DIRECTORS’ REPORT ON THE OPERATIONS OF THE PBG GROUP

for the period January 1st–December 31st 2017

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SECTION I: CORPORATE GOVERNANCE REPORT

I. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RULES

1. Corporate governance code adopted by PBG S.A.

PBG S.A. ("Company", "PBG", "parent") complies with the corporate governance standards set forth in the "Best Practice for WSE Listed Companies 2016" ("2016 Best Practice") published on http://www.corp-gov.gpw.pl, adopted under the WSE Supervisory Board's Resolution No. 27/1414/2015 of October 13th 2015, effective as of January 1st 2016.

2. Departure from the corporate governance standards adopted by PBG S.A.

Following publication of the Best Practice, the Company revisited its own model of Corporate Governance and, on March 18th 2016, following its review by the Management Board and then by the Supervisory Board, it posted a statement of compliance with the Best Practice, available on the Company's website at: http://www.pbg-sa.pl/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki-spolek-notowanych-oswiadczenia.html
During 2017, there were no changes in the scope of application of the Best Practice.
The Company seeks to ensure the greatest degree of transparency, quality of its communication with investors and protection of shareholder rights, also in areas not regulated by law. Therefore, the Company has taken or will take steps to ensure the fullest possible compliance with the Best Practice for WSE Listed Companies.

The Management Board does not comply with the following standards:
Detailed principle I.Z.1.15 - The Company does not have a written diversity policy, nevertheless applies the principles of diversity in practice. In 2017, the Supervisory Board was composed of 7 persons, including: 2 women, 5 men with different areas of qualifications, i.e. 1 lawyer, 1 engineer, 5 economists and a wide age range: 1 person over 60 years of age, 2 people over 50 years of age, 2 people over 40 years of age, and 1 person over 30 years of age. The Management Board consisted of 4 persons, including: 1 woman, 3 men, with the following qualifications: 2 engineers, 1 lawyer, 1 economist and, as in the case of the Supervisory Board, representing a wide age range: 1 person over 60 years of age, 1 person over 50 years of age, 1 person over 40 years of age, and 1 person over 30 years of age.
Recommendation IV.R.2. – The Company did not broadcast its General Meetings. In the Management Board's opinion, the publication of all resolutions passed by the General Meeting on the Company's website and other publicly accessible internet sites, such as www.gpwinfostrefa.pl, ensures wide access to relevant information and adequate communication with the shareholders. However, the Company does not rule out that it might implement this rule in the future.
Recommendation VI.R.3. – The Remuneration Committee operates on the basis of the rules of procedure for the Supervisory Board.
Detailed principle II.Z.7. – The appointed committees operate on the basis of the rules of procedure for the Supervisory Board.
Detailed principle IV.Z.2. – The Company did not broadcast its general meetings. In the Management Board's opinion, the publication of all resolutions passed by the General Meeting on the Company's website and other publicly accessible internet sites, such as www.gpwinfostrefa.pl, ensures wide access to relevant information and adequate communication with the shareholders. However, the Company does not rule out that it might implement this rule in the future.
Detailed principle V.Z.6. - As at the date of publication of the financial statements for the financial year 2017, ("Report Date"), the Company was at the final stage of preparing procedures based on the above principle. The procedures are planned to be implemented during the first half of 2018 across the PBG Group.
Detailed principle VI.Z.1. – The base pay and bonuses for Management Board members are determined by the Supervisory Board based on the level of a member's involvement and scope of responsibilities.
Detailed principle VI.Z.4. – The Company complies with the laws of general application in this respect.

3. Key features of the Company's internal control and risk management systems used in the preparation of separate and consolidated financial statements

The PBG Management Board is responsible for the internal control system and for its effectiveness in the process of producing separate as well as consolidated financial statements and periodic reports, prepared and published in accordance with the applicable laws. In 2017, the process of preparation of financial statements was coordinated in the Company by the Accounting Coordination Director, but the process itself was contractually outsourced to a third-party service provider.

The principal measures mitigating contractual risks at the Group are the correct assessment and analysis of executed contracts, including recognised revenues and expenses. Budgets for individual projects are drawn up in compliance with IAS 11 and IAS 18 by duly trained project managers using their best knowledge and experience. In the course of preparation and performance of contracts, budgets are reviewed and updated on an ongoing basis. Controlling departments play an important role in these processes. This is where contracts signed with customers are analysed and then revenues under these contracts are duly recognised. After IFRS 15 entered into force on January 1st 2018, the Group is obliged to compile more detailed analyses of concluded agreements and their possible breakdown when recognising revenues. For the parent, it is also of importance to regularly review divestment plans due to the Company's arrangement obligations. The Group's financial information is presented using consistent accounting policies which are in line with the measurement and presentation policies applied across the PBG Group. The financial statements are signed by a person representing the third-party service provider responsible for the preparation of financial statements of PBG and the PBG Group under outsourcing arrangements. Persons responsible for controlling and coordinating the process of preparing financial statements have relevant knowledge and experience in the field, and all of them are bound by non-disclosure agreements. This applies to both employees of the Company as well as employees of the entities cooperating in the preparation of financial statements.

At PBG, persons responsible for the area related to the preparation of PBG's separate and consolidated financial statements are: Member of the Management Board and the Accounting Coordination Director. In accordance with the procedures in place, during the preparation of financial statements, the above persons managing the process are kept informed and check on an ongoing basis all the work of the team preparing the financial statements. The financial statements, after being prepared and accepted by responsible persons representing the Company, are audited or reviewed by an authorised entity selected by the Company's Supervisory Board from among reputable audit firms offering high-quality audit services and satisfying the criteria of independence.

Managing the risk associated with the preparation of financial statements involves an ongoing identification and assessment of relevant risk areas together with definition and implementation of mitigating measures.

4. Shareholders holding directly or indirectly major holdings of shares, with information on the number of shares and ownership interests in the Company's share capital held by such shareholders, and the number and percentage of voting rights that those shares represent at the General Meeting

See Section V *Shares and Shareholders*.

5. Holders of any securities conferring special control rights, and description of those rights

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

6. Any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities

The PBG Articles of Association as currently in effect ("Articles of Association") do not provide for any limitations on the voting rights of holders of a given percentage or number of voting rights.

The restrictions on transferability of shares by Jerzy Wiśniewski are described in Section V.VII of this Report – Restrictions on transfer of ownership rights to PBG securities.

7. Governing bodies of the Company – legal basis and composition

General Meeting – formal and legal basis

The General Meeting is convened and operates in accordance with:

- Art. 393 – 429 of the Commercial Companies Code;
- Art. 20 – 28 of the Company's Articles of Association, available on the Company's website at: http://www.pbg-sa.pl/relacje-inwestorskie/lad-korporacyjny/statut-spolki.html;
- Rules of Procedure for the General Meeting, available on the Company's website at: http://www.pbg-sa.pl/relacje-inwestorskie/lad-korporacyjny/walne-zgromadzenie-14.html.

The main powers of the General Meeting are set out in Art. 26 and 28 of the Articles of Association.
In 2017, two General Meetings were held, including an Extraordinary General Meeting on January 16th 2017 and the Annual General Meeting on April 27th 2017. An important decision made by the Extraordinary General Meeting was to provide more precise wording of the terms and conditions of series I subscription warrants which permitted Jerzy Wiśniewski to fulfil his obligation to keep his shareholding in the Company at no less than 23.61%.
An important decision made by the Annual General Meeting was, in addition to the resolutions passed in connection with the closing of the 2016 financial year, a change in the way the Company is represented and adoption of new Rules of Procedure for the Supervisory Board.
In 2017, an Extraordinary General Meeting was also called for November 28th 2017 in order to decide on the Company's merger with PBG AVATIA Sp. z o. o. Due to the lack of quorum the meeting was finally cancelled. Another meeting concerning the merger took place on January 9th 2018 and passed a resolution approving the merger. The merger was registered on March 21st 2018.
All the information regarding the agenda and resolutions adopted by the General Meeting is available on the Company's website at: http://www.pbg-sa.pl/relacje-inwestorskie/wza.html.

Supervisory Board – legal basis and composition in the reporting period
The Supervisory Board is appointed and operates in accordance with:
- Art. 381 – 392 of the Commercial Companies Code;
- Art. 29 – 36 of the Company's Articles of Association, available on the Company's website at: http://www.pbg-sa.pl/relacje-inwestorskie/lad-korporacyjny/statut-spolki.html;
- Rules of Procedure for the Supervisory Board, available on the Company's website at: http://www.pbg-sa.pl/pub/pl/uploaddocs/raport-biezacy-19-2017-zalacznik-nr-1-regulamin-rn.3348079567.pdf.
including:
- the principles of appointment to the Supervisory Board are defined in Art. 29 and 50 of the Articles of Association;
- the powers of the Supervisory Board are described in Art. 34 - 36 of the Articles of Association.

Composition of the Supervisory Board
The composition of the Supervisory Board of the ninth term of office commenced on November 17th 2016, in the period January 1st–December 31st 2017:

Helena Fic – Chair of the Supervisory Board;
Małgorzata Wiśniewska – Deputy Chair of the Supervisory Board;
Andrzej Stefan Gradowski – Secretary of the Supervisory Board (as of 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 inArt. 50 of 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 programmes in management 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 worked 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, having 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, Switzerland. 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.

As at December 31st 2017 and as at the date of issue of this Report, the composition of the Supervisory Board did not change.

Supervisory Board committees

Under the Rules of Procedure for the Supervisory Board, an Audit Committee and a Remuneration Committee were set up, appointed by the Supervisory Board from among its members.

The Audit Committee operates under its rules of procedure approved by resolution of the Supervisory Board. The Audit Committee's powers and responsibilities include: (i) monitoring of the financial reporting process; (ii) monitoring of the effectiveness of the internal control, internal audit and risk management systems; (iii) monitoring of financial auditing procedures; (iv) monitoring of the independence of auditors and the entity qualified to audit financial statements; (v) recommending to the Supervisory Board a qualified auditor to perform financial audit procedures at the Company.

The Remuneration Committee operates under its rules of procedure approved by resolution of the Supervisory Board. The Remuneration Committee's powers and responsibilities include: (i) overall monitoring of the applied remuneration policies and the levels of remuneration at the Company; (ii) defining the terms and conditions of employment for members of the Company's Management Board and management personnel; (iii) defining the bonus scheme for a given financial year.

The Remuneration Committee elects the Chair from among its members. The Remuneration Committee convenes on an ad hoc basis, at least once a quarter, and submits annual reports on its activities, which are subsequently included in reports on the Supervisory Board's activities, submitted to the shareholders at the General Meeting.

Management Board

The Management Board is appointed and operates under the provisions, powers and competences laid down in:

- Art. 368 – 380 of the Commercial Companies Code;
- Art. 37 – 40 of the Articles of Association, available on the Company's website at: http://www.pbg-sa.pl/relacje-inwestorskie/lad-korporacyjny/statut-spolki.html;

including:

- the principles of appointment to the Management Board are defined in Art. 37 and 50 of the Articles of Association;
- the powers of the Management Board are laid down in Art. 40 of the Articles of Association.

Members of the Management Board in the period January 1st–December 31st 2017 were appointed to the Management Board whose term of office commenced on 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 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 chair.
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., first as head of the engineering unit, then head of the contract execution support department and manager in charge of contract preparation. After Technologie Gazowe Piecobiogaz Sp. z o.o. 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.
As at December 31st 2017 and as at the issue date of this report, the composition of the Management Board did not change.

8. Planned changes in the composition of the Management Board and the Supervisory Board

Not applicable.

9. Powers of the Company's governing bodies to decide on issue or buyout of shares

In accordance with Art. 28 of the Articles of Association available on the Company's website at: http://www.pbg-sa.pl/relacje-inwestorskie/lad-korporacyjny/statut-spolki.html decision-making powers regarding share capital increase and buyout of shares lie with the General Meeting.
Other shareholder rights, as laid down in Art. 328 – 367 of the Commercial Companies Code, are more precisely defined in Art. 14 – 18 of the Articles of Association.

10. Procedures for amendments to the Company's Articles of Association

Pursuant to Art. 26.2 of the Articles of Association, amendments to the Articles of Association require a resolution of the General Meeting passed by at least three quarters (3/4) of votes, in the form of a notarial deed (with the proviso that pursuant to Art. 26.8 of the Articles of Association, a resolution on a material change in the Company's business requires a resolution passed by at least three quarters (3/4) of votes, with shareholders representing at least a half of the share capital present at the meeting). In addition, amendments to the Articles of Association regarding change of the provisions on personal rights require prior written consent of the Entitled Party.

11. Charitable activities

The direction of the PBG Group's CSR activities is defined in the document entitled "Integrated Management System Policy", in which the Group declares its commitment to quality improvement, environment protection, occupational health and safety, as well as active engagement with local communities, helping those in need, and supporting talent.
The Company's CSR policy in the charity area is implemented through the PBG Foundation established specifically for that purpose and in cooperation with the Marketing Office of RAFAKO S.A. in Racibórz. Detailed information on the current charity activities is presented in the non-financial statement for the PBG Group.

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

Company shares or rights to Company shares (options) held by PBG supervisory personnel as at December 31st 2017

Supervisory personnel	Number of shares	
	As at Dec 31 2017	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 December 31st 2017

Managing personnel	Number of shares	
	As at Dec 31 2017	As at this Report filing date
Jerzy Wiśniewski	189,836,345	189,902,366

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 – Dec 31 2017			Jan 1 – Dec 31 2016		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Helena Fic	120	-	120	15	-	15
Małgorzata Wiśniewska	96	-	96	96	3	99
Dariusz Sarnowski	36	-	36	36	-	36
Andrzej Stefan Gradowski	58	-	58	58	-	58
Faustyn Wiśniewski	47	-	47	4	-	4
Maciej Stańczuk	36	-	36	1	-	1
Przemysław Lech Figarski	36	-	36	1	-	1
Maciej Bednarkiewicz	-	-	-	100	-	100
Jacek Krzyżaniak	-	-	-	36	-	36
Roman Wenski	-	-	-	3	-	3
TOTAL	**429**	**-**	**429**	**350**	**3**	**353**

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

Remuneration (PLN '000)	Jan 1 – Dec 31 2017			Jan 1 – Dec 31 2016		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Helena Fic	-	-	-	-	-	-
Małgorzata Wiśniewska	898	240	1,138	891	240	1131
Dariusz Sarnowski	195	-	195	228	600	828
Andrzej Stefan Gradowski	-	-	-	-	-	-
Faustyn Wiśniewski	244	7	251	-	-	-
Maciej Stańczuk	-	-	-	-	-	-
Przemysław Lech Figarski	-	-	-	-	-	-
TOTAL	**1,337**	**247**	**1,584**	**1,119**	**840**	**1,959**

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 – Dec 31 2017			Jan 1 – Dec 31 2016		
	Base pay	Other benefits	Total	Base pay	Other benefits*	Total

Jerzy Wiśniewski	750	-	750	750	-	750
Mariusz Łożyński	468	-	468	360	2	362
Kinga Banaszak-Filipiak	384	-	384	384	3	387
Dariusz Szymański	540	-	540	540	-	540
Bożena Ciosk	-	-	-	273	-	273
TOTAL	**2,142**	**-**	**2,142**	**2,307**	**5**	**2,312**

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

Remuneration (PLN '000)	Jan 1 – Dec 31 2017			Jan 1 – Dec 31 2016		
	Base pay	Other benefits	Total	Base pay	Other benefits	Total
Jerzy Wiśniewski	1,688	960	2,648	1,689	780	2,469
Mariusz Łożyński	54	-	54	51	-	51
Kinga Banaszak – Filipiak	120	-	120	120	-	120
Dariusz Szymański	108	-	108	108	-	108
TOTAL	**1,970**	**960**	**2,930**	**1,968**	**780**	**2,748**

IV. AGREEMENTS BETWEEN THE COMPANY AND ITS MANAGEMENT PERSONNEL PROVIDING FOR COMPENSATION IN THE EVENT OF RESIGNATION OR REMOVAL

The Company has executed non-compete agreements with members of the Management Board: Mariusz Łożyński, Vice President of the Management Board, and Kinga Banaszak-Filipiak, Member of the Management Board. After their employment with the Company is terminated, those members of the Management Board may not engage, whether personally or through third parties, in any activities competing with the Company's business. The non-compete agreements will remain in effect for 12 months from the date of termination of the relevant employment contracts. Over that period, the Company is obliged to pay monthly compensation to the Management Board members equal to 100% of their remuneration from before the termination of employment.

V. AUDITOR OF THE FINANCIAL STATEMENTS

The auditor appointed to audit the Company's separate financial statements and the PBG Group's consolidated financial statements for 2017 is Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Ernst & Young Audit Sp. z o.o.) ("E&Y").

Address details:
Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.; Rondo ONZ 1, 00-124 Warsaw, Poland

Practising licence:
E&Y is entered in the list of qualified auditors of financial statements maintained by the National Council of Statutory Auditors under Reg. No. 130.
Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. also audits the financial statements of the RAFAKO Group companies, PBG oil and gas Sp. z o.o., PBG Dom Sp. z o.o., and Górecka Projekt Sp. z o.o.

1. Agreement date

PBG executed a relevant agreement with Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on March 23rd 2017.

2. Total fees

Total fees due to Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for the review of the interim condensed financial statements of PBG and the interim condensed consolidated financial statements of the PBG Group for the first half of 2017 as well as for the audit of the financial statements of the Company and of the consolidated financial statements of the PBG Group for 2017 amount to PLN 350,000, VAT exclusive.
Due to the provisions of Art. 134.1 of the Act on Qualified Auditors, the agreement can not be continued.

VI. NON-FINANCIAL STATEMENT OF THE PBG GROUP

PBG, individually as a company, does not meet the criteria to be considered a company subject to the obligation to report the non-financial information specified in Art. 49b of the Accounting Act. However, it is obliged to publish a non-financial statement for the PBG Group, taking into account the lower-level parent's group, made up by RAFAKO S.A., which is exempt from the requirement to publish the statement under Art. 49b.11 of the Accounting Act. The non-financial statement is a separate document.

SECTION II: RISKS AND FINANCIAL RISK MANAGEMENT REPORT

I. RISKS AND THREATS

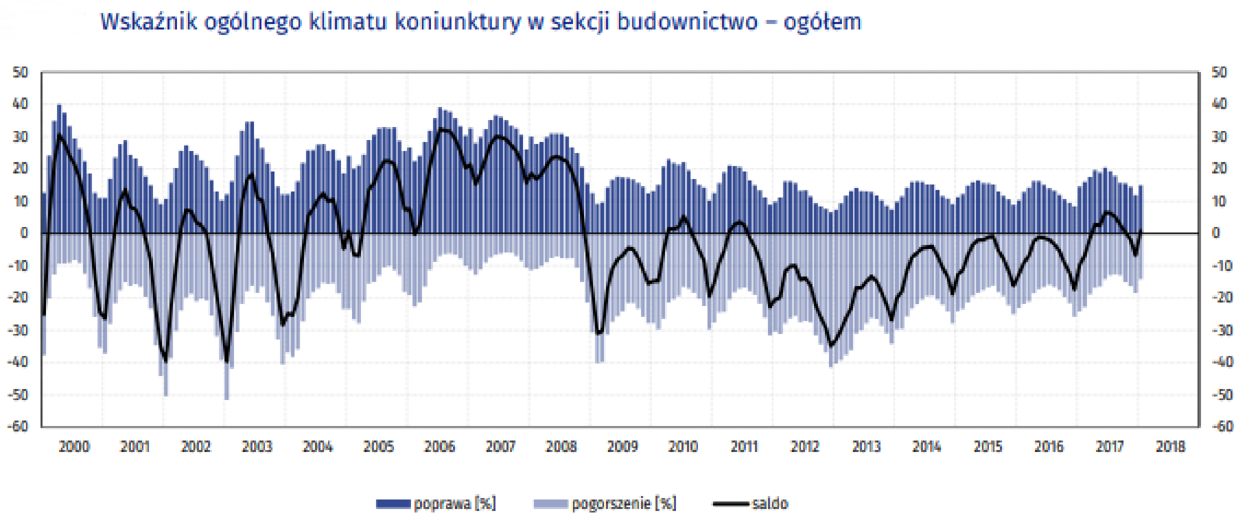
EXTERNAL RISKS AND THREATS

1. Risks from macroeconomic conditions

The Group carries out its operations mainly in Poland, but also partly abroad, in Europe in particular, and recently in such Asian markets as Indonesia and Mongolia. As a result, the Group's operations are affected by macroeconomic factors related to the Polish market, but also to its import and export markets, which in turn are influenced by local and global economic conditions. Macroeconomic developments on the Polish market as well as the Group's export and import markets, 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 power construction sector and the sector of specialist services for the oil, gas and fuel industry, including the number of investment projects carried out in the sectors, and thus also on the number and value of the Group's prospective contracts. As a consequence, the Group is exposed to the risks and fluctuations resulting from the effect of economic conditions on the level of investments in the sectors where it operates. Moreover, the economic conditions in Poland and on the Group's foreign markets may deteriorate in the future.

In January 2018, the general business climate in the construction industry in Poland was regarded as slightly better than in the last three months and in the corresponding month of the last nine years. The general business climate indicator stood at 0.8%. Market conditions were seen as improving by 14.9% of businesses, while 14.1% stated the conditions were deteriorating. Other companies did not perceive any changes in their situation.

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



General business climate indicator in the construction sector	Wskaźnik ogólnego klimatu koniunktury w sekcji budownictwo-ogółem
improvement (%)	Poprawa
deterioration (%)	pogorszenie
net	saldo

Opinions about order books and construction and assembly output are a bit less negative than those voiced in December last year. Forecasts regarding construction and assembly output and financial position are less pessimistic than expectations formulated in the corresponding month of the last nine years. Growing delays in payments for completed construction works continue to be reported. Forecasts indicate that employment levels may remain unchanged over the next three months. A rise in the price of construction and assembly works is expected. From among the surveyed entities, 30.6% (24.9% a year before) plan to carry out construction and assembly works abroad.

2. Competition risk

The PBG Group operates in the market of specialist construction services for the gas and oil upstream and downstream sectors and power construction.

The Group operates in a market controlled predominantly by large players, including multinationals. In this market, contracts are typically awarded through public tenders, and projects can take as much as several years to complete. The Group operates on the Polish and foreign markets. Given the limited number of projects and clients on each market, as well as specific tender requirements, contractors competing with the Group for projects in Poland (often major foreign companies with Polish branches) usually also bid for foreign contracts.

The market is seeing a number of Chinese companies, whose competitive edge consists primarily in lower prices and different − uncertain in the Group's opinion − technical specifications. The Group believes that clients on the Polish and European markets, including Turkey, perceive the offering of Chinese companies as unreliable, but the situation may well change if the Chinese competitors are able to maintain low prices while improving the technological quality of their products. Then such companies may become important players on the market of heat and power sector technologies. Apart from pricing, other important factors determine the competitive advantage of a business, including experience in the execution of complex and specialist projects, relevant credentials, high quality of services and efficient organisation enabling timely and efficient contract execution on an EPC basis.

There is strong competition in terms of products and services which are part of EPC projects. Each company which the Group believes to be a significant competitor has proprietary technologies for the power sector, extensive credentials and many years of experience in delivering EPC contracts.

Competition risk is mitigated by the Group through:

- assuring high quality of services rendered;
- developing staff skills in new technologies through participation in the largest projects tendered out in Poland;
- entering into strategic alliances with reputable foreign partners operating in the Polish and foreign markets;
- gaining new credentials (and know-how) enabling the Group to broaden its offering to the market.

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

MARKET	BUSINESS SEGMENT	DOMESTIC COMPETITORS	INTERNATIONAL COMPETITORS
OIL AND GAS	UNDERGROUND GAS STORAGE FACILITIES	- PGNiG Technologie - Control Process - Stalbud Tarnów - ZPUH Metalnaft - IDS-BUD - ABB	- KT- Kinetics Technology - Tecnimont - Sofregas - CKD Praha
	LNG PLANTS	- Polimex Mostostal - Mostostal Warszawa - Budimex	- Air Products - DAEWOO Engeneering & Construction - KT - Kinetics Technology - Thermo Design Engineering - Saipem - Tecnimont - Tractebel - Linde - Costain
	TRANSMISSION	- Gazobudowa Poznań - PGNiG Technologie - Gazoprojekt - Control Process - IDS-BUD - ATREM - REDGAZ - WIERTCONSULTING - Eda-Serwis - Górnośląski Zakład Obsługi Gazownictwa - JT ZAKŁAD BUDOWY GAZOCIĄGÓW - Instal-Gaz - ALSI - POLAQUA - Budimex - Energy System - Energotest - Izostal - ZRUG Zabrze - MTM Nowum - IDS-BUD - ZRUG Poznań - POLDE - GPT - TESGAS	- FCC CONSTRUCCION - AB Kauno dujotiekio statyba - 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 - Stalbud - Polimex Mostostal - ABB - PGNiG Technologie - Górnośląski Zakład Obsługi Gazownictwa	- ABB - KAWASAKI
	OIL AND GAS EXTRACTION FACILITIES	- PGNiG Technologie - Control Process - Stalbud Tarnów - ZPUH Metalnaft - IDS-BUD - ABB	- KT - Kinetics Technology - Tecnimont - CKD Praha - 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	- Alstom - Siemens - Samsung - Iberdrola - SNC-Lavalin - Ansaldo Energia - GE - Abener - CNIM - COVEC - CNEEC - Saipem - Mitsubishi Hitachi Power Systems - Posco Engineering & Construction - SEC - Bilfinger Berger Power Systems - Foster Wheeler - Metso - Andritz - Gama Güç Sistemleri Mühendislik ve Taahhüt - Tecnicas Reunidas - Doosan Power Systems - Sener Ingenieria y Sistemas

The Group companies carry out projects involving both construction of new facilities as well as modernisation of existing ones, as the general contractor or a subcontractor.
The companies offer specialist **services such as engineering design, construction, repairs, operation, and maintenance of facilities used to produce natural gas and crude oil, transmit natural gas and crude oil, and store natural gas, fuels, LNG, LPG, C5+, and CNG.**
In this segment, the PBG Group has an established position in the Polish market and consistently strengthens its footprint in foreign markets. The position has been achieved thanks to the quality of provided services, long-standing experience of the staff, and credentials confirming the ability to perform a broad range of works. The market for natural gas, crude oil and fuels can be divided into specialist construction services requiring appropriate know-how and credentials, in which the PBG Group also encounters foreign competition, and into less complicated construction services, such as repairs and overhauls of facilities, where there are mainly domestic competitors.

The power construction market is the key area of the PBG Group's activities. The Group is a supplier of environmentally friendly and modern technological solutions for power engineering facilities (mainly power generating units and boilers) and environmental protection installations (mainly dust extraction equipment, flue gas desulphurisation units, flue gas denitrification units). The Group is active in that market through RAFAKO, one of the largest European producers of steam generators and environmental protection equipment for the heat and power sector. It also offers various services to entities from the heat and power sector.

3. Poland's membership in the European Union

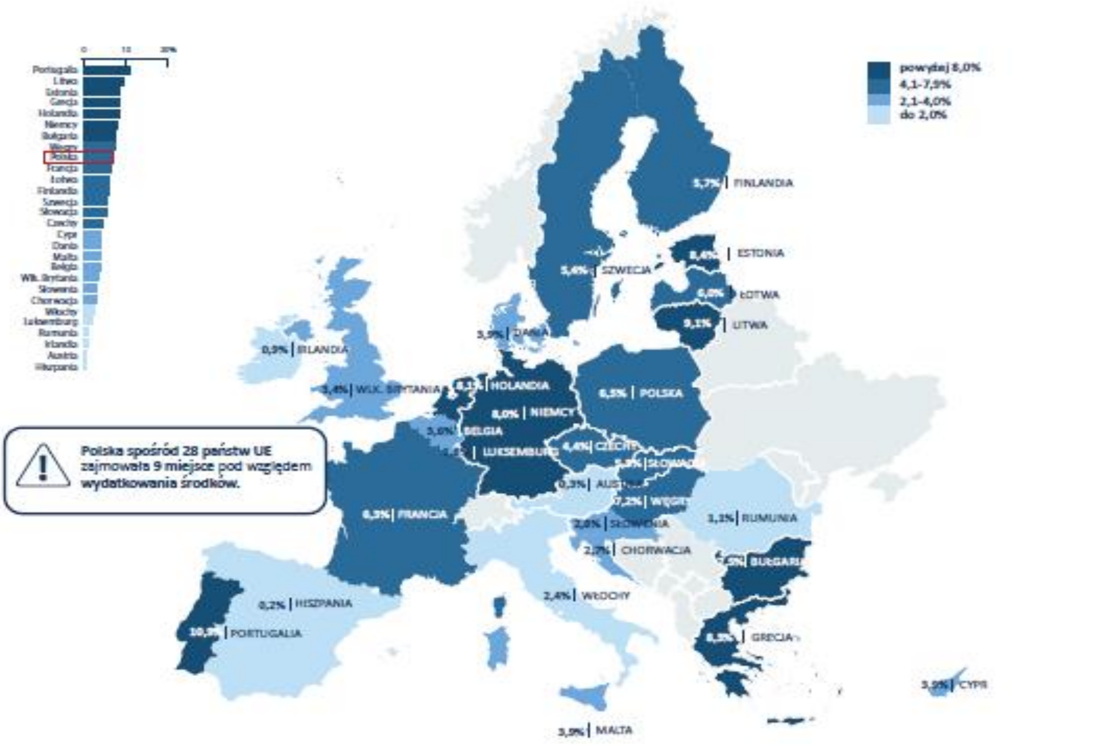
Most of the Group's contracts are won through public procurement. In the European Union, and consequently also in Poland, the amount of dedicated EU funding is a key factor determining the value of contracts tendered under the public procurement regime. As a result, the main driver of the infrastructure 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 itself 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.

In February 2016, the Council of Ministers adopted an action plan for increasing efficiency and speeding up the implementation of programmes under the partnership agreement in which it set out measures to be taken for timely and effective implementation of the programmes. The pace of launching national and regional operational programmes for 2014-2020 was slower than in the years 2007-2013. Delays ranged from 6 to 9 months.

From among the 28 EU countries, Poland ranks 9th in terms of spending funds.

Wydatkowanie europejskich funduszy strukturalnych i inwestycyjnych na lata 2014–2020 w państwach członkowskich UE według stanu na 30 czerwca 2017 r. [w %]



Źródło: Opracowanie własne NIK na podstawie „Implementation by Member State for EU Overview (Total Cost)% of Planned (Daily update)" wg stanu z 30.06.2017 r. https://cohseiondata.ec.europa.eu/overview# (dostęp: 15.11.2017 r.)

Spending of EU structural and investment funds in 2014-2020 in EU Member States as at June 30th 2017 (%)	Wydatkowe europejskich funduszy strukturalnych i inwestycyjnych na lata 2014-2020 w państwach członkowskich UE według stanu na 30 czerwca 2017 r. [w %]
From among the 28 EU countries, Poland ranked 9th in terms of spending.	Polska spośród 28 państw UE zajmowała 9 miejsce pod względem wydatkowania środków
Source: In-house study of the Supreme Audit Office based on "Implementation by Member State for EU Overview (Total Costs) % of Planned (Daily update)" as at June 30th 2017 https://cohesiondata.ec.europa.eu/overview# (access: November 15th 2017)	Źródło: Opracowanie własne NIK na podstawie „Implemenatation by member State for EU Overview (Total Cos)% of Planned (Daily update) wg stanu z 30.06.2017 r. https://cohseionata.ec.europa.eu/overview# (dostęp: 15.11.2017 vr.)

Therefore, the Group cannot rule out the risk of future delays or reductions in EU spending on projects related to the Group's 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. 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 Group:

- 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: 2009, PN-EN ISO 14001: 2005; PN-N-18001:2004, PN-EN ISO 3834-2:2007, PN-EN ISO 1090-1:2012, AQAP 2110:2009.

4. Seasonality risk in the Group's principal business areas

Most of the Group's revenue is derived from the construction and assembly business, which, like the entire construction sector, is subject to seasonality. Seasonality is mostly driven by the following factors, which are beyond the Group's control:

- weather conditions in winter, largely hindering construction works. The weather may be more severe than the average and thus reduce the Group's revenues;
- most customers scheduling projects so as to ensure they are completed in the final months of a year.

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 Group or its customers, directly or indirectly affecting the Group's financial performance. The Group monitors any developments in the tax legislation, and makes necessary changes to mitigate the attendant risk.

6. Foreign exchange rates

2017 can be described as a very good year for the Polish economy. The GDP growth rate was at its five-year high and there was a budget surplus for many months. The lowest unemployment in twenty six years was reported and wages rose as a result of which the Polish currency strengthened significantly against the euro, US dollar, franc, and pound.

According to Jarosław Kosaty, the PKO BP foreign exchange strategist, in the first half of 2018 the slower pace of monetary policy tightening in the US (only one rate increase) with relatively stable economic conditions in emerging markets should favour Polish złoty. In the second half of the year, further tightening of the monetary policy in the US (balance sheet reduction + three rate hikes) as well as the economic slowdown in China will be conducive to gradual weakening of Polish zloty.

EUR/PLN exchange rate in March 31st 2017 – March 31st 2018 (average rates of the National Bank of Poland)

Source: ***http://www.finanse.egospodarka.pl***

7. Risk of significantly limited ability to win new contracts

Most contracts are won by the PBG Group through public procurement. The Company's ability to win new contracts depends, among others, 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 because of 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,
- 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 a Group company 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, the Group 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 largest customer for the PBG Group's power construction services in 2017 was Tauron Wytwarzanie S.A., the owner of a power generating unit project at the Jaworzno III Power Plant executed by the subsidiary RAFAKO under a contract worth PLN 4.4bn net. The second largest customer for services in this segment is Enea Wytwarzanie S.A.
The largest customer of the parent's oil and gas segment remains the NATO Security Investment Programme Management Office (ZIOTP), for which the Company is executing a PLN 279m contract for the construction of underground fuel storage tanks.
It should be noted, though, that the Company and its Group's strategy provides for delivery of high value contracts, which may increase the share of sales to a single customer in total revenue. In order to mitigate the risk of dependence on key customers, the Group gradually attracts new customers for its services, including TAURON, ZAK, KGHM, PGE, ENERGA, and has stepped up efforts to acquire customers on international markets. In 2017, the PBG Group acquired a contract in Lithuania for the construction of a biofuel-fired CHP plant for UAB VILNIAUS KOGENERACINE JEGAINE with a contract value of approximately EUR 150m, VAT exclusive. A consortium led by RAFAKO also signed a conditional contract for the design and construction of a fuel storage base in Rashaant, Mongolia. Its VAT-exclusive value is EUR 46.96m. The consortium's bid was chosen as the most advantageous by National Trading & Transport Group (NTT Group). In addition, the consortium, which includes RAFAKO, won a tender in Indonesia for the construction of two 50 MW coal units. The VAT-exclusive value of works attributable to the Racibórz-based company exceeds EUR 70m. The tender is for the construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia.

4. Operational risk
The Group's operations, in particular work on live facilities, involve certain risks of human and material losses.
The Group mitigates these risks by:
- Holding liability insurance policies;
- Holding individual policies of the largest construction projects, taking into account the nature of the contract;
- Regularly supplying employees with advanced protective equipment;
- Drill, practice and improvement of employee skills;
- Ongoing monitoring of equipment;
- Regular OHS training and 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 is described in Section VI.IX: Going concern assumption.

II. FINANCIAL RISK IDENTIFICATION AND MANAGEMENT
The Group is exposed to a number of risks related to financial instruments, including in particular:
- liquidity risk;
- market risk, comprising interest rate risk and currency risk;
- credit risk.

The Group's financial risk management is coordinated by the parent, working closely with the management boards and chief financial officers of its subsidiaries. The following are key objectives of financial risk management:

- hedging short- and medium-term cash flows and limiting cash flow volatility,
- stabilising fluctuations of the Company's and the Group's financial result,
- implementing debt and asset restructuring measures by the parent.

1. Liquidity risk

The Group is exposed to liquidity risk, that is the risk of inability to meet its financial liabilities as and when they fall due. The Group monitors the risk with a liquidity planning tool. The tool is used to monitor the maturities of financial assets (mainly receivables) and projected cash flows from operating and investing activities.

As at December 31st 2017 and as at the date of approval of this Report, the Group focused on maintaining financial liquidity necessary to execute running contracts and make repayments under the arrangement.

The Group's financial liabilities by maturity as at the reporting date, based on undiscounted contractual payments (PLN '000)

Item	Current:		Non-current:			Total undiscounted liabilities	Carrying amount
	up to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
As at Dec 31 2017							
Credit facilities	-	43,419	-	-	-	43,419	43,419
Bank overdrafts	-	55,309	-	-	-	55,309	55,309
Liabilities related to non-current assets held for sale	1,201	1,042	6,776	6,776	33,599	49,394	47,496
Non-bank borrowings	-	7,317	11,337	11,104	-	29,758	29,758
Debt instruments	46,190	13,721	310,534	-	-	370,445	337,390
Finance lease liabilities	2,028	1,765	5,195	1,416	18,355	28,759	28,390
Derivative financial instruments	27	27	108	108	526	796	796
Trade and other payables	353,649	12,776	130,581	2,430	100	499,536	492,536
Total exposure to liquidity risk	**403,095**	**135,376**	**464,531**	**21,834**	**52,580**	**1,077,416**	**1,035,094**
As at Dec 31 2016							
Credit facilities	1,426	48,961	7,431	7,431	36,845	102,094	100,035
Bank overdrafts	-	99,394	-	-	-	99,394	99,394
Liabilities related to non-current assets held for sale	-	-	-	-	-	-	-
Non-bank borrowings	1,848	191	-	21,424	-	23,463	23,430
Debt instruments	36,725	19,665	330,767	-	-	387,157	342,204
Finance lease liabilities	2,388	1,479	5,007	1,784	-	10,658	10,719
Derivative financial instruments	47	49	188	188	746	1,218	1,218
Trade and other payables	520,378	10,121	200,337	15,950	243	747,029	731,470
Total exposure to liquidity risk	**562,812**	**179,860**	**543,730**	**46,777**	**37,834**	**1,371,013**	**1,308,470**

The parent's subsidiaries financed their activities using external sources (credit facilities). The table below presents overdraft limits available to the Group as at December 31st 2017.

Unused overdrafts of the PBG Groupas at the reporting date

PLN '000	Dec 31 2017	Dec 31 2016
Overdraft limits	150,000	100,000
Balance drawn	55,309	99,394
Available limit	**94,691**	**606**

The table below presents the maturities of financial assets used by the Group as a source of funding. The excess of financial liabilities over the disclosed amount of financial assets implies negative net working capital. For a detailed description of the Management Board's strategy to cover the deficit in net working capital, see Section VI.IX *Going concern assumption.*

Maturities of the PBG Group's financial assets as at the reporting date, based on undiscounted contractual payments (PLN '000)

Item	Current		Non-current			Total financial assets; net of discount	Carrying amount of financial assets
	up to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
As at Dec 31 2017							
Non-current assets:	**-**	**-**	***71,389***	***892***	***1,569***	***73,850***	***73,361***
Receivables	-	-	43,876	892	72	44,840	44,351
Contract receivables and amounts due from customers for construction contract work	-	-	27,513	-	-	27,513	27,513
Other non-current financial assets	-	-	-	-	1,497	1,497	1,497
Current assets:	***638,015***	***5,266***	**-**	**-**	**-**	***643,281***	***643,281***
Trade and other receivables	445,840	2,250	-	-	-	448,090	448,090
Loans advanced	-	6	-	-	-	6	6
Other current financial assets	-	3,010	-	-	-	3,010	3,010
Cash and cash equivalents	192,175	-	-	-	-	192,175	192,175
Total financial assets	**638,015**	**5,266**	**71,389**	**892**	**1,569**	**717,131**	**716,642**
As at Dec 31 2016							
Non-current assets:	**-**	**-**	***78,380***	***669***	***6,394***	***85,443***	***80,310***
Receivables	-	-	78,380	669	4,912	83,961	78,828
Other non-current financial assets	-	-	-	-	1,482	1,482	1,482
Current assets:	***819,758***	***8,725***	***111***	**-**	**-**	***828,594***	***817,390***
Trade and other receivables	688,670	7,137	111	-	-	695,918	695,918
Loans advanced	-	363	-	-	-	363	363
Other current financial assets	9,979	1,225	-	-	-	11,204	-
Cash and cash equivalents	121,109	-	-	-	-	121,109	121,109
Total financial assets	**819,758**	**8,725**	**78,491**	**669**	**6,394**	**914,037**	**897,700**

The Group is exposed to the liquidity risk. Loss or deterioration of the Group's liquidity may be caused by a mismatch between the streams of receivables and payables, inadequate financing or limited access to financial guarantees (which would force the Group to commit its own funds in connection with contracts). The liquidity risk is also related to potential insolvency of customers or payment backlogs, potential increase in demand for working capital sufficient to cover the Group's day-to-day needs, and the necessity to commit the Group's own funds to finance and secure the performance of contracts. The risk affects timely performance of contracts and the Group's ability to obtain financial guarantees, which are commonly used to secure contract performance on the Group's market.

Materialisation of the above risk may adversely affect the Group's ability to obtain further contracts due to the lack of access to financial guarantees and to funds necessary to perform further contracts.

In addition, a deterioration or loss of financial liquidity by the Group may result in the Group being unable to pay its interest and principal liabilities under (i) concluded financing agreements, (ii) the arrangement, and (iii) the Bonds issued by PBG to enable its creditors to obtain partial repayment of their arrangement claims. In such a case, the Group's debt under bank loans might be accelerated, in whole or in part, and in the event of the Group's failure to repay it: (i) the financial institutions would be entitled to enforce their claims against collateral created over the Group's assets, (ii) the arrangement could be quashed by the court, which would bring PBG into liquidation bankruptcy, and (iii) the bondholders would be able to demand early redemption

of their bonds (and if PBG failed to fulfil its obligation to redeem the bonds, they would be authorised to enforce their claims against the bond security).
The Group's business rely partly on contracts which require it to bear some of the costs prior to receiving remuneration for delivery of a contract or a contractual milestone. Any unfavourable mismatch between incoming and outgoing payments under the Group's contracts or their milestones, including delayed payments from employers, may have an adverse effect on the cash flows from a given contract and the Group's working capital. There can be no assurance that the Group will be able to receive advance payments under its construction contracts if it fails to provide advance payment bonds.
Such circumstances may adversely affect the Group's liquidity, driving up its requirement for working capital, which may have a material adverse effect on the Group's operations, financial condition, performance or prospects, the parent's ability to perform the arrangement, and the price of its shares.

2. Market risk
All objectives of market risk management should be considered as a whole. Their achievement is determined primarily by the Group's internal situation and market conditions.

The PBG Group's market risk management strategy provides for the use of both natural hedging and hedging strategies based on derivative instruments. The following types of financial instruments may be used:
- forwards,
- interest rate swaps (IRS),
- swaps.

2.1. Currency risk
The Group is exposed to currency risk in connection with transactions the Group enters into. Currency risk arises when the Group executes sale or purchase transactions in currencies other than its functional currencies. The PBG Group is exposed to currency risk as raw materials for high value contracts are imported and some of the Group's revenue is denominated in foreign currencies. The currency risk exposure is mainly related to fluctuations in the PLN/EUR and PLN/USD exchange rates. In the reporting period, more than 8.5% of the Group's sales revenue was denominated in foreign currencies, mainly EUR.
Accordingly, the Group is particularly exposed to the PLN/EUR and PLN/USD exchange rate risk. Any unfavourable movements in these exchange rates may cause a decline in revenue or an increase in PLN-denominated costs. The Group has adopted a uniform policy of currency risk management.

The Group's financial assets and liabilities in foreign currencies, translated into PLN at the closing rate as at the reporting date

Item	Amount in foreign currency ('000):							Translated amount ('000)	Amount in PLN ('000)	Carrying amount ('000)
	EUR	USD	GBP	UAH	CHF	TRY	SGD	PLN	PLN	PLN
As at Dec 31 2017										
Financial assets (+):	*17,443*	*6,245*	*1*	*2*	*-*	*38*	*-*	*88,298*	*843,986*	*932,284*
Financial liabilities (-):	*(19,673)*	*(3)*	*(2)*	*-*	*(2)*	*(2)*	*(172)*	*(92,497)*	*(1,095,349)*	*(1,187,846)*
Total exposure to currency risk	**(2,230)**	**6,242**	**(1)**	**2**	**(2)**	**36**	**(172)**	**(4,199)**	**(251,363)**	**(255,562)**
As at Dec 31 2016										
Financial assets (+):	*20,377*	*2,025*	*303*	*-*	*-*	*-*	*-*	*115,381*	*782,393*	*897,774*
Financial liabilities (-):	*(16,317)*	*(3)*	*(2)*	*-*	*(2)*	*-*	*-*	*(90,388)*	*(1,218,080)*	*(1,308,468)*
Total exposure to currency risk	**4,060**	**2,022**	**301**	**-**	**(2)**	**-**	**-**	**24,993**	**(435,687)**	**(410,694)**

The PBG Group's currency risk management strategy provides for the use of both natural hedging and hedging strategies based on derivative instruments. The strategy also provides for the use of hedges based on forward contracts. There can be no assurance, though, that the use of selected derivatives as a risk mitigating method will be fully effective.
As at December 31st 2017, the Group companies held no derivatives to hedge currency risk.

2.2. Interest rate risk

The management of interest rate risk focuses on minimising the fluctuations in interest cash flows on financial assets and liabilities bearing variable rates of interest.

The PBG Group's exposure to interest rate risk arises primarily in connection with its liabilities under debt securities in issue, bank borrowings, loans received, and finance lease.

PBG subsidiaries use interest rate swaps (IRS) to hedge against variable interest rate risk. Under a credit facility agreement and a lease contract, the subsidiaries were required to limit their exposure to interest rate risk. To satisfy the bank's requirement, the subsidiaries entered into the following IRS transactions: on November 27th 2014, a subsidiary entered into an amortisable IRS transaction for a notional amount of EUR 13,850 thousand, maturing on November 5th 2019; on April 13th 2017, a subsidiary entered into an amortisable IRS transaction for a notional amount of PLN 20,649 thousand, maturing on March 20th 2020.

The Group uses cash flow accounting with respect to the transaction partially hedging the risk of interest rate changes affecting its cash flows.

In 2017, the net result on derivatives used to hedge interest rates, recognised in the consolidated statement of profit or loss as at December 31st 2017, was negative at PLN -606 thousand (disclosed in finance costs).

3. Credit risk

Credit risk is understood as the inability of the Group's debtors to meet their obligations towards the Group. The following are the key aspects of credit risk:

- creditworthiness of customers with whom the Group enters into transactions for physical delivery of products;
- creditworthiness of entities in which the Group invests.

The areas of credit risk exposures with different credit risk profiles are cash and bank deposits, trade receivables, and loans granted.

The PBG Group's maximum exposure to credit risk is determined by the carrying amounts of financial assets presented in the table below.

The Group's maximum exposure to credit risk, as determined by the carrying amounts of the disclosed financial assets

PLN '000	Dec 31 2017	Dec 31 2016
Non-bank borrowings	6	363
Trade and other receivables	519,954	774,746
Other classes of other financial assets	0	74
Cash and cash equivalents	192,175	121,109
Total exposure to credit risk	**712,135**	**896,292**

The Group monitors its clients' and debtors' outstanding payments by analysing credit risk individually, or for individual asset classes identified according to credit risk (e.g. by industry, region or structure of customers).

With respect to such financial assets as cash and cash equivalents, the Group's exposure to credit risk arises from a counterparty's inability to make payments as they fall due. However, considering that in this case the Group's counterparties are banks registered in Poland, the related credit risk is immaterial. The maximum exposure to credit risk is equal to the carrying amount of these instruments, and as at December 31st 2017 amounted to PLN 192,175 thousand (as at December 31st 2016: PLN 121,109 thousand). As at December 31st 2017, the outstanding balance of loans advanced by the Group was PLN 6 thousand. To limit the risk, the Group monitors the assets and financial results of its borrowers on an ongoing basis. Credit risk from the loans advanced is not significant.

The Group's credit risk exposure is closely related to its core business. It results from outstanding trade contracts and is related to the risk of occurrence of such credit events as the trading partner's insolvency, only partial collection of receivables or material delays in their payment. Trade credit is now an essential part of business activity. However, the PBG Group companies undertake a number of measures to mitigate the risk of entering into trade relations with potentially unreliable customers. It is the Company's policy that all customers who wish to trade on credit are subject to prior credit verification. Customers who are found financially unreliable, based on the results of credit verification procedures performed by the Group, are required to provide appropriate financial security to limit the risk of their defaulting on payments due to the Group.

Based on high value contracts, the Group's business model is characterised by significant revenue concentration. In consequence, individual contracts of significant value may have a strong effect on the Group's financial results. In the 12 months ended December 31st 2017, the Group's key customer accounted for 66% of its total revenue.

Considering the complexity and long delivery times of some of the Group's high value projects, their actual costs may differ from initial estimates, which may have a negative effect on generated margins, and in extreme cases may even cause the Group to incur losses. The revenues, cash flows and profitability of a project may vary throughout the period of its performance, depending on a number of factors partly beyond the Group's control, such as postponement or delay of contract completion, financial problems of the Group's customers, non-payment on the part of customers or non-fulfilment of obligations by suppliers, subcontractors or consortium members. The variability of costs and, as a result, of profitability of certain projects throughout the period of their performance may have an adverse effect on the Group's cash flows related to a relevant contract and its liquidity in the period. If the Group, its consortium members, subcontractors or suppliers fail to perform or properly perform their contractual obligations, the employer may withhold payment of the contract price to the Group. Additionally, it may exercise its rights under bank or insurance guarantees, in which case the Group will be obliged to cover the amounts paid by the financial institutions as guarantors under the guarantees issued to the employer at the Group's request. Such amounts may be substantial, especially if they relate to complex, long-term, high value projects. The Group may not be able to cover its liabilities under financial guarantees which have been exercised.

As at December 31st 2017, the total amount of the PBG Group's net trade receivables, excluding the fair value of accepted security, up to which the PBG Group may be exposed to credit risk, was PLN 519,954 thousand (December 31st 2016: PLN 774,746 thousand). With respect to trade receivables, the Group companies are exposed to credit risk related to a single major trading partner or a group of similar trading partners.

III. INTERNAL CONTROL SYSTEM

The Company has an Internal Audit Office operating within the organisational support area. The Office is subordinated directly to the President of the Management Board.

In 2017, its main tasks included:

- ✓ overseeing the implementation of consistent IT tools across the Group to support process optimisation and the quality of management data acquisition, including progress reporting to the Management and Supervisory Boards;
- ✓ providing information on the status of monitored areas, identifying areas where internal regulations need to be revised, and providing examples of adequate and effective solutions;
- ✓ checking the accuracy and correctness of documents and their flow, verifying the authenticity, compliance, completeness and timely preparation of documentary evidence;
- ✓ assessing the adequacy of workflow organisation in achieving optimum results;
- ✓ monitoring compliance with applicable laws and internal regulations, including the provisions of the Integrated Management System, and their effect on the Company's day-to-day operations.

Also RAFAKO S.A. has an Internal Audit Unit in its organisational structure, operating in accordance with the adopted Internal Control Rules and based on international standards of internal audit. It is subordinated directly to the President of the Management Board. The Internal Audit Unit performs internal audits based on an annual audit plan, carries out ad hoc audits and audit activities aimed at, among other things, assessing the effectiveness of the internal control system and improving risk management processes.

Internal control and risk management systems used in the preparation of separate and consolidated financial statements

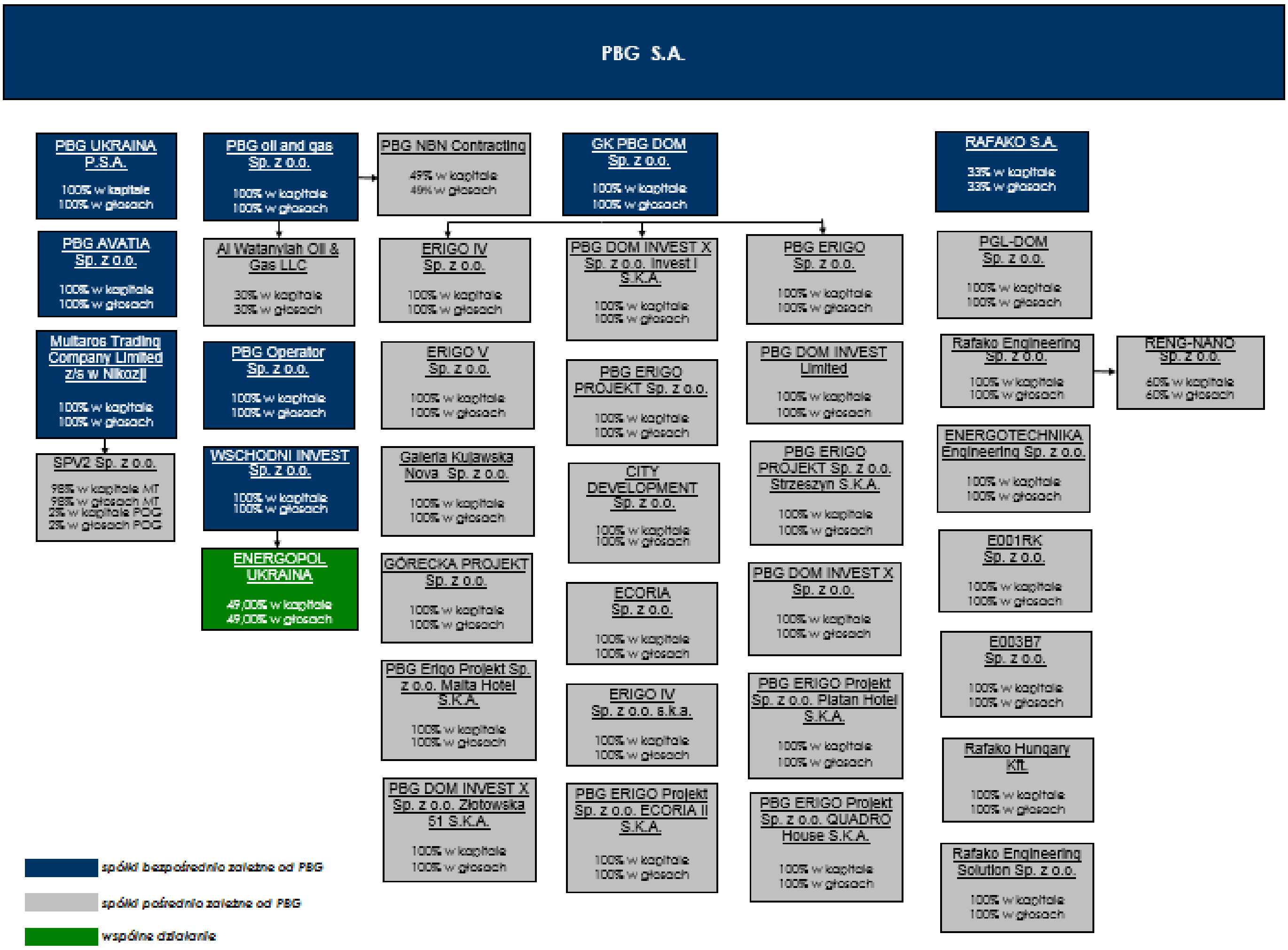
The subject is covered in detail in Section I.I.3.

SECTION III: PBG GROUP

I. STRUCTURE OF THE GROUP

As at the date of filing this Report, the PBG Group consisted of 39 companies, including the parent – PBG, 8 direct subsidiaries, 29 indirect subsidiaries and 1 joint venture.

Structure of the PBG Group as at December 31st 2017



On March 21st 2018, PBG, as the Acquirer, merged with PBG AVATIA Sp. z o.o., as the Acquiree, following the registration of the merger by the District Court for Poznań-Nowe Miasto and Wilda in Poznań.

II. COMPANIES OF THE GROUP

Related entity	Type of relation		Consolidation method	As at Dec 31 2017		As at the representation date	
	Relation through	Type of relation	Method	Number of shares	Par value of shares	Number of shares	Par value of shares
PBG Dom Sp. z o.o.	PBG S.A.	subsidiary	full	550,000	PLN 55,000,000	550,000	PLN 55,000,000
PBG AVATIA Sp. z o.o.			full	1,000	PLN 50,000	-	-
Wschodni Invest Sp. z o.o.			full	37,740	PLN 3,774,000	37,740	PLN 3,774,000
PBG Ukraina Public Joint-Stock Company			full	222,227	UAH 888,908	222,227	UAH 888,908
PBG Operator			full	50	PLN 5,000	50	PLN 5,000

Sp. z o.o.							
PBG oil and gas Sp. z o.o.			full	200	PLN 20,000	200	PLN 20,000
Multaros Trading Company Limited of Nicosia			full	526,000	EUR 526,000	526,000	EUR 526,000
PBG NBN Contracting	PBG oil and gas Sp. z o.o.	associate	equity method, associate	490	OMR 98,000	490	OMR 98,000
Al Watanyiah Oil & Gas LLC			not consolidated	147,000	OMR 147,000	147,000	OMR 147,000
SPV2 Sp. z o.o.	PBG oil and gas Sp. z o.o.	indirect subsidiary	full	1	100 PLN	1	PLN 100
	Multaros Trading Company Limited of Nicosia	indirect subsidiary		49	4,900 PLN	49	4,900 PLN
Galeria Kujawska Nova Sp. z o.o.	PBG Dom Sp. z o.o.	indirect subsidiary	full	100	PLN 5,000	100	PLN 5,000
PBG DOM Invest Limited			full	4,000	EUR 4,000	4,000	EUR 4,000
PBG ERIGO Sp. z o.o.	PBG S.A.	indirect subsidiary	full	100,000	PLN 5,000,000	100,000	PLN 5,000,000
	PBG Dom Invest Limited	indirect subsidiary		120,000	PLN 6,000,000	120,000	PLN 6,000,000
PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	PBG ERIGO Sp. z o.o.	indirect subsidiary	full	500,000	PLN 50,000	500,000	50,000.00 PLN
PBG ERIGO PROJEKT Sp. z o.o.			full	100	PLN 5,000	100	PLN 5,000
City Development Sp. z o.o.			full	71,000	PLN 3,550,000	71,000	PLN 3,550,000
				20	PLN 1,000	20	PLN 1,000
ECORIA Sp. z o.o.			full	1,000	PLN 50,000	1,000	PLN 50,000
PBG Erigo Projekt Sp. z o.o. Malta Hotel S.K.A.			full	500,000	PLN 50,000	500,000	PLN 50,000
PBG Erigo Projekt Sp. z o.o. Strzeszyn S.K.A.			full	500,000	PLN 50,000	500,000	PLN 50,000
PBG Dom Invest X Sp. z o.o.			full	100	PLN 5,000	100	PLN 5,000
PBG Erigo Projekt Sp. z o.o. PLATAN HOTEL S.K.A.			full	8,900,000	PLN 890,000	8,900,000	PLN 890,000
PBG Dom Invest X Sp. z o.o. Złotowska 51 S.K.A.			full	1,250,000	PLN 125,000	1,250,000	PLN 125,000
PBG ERIGO PROJEKT Sp. z o.o. ECORIA II S.K.A.			full	500,000	PLN 50,000	500,000	PLN 50,000
PBG ERIGO PROJEKT Sp. z o.o. QUADRO House S.K.A.			full	500,000	PLN 50,000	500,000	PLN 50,000
Górecka Projekt Sp. z o.o.			full	2,000	PLN 100,000	2,000	PLN 100,000
ERIGO IV Sp. z o.o.			full	60	PLN 6,000	60	PLN 6,000
ERIGO IV Sp. z o.o. SKA			full	50,000	PLN 50,000	50,000	PLN 50,000
ERIGO V Sp. z o.o.			full	60	PLN 6,000	60	PLN 6,000
RAFAKO S.A.	PBG S.A.	subsidiary	full	7,665,999	15,331,998 PLN	7,665,999	15,331,998 PLN
	Multaros Trading Company Limited of Nicosia	indirect subsidiary		34,800,001	69,600,002 PLN	34,800,001	69,600,002 PLN
E001RK Sp. z o.o.	RAFAKO S.A.	indirect subsidiary	full	50	PLN 5,000	50	PLN 5,000
E003B7 Sp. z o.o.			full	50	PLN 5,000	50	PLN 5,000
PGL-DOM Sp. z o.o.			full	607	PLN 6,070,000	607	PLN 6,070,000
RAFAKO ENGINEERING SOLUTION doo			full	1	38,500 EUR	1	38,500 EUR
RAFAKO Hungary Kft.			full	1	40,000 HUF	1	40,000 HUF
	RAFAKO S.A.		full	3,630	PLN 1,815,000	3,630	PLN 1,815,000

RAFAKO ENGINEERING Sp. z o.o.	PBG oil and gas Sp. z o.o.	indirect subsidiary		3,481	PLN 1,740,500	3,481	PLN 1,740,500
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	RAFAKO S.A.	indirect subsidiary	full	920	PLN 460,000	920	PLN 460,000
		indirect subsidiary		1,100	PLN 550,000	1,100	PLN 550,000
ENERGOPOL-UKRAINA	Wschodni Invest Sp. z o.o.	joint operation	full	49	119,119 UAH	49	119,119 UAH
RENG-NANO	RAFAKO ENGINEERING Sp. z o.o.	indirect subsidiary	full	6,000	PLN 600,000	6,000	PLN 600,000

**On March 21st 2018, after the reporting date, the merger of PBG S.A. as the acquirer and PBG AVATIA Sp. z o.o. was registered by the Court.*

Other related entities – associates, not subject to consolidation:

Company	Number of shares held by PBG	Par value of shares (PLN)	% of shares and voting rights held
Poner Sp. z o.o.	475	475,000.00	15.97
Energia Wiatrowa PL Sp. z o.o.	230	11,500.00	18.70
Towarzystwo Ubezpieczeń Wzajemnych TUZ	60	600.00	0.01
Hydrobudowa Polska S.A. w likwidacji (in liquidation)	82,302,263	82,302,263.00	39.09
PBG Technologia Sp. z o.o. w likwidacji (in liquidation)	46,100	23,050,000.00	100.00
Aprivia S.A. w likwidacji (in liquidation)	14,775,999	14,775,999.00	20.52
Energomontaż Południe S.A. w likwidacji (in liquidation)	46,333,520	46,333,520.00	65.28
KWG S.A. w likwidacji (in liquidation)	28,700	2,870,000.00	100.00

III. BRANCHES

Branches of the parent – PBG S.A.:
None
RAFAKO S.A.:
Turkey branch
Branches of PBG oil and gas Sp. z o.o.:
Branch in Lithuania

IV. 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 Group's parent, 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. In 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 3.2bn, and assumes to secure contracts for at least PLN 400m by the end of 2018. 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). Given its proprietary technologies and credentials, RAFAKO is well prepared to take part in such tenders and meet market expectations.

In 2018, in the power engineering sector, the Group plans to bid for contracts on the Polish and foreign markets with a total value of over PLN 4.44bn, and expects to secure contracts for at least PLN 500m by the end of 2018. In these tenders, 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 in the future, 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.

For the markets including, but not limited to, Central Asia, Vietnam, Mongolia, and Indonesia, the Group plans to develop its activities by collaborating with strong local partners who know the local markets and can guarantee access to local contractors. With regard to new markets, the Group – in addition to cooperating with local players – 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 in 2017, through Fundusz Inwestycji Polskich Przedsiębiorstw, acquired a significant equity interest in RAFAKO.

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.

The 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 under 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.

V. BUSINESS PROFILE

The Group's business comprises 'turn-key' general contractor services related to natural gas, crude oil and fuel facilities, as well as contractor services in the power construction sector.
At present, the Group's business is divided into the following three segments:

- Gas, oil and fuels;
- Power construction; and
- Other, including other construction services, and sale of materials and merchandise.

Services by segment

Gas, oil and fuels	Gaz ziemny, ropa naftowa i paliwa
EPC and general contracting	EPC oraz generalne wykonawstwo inwestycji
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, CS5+ separation and storage facilities	Stacje separacji i magazynowania LPG, CS5+
Desulfurisation units	Instalacje o 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
EPC and general contracting	EPC oraz generalne wykonawstwo inwestycji
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
Construction of power generating units	Budowa bloków
Other	Inne
Other services	Pozostałe usługi
General construction	Ogólnobudowlane
Property development	Deweloperskie
Hotel	Hotelowe
Rental of office space	Wynajem powierzchni biurowych

In the segment of construction services for the gas, oil and fuel sectors, the Group offers specialist services to construct: (i) surface oil and gas production installations; (ii) installations for natural gas liquefaction 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) oil tanks; (ix) oil and gas transmission systems, including pressure reduction stations, metering and billing stations, mixing plants, distribution stations, and compressor stations, and (x) fuel storage facilities. Services in this segment are performed mostly by PBG and PBG oil and gas. In line with the updated strategy, the operations in this segment will be transferred to the RAFAKO Group.
In the segment of construction services for the power sector, products and services offered by Group 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 this segment are provided by RAFAKO (a subsidiary of PBG) and its subsidiaries.
The above products and services are delivered by the 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).

Detailed financial data on the share of each segment in total revenue is presented in the section below, which describes changes on the Group's markets.

VI. CHANGES ON THE GROUP'S MARKETS

In 2017, revenue streams from each segment were generated mainly on the Polish market (except for RAFAKO, which sells also in foreign markets) and were as follows:

Operating segments

Revenue	2017 (PLN '000)	2016 (PLN '000)	Change (PLN '000)	Change (%)
Gas, oil and fuels	38,093	62,310	- 24,217	- 38.87
Power construction	1,811,392	1,873,387	- 61,995	- 3.31
Other (other services: general construction, property development, hotel and rental of office space)	19,608	51,317	- 31,709	- 61.79
Total revenue	1,869,093	1,987,014	- 117,921	- 5.93

Geographical presence

The Group's activities focus on the domestic market, which the Group perceives as significant because of a pipeline of planned projects in power construction and in the oil and gas sector. Efforts are also made to expand into foreign markets in both of the Group's strategic business segments.

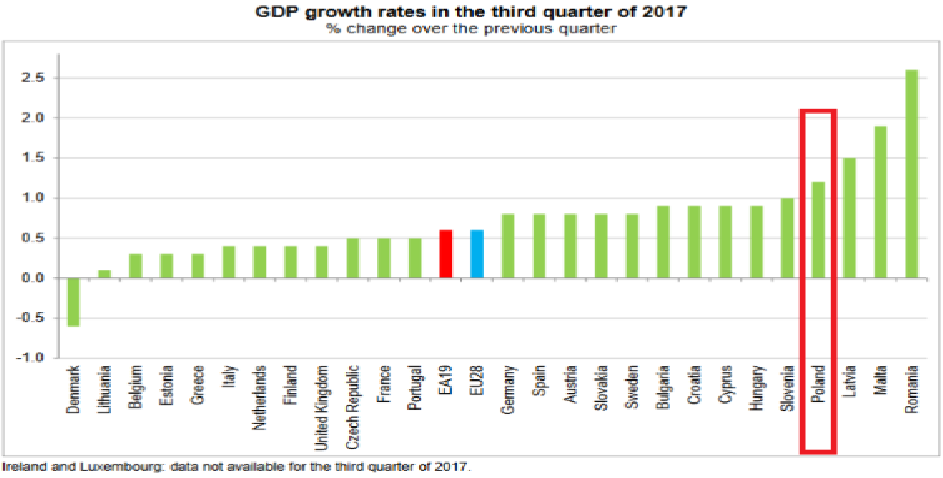
VII. MARKET OUTLOOK

1. Macroeconomic environment

The market on which the Group operates is correlated with the general macroeconomic situation in Poland and macroeconomic conditions in the countries to which the Group exports its products and services.

a. Economic situation in the European Union

The table below shows GDP growth rates based on data for the third quarter of 2017.



Source: *Eurostat*

b. Economic situation in Poland

Since Poland is one of the Group's key markets, the local macroeconomic situation has affected, and will continue to affect, the Group's financial condition, performance and development.

The table below presents historical and forecasted macroeconomic indicators for Poland for the years 2016-2020.

Item	unit	2016	2017	2018	2019	2020
Real processes						
GDP	%	102.7	103.6	103.8	103.9	103.9
Export	%	109.0	107.1	106.4	106.0	106.0
Import	%	108.9	107.7	106.9	106.1	106.1
Domestic demand	%	102.4	103.8	103.9	103.8	103.9
Consumption	%	103.6	103.9	103.0	103.1	103.1
- private	%	103.8	104.0	103.5	103.5	103.5
- public	%	102.8	103.5	101.3	101.6	101.5
Accumulation	%	98.2	103.8	107.3	106.7	106.9
- gross expenditure on tangible assets	%	92.1	107.2	107.6	107.3	107.0
GDP in current prices	PLNbn	1851.2	1938.3	2057.2	2185.4	2325.9
Prices						
Changes in prices of consumer goods and services						
- average annual	%	99.4	101.8	102.3	102.3	102.5
Changes in prices of consumer goods and services						
- average annual	%	99.9	103.9	102.2	102.3	102.3
GDP deflator	%	100.2	101.1	102.3	102.3	102.5
Remuneration						

Average gross remuneration in the national economy – real changes	PLN	104.2	103.0	102.4	102.7	102.7
Labour market						
Average employment in the national economy	thousand FTEs	10050	10374	10457	10484	10503
- in the business sector	thousand FTEs	5760	6011	6072	6092	6107
Number of registered unemployed (end of period)	thousand people	1335	1155	1027	975	947
Registered unemployment rate (end of period)	%	8.3	7.2	6.4	6.1	6.0
Foreign exchange rates						
PLN/EUR (average for the year)	PLN	4.36	4.27	4.25	4.25	4.25
Interest rates						
Interest rates in nominal terms						
- open market operations (average for period)	%	1.5	1.5	2.3	2.5	3.1
Balance of payments on a transaction basis						
Current account balance to GDP	%	-0.3	-0.9	-1.0	-1.0	-1.1

Source: *Minister of Development and Finance, May 2017 „Guidelines for the application of uniform macroeconomic indicators that form the basis for estimating the financial consequences of proposed laws".*

Poland is one of the fastest growing EU economies and one of the most populous countries in the Union. According to Eurostat data, the euro zone's GDP increased in the third quarter of 2017 by 0.6% compared to the previous quarter. Year on year, the Euroland economy has been growing by 2.5%, which is the fastest pace in 6.5 years. Among the European economies for which data on GDP growth in the third quarter are currently available, the largest quarterly GDP growth was recorded by Romania (+2.6%). Poland, with a quarterly growth rate of 1.1% q/q, ranks third (together with Finland). The Romanian economy is also the most dynamic in year-on-year terms, with the growth rate of 8.6%. Also in this ranking Poland takes the third place, together with the Czech Republic, achieving a GDP growth rate of 5.0% y/y.
The economic performance in 2017, a stable budget situation and security of the budget resulting from the tightening of the tax system are a good starting point for economic growth in 2018. All social groups benefited from the economic growth. The registered unemployment rate at the end of December 2017 was 6.6%. The unemployment drop in Poland is larger than the EU average, which puts Poland among the seven EU member states with the lowest unemployment rate. According to World Bank forecasts, Poland's GDP will grow by 4% in 2018, by 3.5% in 2019, and by 3.1% in 2020.
The key driver of Poland's economic growth is increasing consumer demand, fuelled by growing employment and pay levels as well as positive household sentiment. Economic growth was also supported by rising business investments, markedly higher household spending on dwellings, and growing exports.
The European Commission estimates that in 2018 GDP growth will reach 4.2%. According to the EC, private consumption remains the main driver of growth in Poland. In the Commission's opinion, in 2018, investment activity will continue to grow in Poland, mainly due to rising public spending. EC analysts estimate that inflation reached an average of 1.6% in 2017. In 2018, it is expected to stand at 2.1% and in 2019 at 2.6%. Investments will be driven by EU funds earmarked for the financing of infrastructural projects.

2. Natural gas, crude oil and fuel sector

The Polish market of contractor services related to gas infrastructure is viewed as having strong prospects for growth, given the anticipated multi-billion investments, following primarily from the need to implement the objectives of Poland's energy policy and to ensure compliance with the requirements of Poland's membership in the European Union. Responsibility for the implementation of the country's energy policy rests primarily with the PGNiG Group and OGP Gaz-System. In consequence, these companies are the leading owners of a wide range of gas infrastructure projects (worth more than PLN 40bn) − from construction of gas stations, gas transmission pipelines, underground gas storage facilities and gas compressor stations, to construction of gas extraction facilities − which are an attractive source of contracts for specialist contractors.
The Group's position in the oil segment depends on the investment plans of PKN ORLEN, LOTOS S.A., NATO, PERN S.A., and other entities active in the fuel sector. These investment are estimated at more than PLN 20bn. Similar projects announced by employers from EU countries (Estonia, Finland and Hungary) are also noteworthy for the PBG Group. Customers such as Elering A.S., Hamina LNG Oy, MOL also plan to expand their fuel storage, LNG import, and petrochemical infrastructure.

The PBG Group is closely monitoring these markets in order to capitalise on the experience gained in Poland and will undoubtedly be a strong competitor in any tender procedures announced.

The Polish gas market is regulated by the Energy Regulatory Office. According to its decision, in October 2010 Gaz-System S.A., responsible for transporting gas through high-pressure transmission networks, was appointed as the Transmission Network Operator in Poland until the end of 2030.

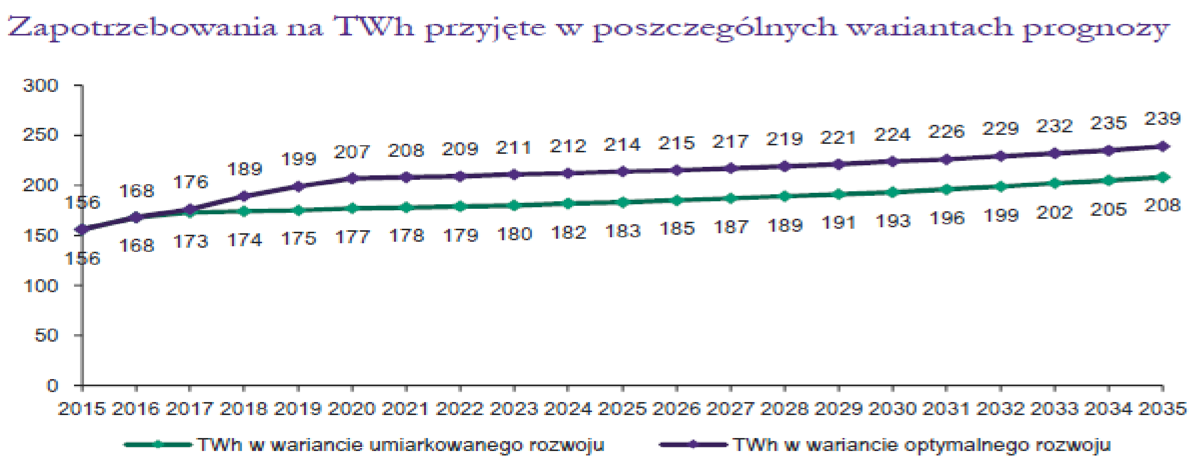
Source: *Gaz-System S.A.*

Transmission system map – current state and the state expected in 2025.	

The primary objective of the Transmission Network Operator is to expand the existing transmission system ensuring the long-term ability of the gas system to meet the legitimate needs for transmission of gas fuels in domestic and cross-border trade by expanding the system and, where applicable, by expanding interconnections with other gas systems.

To this end, Gaz-System S.A. has developed the strategy of the 2016-2025 National Development Plan covering the entire industrial infrastructure located in Poland. The forecast assumes two possible scenarios:

- the Moderate Growth (MG) scenario, and
- the Optimum Growth (OG) scenario.



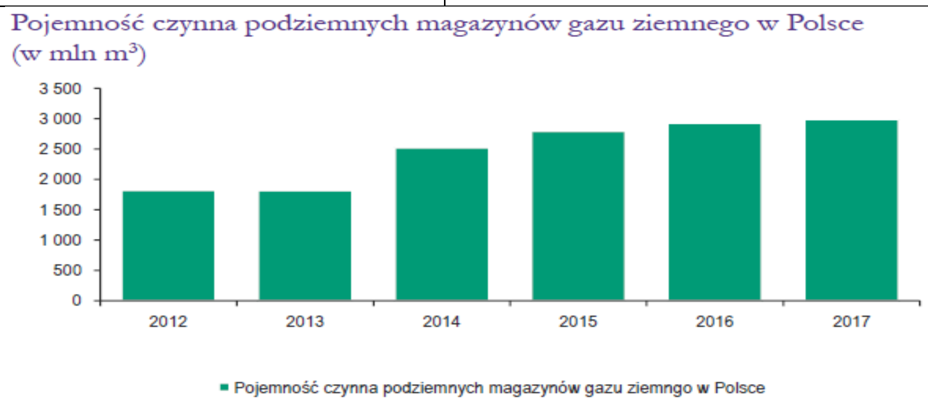
Zapotrzebowania na TWh przyjęte w poszczególnych wariantach prognozy	Demand for TWh adopted for particular forecast scenarios

TWh w wariancie umiarkowanego rozwoju	TWh in moderate growth scenario
TWh w wariancie optymalnego rozwoju	TWh in optimum growth scenario

Source: *Gaz-System S.A.*

In Poland, there are currently seven underground high-methane gas storage facilities in operation, connected to the existing transmission system. Five of them are located in partly depleted gas reservoirs. These are (UGSF – underground gas storage facilities): Wierzchowice UGSF, Husów UGSF, Strachocina UGSF, Swarzów UGSF, and Brzeźnica UGSF. Another two facilities – Mogilno CUGSF and Kosakowo CUGSF – were built in salt deposits where the gas is stored in leached salt caverns. The gas storage system, comprising all the underground storage facilities, is operated by Gas Storage Poland Sp. z o.o., a wholly-owned subsidiary of Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG). The "List of Strategic Projects for the Energy Infrastructure as Part of the Operational Programme Infrastructure and Environment 2014–2020", issued by the Ministry of Economy in 2015, includes six natural gas storage projects under investment priority No 7.5. The aggregate value of planned capital expenditure is PLN 7,013m.

Pojemność czynna podziemnych magazynów gazu ziemnego w Polsce (w mln m^3)	Working capacity of underground gas storage facilities in Poland (mcm)
Pojemność czynna podziemnych magazynów gazu ziemnego w Polsce	Working capacity of underground gas storage facilities in Poland



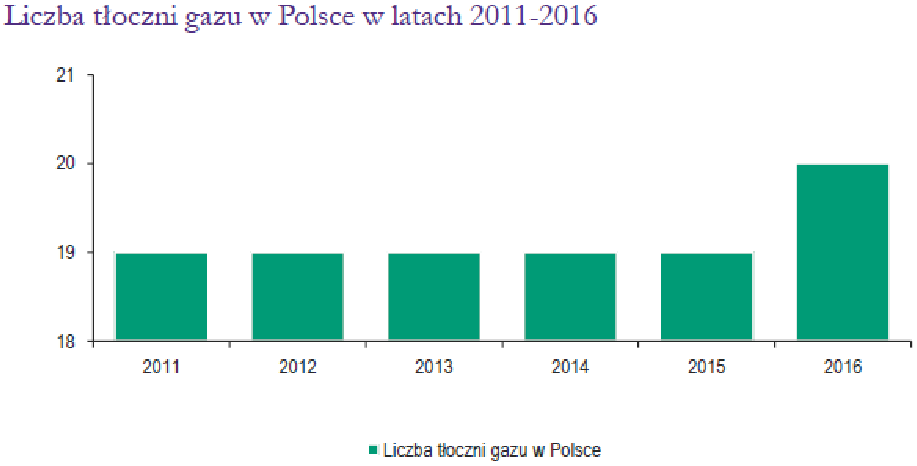
Source: *Gaz-System S.A.*

Ensuring Poland's energy security is consistent with the plans to expand storage capacity. The resolution on the "Polish Government's Policy for Logistics Infrastructure in the Oil Sector", adopted recently by the government, contains plans to make Gaz-System S.A. the owner of PKN Orlen's fuel and gas storage assets in salt caverns, including the Lubień Salt Mine. The mine is a beneficiary of the Operational Programme Infrastructure and Environment 2014–2020 which includes plans to construct a gas storage facility with a working capacity of 160m cubic metres and ancillary infrastructure necessary for its construction and operation. The planned capex amounts to PLN 1,500m. It has been announced that the Lubień Kujawski mine will soon begin to wash out caverns where natural gas is to be stored. Another project to be implemented by Gaz-System in this region is a cavern gas storage facility in Damasławek. The construction of an underground gas storage facility in central Poland together with a connection gas pipeline is a project worth PLN 2,896m, planned to be co-financed by the European Union under the Infrastructure and Environment Programme 2014-2020.

The gas compressor stations in Poland are located, among others, on the Polish section of the Yamal pipeline operated by EuRoPol GAZ S.A. There are five such stations. Another 15 are owned by Gaz-System S.A. and are connected with the transmission network throughout Poland. The planned expansion of the gas pipeline system requires the construction of new gas compressor stations or expansion of the existing ones. The development plan of the Polish gas system operator for 2014-2023 provides for the construction of compressor stations in Jeleniów, Odolanów, Kędzierzyn and the expansion of a compressor station in Rembelszczyzna. This document also mentions long-run plans to build compressor stations in Goleniów and Strachocin. Some of these projects will be implemented within the North-South Corridor in western and southern Poland, including the compressor station in Strachocin which will also be constructed as part of the Poland-Slovakia interconnection project covered by the Connecting Europe Facility co-financed by the European Union.

The budget earmarked by Gaz-System S.A. for the construction of the gas compressor station in Strachocin and the gas pipeline to the Polish border amounts to PLN 357m. The North-South Gas Corridor is a project for connecting the LNG Terminal in Świnoujście and the Baltic Pipe through southern Poland, the Czech Republic, Slovakia and Hungary with the proposed Adria LNG Terminal in Croatia. The Baltic Pipe project comprises compressor stations in Goleniów and Odolanów, and a recently announced compressor station planned to be constructed in Gustorzyno. Gas compressor stations are essential for the smooth operation of any gas system. Investments in their construction and expansion are mainly driven by the development of gas infrastructure (resulting from the economic growth of the country), increase in the popularity of this fuel, and international projects aimed at building energy security in Europe. The Group sees this segment as an opportunity to implement new projects, the number of which will continue to grow in the years to come.

Liczba tłoczni gazu w Polsce w latach 2011-2016	Number of gas compressor stations in Poland in 2011-2016
Liczba tłoczni gazu w Polsce	Number of gas compressor stations in Poland



Source: *Gaz-System S.A.*

LNG is a natural gas that has been cooled to -160°C. Regasification of LNG is the process of heating the liquefied gas to convert it back to its gaseous form. In Poland, significant quantities of this raw material are regasified by Polskie LNG S.A., a company responsible for the construction of the LNG terminal in Świnoujście which is of strategic importance for the country's energy security. The recently completed project currently consists of two – and ultimately three – cryogenic gas tanks with a capacity of 160,000 cubic metres each. The regasification process is carried out using the SCV (Submerged Combustion Vaporiser) technology whereby the physical state is changed from liquid to gaseous in a system of pipes submerged in natural gas-heated water.

Through its subsidiary Polska Spółka Gazownictwa, PGNiG S.A. plans to carry out major investments and develop the domestic natural gas distribution segment in the coming years. The main objective in the distribution segment is to connect new customers and increase the volume of gas sold. New areas are to connected to the gas network in line with the so-called island distribution model, i.e. through the construction of LNG regasification stations connected with local distribution networks operated in these areas.

The Province of Białystok has the least developed gas grid in Poland. Of the 118 municipalities in the region, only 23 are connected to the gas network. On average in Poland, 58% of municipalities in provinces are connected to the gas network, whereas for the Province of Białystok this ratio stands at 19%. PSG plans to invest PLN 364.7m in the Province of Białystok by 2020. This amount is to be spent on the construction of several LNG regasification stations in Grajewo, (Grajewo–Wołów), Mońki, Augustów, Czyżew and Hajnówka municipalities, conversion of the Białystok pipeline, and construction of a gas distribution network in Bielsk Podlaski. PGS already completed a similar gas network rollout project in Pisz, Ełk, Suwałki and Olecko, where LNG regasification stations were launched in 2011. The total value of the project is PLN 35m. The company plans, among other things, to connect Szczawnica and its neighboring municipalities to the gas network. As part of its cooperation with local authorities, PGS has signed 290 letters of intent throughout the country, which provide the basis for local gas network roll-out plans.

Unimot S.A., though its subsidiaries, is the owner of regasification stations in Poland. They are operated as off-grid or pre-gasification plants in the provinces of Białystok, Poznań and Szczecin. In its development strategy, the company has announced plans to expand the distribution network based on the acquisition of existing networks and construction of its own networks and LNG regasification stations.

The Polish crude oil and petroleum product market includes entities engaged in transmission, storage, distribution and trade, as well as exploration and production of crude oil. The sector is highly monopolised. The PERN S.A. Group, until recently known as Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń Spółka Akcyjna, owns – either directly or through its subsidiaries – 66% of all fuel pipelines in Poland and all feedstock pipelines with a total length of 2.5 thousand kilometres. Its business comprises the operation of the pipeline network, storage, distribution and trade of crude oil and petroleum products, including fuels. PERN S.A. is a state-owned stock company (100% of the company shares are held by the State Treasury).

PERN S.A.'s main objective is to expand the existing pipeline network and the oil storage tank base. The company pursues its objectives through ongoing investment projects. In 2016, the first phase of the Gdańsk Oil Terminal project was completed – new crude oil storage tanks were placed in operation. The cost of the investment was PLN 412m. In 2017, PERN S.A. commenced the second phase of the Terminal project, increasing the depot's storage and trade capacity. It is estimated that the company will spend PLN 400m on this purpose. The company also plans to build a fuel pipeline between Boronów and Trzebinia worth PLN 215m, with a total length of approximately 95 km. The project is an extension of the existing product pipeline system Płock – Koluszki – Boronów towards the refinery in Trzebinia.

PERN S.A. is currently in the process of preparing a preliminary feasibility study on a project to expand the Pomeranian pipeline, marked as a "project of common interest" by the European Commission. The project involves the construction of loops and the second pipeline from Gdańsk Base to Miszewko Strzałkowskie Base, with the accompanying infrastructure.

According to the Polish Government's Policy for Logistics Infrastructure in the Oil Sector, adopted by the Council of Ministers in late November 2017, the implementation of this project is of key importance for the security and quality of crude oil supplies to refineries, but first of all for the country's energy security. The documents show that the estimated cost of the whole project will reach about PLN 1bn.

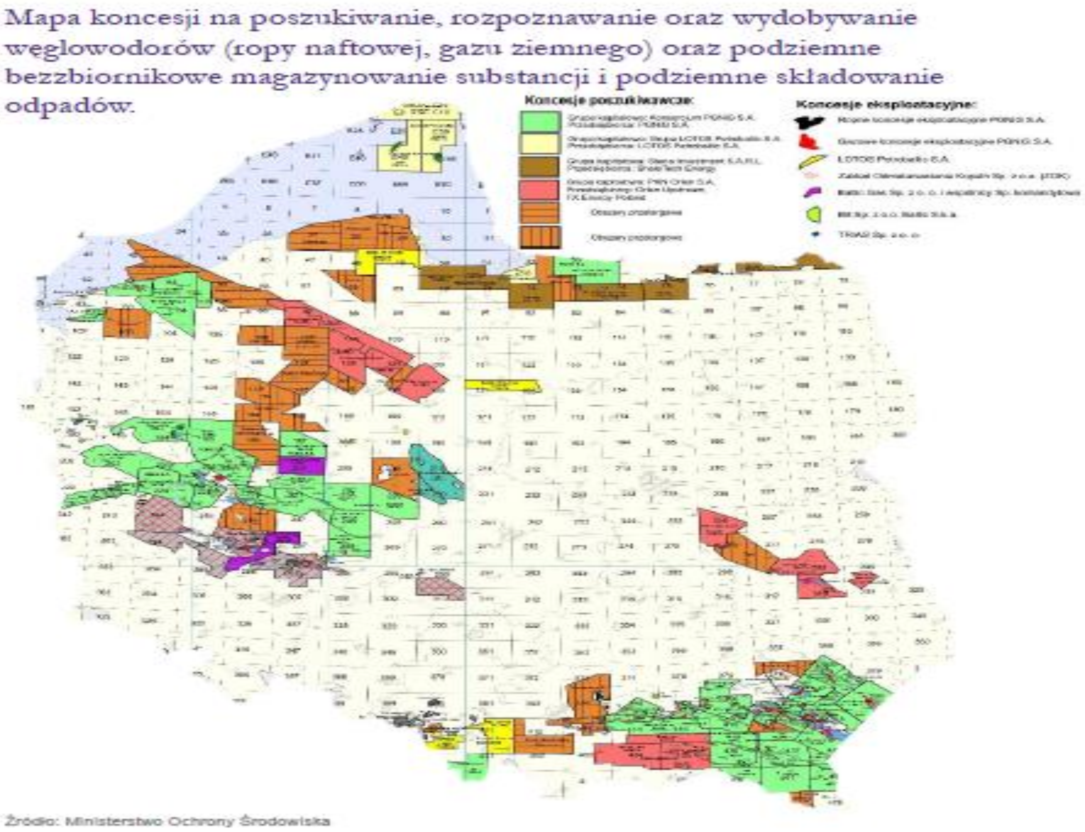
In 2017, the Company acquired Operator Logistyczny Paliw Płynnych (OLPP), a leader in the fuel logistics sector in Poland with a state-of-the-art infrastructure that meets all legal requirements for fuel depots, including environmental requirements. OLPP operates a network of fuel depots with a total storage capacity exceeding 1.8 mcm.

The above projects are related to the evolving structure of crude oil supplies to Poland, with growing oil deliveries by sea. As a state-owned company, PERN S.A. is a strategic company ensuring the energy security of Poland, and thus of the European Union.

Oil sector – current situation on the pipeline transportation market.

Diversification of crude oil supplies to Poland translates into increased investment needs in this sector. The growing oil consumption, caused mainly by the country's economic growth, and mandatory stocks of oil required by new legislation, have a similar effect. The extension of the pipeline network and storage capacity planned by PERN is an opportunity for the Group, as there will be several such projects in the coming years.

In 2016, according to the State Research Institute, there were 86 documented crude oil deposits in Poland, the vast majority of which are located in two areas – in the Carpathian Mountains and Foothills and in Polish Lowlands. The latter are of the greatest importance for the economy. The status of the Carpathian deposits is defined by the Institute as depleting. In 2016, the volume of crude oil production in the Lowlands region accounted for 73.5%, while 19.7% of the domestic resources were produced in the Polish economic zone of the Baltic Sea. In Poland, there are only two significant players on the oil production market: PGNiG S.A. and Lotos Petrobaltic S.A. The Polish oil market is regulated by the Energy Regulatory Office. In accordance with Polish law, a production licence issued by the Minister of Environment is required to commence crude oil production.



Mapa koncesji na poszukiwanie, rozpoznawanie oraz wydobywanie węglowodorów (ropy naftowej, gazu ziemnego) oraz podziemne bezzbiornikowe magazynowanie substancji i podziemne składowanie odpadów.	Map of licences for exploration, appraisal and production of hydrocarbons (crude oil, natural gas) as well as underground non-reservoir storage of substances and underground storage of waste.
Źródło: Ministerstwo Ochrony Środowiska	Source: Ministry of Environmental Protection

3. Energy sector

a. Energy market

The energy market, both in Poland and abroad, is the primary market for the Group's products and services. The market's development, including investments and the structure of the energy mix in Poland and globally, is very important to the Group's business, demand for its products and services, and growth prospects.

The key legal document regulating the operation of the Polish energy sector is the Energy Law. The President of the Energy Regulatory Office ('URE') is responsible for regulating the fuels and energy markets and for promoting competition in the energy sector in Poland. As a rule, to operate in the energy sector, an entity must obtain a licence from the President of URE. The powers and responsibilities of the President of URE also include approval and monitoring of the use of tariffs for gaseous fuels, electricity and heat, drawn up by energy companies and implemented as applicable to the customer groups specified in those tariffs.

'Poland's Energy Policy until 2030' ('Policy 2030') prepared by the Ministry of Economy sets the development directions for the country's energy sector. The policy's objectives include: (i) to improve electricity generation efficiency by constructing high-efficiency generating units and ensuring a two-fold increase in the quantity of electricity from high-efficiency co-generation (by 2020); and (ii) to increase the share of renewable energy sources in total energy consumption in Poland to 15% in 2020 and 20% in 2030. The policy also stipulates that the share of biofuels in the fuel market should reach 10% in 2020. PEP 2030 also highlights the need to reduce the environmental impact of the energy sector (including the reduction of CO2, SO2 and NOX emissions), which would enable Poland to meet its international obligations. Among the objectives for the electricity and heat markets PEP 2030 specifically points to the construction of new generating capacities to balance the domestic demand for electricity and to maintain an operationally available capacity surplus from domestic conventional and nuclear generation sources of at least 15% of the maximum demand during peak periods.

The policy also defines the key priorities and directions for the country's energy policy and development of the Polish energy market.
More recently, work on 'Poland's Energy Policy until 2050' began. The policy draft of August 2014 specifies three operating objectives expected to support the achievement of the main goal: (i) to ensure national energy security; (ii) to increase competitiveness and energy efficiency of the national economy; and (iii) to reduce the environmental impact of the energy industry. The document outlines three scenarios for the development of the national energy sector: the base-case scenario assuming that the current trends continue, with coal as the dominating fuel in the energy mix, and two additional scenarios. First of the two assumes the dominance of nuclear energy (45%-60% of the energy mix), while the other one is based on gas and renewable energy (50%-55% of the energy mix). As at the prospectus date, the document was still under preparation and has not yet been approved by the Council of Ministers.
Regulations adopted at the EU level are focused chiefly on environmental protection and reduction of the share of coal-based generation in the EU energy mix.
The principal legal framework for the environmental aspects of the EU energy policy is laid down in the climate and energy package. The three main targets of the package for 2020, described as '3x20', include: (i) a 20% increase in efficiency of energy consumption; (ii) an increase in the share of RES energy to 20% of the total final energy consumption in the European Union (each country was assigned a binding target – the share of RES in Poland's final consumption is 15%); and (iii) CO2 emissions reduction by 20%. Additionally, at the Paris climate conference in December 2015, the participating countries signed a global climate agreement applicable to the period beyond 2020. As a result, the European Commission has defined new objectives in terms of climate change and energy for 2030 assuming: (i) a 40% reduction of CO2 emissions compared with the 1990 levels, and (ii) an increase in the share of RES to 27% of energy generated across the EU.
Power generated from conventional sources remains a major source of emissions, not only of greenhouse gases (mainly CO2), but also SO2, NOX and particulate matter. The legal requirements applicable to emissions of these substances by combustion sources, including power generating units, are set out in directives of the European Parliament and of the Council, including the LCP Directive, Directive 2001/81/EC and Directive 2008/50/EC (OJ L 152/1 of June 1st 2009) on ambient air quality and cleaner air for Europe. Moreover, the IED Directive sets our new rules on integrated prevention and control of pollution arising from industrial activities, including requirements concerning emission standards and the obligation to control pollution arising from industrial activities, as well as requirements concerning emission standards and BAT conclusions.
The market is divided into: (i) the commercial segment, where the core business consists in generation and distribution of electricity (e.g. power plants, CHP plants, transmission networks and distribution grids), and (ii) the industrial segment, where the generation of electricity is a secondary activity. Companies in the commercial segment are the Group's customers.

Electricity producers include:

- commercial power plants; in Poland there are 19 power plants (baseload) which generate electricity using hard coal and lignite. They produce approximately 75% of electricity consumed in the country. The largest commercial power plants include Bełchatów, Opole and Turów, as well as Połaniec, Kozienice, Rybnik and Dolna Odra;
- CHP plants, generating heat and electricity in a process referred to as co-generation; there are currently 50 CHP plants operating in close proximity to large urban areas, e.g. Elektrociepłownia Żerań in Warsaw operated by PGNiG Termika, or Kogeneracja in Wrocław;
- autoproducer power plants; there are approximately 160 such plants located at large industrial sites.

Depending on the type of energy produced, the industrial segment is divided into: (i) the electricity market, and (ii) the heat market.

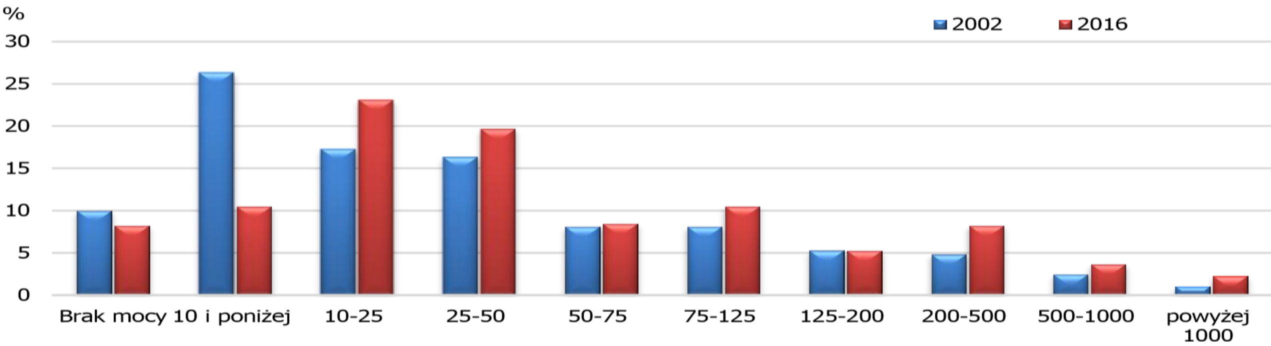
b. Electricity market

The Polish electricity system (National Power System (KSE)) is among the largest in Europe. As at the end of 2015, the system's power generating capacity was approximately 39 GWh. Industrial power plants and CHP plants accounted for approximately 78% of the capacity. Hard coal- and lignite-fired commercial power plants (29.5 GW) account for over 74.9% of the installed capacity, with lignite-fired units representing 51.5% and coal-fired units – 23.4% of the total.
According to the data published in draft 'Poland's Energy Policy until 2050' ('PEP 2050') of August 2014, nearly 45% of Poland's electricity generation facilities are over 30 years old and 77% are more than 20 years old. As

the expected useful life of a coal-fired generation unit is between 40 and 45 years, it will be necessary to install 13–18 GW in new capacities just to replace the existing generation assets.
According to Polskie Sieci Elektroenergetyczne (PSE), in 2017 electricity output in Poland stood at 165,852 GWh, up 1.98% on 2016. Its consumption rose by 2.13% year on year to 168,139 GWh. In 2017, Poland was a net importer of electricity with imports exceeding exports by 2,287 GWh. This was also the case in 2016, when the difference amounted to 1,999 GWh. In 2017, the output of hard coal-fired commercial power plants declined (by 1.82%) and accounted for approximately 48.2% of total electricity generated in Poland. The output of lignite-fired commercial power plants went up by 1.52% in 2017 and accounted for about 31.3% of total domestic output. Gas-fired power plants also increased their output as compared to 2016 (up by 24.16%, about 4.3% of total domestic output).
Commercial hydroelectric power plants produced 15.36% more energy than in the previous year and represented about 1.7% of domestic output. In 2017, wind farms produced 13,855 GWh, up 19.2% on the previous year, and accounted for about 8.4% of total electricity output. The Polish power sector has traditionally relied on fossil fuels, a resource abundant in Poland. Two main fuels, hard coal and lignite, form the staple of electricity generation.
As part of the commercialisation process conducted in 1993-1994, electricity producers and power utilities were transformed into commercial-law companies and the country's power sector was partially privatised. Despite the privatisation efforts, the State Treasury continues to own most of the companies in the sector. In 2007, the State Treasury launched a consolidation process to strengthen their financial position and market potential to the levels necessary to ensure the sector's continued growth. As a consequence, in May 2007 four energy groups were established: (i) the PGE Group, (ii) the Tauron Group, (iii) the Energa Group, and (iv) the Enea Group. Their core business is generation, distribution and trade in electricity. The PGE Group boasts the largest share in the generation subsector, while the Tauron Group dominates sales to end users. According to the Energy Regulatory Office, the share of the above entities in the energy market in 2016, measured as the share in total electricity fed into the power grid, stood at: (i) PGE Group – 36%, (ii) Tauron Group – 10%, (iii) Energa Group – 3%, and (iv) Enea Group – 9%.
Apart from the four main players, the Polish power market also comprises EDF (8% share in total electricity fed into the power grid in 2016), Engie (7% according to the 2016 data), Zespół Elektrowni Pątnów-Adamów-Konin S.A. (6% according to the 2016 data), PGNiG (2% share in total electricity fed into the system in 2016), ČEZ (2% in 2016) as well as Veolia and Polenergia (1% share in the electricity market).

c. Heat market

According to the 'Heating Industry Data 2016' study compiled by the Energy Regulatory Office, heat producers have highly diversified and fragmented technical capabilities, typically measured with the use of two key indicators – installed heat generating capacity and the length of the distribution network. Licensed heat producers generate heat from sources of various capacities, but predominantly from small units with a capacity of up to 50 MW (58.1% in 2016). Ten companies had a maximum capacity of more than 1,000 MW, and their aggregate maximum capacities represented one-third of the total capacity of all licensed heat sources in Poland. These entities were also active electricity producers. In 2016, the total installed heat generating capacity of licensed producers was 54,259.8 MW (2002: 70,952.8 MW) and their maximum achievable capacity stood at 53,434.7 MW (2002: 67,285.4 MW). The length of all distribution networks operated by licensed heat companies in 2016 was 20,744.9 km. However, this also included external receiving installations.
The chart below illustrates the structure of the heat generation sector by installed capacity (2002 vs 2016).



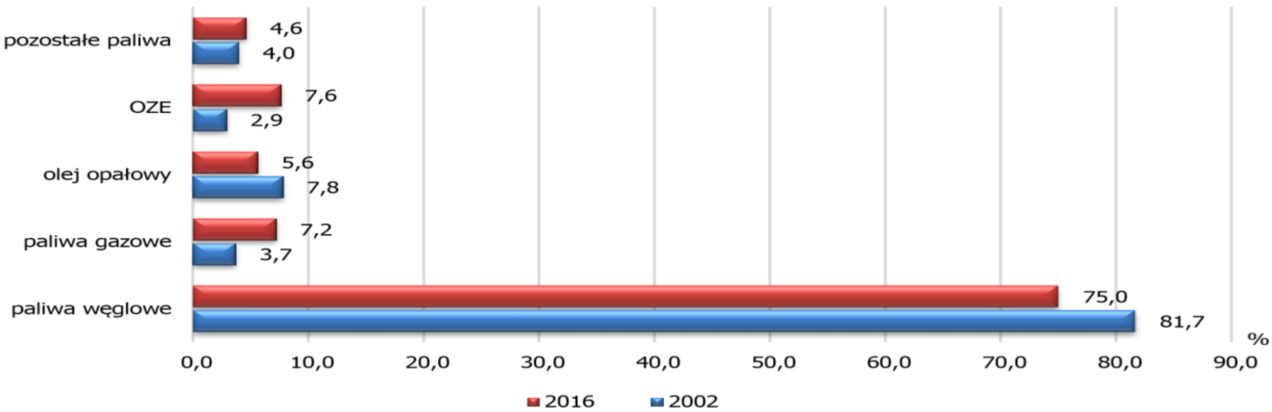
Brak mocy 10 i poniżej	No capacity 10 and below

Powyżej 1000	Above 1,000 MW

Source: *'Heating Industry Data 2016', URE.*

In 2016, coal fuels accounted for 75% of all fuels used to produce heat in Poland.

The chart below shows the structure of fuels used for heat generation in Poland (2002 vs 2016).



Pozostałe paliwa	Other fuels
OZE	RES
Olej opałowy	Fuel oil
Paliwa gazowe	Gaseous fuels
Paliwa węglowe	Coal fuels

Source: *'Heating Industry Data 2016', URE.*

The electricity market, especially its commercial segment, is heavily regulated both in terms of its current operation and its future development directions and structure in the context of the increasingly stringent environmental protection standards. The highly-regulated nature of the sector follows from its strategic importance to energy security of each country, with environmental protection and reduced CO_2 emissions becoming a global priority in international relations. Such regulations include both legislation and general objectives of national and EU-level energy policies concerning environmental protection.
Because of the introduction of more stringent environmental protection standards, flue gases sources – such as CHP plants and power plants – are required to upgrade their existing units and install new air quality control systems. This translates into more projects in the energy segment, including construction of low-emission, high-efficiency power plants and upgrade of existing generating assets to ensure compliance with the strict environmental requirements imposed under the EU law, which may in turn boost demand for products and services offered by the Group.

d. Power sector investments

Power generation infrastructure in Poland
Given the progressive wear of power generation assets and the increasingly more stringent EU emission standards, the existing assets will either be retired or upgraded. According to 'Poland's Energy Policy until 2050', almost 45% of Poland's electricity generation assets are more than 30 years old, and approximately 77% of them are more than 20 years old. As the expected useful life of a coal-fired generation unit is between 40 and 45 years, it will be necessary to install 13–18 GW in new capacities just to replace the existing generation assets. In 'Poland's Energy Policy until 2030', the new capacities to come on stream or existing capacities to be replaced with new generation units are estimated at 4.9 GWh in 2011–2015, 8.5 GWh in 2016–2020, 8.2 GWh in 2021–2025, and approximately 10.4 GWh in 2026–2030. Factoring in the phase-out of existing capacities in the Polish power system, the maximum net capacity of the country's generation units is expected to increase to 46.4 GW or so in 2030. The most significant decline in net capacity is expected in the case of coal-fired commercial power plants (from 14,536 MWh in 2008 to 5,433 MWh in 2030). Since lignite-fired power plants will

gradually be replaced with new units, their maximum capacity is to remain stable until 2025, when it should begin to grow. Nuclear power plants planned to be built will have an installed capacity of 4,500 MW. The highest growth in generation capacities will be seen in the case of renewable energy sources, particularly wind and biogas. By 2030, onshore and offshore wind farms should contribute an additional 6,000 MWh and 2,550 MW in installed capacities respectively, although the new capacities are not expected to translate into higher power output due to the wind farm capacity factor. Biomass-fired power and CHP plants should reach a combined capacity of some 1,400 MWe by 2030, while biogas-fired units should contribute 631 MWe. New capacities are planned to be built in response to an expected increase in electricity demand in Poland.

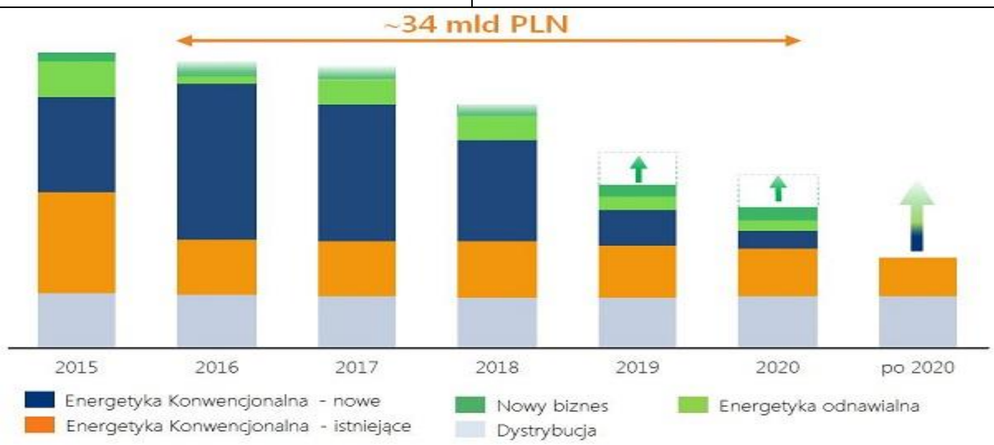
Investment in power generation infrastructure

According to the Ministry of Economy's forecasts, demand for electricity in Poland is expected to grow, to 194.6 TWh in 2020 and 217.4 TWh in 2030. The rising demand for electricity will translate into more investment projects in the power sector. In accordance with the Company's in-house estimates (based on public data), power companies are planning to invest in Poland over PLN 129bn by 2020.

The **PGE Group's** capital expenditure in 2016–2020 will amount to approximately PLN 34bn, including more than PLN 10bn on the on-going projects in Opole and Turów. Following the completion of upgrade programmes, the level of expenditures on existing capacities of Energetyka Konwencjonalna will decrease as of 2016. After completion of its flagship projects, the PGE Group will be ready to make significant investments in new business areas, both in Poland and abroad. After 2020, the PGE Group will implement a new investment programme depending on the strategic options selected, system needs and the new market model.

Planned capital expenditure of the PGE Group

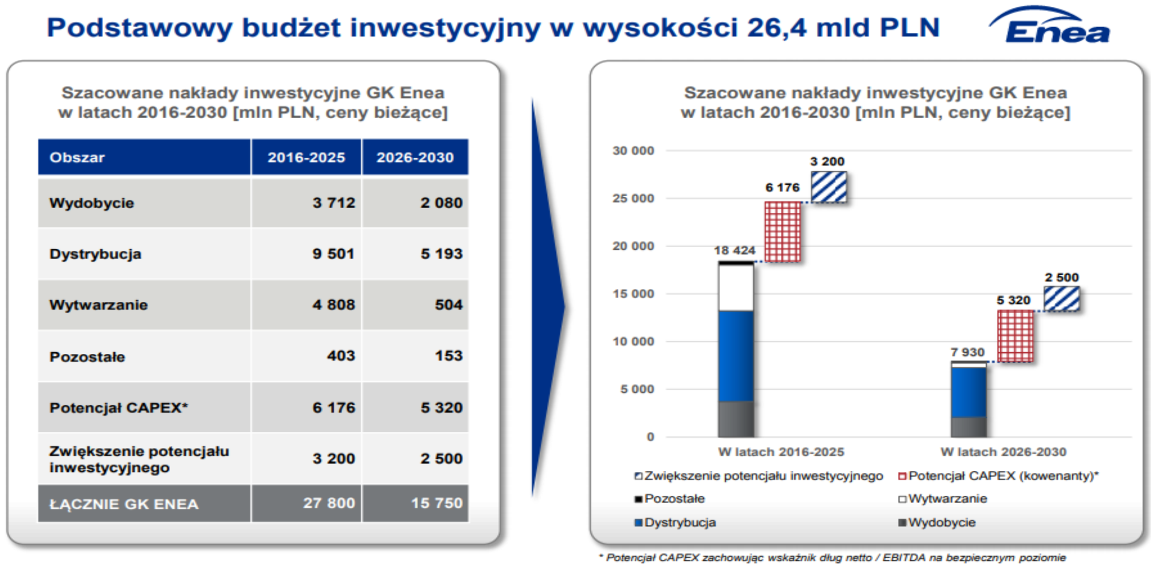
34 mld PLN	PLN 34bn
Energetyka Konwencjonalna- nowe	Energetyka Konwencjonalna - new
Energetyka Konwencjonalna- istniejące	Energetyka Konwencjonalna - existing
Nowy biznes	New business
Dystrybucja	Distribution
Energetyka odnawialna	Renewable energy
Po 2020	After 2020



The **Tauron Group's** CAPEX programme planned for 2016-2020 amounts to approximately PLN 18bn and assumes the continuation of the commenced and well advanced investment projects. These projects include the construction of the 910 MW unit at Jaworzno III Power Plant as well as projects in the distribution segment for which contracts have been signed or which result from regulatory requirements. In the mining segment, investments at Janina coal mine and the construction of Grzegorz mine shaft at Sobieski coal mine will be continued and the planned investments at Nowe Brzeszcze Grupa TAURON coal mine will be carried out. CAPEX in the mining segment is approximately PLN 1.3bn until 2020. In the generation segment, investments in the construction of the 910 MW unit at Jaworzno III Power Plant and the CCGT unit at Stalowa Wola Combined Heat and Power Plant as well as the investments in the heating networks will be continued. The generation segment's capital expenditure amounts to PLN 6.7bn until 2020. More than 50% of the entire CAPEX, i.e. PLN 9.5bn by 2020, are investments in the distribution segment that include connecting new customers and generation sources as well as upgrading and replacing grid assets. As regards innovation and R&D activities, the strategy assumes expenditures of 0.4% of consolidated annual revenue.

The assumed directions of investments beyond 2020 include first of all the regulated segments of the power sector (including electricity distribution, heat generation and distribution, participation in the nuclear power generation and regulated conventional generation) and the new power industry (i.e. e-mobility, distributed heat and electricity generation, power generation by prosumers, Smart Home, Smart City solutions and energy related services). The Company assumes that its investment potential in 2020-2025 will exceed PLN 6bn.

The **Enea Group** expects to spend PLN 26.4bn on investments in 2016–2030.



Szacowane nakłady inwestycyjne GK Enea w latach 2016-2030 [mln PLN, ceny bieżące]

Obszar	2016-2025	2026-2030
Wydobycie	3 712	2 080
Dystrybucja	9 501	5 193
Wytwarzanie	4 808	504
Pozostałe	403	153
Potencjał CAPEX*	6 176	5 320
Zwiększenie potencjału inwestycyjnego	3 200	2 500
ŁĄCZNIE GK ENEA	27 800	15 750

Podstawowy budżet inwestycyjny w wysokości 26,4 mld PLN	Basic investment budget of PLN 26.4bn
Szacowane nakłady inwestycyjne GK Enea w latach 2016-2030 [mln PLN, ceny bieżące]	Estimated capital expenditure of the Enea Group in 2016-2030 [PLN million, current prices]
Obszar	Area
Wydobycie	Production
Dystrybucja	Distribution
Wytwarzanie	Generation
Pozostałe	Other
Potencjał CAPEX*	CAPEX potential*
Zwiększenie potencjału inwestycyjnego	Investment potential increase
Łącznie GK Enea	Total Enea Group
Szacowane nakłady inwestycyjne GK Enea w latach 2016-2030 [mln PLN, ceny bieżące]	Estimated CAPEX of the Enea Group in 2016-2030 [PLN million, current prices]
W latach 2016-2025	In 2016-2025
W latach 2026-2030	In 2026-2030
Zwiększenie potencjału inwestycyjnego	Investment potential increase
Pozostałe	Other
Dystrybucja	Distribution
Potencjał CAPEX (kowenanty)*	CAPEX potential (covenants)*
Wytwarzanie	Generation
Wydobycie	Production
*Potencjał CAPEX zachowując wskaźnik dług netto/ EBITDA na bezpiecznym poziomie	*CAPEX potential with net debt/EBITDA maintained at a safe level.

Total expenditure on core and non-core investments of the **ENERGA Group** planned for 2016-2025 as part of the implementation the Strategy are approximately PLN 20.6bn, of which PLN 9.5bn is expected to be spent in 2016-2020.
In the Distribution Segment, expenditure of about PLN 13.0bn will be incurred in the period of 2016-2025. The investments will focus predominantly on the construction and modernisation of the grid in connection with improving the reliability of supply (PLN 5.0bn), connecting customers (PLN 4.5bn), increasing flows in the high-voltage grid, and connecting new electricity sources (PLN 1.2bn). Moreover, expenditure on smart metering and other elements of the roll-out of smart grids will amount to PLN 1.2 bn. Other expenditure in the Distribution

Segment will reach PLN 1.1bn. It is expected that as a result of the investment programme by 2025 all metering systems will be remotely operated systems (AMI meters) and that the requirements of the quality tariff in terms of SAIDI, SAIFI and connection times will be met.
Approximately PLN 6.1bn is earmarked for the Generation Segment for 2016-2025, including the following amounts in each sub-segment: PLN 4.1bn for commercial power plants, PLN 1.5bn for RES, and PLN 0.5bn for CHP. The principal project is to construct a modern Ostrołęka C power plant with a capacity of approximately 1,000 MWe. The baseline scenario assumes that the ENERGA Group will cover 50% of the expenditure and that the remaining expenditure will be incurred by a partner or partners. The ENERGA Group also intends to take advantage of the opportunities offered by the planned Capacity Market. In the RES area, the main long-term project is the construction of a hydro power plant with a capacity of about 80 MWe as part of the second step dam on the Vistula River, assuming that the construction permit will be obtained by 2020. The planned expenditure pertains exclusively to the power generation part of the facility. Other RES projects are expected to contribute to a 50 MWe capacity increase in 2020.

In 2017-2022, the PGNiG Group will spent more than PLN 34bn on capex projects, 13% of which will be earmarked for power and heat generation projects.

Construction projects related to environmental protection
In accordance with the 'Environmental Protection 2017' report prepared by the Central Statistics Office of Poland, the amount of spending on fixed assets for environmental protection purposes was PLN 6.517bn in 2016 and 15.069bn in 2015. Spending on environmental protection assets has remained at 0.4%–0.8% of GDP for several years. Spending on fixed assets for environmental protection purposes in Poland's overall capital expenditure has been around 5% over the past years (5% in 2010, 5.6% in 2015), and 2.7% in 2016). Despite a decline in 2016, an increase in environmental protection spending and higher investment in construction projects related to environmental protection should be expected in the coming years.
In accordance with the General Inspectorate for Environmental Protection's 2014 'State of the Environment in Poland' report, the share of equity in total expenditure on environmental protection projects is in the range of 40%–50%.
Dedicated funds (the National Fund for Environmental Protection and Water Management and provincial funds for environmental protection and water management) remain an important source of financing for such projects. In 2012, their share in total expenditure on fixed assets for environmental protection and water management purposes was 13.9% and 17.3% respectively. The funds are financed with charges for economic use of the environment, fines for violations of environmental requirements and repayment of loans advanced to investors. Environmental protection and water management projects are also financed from the budgets of counties and municipalities.
The share of government funding, taking into account all levels of financing (including the central and provincial governments), was close to 10% in the case of environmental protection projects and nearly 20% for water management projects.
In 2016, expenditure on wastewater management accounted for 5.3% of total spending on fixed assets for environmental protection purposes. The largest item of the expenditure were air pollution control and climate protection projects, accounting for 55.7%, while 2.7% was allocated to waste management projects.
In accordance with the Energy Regulatory Office, a trend to expand generation capacities has recently been seen in the heat segment, including the construction of 12 advanced municipal thermal waste treatment plants under the Infrastructure and Environment Operational Programme. The Group completed projects in Bydgoszcz, Białystok, Poznań, Konin and Kraków.
The Group executed a contract for the design, delivery and commissioning of two process lines for municipal waste incineration in Szczecin.
The units were commissioned and all expectations in terms of parameters were met by December 28th 2017. As a result, the General Contractor received the Take-Over Certificate. RAFAKO of the PBG Group was appointed as a subcontractor for this project.
As regards Environmental Protection Facilities, the Group is very active on the Polish and foreign markets and participates in tenders for projects aimed at reducing air emissions (of nitrogen oxides, sulphur oxides, dust) announced in the power sector. Projects currently in progress include Połaniec, Kozienice, Wilno and Jaworzno III. Projects scheduled for the coming months include Ostrołęka B, PGE Bełchatów, Połaniec, Kozienice, Chorzów, Dolna Odra as well as projects i the Czech Republic, Indonesia and India.

e. Competitive environment

The Group operates on a market dominated by large, mainly international players. On this market, contracts are typically awarded in tenders announced by clients, and projects can take as much as several years to complete.
Given the significance of factors such as experience, credentials, technological capabilities and financial resources in bidding for new contracts, the Group faces a limited number of competitors, typically companies specialising in EPC projects. In line with market requirements, the majority of the Group's projects are also implemented under EPC contracts.
The Group operates on the domestic and foreign markets. Given the limited number of projects and clients on each market, as well as specific contract requirements, contractors competing with the Group for projects in Poland (major foreign companies often have Polish branches) usually also bid for foreign contracts.
There is strong competition in terms of products and services which are part of EPC projects. Each company which PBG believes to be a significant competitor has proprietary technologies for the power sector, extensive credentials and many years of experience in delivering EPC contracts. While some of them specialise in specific types of steam generators, others offer a comparable range of products and have access to technologies allowing them to bid for contracts within the same product scope as the Group. Complete generation units are constructed by, among others, Alstom, Mitsubishi Hitachi Power Europe, Doosan Power Systems, COVEC, CNEEC, SEC, Bilfinger Berger Power Systems, Foster Wheeler and CNIM, all of which have proprietary energy generation technologies, as well as organisational capacities necessary to pursue EPC contracts. These companies, like the Group, offer products necessary to construct complete generating units that can run on any kind of fuel.
On the Polish market, there are several companies, such as WARBUD, BUDIMEX and POLIMEX, which have ambitions to enter or have entered the power construction industry by including EPC contracts into their offerings or, at the very least, by offering assembly and construction services. However, these companies do not have any technologies on a par with those offered by the Group. Developing capabilities necessary to design and manufacture equipment for the power sector is complicated and requires considerable expenditures over long periods of time. In their competition with the Group, these companies rely solely on the technologies and products supplied by the Group's direct competitors, including Alstom, Mitsubishi Hitachi Power Europe, Doosan Power Systems, Bilfinger Berger Power Systems, CNIM and many others.
With respect to specific products, such as steam generators, desulfurisation units, NOx reduction units and waste incineration facilities, the Group's major competitors again include Alstom, Mitsubishi Hitachi Power Europe, Doosan Power Systems, Bilfinger Berger Power Systems, Foster Wheeler and CNIM, as well as Andritz, Metso and Strabag.
The market is also seeing a number of Chinese companies, whose competitive edge consists primarily in lower prices and different − uncertain in the Company's opinion − technical specifications. The Group believes that clients on the Polish and European markets, including Turkey, perceive the offering of Chinese companies as unreliable, but the situation may well change if the Chinese competitors are able to maintain low prices while improving the technological quality of their products. Then such companies may become important players on the market of power sector technologies.
Furthermore, given the nature of large EPC contracts, it cannot be ruled out that the Group will partner with the above-mentioned companies for certain projects, especially those consisting in the supply of steam generators, their pressurised components or flue gas desulfurisation units.

4. Participation in projects on foreign markets

The Group entities have been present on foreign markets for several decades. Over the past two years, their activities on foreign markets have been significantly intensified due to the slowdown in new investments in both strategic segments of the Group's operations in Poland. Searching for new projects abroad is currently an essential part of the Group's operations.

Active support from the **Polish Development Fund** (**PFR**) as an ECA (Export Credit Agency) who has the ability to finance projects implemented by the Group is an advantage that allows the Group to expand its operations into projects that require financing.

The Group companies are also launching new products which are and will be successively rolled out in all markets. These include patented new technologies (e.g. the PM 1.0 and PM 2.5 agglomeration system) or new

RES products (photovoltaics, solar heating), as well as products for municipal waste disposal (e.g. gasification reactors) or hazardous waste disposal (rotary kilns). The PBG Group companies are gradually expanding their portfolios in order to mitigate the risk of non-diversified and limited product portfolios.

VIII. SEGMENT OPERATIONS

1. Natural gas and crude oil segment

PBG was the pioneer on the Polish market of a method of working on isolated sections of live gas pipelines, developed by T.D. Williamson. In 1999, PBG was the first company in Poland to design and deliver, as a general contractor, an unmanned gas production facility. It was also the first in Poland to design and construct a liquefied natural gas (LNG) regasification unit. The technologies developed and experience gained in the construction of the natural gas extraction facility are used by the Group companies in performing subsequent contracts.

The Group also provides general contractor services related to the construction or upgrade of fuel storage terminals with auxiliary infrastructure. In the construction and repair of storage tanks, it also works on live facilities. The Group is engaged in projects, commissioned by NATO, to modernise and expand existing storage facilities for propellants and lubricants, and to deliver and construct underground fuel tanks for F-16 jet fighters at military bases throughout Poland. The execution of military construction projects requires access to information marked as 'CLASSIFIED'. The Company is one of few contractors in Poland that meet the contracting authority's requirements in that respect.

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

Company	Type of activity
PBG S.A.	The Company gained unique experience, know-how and credentials by executing the historically largest contracts in this segment in Poland.
PBG oil and gas sp. z o. o.	The company provides end-to-end specialist contracting services for natural gas, crude oil, and fuel facilities.
Al Watanyiah Oil and Gas LLC	The company provides end-to-end specialist contracting services for natural gas, crude oil, and fuel facilities. A company dedicated to the Oman market.
PBG NBN Contracting	The company provides end-to-end specialist contracting services for natural gas, crude oil, and fuel facilities. A company dedicated to the Iranian market.

SALES

Services in the natural gas and crude oil segment are sold primarily in Poland. In 2017, the Group's largest customer in the segment was ZIOTOP.

Sale of services in the natural gas and crude oil segment

Revenue	2017 (PLN '000)	2016 (PLN '000)	Change (PLN '000)	Change (%)
Gas, oil and fuels	38,093	62,310	- 24,217	- 38.87

In 2017, the segment of natural gas, oil and fuels accounted for a little more than 2% of the Group's revenue. The segment's revenue in the period was PLN 38.1m, down on 2016, when it came close to PLN 62.3m. The largest running project in the reporting period was the development of the Radoszyn field.

2. Power construction

PBG GROUP COMPANIES IN THE POWER CONSTRUCTION SEGMENT

Company	Type of activity
RAFAKO S.A.	The company offers general contractor services for fossil fuel-fired power generating units, specialising in boiler islands comprising a steam generator and flue gas treatment systems, as

	well as waste incineration and biomass combustion plants. It provides engineering design and construction services for a wide range of steam generators fired with lignite, hard coal, oil, gas, or a combination of these fuels, including conventional, supercritical, fluidised bed, and stoker-fired boilers. Additionally, for a number of years the company has manufactured waste incinerators, biomass-fired generators, and heat recovery boilers. The offering is complemented by a variety of maintenance services – from diagnostics to repairs and overhauls, supply of replacement parts, to comprehensive upgrades of steam generators with auxiliaries. The company designs, manufactures and installs turn-key environmental protection solutions, including flue gas desulfurisation, NOx reduction and dust collector systems.
RAFAKO ENGINEERING Sp. z o. o.	Construction and process design, urban planning, power and gas infrastructure maintenance.
RAFAKO ENGINEERING SOLUTION doo	Process design, construction, industry, and environmental protection consultancy and supervision.
RAFAKO Hungary Kft.	Equipment assembly in the power and chemical industries.
ENERGOTECHNIKA ENGINEERING Sp. z o. o.	Engineering activities and related technical consultancy.
E001RK Sp. z o.o.	SPV responsible for generating units construction in Opole.
E003B7 Sp. z o.o.	SPV responsible for generating units construction in Jaworzno.
RENG-NANO Sp. z o.o.	Regeneration of SCR catalysts necessary for denitrification of gases, including replacement, diagnostics, servicing and testing of catalysts.

SALES

The Group's services in the power construction segment are sold primarily in Poland. However, foreign contracts are also an important contributor, both for services and for delivery of power or environmental protection equipment. The Group's main customers are state-controlled businesses, responsible for Poland's energy security strategy (TAURON, ENEA).

Sale of services in the power construction segment

Revenue	2017 (PLN '000)	2016 (PLN '000)	Change (PLN '000)	Change (%)
Power construction	1,811,392	1,873,387	- 61,995	- 3.31

In 2017, power construction services contributed nearly 97% to the Group's total revenue. Compared with the same period of the previous year, revenue declined by 3%, to PLN 1.8bn at the end of 2017. Power construction projects will be a leading driver of the PBG Group's business in the coming years.

3. Other activities

In addition to the companies listed above, there are other Group companies operating in business areas not described above.

Company	Type of activity
PBG Dom Sp. z o.o.	Property developer. The company is responsible for managing and optimising the Group's real property resources (including buildings, structures and land), which involves management and commercialisation of office space, residential buildings and hotels. Also, the company itself owns land for investment projects.
PBG ERIGO Sp. z o.o.	Comprehensive management of property development projects, including production planning and preparation, project execution, and sales. PBG Erigo provided services principally to the Group's property development subsidiaries. To date, the company has executed a number of turn-key residential projects, including: Złotowska 51, Quadro House, City Development, and Ecoria stage 1. PBG Erigo also managed rental apartments for the consortium working on the LNG terminal project in Świnoujście. In the hotel segment of the commercial property market, the company managed the Hampton by Hilton hotel in Świnoujście (having first supervised its redesign to Hilton's standards). In the office segment, PBG Erigo managed and participated in the commercialisation of the Skalar office building, located at ul. Górecka 1 in Poznań.
Górecka Projekt Sp. z o.o.	The company executed the turn-key construction of Skalar Office Center at the intersection of Hetmańska and Górecka Streets in Poznań, together with auxiliary amenities, including car parks. Górecka Projekt is the owner of Skalar Office Center and the car parks forming part of the project.

PBG DOM INVEST X Sp. z o.o. Invest I S.K.A.	The company's business consists in buying and selling residential property and leasing residential units under long- and short-term rental contracts (apartments in Świnoujście).
PBG DOM INVEST X sp. z o.o. Złotowska 51 S.K.A.	The company carried out a residential development project in Złotowska Street in Poznań. Currently, the company's business consists in buying and selling residential property and leasing residential units under long-term rental contracts (apartments in Świnoujście).
PBG ERIGO Projekt Sp. z o.o. QUADRO House S.K.A.	The company carried out a residential development project in Smardzewska Street in Poznań. Currently, the company's business consists in buying and selling residential property and leasing residential units under long-term rental contracts (apartments in Świnoujście).
ECORIA Sp. z o.o.	The company completed phase I of a residential development project at ul Karpia 25 in Poznań.
PBG ERIGO Projekt Sp. z o.o. ECORIA II S.K.A.	The SPV completed the planned sale of an investment property.
CITY DEVELOPMENT Sp. z o.o.	Special Purpose Vehicle operated as a residential property developer in Gdańsk.
PBG ERIGO PROJEKT Sp. z o.o. Strzeszyn S.K.A.	The SPV completed the planned sale of an investment property.
PBG ERIGO Projekt Sp. z o.o. Platan Hotel S.K.A.	The company constructed a 3-star hotel in Świnoujście (Hampton by Hilton Świnoujscie). Currently, it provides hospitality services under a franchise agreement with Hilton International Franchisor Corporation.
PBG Erigo Projekt sp. z o.o. Malta Hotel S.K.A.	Property developer. PBG Erigo Projekt owns a large land property for investment projects in Termalna Street in Poznań, near Lake Malta.
PBG DOM INVEST X Sp. z o.o.	General partner in two property development special purpose vehicles (partnerships limited by shares).
PBG ERIGO PROJEKT Sp. z o.o.	General partner in five property development special purpose vehicles (partnerships limited by shares).
PBG DOM Invest Limited	The company was established as part of the tax optimisation strategy for the Group's property development subsidiaries.
ERIGO IV Sp. z o.o.	General partner in ERIGO IV Sp. z o.o. s.k.a.
ERIGO IV Sp. z o.o. s.k.a., ERIGO V Sp. z o.o.	Special purpose vehicles to be phased out.
Galeria Kujawska Nova Sp. z o.o.	Special purpose vehicle which was general partner for a company running a commercial development project in Bydgoszcz. Currently, the company is planned to be phased out.
PGL-DOM Sp. z o.o.	The company manages the properties of the companies located in Racibórz.
PBG Operator Sp. z o.o.	Special purpose vehicle.
PBG UKRAINA Public Joint-Stock Company	The company was established to research the Ukrainian market and forge contacts with providers of construction and related services. At present, the company is dormant.
Wschodni Invest Sp. z o.o.	The company owns and manages Energopol-Ukraina, a property developer.
PBG AVATIA Sp. z o.o.	In 2017, the company was dormant. On March 21st 2018, the court registered the merger of the company with PBG S.A. as the acquirer. Historically, the company's business consisted in the provision of IT and control support services.

SALES

Other services, primarily in other construction, including specialist, industrial and residential construction not related to the Group's core business, are provided throughout Poland.

Sale of other services

Revenue	2017 (PLN '000)	2016 (PLN '000)	Change (PLN '000)	Change (%)
Other (other services: general construction, property development, hotel and rental of office space)	19,608	51,317	- 31,709	- 61.79

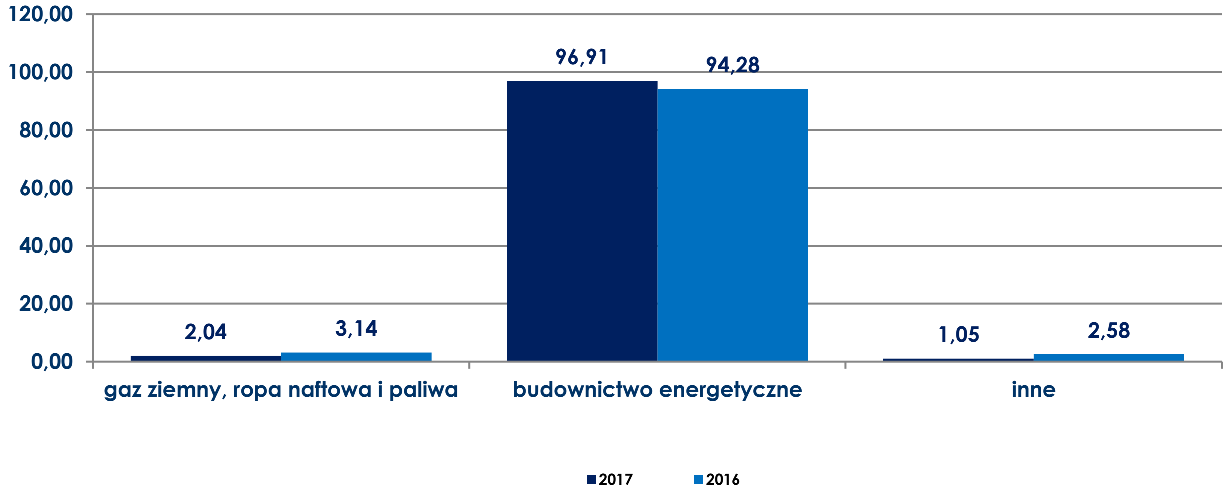
In 2017, the share of the 'Other' segment in the Group's total revenue was a mere 1%.

Entities sales to which, or purchases from which, reached at least 10% of the Group'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 Group's total revenue included:
- customers: Tauron Wytwarzanie S.A.,
- suppliers: none.

SHARES OF THE GROUP'S SEGMENTS IN REVENUE

Shares of the Group's segments in 2017 and 2016 revenue



Gaz ziemny, roapa naftowa i paliwa	Gas, oil and fuels
Budownictwo energetyczne	Power construction
inne	Other

SECTION IV: REPORT ON THE PBG GROUP'S OPERATIONS IN 2017

I. AGREEMENTS AND EVENTS SIGNIFICANT TO THE GROUP'S BUSINESS

Agreements/contracts considered material by the Company and its subsidiary RAFAKO 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**

<table>
<tr><th>Contract</th><th>Parties</th><th>Date</th><th>Key information about the contract</th></tr>
<tr><td>Construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant - Power Plant II: steam boiler, turbine generator set, main building, electrical and I&C systems.</td><td>Consortium comprising RAFAKO S.A. and Mostostal Warszawa S.A.

Employer:
Tauron Wytwarzanie S.A.</td><td>Mar 1 2017</td><td>Annex No. 5 to the Contract, executed by the Consortium on the terms and conditions which included:
- raising the Contract Price by PLN 71.05m (exclusive of VAT);
- extending the project completion deadline by</td></tr>
<tr><td colspan="4">For more information, see:
RAFAKO Current Report No. 6/2017:
http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_6_2017_Aneks_Nr_5_do_umowy_z_Tauron_Jaworzno_.pdf
RAFAKO Current Report No. 7/2017:
http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_7_2017_podpisanie_Aneksu_Nr_5_do_umowy_z_Taur.pdf</td></tr>
<tr><td>Construction of a biomass-fired co-generation unit consisting of fluidised bed boilers, biomass storage and feeder systems, and a flue gas treatment system</td><td>RAFAKO S.A.

Employer:
JSC VILNIAUS KOGENERACINĖ JĖGAINĖ</td><td>Jun 1 2017</td><td>Commencement of work under the Contract based on the Notice to Proceed from the Employer.</td></tr>
<tr><td colspan="4">For more information, see: RAFAKO Current Report No. 14/2017:
http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_14_2017_NTP_Wilno.pdf
referring to
RAFAKO Current Report No. 28/2016:
http://www.rafako.com.pl/pub/File/raporty_biezace/2016/RB_28_zawarcie_znacz_cej_umowy_warunkowej_z_JSC_.pdf</td></tr>
<tr><td>Construction of generating units No. 5 and 6 at the Opole Power Plant</td><td>Consortium comprising:
RAFAKO S.A., Mostostal Warszawa S.A., Polimex-Mostostal S.A. and GE Power
Employer:
Górnictwo i Energetyka Konwencjonalna S.A.</td><td>Sep 26 2017</td><td>Submission of a proposal to the Employer by the Consortium to revise the construction schedule for generating units No. 5 and 6 at the Opole Power Plant due to technical and organisational issues.</td></tr>
<tr><td colspan="4">For more information, see: RAFAKO Current Report No. 33/2017:
https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_33_2017_OPOLE_ZMIANA_HARMONOGRAMU.pdf
referring to
RAFAKO Current Report No. 18/2012: https://www.rafako.com.pl/pub/File/raporty_biezace/2012/RB_2012_18.pdf</td></tr>
<tr><td>Design and construction of a fuel storage depot in Rashaant, Mongolia</td><td>Consortium comprising:
RAFAKO S.A. and Gmax Group sp. z o.o.
Employer:
National Trading & Transport Group Co Ltd. (NTT Group), Sukhbaatar distric, Ulaanbaatar City, Mongolia</td><td>Oct 16 2017</td><td>Selection of best bid and execution of conditional contract with the total value of EUR 46,968,403 (VAT exclusive). Conditions precedent for the Contract include making an advance payment by the Employer and obtaining financing.</td></tr>
<tr><td colspan="4">For more information, see: RAFAKO Current Report No. 35/2017:</td></tr>
<tr><td>'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of a supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II'</td><td>Polimex Energetyka sp. z o.o.

Employer:
E003B7 sp. z o.o.</td><td>Oct 31 2017</td><td>An arrangement entered into by the parties providing for the termination of the 'Agreement for the assembly of the boiler's pressurised section, performance of tests and participation in the start-up' and for the assumption by E003B7of the rights and obligations under agreements between</td></tr>
<tr><td colspan="4">For more information, see: RAFAKO Current Report No. 40/2017:
https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_40_2017_Porozumienie_E003B7_Polimex.pdf
referring to
RAFAKO Current Report No. 24/2016:</td></tr>
</table>

Construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia	Consortium comprising: RAFAKO S.A. and PT. Rekayasa Industri Employer: PT. PLN (PERSERO)	**Aug 16 2017** **Dec 29 2017** **Feb 21 2018**	1. Selection of bid submitted by Consortium, 2. Signing a conditional agreement with the Employer for the total amount of EUR 70.28m, USD 18.86m, and IDR 1,590,700,000,000.00 (approximately PLN 850.3m, exclusive of tax), including RAFAKO's consideration of EUR 70.28m, 3. Fulfilment of a condition precedent, i.e. execution of a credit facility agreement by the Employer with BGŻ, secured by KUKE.
For more information, see: RAFAKO Current Report No. 27/2017:[https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_27_2017_OFERTA_LOMBOK.pdf;](https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_27_2017_OFERTA_LOMBOK.pdf)			

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

Event	Parties	Date	Important information
Issue of 3,871,566 Series B, C, D, E, F, G, H and I PBG Bonds with a nominal value of PLN 100 each	PBG S.A.	**Feb 27 2017**	Introduction of bearer Bonds of PBG S.A. (series B–I) to the Catalyst alternative trading system. **For more information, see: PBG Current Report No. 10/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/10-2017-podjecie-przez-gpw-uchwaly-w-sprawie-wprowadzenia-do-alternatywnego-systemu-obrotu-na-catalyst-obligacji-pbg-s-a.html**
		Mar 10 2017	Date of the first listing of Series B–I bearer Bonds of PBG S.A. in the Catalyst alternative trading system. **For more information, see: PBG Current Report No. 12/2017:http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2017-wyznaczenie-przez-gpw-pierwszego-dnia-notowania-obligacji-pbg.html**
Issue of 852,910 Series B1, C1, D1, E1, F1, G1, H1 and I1 Second Issue Bonds of PBG with a nominal value of PLN 100.00 each (series B1 Bonds matured before the date of admission of the Bonds to trading, i.e. on March 31st 2017)	PBG S.A.	**Feb 10 2017**	Summary of bond subscription: invitations to acquire the bonds were directed to the Company's eligible creditors classified under the arrangement into Group 1, Group 3, Group 4 and Group 5, in partial satisfaction of their claims under the arrangement, on the following terms: 1) subscription period: December 30th 2016 – February 9th 2017; 2) allotment date: February 9th 2017; 3) issue date: February 10th 2017; 4) number of second issue bonds available for subscription: 1,180,488; 5) number of second issue bonds covered by subscription orders and allotted: 852,910; 6) subscription price: PLN 100.00 per bond; 7) number of entities that subscribed for the bonds: 6 entities, including one Group 1 entity, three Group 5 entities, one entity classified in both Group 1 and Group 4, as well as one Group 3 entity (the Groups as defined under the arrangement); 8) number of entities that were allotted the bonds: 6; 9) the Company did not conclude any underwriting agreement with respect to the bonds; 10) subscription value (product of the number of offered securities and the issue price): PLN 118,048,800.00. **For more information, see: PBG Current Report No. 6/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/6-2017-podsumowanie-subskrypcji-obligacji-drugiej-emisji.html**
	PBG S.A. RAFAKO S.A.	**Feb 10 2017**	Acquisition of Bonds by RAFAKO S.A. of February 10th 2017. **For more information, see: PBG Current Report No. 7/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/7-2017-zawiadomienie-o-transakcji-na-papierach-wartosciowych-spolki.html**
	PBG S.A.	**Apr 6 2017**	Introduction of 849,300 Second Issue bearer Bonds of PBG S.A. (series C1–I1) to the Catalyst alternative trading system. **For more information, see: PBG Current Report No. 16/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/16-2017-podjecie-przez-gpw-uchwaly-w-sprawie-wprowadzenia-do-alternatywnego-systemu-obrotu-na-catalyst-obligacji-pbg-s-a.html**
		Apr 20 2017	Date of the first listing of PBG's Second Issue Bonds in the Catalyst alternative trading system. **For more information, see: PBG Current Report No. 18/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/18-2017-wyznaczenie-przez-gpw-pierwszego-dnia-notowania-obligacji-pbg.html**
Sale and leaseback agreement concerning a property located in Świnoujście, on which a hotel building is erected	PBG Erigo Projekt Sp. z o.o. Platan Hotel S.K.A.; Financing Party: mLeasing Sp. z o.o.	**Apr 6 2017**	Conclusion by a Subsidiary and the Financing Party of a contract for property lease and a sale agreement whereby the Subsidiary sold the Property to the Financing Party. Amount of lease financing – PLN 20,648,550.00. The Lease Agreement was concluded for a period of 144 months. The selling price of the Property was set at PLN 31,767,000.00 (VAT exclusive) – PLN 20,648,550.00 was paid within five business days and transferred to the Company's account.
For more information, see: PBG Current Report No. 17/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/17-2017-zawarcie-umowy-leasingu-zwrotnego-nieruchomosci-przez-spolke-zalezna.html			

Multi-purpose credit facility agreement	RAFAKO S.A. Lender PKO BP S.A.	**Jun 30 2017**	Execution of an annex to a multi-purpose credit facility agreement: A. specifying the amount of the working capital revolving facility, i.e.: a) from August 31st 2017 to September 29th 2017, up to PLN 70m, b) from September 30th 2017, up to PLN 80, to finance current liabilities arising in the course day-to-day operations, with the proviso that the total amount drawn under the facility may not exceed PLN 200m. B. extending the term and maturity date of the facility until June 30th 2018.
For more information, see: RAFAKO Current Report No. 24/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_24_2017_aneks_nr_26_do_umowy_LKW_z_PKO.pdf			
Agreement for the provision of bank and insurance guarantees for the Jaworzno contract	E003B7 Sp. z o.o. Financing Party: PZU SA, PKO BP SA, BGK, mBank S.A.	**Nov 20 2017**	Execution of an annex to the agreement for the provision of bank and insurance guarantees, aimed at extending the term of the Jaworzno Contract and increasing the Contract price.
For more information, see: RAFAKO Current Report No. 57/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_57_2017_Zmiana_umowy_gwarancji_E003B7_Jaworzn.pdf **referring to** **RAFAKO Current Report No. 21/2014:** https://www.rafako.com.pl/pub/File/raporty_biezace/2014/RB%2021_2014.pdf **RAFAKO Current Report No. 18/2014:** https://www.rafako.com.pl/pub/File/raporty_biezace/2014/RB%2018_2014.pdf **RAFAKO Current Report No. 3/2016:** https://www.rafako.com.pl/pub/File/raporty_biezace/2016/RB_3_2016_wejscie_mBank_FINAL1.pdf **RAFAKO Current Report No. 6/2017:** https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_6_2017_Aneks_Nr_5_do_umowy_z_Tauron_Jaworzno_.pdf			

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

Event	Event date and description
Changes in PBG S.A.'s share capital Information on the shares	Definition, by the Extraordinary General Meeting of PBG S.A. held on January 16th 2017, of the terms of subscription for Series I shares in the exercise of subscription warrants by extending the list of cases where holders of subscription warrants would be entitled to exercise their rights, and adoption of a resolution to amend Art. 9.4, Art. 37.7.c and Art. 50.8 of the Company's Articles of Association.
	For more information, see: PBG Current Report No. 1/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/1-2017-uchwaly-podjete-przez-nadzwyczajne-walne-zgromadzenie-spolki-pbg-s-a-w-dniu-16-stycznia-2017-roku.html
	Acquisition by Jerzy Wiśniewski of 45,000,000 Subscription Warrants and the exercise of 6,459,105 Subscription Warrants through the acquisition of 6,459,051 Series I Shares – increase of the Company's share capital to PLN 15,543.298.50.
	For more information, see: PBG Current Report No. 3/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/3-2017-dojscie-do-skutku-emisji-serii-i-oraz-podwyzszenie-kapitalu-zakladowego-spolki.html
	Becoming aware, on May 30th 2017, following a review of the Company's records in the National Court Register, that an appeal had been filed against the decision of a court clerk of the District Court for Poznań – Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, dated November 10th 2016, on registration of changes in PBG's share capital and Articles of Association. No copy of the appeal was served on the Company. On June 7th 2017, the Court upheld its decision on the entry made in the National Court Register on November 10th 2016. On June 17th 2017, the Company was notified of an appeal lodged against the decision issued on June 7th 2017.
	For more information, see: PBG Current Report No. 22/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/22-2017-zaskarzenie-postanowienia-referendarza-sadowego-dotyczacego-rejestracji-podwyzszenia-kapitalu-zakladowego-pbg-s-a.html **For more information, see: PBG Current Report No. 28/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/28-2017-utrzymanie-w-mocy-postanowienia-referendarza-sadowego.html** **For more information, see: PBG Current Report No. 37/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/37-2017-doreczenie-apelacji-od-postanowienia-sadu-z-dnia-7-czerwca-2017-roku.html**
	Court registration, on June 13th 2017, of an increase in the Company's share capital to PLN 15,954,057.70 following the issue of 20,537,960 Series H shares.
	For more information, see: PBG Current Report No. 8/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/8-2017-oswiadczenie-zarzadu-w-przedmiocie-podwyzszenia-kapitalu-pbg.html **PBG Current Report No. 23/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/23-2017-zarejestrowanie-przez-sad-rejestrowy-zmian-statutu.html**
	Approval, on June 23rd 2017, by the Polish Financial Supervision Authority of the issue prospectus prepared in connection with seeking the admission and introduction of 776,948,780 Series H registered shares and 12,806,811 Series I ordinary bearer shares to trading on the main market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).
	For more information, see: PBG Current Report No. 29/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/29-2017-zatwierdzenie-przez-komisje-nadzoru-finansowego-prospektu-emisyjnego-dla-akcji-serii-h-i-serii-i.html
	Introduction to trading on the main market of the WSE of 3,740,000 Series A shares and conversion into book-entry form and introduction to trading on the main market of the WSE of 776,948,780 Series H shares and 12,806,811 Series I shares on August 8th 2017. Thus, 804,050.591 ordinary bearer shares in PBG S.A. were floated on the stock exchange on that date.
	For more information, see: PBG Current Report No. 31/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/31-2017-podjecie-uchwal-dotyczacych-wprowadzenia-akcji-pbg-do-obrotu.html **PBG Current Report No. 32/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2017-uchwala-zarzadu-kdpw-w-sprawie-asymilacji-akcji-pbg-serii-a.html** **PBG Current Report No. 33/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/33-2017-komunikat-dzialu-operacyjnego-kdpw-w-sprawie-rejestracji-akcji-pbg-serii-a.html**
	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.
	For more information, see: PBG Current Report No. 27/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/27-2017-oswiadczenie-zarzadu-w-przedmiocie-podwyzszenia-kapitalu-pbg.html **PBG Current Report No. 3/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/3-2018-podwyzszenie-kapitalu-zakladowego-pbg.html**
	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.
	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

	A sharp and expected decline of the PBG share price, following the introduction of the shares to trading on August 8th 2017, to PLN 0.44 per share, down from PLN 2.86 per share at the close of trading on August 7th 2017, that is by almost 86%. The listing of Series H shares satisfied the condition for the entry into effect of agreements concluded between Jefferies International Limited and several of the Company's creditors which had acquired Series H shares, as announced by the Company in Current Report No. 49/2016 of November 19th 2016, based on a notification from Jefferies International Limited. Pursuant to the agreements, Jefferies International Limited was gradually acquiring PBG shares between August 8th and August 21st 2017, then partly selling them on the market and partly transferring them to VTT Fund Limited, which in turn sold the shares in block transactions out of a regulated market. Following the transactions executed in the above period, at the close of trading on August 21st 2017 both Jefferies International Limited's and VTT Fund Limited's equity interest in PBG fell below 5%. Thus, the PBG free float shares represent 54.34% of the Company's share capital.
	For more information, see: PBG Current Report No. 35/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/35-2017-otrzymanie-zawiadomienia-w-trybie-art-69-ust-1-pkt-2-w-zwiazku-z-art-69b-ust-5-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie.html **PBG Current Report No. 36/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/36-2017-otrzymanie-zawiadomienia-w-trybie-art-69-ust-1-pkt-2-i-art-69-ust-2-pkt-1-lit-a-w-zwiazku-z-art-69b-ust-5-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie.html **PBG Current Report No. 38/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/38-2017-otrzymanie-zawiadomienia-w-trybie-art-69-ust-1-pkt-1-w-zwiazku-z-art-69b-ust-5-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie.html **PBG Current Report No. 39/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/39-2017-otrzymanie-zawiadomienia-w-trybie-art-69-ust-1-pkt-2-w-zwiazku-z-art-87-ust-1-pkt-5-ustawy-o-ofercie.html **PBG Current Report No. 40/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/40-2017-otrzymanie-zawiadomienia-w-trybie-art-69-ust-1-pkt-2-i-art-69-ust-2-pkt-1-lit-a-w-zwiazku-z-art-69b-ust-5-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie.html **PBG Current Report No. 41/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/41-2017-otrzymanie-zawiadomienia-w-zwiazku-z-art-69-ust-1-pkt-2-w-zwiazku-z-art-87-ust-1-pkt-5-ustawy-o-ofercie.html **PBG Current Report No. 42/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/42-2017-otrzymanie-zawiadomienia-w-zwiazku-z-art-69-ust-1-w-zwiazku-z-art-69b-i-w-zwiazku-z-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie-korekta.html **PBG Current Report No. 43/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/43-2017-otrzymanie-zawiadomienia-w-trybie-art-69-ust-1-pkt-2-w-zwiazku-z-art-69b-ust-5-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie.html **PBG Current Report No. 44/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/44-2017-otrzymanie-zawiadomienia-w-zwiazku-z-art-69-ust-1-w-zwiazku-z-art-69b-i-w-zwiazku-z-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie-korekta.html **PBG Current Report No. 46/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/46-2017-otrzymanie-zawiadomienia-w-zwiazku-z-art-69-ust-1-w-zwiazku-z-art-69b-i-w-zwiazku-z-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie.html **PBG Current Report No. 47/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/47-2017-otrzymanie-zawiadomienia-w-zwiazku-z-art-69-ust-1-w-zwiazku-z-art-69b-i-w-zwiazku-z-art-87-ust-1-pkt-5-oraz-art-87-ust-5-ustawy-o-ofercie.html
Submission of final asset distribution plan for Strateg Capital Sp. z o.o.	On March 21st 2017, the PBG Management Board was notified that the bankruptcy administrator of Strateg Capital Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy) submitted a final plan for distribution of the company's assets. PBG, as one of the creditors, is to receive PLN 19 thousand.
Settlement with ENERGA Elektrownia Ostrołęka S.A. concerning the contract for NOx reduction in OP-650 boilers No. 1, 2 and 3 at the Ostrołęka Power Plant B	Execution, on May 24th 2017, by a consortium comprising RAFAKO S.A. and OMNIS S.A., of a settlement agreement with ENERGA Elektrownie Ostrołęka S.A. concerning liquidated damages claimed by the employer. Under the settlement agreement, RAFAKO undertook to pay PLN 1,958,480.32.
For more information, see: RAFAKO Current Report No. 12/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_12_2017_ugoda_z_ENERGA.pdf **RAFAKO Current Report No. 15/2017:** https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_15_2017_zatwierdzenie_ugody_z_ENERGA.pdf	
Merger of PBG S.A. as the Acquirer and PBG AVATIA Sp. z o.o. as the Acquiree	On October 20th 2017, the Company's Management Board decided to merge the Company with its subsidiary PBG AVATIA Sp. z o.o. PBG holds 100% of shares in PBG AVATIA. The merger will be effected in accordance with Art. 492.1.1. and Art. 515.1 in conjunction with Art. 516 of the Commercial Companies Code of September 15th 2000, i.e. through the transfer of all assets of the Acquiree to the Acquirer (merger by acquisition), without increasing the Company's share capital, without exchanging the Acquiree's shares for the Acquirer's shares, and without making amendments to the Acquirer's Articles of Association. PBG AVATIA provided IT services to PBG Group companies. In the Management Board's opinion, the merger of PBG AVATIA with PBG will help to optimise the PBG Group's costs and streamline its organisational structure.
	For more information, see: PBG Current Report No. 49/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/49-2017-podjecie-przez-zarzad-decyzji-o-zamiarze-polaczenia-ze-spolka-zalezna.html
	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.**

	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
Reorganisation of RAFAKO S.A.	Completion, on January 31st 2017, of the voluntary redundancy programme for RAFAKO S.A.'s employees, launched on December 1st 2016. The total number of RAFAKO S.A.'s employees who benefited from the programme is 128, resulting in obligations of approximately PLN 7.7m.
	For more information, see: RAFAKO Current Report No. 1/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_1_2017_podsumowanie_PDO_dla_pracownik_w_RAFAK.pdf
	Adoption by the RAFAKO Management Board, on June 21st 2017, of a decision to launch another stage of the reorganisation, to be completed by January 31st 2018, with the aim of adjusting the level and cost of staff to market conditions in the area of RAFAKO S.A.'s business. The reorganisation will cover the employment structure, with a possibility of outsourcing some services, based on details agreed by the Management Board with the trade unions and key personnel.
	For more information, see: RAFAKO Current Report No. 17/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_17_2017_reorganizacja_kolejny_etap.pdf
	On September 8th 2017, the RAFAKO management board announced its decision to reduce headcount by way of collective redundancies. The process will continue from the end of consultations with the trade unions until March 31st 2018, and is estimated to bring annual savings in the region of PLN 25m starting from the second quarter of 2018. As currently envisaged, the collective redundancies will affect up to 325 employees, i.e. 18% of RAFAKO S.A.'s total workforce as at August 30th 2017.
	For more information, see: RAFAKO Current Report No. 30/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_30_2017_zwolnienia_grupowe_FINAL.pdf
	Execution, on September 28th 2017, of an agreement with trade unions active at RAFAKO S.A., which took effect on October 2nd 2017. Collective redundancies will be carried out by July 31st 2018, and no more than 276 employees will be laid off.
	For more information, see: RAFAKO Current Report No. 34/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_34_2017_POROZUMIENIE_ZZ_28_09_2017.pdf
Increase of RAFAKO S.A.'s share capital through the issue of Series K shares	Execution by RAFAKO, on July 26th 2017, of a letter of intent with Fundusz Inwestycji Polskich Przedsiębiorstw, Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, and Polski Fundusz Rozwoju S.A., expressing the parties' willingness to cooperate in implementing joint strategic projects and confirming their intention to invest in RAFAKO S.A. The letter of intent was executed following the decision made by the Management Board on June 6th 2017 to consider potential new financing options, including both debt and equity financing, and to seek an investor willing to recapitalise RAFAKO S.A. in exchange for its shares.
	For more information, see: RAFAKO Current Report No. 25/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_25_2017_ujawnienie_opoznionej_informacji_pouf.pdf **PBG Current Report No. 30/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/30-2017-stanowisko-spolki-dotyczace-planowanego-walnego-zgromadzenia-i-podwyzszenia-kapitalu-zakladowego-rafako-s-a.html **PBG Current Report No. 34/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/34-2017-stanowisko-spolki-dotyczace-planowanego-walnego-zgromadzenia-i-podwyzszenia-kapitalu-zakladowego-rafako-s-a-informacja-uzupelniajaca.html
	Adoption, on September 12th 2017, by the reconvened Extraordinary General Meeting of RAFAKO S.A. (originally convened for August 29th 2017), of a resolution to grant a shareholder holding no less than 33% of RAFAKO S.A.'s share capital personal powers to appoint a majority of members of the RAFAKO S.A. Supervisory Board for a period of three years as of the increase in the company's share capital through the issue of Series K shares (which allows PBG to fully consolidate the company), and to increase RAFAKO S.A.'s share capital by no less than PLN 2 and no more than PLN 85,000,000 through the issue of no fewer than 1 and no more than 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 per share.
	For more information, see: RAFAKO Current Report No. 26/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_26_2017_zwolanie_NWZ_na_29_08_2017.pdf **RAFAKO Current Report No. 29/2017:** http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_29_2017_Uchwa_y_NWZ_z_wynikami_g_osowania.docx.pdf **RAFAKO Current Report No. 31/2017:** http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_31_Uchwa_y_NWZ_12_09_2017_po_przerwie.pdf

	Announcement by the PBG Management Board, on July 26th 2017, of the Company's position on RAFAKO's plans, including PBG's intention to endorse the resolutions to increase RAFAKO's share capital and amend its Articles of Association, and PBG's intention to dispose of its pre-emptive rights to new RAFAKO Shares in the increased share capital of RAFAKO to an interested investor or investors. The PBG Management Board announced that despite a possible reduction of PBG's interest in RAFAKO, PBG would remain the main shareholder in RAFAKO holding no less than 33% of RAFAKO's share capital and total voting rights at its general meeting (directly or indirectly through Multaros) and exerting significant influence over RAFAKO's strategy. On August 11th 2017, the PBG Management Board confirmed that PBG will retain control of RAFAKO (by fully consolidating the company in the consolidated financial statements of the PBG Group) if the proposed amendments to RAFAKO's Articles of Association are accepted and, consequently, will maintain the ability to direct its key activities, which also means the practical ability to appoint the majority of members of RAFAKO's Supervisory Board, whose responsibilities include appointing members of the Management Board of RAFAKO.
	For more information, see: PBG Current Report No. 30/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/30-2017-stanowisko-spolki-dotyczace-planowanego-walnego-zgromadzenia-i-podwyzszenia-kapitalu-zakladowego-rafako-s-a.html **PBG Current Report No. 34/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/34-2017-stanowisko-spolki-dotyczace-planowanego-walnego-zgromadzenia-i-podwyzszenia-kapitalu-zakladowego-rafako-s-a-informacja-uzupelniajaca.html
	Agreement, reached on October 24th 2017, by PBG and FUNDUSZ INWESTYCJI POLSKICH PRZEDSIĘBIORSTW FUNDUSZ INWESTYCYJNY ZAMKNIĘTY AKTYWÓW NIEPUBLICZNYCH, managed and represented by Towarzystwo Funduszy Inwestycyjnych BGK S.A., on the terms of sale by PBG and its subsidiary Multaros Trading Company Limited of Cyprus of individual pre-emptive rights to series K shares in RAFAKO S.A. Having agreed on the terms of the sale, PBG, Multaros, and FIPP FIZ AN entered into a cooperation agreement concerning RAFAKO.
	For more information, see: PBG Current Report No. 50/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/50-2017-uzgodnienie-warunkow-przeprowadzenia-transakcji-sprzedazy-jednostkowych-praw-poboru-akcji-serii-k-rafako-s-a-i-zawarcie-umowy-o-wspolpracy-dotyczacej-rafako.html
	Execution, on November 8th 2017, by MTC and Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział – Dom Maklerski PKO Banku Polskiego of Warsaw and Trigon Dom Maklerski S.A. of Kraków of an agreement on placement of individual pre-emptive rights to acquire Series K shares in RAFAKO S.A. and, on November 9th 2017, of a pricing annex to the above agreement, setting the Selling Price at PLN 0.10 (ten grosz) per Individual Pre-Emptive Right. Number of IPRs: 17,254,649. Upon conclusion of the pricing annex, on November 9th 2017, MTC and the Buyers executed sale transactions for the IPRs under the terms described above, for a total amount of PLN 1,725,464.90.
	For more information, see: PBG Current Report No. 54/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/54-2017-zawarcie-przez-spolke-zalezna-od-pbg-umowy-o-plasowanie-jednostkowych-praw-poboru-akcji-serii-k-rafako-s-a.html **PBG Current Report No. 55/2017:** http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/55-2017-zawarcie-umow-w-przedmiocie-ustalenia-ceny-oraz-sprzedazy-jednostkowych-praw-poboru-akcji-serii-k-rafako-s-a-i-przeprowadzenia-transakcji-sprzedazy-w-tym-zakresie.html
	Determination, on October 24th 2017, by the RAFAKO Management Board of the issue price of Series K ordinary bearer shares at PLN 4 per Offer Share; determination that one Individual Pre-Emptive Right carries the right to subscribe for 0.50040033204 of an Offer Share, and that 1,99839995294 of individual pre-emptive rights carries the right to subscribe for 1 (one) Offer Share.
	For more information, see: RAFAKO Current Report No. 36/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/20171024_RB_36_2017_CENA_EMISYJNA_AKCJI.pdf **referring to** **RAFAKO Current Report No. 31/2017:** http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_31_Uchwa_y_NWZ_12_09_2017_po_przerwie.pdf
	Approval by the PFSA and release, on November 3rd 2017, of RAFAKO S.A.'s prospectus prepared for the public offering of 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 per share, offered with the pre-emptive rights of existing shareholders retained (the "New Shares"), and in connection with the seeking of admission and introduction of 84,931,998 individual pre-emptive rights, up to 42,500,000 allotment certificates for Series K Shares, and up to 42,500,000 New Shares to trading on the main market of the Warsaw Stock Exchange. Two supplements were issued for the Prospectus – on November 13th 2017 and January 9th 2018.
	For more information, see: RAFAKO Current Report No. 43/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_43_2017_zatwierdzenie_Prospektu.pdf **RAFAKO Current Report No. 54/2017:** https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB%2054_2017%20ZATWIERDZENIE%20ANEKSU%20NR%201%20DO%20PROSPEKTU.pdf **RAFAKO Current Report No. 2/2018:** https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_2_2018_zatwierdzenie_aneksu_2_do_prospektu.pdf
	Execution, on November 3rd 2017, by RAFAKO and Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział – Dom Maklerski PKO Banku Polskiego of Warsaw in Warsaw and Trigon Dom Maklerski S.A. of Kraków of an agreement on placement of Offer Shares.
	For more information, see: RAFAKO Current Report No. 44/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_44_2017_zawarcie_umowy_plasowania.pdf

	Adoption by the WSE Management Board, on November 7th 2017, of Resolution No. 1305/2017 concerning the first listing date of 84,931,998 individual pre-emptive rights to Series K ordinary bearer shares in RAFAKO S.A., whereby the WSE Management Board resolved that: number of individual pre-emptive rights: record date for pre-emptive rights: November 6th 2017, the first listing date of pre-emptive rights: November 9th 2017, the last listing date of pre-emptive rights: November 14th 2017.
	For more information, see: RAFAKO Current Report No. 46/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB%2046_2017%20notowanie%20JPP%20na%20GPW.pdf
	Successful execution, on November 30th 2017, of the public offering and issue of 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 per share, with pre-emptive rights in favour of the existing shareholders.
	For more information, see: RAFAKO Current Report No. 59/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_59_2017_zakonczenie_oferty_przydzial_akcji_se.pdf
	Registration by the CSDP in the securities depository, on December 7th 2017, of 42,500,000 rights to Series K ordinary bearer shares in RAFAKO, with a par value of PLN 2 per share.
	For more information, see: RAFAKO Current Report No. 61/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_61_2017_rejestracja_PDA_w_KDPW.pdf
	Introduction by the WSE to trading on the main market, on December 8th 2017, by way of the ordinary procedure, of 42,500,000 rights to Series K ordinary bearer shares in RAFAKO S.A., with a par value of PLN 2 per share.
	For more information, see: RAFAKO Current Report No. 62/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_62_2017_wprowadzenie_PDA_na_GPW.pdf
	Subscription for Series K shares – summary Opening and closing dates of the subscription period for orders placed in the exercise of pre-emptive rights and for additional subscription orders: opening date: November 9th 2017; closing date: November 17th 2017. Opening and closing dates of the subscription period for orders placed on the invitation from the Management Board: opening date: November 29th 2017; closing date: November 30th 2017. Allotment date for the Offer Shares – November 30th 2017. 42,500,000 Offer Shares were subscribed for in the Offering. A total of 42,500,000 Offer Shares were allotted as part of the subscription. The Offer Shares were acquired at the Issue Price of PLN 4.00 (four złoty) per Offer Share. 1,307 investors placed subscription orders for the Offer Shares as part of the subscription.
	For more information, see: RAFAKO Current Report No. 63/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_63_2017_zakonczenie_subskrypcji_K.pdf
	On January 9th 2018, the Central Securities Depository of Poland ("CSDP") resolved to register with the securities depository 42,500,000 Series K ordinary bearer shares in RAFAKO S.A., with a par value of PLN 2, on the condition that the regulated market operator (the Warsaw Stock Exchange) approves the introduction of the shares to trading on the regulated market where RAFAKO S.A.'s other shares, assigned ISIN code PLRAFAK00018, are already listed.
	For more information, see: RAFAKO Current Report No. 3/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_3_2018_warunkowa_rejestracja_akcji_KDPW.pdf
	The Management Board of the Warsaw Stock Exchange ("WSE") set January 17th 2018 as the last trading day trading for 42,500,000 allotment certificates on Series K ordinary bearer shares, and admitted and approved the introduction of Series K shares to trading on the main market as of January 18th 2018 on condition that the CSDP registers the shares with the securities depository and assigns them code PLRAFAK00018 on January 18th 2018.
	For more information, see: RAFAKO Current Report No. 4/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_4_2018_zakonczenie_notowan_PDA_wprowadzenie_a.pdf
	On January 18th 2018, the Operations Department of the Central Securities Depository of Poland (the "CSDP") published an announcement stating that pursuant to the CSDP Management Board's Resolution No. 27/2018 of January 9th 2018, 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 per share, assigned ISIN code PLRAFAK00018, were registered on January 18th 2018.
	For more information, see: RAFAKO Current Report No. 6/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_6_2018_rejestracja_akcji_w_KDPW.pdf **referring to** **RAFAKO Current Report No. 3/2018:** **https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_3_2018_warunkowa_rejestracja_akcji_KDPW.pdf**
Auditor's letter to AOC and PFSA in connection with audit of financial statements	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.
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	

Notifications of managers' transactions given under Article 19(1) of MAR	On January 18th 2018, the Company received notifications given under Article 19(1) of the Market Abuse Regulation of purchases of RAFAKO S.A. shares by: 1. Agnieszka Wasilewska-Semail – a person discharging managerial responsibilities as President of the Company's Management Board; 2. Jarosław Dusiło – a person discharging managerial responsibilities as Vice President of the Company's Management Board; 3. Edward Kasprzak – a person discharging managerial responsibilities as Vice President of the Company's Management Board.
For more information, see: RAFAKO Current Report No. 5/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_5_2018_zawiadomienie_19_MAR.pdf	
Unaudited preliminary estimates of consolidated financial results of the RAFAKO Group for 2017	As the process of aggregating and verifying data for the purposes of preparing the full-year 2017 financial statements was completed on March 16th 2018, the Management Board of RAFAKO S.A. resolved to publish preliminary financial results in view of significant year-on-year changes in the results.
For more information, see: RAFAKO Current Report No. 13/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_13_2018_wstepne_wyniki_za_2017.pdf	
Adoption of updated Strategy by PBG Management Board.	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.
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	
Completion of negotiations on transfer of significant claim	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.
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	

Except for the events referred to and discussed in Section VI. IX and in Note 2.3 to the consolidated financial statements, no other material events occurred in 2017 which could have significant bearing on the assessment of the Group's assets, financial condition or financial performance, or which would be likely to cause significant changes in any of the foregoing.

II. CHANGES IN ORGANISATIONAL LINKS

Date	Parties	Type of transaction	Transaction overview
Jan 27 2017	PBG S.A. Jerzy Wiśniewski	Notice of transaction in Company shares	On January 27th 2017, the Company received a notification of a transaction in Company shares, given under Article 19(1) of the MAR by Mr Jerzy Wiśniewski, President of the Company's Management Board, concerning his acquisition of Series I shares.
For more information, see: PBG Current Report No. 4/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/4-2017-zawiadomienie-o-transakcji-na-akcjach-spolki.html			
Jan 31 2017	RAFAKO S.A. QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.	Notice from QUERCUS Parasolowy SFIO investment fund of change in its holding of RAFAKO shares	On January 31st 2017, QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A. ("QUERCUS TFI"), acting on behalf of QUERCUS Parasolowy SFIO ("Fund"), an investment fund under its management, notified the company that the percentage share in total voting rights at RAFAKO held individually by the Fund fell below 5% following a transaction made on the regulated market on January 27th 2017.
For more information, see: RAFAKO Current Report No. 3/2017:			
Mar 7 2017	RAFAKO S.A. QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.	Notice from QUERCUS investment funds of change in their holding of RAFAKO shares	QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A. ("QUERCUS TFI"), acting on behalf of investment funds under its management: QUERCUS Parasolowy SFIO, QUERCUS Absolutnego Zwrotu FIZ, QUERCUS Absolute Return FIZ, and Acer Aggressive FIZ ("Funds"), sent notifications to the effect that the percentage share in total voting rights at RAFAKO held jointly by the Funds fell below 5% as a result of a transaction made on the regulated market on March 6th 2017.
For more information, see: RAFAKO Current Report No. 8/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_8_2017_zawiadomienie_o_zmianie_stanu_posiadan.pdf			

May 4 2017	RAFAKO S.A. QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.	Notice from QUERCUS investment funds of change in their holding of RAFAKO shares	Notice from QUERCUS Towarzystwo Funduszy Inwestycyjnych SA („QUERCUS TFI") acting on behalf of investment funds under its management: QUERCUS Parasolowy SFIO, QUERCUS Absolutnego Zwrotu FIZ, QUERCUS Absolute Return FIZ, and Acer Aggressive FIZ ("Funds"), that the percentage share in total voting rights at RAFAKO held jointly by the Funds increased to exceed 5%.
For more information, see: RAFAKO Current Report No. 10/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_10_2017_zawiadomienie_o_zmianie_stanu_posiada.pdf			
Jun 8 2017	RAFAKO S.A. QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.	Notice from QUERCUS investment funds of change in their holding of RAFAKO shares	Notice from QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A. ("QUERCUS TFI"), acting on behalf of investment funds under its management: QUERCUS Parasolowy SFIO, QUERCUS Absolutnego Zwrotu FIZ, QUERCUS Absolute Return FIZ, and Acer Aggressive FIZ ("Funds"), that the percentage share in total voting rights at Rafako held jointly by the Funds fell below 5%.
For more information, see: RAFAKO Current Report No. 16/2017: http://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_16_2017_zawiadomienie_o_zmianie_stanu_posiada.pdf			
Jun 14 2017	PBG Jerzy Wiśniewski	Notice of transaction in Company shares	On June 14th 2017, the Company received a notice of a transaction in Company shares, given under Article 19(1) of the MAR by Mr Jerzy Wiśniewski, President of the Company's Management Board, in connection with his acquisition of Series I shares.
For more information, see: PBG Current Report No. 26/2017: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/26-2017-zawiadomienie-o-transakcji-na-akcjach-spolki.html			
Oct 24 2017	RAFAKO S.A. PBG and Multaros Tarding Company Ltd	Notification of change in holding of RAFAKO shares	On October 24th 2017, Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, PBG S.A. and MULTAROS TRADING COMPANY Limited entered into a cooperation agreement, following which the companies' joint share in the total voting rights exceeding 50%.
For more information, see: RAFAKO Current Report No. 37/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_37_2017_ZAWIADOMIENIE_PBG_MULTAROS.pdf **RAFAKO Current Report No. 39/2017:** **https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_39_2017_ZAWIADOMIENIE_FIPP_ZMIANA_STANU.pdf** **referring to**			
Nov 9 2017	RAFAKO S.A. Jerzy Wiśniewski, Małgorzata Wiśniewska, Dariusz Szymański	Transaction in RAFAKO S.A. securities	On November 9th 2017, RAFAKO S.A. received from PBG, a person closely associated with persons discharging managerial responsibilities at RAFAKO – Jerzy Wiśniewski, Chairman of the Supervisory Board of RAFAKO, Małgorzata Wiśniewska and Dariusz Szymański, members of the Supervisory Board of RAFAKO – a notification given under Article 19(1) of the Market Abuse Regulation of an individual pre-emptive rights sale transaction
			For more information, see: RAFAKO Current Report No. 48/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_48_2017_sprzedaz_JPP_PBG.pdf
			On November 9th 2017, RAFAKO S.A. received from Multaros Trading Company Ltd., a person closely associated with persons discharging managerial responsibilities at RAFAKO – Jerzy Wiśniewski, Chairman of the Supervisory Board of RAFAKO, Małgorzata Wiśniewska and Dariusz Szymański, members of the Supervisory Board of RAFAKO – a notification given under Article 19(1) of the Market Abuse Regulation of an individual pre-emptive rights sale transaction executed on November 9th 2017.
			For more information, see: RAFAKO Current Report No. 49/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_49_2017_sprzedaz_JPP_MTC_1.pdf
			On November 9th 2017, RAFAKO S.A. received from Multaros Trading Company Ltd., a person closely associated with persons discharging managerial responsibilities at RAFAKO – Jerzy Wiśniewski, Chairman of the Supervisory Board of RAFAKO, Małgorzata Wiśniewska and Dariusz Szymański, members of the Supervisory Board of RAFAKO – a notification given under Article 19(1) of the Market Abuse Regulation of an individual pre-emptive rights sale transaction executed on November 9th 2017.
			For more information, see: RAFAKO Current Report No. 50/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_50_2017_sprzedaz_JPP_MTC_2.pdf

Nov 10 2017			On November 10th 2017, RAFAKO S.A. received from PBG, a person closely associated with persons discharging managerial responsibilities at RAFAKO – Jerzy Wiśniewski, Chairman of the Supervisory Board of RAFAKO, Małgorzata Wiśniewska and Dariusz Szymański, members of the Supervisory Board of RAFAKO – a corrected notification given under Article 19(1) of the Market Abuse Regulation of an individual pre-emptive rights sale transaction.
			For more information, see: RAFAKO Current Report No. 51/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_51_2017_sprzedaz_JPP_PBG_korekta.pdf
			On November 10th 2017, RAFAKO S.A. received from Multaros Trading Company Ltd., a person closely associated with persons discharging managerial responsibilities at RAFAKO – Jerzy Wiśniewski, Chairman of the Supervisory Board of RAFAKO, Małgorzata Wiśniewska and Dariusz Szymański, members of the Supervisory Board of RAFAKO – a corrected notification given under Article 19(1) of the Market Abuse Regulation of an individual pre-emptive rights sale transaction.
			For more information, see: RAFAKO Current Report No. 52/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_52_2017_sprzedaz_JPP_MTC1_korekta.pdf
			On November 10th 2017, RAFAKO S.A. received from Multaros Trading Company Ltd., a person closely associated with persons discharging managerial responsibilities at RAFAKO – Jerzy Wiśniewski, Chairman of the Supervisory Board of RAFAKO, Małgorzata Wiśniewska and Dariusz Szymański, members of the Supervisory Board of RAFAKO – a corrected notification given under Article 19(1) of the Market Abuse Regulation of an individual pre-emptive rights sale transaction.
			For more information, see: RAFAKO Current Report No. 53/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_53_2017_sprzedaz_JPP_MTC2_korekta.pdf
Nov 17 2017	RAFAKO S.A. PBG and Multaros Tarding Company Ltd	Notification of change in holding of RAFAKO shares	On November 17th 2017, RAFAKO S.A. received a notification from PBG S.A. and Multaros Trading Company Ltd., given under Art. 69b.1 of the Act, that following the settlement on November 13th 2017 of transactions to sell individual pre-emptive rights to Series K shares in RAFAKO S.A., executed by the notifying parties, their share in RAFAKO S.A.’s share capital and total voting rights fell from 50%+1 voting right to 33.32% of total voting rights.
For more information, see: RAFAKO Current Report No. 55/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_55_2017_ZAWIADOMIENIE_69_PBG_MULT_ZMIANA_STA.pdf			

Nov 17 2017	RAFAKO S.A. Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Notification of change in holding of RAFAKO shares	On November 17th 2017, RAFAKO S.A. received a notification from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych of Warsaw that following the purchase of 25,211,351 individual pre-emptive rights to RAFAKO S.A. shares in a transaction executed on November 9th 2017 and settled on November 13th 2017, the notifying party exceeded the threshold of 5% of total voting rights at RAFAKO S.A.’s General meeting, an event reportable under Art. 69b.1 of the Act.
For more information, see: RAFAKO Current Report No. 56/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_56_2017_ZAWIADOMIENIE_69_FIPP_BGK_ZMIANA_STAN.pdf			
Dec 28 2017	RAFAKO S.A. PBG and Multaros Tarding Company Ltd	Notification of change in holding of RAFAKO shares	On December 28th 2017, RAFAKO S.A. received a notification from PBG S.A. and Multaros Trading Company Ltd. that following the registration by the District Court of Gliwice, 10th Commercial Division of the National Court Register, on December 22nd 2017, of an increase in RAFAKO S.A.’s share capital effected through issue of 42,500,000 Series K shares, the joint share of the notifying parties’ in RAFAKO S.A.’s share capital and total voting rights decreased from 50%+1 voting right to 33.33% of total voting rights.
For more information, see: RAFAKO Current Report No. 65/2017: https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_65_2017_zawiadomienie_PBG_MTC.pdf			

Jan 3 2018	RAFAKO S.A. Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Notification of change in holding of RAFAKO shares	On January 3rd 2018, the Management Board of RAFAKO S.A. received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych of Warsaw a notification to the effect that following the registration on December 22nd 2017 by the District Court in Gliwice, 10th Commercial Division of the National Court Register, of an increase in the share capital of RAFAKO S.A. effected through the issue of 42,500,000 Series K shares, the notifying party holds more than 5% of total voting rights in the Company.
For more information, see: RAFAKO Current Report No. 1/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_1_2018_zawiadomienie_FIPP_FIZ_AN.pdf			

III. PERFORMANCE OF THE ARRANGEMENT

For information on the performance of the arrangement with creditors, see Section VI.IX *Going concern assumption*.

IV. RELATED-PARTY TRANSACTIONS

In 2017, companies of the PBG Group 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 at the PBG Group are:

- construction contracts;
- maintenance contracts;
- agreements concerning: sales support, property portfolio management and organisational support services;
- loan agreements;
- surety agreements in respect of debt incurred to by PBG to perform arrangement obligations.

Related-party transactions of the Group companies are disclosed in Note 39 to the consolidated financial statements for 2017.

In 2017, PBG oil and gas sp. z o.o. and RAFAKO S.A. provided an aval in respect of the obligations of Rafako Engineering Sp. z o.o. for up to PLN 1,884 thousand, valid until November 17th 2021, in connection with the construction of six process systems: Lwówek, Kotowo and Krobia gas transmission nodes and Opalenica, Kościan and Krzemieniowo blocking and bleeding systems as part of phase one of the project to construct the Lwówek-Odolanów pipeline with auxiliary infrastructure: construction of the Lwówek-Krobia pipeline.

V. CONTRACTED BANK BORROWINGS, LOAN AGREEMENTS

For information on bank borrowings and loan agreements, see Note 21.5. to the consolidated financial statements for 2017.

VI. NON-RECURRING FACTORS AND EVENTS

The parent's Management Board completed negotiations of the terms of an agreement to assign a 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 parent 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. Expected dates and amounts of cash receipts: PLN 20m in the first half of 2018 and PLN 60 in the first half of 2019.

VII. MAJOR R&D ACHIEVEMENTS

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

VIII. CONTROL SYSTEM FOR EMPLOYEE PLANS

The Group does not operate any employee plans.

IX. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

For information on the litigation, arbitration and administrative proceedings, see Note 41 to the consolidated financial statements for 2017.

X. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES

In the period covered by this Report, the Group did not make any major changes in its significant management policies.

SECTION V: SHARES AND SHAREHOLDERS

I. SHARE CAPITAL STRUCTURE AND MAJOR HOLDINGS OF SHARES

As at December 31st 2017, the Company's share capital was PLN 16,081,011.82 and comprised 804,050,591 shares. As at the issue date of this Report, the Company's share capital was PLN 16,086,604.44 and comprised 804,330,222 shares with a par value of PLN 0.02 per share.

PBG's share capital as at December 31st 2017

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 I	**12,806,811**	ordinary bearer	12,806,811	12,806,811	12,806,811
		Total	**804,050,591**	**804,050,591**	**804,050,591**

PBG's share capital 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%

Shareholder	Number of shares	% ownership interest	% of voting rights held
as at December 31st 2017			

Shareholder	Number of shares	% ownership interest	% of voting rights held
Jerzy Wiśniewski	189,836,345	23.61%	23.6100%
Powszechna Kasa Oszczędności Bank Polski S.A.	53,060,500	6.60%	6.5991%
Bank Polska Kasa Opieki S.A.	62,848,380	7.82%	7.8165%
Shareholder	**Number of shares**	**% ownership interest**	**% of voting rights held**
as at the issue 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%	6.5969%
Bank Polska Kasa Opieki S.A.	62,848,380	7.82%	7.8138%

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.

For information on changes in the Company's share capital structure, see Note 27.1 to the consolidated financial statements for 2017.

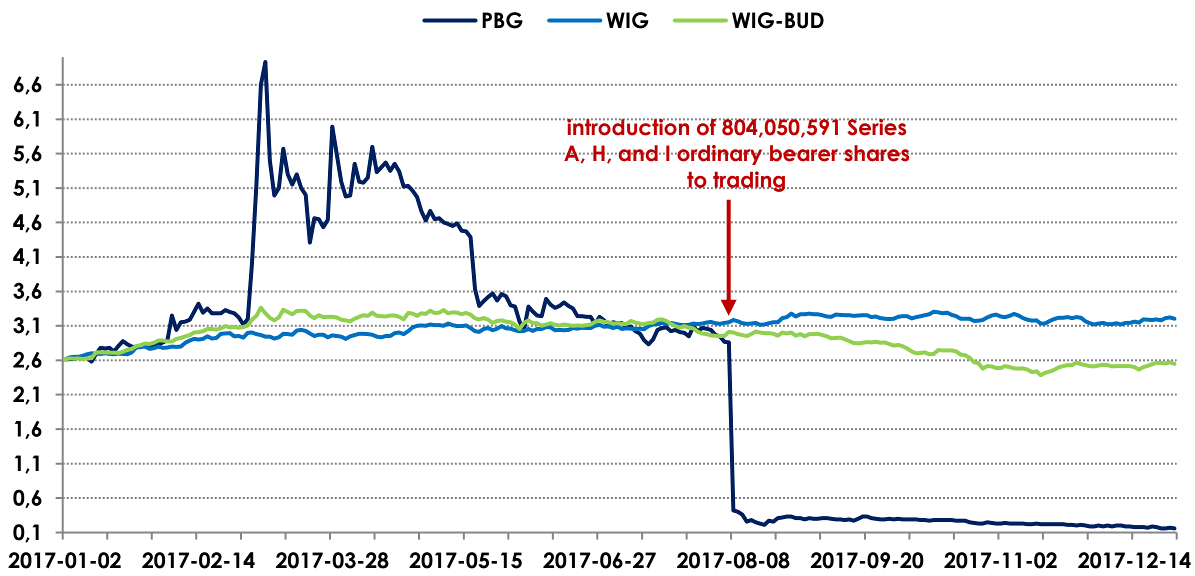
II. CHANGES IN THE COMPANY'S SHAREHOLDING STRUCTURE

In the reporting period, there were changes in the Company's shareholding structure. In 2017, some changes were identified based on shareholder notifications, published in Current Reports No. 35/2017 – 36/2017, 38/2017 – 44/2017, 46/2017 – 47/2017 and 53/2017.

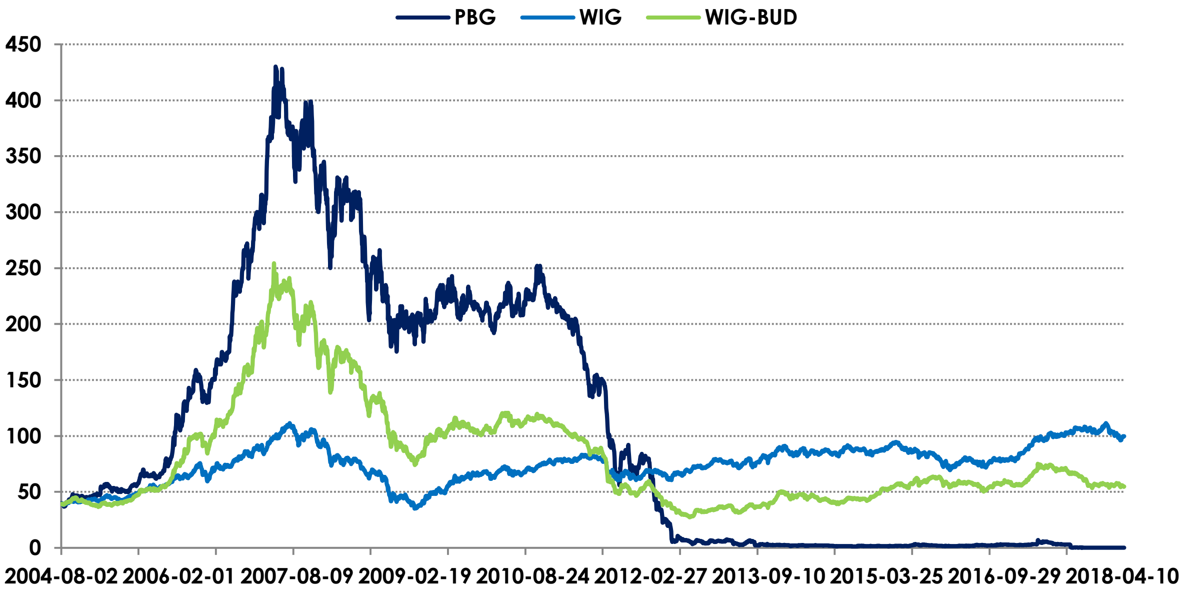
III. KEY DATA ON PBG SHARES

1. Share price

PBG share price from January 1st 2017 to December 31st 2017 against the WIG and WIG-BUD indices



Price of PBG shares from IPO to April 10th 2018



2. Key information about shares

Share data

Key share data		2017	2016	Y-o-y change (%)
Period high	**PLN**	6.93	3.19	+117
Period low	**PLN**	0.16	1.57	-90
Share price at year end	**PLN**	0.16	2.5	-94
Number of shares at period end	**Number of shares**	804,051,000	770,705,820	+4
Free float	**Number of shares**	804,051,000	10,555,000	+7517
Capitalisation at year end	**PLNm**	128 .648,160	1,926,764,550	-94
Average daily trading value	**PLN '000**	1,824	156	+1069
Average daily trading volume	**Number of shares**	4,532,692	62,703	+7126

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 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

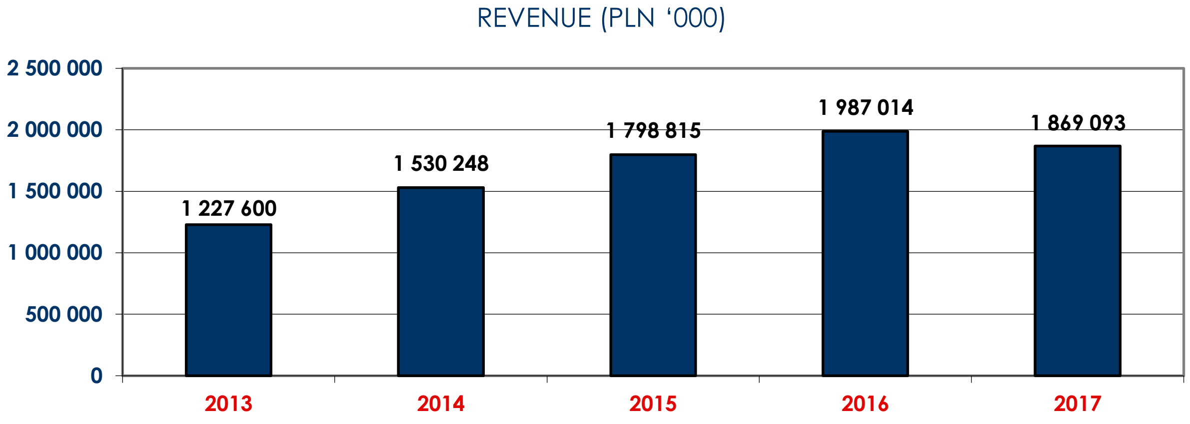
I. ANALYSIS OF THE GROUP'S FINANCIAL CONDITION

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

1. Revenue

At the end of 2017, the Group reported a 6% revenue drop year on year. The Group's revenue fell from **PLN 1,987m in 2016** to **PLN 1,869m in 2017**. The main source of revenue were contracts in the power construction segment, including the Jaworzno power generating unit construction contract.

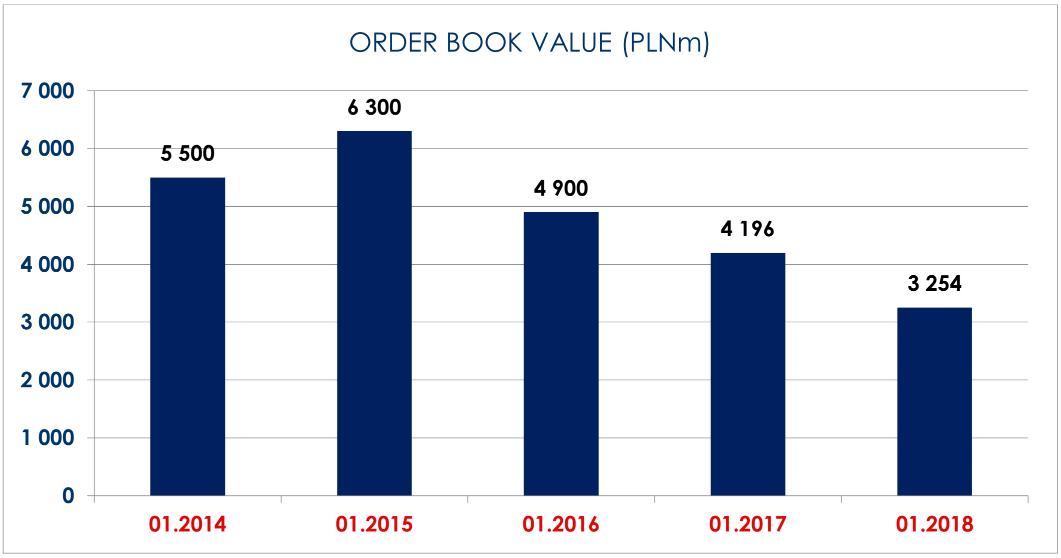
Historical development of revenue (past five years)



2. Order book

As at January 1st 2018, the value of PBG Group's order book was approximately **PLN 3.25bn**, of which about PLN 1.5bn was the value of orders to be executed in 2018, with the balance of PLN 1.75bn scheduled for execution in the following years. Power construction projects accounted for the largest proportion of the Group's backlog by value (90%). Projects in the oil, gas and fuel segment and other business segments represented 10% of the Group's backlog by value.

Historical development of the Group's order book (PLNbn, past five years – amounts as at the beginning of each financial year):



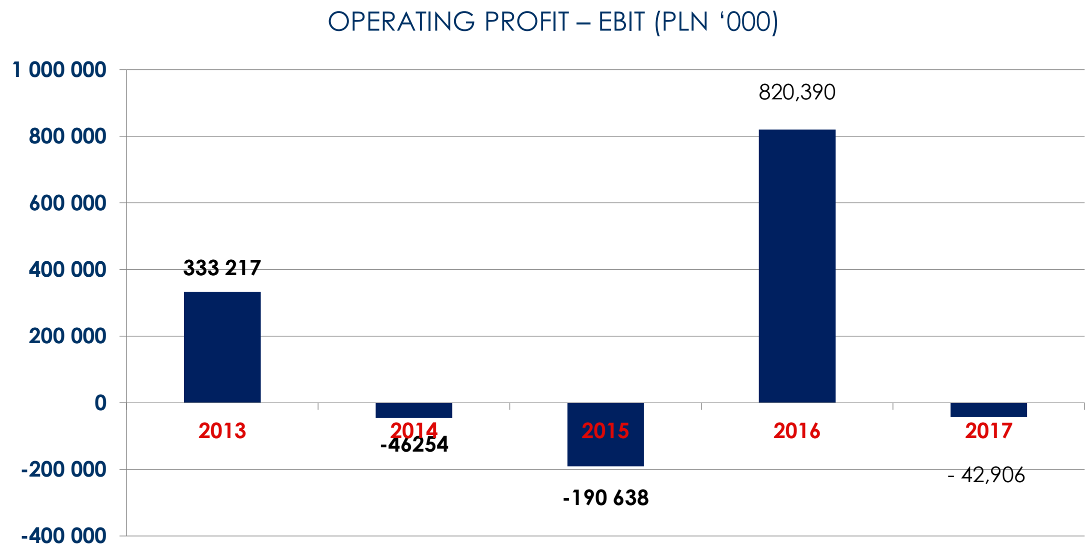
Structure of the order book at January 1st 2018

ORDER BOOK AS AT January 1st 2018 (% and PLNm)		
Gas, oil and fuels segment and other	10%	322
Power construction	90%	2,932
TOTAL	100.0%	3,254

3. EBIT

In 2017, the PBG Group reported an operating loss of **PLN 42.9m**, compared with an operating profit of PLN 820.4m generated in 2016. Apart from the core operations, which generated a gross profit of PLN 172.8m (PLN 121.2m a year earlier), the Group's operating result was influenced by distribution costs of PLN 27.5m, administrative expenses of PLN 91.4m, other income of PLN 37.6m, other expenses of PLN 116.5m, and a loss on the arrangement with creditors made by the parent. However, the above data is not fully comparable, because the 2016 operating result accounted for the effect of recognition in the books of the court decision approving PBG's arrangement with the creditors becoming final on June 13th 2016, which had a material positive effect on the operating result of the PBG Group (PLN 926m). In the reporting period, the operating results were also adversely affected by a loss of PLN 83.8m recognised on RAFAKO's goodwill (PLN 104.2m a year earlier). 'Loss on arrangement with creditors' includes the effect of revaluation of the discount of long-term arrangement claims and zero-coupon bonds issued by the Group's parent to partially repay those claims, amounting to nearly PLN 18m.

Historical development of EBIT (past five years)



4. Liquidity ratios

Liquidity ratios

NAME	FORMULA	2017	2016
Current ratio	(current assets* / current liabilities)	1.44	1.24
Quick ratio	(current assets* – inventories) / current liabilities)	1.42	1.22
Cash ratio	(cash balance at end of period / current liabilities)	0.24	0.12

* including non-current assets held for sale

There was a positive change in the current ratio at the end of 2017: the ratio for the PBG Group went up year on year to 1.44, from 1.24 at the end of 2016. An increase was also recorded in the quick ratio, from 1.22 at the end of 2016 to 1.42 at the end of 2017. The cash ratio rose to 0.24 (from 0.12 in 2016), which means that the Group was able to pay 24% of its current liabilities with its most liquid assets. The main factor which contributed to the improvement in each of the liquidity ratios was the issue of shares carried out by the subsidiary RAFAKO, which generated net proceeds of PLN 163.4m. To note, ratio levels which are generally considered to be safe for construction companies in general are 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.

5. Debt

Debt ratios

NAME	FORMULA	2017	2016

Capital structure	equity / debt capital	0.21	0.13
Structure of assets	non-current assets / current assets*	0.40	0.59
Total debt ratio	Total liabilities / total assets	0.82	0.88

* including non-current assets held for sale

In 2017, total debt ratio stood at 0.82, having decreased only slightly, by 0.06, year on year. In both periods, the ratio was at a high level (over 0.5), considered unsafe owing to the highly leveraged financing of assets. However, there was an increase in the ratio of equity to external capital, i.e. to the total debt incurred by the PBG Group, largely due to the proceeds of PLN 163.4m raised by the subsidiary RAFAKO in connection with its Series K share issue.

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

Statement of profit or loss

Changes in the statement of profit or loss

PBG's statement of profit or loss (PLN '000)	2017	2016	2017/2016
Revenue	1,869,093	1,987,014	-6%
Cost of sales	-1,696,259	-1,865,858	-9%
Gross profit (loss)	**172,834**	**121,156**	**43%**
Gain on losing joint control of joint operation	0	24,239	-
Distribution costs	-27,483	-21,076	30%
Administrative expenses	-91,412	-92,377	-1%
Other income	37,637	31,835	18%
Other expenses	-116,489	-165,282	-30%
Restructuring costs	0	-3,852	-
Gain (loss) on arrangement with creditors	-17,993	925,747	-
Operating profit (loss)	**-42,906**	**820,390**	**-**
Finance income	0	0	-
Finance costs	-8,446	-9,377	-10%
Share of profit of equity-accounted entities	-3,932	-7,767	-
Profit (loss) before tax	**-55,284**	**803,246**	**-**
Income tax expense	-35,849	-14,499	-
Net profit (loss):	**-91,133**	**788,747**	**-**
- owners of the parent	**-30,412**	**838,731**	**-**
- non-controlling interests	**-60,721**	**-49,984**	**-**

In 2017, the Group earned a gross profit of more than PLN 172.8m, compared with PLN 121.2m in 2016. Given that the revenue generated by the Group in 2017 was lower by about 6% year on year, this level of gross profit reflects a considerable improvement of the sales margins generated by the PBG Group companies, with the RAFAKO Group being the largest contributor in this respect.

Administrative expenses amounted to PLN 91.4m, down 1% year on year. Distribution costs rose by 30% (from PLN 21.1m in 2016 to PLN 27.5m in 2017), which was attributable to significant costs of bid preparation as part of the contract acquisition process.

In 2017, other income reached PLN 37.6m, its most significant items being: (i) reversal of impairment losses on assets – PLN 13.4m (including on loans granted – nearly PLN 10.6m); (ii) interest earned in connection with the

PBG Group's operating activities – PLN 2.5m; and (iii) other items of PLN 11.5m, as part of which the highest income was earned from contractual penalties charged by the RAFAKO Group companies in connection with performed contracts.

In the discussed period, other expenses amounted to nearly PLN 116.5m, of which the most significant items were: (i) impairment losses on assets – PLN 92.7m, which included a PLN 84m impairment loss on RAFAKO goodwill; and (ii) other items of nearly PLN 15.7m, including close to PLN 8.4m attributable to the provision set up by RAFAKO for its planned restructuring activities.

In 2017, 'Loss on arrangement with creditors' includes the effect of revaluation of the discount of long-term arrangement claims and zero-coupon bonds issued by the parent to partially repay those claims, of nearly PLN 18m. In 2016, under 'Gain on arrangement with creditors' the PBG Group recognised a gain of PLN 925.7m, which also was the largest contributor to the Group's operating profit of PLN 820.4m.

All in all, in 2017 the PBG Group reported an operating loss of PLN 42.9m, compared with an operating profit of PLN 820.4m generated in 2016.

Additional items which contributed to the pre-tax loss reported by the PBG Group in 2017 included net finance costs of PLN 8.4m and a PLN 3.9m loss on the share in the results of equity-accounted entities (i.e. loss incurred as a result of consolidation of 49% of the result of Energopol Ukraina, the entity responsible for the implementation of the Ministersky Project development project in Kiev), compared with a PLN 7.8m loss incurred on the same account in 2016.

In 2017, the PBG Group recorded a pre-tax loss of PLN 55.3m, while its net loss (after deferred income tax assets of PLN 20.3m and current income tax of PLN 15.5m) was PLN 91.1m. Net loss attributable to owners of the parent exceeded PLN 30.4m. In 2016, pre-tax profit of the PBG Group was PLN 803.2m, its net profit amounted to PLN 788.7m, and profit attributable to owners of the parent reached PLN 838.7m.

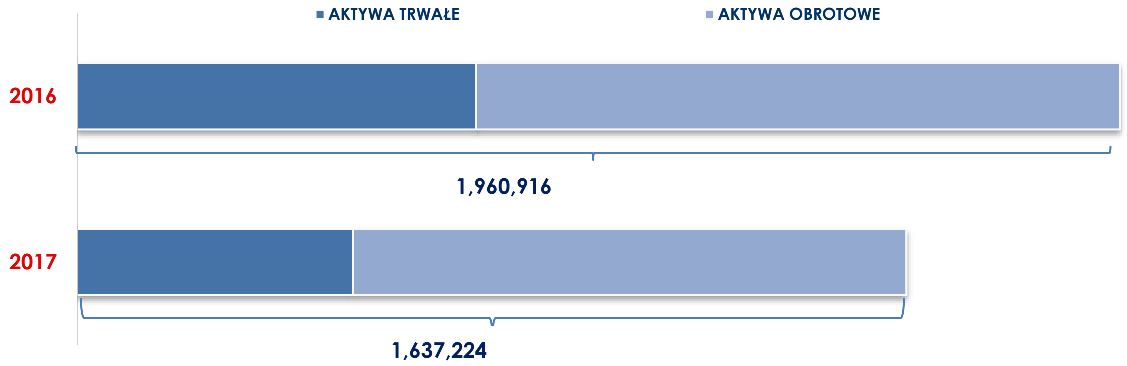
III. ASSETS, FINANCIAL CONDITION AND FUNDING OF THE ASSETS

1. Assets

In 2017, the asset structure did not change materially compared with 2016. As at the end of 2017, non-current assets represented approximately 28% of total assets, and their share fell by 8.7 pp year on year. Current assets and assets held for sale comprised the remaining 72% of total assets.
The largest item of non-current assets, accounting for 12.2% of the PBG Group's total assets, was property, plant and equipment. Goodwill, which arose on the acquisition of control of RAFAKO and accounted for 6.3% of total assets of the PBG Group (PLN 102.5m, down from PLN 186.6m reported at the end of 2016) was the second most important item of non-current assets.
2017 saw a change in the structure of current assets. In 2017, trade and other receivables had the largest share (45.8%) in total current assets and non-current assets held for sale. The second most important item of current assets was receivables under construction contracts, which amounted to approximately PLN 235.7m, compared with PLN 114.0m in 2016 (up by nearly 107%). Another significant item of current assets at the end of 2017 was cash and cash equivalents, which amounted to nearly PLN 192.2m, compared with PLN 121.1m at the end of 2016 (up by nearly 59%).
Assets held for sale represented about 10% of total assets (PLN 163.7m), compared with 3% at the end of 2016 (PLN 61m). Among the non-current assets held for sale, items with the highest value were assets of the parent and of the PBG DOM Group companies, which are to be disposed of as part of implementation by those companies of the disinvestment plan covering their non-core assets, which the parent has introduced to raise funds to be used mainly to pay instalments due under its arrangement with creditors and for redemption of bonds issued by the Company.

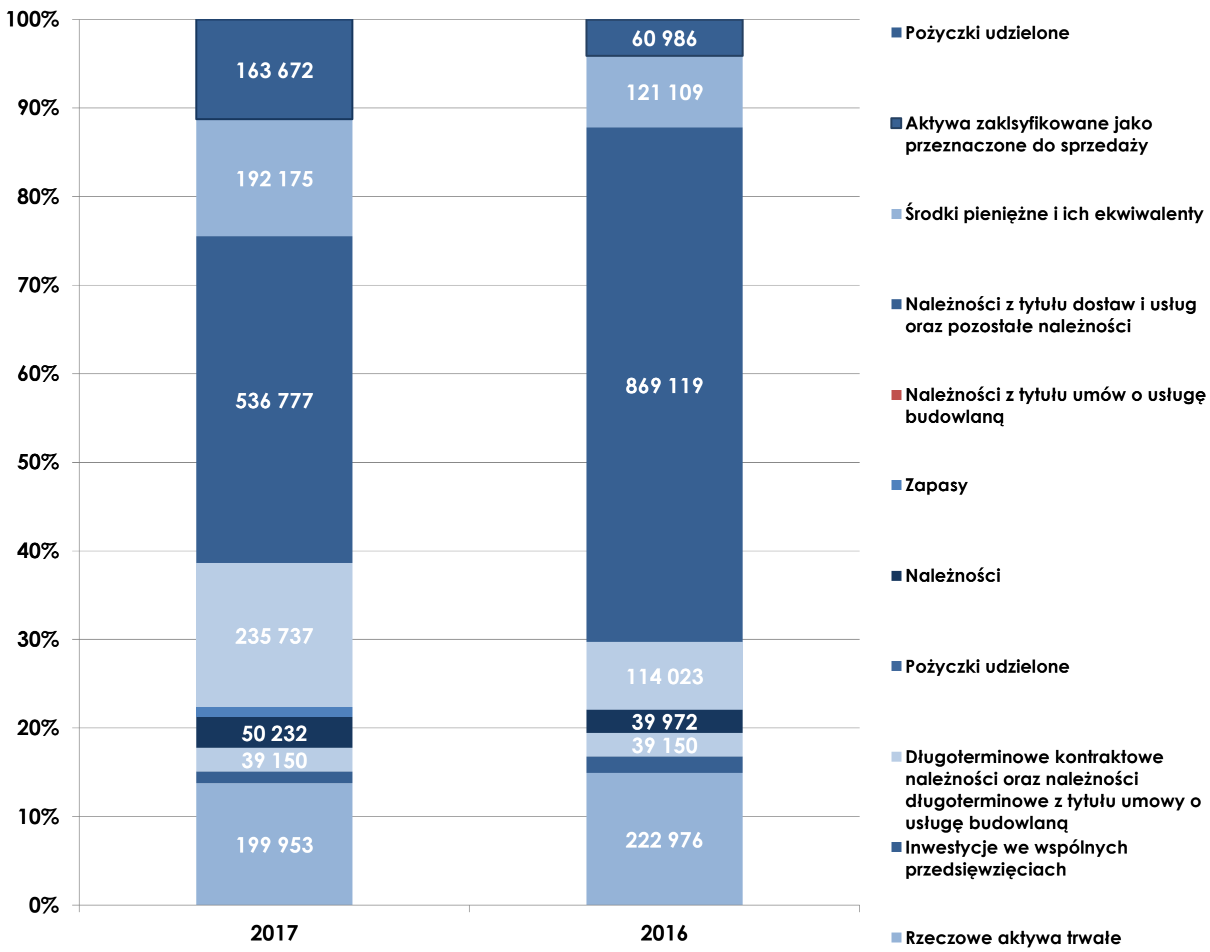
As at the end of 2017, the Group's total assets amounted to PLN 1,637m, compared with PLN 1,961m a year earlier (down by 16.5%).

Assets (PLN '000)



Non-current assets	Aktywa trwałe
Current assets	Aktywa obrotowe

Largest items of assets (PLN '000)



Short-term loans	Pożyczki udzielone
Assets classified as held for sale	Aktywa zaklasyfikowane jako przeznaczone do sprzedaży

Cash and cash equivalents	Środki pieniężne i ich ekwiwalenty
Trade and other receivables	Należności z tytułu dostaw i usług oraz pozostałe należności
Amounts due from customers for construction contract work	Należności z tytułu umów o usługę budowlaną
Inventories	Zapasy
Receivables	Należności
Long-term loans	Pożyczki udzielone
Long-term contract receivables and amounts due from customers for construction contract work	Długoterminowe kontraktowe należności oraz należności długoterminowe z tytułu umowy o usługę budowlaną
Investments in joint ventures	Inwestycje we wspólnych przedsięwzięciach
Investments in subsidiaries	Inwestycje w jednostkach zależnych
Property, plant and equipment	Rzeczowe aktywa trwałe

Asset ratios (%)

NAME	FORMULA	2017	2016
Basic asset structure ratio	(non-current assets / current assets, including assets held for sale)*100%	39.71%	58.92%
Non-current assets to total assets	(non-current assets / total assets)*100	28.42%	37.07%
Current assets to total assets	(current assets, including assets held for sale / total assets)*100	71.58%	62.93%
Short-term trade and other receivables to current assets	(short term receivables / current assets, including assets held for sale)*100	45.81%	70.43%

There were noticeable changes in the relations between individual items of assets and in the structure of total assets. The share of non-current assets in total assets of the PBG Group fell in 2017 by 8.7 pp compared with 2016. Conversely, there was an increase in current assets and non-current assets held for sale, whose share in total assets of the PBG Group rose by 8.6 pp. In particular, there was a material change in (non-current) assets held for sale, whose value rose from PLN 61.0m at the end of 2016 to PLN 163.7m at the end of 2017 due to the reclassification of a portion of the non-current assets into assets held for sale at the parent and at the PBG DOM Group companies, all of which are engaged in the process of selling their non-core assets (chiefly property) as part of the disinvestment plan adopted in agreement with the parent's creditors.

2. Equity and liabilities

As in the corresponding period of the previous year, equity attributable to owners of the parent was negative (end of 2017: PLN -162.5m, end of 2016: PLN -65.9m). Therefore, no structure of equity is presented below, and only an analysis of the structure of the PBG Group's liabilities has been made.

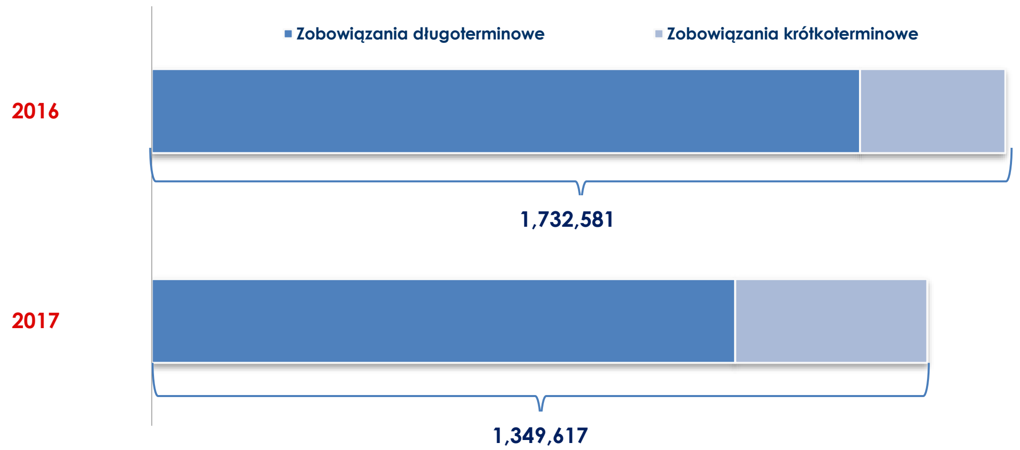
In 2017, the PBG Group's liabilities totalled PLN 1,349.6m (39.8% - non-current liabilities, and 60.2% - current liabilities). In 2016, non-current liabilities accounted for 42.3%, and current liabilities – for 57.7% of the Group's total liabilities.

The most important changes in non-current liabilities (total decrease by nearly PLN 195.8m) include a drop in borrowings and other debt instruments, which was largely due to the repayment of liabilities under the arrangement made by the parent and the reclassification some of those liabilities into current liabilities. To note, in 2017 the parent satisfied nearly 19m of its creditors' claims on the terms agreed in the arrangement and redeemed a total of six series of bonds for almost PLN 68m.

Current liabilities fell significantly, by about 18.7% year on year, and amounted to PLN 812.0m at the end of 2017, compared with PLN 999.1m in 2016. Among current liabilities, the largest items included: (i) trade and other payables, which fell over the last year by PLN 130.7m, to PLN 451.2m, and (ii) liabilities under borrowings and other debt instruments (PLN 166.0m), which were nonetheless down by approximately 20.3% relative to 2016, when they amounted to PLN 208.2m.

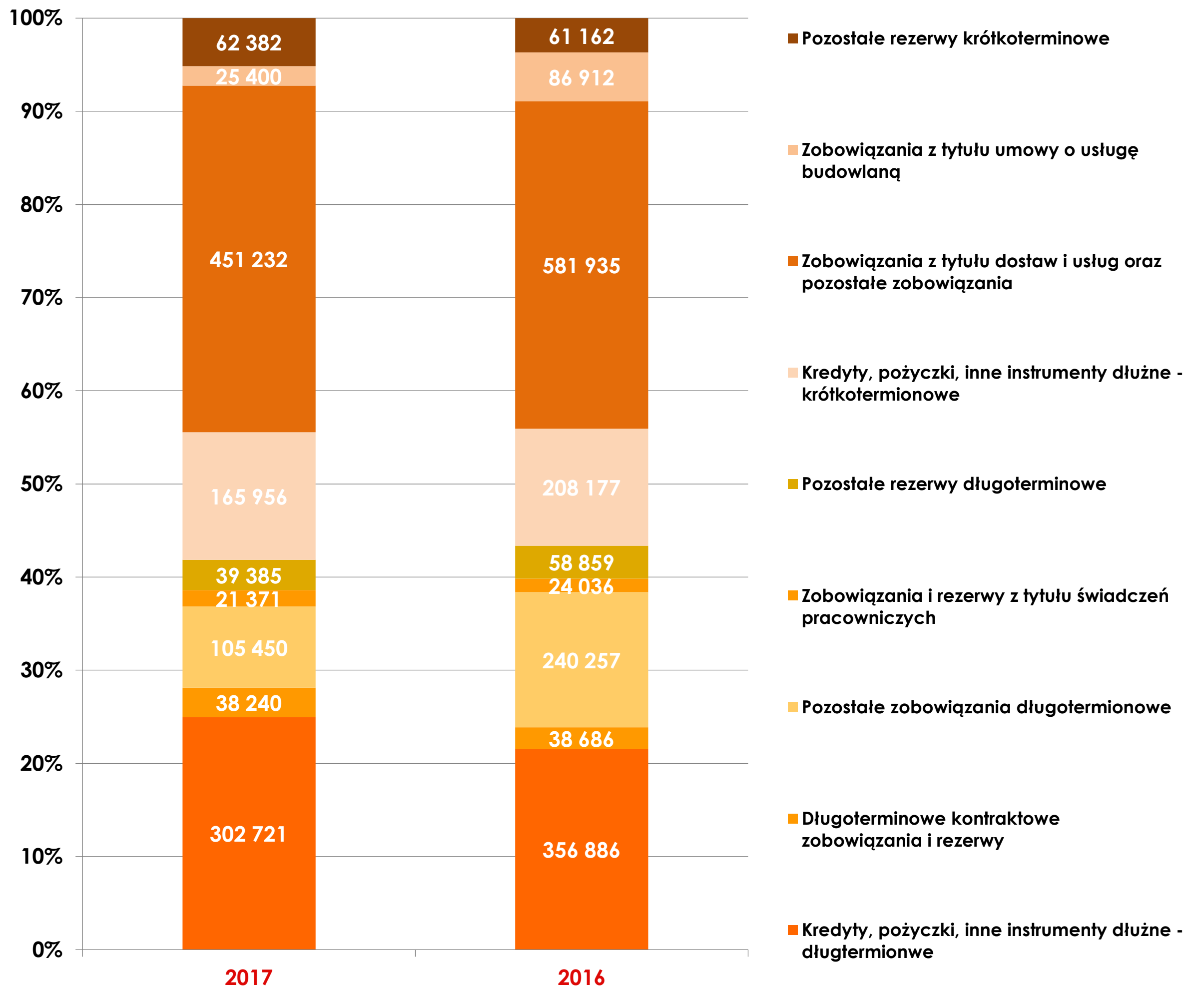
At the end of 2017, total liabilities were PLN 1,350m, compared with PLN 1,733m a year earlier, i.e. down by 22.1%.

Liabilities (PLN '000)



Non-current liabilities	Zobowiązania długoterminowe
Current liabilities	Zobowiązania krótkoterminowe

Largest items of liabilities (PLN '000)



Other short-term provisions	Pozostałe rezerwy krótkoterminowe
Amounts due to customers for construction contract work	Zobowiązania z tytułu umowy o usługę budowlaną
Trade and other payables	Zobowiązania z tytułu dostaw i usług oraz pozostałe zobowiązania
Short-term borrowings and other debt instruments	Kredyty, pożyczki, inne instrumenty dłużne – krótkoterminowe
Other long-term provisions	Pozostałe rezerwy długoterminowe
Non-current contract liabilities and provisions	Długoterminowe kontraktowe zobowiązania i rezerwy
Long-term borrowings and other debt instruments	Kredyty, pożyczki, inne instrumenty dłużne - długoterminowe

IV. STATEMENT OF CASH FLOWS

Cash flows (PLN '000)

	2017	2016
Net cash from operating activities	(107,989)	(251,598)
Net cash from investing activities	47,397	6,689
Net cash from financing activities	131,964	24,389
Net cash at end of period	192,175	121,109

In 2017, net cash flow from operating activities generated by the Group was negative at PLN -108.0m. During the reporting period, net cash from investing activities was positive at PLN 47.4m, as was net cash from financing activities, which reached PLN 132m. At the end of the period, net cash was nearly PLN 192.2m, compared with PLN 121.1m at the end of 2016, up by approximately 59%.

When discussing the PBG Group's statement of cash flow, the following should be pointed out first of all:

- net proceeds of PLN **163.4m** from the issue of Series K shares by RAFAKO;
- PLN 136.8m higher working capital requirement, including a significant effect of the repayment of claims under the arrangement (nearly PLN 19m in 2017) and redemption of bonds maturing in 2017 (PLN 68m) by the parent (thus the total of such liabilities repaid by the parent in 2017 was approximately PLN 87m) on net cash from operating activities;
- cash inflows from the sale of investment properties by the PBG Group companies for a total amount of over PLN 40m in 2017;
- cash inflows from borrowings in a total amount of nearly PLN 32.8m.

Cash flow profile

	2017	2016
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 2017, the PBG Group did not make any equity investments.

2. Expenditure on property, plant and equipment

In 2017, significant capex on property, plant and equipment within the PBG Group was made by the RAFAKO Group, which throughout 2017 incurred expenditure on non-financial non-current assets of PLN 5.9m, including: (i) on property, plant and equipment: PLN 5.1m, and (ii) on intangible assets: PLN 0.8m.

The RAFAKO Group's capital expenditure on property, plant and equipment included primarily expenditure on the purchase and modernisation of plant and equipment, including IT hardware, and the purchase of vehicles. Capital expenditures on intangible assets were made by the RAFAKO Group in connection with the implementation of a new controlling system, modernization of server rooms and implementation of the document flow system.

3. Feasibility of the Group's investment plans

Given the distressed financial condition of PBG S.A., the Group's parent, no major equity investments or expenditure on property, plant and equipment are planned. It may be necessary to incur expenditure on property, plant and equipment needed to execute the Group's contracts. With a view to raising additional funds, PBG S.A., the Group's parent, intends to sell non-core assets. However, at the PBG Group level, capital expenditure has been planned to be incurred by the RAFAKO Group companies. In 2018, this expenditure will be primarily made on purchase and upgrade of plant and equipment, as well as on upgrades of production buildings. Expenditure relating to intangible assets will be made to purchase software and licences. In addition, RAFAKO also intends to allocate significant expenditure on property, plant and equipment needed to conduct research and development work, including mainly as part of the "E-bus – an innovative small electric bus" project. Such expenditure will be financed mainly from RAFAKO's own funds, as well as using external financing sources (including lease).

VI. FINANCIAL OUTLOOK

As the court's decision to approve the arrangement became final, PBG, the Group's the parent, commenced to implement its provisions. For details of the arrangement and sources of its financing, as well as PBG's anticipated financial condition, see Section VI.IX. *Going concern assumption*. In parallel to performing the arrangement and the redemption of the bonds, PBG has been taking steps to stabilise the Group's operations.

VII. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

The main objective of the Group's capital management is to maintain good credit ratings and safe equity ratios, which can support the Group's operations and enhance its value for shareholders. To maintain or adjust their capital structure, the Group companies may usually contract bank borrowings, issue bonds, resolve to pay dividends to shareholders, return capital to shareholders, or issue shares or bonds. This is the case with RAFAKO, which at the end of 2017 raised additional capital from the market (PLN 163.4m) by issuing new shares (Series K shares).

Given that PBG S.A. was subject to a voluntary arrangement procedure from June 2012 to June 2016, capital management at the parent was virtually impossible. 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 parent'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.

VIII. OFF-BALANCE-SHEET RECEIVABLES AND LIABILITIES

As at December 31st 2017, the Group disclosed contingent receivables recognised as off-balance-sheet items of PLN 686.5m. They related mainly to performance bonds received of PLN 672.4m and promissory notes received as security for the performance of contracts of PLN 13.8m.

In 2017, the PBG Group recorded a decrease in contingent receivables, comprising mainly amounts received as security for the performance of contracts (PLN 21.3m), including a PLN 8.3m decrease in receivables under guarantees and a PLN 13m decrease in receivables under promissory notes.

As at December 31st 2017, the Group disclosed contingent liabilities recognised as off-balance-sheet items of PLN 1,775.0m. These included liabilities under sureties issued by the Group companies for third parties, liabilities under guarantees issued at the request of the Group companies for third parties and liabilities under promissory notes.

On June 13th 2016, the parent was notified that the bankruptcy court's decision to sanction the arrangement between the parent and its creditors had become final, and on July 29th 2016 the parent received a decision on closing of the insolvency proceedings. Therefore, the parent's contingent liabilities as at December 31st 2017 are presented under total contingent liabilities in accordance with the terms of the arrangement.

The contingent liabilities included liabilities under guarantees issued at the request of the Group companies for third parties to secure the performance of contracts (PLN 328.6m), sureties issued by the Group companies for third parties (PLN 1,429.1m), as well as promissory notes issued to secure the performance of contracts (PLN 17.2m).

In the 12 months of 2017, the PBG Group recorded a PLN 16.8m increase in contingent liabilities, including a PLN 116.0m increase in liabilities under guarantees issued, a PLN 101.9m decrease in sureties issued, and an approximately PLN 2.7m increase in liabilities under promissory notes issued to secure the performance of contracts.

IX. GOING CONCERN ASSUMPTION

The Group's ability to continue as a going concern depends on the parent and the RAFAKO Group continuing as going concerns, as well as on the expected business development of PBG oil and gas Sp. z o.o.

parent's formal and legal status

The decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Restructuring Division, to approve the parent's voluntary arrangement with creditors became final on June 13th 2016. On that date, the parent began to perform its obligations under the arrangement. Apart from repaying the claims under the arrangement and redeeming the bonds issued, the parent is implementing other provisions of the restructuring documents. Detailed information on the formal and legal status of the parent was presented in the parent's financial statements for previous reporting periods, including the separate financial statements for 2015 and 2016.

Assumption that operating companies (the RAFAKO Group, and PBG oil and gas Sp. z o.o.) will continue as going concerns

The consolidated financial statements of the RAFAKO Group were prepared on the assumption that the RAFAKO Group would continue as a going concern for at least 12 months as of the end of the reporting period. The circumstances determining the existence of any threat to the RAFAKO Group's ability to continue as a going concern were described in PBG Group's consolidated financial statements for 2017, issued on April 5th 2017.

As at the date of these consolidated financial statements, the parent's Management Board had examined the circumstances affecting the assessment of PBG oil and gas Sp. z o.o.'s ability to continue as a going concern. PBG oil and gas Sp. z o.o.'s ability to continue as a going concern in the 12 months after the reporting date and in subsequent years depends on the company's ability to win profitable construction contracts, mainly in the key areas of the Group's business, that is the oil, gas and fuel sector, and the power sector. The PBG insolvency proceedings having been closed, the subsidiary's management board – acting in cooperation with other PBG Group companies – intensified the measures taken to acquire new contracts.

Going concern assumption – the parent

Given the current financial situation of the parent, there are risks regarding its status as a going concern. As at December 31st 2017, the parent's current liabilities (disclosed in the separate financial statements) exceeded its current assets and assets classified as held for sale by approximately PLN 18.4m. Nonetheless, the parent's separate financial statements for 2017 have been prepared on the assumption that the parent will continue as a going concern in the foreseeable future, i.e. for at least 12 consecutive months from the date of authorisation of this Report for issue. The assumption was based on the fact that the court's decision to approve the arrangement with creditors became final, which allowed the parent to continue as a going concern. In 2016, the parent 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 obligations and redemption of the bonds

On June 13th 2016, the parent began to perform its obligations under the arrangement with creditors. The provisions of the arrangement will be performed by the parent until the end of June 2020. Pursuant to the terms of the arrangement, the parent 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 parent, including the restructuring agreement, subsequently amended by the 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 2017, the parent 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 parent is obliged to have the bonds listed on the stock 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 parent's knowledge, the schedule of payments under the arrangement and of the bonds redemption, including payment of liabilities towards subsidiaries, is as follows (amounts rounded to the nearest whole złoty):

Period:	H1 2018	H2 2018	2019	H2 2020	Total
Repayment of the parent's liabilities under the arrangement and the bonds, including:	**68,455,629**	**25,130,180**	**133,019,662**	**298,430,057**	**525,035,527**
- redemption of bonds	*50,329,400*	*14,949,700*	*106,743,000*	*231,613,200*	**403,635,300**
- payment of arrangement instalments	*16,720,747*	*9,639,861*	*23,594,966*	*45,845,094*	**95,800,667**
- payment of contingent claims after the date of fulfilment of the condition	*1,405,482*	*540,619*	*2,681,696*	*7,936,756*	**12,564,553**
- payment of disputed claims	*0*	*0*	*0*	*13,035,007*	**13,035,007**

The parent recognised a provision of PLN 25,599,906 for the repayment of contingent or disputed claims. As estimated by the parent's Management Board, of that amount contingent claims of PLN 12,564,899 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), while disputed claims of PLN 13,035,007 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 will be paid at the end of the arrangement term.

Amount of liabilities repaid from the date when the parent began to perform the arrangement (rounded to the nearest whole złoty)	
Liabilities repaid by the date of issue of these financial statements, including:	125,515,495
repayments under the arrangement	55,064,795
redemption of bonds	70,450,700

The parent's Management Board expects to receive the following cash proceeds during the term of the arrangement, mainly over the next 12 months (rounded to the nearest whole złoty):

Expected cash proceeds from:	H1 2018	Q3 2018	Q4 2018	H1 2019	H2 2019	H1 2020	Total
Sale of the parent's properties and other non-core assets	21,744,000	400,000	2,200,000	0	997,000	0	25,341,000
Repayment of loans by the parent's subsidiaries implementing the divestment plan	26,026,446	0	55,000,000	0	10,550,000	0	91,576,446
Sale of receivables under the *Ministersky* development project in Kiev	20,000,000	0	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.	-65,647	-950,397	-2,588,976	6,370,622	3,696,294	3,647,443	10,109,339

Cash flows from the Company's other operations	-17,322,460	-3,174,605	3,574,758	19,660,366	14,140,091	6,957,927	23,836,078
Cash flows under loans granted to the Company	18,300,000	4,000,000	-22,300,000	0	8,800,000	6,000,000	14,800,000
Refinancing of the balloon payment	0	0	0	0	0	280,000,000	280,000,000
TOTAL	**68,682,339**	**274,998**	**35,885,783**	**86,030,987**	**38,183,385**	**296,605,371**	**525,662,862**

Divestments will be the main source of cash to repay the liabilities over the next 12 months, i.e. in the period from January 1st to December 31st 2018. In this period, the parent and its subsidiaries expect to raise a total of PLN 125.4m from divestments.

Cash balance after: (i) redemption of bonds; (ii) payment of arrangement instalments [PLN]	***H1 2018***	***Q3 2018***	***Q4 2018***	***H1 2019***	***H2 2019***	***H1 2020***
	226,710	501,708	11,257,311	14,694,113	2,452,021	627,335

Net working capital disclosed in the parent's separate financial statements

As disclosed in the separate financial statements as at December 31st 2017, current assets and non-current assets held for sale totalled PLN 132.7m, while current liabilities were PLN 151.0m, which implies negative net working capital of approximately PLN -18.4m. Considering the above, the parent'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 17.2m 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 132.7m as at the reporting date, indicates that within 12 months from the reporting date the Company will be able to release PLN 143.3m, 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 101.0m, i.e. about PLN 4.9 more compared with the amount disclosed in the financial statements prepared in accordance with the IFRS. The higher amount is attributable to the repayment of loans by related entities. Valuation of the loans performed in accordance with IFRS is higher than the one based on the Management Board's detailed plans, but by the end of the first half of 2018 the parent intends to raise an additional PLN 20m as a result of the performance of the agreement related to the Group's exit from the development project in Kiev.
- The parent'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 3.2m, mainly in connection with the ongoing divestments of the parent's non-core assets;
- The parent's Management Board increased the estimated inflow of short-term receivables by about PLN 2.7m following a detailed assessment of the possibility of recovering a part of receivables for which impairment losses had been recognised in accordance with the IFRS, including the receivables that are to be offset within 12 months from the reporting date against the arrangement claims maturing in that period.

The amount of current liabilities disclosed in the parent's full-year financial statements as at December 31st 2017 was PLN 151.0m. However, the analysis carried out by the parent's Management Board indicates that approximately PLN 126.1m will become due and payable within 12 months from the reporting date. The difference follows mainly from the classification of some arrangement claims as current liabilities, which will ultimately be offset against trade receivables from creditors, and from the lack of necessity to repay loans to subsidiary PBG oil and gas in the short term.

Expected sources of funding for 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 (amounts given below have been calculated for the period from January 1st 2018):

- Time-optimised proceeds from divestment of the parent's non-core assets – expected proceeds over the entire term of the arrangement: PLN 25.3m;
- 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 171.6m, 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 on 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 parent 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 parent and acquired by eligible creditors, in particular the parent's financial creditors who have signed or acceded to the restructuring agreement. Divestments of non-core assets as a source of funding of the arrangement will involve sale of properties owned by the parent and its subsidiaries, or sale of subsidiaries. Proceeds from the sale of properties owned by subsidiaries will be transferred to the parent as repayment of loans granted to the subsidiaries to finance their property development and investment activities before the arrangement bankruptcy was declared.
The parent intends to partly finance repayments 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 parent's judgment 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 parent to regain its creditworthiness. During the term of the arrangement and repayment of the bonds, the parent'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 parent is expected to be able to finance the last payment under the arrangement and to redeem the last series of bonds with proceeds from borrowings it would be able to contract on market terms, based on the parent's then-current revenue streams and expected future revenues as well as the parent's assets then existing.

Risks which, if materialised, may limit the parent's ability to perform ists obligations under the arrangement

Considering the expected duration of the arrangement, under which the parent is obliged to make final repayments to the creditors by June 30th 2020, the parent has identified possible risks that may occur in that period, which, if materialised, may significantly limit the parent'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 parent intends to rely in large part on funds to be raised by the parent or its subsidiaries from the divestment of properties owned by the parent and its subsidiaries, or of property development projects in which the parent had engaged before the arrangement bankruptcy was declared. This means that a potential unexpected downturn in the property market may significantly affect the parent's ability to secure funds required to satisfy claims under the arrangement or to redeem the bonds. Bearing in mind the aforementioned risk of not receiving the proceeds from the development project in Ukraine due to changes in or escalation of the political conflict in Ukraine, the parent's Management Board negotiated a deal to sell the receivables under the conditional sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. (for more information, see Section IV.VI). In connection with the change of the assumptions, the parent's Management Board will request the Bondholders for their consent to carry out the transaction on the terms specified in the receivables sale agreement. A potential threat to the implementation of the arrangement or the parent's ability to redeem outstanding bonds may also come from lower than expected operating cash flows of the parent and its subsidiary PBG oil and gas, mainly due to the parent'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. A potential delay or failure by the parent to make repayments under the arrangement could prompt creditors to submit a motion 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 motion if the debtor fails to perform any provisions of the arrangement or it is obvious 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 parent and its selected subsidiaries, should it become 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, could commence enforcement of the relevant claims against the parent'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 parent's Management Board is of the opinion that, based on the parent's financial estimates, the parent should be able to redeem the bonds in line with the agreed schedule and to pay all outstanding claims under the arrangement, and therefore the assumption that the parent will continue as a going concern in the foreseeable future (i.e. for at least 12 consecutive months from the date of authorisation of these financial statements 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**