from the Faculty of Management of the Poznań University of Economics. Ms Banaszak-Filipiak continued her education as a postgraduate student at the Poznań School of Banking in management control and equity investments. She obtained an Executive MBA title from WSB (based on a programme run in association with the Aalto University School of Economics). She holds an LCCI Certificate. She also completed postgraduate studies in Bankruptcy Law organised by the Faculty of Law and Administration of the Adam Mickiewicz University in Poznań.

The Management Board's term of office is three years.
By June 30th 2018 and by the date of authorisation of this Report for issue, the composition of the Management Board had not changed.

3. Planned changes to the composition of the Management and Supervisory Boards
As at the date of issue of this Report, no changes were made to the Management or Supervisory Boards of the Company.

II. COMPANY SHARES OR RIGHTS TO COMPANY SHARES (OPTIONS) HELD BY PBG MANAGEMENT OR SUPERVISORY PERSONNEL

Company shares or rights to Company shares (options) held by PBG supervisory personnel as at June 30th 2018

Supervisory personnel	Number of shares	
	As at Jun 30 2018	As at this Report filing date
Małgorzata Wiśniewska	3,279	3,279

Company shares or rights to Company shares (options) held by PBG managing personnel as at June 30th 2018

Managing personnel	Number of shares	
	As at Jun 30 2018	As at this Report filing date
Jerzy Wiśniewski*	189,902,366	189,902,366

** On January 25th 2017, Mr Jerzy Wiśniewski acquired 45,000,000 subscription warrants for Series I shares in PBG S.A., of which by June 30th 2018 and the date of issue of these financial statements he has exercised the rights attached to a total of 12,872,832 warrants, acquiring the same number of Series I shares. Mr Jerzy Wiśniewski is still entitled to acquire Series I shares by exercising the rights attached to the remaining 38,474,874 subscription warrants – the conditions entitling the warrant holder to subscribe for shares in the conditionally increased share capital of PBG are defined in the terms and conditions of Series I shares.*

III. REMUNERATION, BONUSES AND BENEFITS OF THE SUPERVISORY AND MANAGEMENT BOARD MEMBERS

1. Remuneration of the Supervisory Board members

Remuneration payable to members of the Supervisory Board was determined by a resolution of the PBG S.A. Extraordinary General Meeting of December 10th 2005.
The amounts of their remuneration depend on each Supervisory Board member's duties and remit of responsibilities.

Remuneration of Supervisory Board members for holding office at the parent

Remuneration (PLN '000)	Jan 1 – Jun 30 2018			Jan 1 – Jun 30 2017		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Helena Fic	60	-	60	60	-	60
Małgorzata Wiśniewska	48	-	48	48	-	48
Dariusz Sarnowski	18	-	18	18	-	18
Andrzej Stefan Gradowski	30	-	30	28	-	28
Faustyn Wiśniewski	24	-	24	18	-	18
Maciej Stańczuk	18	-	18	18	-	18
Przemysław Lech Figarski	18	-	18	18	-	18
TOTAL	216		216	208	-	208

Remuneration of Supervisory Board members for holding office at subsidiaries, jointly-controlled entities or associates

Remuneration (PLN '000)	Jan 1 – Jun 30 2018			Jan 1 – Jun 30 2017		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Helena Fic	-	-	-	-	-	-
Małgorzata Wiśniewska	334	120	454	427	126	553
Dariusz Sarnowski	-	-	-	114	-	114
Andrzej Stefan Gradowski	-	-	-	-	-	-
Faustyn Wiśniewski	125	-	125	-	-	-
Maciej Stańczuk	-	-	-	-	-	-
Przemysław Lech Figarski	-	-	-	-	-	-
TOTAL	459	120	579	541	126	667

2. Remuneration of the Management Board members

In accordance with the Company's Articles of Association, members of the Management Board are entitled to such base pay, bonuses and perquisites as provided for in Supervisory Board's resolutions. The amounts of their remuneration depend on each Management Board member's duties and remit of responsibilities.

Remuneration of Management Board members for holding office at the parent

Remuneration (PLN '000)	Jan 1 – Jun 30 2018			Jan 1 – Jun 30 2017		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits*	Total
Jerzy Wiśniewski	375	-	375	375	-	375
Mariusz Łożyński	252	-	252	216	-	216
Dariusz Szymański	275	-	275	270	-	270
Kinga Banaszak-Filipiak	192	-	192	192	-	192
TOTAL	1,094	-	1,094	1,053	-	1,053

Remuneration of Management Board members for holding offices at subsidiaries, jointly-controlled entities and associates

Remuneration (PLN '000)	Jan 1 – Jun 30 2018			Jan 1 – Jun 30 2017		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Jerzy Wiśniewski	540	300	840	840	665	1505
Mariusz Łożyński	-	-	-	27	-	27
Kinga Banaszak – Filipiak	60	-	60	60	-	60

Dariusz Szymański	54	-	54	54	-	54
TOTAL	**654**	**300**	**954**	**981**	**665**	**1646**

SECTION II: RISKS AND FINANCIAL RISK MANAGEMENT REPORT

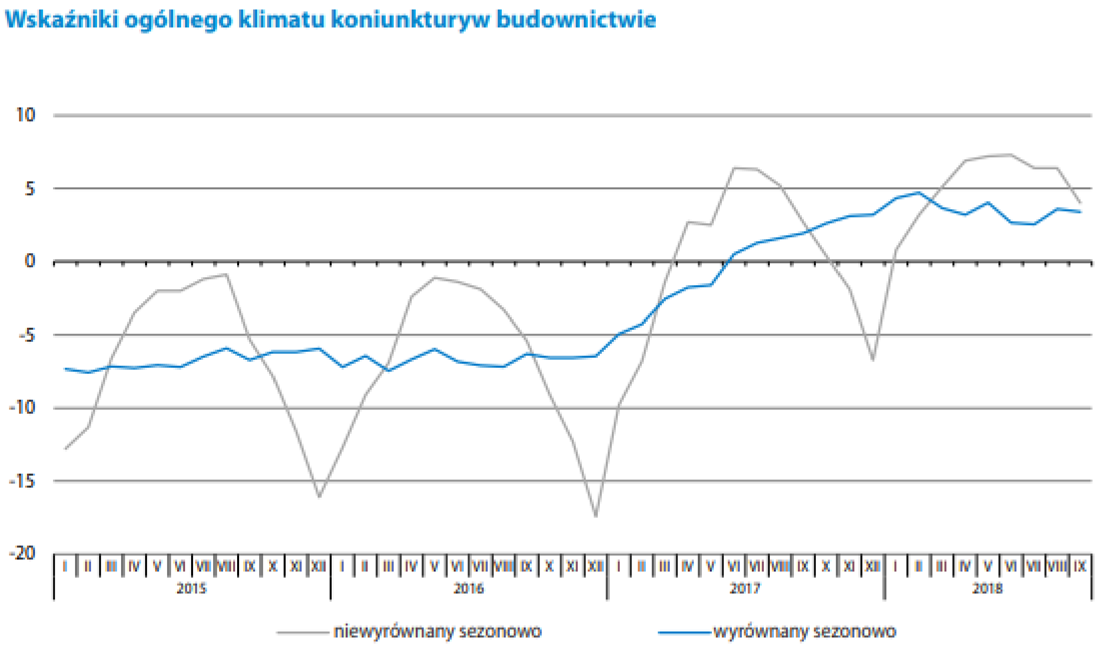
I. RISKS AND THREATS

EXTERNAL RISKS AND THREATS

1. Risks from macroeconomic conditions

The Company's business is conducted in Poland. As a result, its operations are affected by macroeconomic factors related to the Polish market. Macroeconomic developments, including GDP growth, inflation rate, unemployment, average pay, levels of industrial and construction output, investment expenditure, foreign exchange rates and relations between fuel and energy prices, have an impact in particular on the sector of specialist services for the oil, gas and fuel industry and the power construction sector, including the number of investment projects carried out in the sectors, and thus also on the number and value of the Group companies' prospective contracts. As a consequence, the Group companies are exposed to the risks and fluctuations resulting from the effect of economic conditions on the level of investments in the sectors where they operate. Moreover, the economic conditions in Poland may deteriorate in future.

According to Central Statistics Office data, in September the general business climate in the construction industry was evaluated slightly less positively than a month earlier. The diagnoses and projections concerning the domestic order book, construction industry output and financial situation are less optimistic than those formulated in August. For the first time since January, forecasts concerning the foreign order book were slightly negative. Delays in payment for completed construction works are growing. Entrepreneurs are still planning to increase employment and expect prices of construction works to grow. Similarly as a month ago and a year ago, construction companies most frequently point to labour costs as the business aspect causing difficulties. Compared with September 2017, the difficulties relating to shortage of qualified staff and costs of materials were ones that exacerbated the most. On the other hand, the significance of restrictions due to excessive market competition is much lower than a year earlier.



Source: *http://stat.gov.pl*

Economic climate indicators for the construction industry	Wskaźniki ogólnego klimatu koniunktury w budownictwie
Not seasonally adjusted	niewyrównany sezonowo
Seasonally adjusted	wyrównany sezonowo

2. Competition risk

PBG operates mainly in the market of specialist construction services for the gas and oil upstream and downstream sectors and power construction. In the past, the Company also secured and executed contracts in the infrastructure and residential construction segments, in which it holds relevant experience.

The Company operates in a market divided up between large players, with some medium-sized entities also present. Contracts are typically awarded through public tenders announced by contracting authorities, and projects can take as much as several years to complete. Apart from pricing, other important sources of competitive advantage include experience in the execution of complex specialist projects, relevant credentials, high quality of services and efficient organisation enabling contract delivery on an EPC basis.

Competition risk is mitigated by PBG through:

- Assuring high quality of services rendered;
- Entering into strategic alliances with reputable foreign partners operating in the Polish and foreign markets;
- Gaining new credentials (and know-how) enabling the Company to broaden its offering to the market.

The table below presents Polish and international competitors active in the Company's markets:

MARKET	BUSINESS SEGMENT	DOMESTIC COMPETITORS		INTERNATIONAL COMPETITORS	
OIL AND GAS	UNDERGROUND GAS STORAGE FACILITIES	- ABB - IDS-BUD - Control Process	- ZPUH Metalnaft - PGNiG Technologie	- KT- Kinetics Technology - Tecnimont	
	LNG PLANTS	- Polimex Mostostal - Mostostal Warszawa - Budimex		- Tractebel -Tecnimont - Linde - Saipem	- KT - Kinetics Technology - Thermo Design Engineering - DAEWOO Engeneering&Construction - Costain
	TRANSMISSION	- IDS-BUD - ZRUG Poznań - MTM Nowum - ZRUG Zabrze - Gazoprojekt - Izostal - Energotest - Energy System - TESGAS - Budimex - ATREM - GPT	- POLAQUA - POLDE - NDI - REDGAZ - WIERTCONSULTING - JT ZAKŁAD BUDOWY GAZOCIĄGÓW - Górnośląski Zakład Obsługi Gazownictwa - PGNiG Technologie - Control Process	- FCC CONSTRUCCION - A.Hak Leidingbouw B.V. - OT INDUSTRIES - KVV CONTRACTOR - PPS Pipeline Systems - PSJ Hydrotransit - Moravsky Plynostav - Denys NV - Bilfinger Infrastucture - SICLISALDO	
	REFINERIES	- KTI Polska - Polimex Mostostal		- ABB - PSJ Hydrotranzit - Techint	
	DELIVERY OF SPECIALIST GAS EQUIPMENT AND AUXILIARY INFRASTRUCTURE	- Control Process - Budimex - Polimex Mostostal	- PGNiG Technologie - ABB - Górnośląski Zakład Obsługi Gazownictwa	- ABB - KAWASAKI	
	OIL AND GAS EXTRACTION FACILITIES	- PGNiG Technologie - Control Process	- ZPUH Metalnaft - IDS-BUD - ABB	- KT- Kinetics Technology - Tecnimont - Techint	
FUELS	FUEL TERMINALS	- Polimex Mostostal - Przedsiębiorstwo „AGAT" S.A. - Przedsiębiorstwo Remontowe	NAFTO-SERWIS - SKANSKA S.A. - IDS-BUD S.A.	- Bilfinger Berger - PSJ Hydrotranzit - Techint	

CONSTRUCTION	**INDUSTRIAL CONSTRUCTION SPECIALIST CONSTRUCTION RESIDENTIAL CONSTRUCTION**	- WARBUD - POL-AQUA - Budimex - Dom Development - Hochtief Polska	- Echo Investment - Instal Kraków - SKANSKA S.A. - IDS-BUD S.A.	- SKANSKA - STRABAG - PSJ Hydrotranzit, a.s.	
POWER ENGINEERING	**CONSTRUCTION OF POWER GENERATING UNITS POWER EQUIPMENT**	- Polimex Mostostal - Mostostal Warszawa - Budimex - Energoinstal - Erbud - IDS-BUD - Control Process	- KB Pomorze - Mostostal Zabrze - Stalbud Tarnów - Instal Warszawa - WARBUD - Strabag	- Siemens - Samsung - Iberdrola - SNC-Lavalin - GE - COVEC - CNEEC - Metso - SEC - Saipem	- Mitsubishi Hitachi Power Systems - Posco Engineering & Construction - Bilfinger Berger Power Systems - Foster Wheeler - CNIM - Andritz - Gama Güç Sistemleri Mühendislik ve Taahhüt - Doosan Power Systems - Sener Ingenieria y Sistemas - Tecnicas Reunidas - Ansaldo Energia

3. Poland's membership in the European Union

Most of the Group companies' contracts are won through public procurement. In the European Union, and consequently also in Poland, the amount of dedicated EU funding is a key factor determining the value of contracts tendered under the public procurement regime. As a result, the main driver of the infrastructure construction segment in the coming years may be an inflow of new EU funds.

Under the new EU financial framework for **2014–2020**, Poland has received a record funding allocation of **EUR 120.1bn**. The most sizeable portion of that amount (EUR 27.41bn) is earmarked for the Infrastructure and Environment Programme, the largest scheme to drive Poland's sustainable development, as under the previous framework. Funds allocated under the programme will support, among other things, the development of a low-emission economy, environmental protection, including measures to combat and adapt to climate change, energy security and improvement of Poland's technical infrastructure. As set out in the programme, a substantial part of the funds may be channelled into transport projects (approximately EUR 19.8bn). Next in terms of the funding amount will be environmental protection (EUR 3.5bn), followed by heat and power industry (EUR 2.8bn). Public sector entities, including local government units and (particularly large) business enterprises, will be the main beneficiaries. In the Partnership Agreement for 2014-2020, Poland has committed to active participation in reaching the 11 thematic objectives of cohesion policy. This share is implemented by achieving the objectives of the priority axes grouped into operational programmes. For each priority axis of each operational programme, managing authorities have agreed with the European Commission upon an implementation framework, i.e. indicators and their values to be achieved at the end of 2018 and at the end of 2023. The targets defined and quantified in this way will be analysed by the European Commission during the mid-term review planned for 2019. The results of the review may affect the final amount of the funds for a given priority axis.

The pace of launching national and regional operational programmes for 2014-2020 was slower than in the years 2007-2013. Delays ranged from six to nine months. Therefore, the Company cannot rule out the risk of future delays or reductions in EU spending on projects related to the Group companies' business.

Furthermore, following Poland's accession to the European Union, there has been increased interest in entering the Polish market from international contractors providing services similar to those offered by the Group companies. This may result in fiercer competition and squeeze profit margins. However, international operators usually bid for contracts jointly with Polish companies to secure local execution capabilities.

To best leverage the opportunities arising from Poland's membership in the EU, the Company:

- forms strategic alliances to implement projects with foreign companies operating in Poland;
- has implemented and works on improving an effective management culture;
- offers the required service quality, as confirmed by implemented quality assurance standards: PN-EN ISO 9001:2015, PN-EN ISO 14001:2015; PN-N-18001:2004, PN-EN ISO 3834-2:2007, AQAP 2110:2016.

4. Seasonality risk

Given the structure of its order book, which predominantly comprises contracts for the provision of business and organisational support services, the Company's operations are not currently subject to seasonality and so the presented results do not exhibit any material fluctuations over the year. However, as one of the Company's strategic goals is to recover its market position by leveraging the Group's capabilities and win new construction contracts, the Group's revenue structure may change and the significance of seasonality, typical of the entire industry, may grow.

5. Adverse changes in tax legislation

In Poland, laws governing the taxation of business are subject to change. There is a risk that the tax legislation currently in effect may be changed and the new regulations will be less favourable to the Company or its customers, directly or indirectly affecting the Company's financial results.

PBG monitors any developments in the tax legislation, and makes necessary changes to mitigate the attendant risk.

6. Foreign exchange rates

Starting from the beginning of the year, the price of the euro against the złoty has fluctuated considerably due to the situation in the Polish and European markets, and developments in the global currency markets.

A weakening of the euro against the złoty was visible at the beginning of 2018: on January 29th, the euro hit a low of PLN 4.14. In the following months, the złoty depreciated against the euro to reach 4.4 PLN/EUR at the beginning of July 2018.

As regards the mid-term time horizon, according to forecasts by PEKAO S.A. bank's analysts, at the end of 2018 market sentiment is expected to stabilise and consequently, the exchange rate should move at about 4.26 PLN/EUR in December.

EUR/PLN exchange rate in January 1st–September 26th 2018 (NBP's middle rates)

***Source:* [*http://www.finanse.egospodarka.pl*](http://www.finanse.egospodarka.pl)**

7. Risk of significantly limited ability to win new contracts

Most contracts are won by the Company through public procurement. The Company's ability to win new contracts depends on the availability of guarantee limits. In recent years, funding provided to construction companies has been heavily constrained after financial institutions changed the rules of granting credit, and also due to a number of bankruptcies or financial distress faced by construction companies since 2012.

INTERNAL RISKS AND THREATS

1. Risk related to loss of key personnel

The parent's and the Group's business relies chiefly on the knowledge and experience of highly qualified personnel, especially engineers.

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

The risk related to loss of key personnel is mitigated by:

- Strong organisational culture, which helps employees identify with the Company and the Group,
- Working in an environment which is free from discrimination and other forms of human rights abuses,
- Career and professional development opportunities.

2. Risk of failure to meet contractual obligations

Construction contracts include a number of clauses related to their proper performance, timely completion and removal of defects, which involves the provision by PBG of performance bonds or similar security issued by banks or insurance companies.

Such security is usually provided on the contract execution date and settled on contract completion. The amount of such security depends on the contract type, usually standing at 10% of the contract sum. If PBG fails to perform or improperly performs a contract, there is a risk that its client might claim liquidated damages or terminate the contract.

To mitigate that risk, PBG takes the following measures:

- Insurance of contracts, including contracts with subcontractors;
- Extensive use of IT tools in project planning and management.

3. Risk of dependence on key customers

The main customer for services provided by PBG in the gas, oil and fuel segment is the NATO Security Investment Programme Management Office (ZIOTP), for which the Company is executing a contract worth PLN 279m (exclusive of VAT).

In other areas, the Company's key customers are its subsidiaries: RAFAKO, PBG oil and gas, and PBG DOM, to which PBG provides support services. It should be noted that the Company and its Group's strategy provides for delivery of high value contracts, which may significantly increase the share of sales to a single customer in total revenue once any such contract is secured. In order to mitigate the risk of dependence on key customers, following the court's decision to sanction the arrangement with its creditors, PBG has stepped up systematic efforts to win business from new customers, mainly for the Group's operating companies.

4. Operational risk

PBG's operations, in particular work on live facilities, involve certain risks of human and material losses.

The Company mitigates these risks by:

- Holding liability insurance policies;
- Regularly supplying employees with advanced protective equipment;
- Drill, practice and improvement of employee skills;
- Ongoing monitoring of equipment;
- Regular training and ongoing health/safety oversight.

5. Risk of failure by the Company to meet its obligations under the arrangement

Risk of failure by the Company to meet its obligations under the arrangement with creditors is described in Note 2.3 to the Company's interim condensed financial statements for H1 2018.

II. FINANCIAL RISK IDENTIFICATION AND MANAGEMENT

The objectives and policies of financial risk management have not changed relative to those published in the most recent financial statements for 2017, which are available on the Company's website at http://www.pbg-sa.pl/relacje-inwestorskie/raporty-okresowe/jednostkowy-raport-roczny-pbg-sa-za-rok-2017.html.

SECTION III: COMPANY OVERVIEW

I. STRATEGY

At the beginning of 2018, PBG decided to update its strategy and assign to RAFAKO the leading role in both key segments of the PBG Group's activities.

The Strategy seeks to deliver long-term growth in the Group's value by building the largest engineering and construction group in Poland around the RAFAKO Group, which enjoys a strong position in international markets as the supplier of specialist construction services for the power sector and for the oil and gas upstream and downstream sectors.

The Group conducts its business taking into account its corporate social responsibility, with respect for the natural environment, in compliance with ethical principles, and with care for the employees' and customers' satisfaction.

The Group's strategic objectives are to:

1. Build a leading position in the domestic power construction market through RAFAKO, by delivering and participating in the largest capital investment projects in Poland, capturing a market share in the market for services related to the modernisation of power and heat infrastructure and ensuring compliance with BAT regulations;
2. Regain its position of the Polish market's leader in the provision of comprehensive services involving management and execution of projects in the oil and gas sector, leveraging synergies between PBG Group companies;
3. Expand the business in foreign markets in both of the Group's core business segments;
4. Capture a market share in the industrial construction market;
5. Ensure financing for the Group's operations;
6. Restore the Group's full creditworthiness by paying off obligations under bonds and the arrangement made by PBG with its creditors.

One of the factors contributing to achievement of the Group's strategic objectives will be the way in which the Group is organised, with EPC and general contractor capabilities in the upstream and downstream oil and gas sectors to be transferred to the RAFAKO Group. The internal reorganisation of the Group will be effected through the merger of RAFAKO Engineering, PBG oil and gas, and PGL Dom, as a result of which RAFAKO will acquire a majority interest in the combined entity. This will increase the RAFAKO Group's capacity to bid for and deliver projects with its extended capabilities and will naturally facilitate business growth by leveraging synergies of the merged companies. PBG will remain the holding company, responsible for: 1) setting the overall direction and strategic objectives for the Group, 2) exercising oversight of the core business lines, 3) providing a broad range of organisational support services to its subsidiaries, and 4) supervising the divestment process. Such an organisational structure will increase the PBG Group's transparency, while reducing the risk of conflicts of interest in bidding for new contracts.

Natural gas and crude oil segment

The experience, credentials and know-how acquired by PBG during more than 20 years of its operations in this specialist construction services market will be concentrated within the RAFAKO Group. PBG was the leader of this market in Poland. Having executed a number of multi-billion projects, it gained credentials unique on the European scale, which can now be presented when bidding for new contracts and which represent an added value for the entire Group. The credentials include experience as a general contractor in turnkey projects covering the design, delivery, assembly, construction and commissioning of the complete LMG (Lubiatów-Międzychód-Grotów) oil and gas production facility, a power plant worth PLN 1,397m net, and unique experience in implementing a turnkey project to construct an LNG terminal with a value of PLN 2,368m net. The LMG facility is the largest oil and gas production facility in Poland with production capacities reaching 1,300 tonnes of crude oil per day and 35,000 Nm^3 of gas per hour. Since 2013, also PBG oil and gas has played an important role in the PBG Group's activities in the gas and oil upstream and downstream segment. Between 2013 and 2017, PBG oil and gas generated revenue totalling over PLN 400m and gained credentials relevant for construction, repair and modernisation of gas pipelines and expansion of underground gas storage facilities. In 2017, PBG oil and gas successfully completed the construction of the

Radoszyn production facility. It is the third largest oil and gas production facility in Poland, with daily production capacity of 80 tonnes of crude oil. Thanks to its active participation in the market and contract performance, PBG oil and gas has the competencies in managing projects at each stage of execution. These competences include planning of design, production and construction work necessary to execute an entire project, and comprehensive management of the supply chain and logistics to ensure timely delivery and high quality of products and services. The company also has the experience and competencies required for start-up and commissioning of projects.

The Group intends to actively participate in the market of investment projects related to gas and oil production and to the development and modernisation of gas networks in Poland and abroad. The Group is interested in participating in projects of key importance to Poland's energy security, related to the expansion of underground gas and oil storage facilities and distribution infrastructure, including gas compressor stations. By the end of 2018, in the gas and oil upstream and downstream sector, the Group plans to bid for contracts in the Polish and foreign markets with a total estimated value of almost PLN 2.4bn, and assumes to secure contracts for at least PLN 400m throughout 2018. As at the date of issue of these financial statements, the level of performance of this objective by the Group was approximately PLN 180m. Tenders in this segment mainly relate to installations for liquefying natural gas and LNG storage, compressor stations, gas pipelines, gas production facilities, and modernisation of existing installations and facilities.

Power construction

RAFAKO has been present in the power construction sector, where it has designed, manufactured and delivered steam generators and environmental protection equipment, since 1949. RAFAKO owns a comprehensive technology for the construction of traditional generating units and is among Europe's largest manufacturers of steam generators and environmental protection facilities for the power sector. RAFAKO is the undisputed leader of the Polish market for power generation equipment. In line with the Group's strategy, the power construction business is expected to drive a significant increase in its consolidated revenue. In the near future, the Group intends to focus on further developing and improving its competences relevant to EPC and general contracting services in the power engineering sector through the participation in and execution of the largest projects in Poland. Given the Group's experience as well as the solutions and technologies it has on offer, the Group also plans to actively participate in the market for modernisation of heat and power infrastructure, in particular 200 MW range units, and in the market for modernisation of environmental protection facilities in accordance with the IED (Directive 2010/75/EU on industrial emissions) and BAT (Best Available Techniques). With its proprietary technologies and credentials, RAFAKO is well prepared to take part in such tenders and meet market expectations.

Until the end of 2018, in the power engineering sector, the Group plans to bid for contracts on the Polish and foreign markets with a total estimated value of over PLN 4.2bn, and expects to secure contracts for at least PLN 500m throughout 2018 (as at the date of issue of these financial statements, the Group has acquired orders with a value of approximately PLN 600m). In the power segment, contracts are to be awarded for the construction of generating units and waste thermal treatment plants, construction and delivery or modernisation of steam generators and related facilities, as well as construction and upgrade of existing flue gas desulfurisation, denitrification and dust removal units.

Foreign operations

Development plans for the PBG Group's operations on foreign markets concern both strategic business segments, i.e. the natural gas, crude oil and fuels segment and the power construction segment. The Group intends to expand its activities, including:

- in the markets where the Group was present in the past and is continuously active;
- in the markets where the Group was present in the past and where it intends to return, i.e. Asian markets such as India;

and in new markets where the Group has not been active so far and has never delivered its products or services, including in particular Central Asia, Vietnam, Mongolia and Indonesia.

In the countries where the Group was active in the past, mainly as a subcontractor for steam generator facilities (e.g. Western European countries), the Group plans to continue cooperation with the customers who purchased steam generators and pressurised sections manufactured by the Boiler Production Plant in the past. In addition to supplying steam-generator components, the Group will also be involved in the

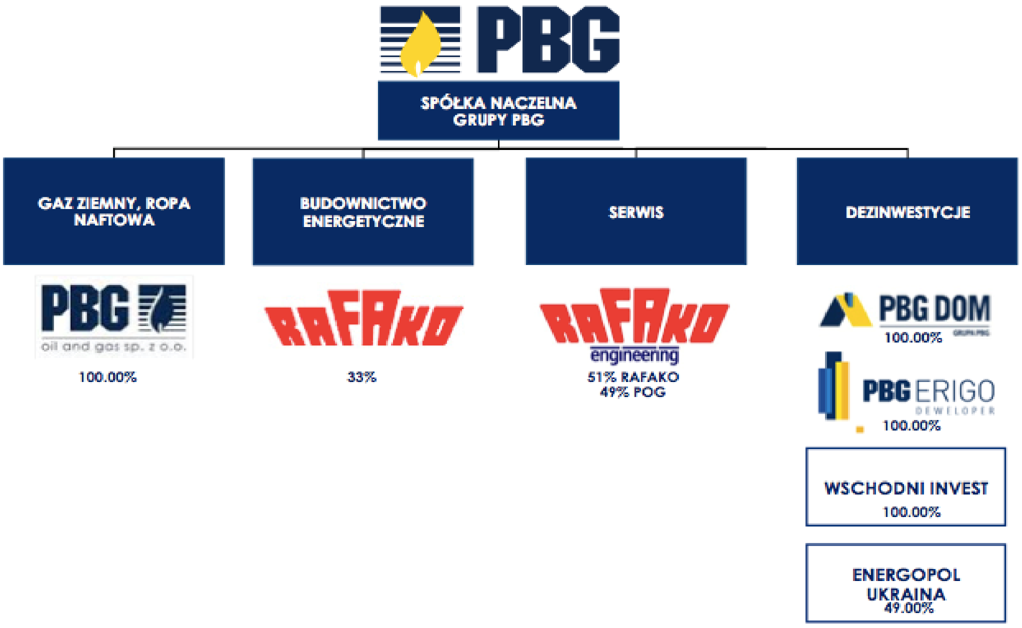
execution of projects to upgrade power facilities using the technologies provided in the past by the Group. A new business area in the EU countries are installations for gas, oil, and fuel segment operators, which are an element of strategic plans to end the EU countries' dependence on oil and gas supplies from countries east of Poland.
In expanding back into the foreign markets where the Group was present in the past and where it intends to return, the Group plans to develop its business by collaborating with both international players and selected local partners.
As many countries have made commitments to bring their coal-fired generation plants and industrial enterprises in compliance with the increasingly stringent environmental protection requirements, the Group may now more easily enter the market for environmental protection facilities, including in the countries where RAFAKO was present as a supplier of steam generator systems in the past (e.g. India). The Group's proprietary technologies and credentials based on which local strategic partners may carry out projects give the Group a competitive advantage for building its presence on those markets. The Group will focus here on exporting technologies as a consortium or technology partner, including issuing contractor licences to local businesses. On the markets including, among others, Central Asia, Vietnam, Mongolia and Indonesia, the Group plans to develop its activities by collaborating with strong local partners who know the local conditions and can guarantee access to local contractors. With regard to new markets, in addition to cooperating with local players, the Group relies on the expertise of internationally recognised legal, tax, and financial advisers.

The Group also has the benefit of being able to win contracts based on a greater use of the financial instruments offered by the companies of the PFR Group, which, through Fundusz Inwestycji Polskich Przedsiębiorstw, acquired a significant equity interest in RAFAKO in 2017.

According to available information, the potential of foreign markets for the Group is as follows: Indonesia – ca. USD 7.5bn; Mongolia – ca. USD 1.2bn; Balkans – ca. PLN 0.55bn; Turkey and India – USD 0.82bn; Kazakhstan, Uzbekistan, other post-Soviet states, Central and Eastern Europe – EUR 500m; Iran and the Gulf countries – ca. PLN 4.1bn.

Delivery of the Group's strategic objectives will only be possible on condition of the smooth discharge by PBG of all its obligations under the arrangement with creditors and the bonds. In addition to financial obligations, such as repayment of claims in the arrangement and redemption of bonds at fixed dates, these also include other obligations imposed on PBG. One of the main sources of funds to meet PBG's financial obligations under the arrangement and the bonds will be the divestment of the Group's non-core assets, in particular certain properties in Poland, as well as exit from the Ukrainian project. Implementation of the divestment plan in accordance with its assumptions and schedule will be key to the success of the restructuring plan.

Key companies of the PBG Group as at June 30th 2018 and as at the date of filing this Report:



II. BUSINESS PROFILE

The Company's business comprises general contractor services related to natural gas, crude oil and fuel facilities. The Company also executes power construction projects and provides other specialist construction services. Last year, the key segment of the Company's operations comprised business and organisational support services for its subsidiaries. In the 'Other services' segment, the Company discloses, *inter alia*, its property rental income. In line with the adopted strategy, PBG is the holding company, responsible for setting the overall direction and strategic objectives for the Group and providing a broad range of organisational support services to its subsidiaries.
Services rendered in each of the segments are listed below.

Gas, oil and fuels	Gaz ziemny, ropa naftowa i paliwa
Surface installations for crude oil and natural gas production	Instalacje naziemne do wydobycia ropy naftowej i gazu ziemnego
Installations for liquefying natural gas and for LNG storage and regasification	Instalacje do skraplania gazu ziemnego, magazynowania i regazyfikacji LNG
LPG, C5+ separation and storage facilities	Stacje separacji i magazynowania LPG, C5+
Desulfurisation units	Instalacje odsiarczania

Steel pipelines for gas and oil transmission	Stalowe gazociągi do przesyłu gazu ziemnego i ropy naftowej
Fuel tanks	Zbiorniki paliwowe
Technical and sanitary systems	Instalacje techniczne i sanitarne
Power construction	Budownictwo energetyczne
Assembly	Montaż
Upgrades	Modernizacje
Repair of equipment	Naprawy urządzeń
Repair of environmental protection facilities and power equipment	Naprawy instalacji do ochrony środowiska i energetyki
Manufacture of steam generators	Produkcja kotłów
Manufacture of environmental protection equipment	Produkcja urządzeń do ochrony środowiska
Organisational support	Usługi wsparcia organizacyjnego
Image and brand building for subsidiaries	Budowanie wizerunku i marki spółek zależnych
Planning and coordination of work of subsidiaries' governing bodies	Planowanie i koordynacja pracy organów spółek zależnych
Property portfolio management	Zarządzanie portfelem nieruchomości
Other	Inne
Sale of merchandise and materials	Sprzedaż materiałów i towarów
Other construction activities	Pozostała działalność budowlana

In the segment of construction services for the gas, oil and fuel industry, the Company and its Group offer specialist construction services, including with respect to the construction of: (i) surface installations for oil and gas production; (ii) installations for liquefying natural gas and for LNG storage and regasification, (iii) LPG, C5+ separation and storage facilities, (iv) LNG storage and evaporation facilities, (v) underground gas storage facilities, (vi) desulfurisation units, (vii) surface infrastructure of underground gas storage facilities, (viii) crude oil tanks, (ix) transmission systems for natural gas and crude oil, including pressure reduction and metering stations and metering and billing stations, mixing plants, distribution nodes, compressor stations, and (x) fuel storage facilities. Services in the segment are performed mostly by PBG and PBG oil and gas.
In the segment of construction services for the power sector, products and services offered by the Group companies include: (i) air pollution control systems, including dust collection, flue gas desulfurisation and NOx reduction units, (ii) power generation units and steam generators, including complete power generation units and steam generators alone (by type of fuel used, e.g.: (a) hard coal-fired steam generators; (b) lignite-fired steam generators; (c) oil/gas-fired steam generators; (d) biomass-fired steam generators; and (e) waste-fired boilers); (iii) power equipment, machinery and components and steel structures; and (iv) other products and services, including auxiliary services. Services in the segment are provided by RAFAKO (a subsidiary of PBG) and its subsidiaries.
The above products and services are delivered by PBG and its Group under the EPC model (end-to-end project management including engineering design, procurement, manufacture, assembly/construction, and start-up) or a non-EPC model (engineering design, procurement, manufacture and assembly/construction in various combinations, with procurement and manufacture as obligatory elements).

III. CHANGES ON THE GROUP'S MARKETS

In H1 2018, revenue streams from each segment were generated on the Polish market and their amounts were as follows:

PBG's operating segments

Revenue	H1 2018 (PLN '000)	H1 2017 (PLN '000)	Change (PLN '000)	Change (%)
Gas, oil and fuels	2,774	65	2,709	4267
Power construction	0	230	(230)	-
Corporate support for subsidiaries	2,912	3,705	(793)	(21)
Other	1,311	2,473	(1,162)	(47)

Total revenue	**6,997**	**6,473**	**524**	**8**

Geographical presence

PBG's operations are focused on the domestic market, which the Company perceives as significant because of a pipeline of planned power construction and gas infrastructure projects. However, efforts are made to enter foreign markets in both of the Company's and the Group's strategic business segments.

Entities sales to which, or purchases from which, reached at least 10% of the Company's total revenue

In the reporting period, customers and suppliers with which the Group executed transactions with a value reaching at least 10% of the Company's total revenue included:

- Customers: ZIOTP sp. z o.o., RAFAKO S.A., PBG oil and gas sp. z o.o.;
- Suppliers: Poner sp. z o.o., Lonar sp. z o.o.

IV. BRANCHES

The Company has no branches.

SECTION IV: REPORT ON THE COMPANY'S OPERATIONS IN H1 2018

I. AGREEMENTS AND EVENTS MATERIALTO THE COMPANY'S BUSINESS

Agreements/contracts considered material by the Company are those that meet the criteria described in Article 17.1 of the MAR.

1. **Contracts related to operating activities concluded during the reporting period and after the reporting date**

In the reporting period, the Company did not enter into any significant contracts related to its operating activities.

2. **Financing agreements concluded during the reporting period and after the reporting date (credit facility agreements, guarantees, notes/bonds)**

In the reporting period, the Company did not enter into any significant financing agreements.

3. **Other events occurring in the reporting period or subsequent to the reporting date**

<table>
<tr><th>Event</th><th>Description</th></tr>
<tr><td rowspan="4">Changes in PBG S.A. share capital
Information on the shares</td><td>Court registration, on January 19th 2018, of an increase in the Company's share capital to PLN 16,085,284.02 following the issue of 213,610 Series H shares.</td></tr>
<tr><td>PBG Current Report No. 3/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/3-2018-podwyzszenie-kapitalu-zakladowego-pbg.html</td></tr>
<tr><td>Exercise, on January 22nd 2018, of the rights attached to 66,021 Subscription Warrants by Jerzy Wiśniewski, and the acquisition of 66,021 Series I Shares and increase of the Company's share capital to PLN 16,086.604.44.</td></tr>
<tr><td>For more information, see: PBG Current Report No. 4/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/4-2018-dojscie-do-skutku-emisji-serii-i-oraz-podwyzszenie-kapitalu-zakladowego-spolki.html</td></tr>
<tr><td rowspan="2">Merger of PBG S.A. as the Acquirer and PBG AVATIA Sp. z o.o. as the Acquiree</td><td>Adoption, by the Extraordinary General Meeting of PBG S.A. of January 9th 2018, of resolutions to merge PBG with PBG AVATIA spółka z ograniczoną odpowiedzialnością under Art. 492.1.1 of the Commercial Companies Code, i.e. by transferring all assets of PBG AVATIA to PBG, and to approve the Merger Plan, which was agreed upon and signed by the Management Boards of the merging companies on October 27th 2017.
The merger was registered by the Court on March 21st 2018.</td></tr>
<tr><td>For more information, see: PBG Current Report No. 1/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/1-2018-uchwaly-podjete-przez-nadzwyczajne-walne-zgromadzenie-spolki-pbg-s-a-w-dniu-9-stycznia-2018-roku.html
PBG Current Report No. 10/2018: http://www.pbg-sa.pl/pub/pl/uploaddocs/raport-biezacy-10-2018.3640896075.pdf</td></tr>
<tr><td>Auditor's letter to AOC and PFSA in connection with audit of financial statements</td><td>On February 26th 2018, PBG S.A. was notified by its auditor Ernst & Young Audyt Polska Sp. z o.o. Sp.k. (acting pursuant to Article 12.1.(b) and (c) of Regulation No 537/2014 of the European Parliament and of the Council) of a letter sent by the auditor to the Audit Oversight Commission and the Polish Financial Supervision Authority in connection with the statutory audit of the separate financial statements of PBG S.A. and the consolidated financial statements of the PBG Group for the financial year ended December 31st 2017, concerning:
1) material threats to or uncertainty over continued existence of PBG S.A.
2) issues that may cause the auditor to refuse to give an opinion, or to give an adverse or qualified opinion, on the financial statements presented for audit.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 8/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/8-2018-informacja-o-skierowaniu-przez-bieglego-rewidenta-pisma-do-kna-oraz-knf-w-zwiazku-z-badaniem-sprawozdania-finansowego.html</td></tr>
<tr><td>Update of the PBG Strategy</td><td>On April 5th 2018, the PBG Management Board approved the updated Strategy for the PBG Group.

The Strategy seeks to deliver long-term growth in the Group's value by building the largest engineering and construction group in Poland around the RAFAKO Group, which enjoys a strong position in international markets, offering specialist construction services for the power sector and for the oil and gas upstream and downstream sectors.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 11/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/11-2018-przyjecie-przez-zarzad-pbg-zaktualizowanej-strategii-dla-grupy-kapitalowej-pbg.html</td></tr>
<tr><td>Completion of negotiations on transfer of significant claim</td><td>On April 25th 2018, negotiations were completed regarding the sale of the Company's claim against Imidż Finans Group Sp. z o.o. of Kiev, Ukraine under an agreement obliging the Company to sell the claim. Pursuant to the negotiated agreement on the sale of the claim, the Transferee will pay PLN 80m to PBG, including a non-refundable advance payment of PLN 20m payable by June 25th 2018; the balance of PLN 60m will be paid by June 25th 2019.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 14/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/14-2018-zakonczenie-negocjacji-w-zakresie-przeniesienia-istotnej-wierzytelnosci.html</td></tr>
<tr><td>Listing of PBG shares in Alert List</td><td>A legal analysis of the Company was conducted following classification by the WSE of PBG shares in the Alert List. Given that the Company's Articles of Association do not provide for share cancellation, the only possibility would be to effect a reverse split of the shares using shares held by a designated shareholder to supplement any deficit related to such reverse split. Therefore, the analysis of options to remove PBG shares from the Alert List included a potential reverse split of the shares and determination of the exchange ratio to be used to exchange the Company shares for shares with a new par value. The analysis found that a reverse split of the Company shares that would serve to remove the shares from the Alert List is not possible considering the terms of the arrangement with creditors, approved by the final decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division (Case No. XI GUp 29/12), dated October 8th 2015 (the "Arrangement") for as long as the Company performs the Arrangement.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 17/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/17-2018-informacja-dotyczaca-notowania-akcji-pbg-na-liscie-alertow.html</td></tr>
</table>

Approval of financial statements and Directors' Report for 2017	On June 26th 2017, the parent's Management Board published resolutions passed by the Annual General Meeting of PBG S.A. approving the Directors' Report on the parent's and the Group's operations in 2017, as well as the parent's separate financial statements and the Group's consolidated financial statements for the financial year 2017.
For more information, see: PBG Current Report No. 18/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/18-2018-uchwaly-podjete-przez-zwyczajne-walnego-zgromadzenia-spolki-pbg-s-a-w-dniu-26-czerwca-2018-roku.html	
The Management Board's representation on share capital increase	On August 14th 2018, the Company's Management Board gave notice that, following conversion of the Company's debt into Series H shares under the Resolution and the arrangement, another 10,763,420 (ten million, seven hundred and sixty-three thousand, four hundred and twenty) Series H ordinary registered shares with a par value of PLN 0.02 (two grosz) per share were acquired. Thus the amount of the subscribed and duly paid up share capital was PLN 215,268.40 (two hundred and fifteen thousand, two hundred and sixty-eight złoty, 40 grosz). The shares were acquired following satisfaction of a condition applicable to the contingent claim satisfied on the terms specified for Group 6 claims under the arrangement (i.e. through conversion into Series H shares). Accordingly, after the registration with the National Court Register, the Company's share capital will be PLN 16,301,872.84 (sixteen million, three hundred and one thousand, eight hundred and seventy-two złoty, 84/100).
For more information, see: PBG Current Report No. 21/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/21-2018-oswiadczenie-zarzadu-w-przedmiocie-podwyzszenia-kapitalu-pbg.html	

II. CHANGES IN ORGANISATIONAL LINKS

There were no changes in organisational links in the period covered by this Report.

III. RELATED-PARTY TRANSACTIONS

In H1 2018, the Company executed transactions with related parties on an arm's-length basis, with the nature and terms of those transactions determined by day-to-day operations.
The most common types of related-party transactions:

- Construction contracts;
- Agreements concerning: sales support, property portfolio management and organisational support services;
- Maintenance contracts.

Transactions between the Company and its related parties are disclosed in Note 29 to PBG's interim condensed financial statements for H1 2018.
In H1 2018, the Company did not issue any sureties or guarantees to related parties.

IV. CONTRACTED BANK BORROWINGS, LOAN AGREEMENTS

For information on the bank borrowings and loans, see Note 22.2 to the Company's interim condensed financial statements.

V. NON-RECURRING FACTORS AND EVENTS

In April 2018, PBG's Management Board completed negotiations of an agreement to assign its claim arising under the conditional sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. of July 24th 2013. The agreement will be signed after all legal documents required by the buyer are obtained. Considering the risk to cash flows from the development project located in Ukraine, arising from the country's unstable political situation, the Company resolved to sell the claim. In exchange for accelerating the cash inflow and a significant reduction of the risk involved, the Company expects to receive PLN 80m (after the agreed discount) out of the PLN 109m provided for in the conditional agreement. At the completion of negotiations (i.e. April 2018), the expected dates and amounts of cash inflows were as follows: PLN 20m in the first half of 2018 and PLN 60m in the first half of 2019. As at the date of issue of these financial statements, the Company awaits the confirmation of execution of the agreement and the transfer of the first tranche of remuneration.

VI. MAJOR R&D ACHIEVEMENTS

In the reporting period, the Company did not have any major R&D achievements that would have an effect on its performance.

VII. CONTROL SYSTEM FOR EMPLOYEE PLANS

PBG does not operate any employee plans.

VIII. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

For information on the litigation, arbitration and administrative proceedings, see Note 25 to the Company's interim condensed financial statements.

SECTION V: SHARES AND SHAREHOLDERS

I. SHARE CAPITAL STRUCTURE AND MAJOR HOLDINGS OF SHARES

In the Reporting Period, the Company's share capital was increased twice:
- upon court registration of an increase in the Company's share capital through the issue of 231,610 Series H ordinary registered shares (see Current Report No. 3/2018 of January 19th 2018), the Company's share capital was increased to PLN 16,085,284.02 and 804,264,201 shares; - following the delivery of 66,021 Series I ordinary shares to Jerzy Wiśniewski (see Current Report No. 4/2018 of January 23rd 2018), the Company's share capital was increased to PLN 16,086,604.44 and 804,330,201 shares.
As at June 30th 2018, the Company's share capital was PLN 16,086,604.44 and comprised 804,330,222 shares.
As at the date of this Report, the Company's share capital has not changed.
with a par value of PLN 0.02 per share.

PBG's share capital as at June 30th 2018 and as at the date of this Report

PBG shares	Number of shares	Type of shares	Number of shares	Number of voting rights	Free float
Series A	**5,700,000**	ordinary bearer	5,700,000	5,700,000	5,700,000
Series B	**1,500,000**	ordinary bearer	1500000	1,500,000	1,500,000
Series C	**3,000,000**	ordinary bearer	3,000,000	3,000,000	3,000,000
Series D	**330,000**	ordinary bearer	330,000	330,000	330,000
Series E	**1,500,000**	ordinary bearer	1,500,000	1,500,000	1,500,000
Series F	**1,400,000**	ordinary bearer	1,400,000	1,400,000	1,400,000
Series G	**865,000**	ordinary bearer	865,000	865,000	865,000
Series H	**776,948,780**	ordinary bearer	776,948,780	776,948,780	776,948,780
Series H	**213,610**	registered, before conversion into book entry form	213,610	213,610	-
Series I	**12,806,811**	ordinary bearer	12,806,811	12,806,811	12,806,811
Series I	**66,021**	ordinary, before conversion into book entry form	66,021	66,021	-
		Total	**804,330,222**	**804,330,222**	**804,050,591**

Shareholdings above 5% as at June 30th 2018 and as at the date of this Report

Shareholder	Number of shares	% ownership interest	% of voting rights held
Shareholder	Number of shares	% ownership interest	% of voting rights held
as at June 30th 2018 and as at the date of this Report			
Jerzy Wiśniewski	189,902,366	23.61%	23.61%
Powszechna Kasa Oszczędności Bank Polski S.A.	53,060,500	6.60%	6.60%
Bank Polska Kasa Opieki S.A.	62,848,380	7.81%	7.81%

The Company is not aware of any other shareholders holding 5% or more of the total voting rights at the General Meeting. By the date of this Report, the Company had not been notified of any such shareholdings.

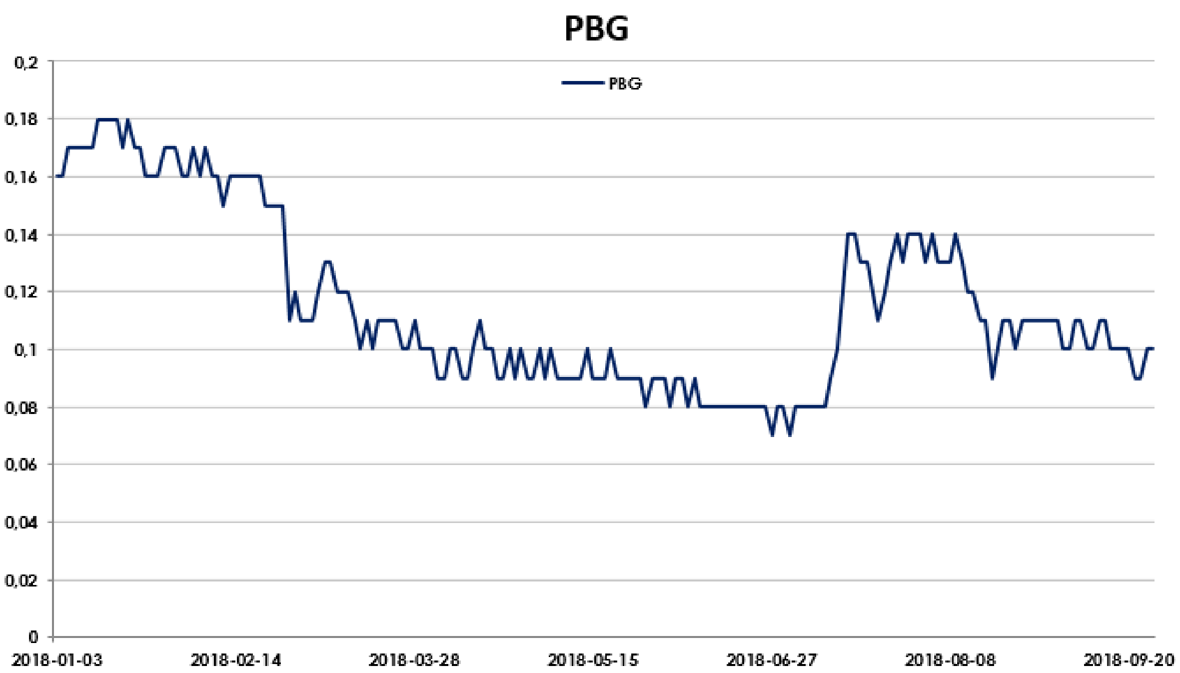
II. CHANGES IN THE COMPANY'S SHAREHOLDING STRUCTURE

In the reporting period, there were no material changes in the Company's shareholding structure.

III. KEY DATA ON PBG SHARES

Following a reduction in the par value of PBG shares, dilution of the Company's share capital, and introduction of Series H and Series I shares to trading under a scheme of arrangement in August 2017, the value of PBG shares decreased significantly. Consequently, the Warsaw Stock Exchange listed PBG shares on the ALERT LIST, and since January 3rd 2018 they have been traded in the single-price auction system. Having analysed the applicable procedural rules, the Company concluded that it was unable to take any steps to redeem or effect a reverse split of its shares. The analysis found that a reverse split of the Company shares that would serve to remove the shares from the Alert List is not possible considering the terms of the arrangement with creditors, approved by the final decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division (Case No. XI GUp 29/12), dated October 8th 2015 (the "Arrangement") for as long as the Company performs the Arrangement.
On June 20th 2018, the Company issued Current Report No. 17/2018 (see Section IV.I.3 of this Report) and applied to the Warsaw Stock Exchange for not delisting PBG shares on the grounds that no reverse split could be effected until the Arrangement was performed. As at the date of this Report, the WSE neither responded to the Company's application nor requested it to take any remedial action.

Price of PBG shares from January 1st to September 26th 2018



Share data

Key share data		H1 2018	H1 2017	Y-o-y change (%)
Period high	PLN	0.18	6.93	-97
Period low	PLN	0.07	2.58	-97
Share price at period end	PLN	0.08	3.15	-97
Number of shares at period end	Number of shares	804,330,222	804,050,591	-
Free float	Number of shares	804,050,591	10,555,000	-
Capitalisation at end of H1 2018	PLNm	64.3	2,532	-98
Average daily trading value	PLN '000	141.3	1,078	-87
Average daily trading volume	Number of shares	1,165,824	221,656	425

IV. SHARE BUY-BACKS

In the period covered by this Report, the Company did not buy back any of its shares.

V. HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL RIGHTS

There are no securities conferring special control rights with respect to the Company.

VI. RESTRICTIONS ON VOTING RIGHTS

The PBG Articles of Association do not provide for any limitations on the exercise of voting rights by holders of any given percentage or number of voting rights, other than the limitation imposed under Art. 26.12 of the Company's Articles of Association on a shareholder having personal rights, concerning the exercise of voting rights carried by shares representing up to 23.61% of total voting rights at the Company.

VII. RESTRICTIONS ON TRANSFER OF OWNERSHIP RIGHTS TO PBG SECURITIES

Jerzy Wiśniewski (the Company's majority shareholder), in the performance of the restructuring agreement to which he is party, has signed the PBG shares lock-up agreement relating to the shares held by him, obliging him to hold the shares until the Company discharges all of its obligations under the bonds in issue, which will be offered to eligible creditors under the arrangement (see the Company's Current Report No. 26/2015 of August 2nd 2015, Section I.1.d.iii). Under the lock-up agreement, the majority shareholder undertook towards the financial creditors who are parties to the restructuring agreement not to assume any obligations and not to make any disposals involving PBG shares, any rights attached to the shares or any rights to the shares, in each case whether held at the time of execution of the agreement or acquired in the future under the arrangement, without prior consent of the financial creditors.

VIII. EVENTS WHICH MAY RESULT IN CHANGE OF SHAREHOLDINGS

Not applicable.

IX. THE COMPANY AND ITS SHARES

Investor relations:

Investor Relations Department	Jacek Krzyżaniak
Phone	+48 605 470 599
Email	gielda@pbg-sa.pl
Website	www.pbg-sa.pl
WARSAW STOCK EXCHANGE	PBG
Reuters	PBGG.WA
LEI CODE	259400X248CV8DJRIM55

SECTION VI: FINANCIAL OVERVIEW

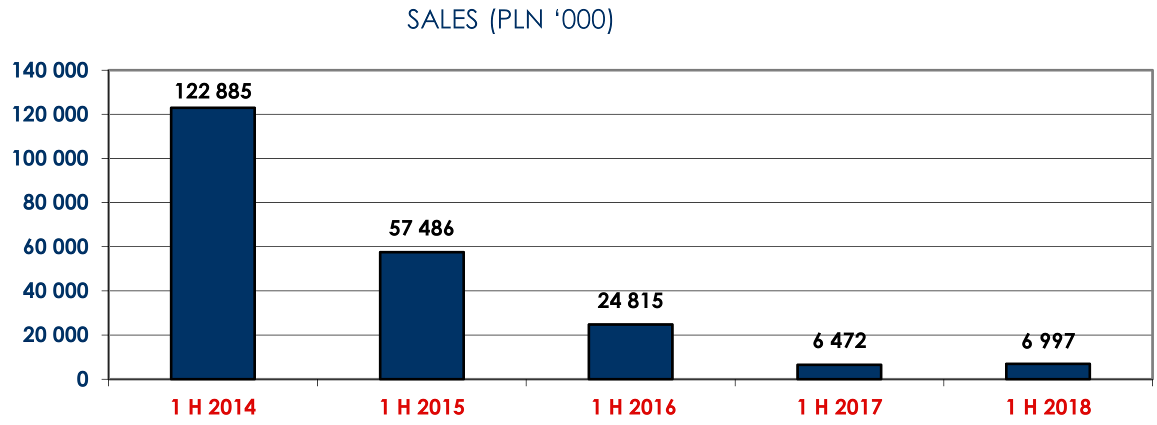
I. ANALYSIS OF PBG'S FINANCIAL CONDITION

All financial data and ratios are sourced from the IAS-compliant financial statements.

1. Revenue

As at the end of H1 2018, PBG generated revenue of almost PLN 7m. Year on year, revenue increased slightly, by 8.1%, from PLN 6.5m in H1 2017. In H1 2018 and H1 2017 alike, PBG earned revenue primarily from the provision of business and organisational support services to subsidiaries, which is consistent with the adopted strategy for PBG to assume the role of a holding company.

Historical development of revenue (past five years)

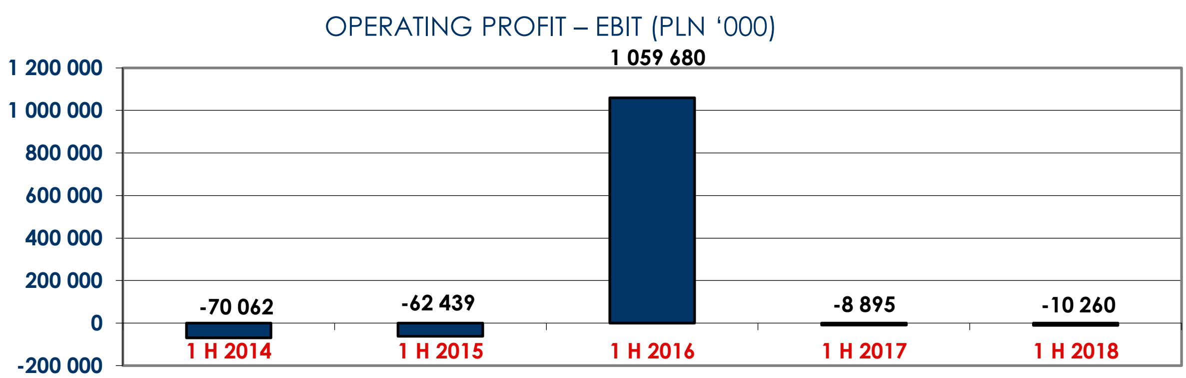


Since 2014, when PBG's voluntary arrangement process was already under way, revenue has been on a steady downward trend. This is attributable to the Company's distressed position and as a result – its exclusion from public procurement pending the arrangement process and limited access to financing. In September 2016, when the arrangement proceedings were closed, PBG regained full capacity to engage in business. However, pursuant to the current strategy, PBG is to act as a holding company while the other Group companies are to engage in contract performance. As at July 1st 2018, the value of PBG's backlog of orders (calculated as the total unbilled revenue under contracts in progress) was approximately PLN 121.4m, with ca. PLN 7m of that amount scheduled for H2 2018 and the remaining ca. PLN 114.4m – for the following years. The largest value contract in PBG's order book is the one for construction and delivery of fuel terminals for NATO.

2. EBIT

In H1 2018, PBG recorded an operating loss of PLN 10.3m compared with operating loss of PLN 8.9m in H1 2017. In H1 2018, in addition to the Company's day-to-day operations, operating result was affected by the recognition, under "Loss on arrangement with creditors", of the effect of revaluation of the discount of claims in the arrangement and of zero-coupon bonds issued to partially repay those claims, totalling PLN 9.8m. When comparing the above results to the Group's performance in H1 2016, it is worth noting that the operating profit generated in that period was primarily attributable to the recognition in the Company's accounts of the bankruptcy court's decision to approve the arrangement becoming final on June 13th 2016 (its effect on the Company's EBIT was PLN 1,060.5bn).

Historical development of EBIT (past five years)



3. Liquidity ratios

Liquidity ratios

NAME	FORMULA	H1 2018	2017
Current ratio	(current assets* / current liabilities)	0.65	0.88
Quick ratio	(current assets* – inventories / current liabilities)	0.65	0.88
Cash ratio	(cash balance at end of period / current liabilities)	0.13	0.01

* including non-current assets held for sale

In H1 2018, the current ratio fell to 0.65, compared with 0.88 at the end of H1 2017. Its level implies that the Company is in a difficult financial position and would not be able to repay its current liabilities if they fell immediately due. Quick ratio increased as well.

The ratio levels considered safe for construction companies in general fall within the range from 1.2 to 2.0 in the case of the current ratio, and 1.0 to 1.2 in the case of the quick ratio.

The cash ratio went up from 0.01 at the end of H1 2017 to 0.13 at the end of H1 2018. Its level suggests that PBG was able to cover about 13% of its current liabilities with the most liquid assets, i.e. cash and cash equivalents. At the same time, it is widely considered that a safe level of the cash ratio is somewhere between 0.15 and 0.2, which means that a business entity should be able to cover with its most liquid assets (cash and cash equivalents) from about 15% to about 20% of its current liabilities.

4. Debt

Debt ratio

NAME	FORMULA	H1 2018	2017
Capital structure	equity / debt capital	-0.22	-0.20
Structure of assets	non-current assets / current assets*	2.20	2.68
Total debt ratio	Total liabilities / total assets	1.28	1.25

* including non-current assets held for sale

As in H1 2017, equity was negative in the reporting period. At the end of H1 2018, the asset structure ratio fell to 2.20, from 2.68 a year earlier. The above change was mainly attributable to a decrease in the value of non-current assets following the recognition in H1 2018 of a PLN 26m impairment loss on the investment in RAFAKO shares, as well as the advancing process of divestment of the Company's non-core assets.

In H1 2018, the total debt ratio stood at 1.28, having slightly increased, by nearly 0.03pp year on year. In both the first half 2016 and the first half 2017, the ratio was at a level considered unsafe, characteristic of companies in a difficult economic and financial position.

II. CHANGES IN THE STATEMENT OF PROFIT OR LOSS AND COST ANALYSIS

1. Statement of profit or loss

Changes in the statement of profit or loss

PBG's statement of profit or loss (PLN '000)	H1 2018	H1 2017	Change H1 2018/H1 2017
Revenue	6,997	6,472	8%
Cost of sales	7,502	2,653	183%

Gross profit (loss)	**-505**	**3,820**	-113%
Gain on losing joint control of joint operation	0	0	-
Distribution costs	0	0	-
Administrative expenses	5,316	5,653	-6%
Other income	8,426	8,588	-2%
Other expenses	3,040	5,416	-44%
Gain (loss) on arrangement with creditors	-9,824	-10,233	-
Operating profit (loss)	**-10,260**	**-8,895**	-
Finance income	10	40	-74%
Net finance costs	26,848	563	-
Profit (loss) before tax	**-37,098**	**-9,418**	-
Income tax expense	0	0	-
Net profit (loss)	**-37,098**	**-9,418**	-

In H1 2018, the Company posted a gross loss of approximately PLN 0.5m, compared with a gross profit of nearly PLN 3.8m in H1 2017, attributable to a higher cost of sales (primarily in connection with the contract for the construction of fuel terminals), with revenue almost unchanged in those two periods.

In H1 2018, administrative expenses amounted to PLN 5.3m, having decreased slightly - by PLN 0.4m year on year.

In H1 2018, other income totalled approximately PLN 8.4m, with the following key contributors: foreign exchange gains on operating activities of almost PLN 4.4m, and reversal of impairment losses on receivables of PLN 1.8m. In H1 2018, the Company also recognised other income on: discount on non-current receivables and payables (PLN 0.3m) and gain on disposal of non-financial non-current assets (PLN 0.3m).

Other expenses in the reporting period were PLN 3.0m, including mainly: an impairment loss on loans advanced (PLN 2.8m) and an impairment loss on trade receivables of approximately PLN 0.1m.

At the end of H1 2018, under "Loss on arrangement with creditors", the Company recognised the effect of revaluation of the discount of liabilities in the arrangement and zero-coupon bonds issued to partially repay those liabilities (a loss of PLN 9.8m). In H1 2017, under the same item the Company recognised a loss of PLN 10.2m resulting from revaluation of the discount of liabilities in the arrangement and zero-coupon bonds being recognised in the Company's accounting records.

All in all, in H1 2018 PBG reported an operating loss of PLN 10.3m, compared with an operating loss of PLN 8.9m generated a year earlier.

In H1 2018, the Company posted a pre-tax and net loss of PLN 37.1m, compared with a pre-tax and net loss of PLN 9.4m for H1 2017. Weighing heavily on the pre-tax loss for H1 2018 were net finance costs of PLN 26.8m, which included mostly the PLN 26m impairment loss recognised on RAFAKO shares. In H1 2018, the Company also incurred finance costs related to interest on financial instruments, of approximately PLN 0.8m, the largest item of which was the interest on loans advanced to the Company.

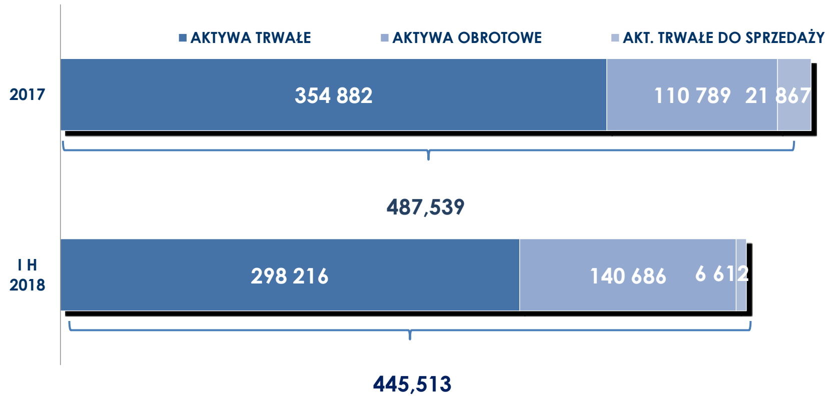
III. ASSETS, FINANCIAL CONDITION AND FUNDING OF THE ASSETS

1. Assets

During the reporting period, there was a shift in the structure of assets. As at the end of H1 2018, non-current assets represented close to 75% of total assets, having decreased by over 5 pp year on year. At approximately 25%, the share of current assets (including non-current assets held for sale) increased by over 5 pp year on year.

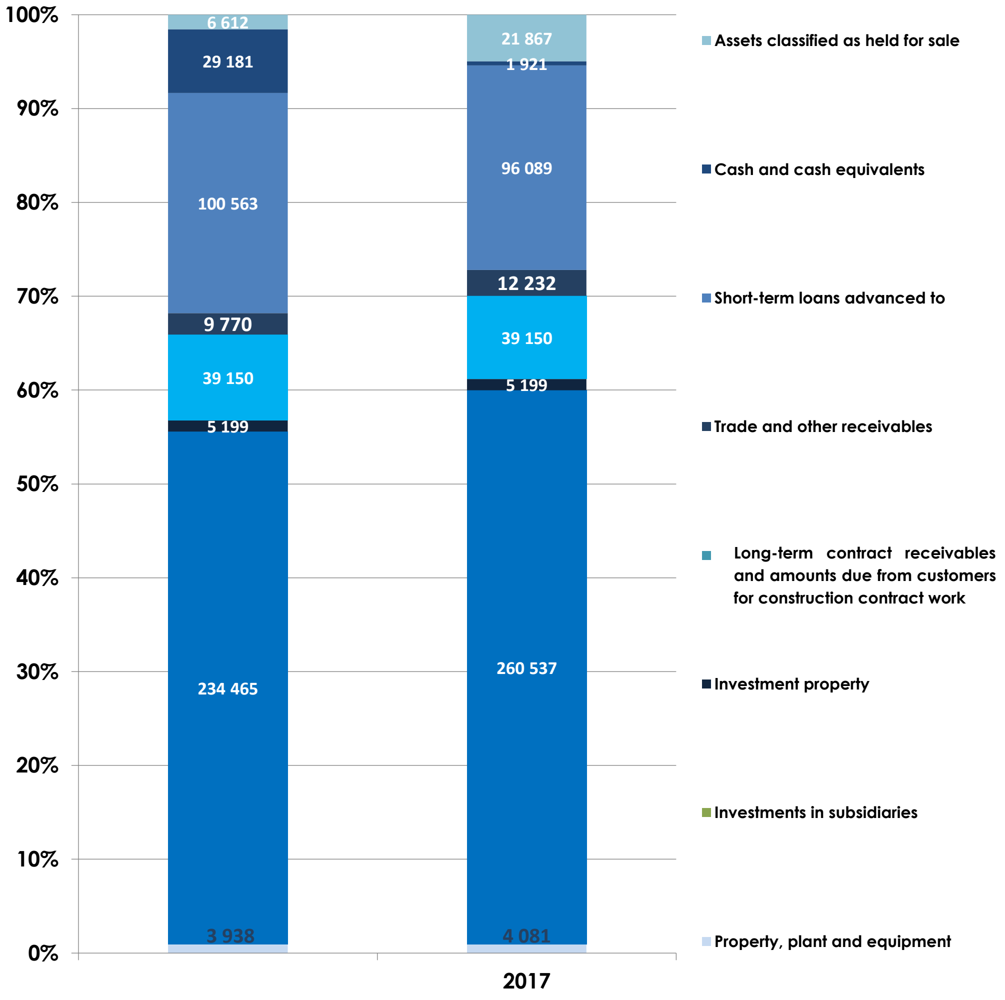
Investments in subsidiaries (mainly shares in RAFAKO S.A.) were the key item of non-current assets (79%). The second largest item were long-term loans (advanced to the subsidiary PBG DOM), representing 3.4% of non-current assets.
During the reporting period, there was also a shift in the structure of current assets. At the end of H1 2018, short-term loans, including loans advanced to PBG DOM, accounted for the largest part of current assets: 86%. The second largest item were non-current assets held for sale, representing 27% of current assets, followed by trade and other receivables with a 10% share in current assets.

Assets (PLN '000)



Non-current assets	Aktywa trwałe
Current assets	Aktywa obrotowe
Assets classified as held for sale	Aktywa zaklasyfikowane jako przeznaczone do sprzedaży

Largest items of assets (PLN '000)



Asset ratios (%)

NAME	FORMULA	H1 2018	2017
Basic asset structure ratio	(non-current assets / current assets, including assets held for sale)*100%	202.46%	267.52%
Non-current assets to total assets	(non-current assets / total assets)*100	66.94%	72.79%
Current assets to total assets	(current assets, including assets held for sale / total assets)*100	33.06%	27.21%
Short-term trade and other receivables to current assets	(short term receivables / current assets, including assets held for sale)*100	6.63%	9.22%

The change in the structure of the Company's assets in H1 2018 as presented above was mainly attributable to: (i) recognition in H1 2018 of another impairment loss on RAFAKO shares (PLN 26m), which led to a decrease in investments in subsidiaries, and (ii) sale in H1 2018 of the Company's assets intended for divestment, including primarily the office buildings and land properties located in Wysogotowo.

As far as current assets (including non-current assets held for sale) are concerned, they increased by nearly 11% between December 31st 2017 (PLN 132.7m) and June 30th 2018 (PLN 147.3m).Comparing the value of operating assets as at December 31st 2017 and June 30th 2018, the highest increase was recorded in cash and cash equivalents (from PLN 1.9m to PLN 29.2m), mainly in connection with cash inflows attributable to the divestment of the Company's assets in H1 2018.

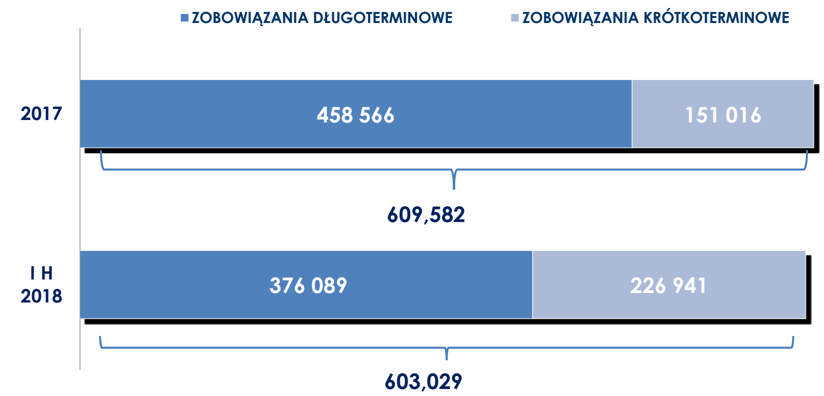
2. Equity and liabilities

As in the corresponding period of the previous year, equity was negative (end of H1 2018: PLN -157.5m, end of 2017: PLN -122.0m). Therefore, no structure of equity is presented, and only an analysis of the structure of the Company's liabilities has been made. The significant, clearly noticeable decrease in equity (its higher negative value) was attributable to the net loss of PLN 37.1m incurred by the Company in H1 2018. As discussed above, the net loss generated by the Company was largely a result of its recognition of an impairment loss on RAFAKO shares at the end of H1 2018.

At the end of H1 2018, PBG's liabilities totalled PLN 603.0m, of which 62.5% were non-current liabilities, with current liabilities representing the balance (37.5%). Non-current liabilities fell by 18% on the end of 2017, to PLN 376.1m (down by approximately PLN 82.5m). On the other hand, the value of current liabilities increased. At the end of H1 2018, current liabilities were PLN 226.1m, up by almost PLN 76m, or 50.3%, from the end of 2017 (PLN 151m). The increase in current liabilities was correlated with the decrease in non-current liabilities, largely as a result of classification of the Company's liabilities under the arrangement and bonds maturing in up to 12 months as non-current liabilities.

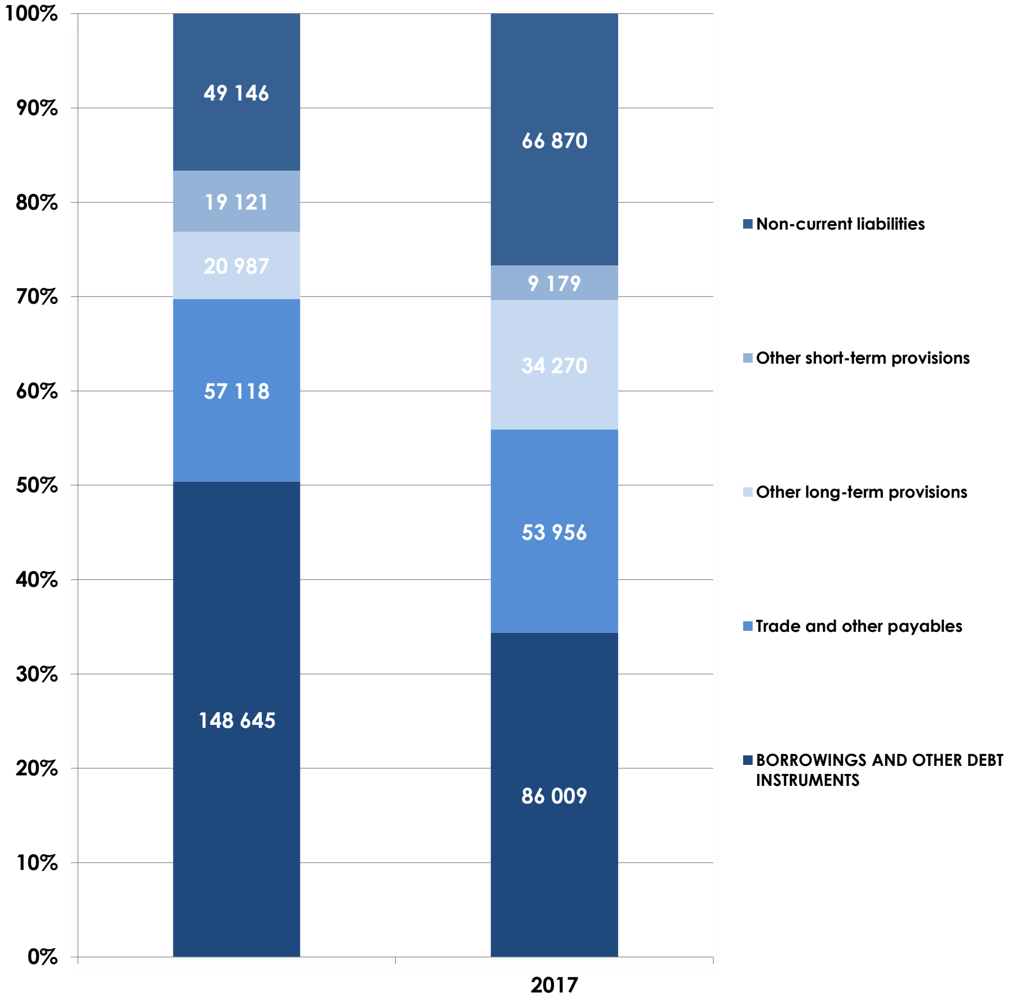
At the end of H1 2018, both in non-current and current liabilities, the largest item was represented by borrowings and other debt instruments, which amounted respectively to PLN 265.6m (the non-current portion) and PLN 148.6m (the current portion), and which comprised mainly zero-coupon bonds (PLN 254.3m under non-current liabilities and PLN 126.0m under current liabilities).

Liabilities (PLN '000)



Non-current liabilities	Zobowiązania długoterminowe
Current liabilities	Zobowiązania krótkoterminowe

Largest items of liabilities (PLN '000)



IV. STATEMENT OF CASH FLOWS

Cash flows (PLN '000)

	H1 2018	H1 2017
Net cash from operating activities	-18,736	-47,980
Net cash from investing activities	45,073	52,799
Net cash from financing activities	923	-6,189
Net cash at end of period	29,181	2,219

In H1 2018, PBG's net cash from operating activities was negative, at nearly PLN -18.7m. During the reporting period, net cash from investing activities was PLN 45.1m. Net cash from financing activities reached PLN 0.9m. Net cash at end of H1 2018 amounted to PLN 29.2m. The most significant cash inflows from investing activities came from repayment of loans by the Company's subsidiaries (PLN 26.3m) and net proceeds from sale of the Company's properties in Wysogotowo (PLN 15.4m). The repayment of loans by PBG's subsidiaries followed their divestment of non-core assets (real properties) under the divestment plan agreed with the Company's Bondholders. The negative net cash from operating activities was primarily attributable to the recognition of a net loss of PLN -37.1m and a change in the Company's working capital, mainly due to repayment of the Company's liabilities of PLN 14.6m.

Cash flow profile

	H1 2018	H1 2017
Net cash from operating activities	-	-
Net cash from investing activities	+	+
Net cash from financing activities	+	-
Net cash at end of period	+	+

V. INVESTMENTS

1. Equity investments
In H1 2018, PBG did not make any equity investments.

2. Expenditure on property, plant and equipment
In H1 2018, PBG did not incur any significant expenditure on property, plant and equipment.

3. Feasibility of the Company's investment plans for 2018
Given the constrained financial condition of the Company, no equity investments or expenditure on property, plant and equipment are planned. It may only be necessary to incur expenditure on property, plant and equipment needed to execute contracts. With a view to raising additional funds, the Company intends to sell non-core assets.

VI. FINANCIAL OUTLOOK
As the court's decision to approve the arrangement became final, the Company continues to perform its obligations thereunder. In accordance with the arrangement, the last repayment falls due on June 30th 2020, and the last series of bonds issued by the Company also mature on the same date. For details of the arrangement and sources of its financing, as well as PBG's anticipated financial condition, see Section VI.IX. Financial review.

VII. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT
The main objective of capital management at PBG is to maintain good credit ratings and safe equity ratios that can support the operations of the Company and increase its value for shareholders. To maintain or adjust its capital structure, the Company may usually contract bank borrowings, issue bonds, resolve to pay dividends to shareholders, return capital to shareholders, or issue shares or bonds.
Given that PBG S.A. was subject to a voluntary arrangement procedure from June 2012 to June 2016, capital management was virtually impossible at the Company. In September 2016, the PBG arrangement proceedings were formally closed, and the Company became again fully capable of engaging in commercial activity. Since then, the Company has also regained its ability to manage capital. That ability is limited, though, due to the Company's financial condition, which still remains precarious. Currently, PBG's key objective is to effectively implement the arrangement, which will allow it to continue as a going concern and recover shareholder value in the future.

The objectives and policies of financial risk management did not change relative to those disclosed in the most recent full-year financial statements.

VIII. OFF-BALANCE-SHEET RECEIVABLES AND LIABILITIES
As at the end of H1 2018, PBG disclosed contingent liabilities as off-balance-sheet items of PLN 5.7m. They included mainly liabilities under sureties issued by the Company for third parties and liabilities under guarantees issued at PBG's request for third parties.

In the reporting period, the Company disclosed contingent receivables as off-balance-sheet items of PLN 267 thousand. The contingent receivables included mainly promissory notes received as security for the performance of contracts of PLN 8 thousand and performance bonds of PLN 259 thousand.

In the twelve months, PBG recorded a slight increase in contingent receivables, comprising mainly amounts received as security for the performance of contracts (PLN 15 thousand), including an almost PLN 15 thousand increase in receivables under guarantees and no change in receivables under promissory notes.

In H1 2018, PBG recorded a PLN 1,077 thousand decrease in contingent liabilities, including mainly a PLN 340 thousand decrease in liabilities under promissory notes issued and a PLN 683 thousand decrease in sureties issued.

In accordance with the provisions of the Issue and Agency Agreement, as well as the Terms and Conditions of the Bonds, the parent and its selected subsidiaries secured the bonds up to an amount of PLN 1.065bn (i.e. 150% of the maximum value of the bond programme). The security is effective as of the bonds issue date. The security interests encumber assets owned by the parent and selected obligor companies. The bonds are secured by:

- Civil-law sureties provided by selected subsidiaries up to an amount of PLN 1.065bn (i.e. 150% of the maximum value of the bond programme);
- Registered pledges over the parent's shares in selected subsidiaries;
- Pledges over the parent's and selected subsidiaries' business assets;
- Mortgages on most real properties owned by the parent and its subsidiaries;
- Assignment by way of security of receivables of the parent and selected subsidiaries under: (a) insurance contracts in respect of mortgaged properties, (b) loan agreements between the parent or the obligor companies and the subsidiaries, (c) loan agreements between the parent and PBG oil and gas Sp. z o.o. (POG); (d) intra-group service agreements and subcontractor agreements under construction contracts concluded by POG and the parent, and other subcontractor agreements under construction contracts;
- Registered pledges over receivables from the parent's bank account and from the bank accounts of its selected subsidiaries;
- Declarations of voluntary submission to enforcement, made by the parent and selected subsidiaries.

Furthermore, POG issued a surety to the security agent for the divestment account funds which could be used by PBG or POG up to the lower of the amount equal at any time to 150% of the funds or PLN 120m.

IX. GOING CONCERN ASSUMPTION

Going concern assumption

Given the Company's current financial situation, which is materially affected by the Company's obligations relating to the performance of the arrangement and servicing Bond issuance process, there are risks regarding its status as a going concern. As at June 30th 2018, the Company's current liabilities (disclosed in the separate financial statements) exceeded its current assets and assets classified as held for sale by approximately PLN 79.6m. Nonetheless, the Company's separate financial statements for H1 2018 have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future, i.e. for at least 12 consecutive months. The assumption was based on the court's decision to approve the arrangement with creditors having become final, allowing the Company to continue as a going concern. In 2016, the Company began to perform its obligations under the arrangement and the bonds, which is scheduled to continue until June 2020. Also, presented below is the Management Board's plan of how it intends to cover the deficit in net working capital.

Detailed information on the final closing of the arrangement bankruptcy proceedings is presented in the financial statements for previous reporting periods, particularly in the 2015 and 2016 separate financial statements of PBG S.A.

Performance of the arrangement and redemption of the bonds

On June 13th 2016, the Company began to perform its obligations under the arrangement with creditors. The provisions of the arrangement will be performed by the Company until the end of June 2020. Pursuant to the terms of the arrangement, the Company agreed to offer bonds to Group 1, 3, 4, 5 and 6 creditors. The obligation to issue bonds to refinance claims under the arrangement was also stipulated in the restructuring documents signed by the Company, including the restructuring agreement, subsequently amended by a supplementary agreement.

The original bond redemption schedule was amended in the course of negotiations with financial creditors and confirmed by documents signed on November 8th 2016: (i) a supplementary agreement to the restructuring agreement of July 31st 2016; (ii) annex 1 to the issue, agency and co-financing agreement of July 31st 2015; and (iii) the amended model terms and conditions of the bonds (see PBG Current Reports No. 15/2016, 30/2016, 34/2016, 35/2016).

As at the date of issue of the consolidated financial statements for H1 2018, the Company had issued Series A, B, C, D, E, F, G, H and I first issue bonds for PLN 388,795,000 (see PBG Current Report No. 54/2016), and Series B1, C1, D1, E1, F1, G1, H1 and I1 second issue bonds for PLN 85,291,000 (see PBG Current Report No. 6/2017). The Company made a commitment to have the bonds listed on the exchange. As at the date of issue of the financial statements, the Series E, E1, F, F1, G, G1, H, H1, I and I1 bonds were traded on the Catalyst multilateral trading facility operated by the Warsaw Stock Exchange (see PBG Current Reports No. 10/2017, No. 12/2017, No. 16/2017 and No. 18/2017).

To the best of the Company's knowledge, the schedule of payments under the arrangement and of the redemption of bonds, including payment of liabilities towards subsidiaries, is as follows (amounts rounded to the nearest whole złoty):

Period	Q3 2018	Q4 2018	Q1 2019	Q2 2019	H2 2019	H1 2020	Total
Repayment of the Company's liabilities under the arrangement and the bonds, including:	**60,196,184**	**31,635,764**	**0**	**81,544,663**	**50,245,829**	**300,827,733**	524,450,174
*- redemption of bonds**	50,329,400	15,239,200	0	61,934,800	46,875,600	238,445,700	412,824,700
- payment of arrangement instalments	9,866,784	15,809,038**	0	19,157,874	3,292,862	47,555,361	95,681,920
- payment of contingent claims after the date of fulfilment of the condition	0	587,526	0	451,988	77,367	1,791,665	2,908,547
- payment of disputed claims						13,035,007	13,035,007

* Including the estimated amount of the bonds assumed to be acquired in exchange of claims which are contingent claims as at the reporting date and which have become due before the date of issue of these financial statements.
** Including PLN 6,060,301 of the arrangement instalment maturing on June 30th 2018.

The parent recognised a provision of PLN 25,133,200 for the repayment of contingent or disputed claims. As estimated by the parent's Management Board, of that amount contingent claims of PLN 12,098,193 (including claims of PLN 9,189,646 which remain contingent claims as at the reporting date of June 30th 2018, with respect to which the condition precedent was fulfilled at the beginning of Q3 2018) will become due and will be paid over the term of the arrangement (through payment of repayment instalments or conversion of the claims and then redemption of bonds). Moreover, the amount of PLN 25,133,200 referred to in the preceding sentence includes disputed claims of PLN 13,035,007 which will be paid when the dispute is resolved, but the time of their payment cannot be reasonably determined as at the date of these financial statements. Therefore, it was assumed that the disputed claims would be paid at the end of the arrangement term.

Amount of liabilities repaid from the date when the Company began to perform the arrangement to the date of performance data publication (rounded to the nearest whole złoty)	
Liabilities repaid by the date of issue of these financial statements, including:	54,578,113
repayments under the arrangement	66,201,987
redemption of bonds	120,780,100

The Company's Management Board expects to receive the following cash proceeds during the term of the arrangement (rounded to the nearest whole złoty):

Expected cash proceeds from:	Q3 2018	Q4 2018	Q1 2019	Q2 2018	H2 2019	H1 2020	Total
Sale of the Company's properties and other non-core assets	7,460,000	2,700,000	0	1,000,000	4,877,000	1,000,000	17,037,000
Repayment of loans by the Company's subsidiaries implementing the divestment plan	1,037,615	35,000,000	0	0	10,550,000	0	46,587,615
Sale of receivables under the *Ministersky* development project in Kiev	0	20,000,000	0	60,000,000	0	0	80,000,000
Cash flows under loans advanced to the Company by PBG oil and gas Sp. z o.o.	38,119,113	-32,943,818	1,592,216	7,678,664	9,658,615	-10,723,460	13,381,328
Cash flows from the Company's other operations	20,418,676	1,642,959	-2,489,551	12,489,069	25,707,822	33,872,417	91,641,392
Refinancing of the balloon payment	0	0	0	0		280,000,000	280,000,000
TOTAL	67,035,404	26,399,141	-897,335	81,167,733	50,793,436	304,148,957	528,647,335

Below is presented the projected balance of available cash following repayment of the arrangement instalments and redemption of bonds issued by the Company. The balance reflects the difference between the total "Expected cash proceeds" presented above in the individual periods and the total of arrangement instalments and the amounts of the redeemed Bonds with respect to which, to the best of the Management Board's knowledge, a requirement will arise to make payments in the individual periods referred to above ("Repayment of the Company's liabilities under the Arrangement and the Bonds"):

Cash balance after: (i) redemption of bonds; (ii) payment of arrangement instalments [PLN]	Q3 2018	Q4 2018	Q1 2019	Q2 2019	H2 2019	H1 2020
Sale of the Company's properties and other non-core assets	6,839,220	1,602,596	705,261	328,331	875,939	4,197,162

<u>Net working capital disclosed in the Company's separate financial statements</u>

As disclosed in the separate financial statements as at June 30th 2018, the total amount of current assets and non-current assets held for sale was PLN 147.3m, while the amount of current liabilities was PLN 226.9m, which implies negative net working capital of approximately PLN -79.6m. Considering the above, the Company's Management Board carried out a detailed analysis of sources of covering the deficit and concluded that within 12 months from the reporting date the parent would be able to generate cash of approximately PLN 10.0m in excess of the liabilities due in the same period.

A detailed analysis of current assets and assets classified as held for sale, which stood at PLN 147.3m as at the reporting date, indicates that within 12 months from the reporting date the Company will be able to release PLN 199.6m, and the difference between individual current assets and assets held for sale followed mainly from the following assumptions:

- Estimates concerning the Group's Divestment process indicate that within 12 months from the reporting date loan repayments will total approximately PLN 116.0m, i.e. about PLN 15.5m more compared with the amount disclosed in the financial statements prepared in accordance with IFRS. The higher amount is attributable to the repayment of loans by related entities; their valuation performed in accordance with the IFRS is lower than the one based on the Management Board's detailed plans. Additionally, in the 12 months as from June 30th 2018 the Company intends to raise PLN 80m under a contract related to the exit from the development project in Kiev, including PLN 20m by the end of Q4 2018.

- The Company's Management Board estimates that it will be possible to increase the amount of potential proceeds from non-current assets that may be sold in a short term by PLN 4.6m, mainly in connection with divestment of the Company's non-core assets.
- The Management Board increased the estimated inflow of short-term receivables by about PLN 18.9m. The change is primarily attributable to a detailed assessment of the ability to recover individual receivables in a short term, which as at the reporting date were measured in accordance with IFRS 9;
- The Management Board believes it will be possible for the Company to receive cash in the form of a loan granted by PBG oil and gas Sp. z o.o.

The amount of current liabilities disclosed in the Company's financial statements as at June 30th 2018 was PLN 226.9m. However, the analysis carried out by the Company's Management Board indicates that approximately PLN 189.6m will become due and payable within 12 months from the reporting date. The discrepancy mainly results from the classification of liabilities under received loans and security deposits as current liabilities which will not become due over the next 12 months. The Company's Management Board carried out an additional detailed analysis of provisions for current liabilities, disclosed in the statement of financial position, reducing the amount of those provisions by PLN 9.2m, i.e. the amount of a bank guarantee paid out after the reporting date, with respect to which the Company's Management Board assumes the conversion of liabilities into the Bonds and repayment in line with the approved redemption schedule, for a total of PLN 1.5m over the next 12 months.

Expected sources of funding the arrangement and redemption of the bonds

Implementation of the arrangement, in particular repayment of the creditors' claims and redemption of the bonds, will be based on four main potential sources of financing (accordingly, amounts given below have been calculated for the period from June 30th 2018):

- Time-optimised proceeds from divestment of the Company's non-core assets – expected proceeds over the entire term of the arrangement – PLN 17m;
- Receivables under intra-group loans which can be realised after the sale of properties, and loans from other entities – expected proceeds over the entire term of the arrangement: PLN 126.6m, including PLN 80.0m from the sale of receivables under the Ministersky Project;
- Borrowings to be contracted at the end of the arrangement term to finance the last repayment under the arrangement in June 2020 – expected proceeds of PLN 280m;
- The balance will be covered with cash generated from core operations carried out jointly with other companies of the Group, including profits from current and potential future contracts, particularly in the power construction market, to be executed in close cooperation with RAFAKO S.A., and cash generated from other activities by the Company and PBG oil and gas sp. z o.o.

The Company expects to receive funds specified above in such amounts and on such dates as to be able to make repayments under the arrangement in line with its terms and to redeem the bonds on the dates specified in the terms and conditions of each relevant series of the bonds issued by the Company and acquired by eligible creditors, in particular the Company's financial creditors who have signed or acceded to the restructuring agreement. The source of funding of the arrangement, i.e. the divestment of non-core assets, will be based on proceeds from the sale of properties owned by the Company and its subsidiaries. Proceeds from the sale of properties owned by subsidiaries will be transferred to the Company as repayment of loans granted to the subsidiaries to finance their property development and investment activities before the arrangement bankruptcy was declared.

The Company intends to partly finance payments under the arrangement with borrowed funds. The assumption that it will be possible to refinance the final repayment under the arrangement with another borrowing is based on the Company's judgement that repayment of liabilities under the arrangement and the bonds as they fall due, as well as the implementation of the assumed strategy, will allow the Company to regain its creditworthiness. During the term of the arrangement and repayment of the bonds, the Company's and its subsidiaries' creditworthiness is expected to gradually improve, to be fully regained by the time when all claims under the arrangement are repaid and all bonds are redeemed. With no financial liabilities other than the balloon payment and the last series of bonds outstanding at that time, the Company is expected to be able to finance the last payment under the arrangement and to redeem the last series of bonds with proceeds from a borrowing the Company would be able to contract on market terms, based on the Company's then-current revenue streams and expected future revenues as well as the Company's assets then existing.

Risks which, if materialised, may limit the Company's ability to perform the arrangement

Considering the expected duration of the arrangement, under which the Company is obliged to make final repayments to the creditors by June 30th 2020, the Company has identified possible risks that may occur in that period, which, if materialised, may significantly limit the Company's ability to perform the arrangement or redeem the bonds it has issued. Accordingly, to successfully implement the arrangement (and to ensure that all outstanding bonds are redeemed) the Company intends to rely in large part on funds to be raised by the Company or its subsidiaries from the divestment of properties owned by the Company and its subsidiaries, or of property development projects in which the Company had engaged before the arrangement bankruptcy was declared. This means that a potential unexpected downturn in the property market may significantly affect the Company's ability to secure funds required to satisfy claims under the arrangement or to redeem the bonds. Bearing in mind the risk of not receiving the proceeds from the development project in Ukraine due to changes in or escalation of the political conflict in the country, the Company's Management Board negotiated a transaction to sell the receivables under the conditional sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. This agreement will enable earlier inflows from the project. Pursuant to the terms of the transaction, the Company expects to receive PLN 80m (taking into account the agreed discount). Planned dates and amounts of cash inflows: PLN 20m in the second half of 2018 and PLN 60m in the first half of 2019. In connection with the change of the assumptions, the Company's Management Board will request the Bondholders for their consent to execute the transaction on the terms specified in the receivables sale agreement. A potential threat to implementation of the arrangement or the Company's ability to redeem outstanding bonds may also come from lower than expected operating cash receipts of the Company and its subsidiary PBG oil and gas, mainly due to the Company's and PBG oil and gas Sp. z o.o.'s failure to secure contracts the two companies intend to win and perform during the term of the arrangement. Another risk to the Company's ability to perform the arrangement and redeem the bonds may come from potential difficulty in obtaining, or inability to obtain, the borrowing which the Company expects to use to fund the PLN 280m balloon (last) payment under the arrangement and to redeem the bonds. Taking into account mainly the volatile market environment, potential risks related to rescheduling of the Divestment Plan, the Company's Management Board is preparing various scenarios to secure funds for servicing the debt under the Arrangement and the bonds. Each of the scenarios, including obviously the base case, is being monitored and reviewed on an ongoing basis. <u>If the Company's Management Board identifies an increased risk of inability to repay a part or all of the debt under the Arrangement and the bonds, the Management Board may, in the case of creditors covered by the Arrangement, extend the deadline for a repayment in agreement with the relevant creditor and request that the Bondholders Meeting pass a resolution approving a change of the bonds redemption date.</u> A potential delay or failure by the Company to make repayments under the arrangement could prompt creditors to submit a request for the arrangement to be rescinded under Art. 302 of the Bankruptcy and Restructuring Law (as in effect until December 31st 2015, which is applicable to the proceedings), under which the court may rescind an arrangement upon a creditor's request if the debtor fails to perform any provisions of the arrangement or it is evident that the arrangement will not be implemented. In such a case, pursuant to Art. 304 of the Bankruptcy and Restructuring Law, the insolvency proceedings could be reopened and converted into liquidation bankruptcy. Moreover, in accordance with the terms and conditions of the bonds, Bondholders have the right to demand acceleration or early redemption of the bonds upon the occurrence of any of the acceleration or early redemption triggers defined in the terms and conditions of the respective series of the bonds. Therefore, as the bonds are secured with assets of the Company and its selected subsidiaries, in a situation where it is impossible to redeem the bonds when due – which would constitute an acceleration trigger – there is a potential risk that the security agent, acting on behalf of bondholders, would commence enforcement of claims against the Company's and its selected subsidiaries' assets. The assets pledged as security for the bonds are described in detail in PBG Current Reports No. 26/2015, No. 34/2016, and No. 54/2016.

Notwithstanding the uncertainties described above, the Management Board is of the opinion that, based on the Company's financial estimates, the Company will be able to redeem the bonds in line with the agreed schedule and to pay all other claims under the arrangement, and therefore the assumption that the Company will continue as a going concern for the foreseeable future (i.e. for at least 12 consecutive months from the date of authorisation of this Report for issue) is justified.

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SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

President of the Management Board	**Jerzy Wiśniewski**
Vice President of the Management Board	**Dariusz Szymański**
Vice President of the Management Board	**Mariusz Łożyński**
Member of the Management Board	**Kinga Banaszak – Filipiak**