DIRECTORS' REPORT ON THE OPERATIONS OF THE PBG GROUP

for the period January 1st–June 30th 2018

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1. Composition of the Supervisory Board

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

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

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

Biographical notes of the Supervisory Board members:

<u>Helena Fic</u>
<u>Chair of the Supervisory Board, member of the Remuneration Committee</u>
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.

<u>Małgorzata Wiśniewska</u>
<u>Deputy Chair of the Supervisory Board, member of the Remuneration Committee</u>
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.

<u>Andrzej Stefan Gradowski</u>
<u>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</u>
Since 1996, Andrzej Stefan Gradowski has been the owner of G.C. Consulting Sp. z o.o. In 1996–2002, he was as an adviser to the president of BZ WBK S.A. In 2002, he became a member of the supervisory boards of MACOPHARMA S.A. and LOOK Investment S.A. In 2010–2012 he served as a supervisory board member at Alterco S.A. and Trigon S.A.

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

Dariusz Sarnowski

Member of the Supervisory Board, member of the Audit Committee

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

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

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

Maciej Stańczuk

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

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

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

Przemysław Lech Figarski

Member of the Supervisory Board

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

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

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

Faustyn Wiśniewski

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

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

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

The Supervisory Board's term of office is three years.

By June 30th 2018 and by the date of authorisation of this Report for issue, the composition of the Supervisory Board had not changed.

2. Composition of the Management Board

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

Composition of the Management Board in the reporting period:

Jerzy Wiśniewski – President of the Management Board;

Mariusz Łożyński – Vice President of the Management Board

Dariusz Szymański – Vice President of the Management Board;

Kinga Banaszak-Filipiak − Member of the Management Board.

Biographical notes of the Management Board members:

Jerzy Wiśniewski – President of the Management Board

Mr Jerzy Wiśniewski began his professional career in 1984 as head of the gas transmission system operations at PGNiG S.A. In 1994−1998, he was the owner of Piecobiogaz J. Wiśniewski, M. Wiśniewska s.c. He also worked for Gazmontaż S.A. In 1998−2004, he was a shareholder and president of the management board of Technologie Gazowe Piecobiogaz Sp. z o.o. (the legal predecessor of PBG); in 2004−2012 and then since 2014 he has served as President of the PBG Management Board. Since 2012, he has sat on the supervisory board of RAFAKO, currently as its chairperson.

Mr Jerzy Wiśniewski is a graduate of the Faculty of Civil Engineering at the Poznań University of Technology. He completed an MBA programme run by the Gdańsk Foundation for Management Development, University of Gdańsk and Rotterdam School of Management – Erasmus Graduate School of Business. In addition, he completed the 'Management 2000' professional development course for managers organised by the Canadian International Management Institute. He also completed a course for candidates to supervisory boards at state-owned companies. Mr Wiśniewski holds numerous certificates confirming his qualifications in construction.

Mariusz Łożyński – Vice President of the Management Board

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

Mariusz Łożyński is a graduate of the Faculty of Civil Engineering at the Poznań University of Technology. In 2002, Mariusz Łożyński completed the 'Management 2000' professional development course for managers organised by the Canadian International Management Institute.

Dariusz Szymański – Vice President of the Management Board

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

Mr Dariusz Szymański is also a sole trader running his own legal counsel practice.

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration of Supervisory Board members for holding office at the parent

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

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

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

2. Remuneration of the Management Board members

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

Remuneration of Management Board members for holding office at the parent

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

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

Remuneration (PLN '000)	Jan 1 – Jun 30 2018			Jan 1 – Jun 30 2017		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Jerzy Wiśniewski	540	300	840	840	665	1505
Mariusz Łożyński	-	-	-	27	-	27
Kinga Banaszak – Filipiak	60	-	60	60	-	60
Dariusz Szymański	54	-	54	54	-	54
TOTAL	**654**	**300**	**954**	**981**	**665**	**1646**

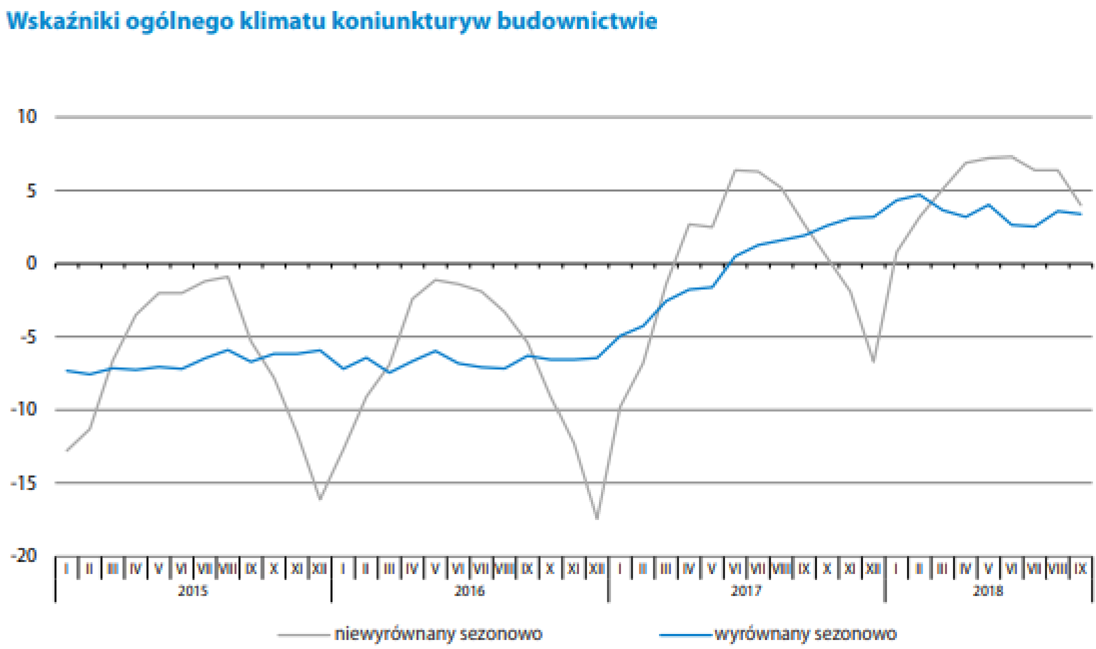
SECTION II: RISKS AND FINANCIAL RISK MANAGEMENT REPORT

I. RISKS AND THREATS

EXTERNAL RISKS AND THREATS

1. Risks from macroeconomic conditions
The 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.

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



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

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

2. Competition risk

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 on a market dominated by large players, including international operators. In this market, contracts are typically awarded through public tenders, and projects can take as much as several years to complete. Apart from pricing, other important sources of competitive advantage include experience in the execution of complex specialist projects, relevant credentials, high quality of services and efficient organisation enabling contract delivery on an EPC basis.

Competition risk is mitigated by 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.

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	-ZPUH Metalnaft - IDS-BUD - ABB	- KT- Kinetics Technology - Tecnimont	
OIL AND GAS	LNG PLANTS	- Polimex Mostostal - Mostostal Warszawa - Budimex		- Air Products - DAEWOO Engeneering & Construction - KT - Kinetics Technology - Thermo Design Engineering	- Saipem - Tecnimont - Tractebel - Linde - Costain
OIL AND GAS	TRANSMISSION	- PGNiG Technologie - Gazoprojekt - Control Process - IDS-BUD - ATREM - REDGAZ - WIERTCONSULTING - Górnośląski Zakład Obsługi Gazownictwa - JT ZAKŁAD BUDOWY GAZOCIĄGÓW	- NDI - POLAQUA - Budimex - Energy System - Energotest - Izostal - ZRUG Zabrze - MTM Nowum - ZRUG Poznań - POLDE - GPT - TESGAS	- FCC CONSTRUCCION - A.Hak Leidingbouw B.V. - OT INDUSTRIES - KVV CONTRACTOR - PPS Pipeline Systems - PSJ Hydrotransit - Moravsky Plynostav - Denys NV - Bilfinger Infrastucture - SICLISALDO	
OIL AND GAS	REFINERIES	- KTI Polska - Polimex Mostostal		- ABB - PSJ Hydrotranzit - Techint	
OIL AND GAS	DELIVERY OF SPECIALIST GAS EQUIPMENT AND AUXILIARY INFRASTRUCTURE	- Control Process - Budimex - Polimex Mostostal	- ABB - PGNiG Technologie - Górnośląski Zakład Obsługi Gazownictwa	- ABB - KAWASAKI	
OIL AND GAS	OIL AND GAS EXTRACTION FACILITIES	- PGNiG Technologie - Control Process	- ZPUH Metalnaft - IDS-BUD - ABB	-Tecnimont-Techint	- KT - Kinetics Technology
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 - Instal Warszawa - WARBUD - Strabag	- Siemens - Samsung - Iberdrola - SNC-Lavalin - Ansaldo Energia - GE - 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, including supercritical ones, as well as environmental protection equipment for the heat and power sector. RAFAKO also offers a broad range of other 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, 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.
In 2014-2020, Poland was allocated record funding 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 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.
The pace of launching national and regional operational programmes for 2014-2020 was slower than in the years 2007-2013. Delays ranged from six to nine months. Therefore, the 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 PBG Group.

This may result in fiercer competition and squeeze profit margins. However, international operators usually bid for contracts in consortiums 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 9001:2015, PN-EN ISO 14001:2015; PN-N-18001:2004, PN-EN ISO 3834-2:2007, AQAP 2110:2016.

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 laws currently in effect may be changed to ones 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
Starting from the beginning of the year, the price of the euro against the złoty has fluctuated considerably, due to the situation in the Polish and European markets, and developments in the global currency markets.
A weakening of the euro against the złoty was visible at the beginning of 2018: on January 29th, the euro hit a low of PLN 4.14. In the following months, the złoty depreciated against the euro to reach 4.4 PLN/EUR at the beginning of July 2018.
As regards the mid-term time horizon, according to forecasts by PEKAO S.A. bank's analysts, at the end of 2018 market sentiment is expected to stabilise and consequently, the exchange rate should move at about 4.26 PLN/EUR in December.

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

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

7. Risk of significantly limited ability to win new contracts

Most contracts are won by the Group through public procurement. The Company's ability to win new contracts depends on the availability of guarantee limits. In recent years, funding provided to construction companies has been heavily constrained after financial institutions changed the rules of granting credit, and 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,
- Working in an environment which is free from discrimination and other forms of human rights abuses,
- Career and professional development opportunities.

2. Risk of failure to meet contractual obligations

Construction contracts include a number of clauses related to their proper performance, timely completion and removal of defects, which involves the provision by contractors 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 contractual penalties 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 the first half of 2018 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 4.47bn (exclusive of VAT). The largest foreign customer of the Group's power construction segment is UAB VILNIAUS KOGENERACINE JEGAINE, for which RAFAKO is building a biomass-fired CHP unit in Vilnius, worth PLN 0.65bn.

In the oil and gas segment, the largest customer remains the NATO Security Investment Programme Management Office, for which the Parent 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 PBG Group regularly participates in tenders and seeks to attract new customers (for instance TAURON WYTWARZANIE, ZAK, ENEA WYTWARZANIE, KGHM, PGNiG, GAZ-SYSTEM, PGE, ENERGA). The Group has also stepped up efforts to win clients in foreign markets, for example in Estonia, Lithuania, Finland, Mongolia or 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 with creditors is described in Note 2.3 to the consolidated financial statements for H1 2018.

II. FINANCIAL RISK IDENTIFICATION AND MANAGEMENT

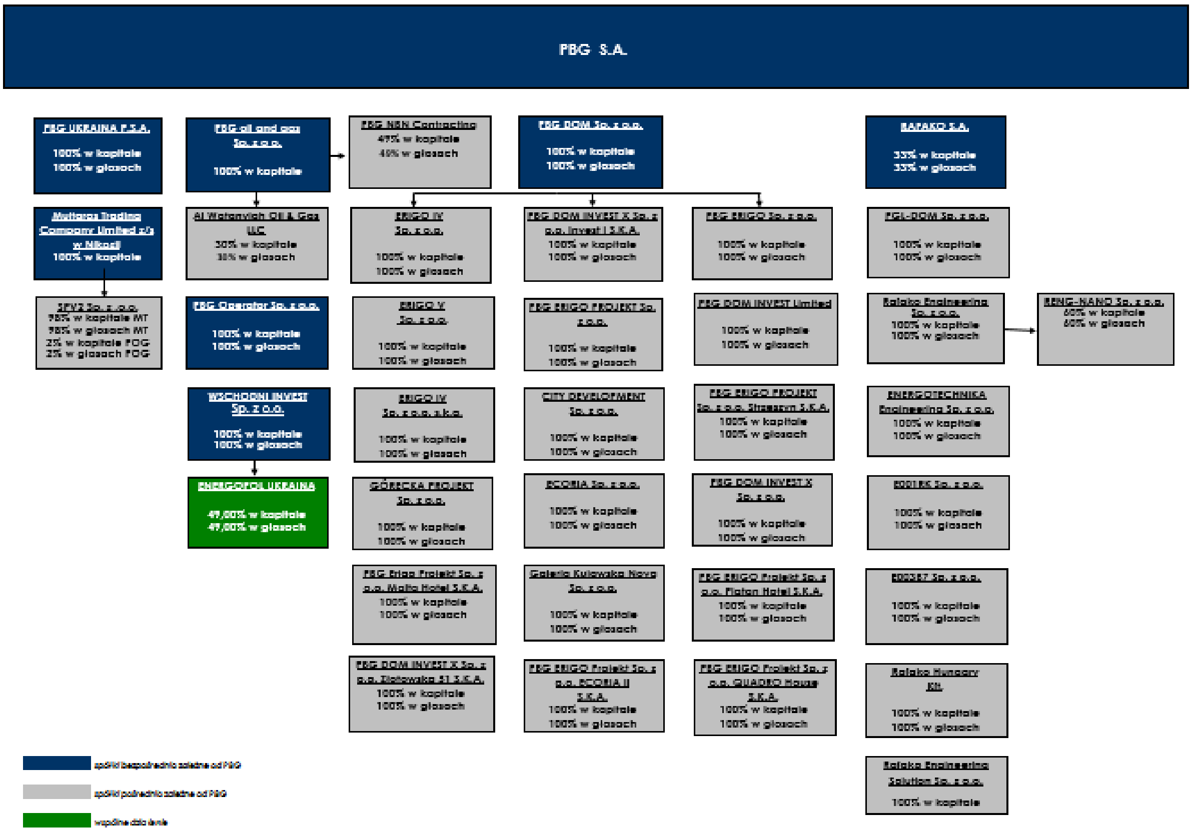
The objectives and policies of financial risk management have not changed relative to those published in the most recent consolidated financial statements for 2017, which are available on the Company's website at http://www.pbg-sa.pl/relacje-inwestorskie/raporty-okresowe/skonsolidowany-raport-roczny-gk-pbg-za-rok-2017.html.

SECTION III: PBG GROUP

I. STRUCTURE OF THE GROUP

As at the date of filing this Report, the Group consisted of 38 companies, including the parent – PBG, 7 direct subsidiaries, 29 indirect subsidiaries and one associate.

Structure of the PBGGroupas at the date of filing this Report



II. COMPANIES OF THE GROUP

Shares held in related entities

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. ***until March 21st 2018***			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 Sp. z o.o.			full	50	PLN 5,000	50	PLN 5,000
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	not consolidated	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	PLN 100	1	PLN 100
	Multaros Trading Company Limited of Nicosia	indirect subsidiary		49	PLN 4,900	49	PLN 4,900
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	PLN 50,000.00
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 20	PLN 3,550,000 PLN 1,000	71,000 20	PLN 3,550,000 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	PLN 15,331,998	7,665,999	PLN 15,331,998
	Multaros Trading Company Limited of Nicosia	indirect subsidiary		34,800,001	PLN 69,600,002	34,800,001	PLN 69,600,002
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	EUR 38,500	1	EUR 38,500
RAFAKO Hungary Kft.			full	1	HUF 40,000	1	HUF 40,000
RAFAKO ENGINEERING Sp. z o.o.	RAFAKO S.A. PBG oil and gas Sp. z o.o.	indirect subsidiary	full	3,630 3,481	PLN 1,815,000 PLN 1,740,500	3,630 3,481	PLN 1,815,000 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	equity-accounted, joint venture	49	UAH 119,119	49	UAH 119,119
RENG-NANO	RAFAKO ENGINEERING Sp. z o.o.	indirect subsidiary	full	6,000	PLN 600,000	6,000	PLN 600,000

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. SCOPES OF SERVICES PROVIDED BY THE GROUP COMPANIES – BY BUSINESS SEGMENT

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.

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.

OTHER OPERATIONS

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 the Skalar office building, located at ul. Górecka 1 in Poznań, ans was engaged in its commercialisation.
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. The company also engaged 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. The company also engaged 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 in Karpia 25 Street 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 Świnoujście). 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.	The SPV completed the planned sale of an investment property.
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.

IV. STRATEGY

1. 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. Until the end of 2018, in the gas and oil upstream and downstream sector, the Group plans to bid for contracts in the Polish and foreign markets with a total estimated value of almost PLN 2.4bn, and assumes to secure contracts for at least PLN 400m throughout 2018. As at the date of issue of these financial statements, the level of performance of this objective by the Group was approximately PLN 180m. Tenders in this segment mainly relate to installations for liquefying natural gas and LNG storage, compressor stations, gas pipelines, gas production facilities, and modernisation of existing installations and facilities.

Power construction

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

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

Foreign operations

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

- In the markets where the Group was present in the past and is continuously active;
- In the markets where the Group was present in the past and where it intends to return 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.

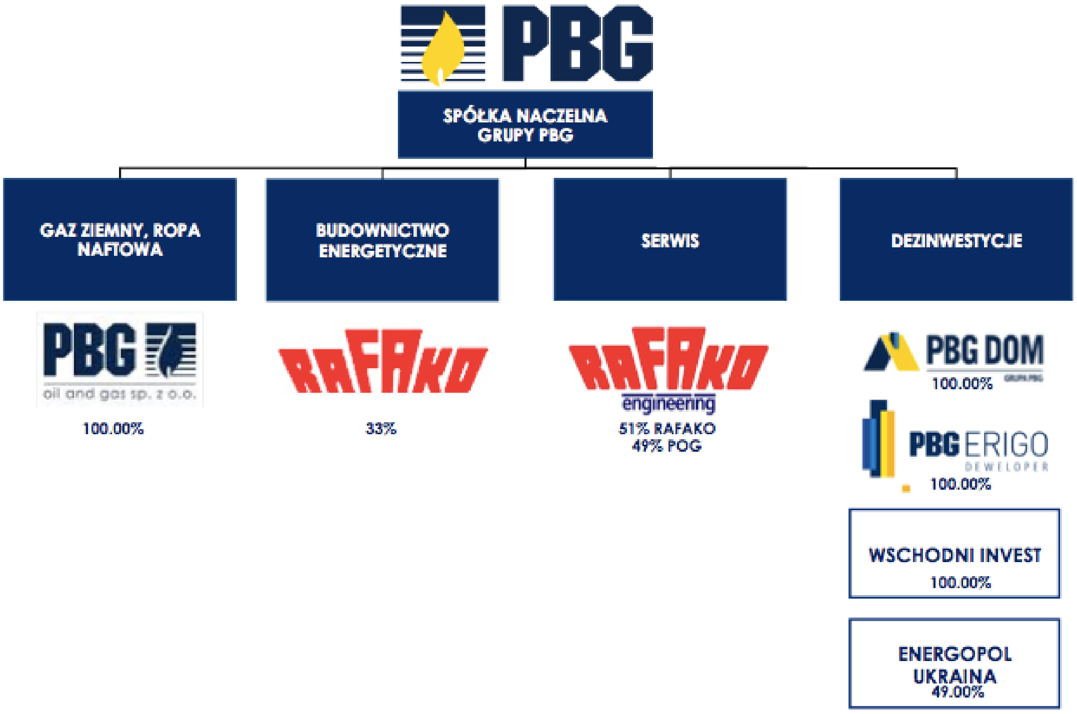
For the markets including, but not limited to, Central Asia, Vietnam, Mongolia, and Indonesia, the Group plans to develop its activities by collaborating with strong local partners who know the local markets and can guarantee access to local contractors. With regard to new markets, the Group – in addition 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.

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

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

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



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 rendered in each of the segments are listed below.

Services by segment

Gaz ziemny, ropa naftowa i paliwa

- Instalacje naziemne do wydobycia ropy naftowej i gazu ziemnego
- Instalacje do skraplania gazu ziemnego, magazynowania i regazyfikacji LNG
- Stacje separacji i magazynowania LPG, C5+
- Instalacje odsiarczania
- Stalowe gazociągi do przesyłu gazu ziemnego i ropy naftowej
- Zbiorniki paliwowe
- Instalacje techniczne i sanitarne

Budownictwo energetyczne

- Montaż
- Modernizacje
- Naprawy urządzeń
- Naprawy instalacji do ochrony środowiska i energetyki
- Produkcja kotłów
- Produkcja urządzeń do ochrony środowiska

inne

Pozostałe usługi:
- ogólnobudowlane
- deweloperskie
- hotelowe
- wynajem powierzchni biurowych

Gas, oil and fuels	Gaz ziemny, ropa naftowa i paliwa
Surface installations for crude oil and natural gas production	Instalacje naziemne do wydobycia ropy naftowej i gazu ziemnego
Installations for liquefying natural gas and for LNG storage and regasification	Instalacje do skraplania gazu ziemnego magazynowania i regazyfikacji LNG
LPG, 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
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
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 industry, the Group offers specialist construction services, including with respect to construction of: (i) surface installations for oil and gas production; (ii) installations for liquefying natural gas and for LNG storage and regasification, (iii) LPG, C5+ separation and storage facilities, (iv) LNG storage and evaporation facilities, (v) underground gas storage facilities, (vi) desulfurisation units, (vii) surface infrastructure of underground gas storage facilities, (viii) crude oil tanks, (ix) transmission systems for natural gas and crude oil, including pressure reduction and metering stations and metering and billing stations, mixing plants, distribution nodes, compressor stations, etc., (x) fuel terminals. Services in the segment are performed mostly by PBG and PBG oil and gas. In line with the pursued strategy, as updated in H1 2018, 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 the 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 H1 2018, revenue streams from each segment were generated primarily on the Polish market, but also in foreign markets, and were as follows:

Operating segments

Revenue	H1 2018 (PLN '000)	H1 2017 (PLN '000)	Change (PLN '000)	Change (%)
Gas, oil and fuels (transmission, distribution, production)	4,679	19,505	-14,826	-76
Power construction (construction of power generating units)	628,823	885,993	-257,170	-29
Other (other services: general construction, property development, hotel and rental of office space)	4,501	8,502	-4,001	-47
Total revenue	638,003	914,000	-275,997	-30

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 have also been made to enter foreign markets in both of the Group's strategic business segments. These efforts are already bringing measurable results: in H1 2018, slightly more than 18% of the Group's total revenue was generated in foreign markets.

VII. SEGMENT OPERATIONS

1. Natural gas and crude oil segment

PBG was the pioneer on the Polish market having introduced T.D. Williamson's environmentally friendly hot tapping method (which allows working on isolated sections of live gas pipelines) already in 1990s. 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 now used to develop oil production facilities.

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'. PBG and PBG oil and gas are among the few contractors in Poland that meet the contracting authority's requirements in that respect.

SALES

Services in the natural gas and crude oil segment are sold primarily in Poland. In H1 2018, the Group's largest customer in the segment was the NATO Security Investment Programme Management Office.

Sale of services in the natural gas and crude oil segment

Revenue	H1 2018 (PLN '000)	H1 2017 (PLN '000)	Change (PLN '000)	Change (%)
Gas, oil and fuels (transmission, distribution, production)	4,679	19,505	-14,826	-76

In H1 2018, the segment of natural gas, oil and fuels accounted for a little less than 1% of the Group's revenue. The segment's revenue in the period was PLN 4.7m, down on 2017, when it came in at PLN 19.5m. The largest running project in the reporting period was "Construction of underground fuel storage facilities for NATO."

2. Power construction

SALES

The Group's services for power construction are sold in Poland and abroad. Foreign contracts also involve supplies of power installations and environmental protection systems. The Group's main customers are state-controlled businesses, responsible for the implementation of Poland's energy security strategy (TAURON, PGE, ENEA, ENERGA, KGHM, PKN ORLEN).

Sale of services in the power construction segment

Revenue	H1 2018 (PLN '000)	H1 2017 (PLN '000)	Change (PLN '000)	Change (%)
Power construction (construction of power generating units)	628,823	885,993	-257,170	-29

In H1 2018, power construction services contributed nearly 98% to the Group's total revenue. Compared with the same period of the previous year, revenue fell by 29%, to PLN 629m at the end of H1 2018.

3. Other operations

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	H1 2018 (PLN '000)	H1 2017 (PLN '000)	Change (PLN '000)	Change (%)
Other (other services: general construction, property development, hotel and rental of office space)	4,501	8,502	-4,001	-47
Total revenue	638,003	914,000	-275,997	-30

In H1 2017, the share of the 'Other' segment in the Group's total revenue was a mere 1%.

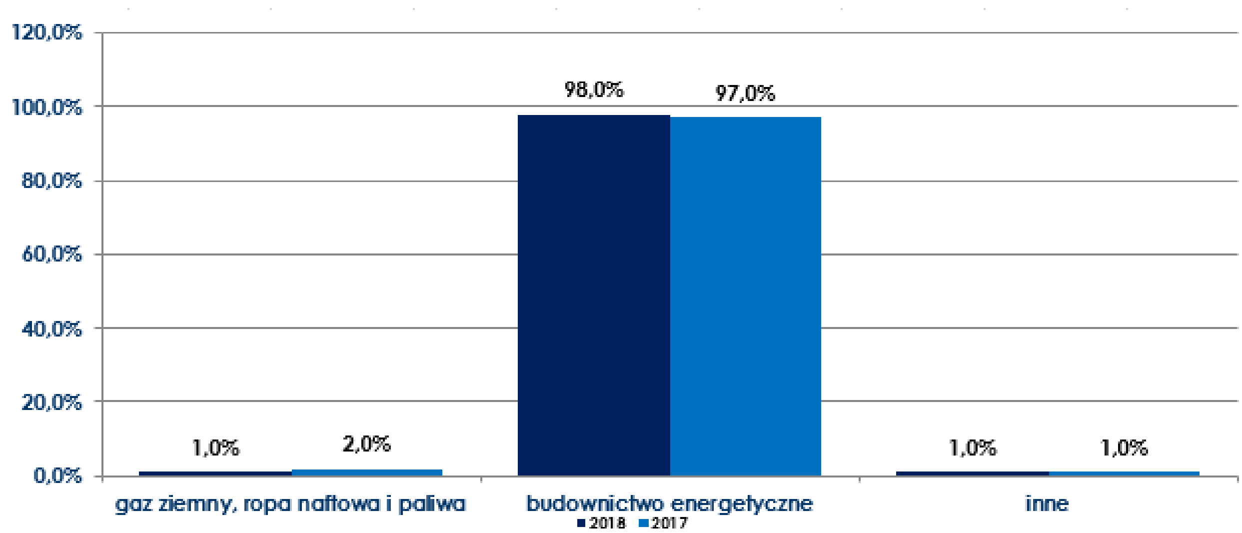
Entities sales to which, or purchases from which, reached at least 10% of the Group's total revenue

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. and Enea Wytwarzanie Sp. z o.o.,
- suppliers: none of the suppliers/subcontractors exceeded 10% of the Group’s total revenue.

SHARES OF THE GROUP’S SEGMENTS IN REVENUE

Shares of the Group’s business segments in H1 2018 and H1 2017 revenue



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

VIII. BRANCHES

Branches of the parent – PBG S.A.:
n/a
RAFAKO S.A.:
Turkey branch

SECTION IV: REPORT ON THE PBG GROUP’S OPERATIONS IN H1 2018

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**

Contract	Parties	Date	Key information about the contract
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. 10/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_10_2018_spelnienie_warunku_Lombok.pdf **in conjunction with RAFAKO Current Report No. 27/2017:** https://www.rafako.com.pl/pub/File/raporty_biezace/2017/RB_27_2017_OFERTA_LOMBOK.pdf;			
Construction of the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk pipeline	RAFAKO S.A. Employer: Operator Gazociągów Przesyłowych GAZ – System S.A.	**May 30 2018**	Signing of a contract worth PLN 124,892,356 (VAT exclusive) with the Employer, to be implemented within 24 months.
For more information, see: RAFAKO Current Report No. 20/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/20180530_RB_20_2018_zawarcie_umowy_z_GAZ_SYSTEM_.pdf			
Construction of flue gas desulfurization unit II at Ostrołęka Power Plant B	Consortium comprising: RAFAKO S.A. (Leader), ENERGA Serwis Sp. z o.o. Employer: ENERGA Elektrownie Ostrołęka S.A.	Jul 24 2018	The Consortium signed a contract with a value of PLN 199,250,000 (VAT exclusive), including RAFAKO's remuneration of PLN 126.25m. The contract is scheduled for completion by June 30th 2020.
For more information, see: RAFAKO Current Report No. 28/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_28_2018_umowa_IOS_Ostroleka.pdf			
Comprehensive upgrade of the flue gas desulphurisation systems at units No. 3, 4, 5 and 6 at the Bełchatów Power Plant of PGE GiEK S.A.	RAFAKO S.A. Employer: PGE Górnictwo i Energetyka Konwencjonalna S.A.	Aug 1 2018	Execution of a contract with a value of PLN 181,600,000 VAT-exclusive, scheduled for completion by May 31th 2021.
For more information, see: RAFAKO Current Report No. 30/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/20180801_RB_30_2018_umowa_IOS_Be_chat_w_3456.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
Execution of a bank guarantee facility agreement with HSBC Bank Polska S.A.	RAFAKO S.A. Bank: HSBC Bank Polska S.A.	**Apr 27 2018**	Execution of a revolving bank guarantee facility agreement between RAFAKO S.A. and the Bank. Limit: EUR 20,475,000,00 Within the limit, bid bonds, advance payment guarantees, performance bonds and warranties may be granted expiring not later than April 24th 2024. RAFAKO's use of guarantees is conditional upon, *inter alia*, the establishment of security.
For more information, see: RAFAKO Current Report No. 16/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/RB_16_2018_linia_gwarancyjna_HSBC.pdf			
Multi-purpose credit facility agreement	RAFAKO S.A. Lender PKO BP S.A.	**Jun 29 2018**	Execution of an annex to a multi-purpose credit facility agreement: A. specifying the amount of the working capital revolving facility, i.e.: a) an overdraft facility up to PLN 70m, b) a revolving working capital facility to finance current liabilities under day-to-day operations, up to PLN 70m, c) bank guarantees to finance payments (if any) under bank guarantees issued up to PLN 150; B. extending the term and maturity date of the facility until June 30th 2019.
For more information, see: RAFAKO Current Report No. 24/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/20180629_RB_24_2018_aneks_nr_28_do_umowy_LKW_z_P.pdf			

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

<table>
<tr><th>Event</th><th>Description</th></tr>
<tr><td rowspan="4">Changes in PBG S.A. share capital
Information on the shares</td><td>Court registration, on January 19th 2018, of an increase in the Company’s share capital to PLN 16,085,284.02 following the issue of 213,610 Series H shares.</td></tr>
<tr><td>PBG Current Report No. 3/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/3-2018-podwyzszenie-kapitalu-zakladowego-pbg.html</td></tr>
<tr><td>Exercise, on January 22nd 2018, of the rights attached to 66,021 Subscription Warrants by Jerzy Wiśniewski, and the acquisition of 66,021 Series I Shares and increase of the Company’s share capital to PLN 16,086,604.44.</td></tr>
<tr><td>For more information, see: PBG Current Report No. 4/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/4-2018-dojscie-do-skutku-emisji-serii-i-oraz-podwyzszenie-kapitalu-zakladowego-spolki.html</td></tr>
<tr><td rowspan="2">Merger of PBG S.A. as the Acquirer and PBG AVATIA Sp. z o.o. as the Acquiree</td><td>Adoption, by the Extraordinary General Meeting of PBG S.A. of January 9th 2018, of resolutions to merge PBG with PBG AVATIA spółka z ograniczoną odpowiedzialnością under Art. 492.1.1 of the Commercial Companies Code, i.e. by transferring all assets of PBG AVATIA to PBG, and to approve the Merger Plan, which was agreed upon and signed by the Management Boards of the merging companies on October 27th 2017.
The merger was registered by the Court on March 21st 2018.</td></tr>
<tr><td>For more information, see: PBG Current Report No. 1/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/1-2018-uchwaly-podjete-przez-nadzwyczajne-walne-zgromadzenie-spolki-pbg-s-a-w-dniu-9-stycznia-2018-roku.html
PBG Current Report No. 10/2018: http://www.pbg-sa.pl/pub/pl/uploaddocs/raport-biezacy-10-2018.3640896075.pdf</td></tr>
<tr><td>Auditor’s letter to AOC and PFSA in connection with audit of financial statements</td><td>On February 26th 2018, PBG S.A. was notified by its auditor Ernst & Young Audyt Polska Sp. z o.o. Sp.k. (acting pursuant to Article 12.1.(b) and (c) of Regulation No 537/2014 of the European Parliament and of the Council) of a letter sent by the auditor to the Audit Oversight Commission and the Polish Financial Supervision Authority in connection with the statutory audit of the separate financial statements of PBG S.A. and the consolidated financial statements of the PBG Group for the financial year ended December 31st 2017, concerning:
1) material threats to or uncertainty over continued existence of PBG S.A.
2) issues that may cause the auditor to refuse to give an opinion, or to give an adverse or qualified opinion, on the financial statements presented for audit.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 8/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/8-2018-informacja-o-skierowaniu-przez-bieglego-rewidenta-pisma-do-kna-oraz-knf-w-zwiazku-z-badaniem-sprawozdania-finansowego.html</td></tr>
<tr><td>Update of the PBG Strategy</td><td>On April 5th 2018, the PBG Management Board approved the updated Strategy for the PBG Group.

The Strategy seeks to deliver long-term growth in the Group’s value by building the largest engineering and construction group in Poland around the RAFAKO Group, which enjoys a strong position in international markets, offering specialist construction services for the power sector and for the oil and gas upstream and downstream sectors.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 11/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/11-2018-przyjecie-przez-zarzad-pbg-zaktualizowanej-strategii-dla-grupy-kapitalowej-pbg.html</td></tr>
<tr><td>Completion of negotiations on transfer of significant claim</td><td>On April 25th 2018, negotiations were completed regarding the sale of the Company’s claim against Imidż Finans Group Sp. z o.o. of Kiev, Ukraine under an agreement obliging the Company to sell the claim. Pursuant to the negotiated agreement on the sale of the claim, the Transferee will pay PLN 80m to PBG, including a non-refundable advance payment of PLN 20m payable by June 25th 2018; the balance of PLN 60m will be paid by June 25th 2019.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 14/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/14-2018-zakonczenie-negocjacji-w-zakresie-przeniesienia-istotnej-wierzytelnosci.html</td></tr>
<tr><td>Listing of PBG shares in Alert List</td><td>Having analysed the formal and legal status of PBG shares listed since January 3rd 2018, on June 20th 2018, the Company’s Management Board announced that the reverse split of Company shares in order to increase their price is not feasible, as the issues of Series H and Series I shares are pending and the Company’s Articles of Association do not provide for share cancellation. The analysis found that a reverse split of the Company shares that would serve to remove the shares from the Alert List is not possible considering the terms of the arrangement with creditors, approved by the final decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division (Case No. XI GUp 29/12), dated October 8th 2015 (the “Arrangement”) for as long as the Company performs the Arrangement.</td></tr>
<tr><td colspan="2">For more information, see: PBG Current Report No. 17/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/17-2018-informacja-dotyczaca-notowania-akcji-pbg-na-liscie-alertow.html</td></tr>
</table>

Approval of financial statements and Directors' Report for 2017	On June 26th 2018, the Annual General Meeting of PBG S.A. passed resolutions approving the Directors' Report on the parent's and the Group's operations in 2017, as well as the parent's separate financial statements and the Group's consolidated financial statements for the financial year 2017.
For more information, see: PBG Current Report No. 18/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/18-2018-uchwaly-podjete-przez-zwyczajne-walnego-zgromadzenia-spolki-pbg-s-a-w-dniu-26-czerwca-2018-roku.html	
Reorganisation of RAFAKO complete	On August 1st 2018, the Management Board of RAFAKO S.A. announced the closing of the next stage of reorganisation and the results of the workforce reduction process. The Board further announced that the restructuring costs would not exceed the provision recognised.
For more information, see: RAFAKO Current Report No. 31/2018: https://www.rafako.com.pl/pub/File/raporty_biezace/2018/20180801_RB_31_2018_zako_czenie_etapu_reorganiza.docx.pdf	
The Management Board's representation on share capital increase	On August 14th 2018, the Company's Management Board gave notice that, following conversion of the Company's debt into Series H shares under the Resolution and the arrangement, another 10,763,420 (ten million, seven hundred and sixty-three thousand, four hundred and twenty) Series H ordinary registered shares with a par value of PLN 0.02 (two grosz) per share were acquired. Thus the amount of the subscribed and duly paid up share capital was PLN 215,268.40 (two hundred and fifteen thousand, two hundred and sixty-eight złoty, 40 grosz). The shares were acquired following satisfaction of a condition applicable to the contingent claim satisfied on the terms specified for Group 6 claims under the arrangement (i.e. through conversion into Series H shares). Accordingly, after the registration with the National Court Register, the Company's share capital will be PLN 16,301,872.84 (sixteen million, three hundred and one thousand, eight hundred and seventy-two złoty, 84/100).
For more information, see: PBG Current Report No. 21/2018: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/21-2018-oswiadczenie-zarzadu-w-przedmiocie-podwyzszenia-kapitalu-pbg.html	

Except for the events referred to and discussed in Section VI. IX and in Note 36 to the consolidated financial statements, no other material events occurred in the first half of 2018 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 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. RELATED-PARTY TRANSACTIONS

In the first half of 2018, 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.

Transactions between Group companies and their related parties are disclosed in Note 31 to the interim condensed consolidated financial statements of the PBG Group for H1 2018.
In the first half of 2018, neither the parent nor its subsidiaries granted or provided any loan sureties or guarantees to a single entity or its subsidiaries where the aggregate amount of such sureties or guarantees would represent 10% or more of the parent's or its subsidiaries' equity.
For a description of changes in contingent assets and liabilities, see Note 25 to the consolidated financial statements of the PBG Group.

IV. CONTRACTED BANK BORROWINGS, LOAN AGREEMENTS

For information on the contracted bank borrowings and loans, see Note 18 to the PBG Group's consolidated financial statements.

V. NON-RECURRING FACTORS AND EVENTS

In April 2018, 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. As at the completion of negotiations (i.e. in April 2018), the planned dates and amounts of cash inflows were as follows: PLN 20m in the first half of 2018 and PLN 60m in the first half of 2019. As at the date of issue of the financial statements, the Company awaits the confirmation of execution of the agreement and the transfer of the first tranche of remuneration.

VI. MAJOR R&D ACHIEVEMENTS

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

VII. CONTROL SYSTEM FOR EMPLOYEE PLANS

The Group does not operate any employee plans.

VIII. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

For information on the litigation, arbitration and administrative proceedings, see Note 26 to the PBG Group's consolidated financial statements.

SECTION V: SHARES AND SHAREHOLDERS

I. SHARE CAPITAL STRUCTURE AND MAJOR HOLDINGS OF SHARES

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

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

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

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

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

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

II. CHANGES IN THE COMPANY'S SHAREHOLDING STRUCTURE

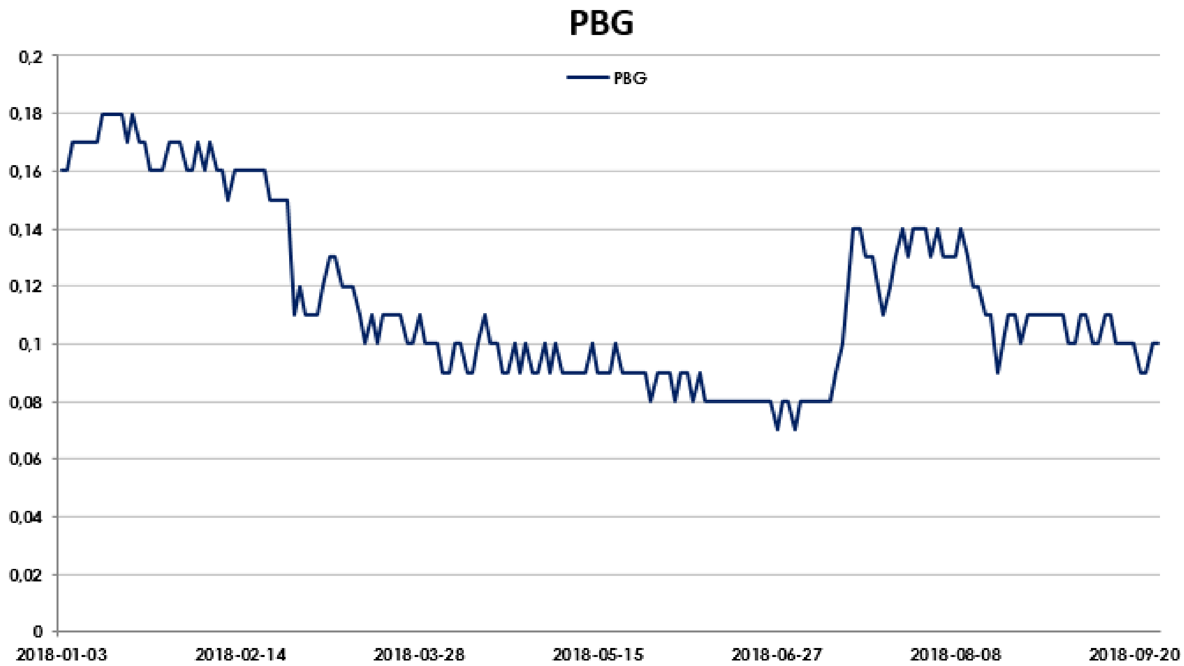
In the reporting period, there were no material changes in the Company's shareholding structure.

III. KEY DATA ON PBG SHARES

Following a reduction in the par value of PBG shares, dilution of the Company's share capital, and introduction of Series H and Series I shares to trading under a scheme of arrangement in August 2017, the value of PBG shares decreased significantly. Consequently, the Warsaw Stock Exchange listed PBG shares on the ALERT LIST, and since January 3rd 2018 they have been traded in the single-price auction system. Having analysed the applicable procedural rules, the Company concluded that it was unable to take any steps to redeem or effect a reverse split of its shares. The analysis found that a reverse split of the Company shares that would serve to remove the shares from the Alert List is not possible considering the terms of the arrangement with creditors, approved by the final decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division (Case No. XI GUp 29/12), dated October 8th 2015 (the "Arrangement") for as long as the Company performs the Arrangement.

On June 20th 2018, the Company issued Current Report No. 17/2018 (see Section IV.I.3 of this Report) and applied to the Warsaw Stock Exchange for not delisting PBG shares on the grounds that no reverse split could be effected until the Arrangement was performed. As at the date of this Report, the WSE neither responded to the Company's application nor requested it to take any remedial action.

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



Share data

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

IV. SHARE BUY-BACKS

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

V. HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL RIGHTS

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

VI. RESTRICTIONS ON VOTING RIGHTS

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

VII. RESTRICTIONS ON TRANSFER OF OWNERSHIP RIGHTS TO PBG SECURITIES

Jerzy Wiśniewski (the Company’s majority shareholder), in 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
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Website	www.pbg-sa.pl
WARSAW STOCK EXCHANGE	PBG
Reuters	PBGG.WA
LEI CODE	259400X248CV8DJRIM55

SECTION VI: FINANCIAL OVERVIEW

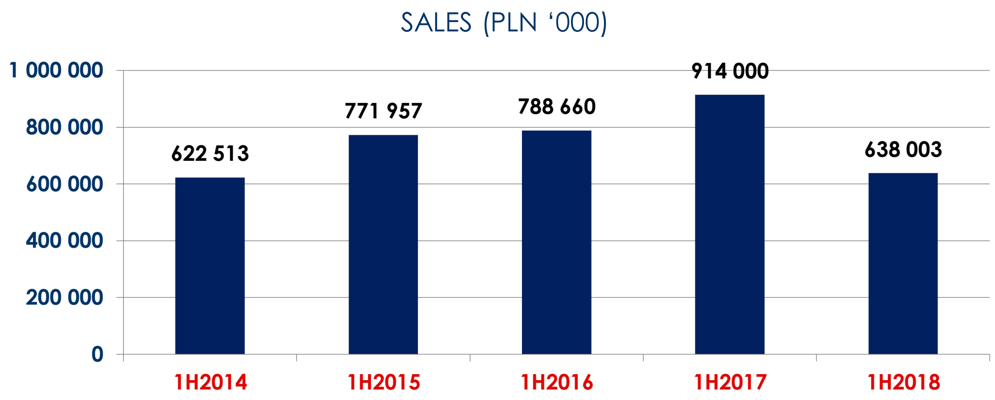
I. ANALYSIS OF THE GROUP’S FINANCIAL CONDITION

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

1. Revenue

At the end of H1 2018, the Group reported a 30% revenue drop year on year. The Group’s revenue fell from PLN 914m in H1 2017 to PLN 683m in H1 2018. The main source of revenue were contracts in the power construction segment, including the Jaworzno power generating unit construction contract. In H1 2018, the contract generated lower revenue than in H1 2017 as a result of a narrower scope of work scheduled thereunder.

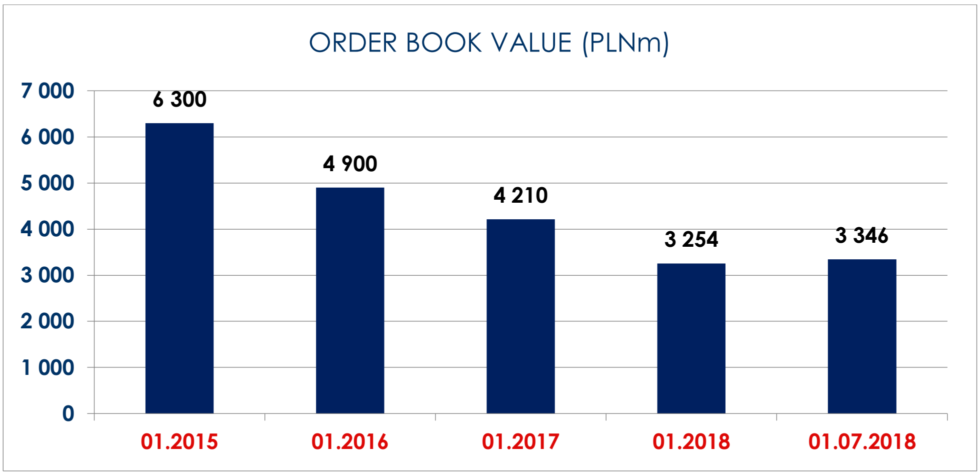
Historical development of revenue (past five years)



2. Order book

As at July 1st 2018, the value of PBG Group's order book was approximately **PLN 3.35bn**, of which about PLN 0.85bn was the value of orders to be executed in 2018, with the balance of PLN 2.5bn scheduled for execution in the following years. Power construction projects accounted for the largest proportion of the Group's backlog by value (82%). Natural gas, oil and fuel-related projects accounted for 18% of the order book by value, representing a major increase in the segment's share in total orders on January 1st 2018.

Historical development of the Group's order book (PLNbn, past five years)



Order book as at July 1st 2018

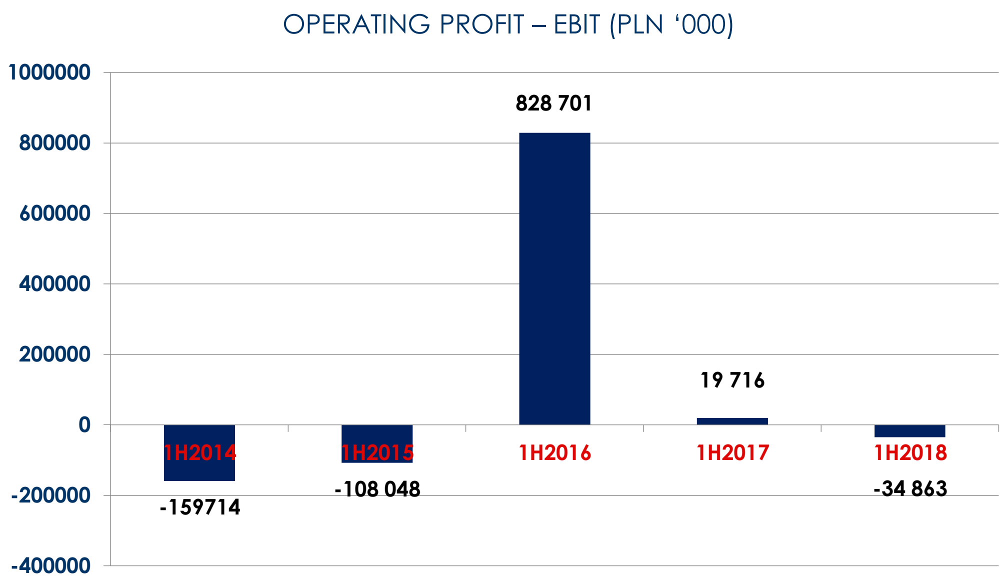
ORDER BOOK AS AT JULY 1ST 2018 (% and PLNm)		
Gas, oil and fuels	18%	588
Power construction	82%	2,758
TOTAL	100.0%	3,346

3. EBIT

In H1 2018, the PBG Group recorded operating loss of **PLN 34.9m**, down from operating profit of PLN 19.7m in the corresponding period of the previous year. Apart from the core operations, which generated a gross profit of PLN 65,5m (PLN 92.9m in the corresponding period of the previous year), the Group's operating result was influenced by distribution costs of PLN 8.3m (down 28.6% y/y), administrative expenses of PLN 41.8m (down

13.5% y/y), other income of PLN 13.7m (down 26%), other expenses of PLN 54.9m (up from PLN 21.9m in H1 2017), and a loss of PLN 9m on the arrangement with creditors made by the Parent (down from PLN 9.7m in H1 2017). In H1 2018, the largest items of other expenses were impairment losses of PLN 52.8m, including a PLN 45.4m impairment loss on RAFAKO's goodwill. When comparing the above results to the Group's performance in H1 2016, it is worth noting that the operating profit generated in the first half of 2016 was primarily attributable to the recognition in the parent's accounts of the bankruptcy court's decision to approve the arrangement becoming final on June 13th 2016 (its effect on the parent's EBIT was PLN 1,060.5bn), which allowed the PBG Group to post operating profit of PLN 829m for H1 2016.

Historical development of EBIT (past five years)



4. Liquidity ratios

NAME	FORMULA	H1 2018	2017
Current ratio	(current assets* / current liabilities)	1.32	1.47
Quick ratio	(current assets* – inventories / current liabilities)	1.28	1.45
Cash ratio	(cash balance at end of period / current liabilities)	0.17	0.22

* including non-current assets held for sale

As at the end of H1 2018, the PBG Group's current ratio stood at 1.32, down from 1.47 at the end of 2017. Quick ratio declined as well, from 1.45 at the end of 2017 to 1.28 at the end of H1 2018. The cash ratio fell to 0.17 (from 0.22 at the end of 2017), which means that the Group was able to pay 17% of its current liabilities with its most liquid assets. It must be noted that it is widely considered that a safe level of the cash ratio is somewhere between 0.15 and 0.2, which means that a business entity should be able to cover with its most liquid assets (cash and cash equivalents) from about 15% to about 20% of its current liabilities, whereas the ratio levels considered safe for construction companies in general fall within the range from 1.2 to 2.0 in the case of the current ratio, and 1.0 to 1.2 in the case of the quick ratio.

5. Debt

Debt ratios

NAME	FORMULA	H1 2018	2017
Capital structure	equity / debt capital	0.16	0.19
Structure of assets	non-current assets / current assets*	0.38	0.36
Total debt ratio	Total liabilities / total assets	0.86	0.82

* including non-current assets held for sale

In H1 2018, total debt ratio stood at 0.86, having increased by 0.04 relative to the end of 2017. In both H1 2017 and H1 2018, the ratio was at a high level (over 0.5), considered unsafe owing to the highly leveraged financing of assets. The reporting period also saw a decrease in the ratio of equity to external capital, i.e. to the total debt incurred by the PBG Group, due to a decline in total equity from PLN 274.9m at the end of 2017 to PLN 217.1m at end of H1 2018, which was mainly attributable to recognition by the PBG Group of net loss for H1 2018.

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

1. Statement of profit or loss

Changes in the statement of profit or loss

PBG Group's statement of profit or loss (PLN '000)	H1 2018	H1 2017	Change H1 2018/H1 2017
Revenue	638,003	914,000	-30%
Cost of sales	572,548	821,079	-30%
Gross profit (loss)	**65,455**	**92,921**	-30%
Gain on losing joint control of joint operation	0	0	-
Distribution costs	8,257	11,571	-29%
Administrative expenses	41,811	48,325	-13%
Other income	13,663	18,390	-26%
Other expenses	54,882	21,945	150%
Gain (loss) on arrangement with creditors	-9,031	-9,754	-
Operating profit (loss)	**-34,863**	**19,716**	-
Finance income	0	0	-
Finance costs	1,336	5,805	-77%
Share of profit of equity-accounted entities	5,381	-1,777	-
Profit (loss) before tax	**-30,818**	**12,134**	-
Income tax expense	11,976	11,951	0%
Net profit (loss) from continuing operations	**-42,794**	**183**	-
Net profit/(loss) from continuing and discontinued operations, including:	**-45,059**	**183**	-
- owners of the parent	**-24,610**	**-4,320**	-
- non-controlling interests	**-20,449**	**4,503**	-

In H1 2018, the Group earned a gross profit of more than PLN 65.4m, compared with PLN 92.9m in the corresponding period the previous year. Given that the revenue generated by the Group in H1 2018 was lower by about 30% year on year, this level of gross profit reflects a slight improvement of the sales margins generated by the PBG Group companies (10.2% and 10.3% in H1 2017 and H1 2018 respectively), with the RAFAKO Group being the largest contributor in this respect.

In H1 2018, administrative expenses amounted to PLN 41.8m, down 13.5% year on year, while distribution costs fell from PLN 11.6m to PLN 8.3m, i.e. 28.6%, year on year, with savings attributable primarily to the reorganisation of the RAFAKO Group. A decline in distribution costs also resulted from a year-on-year decrease in costs of bid preparation as part of the contract acquisition process. Lower distribution costs had no adverse effect on the value of new contracts acquired by the PBG Group (in particular by the RAFAKO Group) in H1 2018.

In H1 2018, other income totalled PLN 13.7m, and included mainly: (i) reversal of provisions of PLN 5.9m (related to the RAFAKO Group's operations); (ii) reversal of impairment losses on assets totalling PLN 2.4m, including PLN 2.2m related to reversal of impairment losses on trade receivables; and (iii) lease income totalling PLN 1.2m.

In the first six months of 2018, other expenses amounted to nearly PLN 54.9m, of which the most significant items were: (i) impairment losses on assets – PLN 52.8m, which included a PLN 45.5m impairment loss on the goodwill that arose on the acquisition of control over RAFAKO; and (ii) other items of nearly PLN 2.1m. In H1 2017, the PBG Group's other expenses stood at PLN 21.9m, including mainly impairment losses on assets (PLN 5.4m) and fair-value measurement of property (PLN 6.3m).

In the first half of 2018, 'Loss on arrangement with creditors' included the effect of revaluation of the discount of arrangement claims and zero-coupon bonds issued by the Parent to partially repay those claims, of nearly PLN 9.0m. The loss on arrangement with creditors reported for H1 2017 was PLN 9.8m.

Considering the above, in H1 2018, the PBG Group reported an operating loss of nearly PLN 34.9m, compared with an operating profit of PLN 19.7m generated in the first half of 2017. As described above, the operating loss was materially affected by other expenses, including primarily the impairment loss on goodwill that arose on the acquisition of control over RAFAKO (PLN 45.5m).

Additional items which contributed to the pre-tax loss reported by the PBG Group in H1 2018 included finance costs of PLN 1.3m and a PLN 5.4m gain 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 1.8m loss incurred on the same account in H1 2017. The finance costs incurred by the PBG Group in the first six months of 2018 mainly included interest on the RAFAKO Group companies' financial debt.

In H1 2018, the PBG Group recorded a pre-tax loss of PLN 30.8m, while its net loss (after income tax of almost PLN 12m) was PLN 42.8m. Net loss (from continuing and discontinued operations) attributable to owners of the parent was PLN 24.6m. In H1 2018, pre-tax profit of the PBG Group was PLN 12.1m, its net profit amounted to PLN 0.2m, and net loss (from continuing and discontinued operations) attributable to owners of the parent reached PLN 4.3m. In the first half of 2017, the PBG Group's pre-tax profit and net profit amounted to PLN 12.1m and PLN 0.2m, respectively. Therefore, the PBG Group's financial performance in H1 2018 was largely affected by one-off events, including the recognition in the PBG Group's profit or loss of the effect of revaluation of goodwill that arose on the acquisition of control over RAFAKO.

III. ASSETS, FINANCIAL CONDITION AND FUNDING OF THE ASSETS

1. Assets

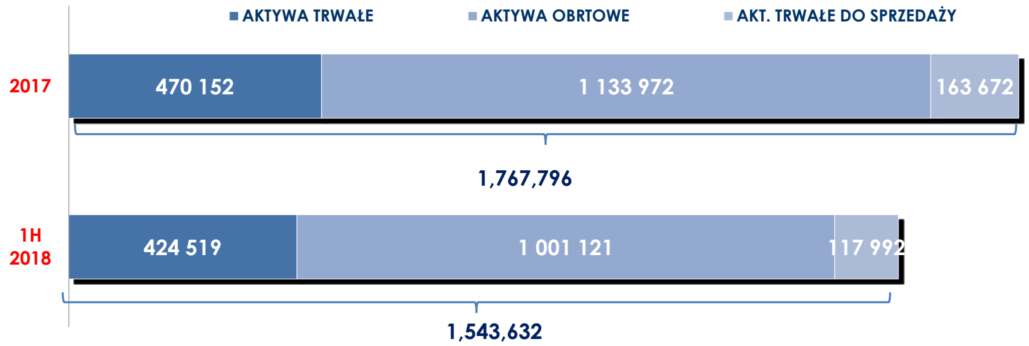
The asset structure did not change materially during the reporting period. As at the end of H1 2018, non-current assets represented almost 27.5% of total assets, having increased slightly (by 0.9pp) on the end of 2017. In H1 2018, the share of current assets (including non-current assets held for sale) in total assets decreased slightly, to almost 72.5% compared with the end of 2017. Non-current assets classified as held for sale accounted for approximately 7.6% of total assets at the end of H1 2018 vs 9.3% at the end of 2017. Non-current assets held for sale comprise mainly properties of PBG's subsidiaries, involved in the divestment of non-core assets as part of the Divestment Plan agreed on with PBG's Bondholders.

The largest item of non-current assets, accounting for 12.7% of the total, was property, plant and equipment, followed by RAFAKO's goodwill, accounting for 3.7% of the total.

During the reporting period, there was also a shift in the structure of current assets. Receivables under construction contracts and trade and other receivables accounted for the largest shares of 42.02% and

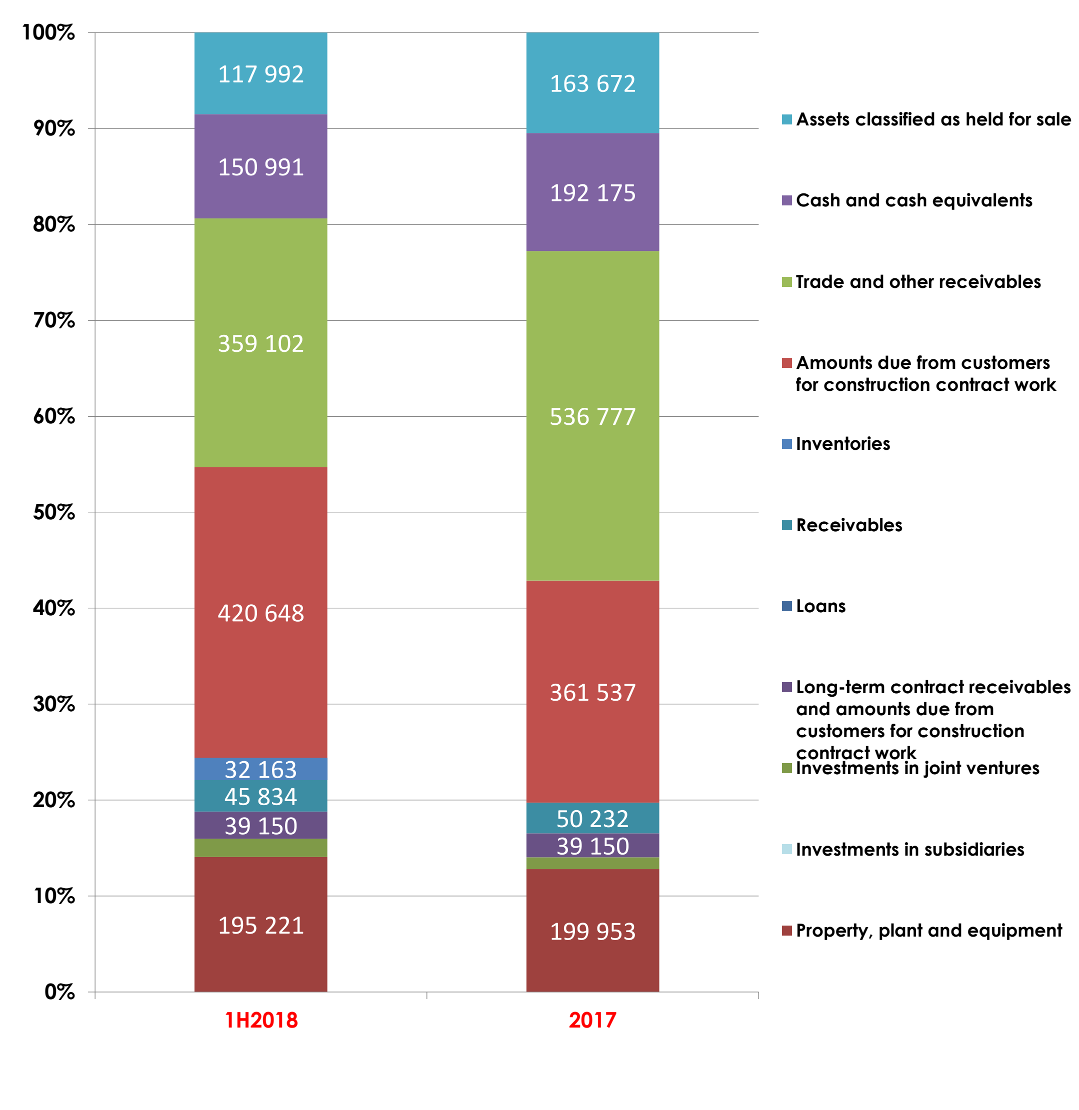
35.87%, respectively, in the Group's total current assets in H1 2018, followed by cash and cash equivalents with nearly 15.1% of the total (compared with 17% at the end of 2017).

Assets (PLN '000)



Non-current assets	Aktywa trwałe
Current assets	Aktywa obrotowe
	Akt. trwałe do sprzedaży

Largest items of assets (PLN '000)



Asset ratios (%)

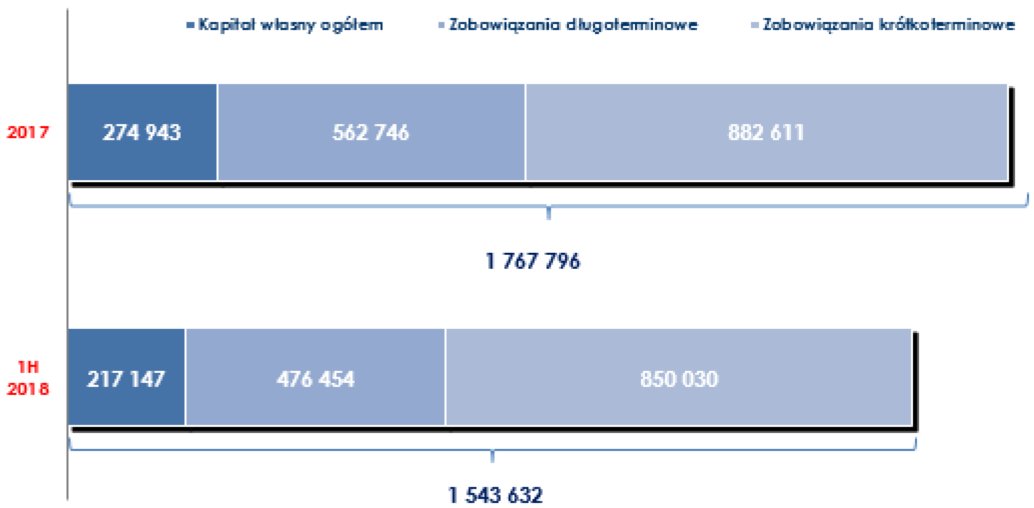
NAME	FORMULA	H1 2018	2017
Basic asset structure ratio	(non-current assets / current assets, including assets held for sale)*100%	37.93%	36.23%
Non-current assets to total assets	(non-current assets / total assets)*100	27.50%	26.60%
Current assets to total assets	(current assets, including assets held for sale / total assets)*100	72.50%	73.40%
Short-term trade and other receivables to current assets	(short-term trade and other receivables / current assets, including assets held for sale)*100	32.09%	41.37%

There were no changes in the relations between individual items of assets and in the structure of total assets. In H1 2018, non-current assets were 1.7pp up on the end of 2017. The share of current assets (including non-current assets held for sale) in total assets decreased slightly. As at the end of H1 2018, non-current assets held for sale amounted to PLN 118.0m, down by nearly PLN 45.7m, attributable to the sale, in H1 2018, of a portion of assets (as part of the divestment process) which at the end of 2017 were classified as non-current assets held for sale (i.e. the undeveloped properties situated in Poznań and Wysogotowo as well as the parent's office buildings located in Wysogotowo).

2. Equity and liabilities

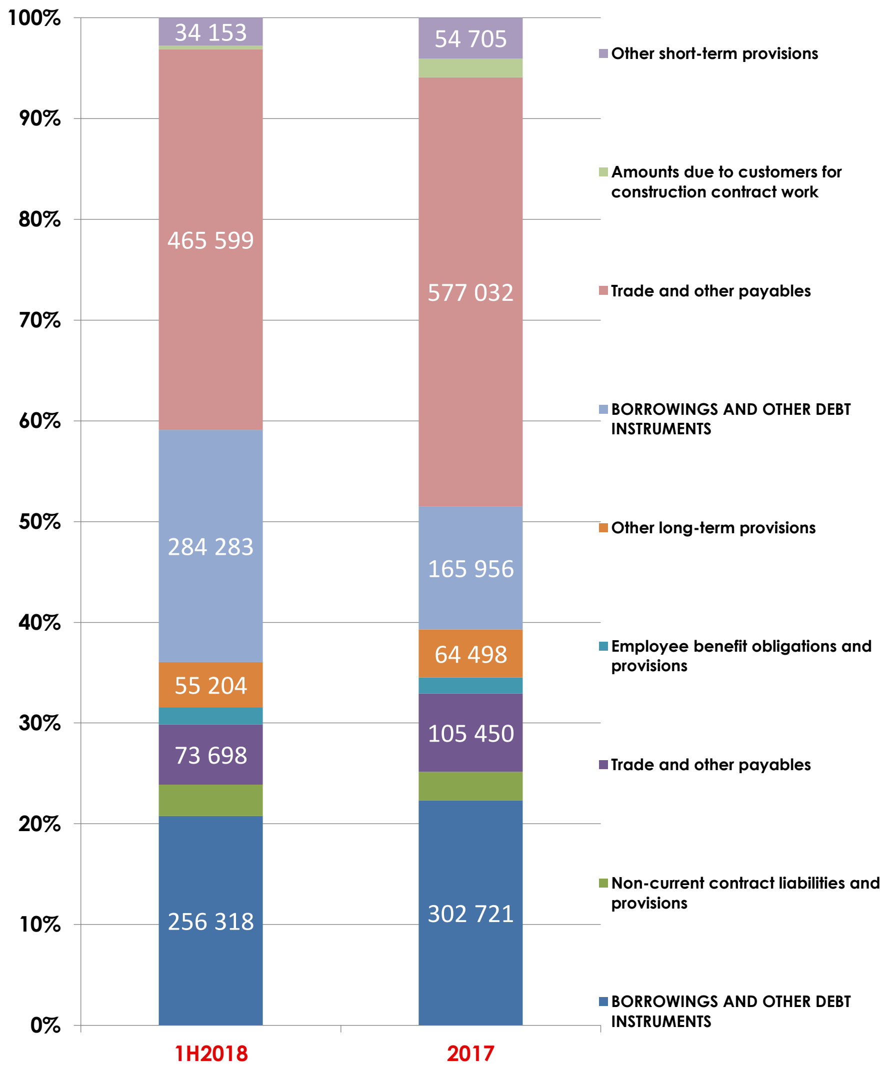
Similarly to the end of 2017, in H1 2018 equity attributable to owners of the parent was negative (H1 2018: PLN -191.7m, end of 2017: PLN -166.7m). Therefore, no structure of equity is presented, and only an analysis of the structure of the Group's liabilities has been made. In H1 2018, the PBG Group's liabilities totalled PLN 1,326bn, of which non-current and current liabilities represented 36% and 64%, respectively. Compared with the end of 2017, non-current liabilities fell by over 15%, to PLN 476.5m. Current liabilities also fell, by about 3.7%, and amounted to PLN 850.0m at the end of H1 2018, compared with PLN 882.6m at the end of 2017. Borrowings and other debt instruments of PLN 256.3m represented the largest item of non-current liabilities, and included primarily zero-coupon bonds issued by PBG, the parent of the Group. At the end of H1 2018, the largest item of current liabilities was trade and other payables, amounting to PLN 465.6m (2017: PLN 577.0m). In H1 2018, liabilities under bank borrowings advanced to PBG Group companies increased (RAFAKO's liabilities under borrowings went up by approximately PLN 16.5m due to an increase in the amount made available to RAFAKO).

Equity and liabilities (PLN '000)



Total equity	Kapitał własny ogółem
Non-current liabilities	Zobowiązania długoterminowe
Current liabilities	Zobowiązania krótkoterminowe

Largest items of liabilities (PLN '000)



IV. STATEMENT OF CASH FLOWS

Cash flows (PLN '000)

	H1 2018	H1 2017
Net cash from operating activities	(84,218)	147,812
Net cash from investing activities	34,442	13,633
Net cash from financing activities	8,625	72,914
Net cash at end of period	150,989	209,491

In H1 2018, net cash from operating activities generated by the PBG Group was negative at PLN 84.2m, which was mainly attributable to higher demand for working capital employed in contract performance and the incurred pre-tax loss of PLN 30.8m. During the reporting period, net cash from investing activities was PLN 34.3m. Net cash from investing activities mainly included PBG's subsidiaries' proceeds from sale of non-core assets (real properties) and sale of the parent's real properties. Net cash from financing activities, of PLN +8.6m, mainly comprised the inflows of cash under bank and non-bank borrowings of the RAFAKO Group companies (PLN 17.1m). Net cash at the end of the period was nearly PLN 151m.

Cash flow profile

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

V. INVESTMENTS

1. Equity investments

In the first half of 2018, the PBG Group spent PLN 1.2m on the acquisition of financial assets purchased by the RAFAKO Group.

2. Expenditure on property, plant and equipment

In 1H 2018, the PBG Group incurred capital expenditure of PLN 1.2m, primarily on the acquisition of replacement non-current assets. The expenditure was made by the RAFAKO Group.

3. Feasibility of the Group's investment plans

Given the constrained financial condition of PBG S.A., the Group's parent, no equity investments or major expenditure on property, plant and equipment are planned. It may only 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.

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. Financial review. In parallel to performing the provisions of the arrangement, PBG has also 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.

Given that PBG S.A. was subject to a voluntary arrangement procedure from June 2012 to June 2016, capital management was virtually impossible at the Company. In September 2016, the PBG arrangement proceedings were formally closed, and the Company became again fully capable of engaging in commercial activity. Since then, the Company has also regained its ability to manage capital. That ability is limited, though, due to the 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.

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

VIII. OFF-BALANCE-SHEET RECEIVABLES AND LIABILITIES

As at June 30th 2018, the Group disclosed contingent receivables recognised as off-balance-sheet items of PLN 715.1m. They related mainly to performance bonds received of PLN 699.3m and promissory notes received as security for the performance of contracts of PLN 15.7m.
In H1 2018, the PBG Group recorded an increase in contingent receivables, comprising mainly amounts received as security for the performance of contracts of PLN 28.7m, including a PLN 26.7m increase in receivables under guarantees and a PLN 2m increase in receivables under promissory notes.
As at June 30th 2018, the Group disclosed contingent liabilities recognised as off-balance-sheet items of PLN 1,782.4bn. 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 June 30th 2018 were presented in the total amount of 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 321.5m), sureties issued by the Group companies for third parties (PLN 1,428.5bn), as well as promissory notes issued to secure the performance of contracts (PLN 32.4m).
In the six months of 2018, the PBG Group recorded a PLN 7.5m increase in contingent liabilities, including a PLN 7.0m decrease in liabilities under guarantees issued, a PLN 0.7m decrease in sureties issued, and an approximately PLN 15.2m 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, 2016 and 2017.

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 that may pose a threat to the RAFAKO Group continuing as a going concern are described in the Group's consolidated financial statements for H1 2018, issued on September 7th 2018.
As at the date of the consolidated financial statements, the parent's Management Board has 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 Group companies – has intensified its steps to acquire new contracts.

Going concern assumption – the parent

Given the Company's current financial situation, which is materially affected by the Company's obligations relating to the performance of the arrangement and servicing Bond issuance process, there are risks regarding its status as a going concern. As at June 30th 2018, the Parent's current liabilities (disclosed in the separate financial statements) exceeded its current assets and assets classified as held for sale by approximately PLN 79.6m. Nonetheless, the parent's separate financial statements for H1 2018 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. 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 H1 2018, 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 made a commitment 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	Q3 2018	Q4 2018	Q1 2019	Q2 2019	H2 2019	H1 2020	Total
Repayment of the Company's liabilities under the arrangement and the bonds, including:	**60,196,184**	**31,635,764**	**0**	**81,544,663**	**50,245,829**	**300,827,733**	524,450,174
*- redemption of bonds**	50,329,400	15,239,200	0	61,934,800	46,875,600	238,445,700	412,824,700
- payment of arrangement instalments	9,866,784	15,809,038**	0	19,157,874	3,292,862	47,555,361	95,681,920
- payment of contingent claims after the date of fulfilment of the condition	0	587,526	0	451,988	77,367	1,791,665	2,908,547
- payment of disputed claims						13,035,007	13,035,007

* Including the estimated amount of the bonds assumed to be acquired in exchange of claims which are contingent claims as at the reporting date and which have become due before the date of issue of these financial statements.

** Including PLN 6,060,301 of the arrangement instalment maturing on June 30th 2018.

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

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

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

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

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

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

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

As disclosed in the separate financial statements as at June 30th 2018, the total amount of current assets and non-current assets held for sale was PLN 147.3m, while the amount of current liabilities was PLN 226.9m, which implies negative net working capital of approximately PLN -79.6m. Considering the above, the 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 10.0m in excess of the liabilities due in the same period.

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

- Estimates concerning the Group's Divestment process indicate that within 12 months from the reporting date loan repayments will total approximately PLN 116.0m, i.e. about PLN 15.5m more compared with the amount disclosed in the financial statements prepared in accordance with IFRS. The higher amount is attributable to the repayment of loans by related entities; their valuation performed in accordance with the IFRS is lower than the one based on the Management Board's detailed plans. Additionally, in the 12 months as from June 30th 2018 the Parent intends to raise PLN 80m under a contract related to the exit from the development project in Kiev, including PLN 20m by the end of Q4 2018.
- The 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 4.6m, 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 18.9m. The change is primarily attributable to a detailed assessment of the ability to recover individual receivables in a short term, which as at the reporting date were measured in accordance with IFRS 9;
- The Parent's Management Board believes it will be possible for the Company to receive cash in the form of a loan granted by PBG oil and gas Sp. z o.o.

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

Expected sources of funding 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 (accordingly, amounts given below have been calculated as of June 30th 2018):

- Time-optimised proceeds from divestment of the parent's non-core assets – expected proceeds over the entire term of the arrangement: PLN 17.0m;
- Receivables under intra-group loans which can be realised after the sale of properties, and loans from other entities – expected proceeds over the entire term of the arrangement: PLN 126.6m, including PLN 80.0m from the sale of receivables under the Ministersky Project;
- Borrowings to be contracted at the end of the arrangement term to finance the last repayment under the arrangement in June 2020 – expected proceeds of PLN 280m;
- The balance will be covered with cash generated from core operations carried out jointly with other companies of the Group, including profits from current and potential future contracts, particularly in

the power construction market, to be executed in close cooperation with RAFAKO S.A., and cash generated from other activities by the Company and PBG oil and gas sp. z o.o.

The 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. 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 issue of 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 a borrowing 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 its 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 risk of not receiving the proceeds from the development project in Ukraine due to changes in or escalation of the political conflict in the country, the parent's Management Board negotiated a transaction to sell the receivables under the conditional sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. This agreement will enable earlier inflows from the project. Pursuant to the terms of the transaction, the parent expects to receive PLN 80m (taking into account the agreed discount). Expected dates and amounts of cash receipts: PLN 20m in the second half of 2018 and PLN 60m in the first half of 2019. In connection with the change of the assumptions, the 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 implementation of the arrangement or the parent's ability to redeem outstanding bonds may also come from lower than expected operating cash receipts 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. Taking into account mainly the volatile market environment, potential risks related to rescheduling of the Divestment Plan, the Company's Management Board is preparing various scenarios to secure funds for servicing the debt under the Arrangement and the bonds. Each of the scenarios, including obviously the base case, is being monitored and reviewed on an ongoing basis. <u>If the Company's Management Board identifies an increased risk of inability to repay a part or all of the debt under the Arrangement and the bonds, the Management Board may, in the case of creditors covered by the Arrangement, extend the deadline for a repayment in agreement with the relevant creditor and request that the Bondholders Meeting pass a resolution approving a change of the bonds redemption date.</u> A potential delay or failure by the 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**