PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD JANUARY 1ST – JUNE 30TH 2018

WYSOGOTOWO, OCTOBER 1ST 2018

Group name:	PBG GROUP		
Reporting period:	Jan 1-Jun 30 2018	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 unless indicated otherwise		

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SELECTED FINANCIAL DATA

	Six months ended Jun 30 2018	Six months ended Jun 30 2017 *(restated)*	Six months ended Jun 30 2018	Six months ended Jun 30 2017 *(restated)*
	PLN	PLN	EUR	EUR
Consolidated statement of profit or loss				
Revenue	638,003	914,000	150,490	215,190
Operating profit (loss)	(34,863)	19,716	(8,223)	4,642
Profit (loss) before tax	(30,818)	12,134	(7,269)	2,857
Net profit (loss) from continuing operations attributable to:	(42,794)	183	(10,094)	43
- owners of the parent	(22,345)	(4,320)	(5,271)	(1,017)
- non-controlling interests	(20,449)	4,503	(4,823)	1,060
Net profit (loss) from continuing and discontinued operations attributable to:	(45,059)	183	(10,628)	43
- owners of the parent	(24,610)	(4,320)	(5,805)	(1,017)
- non-controlling interests	(20,449)	4,503	(4,823)	1,060
Total comprehensive income for the period attributable to	(40,696)	(5,632)	(9,599)	(1,326)
- owners of the parent	(19,921)	(10,573)	(4,699)	(2,489)
- non-controlling interests	(20,775)	4,941	(4,900)	1,163
Basic earnings (loss) per ordinary share	(0.031)	(0.005)	(0.007)	(0.001)
Diluted earnings (loss) per ordinary share	(0.031)	(0.005)	(0.007)	(0.001)
Average PLN/EUR exchange rate	x	x	4.2395	4.2474
Consolidated statement of cash flows				
Net cash from operating activities	(84,218)	147,812	(19,865)	34,801
Net cash from investing activities	34,442	13,633	8,124	3,210
Net cash from financing activities	8,625	(72,914)	2,034	(17,167)
Increase/(decrease) in cash and cash equivalents	(41,151)	88,531	(9,707)	20,844
Average PLN/EUR exchange rate	x	x	4.2395	4.2474

Group name:	***PBG GROUP***		
Reporting period:	***Jan 1-Jun 30 2018***	**Reporting currency:**	***Polish złoty (PLN)***
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	Jun 30 2018	**Dec 31 2017** *(restated)*	**Jun 30 2017** (restated)	**Jun 30 2018**	**Dec 31 2017** *(restated)*	**Jun 30 2017** (restated)
	PLN	**PLN**	**PLN**	**EUR**	**EUR**	**EUR**
Consolidated statement of financial position						
Assets	1,535,326	1,767,796	1,545,701	352,010	423,840	365,717
Non-current liabilities	476,454	562,746	592,252	109,238	134,922	140,128
Current liabilities	850,030	882,611	691,578	194,890	211,612	163,629
Liabilities related to assets classified as held for sale	1	47,496	49,630	-	11,387	11,743
Equity attributable to owners of the parent	(191,692)	(166,733)	(81,790)	(43,950)	(39,975)	(19,352)
Number of shares	804,330,222	804,050,591	804,050,591	804,330,222	804,050,591	804,050,591
Weighted average number of ordinary shares	804,330,222	804,281,191	804,231,347	804,330,222	804,281,191	804,231,347
Diluted weighted average number of ordinary shares	804,330,222	804,281,191	804,231,347	804,330,222	804,281,191	804,231,347
Book value per share	(0.24)	(0.21)	(0.10)	(0.05)	(0.05)	(0.02)
PLN/EUR exchange rate at end of period	x	x	x	4.3616	4.1709	4.2265

Group name:	*PBG GROUP*		
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended Jun 30 2018	Six months ended Jun 30 2017 *(restated)*
Continuing operations			
Revenue	**6**	**638,003**	**914,000**
Revenue from sale of finished goods and services		637,220	911,583
Revenue from sale of merchandise and materials		783	2,417
Cost of sales	**6**	**(572,548)**	**(821,079)**
Cost of finished goods and services sold		(571,235)	(819,844)
Cost of merchandise and materials sold		(1,313)	(1,235)
Gross profit (loss)		**65,455**	**92,921**
Distribution costs	34	(8,257)	(11,571)
Administrative expenses	34	(41,811)	(48,325)
Other income	34	13,663	18,390
Other expenses	34	(8,257)	(21,945)
Gain (Loss) on arrangement with creditors	25	(9,031)	(9,754)
Operating profit (loss)		**(34,863)**	**19,716**
Finance costs	34	(1,336)	(5,805)
Share of profit of equity-accounted entities		5,381	(1,777)
Profit (loss) before tax		**(30,818)**	**12,134**
Income tax expense	14	(11,976)	(11,951)
Net profit (loss) from continuing operations		**(42,794)**	**183**
Net profit (loss) from discontinued operations attributable to:		**(2,265)**	**-**
- owners of the parent		(2,265)	-
- non-controlling interests		-	-
Net profit (loss) from continuing and discontinued operations attributable to:		**(45,059)**	**183**
- owners of the parent		(24,610)	(4,320)
- non-controlling interests		(20,449)	4,503

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EARNINGS (LOSS) PER ORDINARY SHARE

	Six months ended Jun 30 2018	Six months ended Jun 30 2017 *(restated)*
	PLN/share	PLN/share
Net profit (loss) from continuing and discontinued operations attributable to:	(45,059)	183
- owners of the parent	(24,610)	(4,320)
- non-controlling interests	(20,449)	4,503
Diluted weighted average number of ordinary shares	804,330,222 *	804,281,191*
Diluted earnings (loss) per ordinary share attributable to:	804,330,222 *	804,281,191*
- owners of the parent	(0.03)	(0.01)
- non-controlling interests	(0.03)	0.01

* For the method of calculation of the weighted average number of shares, see Note 4.

All amounts in PLN '000 unless indicated otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended Jun 30 2018	**Six months ended Jun 30 2017** *(restated)*
Net profit	**(45,059)**	**183**
Income (loss) for period recognised in other comprehensive income	145	305
Exchange differences on translating foreign operations	4,628	(7,128)
Income tax on other comprehensive income	(28)	(58)
Actuarial gains (losses) on employee benefits	(474)	100
Income tax on other comprehensive income	90	(19)
Other comprehensive income, net of tax	**(4,363)**	**(6,800)**
Comprehensive income	**(40,696)**	**(6,617)**
- owners of the parent	(19,921)	(11,066)
- non-controlling interests	(20,775)	4,449

All amounts in PLN '000 unless indicated otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	Jun 30 2018	Dec 31 2017 (restated)	Jun 30 2017 (restated)
Non-current assets		**424,519**	**470,152**	**596,723**
Goodwill	7	57,131	102,536	186,297
Intangible assets	8	7,712	8,300	8,767
Property, plant and equipment	9	195,221	199,953	217,015
Investment property	11	4,559	1,319	4,223
Long-term investments	12	1,790	1,790	1,660
Investments in associates		102	102	102
Investments in joint ventures	13	26,421	19,312	24,777
Long-term contract receivables and amounts due from customers for construction contract work	15	39,150	39,150	39,150
Trade and other receivables	15	45,834	50,232	54,753
Shares and other equity instruments		2,649	1,497	-
Other non-current financial assets		1	-	1,536
Deferred tax assets		41,027	43,447	56,208
Non-current accruals and deferred income		2,923	2,514	2,235
Current assets		**1,001,121**	**1,133,972**	**781,497**
Inventories	16	32,163	16,954	15,098
Amounts due from customers for construction contract work	33	420,648	361,537	99,680
Trade and other receivables	15	359,102	536,777	419,869
Income tax receivable	15	185	10	5,256
Loans advanced	15	12,595	6	136
Derivative financial instruments		-	479	-
Other current financial assets		-	3,010	3,010
Cash and cash equivalents	17	150,991	192,175	209,491
Current prepayments and accrued income		25,437	23,024	28,957
Non-current assets held for sale	**30**	**117,992**	**163,672**	**167,481**
TOTAL ASSETS		**1,543,632**	**1,767,796**	**1,545,701**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES	Note	Jun 30 2018	Dec 31 2017 (restated)	Jun 30 2017 (restated)
Equity attributable to owners of the parent		**(191,692)**	**(166,733)**	**(81,790)**
Share capital	20.1	16,087	16,081	16,081
Share premium		1,019,084	1,021,844	1,021,844
Cash flow hedging reserve		(527)	(645)	(739)
Other components of equity	20.2	531,901	521,596	516,989
Translation reserve		(19,050)	(23,749)	(17,895)
Retained earnings (accumulated losses)		(1,739,187)	(1,701,860)	(1,618,070)
- accumulated profit (loss) from prior years		(1,714,577)	(1,670,419)	(1,613,750)
- net profit (loss) for current year		(24,610)	(31,441)	(4,320)
Non-controlling interests	**20.3**	**408,839**	**441,676**	**294,031**
Total equity		**217,147**	**274,943**	**212,241**
Non-current liabilities		**476,454**	**562,746**	**592,252**
Borrowings and other debt instruments	18	256,318	302,721	305,633
Finance lease liabilities	21	24,560	24,784	26,005
Derivative financial instruments		651	796	912
Non-current contract liabilities and provisions	24	38,255	38,240	38,467
Trade and other payables	24	73,698	105,450	142,750
Employee benefit obligations and provisions	24	21,055	21,371	23,909
Other long-term provisions	24	55,204	64,498	49,746
Deferred tax liabilities	24	6,592	4,796	3,688
Non-current accruals and deferred income		121	90	1,142
Current liabilities		**850,030**	**882,611**	**691,578**
Borrowings and other debt instruments	18	284,283	165,956	130,446
Finance lease liabilities	21	3,536	3,606	3,344
Derivative financial instruments		232	237	-
Trade and other payables	24	465,597	577,032	373,086
Amounts due to customers for construction contract work	33	4,496	25,400	68,495
Income tax liabilities		2,196	2,280	19
Employee benefit obligations and provisions	24	36,287	37,192	39,354
Other short-term provisions	24	34,153	54,705	62,580
Current prepayments and accrued income		19,250	16,203	14,254
Liabilities related to non-current assets held for sale	**30**	**1**	**47,496**	**49,630**
Total liabilities		**1,326,485**	**1,492,853**	**1,330,460**
TOTAL EQUITY AND LIABILITIES		**1,543,632**	**1,767,796**	**1,545,701**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Cash flow hedging reserve	Other components of equity	Translation reserve	Retained earnings (accumulated losses)	Equity	Non-controlling interests	Total equity
January 1st 2018	**16,081**	**1,021,844**	**(645)**	**521,596**	**(23,749)**	**(1,697,639)**	**(162,512)**	**450,118**	**287,606**
Changes in accounting policies	-	-	-	-	-	*(9,259)*	***(9,259)***	*(20,505)*	***(29,765)***
January 1st 2018 after adjustments	**16,081**	**1,021,844**	**(645)**	**521,596**	**(23,749)**	**(1,706,899)**	**(171,772)**	**429,614**	**257,841**
Share issue	6	102	-	(108)	-	-	**-**	**-**	**-**
Net profit (loss) for the period	-	-	-	-	-	(24,610)	**(24,610)**	**(20,449)**	**(45,059)**
Other comprehensive income net of tax for the period	-	-	118	(127)	4,699	-	**4,690**	(326)	**4,364**
Transfer to reserves	-	(2,862)	-	10,540	-	(7,678)	**-**	-	**-**
June 30th 2018	**16,087**	**1,019,084**	**(527)**	**531,901**	**(19,050)**	**(1,739,187)**	**(191,692)**	**408,839**	**217,147**

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	Share capital	Share premium	Cash flow hedging reserve	Other components of equity	Translation reserve	Retained earnings (accumulated losses)	Equity	Non-controlling interests	Total equity
January 1st 2017	**15,414**	**1,009,665**	**(986)**	**524,314**	**(10,862)**	**(1,603,486)**	**(65,941)**	**294,276**	**228,335**
Changes in accounting policies	-	-	-	-	-	*(4,788)*	***(4,788)***	*(4,788)*	***(9,576)***
January 1st 2017 after adjustments	**15,414**	**1,009,665**	**(986)**	**524,314**	**(10,862)**	**(1,608,274)**	**(70,729)**	**289,488**	**218,759**
Share issue	667	12,184	-	(12,743)	-	-	**108**	-	**108**
Change in the Group structure	-	-	-	-	-	-	-	**90**	**90**
Net profit (loss) for the period						(4,320)	**(4,320)**	**4,503**	**183**
Other comprehensive income net of tax for the period			247	40	(7,033)	-	**(6,746)**	(54)	**(6,800)**
Transfer to reserves				5,413		(5,413)	-		-
Other adjustments		(5)		(35)		(63)	**(103)**	4	**(99)**
June 30th 2017	**16,081**	**1,021,844**	**(739)**	**516,989**	**(17,895)**	**(1,618,070)**	**(81,790)**	**294,027**	**212,241**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended Jun 30 2018	Six months ended Jun 30 2017 *(restated)*
Cash flows from operating activities		
Profit (loss) from continuing operations before tax	**(30,818)**	**12,134**
Profit (loss) from discontinued operations before tax	(2,265)	-
Profit (loss) before tax	**(33,083)**	**12,134**
Adjustments	**(51,135)**	**135,678**
Depreciation and amortisation	8,000	8,092
Impairment losses on property, plant and equipment and intangible assets	3	-
Change in fair value of investment property and non-current asset held for sale	-	6,278
Gains (losses) on financial assets and liabilities at fair value through profit or loss	-	325
Cash flow hedges recycled from equity	50	626
Impairment of financial and non-financial assets	40,683	(4,974)
Foreign exchange gains (losses)	2,117	(2,474)
Interest and dividends, net	8,531	2,511
Gain (loss) on investing activities	(102)	493
Settlement of derivative financial instruments	479	-
Share of profit/(loss) of equity-accounted entities	(5,381)	1,777
Change in receivables	182,073	436,792
Change in inventories	(15,209)	1,982
Change in liabilities other than borrowings	(143,170)	(294,550)
Change in provisions, accruals and prepaid expenses	(30,810)	(20,527)
Change in construction contract work	(80,015)	(4,074)
Income tax paid	(4,428)	(5,406)
Change in arrangement liabilities	8,851	9,177
Other	(22,807)	(370)
Net cash from operating activities	**(84,218)**	**147,812**
Cash flows from investing activities		
Sale of property, plant and equipment	27,147	2,580
Purchase of property, plant and equipment	(944)	(2,524)
Purchase of intangible assets	(211)	(302)
Sale of investment property and non-current assets held for sale	19,115	7,787
Purchase of investment property	(62)	
Sale of subsidiaries	-	5,000
Sale of financial assets	2,400	
Purchase of financial assets	(1,209)	(500)
Repayment of loans advanced	4,000	1,578
Loans advanced	(15,950)	-
Interest on loans advanced	149	18
Other	7	(4)
Net cash from investing activities	**34,442**	**13,633**

Cash flows from financing activities

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Payment of finance lease liabilities	(2,772)	(2,459)
Proceeds from borrowings	17,086)	13,056
Repayment of borrowings	(2,173)	(101,161)
Payment of interest on borrowings	(1,065)	(2,603)
Interest received	77	52
Interest paid	(1,814)	(444)
Bank fees	(1,048)	-
Finance lease liabilities	-	20,649
Other	334	-
Net cash from financing activities	**8,625**	**72,914**
Increase/(decrease) in cash and cash equivalents	(41,151)	88,531
Net foreign exchange differences	47	(149)
Cash and cash equivalents at beginning of period	**192,093**	**121,109**
Cash and cash equivalents at end of period, including:	**150,989**	**209,491**
- restricted cash	61,800	130,629

All amounts in PLN '000 unless indicated otherwise

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The parent of the PBG Group (the "Group" or the "PBG Group") is PBG S.A. (the "parent" or the "Company"). The parent was transformed from a limited-liability company into a joint-stock company on January 2nd 2004 by virtue of a Notarial Deed of December 1st 2003. It is entered in the business register of the National Court Register maintained by the District Court for Poznań-Nowe Miasto and Wilda, 8th Commercial Division of the National Court Register, under KRS No. 0000184508. The parent's Industry Identification Number (REGON) is 631048917.

PBG shares are listed on the Warsaw Stock Exchange.

The parent's registered office is located at ul. Skórzewska 35 in Wysogotowo near Poznań, 62-081 Przeźmierowo, Poland.

The parent and the Group were incorporated for indefinite time.

1.1 PARENT'S MANAGEMENT BOARD AND SUPERVISORY BOARD

Composition of the parent's Management Board and Supervisory Board as at June 30th 2018 is presented below.

As at June 30th 2018	
Management Board	**Supervisory Board**
Jerzy Wiśniewski – President of the Management Board	Helena Fic – Chair of the Supervisory Board
Mariusz Łożyński – Vice President of the Management Board	Małgorzata Wiśniewska – Deputy Chair of the Supervisory Board
Dariusz Szymański – Vice President of the Management Board	Andrzej Stefan Gradowski – Secretary of the Supervisory Board
Kinga Banaszak-Filipiak – Member of the Management Board	Dariusz Sarnowski – Member of the Supervisory Board
	Maciej Stańczuk – Member of the Supervisory Board
	Przemysław Lech Figarski – Member of the Supervisory Board
	Faustyn Wiśniewski – Member of the Supervisory Board

From January 1st 2018 to the date of authorisation for issue of these interim condensed consolidated financial statements, there were no changes in the composition of the parent's Management or Supervisory Boards.

All amounts in PLN '000 unless indicated otherwise

1.2 PBG GROUP

The Group consists of the parent and the following subsidiaries:

Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Jun 30 2018	Dec 31 2017
PBG Dom Sp. z o.o. (1)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z Renting and operating of own or leased real property PKD 68.20.Z	100.00%	100.00%
PBG Erigo Sp. z o.o. (2)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Activities of head offices and holding companies other than financial holdings PKD 70.10.Z	100.00%	100.00%
Górecka Projekt Sp. z o.o. (3)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Development of building projects PKD 41.10. Z Renting and operating of own or leased real property PKD 68.20.Z	100.00%	100.00%
PBG Dom Invest Limited (4)	4 Afentrikas, Afentrika Court Office 2 P.C. 6018 Larnaka Cyprus	Holding of investment assets	100.00%	100.00%
Galeria Kujawska Nova Sp. z o.o. (5)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
Erigo IV Sp. z o.o. (6)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
Erigo V Sp. z o.o. (7)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
Erigo IV Sp. z o.o. SKA (formerly: SMIP Investment Sp. z o.o. w organizacji SKA (in formation)) (8)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
City Development Sp. z o. o. (9)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%

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Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Jun 30 2018	Dec 31 2017
PBG Erigo Projekt Sp. z o.o. Ecoria II SKA (10)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%
PBG Dom Invest X Sp. z o.o. Invest I SKA (11)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z Renting and operating of own or leased real property PKD 68.20.Z	100.00%	100.00%
PBG Dom Invest X Sp. z o.o. Złotowska 51 SKA (12)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
PBG Erigo Projekt Sp. z o.o. Quadro House SKA (13)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%
PBG Erigo Projekt Sp. z o.o. Strzeszyn SKA (14)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%
PBG Dom Invest X Sp. z o.o. (15)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
PBG Erigo Projekt Sp. z o.o. (16)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
PBG Erigo Projekt Sp. z o.o. Platan Hotel SKA (17)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Hotels and similar accommodation PKD 55.10.Z	100.00%	100.00%
PBG Erigo Projekt Sp. z o.o. Malta Hotel SKA (18)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Hotels and similar accommodation PKD 55.10.Z	100.00%	100.00%
Ecoria Sp. z o.o. (19)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
Wschodni Invest Sp. z o.o. (20)	ul. Mazowiecka 42, 60 – 623 Poznań POLAND	Other financial intermediation PKD 64.19.Z	100.00%	100.00%

Group name:	***PBG GROUP***		
Reporting period:	***Jan 1-Jun 30 2018***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 unless indicated otherwise***		

Company	**Country of incorporation and principal place of business**	**Principal business activity (according to PKD 2007)**	**% ownership interest**	
			Jun 30 2018	**Dec 31 2017**
PBG Ukraina LLC (21)	ul. Kondratiuka 1, 04201 Kiev UKRAINE	Construction of buildings and other structures, assembly and installation of prefabricated structures, assembly of metal structures, organisation of property construction projects intended for sale or rental; engineering activities.	100.00%	100.00%
PBG Operator Sp. z o.o. (22)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Other credit granting PKD 64.92.Z	100.00%	100.00%
PBG oil and gas Sp. z o. o. (23)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Other specialised construction activities PKD 43.99.Z	100.00%	100.00%
Multaros Trading Company Limited (24)	Vasili Michalidi 9, 3026 Limassol CYPRUS	Holding of securities	100.00%	100.00%
SPV2 PL Sp. z o.o. (25)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Engineering activities and related technical consultancy PKD 71.12.Z	100.00%	100.00%
RAFAKO S.A. (26)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Manufacture of steam generators except central heating hot water boilers (PKD 25.30.Z)	33.32%	33.32%
PGL-DOM Sp. z o.o. (27)	ul. Bukowa 1, 47-400 Racibórz, POLAND	Real property activities with own property (PKD 68.32.Z)	33.32%	33.32%
RAFAKO ENGINEERING Sp. z o. o. (28)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Construction and process design, urban planning PKD 71.12.Z	65.96%	65.96%
ENERGOTECHNIKA Engineering Sp. z o. o. (29)	ul. Bojkowska 43C, 44-100 Gliwice, POLAND	Construction and process design, urban planning PKD 71.12.Z	33.32%	33.32%
RAFAKO ENGINEERING SOLUTION Sp. z o.o. (30)	Belgrade SERBIA	Process design, construction, industry, and environmental protection consultancy and supervision PKD 74.20.A	25.66%	25.66%

Group name:	*PBG GROUP*		
Reporting period:	*Jan 1-Jun 30 2018*	Reporting currency:	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 unless indicated otherwise*		

Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Jun 30 2018	Dec 31 2017
RAFAKO Hungary Kft. (31)	Budapest HUNGARY	Equipment assembly in the power and chemical industry	33.32%	33.32%
E001RK Sp. z o.o. (32)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	33.32%	33.32%
E003B7 Sp. z o.o. (33)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Development of construction projects, business consultancy and construction design, engineering and technology	33.32%	33.32%
RENG-Nano Sp. z o.o. (34)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Manufacture of metal structures and parts thereof PKD 25.11.Z	39.58%	39.58%
BIO-FUN Sp. z o.o. (35)	ul. Mazowiecka 42, 60-623 Poznań	Real estate services	100%	-

Apart from the above subsidiaries, the Group holds a 49% interest in an equity-accounted joint venture – Energopol Ukraina S.A., a company incorporated under Ukrainian law.

The figures in the table above present the parent's ownership interests in the share capital of the Group companies.

The percentage interests are presented as aggregate interests (the percentage share held by the parent in the share capital of a given Group company times the percentage share held by that Group company in its subsidiary).

The number of shares equals the number of voting rights held by the parent in the Group companies.

The parent holds equity interests below 50% of share capital in the following Group companies:

- RAFAKO S.A.
- PGL-DOM Sp. z o.o.
- ENERGOTECHNIKA ENGINEERING Sp. z o.o.
- RAFAKO ENGINEERING Sp. z o.o.
- RAFAKO Hungary Kft.
- E001RK Sp. z o.o.

- E003B7 Sp. z o.o.
- RENG-Nano Sp. z o.o.

The parent recognises these companies as subsidiaries as its relations with these undertakings indicate that the parent exercises control over the companies within the meaning of IFRS 10 *Consolidated Financial Statements*. The parent recognises that indirectly through RAFAKO S.A. ("subsidiary"), it is exposed to variable returns from its investments in the companies and is able to affect the amount of such returns.

The parent also holds interests exceeding 50% of the share capital in the following Group companies:

- Aprivia S.A. w upadłości likwidacyjnej (in liquidation bankruptcy),
- PBG Technologia Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy),
- Energomontaż Południe SA w upadłości likwidacyjnej (in liquidation bankruptcy),
- KWG S.A. w upadłości likwidacyjnej (in liquidation bankruptcy).

On the date of the court's decision to liquidate these companies, the parent lost control of the subsidiaries as they were placed under the control of authorities appointed in the insolvency proceedings.

The parent also holds 39.09% of shares in Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in liquidation bankruptcy), which is not covered by these interim condensed consolidated financial statements, as it is controlled by court-appointed supervising bodies.

CHANGES IN THE GROUP

The following transactions within the Group took place in the first half of 2018:

Merger with PBG AVATIA Sp. z o.o.

On March 21st 2018, the District Court for Poznań – Nowe Miasto i Wilda of Poznań registered the merger of PBG S.A. as the acquirer, with its subsidiary PBG AVATIA Sp. z o.o. The merger was effected in accordance with Art. 492.1.1. and Art. 515.1 of the Commercial Companies Code in conjunction with Art. 516 thereof. The merger had no effect on the interim condensed consolidated financial statements.

Acquisition of shares in Bio-Fun Sp. z o.o. by subsidiary

On February 13th 2018, Górecka Projekt Sp. z o.o., a subsidiary, acquired a 100% interest in the share capital of Bio-Fun Sp. z o.o. The company's business activities include provision of services on the real estate market. The financial data of the above-mentioned company was not consolidated in these interim condensed consolidated financial statements due to its negligible effect.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with EU-endorsed International Accounting Standard 34 Interim Financial Reporting ("IAS 34").

These interim condensed consolidated financial statements cover the six months ended June 30th 2018 and contain comparative data for the six months ended June 30th 2017 and data as at December 31st 2017.

These interim condensed consolidated financial statements do not contain all information which is disclosed in IFRS-compliant full-year consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements of the Group. The interim consolidated financial result may not be fully indicative of the potential full-year financial result.

2.2. REPORTING CURRENCY AND ROUNDING

The functional currency of the parent and the presentation currency of these interim condensed consolidated financial statements is the Polish złoty, and all amounts are expressed in thousands of Polish złoty (unless indicated otherwise).

2.3. 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.

Going concern assumption – operating companies (the RAFAKO Group, and PBG oil and gas Sp. z o.o.)

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 parent's current financial situation, which is materially affected by the parent'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):

All amounts in PLN '000 unless indicated otherwise

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

All amounts in PLN '000 unless indicated otherwise

Amount of liabilities repaid from the date when the parent 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	-	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	-	-	10,550,000	-	46,587,615
Sale of receivables under the *Ministersky* development project in Kiev	-	20,000,000	-	60,000,000	-	-	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	-	-	-	-	-	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 parent's liabilities under the Arrangement and the Bonds"):

All amounts in PLN '000 unless indicated otherwise

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 parent'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 results mainly from the classification of liabilities under received loans and security deposits as current liabilities that will not become due in 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 borrowings it would be able to contract on market terms, based on the parent's then-current revenue streams and expected future revenues as well as the parent's assets then existing.

Risks which, if materialised, may limit the parent's ability to perform 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 assign the receivables under the conditional sale agreement of July 24th 2013 with IMIDŻ FINANS GRUP Sp. z o.o. 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. Planned dates and amounts of cash inflows as at the closing date for the negotiations are: PLN 20m in the second half of 2018, and PLN 60m in the first half of 2019. As at the date of issue of these financial statements, the Company awaits the confirmation of execution of the agreement and the transfer of the first tranche of remuneration. In connection with the change of the assumptions, the parent's Management Board will request the Bondholders for their consent to carry out the transaction on the terms specified in the receivables sale agreement. A potential threat to the implementation of the arrangement or the parent's ability to redeem outstanding bonds may also come from lower than expected operating cash flows of the parent and its subsidiary PBG oil and gas, mainly due to the parent's and PBG oil and gas Sp. z o.o.'s failure to secure contracts the two companies intend to win and perform during the term of the arrangement. Another risk to the Company's ability to perform the arrangement and redeem the bonds may come from potential difficulty in obtaining, or inability to obtain, the borrowing which the Company expects to use to fund the PLN 280m balloon (last) payment under the arrangement and to redeem the bonds. Taking into account mainly the volatile market environment and 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. 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. 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.

2.4. EFFECT OF THE ARRANGEMENT WITH CREDITORS ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

After the bankruptcy court's decision of October 8th 2015 to sanction the parent's arrangement with creditors became final on June 13th 2016 (see PBG CURRENT REPORTS NO. 11/2016 AND NO. 24/2016 and Note 2.3), the parent recognised in its accounts the effect of debt reduction, as set out in the arrangement and in agreements concluded with certain arrangement creditors. Detailed information on the recognition and presentation of the arrangement is included in the full-year consolidated financial statements for 2017.

In these interim condensed consolidated financial statements, the Group presents claims under the arrangement of PLN 94,978 thousand, including PLN 48,607 thousand as discounted non-current liabilities and PLN 46,371 thousand as current liabilities.

In these interim condensed consolidated financial statements, the Group presents liabilities under the bonds issued by the parent to partially repay claims under the arrangement of PLN 349,043 thousand, including PLN 233,370 thousand as discounted non-current liabilities and PLN 115,673 thousand as current liabilities.

In the six months ended June 30th 2018, the Group repaid arrangement claims of PLN 900 thousand in cash (instalment was to be repaid in December).

In the six months ended June 30th 2018, the Group did not redeem any Bonds.

The repayment date for the next arrangement instalment fell on June 30th 2018, while the redemption date for subsequent Series of Bonds – on July 2nd 2018. Under the liabilities totalling PLN 61,735 thousand, by the date of issue of these interim consolidated financial statements the Company:

- redeemed the Bonds of PLN 46,190 thousand;
- repaid, in cash, liabilities under the Arrangement of PLN 9,448 thousand;
- repaid, on an offset basis, liabilities under the arrangement of PLN 1,343 thousand;

- secured deadline extensions for payments of PLN 4,907 thousand, including deadline extensions agreed on but not signed for payments of PLN 2,532 thousand.

In these interim condensed consolidated financial statements, in the statement of profit or loss, under "Gain/(Loss) on the arrangement with creditors", the Group recognised a loss of PLN 9,031 thousand resulting from revaluation at adjusted acquisition cost of claims under the arrangement and of zero-coupon bonds issued by the parent to partially repay those claims.

The figures presented above relate to the PBG Group and, given the consolidation procedures performed, do not include amounts of transactions related to the implementation of the arrangement that were made between the parent and its subsidiaries in the capacity of arrangement creditors. A similar listing of figures including intragroup transactions is presented in the parent's interim condensed financial statements.

2.5. REPRESENTATION BY THE MANAGEMENT BOARD

The parent's Management Board hereby represents that to the best of its knowledge, these interim condensed consolidated financial statements and the comparative data have been prepared in compliance with the accounting standards applied by the PBG Group, and give a true, fair and clear view of the Group's assets, its financial condition and profit or loss.

2.6. SIGNIFICANT ACCOUNTING POLICIES

In 2018, the Group changed its accounting policies and therefore restated the comparative data for the twelve months ended December 31st 2017, for the six months ended June 30th 2017, and as at January 1st 2017 in accordance with the revised accounting policies as described below.

IFRS 9 *Financial Instruments*

The Group applied IFRS 9 as of its effective date, i.e. as of January 1st 2018, using the permitted simplified approach, i.e. the option not to restate the comparative data retrospectively.

The implementation of IFRS 9 did not have a material impact on the Group's statement of financial position or equity, except for an impact on impairment. The Group recognised additional impairment losses, which will have an adverse effect on its equity. The classification of some financial instruments also changed as a result of application of IFRS 9.

- Classification and measurement

The application of IFRS 9 with respect to the classification and measurement did not have a material impact on its statement of financial position or equity. All financial assets (long-term shareholdings) previously measured at fair value are expected to continue to be measured at fair value.

The Group holds equity investments (shares) in non-listed companies. In accordance with IAS 39, these assets were classified as' available-for-sale financial assets' at cost less impairment. In accordance with IFRS 9, with respect to equity investments (shares) in non-listed companies, the Group has elected to recognise the subsequent changes in their fair value through other comprehensive income. Therefore, the application of IFRS 9 had no material impact on the Group's financial results.

In accordance with IAS 39, the Group's trade receivables were classified as loans and receivables and measured at amortised cost, including impairment losses if any. The application of IFRS 9 resulted in change of the applied method of measuring impairment from the incurred credit losses model to the expected credit losses model. Trade receivables are held to collect contractual cash flows and are not sold under factoring agreements. The Group continues to measure trade receivables at amortised cost through profit or loss. The Group has opted to take advantage of the practical exemption and has applied a simplified approach to trade receivables, whereby write-down for expected credit losses equals the amount of expected credit losses over the entire life of a receivable.

- Impairment

The Group measures the impairment loss on expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. In the case of trade receivables, the Group applies a simplified approach and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the full lifetime of the instrument. Therefore, impairment losses have increased with respect to:

- Hedge accounting

As IFRS 9 did not change the general principles governing the Group's hedge accounting, the application of IFRS 9 has not had a material effect on the Group's financial statements.

- Other adjustments

External bank ratings and publicly available information from rating agencies' websites were used for the purpose of credit risk assessment.
As at January 1st 2018, the Group estimated its future credit losses according to the model described above, and thus reduced its retained earnings as at January 1st 2018 by PLN 3,367 thousand.

IFRS 15 Revenue from Contracts with Customers

International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (IFRS 15), issued in May 2014 and amended in April 2016, introduces a five-step model for recognition of revenue from contracts with customers. Under IFRS 15, an entity recognises revenue in an amount of the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer.

The new standard has replaced all existing revenue recognition requirements under IFRS 11 and IFRS 18. IFRS 15 applies for annual reporting periods beginning on or after January 1st 2018. The Group has not used the option of early application of the standard.

The Group has applied a simplified approach and thus did not retrospectively restate the comparative data with respect to the implementation of IFRS 15.

This core principle is delivered in a five-step model framework which requires identification of material performance obligations set forth in the agreement, allocation of the transaction price to the performance obligations in the contract, and recognition of revenue when or as the entity satisfies a performance obligation. In addition, variable consideration, e.g. rebates, discounts or price increases should in principle be allocated to individual performance obligations. Similarly, cost incurred to obtain a contract as well as costs incurred to provide performance guarantees for the contract (e.g. during the warranty period) are recognised on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

The Group has applied IFRS 15 as of its effective date, i.e. as of January 1st 2018, using the modified retrospective method, that is with the cumulative effect of initially applying the standard recognised at the date of initial application, being January 1st 2018.

In the reporting period, the Group provided general contracting and subcontracting services as part of complete turnkey projects, including delivery of power units, steam generators, air pollution control systems, assemblies, power generation machinery and equipment and structures, construction services in the gas and oil segment, rental services, as well as corporate support services (provided by the parent) for the Group companies.

Below are presented significant provisions of the standard and the assessment of the impact of IFRS 15 on the Group's interim condensed consolidated financial statements:

- IFRS 15 has no material impact on the recognition of revenue and profit from contracts that have only one performance obligation (sale of goods). Revenue is recognised at a point in time, i.e. when the customer obtains control of the goods. In accordance with IFRS 15, the Group continues to recognize sales revenue from such contracts in the same way, taking into account such elements of variable consideration as:
  - price indexation – the Group performs contracts containing inflation price adjustment clauses,
  - post-completion settlement based on the weight of deliveries, which normally takes place after their final completion,
  - contractual penalties recognized as a decrease in sales revenues – the Group has not identified any higher or new losses on contracts which would result in the necessity to recognise additional provisions,
  - right to return delivered goods – as the Group performs contracts that mainly comprise the delivery of products installed at the customer's site or the construction of complete assets for the customer, it does not recognise the right of return.
- The Group performs contracts for the sale of bundles of goods and services delivered or rendered in different periods, comprising the delivery of a series of similar process units generating economic benefits consumed by the customer in different periods.

  Under IFRS 15, the transaction price of each performance obligations allocated on the basis of the relative stand-alone selling price. Following the adoption of IFRS 15, the allocation of the transaction price to goods and services within a bundle and the recognition of related revenue changed. The Group is of the opinion that in such cases the customer simultaneously receives and consumes the benefits from the service provided by the Group. Consequently, the Group transfers control of a good or service and satisfies a performance obligation over time. The Group recognises revenue from construction services in accordance with the percentage of completion method, in correspondence with Amounts due from customers under construction contracts or Amounts payable under construction contracts.
- The Group discloses advance payments received from customers under Other non-financial liabilities.

  The amounts disclosed in the statement of financial position are presented taking into account a partial set-off with amounts due from customers for construction contract work.

The Group has not entered into contracts which would require payment of interest on advance payments received from customers.

- The Group provides warranties for the goods sold and construction services rendered. As a rule, a warranty is an assurance provided to the customer that a product complies with the specifications agreed upon by the parties, and does not constitute an additional service. Accordingly, the majority of existing warranties continues to be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* No non-standard extended warranties were identified by the Group in contracts with customers, therefore the Group did not recognise any such warranties as a separate service that would have to be accounted for as a performance obligation requiring allocation of part of the transaction price.
- In addition to the adjustments described above, other items of the statement of financial position presented in the table below also changed.

In conclusion, the main source of the IFRS 15 impact on the Group's consolidated financial statement is RAFAKO and its activities. The recognition and measurement requirements stipulated by IFRS 15 will also apply to gains or losses from the sale of non-financial assets (such as property, plant and equipment and intangible assets) if the sale transaction is effected in the ordinary course of business. However, the Group does not expect the impact of IFRS 15 to be material.
The implementation of IFRS 15 as of January 1st 2018, reduced the Group's retained earnings by PLN 1,674 thousand as at January 1st 2018.

Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 *Leases* ("IFRS 16"), which replaced IAS 17 *Leases*, IFRIC 4: *Determining Whether an Arrangement Contains a Lease*, SIC-15: *Operating Leases – incentives*, and SIC-27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. At the commencement date, the lessee recognises the right-of-use asset and a lease liability that reflects the lessee's obligation to make lease payments.

The lessee separately recognises amortisation/depreciation of the right-of-use asset and interest on lease liabilities.

The lessee remeasures the lease liability after the occurrence of certain events (e.g. changes in the lease term, changes in future lease payments resulting from a change in an index or rate used to determine lease payments). As a rule, the lessee recognises the remeasurements of the lease liability as adjustments to the right-of-use asset.

The Group companies are a lessee under contracts for lease of office space, vehicles, and equipment.

Lessor accounting in accordance with IFRS 16 remains substantially unchanged from its predecessor, IAS 17: lessors will continue to classify all leases as operating or finance.

Compared with IAS 17, IFRS 16 requires both the lessee and the lessor to make broader disclosures.

The lessee may choose whether it wants to use the full retrospective or modified retrospective method, with the transitional provisions offering certain practical expedients.

IFRS 16 applies for annual periods beginning on or after January 1st 2019. Earlier application is permitted for entities that applied IFRS 15 on or before the date of first application of IFRS 16. The Group has not elected to early adopt IFRS 16.

At the date of authorisation of these interim condensed consolidated financial statements for issue, the parent's Management Board was assessing the impact of IFRS 16 on the accounting principles (policy) applied by the Group with respect to the Group's operations or financial results.

Standards and interpretations published but not yet effective as they have not yet been endorsed by the European Union are presented in the full-year consolidated financial statements for 2017. The Group did not elect to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective.

All amounts in PLN '000 unless indicated otherwise

The effect of application of the new standards on the financial data contained in items of the Group's interim condensed consolidated statement of financial position

The effect of the implementation of IFRS 9 and IFRS 15 on financial data as at January 1st 2018 is presented below (the Group elected not to retrospectively restate the financial data for the previous reporting periods):

	Long-term receivables	Deferred tax assets	Inventories	Amounts due from customers for construction contract work	Trade and other receivables	Current prepayments and accrued income
IFRS 15	-	492	14,263	(1,878)	-	(1,833)
IFRS 9 (impairment on credit losses)	(89)	3,066	-	(1,888)	(11,552)	

	Retained earnings	Non-controlling interests	Other short-term provisions	Amounts due to customers for construction contract work	Trade and other payables
IFRS 15	(1,674)	(3,348)	(63)	(4,284)	22,291
IFRS 9 (impairment on credit losses)	(3,367)	(8,714)	-	-	1,617

All amounts in PLN '000 unless indicated otherwise

Had IAS 18 and IAS 11 been applied to recognise revenue in the first six months of 2018, the individual items of the interim condensed consolidated financial statements would increase or decrease as follows:

Assets	
Deferred tax assets	357
Inventories	(11,908)
Assets and accruals and deferrals relating to construction contracts	7,515
Equity and liabilities	
Retained earnings (accumulated losses), including:	(506)
- accumulated profit from prior years	1,503
- net loss	(2,009)
Non-controlling interests	(1,014)
Trade and other payables	(13,457)
Liabilities under construction contracts	25,140
Provisions relating to accounting for construction contracts	(1,630)
STATEMENT OF COMPREHENSIVE INCOME	
Revenue	(13,057)
Cost of sales	6,009
Profit (loss) before tax	(7,047)
Income tax expense	1,018
Net loss attributable to:	(6,029)
- owners of the parent	(2,009)
- non-controlling interests	(4,020)

2.7. PROFESSIONAL JUDGEMENT AND UNCERTAINTY OF ESTIMATES

PROFESSIONAL JUDGEMENT

When applying the accounting policies, the parent's Management Board made the following judgements which most significantly affected the presented carrying amounts of assets and liabilities, revenue and costs.

Estimating the discount rate for claims under the arrangement and bonds

The discount rate for claims under the arrangement was estimated at the level of the parent's expected borrowing costs. The Management Board made the estimation based on information provided by lending institutions. Claims under the arrangement and bonds issued by the parent were discounted at a rate of 4.78%.

Calculation of provision for liabilities under sureties and guarantees

While estimating the amount of provision for potential liabilities relating to joint and several liability for sureties and guarantees granted, the Management Board assesses the probability of future claims under such sureties and guarantees. The assessment is based on the Management Board's best knowledge about the status of the debt. As at the reporting date, the Group confirmed with relevant financial market institutions amounts of the sureties and guarantees which had expired on or before June 30th 2018. Other sureties and guarantees are presented as confirmed with relevant financial market institutions as at December 31st 2017.

Provisions for warranty repairs are estimated based on probability-weighted costs of current construction contracts assessed by the Company's Management Board.

Estimating the stage of contract completion

Revenue as at the end of a reporting period is estimated based on incurred costs. Costs incurred as at the end of the reporting period include costs of purchased materials, services, equipment and other costs of a particular contract. These costs are then used to estimate the stage of contract completion, determined as the share of costs incurred in costs planned. The stage of completion is the basis for determining the amount of revenue under contracts as at the reporting date.

Impairment of non-current assets (including goodwill)

As at the end of a reporting period, the Group tests goodwill for impairment and analyses for impairment finite-lived property, plant and equipment and intangible assets with indications of impairment. Objective evidence is meant as an event indicating that future expected cash flows from an asset could be reduced. Upon the identification of such impairment indicators, impairment losses are estimated.

Assets classified as held for sale

While reclassifying non-current assets as held for sale, the Group assesses the probability of sale of such assets within one year as of the reclassification date. An asset is reclassified only if the probability of sale is high. The parent prepares plans to sell its own non-core assets.

Measurement of investment property

The Group determines the fair value of investment property based on valuations performed by independent property appraisers, as well as its own assessment of market conditions and other factors that may have a material bearing on the value of investment property.

Consortium agreements

Each time after signing a construction contract to be executed as part of a consortium, the Group evaluates the nature of the contract in order to determine the method of accounting for contract revenue and expenses.

Classification of lease contracts

The Group classifies its lease contracts as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership have been transferred from the lessor to the lessee. Such assessment is in each case based on the economic substance of the transaction.

Classification of interests in other entities

The Group classifies its interests in other entities based on an assessment of the nature of the involvement with the other entity and the degree of the Group's exposure to variability of returns from such interests. Such assessment is based on an analysis of contractual rights held by the Group, including voting rights, if any, held by the Group and other entities.

UNCERTAINTY OF ESTIMATES AND ASSUMPTIONS

These interim condensed consolidated financial statements have been prepared based on the going concern assumption. The assumption has an effect on the measurement of assets and liabilities, which would be different if the parent's Management Board did not assume a going concern.
The preparation of these interim condensed consolidated financial statements requires the parent's Management Board's judgement in making numerous estimates and assumptions, which have an effect on the accounting policies applied and the amounts of assets, liabilities, income and expenses reported.
Actual amounts may differ from the amounts estimated by the parent's Management Board due to the uncertainty surrounding the Group as at the date of these interim condensed consolidated financial statements, which may necessitate an adjustment to the disclosed carrying amounts of assets and liabilities in future reporting periods.

The parent also recognised a provision for its liabilities under the sureties and guarantees issued and under joint and several liability to subcontractors related to projects performed as part of consortium agreements. Since the bankruptcy court's decision of October 8th 2015 to sanction the arrangement between the parent and its creditors became final, a large portion of the provision has been used. As at June 30th 2018, the provision reduced to PLN 26,617 thousand (December 31st 2017: PLN 28,682 thousand). The provision amount depends to a large extent on the Management Board's estimate of the probability of contingent liabilities (i.e. actual payments under performance or maintenance bonds) becoming due and payable. While estimating the amount of the provision, the Management Board analyses each guarantee and surety to assess the probability of the respective payment and assigns such probability, expressed as a percentage (0% to 100%), to each guarantee and surety based on the Management Board's best knowledge and expectations. The amount of the provision was calculated in accordance with the terms of the arrangement, i.e. it was determined at the level of expected payments of potential claims under the arrangement, with the payments representing 21% of such claims. The Company also estimated the fair value of shares which, in accordance with the terms of the arrangement, are to be delivered to Group 6 and Group 7 creditors. Given the subscription warrants acquired by the Main Shareholder, the shareholder's share was preserved at 23.61%.

Provisions for warranty repairs are estimated based on probability-weighted costs of current construction contracts assessed by the management boards of Group companies. They are reported as long as it is probable that a warranty claim or a claim for repair work will arise, until the right to make such claim expires. As at June 30th 2018, recognised provisions for warranty repairs were PLN 43,874 thousand, down PLN 4,583 thousand on the previous reporting date, i.e. December 31st 2017, when they amounted to PLN 48,457 thousand.

The restructuring provision was recognised by the parent in 2012 and estimated at PLN 32,023 thousand as at the date of its recognition. In H1 2018, the parent used PLN 1,018 thousand of that provision. In 2017, the Management Board of RAFAKO S.A. decided to commence the next stage of company restructuring, and for this purpose recognised a provision which stood at PLN 8,368 thousand as at December 31st 2017. In H1 2018, RAFAKO S.A. used PLN 1,443 thousand of the provision and reversed a provision of PLN 5,747 thousand. As at June 30th 2018, the available amount of the provision was PLN 4,381 thousand (December 31st 2017: 12,589 thousand), of which PLN 3,203 thousand represents a provision at the parent.

Provisions for losses on construction contracts are recognised if it is probable that the total cost to complete a construction contract will exceed the total contract revenue. The anticipated loss is immediately recognised as cost. Its amount is determined irrespective of the commencement of contract work, the stage of the contract's completion or expected profits on other contracts which are not single construction contracts. Any change in provisions for expected losses increases or reduces operating expenses arising under the construction contract to which such provisions relate. As at the reporting date, provisions for expected losses were PLN 1,680 thousand, down PLN 13,745 thousand on the previous reporting date, i.e. December 31st 2017, when they had been PLN 15,425 thousand.

Provisions for employee benefits were estimated using actuarial methods and the projected unit credit method for the Group companies (see Note 24). As at June 30th 2018, provisions for employee benefits were PLN 37,355 thousand, down PLN 1,277 thousand on the previous reporting date.

IMPAIRMENT OF NON-CURRENT ASSETS

As at June 30th 2018, the Group performed tests for impairment of property, plant and equipment and intangible assets with definite useful lives, for which there was objective indication of impairment. The tests did not indicate the need to recognise impairment losses. The fair value of investment properties and properties classified as non-current assets held for sale was presented, as at June 30th 2018, based of the Group's value appraisal reports prepared by an independent appraiser in previous reporting periods. The Group also conducted in-house analysis, in the course of which no indications were found that investment property needs to be reappraised.

IMPAIRMENT OF GOODWILL

As at June 30th 2018, the Group tested goodwill for impairment. This requires making an estimate of the cash-generating unit's value in use and involves calculating the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. Based on the test, the parent's Management Board decided to increase the impairment loss on the RAFAKO Group's goodwill by PLN 45,405 thousand.

USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Depreciation and amortisation rates are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

DEFERRED TAX ASSET

The Group recognises deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. Since there is no certainty that the recognised tax losses may be recovered, the Management Board of the parent as well as management boards of certain subsidiaries resolved not to recognise a deferred tax asset relating to tax losses and not to recognise a deferred tax asset relating to deductible temporary differences in an amount exceeding the deferred tax liability.

CONSTRUCTION CONTRACT REVENUE

Construction contract revenue and amounts due recognised in these interim condensed consolidated financial statements depend on the estimates of the management boards of individual PBG Group companies regarding the stage of completion of and profit margins expected to be achieved on individual contracts. Budgeted costs related to specific projects which have not yet been incurred are monitored on an ongoing basis by the management staff supervising the progress of construction work, as a result of which the budgets of individual contracts are revised at least monthly. However, the costs not yet incurred and the profit margins on individual running contracts thus estimated involve a degree of uncertainty, especially in the case of highly complex projects, which take several years to complete. In the Group's present situation, the estimates are affected by additional risks, which may lead to their possible adjustment in the future. These risks include mainly the limited liquidity of the parent and some of its subsidiaries, which may affect the pace of the contract work. This may in turn increase contract fixed costs, affect the Company's bargaining power in negotiations with subcontractors and suppliers and, in extreme cases, result in a failure to meet contractual deadlines for completing work and in a threat of penalties being imposed. Another type of risk affecting the pace of work are weather conditions, which cause seasonality of the construction and installation services market. In the case of some subsidiaries, the risk is exacerbated by the operational cycle in the power sector, where investment projects as well as repairs and upgrade work are performed mainly in the summer season. The Group is to some extent exposed to the risk of a downturn in the property market. The need to adjust to the market conditions may lead to a decrease in the selling prices, and thus affect the planned revenue. Given the type of their operations, the subsidiaries identify also purely technological risks, following from the implementation of complex and innovative technological processes and quality procedures, and the risk of failure to meet the guaranteed technical specifications of the installed equipment or supplied technologies. These factors may in the future affect the planned costs and revenues and thus the margins which are currently budgeted.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for financial assets, see Note 10.

DEPRECIATION AND AMORTISATION RATES

Depreciation and amortisation rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets, as well as their estimated residual values. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

IMPAIRMENT LOSSES ON FINANCIAL ASSETS

As at the end of the reporting period, the Group measures the impairment loss on expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. In the case of trade receivables, the Group applies a simplified approach and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the full lifetime of the instrument.

UNCERTAINTY RELATED TO TAX SETTLEMENTS

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

Tax settlements and other activities (e.g. customs or foreign exchange control) are subject to inspection by bodies authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

On July 15th 2016, the tax legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent creation and use of abusive arrangements to avoid paying taxes in Poland. Under GAAR, tax avoidance is an arrangement the main purpose of which is to obtain a tax advantage which is contrary to the substance and purpose of the tax legislation. In accordance with GAAR, no tax advantage can be obtained through a scheme if such scheme was artificially contrived. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an artificial scheme subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but benefits of the tax advantage obtained through the arrangement continued or still continue after that date. After the new regulations are implemented, Polish tax inspection authorities will be able to challenge certain legal agreements and arrangements made by taxpayers, such as corporate restructurings.

2.8. CORRECTION OF ERRORS AND CHANGES IN ACCOUNTING POLICIES

In these interim condensed consolidated financial statements, presentation adjustments were made to amounts due from customers for construction contract work and to trade payables in the statement of financial position as at December 31st 2017. The adjustments were necessary, because these two items were partially offset against each other by an incorrect amount as at the previous reporting date. The adjustments increased amounts due from customers for construction contract work and trade payables (prepayments from customers) by PLN 125.8m as at December 31st 2017.

The changes in the accounting policies applied to implement IFRS 9 and IFRS 15 and their effect on the interim condensed consolidated financial statements are presented in Note 2.6.

Changes to accounting policies applicable to recognition of provisions for warranty repairs

In line with the previous accounting policy, the RAFAKO Group subsidiaries recognised provisions for warranty repairs based on estimates of costs of oversight, repairs and warranty work related to the RAFAKO Group's contractual commitments, after completion of construction contracts, expected and measurable as at the completion of a construction contract. The Group has reviewed its position and has decided to change the time of provision recognition at some subsidiaries, so that now the provision is recognised during contract performance, and not after its completion, as the new policy is believed to better reflect the actual result of each contract and the Group's aggregate equity.

As a result of these changes in accounting policies, the Group's retained earnings as at December 31st 2017 decreased by 4,221 thousand.

All amounts in PLN '000 unless indicated otherwise

In connection with the changes in the recognition of provisions for warranty repairs and the presentation of amounts due from customers for construction contract work, the following items disclosed in the approved consolidated financial statements for 2017 and the interim condensed consolidated financial statements as at June 30th 2017 have been restated to ensure their comparability after the recognition of the adjustments set forth below:

Dec 31 2017	Amounts due from customers for construction contract work	Deferred tax assets	Other long-term provisions	Other long-term provisions	Retained earnings (accumulated losses)	Non-controlling interests	Trade and other payables
Changes to accounting policies applicable to estimating provisions for warranty repairs	-	4,772	25,113	(7,677)	(4,221)	(8,443)	-
Change in presentation of amounts due from customers for construction contract work	125,800	-	-	-	-	-	125,800

June 30th 2017	Deferred tax assets	Other long-term provisions	Other long-term provisions	Retained earnings (accumulated losses)	Non-controlling interests
Changes to accounting policies applicable to estimating provisions for warranty repairs	3,023	15,911	(2,327)	(5,281)	(5,280)

3. MATERIAL EVENTS AND TRANSACTIONS

Below are presented material events and transactions, except for those relating to the arrangement with the Company's creditors (see Note 2.4).

Share capital increase at the parent

On January 19th 2018, the parent's registry court registered a PLN 4,272.20 increase in the parent's share capital effected through an issue of 213,610 ordinary Series H registered shares, and on January 22nd 2018, Mr Jerzy Wiśniewski acquired 66,021 Series I shares; after these transactions the parent's share capital increased to PLN 16,087 thousand. The capital was increased pursuant to the terms of the arrangement (PBG Current Report No. 3/2018, PBG Current Report No. 4/2018).

Selection of the best bid for turnkey construction of Paldiski and Puiatu gas compressor stations in Estonia (Current Report No. 14/2018)

On March 20th 2018, the Management Board of RAFAKO S.A. was notified that Elering AS of Tallinn, Estonia, had selected that company's bid as the best bid in the tender "Turnkey Construction of Paldiski i Puiatu Gas Compressor Stations in Estonia".

The total value of the company's bid is approximately EUR 50m (approximately PLN 210m).

On July 17th 2018, the subsidiary was notified of the Employer's cancellation of the subsidiary's bid as the best bid in the tender procedure. The employer's decision is final and follows from an appeal filed by another bidder.

Agreement signed by subsidiary

On March 29th 2018 the subsidiary RAFAKO S.A. executed a contract for the design, delivery and commissioning of an LNG tank in Finland.

The value of the contract is EUR 13.4m.

Update of the PBG Strategy

On April 5th 2018, the PBG Management Board approved the updated Strategy for the PBG Group for 2018-2020. 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. One of the key factors in the delivery of the strategy will be the structure of the Group, with EPC and general contractor capabilities in the oil, gas and fuels segment transferred to the RAFAKO Group (RB PBG 11/2018).

Selection of RAFAKO S.A.'s bid as the best bid for construction of Goleniów-Płoty section of DN 700 Szczecin-Gdańsk pipeline (Current Report No. 17/2018)

On April 27th 2018, the Management Board of RAFAKO S.A. was notified that the company's bid was selected as the best bid in the tender procedure for construction work to be carried out as part of the project to build the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk gas pipeline. The total value of the company's bid is approximately PLN 124.9m VAT-exclusive (PLN 153.6m VAT inclusive). The project completion deadline is 24 months from the contract date.

Appointment of qualified auditor to review and audit financial statements

On May 16th 2018, the parent's having carried out the procedure to select an auditor for the purpose of a statutory audit, as such procedure is defined in the parent's internal regulations governing the policy and procedures for the selection of the qualified auditor, having considered the recommendation of the Audit Committee, prepared in accordance with Art. 130 of the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017. (Dz.U. of June 6th 2017, item 1089), the parent's Supervisory Board, the body authorised to do so under the parent's Articles of Association, appointed Grant Thornton Polska sp. z o.o. sp.k., entered in the register of qualified auditors of financial statements maintained by the Polish Chamber of Statutory Auditors under No. 4055, as the auditor to audit the full-year separate and consolidated financial statements of the parent and its Group for 2018 and 2019, as well as to review the interim separate and consolidated financial statements of PBG S.A. and the Group for H1 2018 and H1 2019.

Listing of PBG shares in Alert List

In Current Report No. 17/2018 of June 20th 2018 the Management Board of PBG S.A. announced a result of the formal and legal analysis of the parent's situation following listing PBG shares in the ALERT LIST.

Selection of the best bid for construction of the DN 1000 MOP 8.4 MPa Pogórska Wola-Tworzeń gas pipeline

The Management Board of RAFAKO S.A. announced that Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. of Warsaw had selected the company's bid, submitted in consortium with Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. as the consortium leader, as the best bid in the tender procedure for construction work to be carried out as part of the project to build the DN 1000 MOP 8.4 MPa Pogórska Wola-Tworzeń gas pipeline. The total value of the consortium's bid is PLN 687m VAT exclusive (PLN 845m VAT inclusive), and the company's share is 50%. The project completion deadline is 24 months from the contract date (see Current Report No. 21/2018).

Execution of annex to multi-purpose credit facility agreement with PKO BP S.A.

On June 29th 2018, the Management Board of RAFAKO S.A. announced that RAFAKO S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. executed an annex to a multi-purpose credit facility agreement of February 7th 2012, as amended. For more information, see RAFAKO Current Report No. 24/2018.

4. EARNINGS/ (LOSS) PER SHARE

Earnings (loss) per share are computed as the quotient of net profit (net loss) attributable to owners of the parent to the weighted average number of shares outstanding during the period. In the six months to June 30th 2018, the weighted average number of shares was determined taking into account the Series H and Series I shares issued in the period (see Note 20).

5. SEASONALITY OF OPERATIONS

Due to the nature of the Group's operations (construction and assembly services), the performance of works is frequently affected by weather conditions. In the reporting period, low temperatures — which typically affect revenue by hindering earthworks and assembly operations — had no material impact on the Group's revenue, as it was largely generated on contracts at advanced stages of completion, when a substantial part of work is done indoors.

The Group's strategy provides for securing further high unit-value contracts. This will help eliminate seasonal fluctuations in revenue, also ensuring more balanced revenue streams throughout the financial year.

6. OPERATING SEGMENTS

Currently, the PBG Group's business is divided into the following segments:

- **Gas, oil and fuels** (strategic business segment),
- **Power construction** (strategic business segment),

The following areas are identified within particular segments:

- **Gas, oil and fuels segment:**
  - Surface installations for crude oil and natural gas production,
  - Installations for liquefying natural gas and for LNG storage and regasification,
  - LPG, C5+ separation and storage facilities,
  - LNG storage and evaporation facilities,
  - underground gas storage facilities,
  - Desulfurisation units,
  - Surface infrastructure of underground gas storage facilities,
  - Crude oil tanks,
  - 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.,
  - Fuel terminals.
- **Power construction segment:**
  - Construction, assembly, modernisation and repair of power equipment and industrial units.

None of the Group's operating segments has been combined with another segment to form the above reportable operating segments.

In compliance with IFRS 8 *Operating segments*, results of the operating segments are based on internal reports regularly reviewed by the parent's Management Board. Results of the operating segments are monitored separately by the parent's Management Board to make decisions on the allocation of resources and to evaluate the results of such allocation and the results of operations. The Management Board analyses the operating segments' results at the operating profit (loss) level. Measurement of the operating segments' results used in the management calculations is consistent with the accounting policies applied in the preparation of the financial statements.

The Group presents revenue, cost of sales and profit (loss) on sales (gross margin) by individual segments. Assets and liabilities are not presented by operating segments as some of the non-current and current assets are used in production that is classified in different segments. Therefore, the Group is unable to make a reasonable allocation of all items of inventory, property, plant and equipment and trade payables to particular operating segments. The Group's financing sources, finance income and costs, other income and expenses, distribution costs, administrative expenses, restructuring costs, share of profit of equity-accounted entities, and income tax are monitored at the Group level and are not allocated to operating segments.

All amounts in PLN '000 unless indicated otherwise

Transaction prices used in transactions between operating segments are determined on arm's length basis, which is also the case for transactions with unrelated parties.

Revenue comprises amounts derived from sales to external customers. As in 2017, no inter-segment sales took place in H1 2018.

Any income and expenses not allocated to any of the main segments are classified by the Group as 'Other'. The profit (loss) of each segment is the segment's 'pure' profit (loss), without any distribution costs or administrative expenses, other income and expenses, restructuring costs, gain on the arrangement, finance income and cost, share of profit of equity-accounted entities, or income tax allocated to the segment.

The tables below present data for the individual operating segments.

OPERATING SEGMENTS – JANUARY 1ST– JUNE 30TH 2018

	Segment		Other	Total
	Gas, oil and fuels	Power construction		
Segment total revenue	**4,679**	**628,823**	**4,501**	**638,003**
Revenue from external customers	4,220	629,282	4,501	638,003
Inter-segment sales	458	(458)	-	-
Total cost	**(4,158)**	**(565,593)**	**(2,797)**	**(572,548)**
Segment profit (loss)	**521**	**63,230**	**1,704**	**65,455**
Distribution costs/administrative expenses	x	x	x	(50,068)
Other income/expenses	x	x	x	(41,219)
Gain (Loss) on arrangement with creditors	x	x	x	(9,031)
Operating profit	x	x	x	**(34,863)**
Finance costs	x	x	x	(1,336)
Share of profit of equity-accounted entities	x	x	x	5,381
Profit (loss) before tax	x	x	x	**(30,818)**
Income tax expense	x	x	x	(11,976)
Net profit (loss) from continuing operations	x	x	x	**(42,794)**
Net profit (loss) from discontinued operations	x	x	x	**(2,265)**

OPERATING SEGMENTS – JANUARY 1ST– JUNE 30TH 2017

	Segment		Other	Total *(restated)*
	Gas, oil and fuels	Power construction		
Segment total revenue	**19,505**	**885,993**	**8,502**	**914,000**
Revenue from external customers	19,505	885,993	8,502	914,000
Inter-segment sales	-	-	-	-
Total cost	**(17,743)**	**(799,835)**	**(3,501)**	**(821,079)**
Segment profit (loss)	**1,762**	**86,158**	**5,001**	**92,921**
Distribution costs/administrative expenses	x	x	x	(59,896)

All amounts in PLN '000 unless indicated otherwise

Other income/expenses	x	x	x	(3,555)
Gain (Loss) on arrangement with creditors	x	x	x	(9,754)
Operating profit (loss)	x	x	x	**19,716**
Finance costs	x	x	x	(5,805)
Share of profit of equity-accounted entities	x	x	x	(1,777)
Profit (loss) before tax	x	x	x	**12,134**
Income tax expense	x	x	x	(11,951)
Net profit (loss) from continuing operations	x	x	x	**183**

7. GOODWILL

As at June 30th 2018, the Group's goodwill was measured at PLN 57,131 thousand (2017: PLN 102,536 thousand). The item includes goodwill resulting from the acquisition of control of the RAFAKO Group. As at June 30th 2018, the parent's Management Board tested the RAFAKO Group's goodwill for impairment, as a result of which the impairment loss on the goodwill was increased by 45,405 thousand (gross value as at Jun 30 2018: PLN 381,026 thousand; impairment loss: PLN 324,271 thousand). The other data concerning goodwill has not changed and is disclosed in Note 13 to the consolidated financial statements for 2017.

8. INTANGIBLE ASSETS

The Group's intangible assets include trademarks, patents and licences, software, development costs and other intangible assets which meet the recognition criteria specified in IAS 38 *Intangible assets*.

	Jun 30 2018	Dec 31 2017
Patents and licences	3,386	3,273
Software	4,091	4,110
Development costs	120	144
Other	63	73
Net carrying amount	**7,660**	**7,600**
Intangible assets under development	52	700
Total intangible assets	**7,712**	**8,300**

In the six months ended June 30th 2018, the Group acquired intangible assets for a total of PLN 322 thousand (2017: PLN 1,384 thousand).
As in 2017, in the six months ended June 30th 2018, the Group did not dispose of any intangible assets of significant value.

All amounts in PLN '000 unless indicated otherwise

As in the comparative period, in the six months ended June 30th 2018, the Group did not recognise or reverse any impairment losses on intangible assets.

The Group did not make any commitments to incur capital expenditure on intangible assets. Some of the Group's intangible assets are pledged as security for its liabilities (see Notes 19 and 23).

9. PROPERTY, PLANT AND EQUIPMENT

	Jun 30 2018	Dec 31 2017
Land	25,281	25,335
Buildings and structures	109,698	111,490
Machinery and equipment	47,726	50,788
Vehicles	9,207	8,779
Other	3,082	3,302
Net carrying amount	**194,994**	**199,694**
Property, plant and equipment under construction	227	259
Total	**195,221**	**199,953**

In the six months ended June 30th 2018, the Group acquired property, plant and equipment of PLN 568 thousand (2017: PLN 3,386 thousand). These were mainly property, plant and equipment under construction (PLN 400 thousand).

In the six months ended June 30th 2018, the Group sold property, plant and equipment of PLN 3,372 thousand (2017: PLN 2,314 thousand).

In the six months ended June 30th 2018, the Group recognised an impairment loss on property, plant and equipment of PLN 6 thousand (2017: PLN 4,207 thousand).

In the six months ended June 30th 2018, the Group reversed impairment losses on property, plant and equipment of PLN 3,010 thousand (2017: PLN 39 thousand) following a sale transaction.

The Group did not make any commitments to incur capital expenditure on property, plant and equipment. Some of the Group's property, plant and equipment is pledged as security for its liabilities (see Notes 19 and 23).

10. FINANCIAL INSTRUMENTS

Information on the fair value measurement of financial instruments is presented in the Group's most recent full-year consolidated financial statements. Fair values of financial assets and liabilities do not differ materially from their respective carrying amounts. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments for which there is an active market is determined on the basis of quoted market prices (bid price and asking price). If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Inputs to the valuation technique make maximum use of active market variables (foreign exchange rates, interest rates, etc.).

In these interim condensed consolidated financial statements, the following assets are measured at fair value:

All amounts in PLN '000 unless indicated otherwise

- Investment property (see Note 11) – estimated solely based on unobservable inputs (level 3 of the fair value hierarchy according to IFRS 13 *Fair Value Measurement*),
- Non-current assets held for sale (see Note 30) – estimated solely based on unobservable inputs (level 3 of the fair value hierarchy according to IFRS 13 *Fair Value Measurement*),
- Long-term investments in works of art (see Note 12) – estimated solely based on unobservable inputs (level 3 of the fair value hierarchy according to IFRS 13 Fair Value Measurement),
- Listed equity instruments – estimated solely based on quoted prices (level 1 of the fair value hierarchy according to IFRS 13 Fair Value Measurement),
- Hedge derivatives (see Note 33) – estimated solely based on inputs other than quoted prices (level 2 of the fair value hierarchy according to IFRS 13 Fair Value Measurement).

11. INVESTMENT PROPERTY

As at June 30th 2018, the Group held investment property with a fair value of PLN 4,559 thousand (2017: PLN 1,319 thousand). In the six months ended June 30th 2018, investment property as disclosed in the interim consolidated statement of financial position increased by PLN 3,240 thousand over December 31st 2017 following reclassification of properties located in Katowice that were previously disclosed as non-current asset held for sale.

The Group did not make any commitments to incur capital expenditure on investment property. Some of the Group's investment property is pledged as security for its liabilities (see Notes 19 and 23).

12. LONG-TERM INVESTMENTS

In the six months ended June 30th 2018, the Group did not enter into any transactions involving long-term investments. Long-term investments comprise works of art and antiques with a total carrying amount of PLN 1,790 thousand. As at the date of these interim condensed financial statements, long-term investments were pledged as security for the Group's liabilities (see Notes 19 and 23).

13. INVESTMENTS IN JOINT ARRANGEMENTS

In these interim condensed consolidated financial statements, the Group's investment in the joint venture Energopol Ukraina S.A. is equity-accounted at PLN 26,421 thousand (2017: PLN 19,312 thousand). In the first half of 2018, a PLN 5,381 thousand gain on measurement of investments was recognised by the Group in profit or loss, and translation reserve was increased by PLN 4,668.

The parent's Management Board assessed the investment in the joint venture for impairment as at June 30th 2018 and found there was no need to estimate an impairment loss on the asset.

14. INCOME TAX EXPENSE

	Six months ended June 30th 2018	Six months ended June 30th 2017 *(restated)*
Statement of profit or loss		
Current income tax	(3,893)	(7,403)
Current income tax expense	(3,893)	(7,403)

All amounts in PLN '000 unless indicated otherwise

Prior year adjustment	-	-
Deferred corporate income tax	(8,083)	(4,548)
Origination and reversal of temporary differences	(8,083)	(4,548)
Prior year adjustment	-	-
Tax expense recognised in profit or loss	**(11,976)**	**(11,951)**

In the six months ended June 30th 2018, deferred tax assets decreased by PLN 2,420 thousand, mainly as a result of transactions executed at the RAFAKO Group, including changes in assets related to:

- provisions – PLN (44,934) thousand;
- difference between the tax base and carrying amount of liabilities, provisions and accruals and deferrals relating to construction contracts – PLN 54,649 thousand.

15. RECEIVABLES AND LOANS

Long-term trade and other receivables	Jun 30 2018	Dec 31 2017
Financial receivables	**43,625**	**44,351**
Trade receivables	42,135	38,676
Allowance for credit losses on trade receivables (-)	(133)	-
Trade receivables (net)	**42,002**	**38,676**
Disposals of property, plant and equipment and intangible assets	-	630
Retentions under construction contracts	1,476	4,992
Other financial receivables	147	102
Impairment loss on financial receivables (-)	-	(49)
Non-financial receivables	**2,209**	**5,881**
Further non-financial receivables	2,209	5,881
Total long-term receivables, net	**45,834**	**50,232**

Short-term trade and other receivables	Jun 30 2018	Dec 31 2017
Financial receivables	**268,369**	**448,349**
Trade receivables	280,310	447,107
Allowance for credit losses on trade receivables (-)	(94,122)	(91,922)
Trade receivables (net)	**186,188**	**355,185**
Disposals of property, plant and equipment and intangible assets	586	8,486
Retentions under construction contracts	72,462	66,915
Receivables under court proceedings	24,507	20,178
Other financial receivables	25,089	29,535
Impairment loss on financial receivables (-)	(40,464)	(31,950)
Non-financial receivables	**90,734**	**88,428**
Income tax receivable	22	-
Receivables under prepayments and advance payments	67,818	53,923
Receivables from the state budget	16,150	31,479

All amounts in PLN '000 unless indicated otherwise

Further non-financial receivables	48,728	41,690
Impairment loss on non-financial receivables (-)	(41,983)	(38,664)
Total short-term receivables, net	**359,102**	**536,777**

In the six months ended June 30th 2018, long-term and short-term receivables disclosed in the consolidated statement of financial position decreased relative to December 31st 2017, mainly due to business transactions at the RAFAKO Group.

Short-term financial receivables include security deposits of PLN 65,745 thousand disclosed by the RAFAKO Group, relating mainly to:

- ✓ construction of a gas pipeline – PLN 15,362 thousand;
- ✓ construction of a coal-fired steam unit – PLN 10,904 thousand;
- ✓ SCR system – PLN 8,632 thousand;
- ✓ manufacture of high-pressure parts of a boiler for an incineration plant – PLN 5,857 thousand.

Short-term non-financial receivables include advance payments disclosed by the RAFAKO Group, relating to:

- ✓ performance of a contract for the construction of fuel tanks – PLN 44,101 thousand;
- ✓ performance of a contract for a biomass heating system – PLN 14,433 thousand.

In the six months ended June 30th 2018, the Group recognised impairment losses on receivables of PLN 15,444 thousand (2017: PLN 4,583 thousand), of which PLN 12,630 thousand were impairment losses recognised as a result of application of IFRS 9.

Loans advanced	**Jun 30 2018**	**Dec 31 2017**
Loans	-	-
Short-term loans	12,595	6

Loans are recognised at amortised cost, using the effective interest rate method. The carrying amount of loans bearing interest at variable rates is considered to be a reasonable approximation of fair value. Loans rose significantly in the first half of 2018, mainly as a result of loans advanced by a subsidiary.

LONG-TERM CONTRACT RECEIVABLES AND AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACT WORK

In the six months ended June 30th 2018, the parent did not report any changes in long-term contract receivables and amounts due from customers for construction contract work, compared with the figure presented in the Group's most recent full-year consolidated financial statements. In these interim condensed consolidated financial statements, the Group disclosed as a separate item of the consolidated statement of financial position the parent's assets related to settlements under the contract for construction of the Wierzchowice Underground Gas Storage Facility ("Wierzchowice UGSF"), and the contract for delivery and construction of the LMG Project – Central Facility, Well Areas, Pipelines and Other Infrastructure ("LMG").

Under 'Long-term contract receivables and amounts due from customers for construction contract work' the Group disclosed a total amount of PLN 39,150 thousand comprising:

- Receivables of PLN 11,637 thousand resulting from work performed but not yet settled under the Wierzchowice UGSF project;
- PLN 20,051 thousand security deposit payable, which secured warranty claims under the LMG contract;
- Other receivables from consortium partners under the Wierzchowice UGSF contract, in an amount of PLN 7,462 thousand.

The parent decided not to recognise an impairment loss on those assets as it considers PGNiG's claims under the Wierzchowice UGSF contract groundless and thus deems ineffective the settlement whereby PGNiG refuses to return the security deposit of PLN 20,051 thousand provided to secure warranty claims under the LMG contract, as well as steps taken by PGNiG to effectively offset amounts due to the parent against PGNiG's disputed claims under the Wierzchowice UGSF contract.

On April 2nd 2014, the parent received from PGNiG a notice of termination of the Wierzchowice UGSF contract, in which PGNiG also demanded that the consortium pay liquidated damages of PLN 133.4m, i.e. 10% of the gross contract price, as PGNiG assumed that causes of the termination were attributable to the contractor.

The consortium, including the parent as its leader, considers PGNiG's contract termination notice and the demand for payment of liquidated damages to be ineffective. The consortium's position was presented to the employer in a letter of April 7th 2014 and also on April 18th 2014. In the consortium's – and the parent's – opinion, as at April 2nd 2014 the project had been completed in almost 100%, as admitted by the employer itself in its current report and as demonstrated by the project status report as at the end of March 2014. Moreover, by April 2nd 2014 the employer had confirmed full operational availability of the Wierzchowice UGSF's units, as well as conformity of the UGSF's functionality with the contract specifications. The required operation permits for the Wierzchowice UGSF facilities were obtained by December 2013, and the applicable permits for operation of the individual units were received by March 2014.

Considering the above, and putting into questions the grounds for charging the liquidated damages, the parent also refuses to accept any late interest charged by the employer and related debit notes are not recognised in the parent's accounts and are returned to the employer as groundless.

Since receipt of the notice, the consortium has made several attempts to negotiate contract settlement with the employer. However, until the date of these interim condensed consolidated financial statements the negotiations have not been successful. For example, the court proceedings instigated at the employer's request for a conciliation hearing ended without the parties reaching amicable settlement. On May 9th 2016, the parent petitioned for a conciliation hearing to settle the dispute with PGNiG concerning completion and settlement of the LMG and Wierzchowice UGSF contracts. In the petition, the value of the dispute was set at PLN 288.235 thousand, being the sum of the parent's claim under the LMG security (PLN 20,051 thousand plus interest), consideration due to the consortium for the performance of the Wierzchowice UGSF contract, and liquidated damages claimed by PGNiG (no settlement was reached).

The parent reiterates its position with regard to the liquidated damages and settlement of the Wierzchowice UGSF contract, as presented in PBG Current Reports No. 7/2014 of April 2nd 2014, No. 8/2014 of April 8th 2014 and No. 6/2016 of May 10th 2016, and upholds this position during the settlement negotiations with the employer. The liabilities related to the dispute described above are presented in Note 24 to these financial statements.

All amounts in PLN '000 unless indicated otherwise

16. INVENTORIES

In the interim statement of financial position as at June 30th 2018, the Group disclosed inventories of PLN 32,163 thousand (2017: PLN 16,954 thousand). In the six months ended June 30th 2018, the Group recognised inventory write-downs of PLN 465 thousand (2017: PLN 796 thousand). They were applied entirely to non-moving inventories. In the six months ended June 30th 2018, the Group reversed inventory write-downs of PLN 136 thousand (2017: PLN 854 thousand). The reversal was entirely applied to the liquidated part of materials written down in previous reporting periods. Some of the Group's inventories are pledged as security for its liabilities (see Notes 19 and 23).

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and cash in hand, as well as current financial assets with maturities up to three months.

	Jun 30 2018	Dec 31 2017
Cash at bank and in hand	150,820	189,785
Short-term deposits with maturities up to 3 months	171	2,390
Total cash and cash equivalents	**150,991**	**192,175**

As at June 30th 2018, cash included restricted cash of PLN 61.8m (December 31st 2017: PLN 18.2m).

PLN 27.6m was cash held in the divestment account and PLN 34.1m was cash owned by E003B7 Sp. z o.o. earmarked for the performance of the Jaworzno contract, which from the Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project (see Note 23).

18. BORROWINGS AND OTHER DEBT INSTRUMENTS

In these interim condensed consolidated financial statements, the Group presents a PLN 71,924 thousand increase in liabilities under borrowings and other debt instruments. The decrease was mainly attributable to:

- change of presentation of the PLN 46,378 thousand credit facility with mBank S.A. (2017: PLN 48,934 thousand) – transfer from liabilities related to non-current assets held for sale to liabilities under borrowings,
- a PLN 8,852 thousand increase in debt securities outstanding resulting from revaluation of bonds at adjusted acquisition cost,
- a PLN 16,524 thousand increase in liabilities under revolving, working capital, and overdraft facilities contracted by RAFAKO S.A.

	Jun 30 2018	Dec 31 2017
Bank borrowings	161,630	98,728
Non-bank borrowings	29,927	29,758

Debt instruments	349,042	340,191
Total borrowings and other debt instruments	**540,599**	**468,677**
- long-term	256,317	302,721
- short-term	284,282	165 956

All amounts in PLN '000 unless indicated otherwise

19. ASSETS PLEDGED AS SECURITY FOR LIABILITIES

	Liability / restricted title	Type of security	Collateral	Carrying amount	
				Jun 30 2018	**Dec 31 2017**
Intangible assets	- under multi-purpose credit facility agreement with PKO BP	registered pledge	patents and licences, software and goodwill	9,942	9,815
Property, plant and equipment (including leases)	- as security for repayment of BGK's, PKO BP's, mBank's and PZU's claims against RAFAKO S.A. under the surety agreement executed to secure the liabilities of E003B7 arising under an agreement for the issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the Jaworzno III 910 MW unit project	mortgage	Land	9,162	9,208
		mortgage	Buildings and structures	79,491	80,843
		registered pledge	plant and equipment, vehicles IT hardware	47,486	49,740
Inventories		registered pledge	Raw materials	27,640	26,320
Receivables	Sureties and guarantees	Assignment	receivables	32	96,482
Assets classified as held for sale	Credit facility from mBank S.A.	mortgage	building	109,736	109,736
Total carrying amount of pledged assets				**283,489**	**382,144**

All amounts in PLN '000 unless indicated otherwise

Apart from the amounts presented in the table above, the Group's assets described in Note 23 are pledged as security for the bonds issued by the parent to repay the arrangement claims.

20. EQUITY

20.1 SHARE CAPITAL

As at June 30th 2018, the parent's share capital was PLN 16,086,604.44and comprised 804,330,222 ordinary bearer shares with a par value of PLN 0.02 per share.

	Jun 30 2018	Dec 31 2017
Number of shares	804,330,222	804,050,591
Par value of shares (PLN)	0.02	0.02
Share capital (PLN)	**16,086,604**	**16,081,012**

CHANGES IN THE SHAREHOLDING STRUCTURE DURING THE REPORTING PERIOD

On January 19th 2018, the parent's Management Board was notified of the registration of the share capital increase up to 804,264,201 shares, i.e. by 213,610 Series H ordinary registered shares with a par value of PLN 0.02 per share. Thus the parent's share capital increased to PLN 16,085,284.02 (see PBG Current Report No. 3/2018).

As a result, in line with Resolution No. 2 and the Amending Resolution, on January 22nd 2018 Jerzy Wiśniewski, the main shareholder, exercised his rights under 66,021 subscription warrants and acquired on January 22nd 2018, 66,021 Series I shares (see PBG Current Report No. 4/2018). As a result, the parent's share capital increased to PLN 16,086,604.44 and was divided into 804,330,222 shares, each with a par value of PLN 0.02.

Structure of the share capital as at the date of authorisation of these interim condensed consolidated financial statements for issue:

Series / Issue	Preference	Limitation of rights	Number of shares	Par value of series / issue	Form of payment
Series A	n/a	n/a	3,740,000	75	contribution in kind
Series A	n/a	n/a	1,960,000	39	cash
Series B	n/a	n/a	1,500,000	30	cash
Series C	n/a	n/a	3,000,000	60	cash
Series D	n/a	n/a	330,000	7	cash
Series E	n/a	n/a	1,500,000	30	cash
Series F	n/a	n/a	1,400,000	28	cash
Series G	n/a	n/a	865,000	17	cash
Series H*	n/a	n/a	777,162,390	15,543	conversion of liabilities
Series I**	n/a	n/a	12,872,832	257	conversion of liabilities
				16,086	

**213,160 Series H shares are registered shares, not introduced to trading.*

***66,021 Series I shares are ordinary bearer shares, not introduced to trading.*

All amounts in PLN '000 unless indicated otherwise

CHANGES IN THE SHAREHOLDING STRUCTURE IN THE REPORTING PERIOD

In the period covered by these interim condensed consolidated financial statements, the parent's share capital was increased twice:

- upon court registration of the increase in the parent'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 parent'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 parent's share capital was increased to PLN 16,086,604.44 and 804,330,201 shares.

SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL VOTING RIGHTS AT THE COMPANY'S GENERAL MEETING AS AT JUNE 30TH 2018 AND AS AT THE DATE OF AUTHORISATION OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR H1 2018

Shareholder	Number of shares	Par value of shares (PLN)	% ownership interest	% of voting rights held
Jerzy Wiśniewski	189,902,366	3,798,047.32	23.61%	23.61%
Powszechna Kasa Oszczędności Bank Polski S.A.	53,060,500	1,061,210.00	6.60%	6.60%
Bank Polska Kasa Opieki S.A.	62,848,380	1,256,967.60	7.82%	7.82%

All amounts in PLN '000 unless indicated otherwise

20.2 OTHER COMPONENTS OF EQUITY

The result of conversion of contingent claims under the arrangement into shares in the parent was disclosed under other components of equity (see Note 20.1).

20.3 NON-CONTROLLING INTERESTS

Non-controlling interests represent a portion of net assets of subsidiaries not owned, directly or indirectly, by owners of the parent.

Non-controlling interests disclosed in the Group's equity relate to the following subsidiary:

	Jun 30 2018	Dec 31 2017 *(restated)*
RAFAKO Group	408,839	441,676

NON-CONTROLLING INTERESTS

	Six months ended Jun 30 2018	Twelve months ended Dec 31 2017 *(restated)*
Balance at beginning of period	**441,676**	**294,276**
Changes in ownership interests in subsidiaries (transactions with non-controlling interest):		
Ownership interests acquired by the Group from non-controlling interest (-)	-	(1,741)
Acquisition of shares in the increased share capital of a subsidiary (+)	-	218,196
Comprehensive income:		
Net profit (loss) for period (+/-)	(20,449)	(69,164)
Other comprehensive income for period (after tax) (+/-)	(327)	100
Other changes	(12,061)	9
Balance at end of period	**408,839**	**441,676**

21. FINANCE LEASE LIABILITIES

As at June 30th 2018, the parent's finance lease liabilities stood at PLN 28,096 thousand, including non-current liabilities of PLN 24,560 thousand and current liabilities of PLN 3,536 thousand. In the six months ended June 30th 2018, finance lease liabilities did not change significantly.

22. DIVIDENDS

In the six months to June 30th 2018, the Group subsidiaries paid no dividends to non-controlling shareholders. No dividends were paid by the parent during the period, either. In accordance with applicable laws, dividends may only be distributed from the profit of individual Group companies, and not based on the Group's consolidated net result.

23. ISSUE AND REDEMPTION OF DEBT SECURITIES

In accordance with the issue and agency agreement, referred to in Note 2.3, the bonds issued by the parent are secured non-interest bearing instruments. The bonds are secured up to an amount of PLN 1,065,000 thousand (i.e. 150% of the maximum value of the bond programme). The security interests encumber assets owned by the parent and selected obligor companies. The security comprises primarily:

- Civil-law sureties provided by selected subsidiaries up to an amount of PLN 1,065,000 thousand (i.e. 150% of the maximum value of the bond programme); as at June 30th 2018, PLN 370,445 thousand was outstanding under the bonds issued by the PBG Group;
- Registered pledges over the parent's shares in selected subsidiaries;
- Pledges over the parent's and selected subsidiaries' business assets;
- Mortgages on most of the real properties owned by the parent and selected subsidiaries;
- Assignment by way of security of receivables of the parent and selected subsidiaries under:
  - ➢ insurance contracts in respect of mortgaged properties,
  - ➢ loan agreements between the parent or the obligor companies and the subsidiaries,
  - ➢ loan agreements between the parent and PBG oil and gas Sp. z o.o. (POG);
  - ➢ Intra-group service agreements and subcontractor agreements under construction contracts concluded by POG and the parent, and other subcontractor agreements under construction contracts;
- Registered pledges over receivables under the parent's divestment account agreement and from the bank accounts of its selected subsidiaries;
- Declarations of voluntary submission to enforcement, made by the parent and selected subsidiaries.

Furthermore, PBG oil and gas Sp. z o.o. issued a surety to the security agent for the divestment account funds which may be used by the parent (as "new financing") up to the lower of the amount equal at any time to 150% of the funds or PLN 120,000 thousand. The surety will expire on or before June 30th 2023.
As at June 30th 2018, the use of funds from the divestment account for „new financing" amounted to PLN 0.

Delivery of the divestment plan in the second quarter of 2018

Pursuant to the terms of the bonds issued by the parent (Art. 11.5.4 of the terms and conditions applicable to Series A−Series I bonds, and to Series B1−Series I1 bonds, respectively), presented below is the information on the progress of delivery of the divestment plan in the second calendar quarter of 2018 (between April 1st and June 30th 2018) (data in PLN).

Group name:	*PBG GROUP*		
Reporting period:	*Jan 1-Jun 30 2018*	Reporting currency:	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 unless indicated otherwise*		

No.	Seller's name	Location	Address	Sale price (VAT inclusive)	Divestment property value – in accordance with the definition in the T&C of the bonds Expected proceeds	Early repayment trigger
1	PBG DOM INVEST X sp. z o.o. Złotowska 51 S.K.A.	Świnoujście	Chełmońskiego 6B/1	390,000.00	104,772.56	NO
2	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Chełmońskiego 4F/3	490,000.00	359,385.00	NO
3	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Chełmońskiego 2C/8	437,000.00	292,230.00	NO
4	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E79	12,500.00	5,000.00	NO
5	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space F106	12,007.00	5,000.00	NO
6	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space F111	12,007.00	5,000.00	NO
7	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space I64	14,000.00	5,000.00	NO
8	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space I39	20,000.00	5,000.00	NO
9	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Chełmońskiego 6A/10	420,000.00	257,550.00	NO
10	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Chełmońskiego 6E/13	432,000.00	274,380.00	NO
11	PBG Erigo Projekt Sp. z o.o. Malta Hotel Spółka komandytowa	Poznań	plot No. 67/1 ul. Trocka, Poznań	28,290,000.00	23,000,000.00	NO
12	PBG Erigo Projekt Sp. z o.o. Malta Hotel Spółka komandytowa	Poznań	plot No. 67/2 ul. Trocka, Poznań			NO
13	PBG Erigo Projekt Sp. z o.o. Malta Hotel Spółka komandytowa	Poznań	plot No. 67/3 ul. Trocka, Poznań			NO
14	PBG Erigo Projekt Sp. z o.o. Malta Hotel Spółka komandytowa	Poznań	plot No. 67/4 ul. Trocka, Poznań			NO
15	PBG S.A.	Wysogotowo	ul. Skórzewska 35,	PLN 3,075,000.00	Sale in accordance with the Bondholders' Common Position, with the minimum impact determined as PLN 2.5m	NO

Information on the progress of execution of the Divestment Plan in the previous quarters was presented in the consolidated financial statements issued by the parent, with the financial statements for 2016 containing the first such report (December 31st 2016 – Note 36.3, March 31st 2017 – Note 2.17, June 30th 2017 – Note 23, September 30th 2017 – Note 2.17, December 31st 2017 – Note 36.3, March 31st 2018 – Note 2.17).

Divestment property value – in accordance with the definition in the terms and conditions of the bonds: expected proceeds from the project specified in the divestment plan attached as a schedule to the terms of the bonds issued by the parent. It is the minimum amount that is expected to be received by the parent or its selected subsidiaries from disposal of the asset covered by the divestment plan.

24. PROVISIONS AND LIABILITIES

Provisions disclosed in the interim condensed consolidated financial statements and their changes in the respective periods are presented in the table below.

All amounts in PLN '000 unless indicated otherwise

MOVEMENTS IN PROVISIONS FOR EMPLOYEE BENEFITS

	Provision for retirement severance payments	Provision for length-of-service awards	Provision for holiday entitlements	Other provisions for employee benefits	Total
January 1st 2018	**6,968**	**12,183**	**5,660**	**13,821**	**38,632**
Provisions recognised	417	773	1,585	6,065	**8,841**
Provisions reversed	-	-	(1,465)	(7,183)	**(8,648)**
Use of provision	(171)	(562)	-	(736)	**(1,469)**
				-	
June 30th 2018	**7,214**	**12,394**	**5,780**	**11,967**	**37,355**
non-current	6,464	10,738	-	3,852	**21,055**
current	750	1,656	5,780	8,115	**16,300**

	Provision for retirement severance payments	Provision for length-of-service awards	Provision for holiday entitlements	Other provisions for employee benefits	Total
January 1st 2017	**6,677**	**13,576**	**5,278**	**22,904**	**48,435**
Provisions recognised	378	698	1,494	7,500	**10,070**
Provisions reversed		(404)	(1,108)	(10,448)	**(11,960)**
Use of provision	(87)	(1,687)	(4)	(6,135)	**(7,913)**
December 31st 2017	**6,968**	**12,183**	**5,660**	**13,821**	**38,632**
non-current	6,175	10,601	-	4,595	**21,371**
current	793	1,582	5,660	9,226	**17,261**

Key assumptions for estimating the provisions for retirement severance payments and length-of-service awards are as follows:

	Jun 30 2018	Dec 31 2017
Discount rate (%)	3.2	3.2
Expected inflation rate*	-	-
Employee turnover rate	7	7
Expected growth of salaries and wages (%)**	2	2

* No data provided in the actuary's report.
** 2% in 2018 and subsequent years.

OTHER PROVISIONS FOR LIABILITIES

For information on the recognition of provisions, see Note 2.6.

Provisions disclosed in the interim condensed consolidated financial statements and their changes in the respective periods are presented in the table below.

All amounts in PLN '000 unless indicated otherwise

	Provision for expected contract losses	Provision for liabilities under sureties and guarantees	Provisions for warranties	Restructuring provision	Other provisions	Total
January 1st 2018	**15,425**	**28,682**	**48,457**	**12,589**	**14,050**	**119,203**
Adjustment to opening balance	*(1,754)*	-	-	-	*1,691*	***(63)***
Provisions recognised	1,268	-	12,219	-	1,754	**15,241**
Provisions reversed	(13,259)	(2,065)	-	(5,747)	(4,313)	**(25,384)**
Use of provisions	-	-	(16,802)	(2,461)	(377)	**(19,640)**
Jun 30 2018	**1,680**	**26,617**	**43,874**	**4,381**	**12,810**	**89,357**
non-current	-	15,944	34,124	1,247	3,890	**55,204**
current	1,680	10,673	9,750	3,134	8,915	**34,153**

	Provision for expected contract losses	Provision for liabilities under sureties and guarantees	Provisions for warranties	Restructuring provision	Other provisions	Total
January 1st 2017	**19,116**	**34,913**	**36,838**	**13,468**	**15,685**	**120,021**
Adjustment to opening balance	-	-	*17,436*	-	-	*17,436*
Provisions recognised	22,008		17,915	8,368	9,291	**57,582**
Provisions reversed	-		(1,768)	(2)	(1,695)	**(3,465)**
Use of provisions	(25,699)	(6,231)	(21,964)	(9,245)	(9,231)	**(72,370)**
Dec 31 2017	**15,425**	**28,682**	**48,457**	**12,589**	**14,050**	**119,203**
non-current	-	28,682	30,035	1,605	4,176	**64,498**
current	15,425	-	18,422	10,984	9,874	**54,705**

In the six months ended June 30th 2018, the provision for warranty repairs decreased to PLN 43,874 thousand. In the six months ended June 30th 2018, the provision for contract losses decreased to PLN 1,680 thousand, mainly due to its reversal by the RAFAKO Group subsidiaries.

TRADE AND OTHER PAYABLES

Non-current liabilities	Jun 30 2018	Dec 31 2017
Financial liabilities	**73,030**	**104,839**
Trade payables	24,059	14,891
Purchase of property, plant and equipment and intangible assets	31	50
Retentions under construction contracts	329	24,848
Other financial liabilities*	48,611	65,050
Non-financial liabilities	**668**	**611**

All amounts in PLN '000 unless indicated otherwise

Taxes and other duties payable	-	36
Prepayments received for deliveries	-	471
Prepayments received under construction contracts	600	-
Other liabilities	-	104
Other non-financial liabilities	68	-
Long-term trade and other payables, total	**73,698**	**105,450**

Current liabilities	**Jun 30 2018**	**Dec 31 2017** *(restated)*
Financial liabilities	**301,658**	**366,425**
Trade payables	253,021	314,701
Purchase of property, plant and equipment and intangible assets	302	1,095
Liabilities under investment purchases	26	636
Retentions under construction contracts	1,937	23,715
Other financial liabilities*	46,371	26,278
Non-financial liabilities	**163,939**	**210,607**
Taxes and other duties payable	22,102	39,268
Prepayments received for deliveries	10,008	10,908
Prepayments received under construction contracts	108,713	137,871
Other non-financial liabilities	23,116	22,560
Short-term trade and other payables, total	**465,597**	**577,032**

* Other financial liabilities comprise claims under the arrangement of PLN 94,978 thousand, including PLN 48,607 thousand as discounted non-current liabilities and PLN 46,371 thousand as current liabilities (see Note 2.4).

In the six months ended June 30th 2018, the Group's liabilities fell by PLN 143,187 thousand, mainly due to a PLN 55,599 thousand decrease in trade payables, a PLN 28,558 thousand decrease in liabilities under prepayments received for construction services, and a PLN 46,297 thousand decrease in liabilities under retentions.

NON-CURRENT CONTRACT LIABILITIES AND PROVISIONS

In the opinion of the parent's Management Board, in the six months ended June 30th 2018, there were no significant changes in long-term contract obligations and provisions relative to the amount disclosed and discussed in the Group's most recent full-year financial statements. In accordance with an agreement between the parent's Management Board and consortium partners, liabilities towards consortium partners of PLN 21,684 thousand, provisions related to the Wierzchowice UGSF project of PLN 16,571 thousand (PLN 38,255 thousand in total, disclosed as long-term contract obligations and provisions), and receivables from consortium partners of PLN 7,462 thousand will not be accounted for before the dispute with PGNiG is closed (see Note 15).

All amounts in PLN '000 unless indicated otherwise

25. CONTINGENT ASSETS AND LIABILITIES

Off-balance-sheet receivables	Jun 30 2018	Dec 31 2017
Receivables under bank and insurance guarantees received mainly as security for performance of contracts:	699,348	672,684
Promissory notes received as security	15,745	13,791
Letters of credit	48	-
Total off-balance-sheet receivables	**715,141**	**686,475**

Off-balance-sheet liabilities	Jun 30 2018	Dec 31 2017
Liabilities under bank and insurance guarantees provided mainly as security for performance of contracts	321,547	328,619
Liabilities under sureties	1,428,464	1,429,147
Promissory notes issued as security	32,421	17,200
Total off-balance-sheet liabilities	**1,782,432**	**1,774,966**

In these consolidated financial statements as at June 30th 2018, the Group disclosed contingent receivables recognised as off-balance-sheet items of PLN 715,141 thousand. The contingent receivables included mainly performance bonds of PLN 699,348 thousand, promissory notes received as security for the performance of contracts of PLN 15,745 thousand, and received letters of credit of PLN 48 thousand.

In H1 2018, the PBG Group recorded an increase in contingent receivables, mainly comprising amounts received as security for the performance of contracts (PLN 28,666 thousand), including a PLN 26,664 thousand increase in receivables under guarantees received, a PLN 1,954 thousand increase in receivables under promissory notes, and a PLN 48 thousand increase under letters of credit.

As at June 30th 2018, the PBG Group disclosed contingent liabilities recognised as off-balance-sheet items of PLN 1,782,432 thousand. These included liabilities under sureties issued by Group companies for third parties, liabilities under guarantees provided at the request of 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 presents contingent liabilities as at June 30th 2018.

The contingent liabilities included liabilities under guarantees provided at the request of Group companies for third parties to secure the performance of contracts (PLN 321,547 thousand), sureties issued by Group companies for third parties (PLN 1,428,464 thousand), as well as promissory notes issued to secure the performance of contracts (PLN 32,421 thousand).

In the first half of 2018, the PBG Group recorded a PLN 7,466 thousand increase in contingent liabilities, including a PLN 7,072 thousand decrease in liabilities under guarantees issued, a PLN 683 thousand decrease in sureties issued, and a PLN 15,221 thousand increase in liabilities under promissory notes issued to secure the performance of contracts.

26. DISPUTES AND LITIGATION

As at the date of these interim condensed consolidated financial statements, the Group companies were involved in litigation either as defendants and plaintiffs.
Other than specified below, in H1 2018 there were no material changes in the disputes and litigation to which Group companies were parties that could affect their financial condition. For a detailed description of the disputes and litigation, see the most recent full-year consolidated financial statements prepared in accordance with IFRS, which were authorised for issue on April 26th 2018.

- **Jubimax sp. z o.o. (formerly Martifer Polska Sp. z o.o.) against PBG S.A.**

Action for payment of PLN 1,607 thousand. On June 12th 2015, the defendant filed its reply to the statement of claim. Hearing of evidence commenced, during which the plaintiff's witnesses were heard. The date of the next hearing was set for May 5th 2016. As the judge was changed, the hearing was cancelled. Subsequent hearings during which witnesses were heard, were held on June 14th 2016, April 3rd 2017, September 22nd 2017 and December 6th 2017. By way of a decision issued on April 9th 2018, the Court discontinued the proceedings in part with regard to the other defendants. On April 26th 2018, the Company lodged a complaint. As part of judicial self-control, the Court accepted the complaint and reversed the decision appealed against. The Group did not recognise any provisions for claims.

- **PBG S.A. vs the Municipality of Gdańsk; court docket No. IX GC 888/15**

On November 4th 2015, the Company brought a court action for determining that the termination of the contract concluded on April 10th 2009 between the Municipality of Gdańsk, acting for and on behalf of which was Biuro Inwestycji Euro Gdańsk 2012 Sp. z o.o., and the contractor consortium comprising Hydrobudowa Polska S.A., Hydrobudowa 9 S.A., Alpine Bau Deutschland AG, Alpine BAU GmbH and Apline Construction Polska Sp. z o.o. for the 'Performance of the second phase of construction work on Arena Bałtycka (the Baltic Arena) – a football stadium in Gdańsk Letnica', was void. The Municipality of Gdańsk's claim for payment of PLN 7,891 thousand as liquidated damages for termination of the contract (as stated in the defendant's letter of July 3rd 2013) was not secured by bank guarantee No. BESI/550010086 of July 26th 2011, and the Municipality of Gdańsk's claim for payment of PLN 7,891 thousand as liquidated damages for termination of the contract of April 10th 2009 had not arisen. The defendant filed a reply to the claim, and the plaintiff filed its response to the defendant's reply. By letter of July 7th 2016, Haitong Bank S.A. filed a non-party intervention in the case. Upon the court's instruction, in a letter of November 2nd 2016, the Company stated its position on the intervention. On November 21st 2016, an objection against the intervention was lodged by the defendant. On December 7th 2016, a hearing was held and the court compelled the intervener's attorney to take a stance on the defendant's objection. The court adjourned the hearing until February 17th 2017. The hearing set for February 17th was not held. At the hearing on March 17th 2017, the court issued a decision in which it dismissed the intervention of Haitong Bank S.A. On March 31st 2017, a judgment was issued in the case, dismissing the claim in its entirety. The Company filed a request to be delivered the judgment along with a statement of reasons. On June 17th 2017, the law firm appealed against the judgment in its entirety. On May 18th 2018, an appeals hearing was held, during which the Court ordered the plaintiff to file a pleading within 14 days. The date of the next appeals hearing will be set *ex officio*. As requested by the Court, the law firm filed a pleading on behalf of PBG on May 30th 2018.

- **Plaintiff: PBG S.A. against Operator Gazociągów Przesyłowych GAZ - SYSTEM S.A.**

On February 20th 2017 the Company filed a claim for payment of PLN 3,241 thousand. On May 29th 2017, the court issued a payment order, upholding the plaintiff's claim in its entirety. On June 29th 2017, the defendant lodged an objection against the payment order. Currently, the exchange of pleadings continues. The court set the date of the first hearing for February 22nd 2018. Both the hearing set for February 22nd 2018 and June 7th 2018 were cancelled. Another hearing was scheduled for October 4th 2018.

- **PBG S.A. against DESA S.A.**

The Company filed a claim for payment of PLN 450 thousand along with a petition for exemption from court fees and costs. The defendant filed its reply to the claim, delivered to the Company on May 7th 2018. On May 10th 2018, the Company filed a request for an obligation to respond. On July 17th 2018, the Company received the Court's decision obliging it to submit a pre-trial pleading. On July 27th, the Company filed the pleading.

- **PBG S.A. against Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)**

By letter of July 19th 2018, the Company notified the Court that it had assumed the rights and obligations of its former creditor, i.e. PBG Avatia sp. z o.o., and thus became party to the proceedings and holds the claim. PBG AVATIA sp. z o.o. submitted a claim for PLN 18,586 thousand. The receiver acknowledged the claim for up to PLN 4,067 thousand (the first and the third supplementary lists of claims have not been approved). A partial asset distribution plan has been prepared with respect to categories II and III. The second supplementary list of claims has been approved. The main list of claims has not been approved and the final asset distribution plan has not been prepared. The receiver's financial statements were approved on July 30th 2018.

- **PBG S.A. against PBG Technologia sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)**

By letter of July 19th 2018, the Company notified the Court that it had assumed the rights and obligations of its former creditor PBG Avatia sp. z o.o., and thus became party to the proceedings and holds the claim. PBG AVATIA sp. z o.o. submitted a claim for PLN 18,463 thousand to be included in category IV. PLN 17,677 thousand has not been acknowledged. The receiver has acknowledged the claim at PLN 746 thousand. A partial distribution plan for categories II and III was prepared on December 13th 2017. On June 12th 2018, the second supplementary list of claims was approved. The receiver's financial statements were approved on August 3rd 2018.

- **PBG S.A. against KWG w upadłości likwidacyjnej (in liquidation bankruptcy)**

By letter of July 19th 2018, the Company notified the Court that it had assumed the rights and obligations of its former creditor, PBG Avatia sp. z o.o., and thus became party to the proceedings and holds the claim. PBG AVATIA sp. z o.o. submitted a claim for PLN 17,740 thousand to be included in category IV. PLN 63,262.81 has been acknowledged. The insolvent entity repaid the claim of PLN 29 thousand. The final asset distribution plan has not been prepared.

- **Przedsiębiorstwo Drogowo-Mostowe Dromost Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)**

By letter of July 19th 2018, the Company notified the Court that it had assumed the rights and obligations of its former creditor, PBG Avatia sp. z o.o., and thus became party to the proceedings and holds the claim. PBG AVATIA sp. z o.o. submitted a claim for PLN 34 thousand to be included in category IV. The entire claimed amount, i.e. PLN 34 thousand, has been acknowledged. On May 4th 2017, a notice was published that the list of claims was displayed by the receiver. On March 26th 2018, a separate plan to allocate the amounts received from the sale of properties to BZ WBK was approved. On July 23rd 2018, a notice was published that the second supplementary list of claims was displayed and that the plan to partly allocate the claims to category II is available for viewing. The final asset distribution plan has not been prepared.

Below are described key disputes and court proceedings to which RAFAKO is a party.

As at the date of issue of these interim condensed consolidated financial statements, no material developments have occurred in the two largest disputes with Mostostal Warszawa S.A., i.e. in the action brought by RAFAKO S.A. against Mostostal Warszawa S.A. for payment of PLN 8,042 thousand as reimbursement of 70% of the amounts retained as a performance bond, and in the action for payment of PLN 13,136 thousand (currently, after the extension of claim, the value of the dispute is PLN 16,157 thousand) under invoice No. FHO/16100098 issued by RAFAKO S.A. for the services provided by RAFAKO S.A. and not paid for by Mostostal Warszawa S.A. and Zakład Termiczny Unieszkodliwiania Odpadów sp. z o.o. The parties are still waiting for the competent courts to set the dates for hearings. The subsidiary recognised a PLN 13,134 thousand impairment loss on claims.

RAFAKO's Management Board upholds its opinion, presented in the financial statements for 2017, that the claims are legitimate, and expects the disputes to be resolved in favour of RAFAKO.

RAFAKO S.A. is also in dispute with Energomontaż Zachód Wrocław sp. z o.o. (EZW). Two court proceedings are pending (notified to RAFAKO in June and July 2018) with the total claims amounting to PLN 1,859 thousand, with respect to invoices issued by Energomontaż Zachód Wrocław Sp. z o.o. which were not paid by RAFAKO S.A. and whose amounts were set off against liquidated damages claimed by RAFAKO for a delay in EZW's performance under the contract. RAFAKO S.A. believes that the set-offs were effective; therefore, it expects favourable judgments. Both cases are in their early stages.

All amounts in PLN '000 unless indicated otherwise

27. OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

The objectives and policies of financial risk management did not change relative to those disclosed in the most recent full-year consolidated financial statements for 2017.

28. BUSINESS COMBINATIONS

In the six months ended June 30th 2018, the Group did not acquire any subsidiaries.

29. LOSS OF CONTROL OF SUBSIDIARIES

In the first half of 2018, the parent did not lose control of any of its subsidiaries.

30. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE

In the six months ended June 30th 2018, the Group carried out operations classified as discontinued and consisting in the lease of space in the Skalar Office Center building in Poznań.

The table below presents income from, expenses and profit/loss on discontinued operations:

	Six months ended Jun 30 2018	**Six months ended Jun 30 2017**
Operating income	4,268	3,113
Cost of sales	(2,809)	(1,607)
Net finance income (cost)	(3,094)	1,183
Pre-tax profit (loss) from discontinued operations	(2,265)	(1,732)
Income tax expense	-	890
Profit/(Loss) after tax	**(2,265)**	**(842)**

The carrying amount of non-current assets classified as held for sale as at June 30th 2018 was PLN 117,992 thousand (2017: PLN 163,672 thousand). In the six months ended June 30th 2018, the Group sold non-current assets classified as held for sale with a carrying amount of PLN 42,440 thousand (2017: PLN 14,323 thousand). The most important sale transactions were:

- sale of the office and warehousing building located in Wysogotowo near Poznań (Building H) and the office building located in Wysogotowo near Poznań (Building J) with an aggregate carrying amount of PLN 13,000 thousand; net gain on the sale was PLN 0 thousand;
- sale of land property located in Wysogotowo near Poznań, with a carrying amount of PLN 2,307 thousand; net gain on the sale was PLN 193 thousand;
- sale of developed land property located at ul. Termalna in Poznań, with a carrying amount of PLN 24,890 thousand.

During the six months ended June 30th 2018, under non-current assets held for sale, the Group presented, *inter alia*, the following investment properties, considering its plan to sell them and the fact that their sale within one year from the date of these interim condensed consolidated financial statements is highly probable:

All amounts in PLN '000 unless indicated otherwise

- Skalar Office Center building located in Poznań. The carrying amount of PLN 109,736 thousand was determined based on a valuation underlying the fair value disclosed in the Group's most recent full-year consolidated financial statements;
- building A located in Wysogotowo near Poznań, with a fair value of PLN 4,632 thousand;
- developed properties in Wysogotowo near Poznań, with a total fair value of PLN 717 thousand;
- residential units in Świnoujście, with a total fair value of PLN 573 thousand;
- land property in Gdańsk, with a fair value of PLN 836 thousand.

Some of the Group's non-current assets held for sale are pledged as security for its liabilities (see Notes 19 and 23).

As at June 30th 2018, the Group disclosed liabilities associated with assets held for sale of PLN 1 thousand (December 31st 2017: PLN 47,496 thousand). The decrease is mainly attributable to the reclassification of liabilities following a change in the asset's realisable sale formula, and in accordance with current plans of the parent's Management Board, the liabilities are not covered by sale transactions.

31. RELATED-PARTY TRANSACTIONS

Transactions with related parties are executed on an arm's-length basis, with the nature and terms of those transactions determined by day-to-day operations.

The related-party transactions disclosed in the interim condensed consolidated financial statements are presented below.

RELATED-PARTY TRANSACTIONS – SALES AND RECEIVABLES

	Revenue		Receivables	
	Six months ended June 30th 2018	Six months ended June 30th 2017	Six months ended June 30th 2018	Six months ended June 30th 2017
Sales to:				
Other related parties	48	167	880	348
Total	**48**	**167**	**880**	**348**

RELATED-PARTY TRANSACTIONS – PURCHASES AND LIABILITIES

	Purchases (costs, assets)		Liabilities	
	Six months ended Jun 30 2018	Six months ended Jun 30 2017	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Purchases from:				
Other related parties	11,759	3,234	3,916	3,043
Total	**11,759**	**3,234**	**3,916**	**3,043**

All amounts in PLN '000 unless indicated otherwise

RELATED-PARTY TRANSACTIONS – LOANS ADVANCED

	Jun 30 2018		Dec 31 2017	
	Principal amount as per agreement	Outstanding balance	Principal amount as per agreement	Outstanding balance
Loans advanced to:				
Other related parties	195	-	150	-
Total	**195**	**-**	**150**	**-**

RELATED-PARTY TRANSACTIONS – BORROWINGS

	Jun 30 2018		Dec 31 2017	
	Principal amount as per agreement	Outstanding balance	Principal amount as per agreement	Outstanding balance
Borrowings from:				
Other related parties	21,089	22,921	10 540*	11 173*
Total	**21089**	**22,921**	**10,540**	**11,173**

* In the consolidated financial statements as at December 31st 2017, the table presenting related-party transactions contains incorrect values of borrowings from related parties; in the table above, the corrected values are presented.

32. REMUNERATION OF MEMBERS OF THE PARENT'S MANAGEMENT AND SUPERVISORY BOARDS

REMUNERATION OF MANAGEMENT BOARD MEMBERS FOR HOLDING OFFICE AT THE PARENT, SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

	At the parent		At subsidiaries		Total
	Base	Other benefits	Base	Other benefits	
Jan 1–Jun 30 2018					
Jerzy Wiśniewski	375	-	540	300	**1,215**
Mariusz Łożyński	252	-	-	-	**252**
Dariusz Szymański	275	-	54	-	**329**
Kinga Banaszak-Filipiak	192	-	60	-	**252**
Total	**1,094**	**-**	**654**	**300**	**2,048**

REMUNERATION OF SUPERVISORY BOARD MEMBERS FOR HOLDING OFFICE AT THE PARENT, SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES OR ASSOCIATES

	At the parent		At subsidiaries		Total
	Remuneration	Other benefits	Remuneration	Other benefits	
Jan 1–Jun 30 2018					
Helena Fic	60	-	-	-	**60**
Małgorzata Wiśniewska	48	-	334	120	**502**
Andrzej Stefan Gradowski	30	-	-	-	**30**
Dariusz Sarnowski	18	-	-	-	**18**

All amounts in PLN '000 unless indicated otherwise

Maciej Stańczuk	18	-	-	-	**18**
Lech Figarski	18	-	-	-	**18**
Faustyn Wiśniewski	24	-	125	-	**149**
Total	**216**	**-**	**459**	**120**	**795**

33. OTHER SIGNIFICANT CHANGES IN ASSETS, LIABILITIES, REVENUE AND EXPENSES

The Group performs long-term construction contracts whose valuation as at the reporting date is based on the Management Boards' estimates of the contracts' planned results.

The amounts recognised in the condensed consolidated statement of financial position arise under construction contracts in progress as at the reporting date. Amounts due from (and to) customers for construction contract work are recognised as the aggregate recognised cost of a construction contract increased by profit (or decreased by loss) on the contract, less progress billings. The carrying amounts of amounts due to and from customers for construction contract work are presented in the table below:

All amounts in PLN '000 unless indicated otherwise

CONSTRUCTION CONTRACTS

	Jun 30 2018	Dec 31 2017
Initial amount of revenue agreed in contract	7,731,867	7,649,522
Change in contract revenue	3,760	(80,376)
Aggregate contract revenue	**7,735,627**	**7,569,146**
Costs incurred to the reporting date	4,461,334	4,880,264
Costs expected to be incurred to complete contract work	2,612,583	2,248,683
Aggregate estimated contract costs	**7,073,917**	**7,128,947**
Aggregate estimated profit (loss) on contracts, including:	**661,710**	**440,199**
gain	710,774	721,469
loss (-)	(49,064)	(281,270)

	Jun 30 2018	Dec 31 2017 *(restated)*
Stage of completion as at the reporting date	63.07%	68.46%
Prepayments received as at the reporting date	134,371	169,100
Prepayments that can be set off with amounts due from customers for construction contract work	25,058	31,150
Retentions total	34,575	43,529
Contract costs incurred to the reporting date	4,463,010	4,897,188
Accumulated gains recognised by the reporting date (+)	466,739	555,050
Accumulated losses by the reporting date (-)	(49,064)	(281,270)
Cumulative revenue from contract by reporting date (+)	**4,880,685**	**5,170,968**
Progress billings (cumulative)	4,425,935	4,792,042
Settlement of contracts as at the reporting date, including:	454,750	378,926
Contract asset	459,246	404,326
Amounts due from customers for construction contract work less prepayments that can be set off	**434,188**	**373,176**
Contract liabilities	**4,496**	**25,400**

Revenue amounts presented in the financial statements include contractual penalties which have been or may be imposed on the Group for failing to meet the originally agreed delivery deadlines. The note also accounts for the Group's provisions for estimated losses on running contracts, which as at the reporting date amounted to PLN 1.7 (see Note 24).

In view of the binding confidentiality agreements, the Group discloses the information required under IFRS 15 as aggregate amounts, without itemising the individual contracts.

Prepayments for construction contract work were recognised as trade payables and as at June 30th 2018, after partial set-off against amounts due from customers for construction contract work, totalled PLN 109.3m (December 31st 2017: PLN 137.9m).

As at June 30th 2018, retentions under construction contracts totalled PLN 34.6m (December 31st 2017: PLN 43.6m). In addition, the amount of PLN 20.1m related to amounts retained under the LMG contract is presented as a separate item of the statement of financial position as at June 30th 2018 and December 31st 2017 (long-term contract receivables and amounts due from customers for construction contract work, described in Note 15). Retentions are presented under liabilities and will be released upon final acceptance of the work performed.

All amounts in PLN '000 unless indicated otherwise

Amounts due from customers for construction contract work carried by the Group at the end of H1 2018 increased following partial set-off against prepayments to PLN 434.2m (December 31st 2017: PLN 373.2m). In the statement of financial position, a portion of these receivables as at June 30th 2018 in the amount of:

- PLN 11.6m is presented under Long-term contract receivables and amounts due from customers for construction contract work (see Note 15);
- PLN 1.9m is recognised in the impairment losses on receivables in accordance with IFRS 15.

In the data as at December 31st 2017, PLN 11.6m was disclosed in long-term receivables.

Amounts due to customers for construction contract work totalled PLN 4.5m as at June 30th 2018 (down PLN 20.9m relative to December 2017). For information on the Wierzchowice UGSF contract, see Note 15.

If the total costs to be incurred in connection with all of the contracts running as at the reporting date increased by 10% on the Company's current estimates, revenue would theoretically decrease by PLN 19.2m as at the end of the reporting period, provision for expected losses would increase by PLN 57.6m, and net loss would be greater by a total of PLN 76.8m.

EFFECT OF CURRENCY RISK HEDGES ON THE PBG GROUP'S RESULTS

As at June 30th 2018, the PBG Group carried no derivatives to hedge currency risk.

EFFECT OF INTEREST RATE HEDGES ON THE PBG GROUP'S RESULTS

PBG subsidiaries use interest rate swaps (IRS) to hedge against variable interest rate risk.

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

In H1 2018, the effect of derivatives used to hedge interest rate risk, as recognised in the consolidated statement of profit or loss as at June 30th 2018, was as follows:

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Finance costs	329	626
Effect on profit/(loss)	**(329)**	**(626)**

As at June 30th 2018, the fair value of open positions used to hedge interest rates was negative at PLN (883) thousand and related to cash flow hedging derivatives.

All amounts in PLN '000 unless indicated otherwise

34. NOTES TO SELECTED ITEMS OF THE STATEMENT OF PROFIT OR LOSS

EXPENSES BY NATURE

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
a) depreciation and amortisation	7,999	8,092
b) raw materials and consumables used	104,742	47,521
c) services	418,474	698,863
d) taxes and duties	3,827	5,388
e) employee benefits	103,599	110,378
f) other expenses	7,911	6,734
Total expenses by nature of expense	**646,552**	**876,976**
Changes in inventories of finished goods and work in progress	(24,591)	2,056
Cost of merchandise and materials sold	1,039	1,235
Cost of products for own needs	(384)	(508)
Cost of sales, distribution costs and administrative expenses	**622,616**	**879,759**

In the six months ended June 30th 2018, the Group reported a significant year-on-year increase in raw materials and consumables used, mainly due to higher demand for materials used under current contracts.

All amounts in PLN '000 unless indicated otherwise

OTHER INCOME

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Reversal of provisions	6,380	-
Gain on disposal of non-financial non-current assets	157	3,614
Reversals of impairment losses and write-downs on assets, including:	2,447	8,759
- property, plant and equipment and intangible assets	5	-
- trade receivables	2,183	1,512
- other receivables	255	-
- loans and borrowings	4	6,393
- other	-	854
Lease	1,227	1,227
Interest related to operating activities, including interest on:	157	1,199
- Interest on cash in escrow account used for operating activities	-	872
- Interest on loans advanced as part of operating activities	72	109
- Other interest related to operating activities	84	218
Discount on long-term receivables and payables	771	-
Contractual penalties received	483	-
Grants received	32	54
Compensations received	271	215
Other	1,738	3,322
Total other income	**13,662**	**18,390**

The largest items of other income include:

- reversal by a subsidiary of a PLN 5,857 thousand provision for restructuring costs and the Voluntary Redundancy Programme,
- reversal of impairment losses on receivables of PLN 2,438 thousand.

Other income includes:

- PLN 373 thousand of property tax adjustment for previous years,
- PLN 563 thousand of VAT refunded to the parent.

All amounts in PLN '000 unless indicated otherwise

OTHER EXPENSES

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Provisions recognised	225	-
Impairment loss on assets, including:	52,781	5,381
- property, plant and equipment and intangible assets	8	-
- trade receivables	2,746	4,583
- other receivables	568	-
- loans and borrowings	3,967	2
- goodwill	45,405	-
- other	87	796
Fair value measurement of property	-	6,278
Loss on investments in related entities	-	4,143
Interest accrued on trade and other payables	65	903
Discount on long-term receivables and payables	61	1,459
Scrapping of property, plant and equipment	62	-
Scrapping of materials	5	-
Donations and grants	214	1,284
Court costs	2	292
Exchange differences on operating activities	145	285
Compensations	9	43
Statute barred, cancelled or uncollectible receivables written-off	388	-
Other	926	1,877
Total other expenses	**54,882**	**21,945**

The largest items of other expenses include:

- recognition of impairment losses on receivables of PLN 3,314 thousand,
- recognition of impairment losses on loans and borrowings of PLN 3,967 thousand,
- recognition of impairment loss on goodwill of PLN 45,405 thousand.

Group name:	***PBG GROUP***		
Reporting period:	***Jan 1-Jun 30 2018***	**Reporting currency:**	***Polish złoty (PLN)***
Rounding:	***All amounts in PLN '000 unless indicated otherwise***		

FINANCE INCOME

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Interest on financial instruments, including:	774	601
- on cash	461	527
- on receivables	156	-
- on loans advanced	156	2
- other	-	72
Foreign exchange gains	1,711	-
Other finance income	30	20
Total finance income	**2,515**	**621**

FINANCE COSTS

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Interest on financial instruments, including:	2,950	3,848
- on loans	1,246	2,598
- on non-bank borrowings	577	668
- on liabilities	11	85
- on leases	640	497
- other	475	-
Commissions on bank borrowings	679	
Foreign exchange losses	-	1,719
Total fair value and disposal losses on financial instruments at fair value through profit or loss	78	626
Recognition of provisions for interest expense	32	-
Recognition of impairment losses on available-for-sale financial assets	56	-
Other finance costs	37	233
Total finance costs	**3,830**	**6,426**

35. CASH FLOWS

The main sources of the PLN 15,209 thousand increase in inventories disclosed in the consolidated statement of cash flows for the six months ended June 30th 2018 are presented below:

Item	**Change as shown by the statement of financial position**	**Effect on cash flows**
Raw materials	increase	(13,521)
Work in progress	increase	(1,209)
Merchandise	Increase	(39)
Prepaid deliveries	increase	(440)

All amounts in PLN '000 unless indicated otherwise

The main sources of the PLN 182,073 thousand decrease in receivables disclosed in the consolidated statement of cash flows for the six months ended June 30th 2018 are presented below:

Item	**Change as shown by the statement of financial position**	**Effect on cash flows**
Trade receivables	decrease	165,671
Disposals of property, plant and equipment and intangible assets	decrease	8,530
Retentions under construction contracts	increase	(2,079)
Other financial receivables	decrease	4,401
Prepayments received for construction contract work	increase	(10,576)
Other non-financial receivables	increase	(3,366)
Receivables under court proceedings	decrease	4,163
Receivables from the state budget	decrease	15,329

The main sources of the PLN (143,170) thousand decrease in liabilities disclosed in the consolidated statement of cash flows for the six months ended June 30th 2018 are presented below:

Item	**Change as shown by the statement of financial position**	**Effect on cash flows**
Non-current contract liabilities	increase	15
Liabilities under investment purchases	Decrease	(1,423)
Trade payables	decrease	(52,512)
Retentions under construction contracts	decrease	(46,297)
Other financial liabilities	increase	3,655
Prepayments received for deliveries	decrease	(1,371)
Prepayments received under construction contracts	decrease	(28,558)
Other non-financial liabilities	increase	523
Tax liabilities	decrease	(17,202)

The main sources of the PLN (30,810) thousand change in provisions, accruals and prepaid expenses disclosed in the consolidated statement of cash flows for the six months ended June 30th 2018 are presented below:

Item	**Change as shown by the statement of financial position**	**Effect on cash flows**
Provisions for warranties	increase	(4,583)
Provision for construction contract losses	decrease	(13,745)

All amounts in PLN '000 unless indicated otherwise

Provision for liabilities under sureties and guarantees	decrease	(2,065)
Other provisions for liabilities	decrease	(9,452)
Employee benefit obligations and provisions	decrease	(1,221)
Prepayments and accrued income	increase	(2,822)
Accrued expenses	increase	3,078

The main sources of the PLN (80,015) thousand change related to construction contracts disclosed in the consolidated statement of cash flows for the six months ended June 30th 2018 are presented below:

Item	Change as shown by the statement of financial position	Effect on cash flows
Amounts due from customers for construction contract work	increase	(59,111)
Amounts due to customers for construction contract work	decrease	(20,904)

The amount of PLN 8,851 thousand disclosed under adjustments for arrangement with creditors comprises change of discount on bonds.
Other adjustments include:
- effect of implementation of IFRS 9 and IFRS 15 on equity of PLN (17,103) thousand,
- effect of reclassification of receivables to liabilities related to non-current assets held for sale of PLN (2,085) thousand.

36. EVENTS SUBSEQUENT TO THE REPORTING DATE

Changes in the Group

On July 4th 2018, a new subsidiary RAFAKO MANUFACTURING Sp. z o.o. was established on the basis of a notarial deed. The share capital of the subsidiary is PLN 30 thousand and is divided into 300 shares with a par value of PLN 0.1 thousand per share. The shares were subscribed for by RAFAKO S.A. in exchange for a cash contribution. On July 9th 2018, RAFAKO MANUFACTURING Sp. z o.o. was registered with the court.

Management Board's representation on share capital increase at PBG

In Current Report No. 21/2018, the Management Board of PBG S.A. announced the Company's acquisition of another 10,763,420 Series H ordinary registered shares with a par value of PLN 0.02 per share on August 14th 2018. Thus, the amount of the subscribed and duly paid up share capital was PLN 215,268.40. 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 ("KRS"), PBG's share capital will be PLN 16,302 thousand. By the date of issue of these financial statements, the National Court Register did not register the share capital increase.

Selection of best bid for upgrade of FGD system at units 3, 4, 5 and 6 at Bełchatów power plant

In Current Report No. 25/2018, the Management Board of the subsidiary RAFAKO S.A. announced that the subsidiary's bid was selected by PGE Górnictwo i Energetyka Konwencjonalna S.A. as the best bid in the tender process for 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. The value of RAFAKO's bid was PLN 181.6m, VAT exclusive (PLN 223.4m VAT inclusive). The project completion deadline is the end of May 2021. Further, in Current Report No. 30/2018, RAFAKO announced the execution of the contract for implementation of the project on August 1st 2018. The contract completion deadline is May 31st 2021.

Selection of best bid for contract to construct flue gas desulfurization unit II at Ostrołęka Power Plant B

In Current Report No. 27/2018 of July 18th 2018, the Management Board of the subsidiary RAFAKO S.A. announced that it was notified that Energa Wytwarzanie S.A. of Gdańsk had selected RAFAKO's bid, submitted as part of the consortium comprising RAFAKO S.A. (as the consortium leader) and ENERGA Serwis Sp. z o.o. of Ostrołęka ("Consortium"), as the best bid in the tender procedure for construction of a gas desulfurization unit II at the Ostrołęka Power Plant B. The value of the consortium's bid was PLN 199.3m, VAT exclusive, with RAFAKO S.A. accounting for ca. 63.3% of this amount. Further, in Current Report No. 28/2018, RAFAKO announced the execution of the contract for implementation of the project on July 24th 2018. The Contract completion deadline is June 30th 2020.

Completion of another stage of RAFAKO S.A. reorganisation

In Current Report No. 31/2018, the Management Board of the subsidiary RAFAKO S.A. announced the completion of another stage of the Company's reorganisation. As part of the reorganisation process, employment was reduced and optimisation measures were taken across the organisation. The costs related to the execution of this stage of the Company's reorganisation will not exceed the additional provision created for this purpose.

Other information which in the Company's opinion is relevant for the assessment of its personnel, assets, financial condition and financial result or changes in any of the foregoing, or for the assessment of its ability to fulfil obligations

The parent's Management Board has not identified any information material to the assessment of the Group's human resources, assets, financial condition and financial performance other than information presented in these financial statements.

OTHER INFORMATION – KEY ITEMS TRANSLATED INTO THE EURO

During the reporting periods covered by the interim condensed consolidated financial statements and comparative financial data, the mid-rates quoted by the National Bank of Poland were used to translate the złoty into the euro, and in particular:

a) Revenue from sale of finished goods, operating profit/(loss), net profit/(loss), as well as net cash from operating activities, net cash from investing activities, net cash from financing activities, and net increase/(decrease) in cash and cash equivalents for H1 2018 were translated at the average EUR exchange rate based on the arithmetic mean of mid-rates quoted by the National Bank of Poland for the last day of each month during the period, i.e. **PLN 4.2395 = EUR 1.**

All amounts in PLN '000 unless indicated otherwise

b) Revenue, operating profit/(loss), net profit/(loss), as well as net cash from operating activities, net cash from investing activities, net cash from financing activities, and total net cash flow for H1 2017 were translated at the average EUR exchange rate based on the arithmetic mean of mid-rates quoted by the National Bank of Poland for the last day of each month during the period, i.e. **PLN 4.2474 = EUR 1.**

c) Revenue, operating profit/(loss), net profit/(loss), as well as net cash from operating activities, net cash from investing activities, net cash from financing activities, and total net cash flow for 2017 were translated at the average EUR exchange rate based on the arithmetic mean of mid-rates quoted by the National Bank of Poland for the last day of each month during the period, i.e. **PLN 4.2447 = EUR 1.**

d) Total assets, liabilities and provisions for liabilities, non-current liabilities, current liabilities, equity and share capital as at June 30th 2018 were translated at the EUR mid-rate effective for that date, i.e. **PLN 4.3616 = EUR 1.**

e) Total assets, liabilities and provisions for liabilities, non-current liabilities, current liabilities, equity and share capital as at June 30th 2017 were translated at the EUR mid-rate effective for that date, i.e. **PLN 4.2265 = EUR 1.**

f) Total assets, liabilities and provisions for liabilities, non-current liabilities, current liabilities, equity and share capital as at December 31st 2017 were translated at the EUR mid-rate effective for that date, i.e. **PLN 4.1709 = EUR 1.**

	as at Jun 30 2018	**as at Dec 31 2017**	**as at Jun 30 2017**
Exchange rate effective for the last day of the period	4.3616	4.1709	4.2265
Average exchange rate for the period, calculated based on the arithmetic mean of exchange rates effective for the last day of each individual month during the period	4.2395	4.2447	4.2474
Highest exchange rate in the period	4.3616 − Jun 29 2018	4.4157 – Jan 2 2017	4.4157 − Feb 2 2017
Lowest exchange rate in the period	4.1423 − Jan 29 2018	4.1709 – Dec 29 2017	4.1737 − May 31 2017

All amounts in PLN '000 unless indicated otherwise

37. AUTHORISATION FOR ISSUE

These interim condensed consolidated financial statements of the PBG Group for the six months ended June 30th 2018 together with comparative data were authorised for issue by the parent's Management Board on October 1st 2018.

Signatures of all Management Board members

Date	Full name	Position	Signature
October 1st 2018	Jerzy Wiśniewski	President of the Management Board	
October 1st 2018	Mariusz Łożyński	Vice President of the Management Board	
October 1st 2018	Dariusz Szymański	Vice President of the Management Board	
October 1st 2018	Kinga Banaszak-Filipiak	Member of the Management Board	

Signature of the person responsible for the preparation of the interim condensed consolidated financial statements

Date	Full name	Position	Signature
October 1st 2018	Sylwia Sobczak	Independent reporting and consolidation accountant	

Wysogotowo, October 1st 2018