INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD JANUARY 1ST – JUNE 30TH 2018

WYSOGOTOWO, OCTOBER 1ST 2018

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

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Revenue		**6,997**	**6,472**
Revenue from sale of finished goods and services		6,997	6,472
Revenue from sale of merchandise and materials		-	1
Cost of sales	**32**	**(7,502)**	**(2,653)**
Cost of finished goods and services sold		(7,502)	(2,652)
Cost of merchandise and materials sold		-	(1)
Gross profit (loss)		**(505)**	**3,820**
Administrative expenses	32	(5,316)	(5,653)
Other income	32	8,426	8,588
Other expenses	32	(3,040)	(5,416)
Gain (Loss) on arrangement with creditors		(9,824)	(10,233)
Operating profit (loss)		**(10,260)**	**(8,895)**
Finance income		10	40
Finance costs	32	(26,848)	(563)
Profit (loss) before tax		**(37,098)**	**(9,418)**
Income tax expense		-	-
Net profit (loss)		**(37,098)**	**(9,418)**

EARNINGS (LOSS) PER ORDINARY SHARE

	Six months ended Jun 30 2018 PLN/share	Six months ended Jun 30 2017 PLN/share
Net profit (loss) from continuing operations	(37,098)	(9,418)
Weighted average number of ordinary shares	804,330,222 *	804,231,347*
Diluted weighted average number of ordinary shares	804,330,222 *	804,231,347*
- basic	(0.05)	(0.01)
- diluted	(0.05)	(0.01)

* For the method of calculation of the weighted average number of shares, see Note 5.

All amounts in PLN '000 unless indicated otherwise

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Net profit (loss)	(37,098)	(9,418)
Other comprehensive income, net of tax	-	-
Total comprehensive income for the period	**(37,098)**	**(9,418)**

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

	Note	Jun 30 2018	Dec 31 2017
Non-current assets		**298,216**	**354,882**
Intangible assets	8	154	213
Property, plant and equipment	9	3,938	4,081
Investment property	13	5,199	5,199
Long-term investments	14	1,790	1,790
Investments in subsidiaries	11	234,465	260,537
Long-term contract receivables and amounts due from customers for construction contract work	7	39,150	39,150
Trade and other receivables	17.1	3,327	4,679
Loans advanced	15	10,142	39,175
Other non-current financial assets		1	1
Non-current accruals and deferred income		52	58
Current assets		**140,686**	**110,789**
Inventories	16	692	56
Amounts due from customers for construction contract work	7	66	66
Trade and other receivables	17	9,770	12,232
Loans advanced	15	100,563	96,089
Cash and cash equivalents	19	29,181	1,921
Current prepayments and accrued income		413	426
Non-current assets held for sale	**9**	**6,612**	**21,867**
TOTAL ASSETS		**445,513**	**487,539**

All amounts in PLN ‘000 unless indicated otherwise

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (CONT.)

	Note	Jun 30 2018	Dec 31 2017
Equity		**(157,516)**	**(122,044)**
Share capital	20.1	16,087	16,081
Share premium		1,021,947	1,021,844
Reserve funds		513,545	512,038
Retained earnings (accumulated losses)		(1,709,095)	(1,672,008)
- accumulated profit (loss) from prior years		(1,671,997)	(1,588,284)
- net profit (loss) for current year		(37,098)	(83,723)
Non-current liabilities		**376,089**	**458,566**
Borrowings and other debt instruments	22.2	265,575	316,497
Finance lease liabilities		1,923	2,329
Non-current contract liabilities and provisions	22.1	38,255	38,426
Trade and other payables	22	49,146	66,870
Employee benefit obligations and provisions		80	83
Other long-term provisions	23	20,987	34,270
Non-current accruals and deferred income		121	90
Current liabilities		**226,941**	**151,016**
Borrowings and other debt instruments	22.2	148,645	86,009
Finance lease liabilities		800	776
Trade and other payables		57,118	53,956
Amounts due to customers for construction contract work		383	191
Employee benefit obligations and provisions	23	808	813
Other short-term provisions	23	19,121	9,179
Current prepayments and accrued income		66	92
Total liabilities		**603,029**	**609,582**
TOTAL EQUITY AND LIABILITIES		**445,513**	**487,539**

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD JANUARY 1ST– JUNE 30TH 2018

	Share capital	Share premium	Other components of equity	Retained earnings (accumulated losses)	Equity
As at January 1st 2018	**16,081**	**1,021,844**	**512,038**	**(1,672,008)**	**(122,044)**
Change in accounting policy (IFRS 9)	-	-	-	989	989
Opening balance/January 1st 2018 after adjustments	**16,081**	**1,021,844**	**512,038**	**(1,671,019)**	**(121,055)**
Share issue	6	102	(108)	-	**-**
Comprehensive income in reporting period	-	-	-	(37,098)	**(37,098)**
Other adjustments	-	-	1,615	(978)	**637**
As at June 30th 2018	**16,087**	**1,021,947**	**513,545**	**(1,709,095)**	**(157,516)**

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD JANUARY 1ST– JUNE 30TH 2017

	Share capital	Share premium	Other components of equity	Retained earnings (accumulated losses)	Equity
As at January 1st 2017	**15,414**	**1,009,665**	**524,816**	**(1,588,284)**	**(38,389)**
Change in accounting policy	-	-	-	-	-
Restated balance	**15,414**	**1,009,665**	**524,816**	**(1,588,284)**	**(38,389)**
Share issue	667	12,180	(12,886)	-	**(39)**
Comprehensive income in reporting period	-	-	-	(83,723)	**(83,723)**
As at June 30th 2017	**16,081**	**1,021,844**	**512,038**	**(1,672,008)**	**(122,044)**

All amounts in PLN '000 unless indicated otherwise

INTERIM CONDENSED STATEMENT OF CASH FLOWS

	Note	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Cash flows from operating activities			
Profit (loss) before tax		**(37,098)**	**(9,418)**
Adjustments for:		**18,362**	**(38,562)**
Depreciation and amortisation		211	325
Change in fair value of investment property and non-current assets held for sale		-	1,500
Impairment of financial and non-financial assets		26,018	-
Foreign exchange gains (losses)		(4,413)	2,785
Interest and dividends, net		768	508
Gain (loss) on investing activities		(348)	(1,696)
Change in receivables		4,183	217
Change in inventories		(636)	1
Change in liabilities other than borrowings		(14,612)	(69,360)
Change in provisions, accruals and prepaid expenses		(3,327)	(11,752)
Change in construction contract work		192	328
Change in arrangement liabilities	2.4	9,644	41,241
Other		681	(2,658)
Net cash from operating activities		**(18,736)**	**(47,980)**
Cash flows from investing activities			
Sale of property, plant and equipment		3,392	1,237
Purchase of property, plant and equipment		-	(6)
Sale of investment property and non-current assets held for sale		15,431	4,657
Purchase of investment property		(62)	-
Sale of financial assets		-	5,000
Repayment of loans advanced		26,313	41,925
Loans advanced			(15)
Net cash from investing activities		**45,073**	**52,799**
Cash flows from financing activities			
Payment of finance lease liabilities		(382)	(428)
Proceeds from borrowings		3,900	700
Repayment of borrowings		(2,600)	(6,500)
Interest received		61	40
Interest paid		(55)	-
Net cash from financing activities		**923**	**(6,189)**
Increase/(decrease) in cash and cash equivalents		27,261	(1,370)
Cash and cash equivalents at beginning of period		**1,921**	**3,589**
Cash and cash equivalents at end of period, including:		**29,181**	**2,219**
- restricted cash		-	-

All amounts in PLN '000 unless indicated otherwise

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

PBG S.A. (the "Company") is the parent of the PBG Group. The Company 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. The Company operates in all parts of Poland, pursuant to the provisions of the Polish Commercial Companies Code. 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 Company's Industry Identification Number (REGON) is 631048917. PBG shares are listed on the Warsaw Stock Exchange. The Company's registered office is located at ul. Skórzewska 35 in Wysogotowo near Poznań, 62-081 Przeźmierowo, Poland. PBG's registered office is also its principal place of business. The Company was established for an indefinite term.
PBG's principal business activities is:
- PKD 7112Z Engineering activities and related technical consultancy.
For a more detailed description of the Company's business activities, see Note 5 on operating segments.

MANAGEMENT BOARD AND SUPERVISORY BOARD

Composition of the Company'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 financial statements, there were no changes in the composition of the Company's Management or Supervisory Boards.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These interim condensed financial statements were authorised for issue by the Company's Management Board on October 1st 2018.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

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

These interim condensed 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 financial statements do not contain all information which is disclosed in IFRS-compliant full-year financial statements. These interim condensed financial statements should be read in conjunction with the Company's 2017 full-year financial statements. The Company's interim financial results may not be indicative of its potential full-year financial results.

The Company also prepared interim condensed consolidated financial statements as at June 30th 2018, which were authorised for issue by the Company's Management Board on October 1st 2018.

2.2. REPORTING CURRENCY AND ROUNDING

The reporting currency in these interim condensed financial statements is the Polish złoty, and all amounts are expressed in thousands of Polish złoty (PLN '000), unless indicated otherwise.

As at the reporting date, monetary items denominated in currencies other than the Polish złoty are translated into the Polish złoty at the relevant mid-rate quoted by the National Bank of Poland for the date of these financial statements.

In the Management Board's opinion, the mid-rate quoted by the National Bank of Poland best reflects the exchange rate of future cash flows.

2.3. GOING CONCERN ASSUMPTION

Company's formal and legal status

On June 13th 2016, the decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Restructuring Division, to approve the Company's voluntary arrangement with its creditors became final. Starting from that date, the Company has been performing its obligations under the arrangement. Apart from repaying the claims under the arrangement and redeeming the bonds issued, the Company is implementing other provisions of the restructuring documents. For detailed information on the Company's formal and legal status, see PBG's financial statements for the previous reporting periods, in particular its separate financial statements for 2015, 2016 and 2017.

Going concern assumption

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

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

Performance of the arrangement and redemption of the bonds

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

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

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

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

All amounts in PLN '000 unless indicated otherwise

Period	Q3 2018	Q4 2018	Q1 2019	Q2 2019	H2 2019	H1 2020	Total
Repayment of the Company's liabilities under the arrangement and the bonds, including:	**60,196,184**	**31,635,764**	**-**	**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 Company 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 will be paid at the end of the arrangement term.

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

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

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

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

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

Net working capital disclosed in the Company'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 Company's Management Board carried out a detailed analysis of sources of covering the deficit and concluded that within 12 months from the reporting date the parent would be able to generate cash of approximately PLN 10.0m in excess of the liabilities due in the same period.

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

- Estimates concerning the Group's divestment process indicate that within 12 months from the reporting date loan repayments will total approximately PLN 116.0m, i.e. about PLN 15.5m more compared with the amount disclosed in the financial statements prepared in accordance with IFRS. The higher amount is attributable to the repayment of loans by related entities; their valuation performed in accordance with the IFRS is lower than the one based on the Management Board's detailed plans. Additionally, in the 12 months as from June 30th 2018 the Company intends to raise PLN 80m under a contract related to the exit from the development project in Kiev, including PLN 20m by the end of Q4 2018.
- The Company's Management Board estimates that it will be possible to increase the amount of potential proceeds from non-current assets that may be sold in a short term by PLN 4.6m, mainly in connection with divestment of the Company's non-core assets.
- The Management Board increased the estimated inflow of short-term receivables by about PLN 18.9m. The change is primarily attributable to a detailed assessment of the ability to recover individual receivables in a short term, which as at the reporting date were measured in accordance with IFRS 9;
- The Company'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 Company's financial statements as at June 30th 2018 was PLN 226.9m. However, the analysis carried out by the Company's Management Board indicates that approximately PLN 189.6m will become due and payable within 12 months from the reporting date. The discrepancy results mainly from the classification of liabilities under received loans and security deposits as current liabilities which will not become due in the next 12 months. The Company's Management Board carried out an additional detailed analysis of provisions for current liabilities, disclosed in the statement of financial position, reducing the amount of those provisions by PLN 9.2m, i.e. the amount of a bank guarantee paid out after the reporting date, with respect to which the Company's Management Board assumes the conversion of liabilities into the Bonds and repayment in line with the approved redemption schedule, for a total of PLN 1.5m over the next 12 months.

<u>Expected sources of funding the arrangement and redemption of the bonds</u>

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 Company's non-core assets – expected proceeds over the entire term of the arrangement – PLN 17m;

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

The Company expects to receive funds specified above in such amounts and on such dates as to be able to make repayments under the arrangement in line with its terms and to redeem the bonds on the dates specified in the terms and conditions of each relevant series of the bonds issued by the Company and acquired by eligible creditors, in particular the Company's financial creditors who have signed or acceded to the restructuring agreement. The source of funding of the arrangement, i.e. the divestment of non-core assets, will be based on proceeds from the sale of properties owned by the Company and its subsidiaries. Proceeds from the sale of properties owned by subsidiaries will be transferred to the Company as repayment of loans granted to the subsidiaries to finance their property development and investment activities before the arrangement bankruptcy was declared.
The Company intends to partly finance payments under the arrangement with borrowed funds. The assumption that it will be possible to refinance the final repayment under the arrangement with another borrowing is based on the Company's judgement that repayment of liabilities under the arrangement and the bonds as they fall due, as well as the implementation of the assumed strategy, will allow the Company to regain its creditworthiness. During the term of the arrangement and repayment of the bonds, the Company's and its subsidiaries' creditworthiness is expected to gradually improve, to be fully regained by the time when all claims under the arrangement are repaid and all bonds are redeemed. With no financial liabilities other than the balloon payment and the last series of bonds outstanding at that time, the Company is expected to be able to finance the last payment under the arrangement and to redeem the last series of bonds with proceeds from borrowings it would be able to contract on market terms, based on the Company's then-current revenue streams and expected future revenues as well as the parent's assets then existing.

Risks which, if materialised, may limit the Company's ability to perform the arrangement
Considering the expected duration of the arrangement, under which the Company is obliged to make final repayments to the creditors by June 30th 2020, the Company has identified possible risks that may occur in that period, which, if materialised, may significantly limit the Company's ability to perform the arrangement or redeem the bonds it has issued. Accordingly, to successfully implement the arrangement (and to ensure that all outstanding bonds are redeemed) the Company intends to rely in large part on funds to be raised by the Company or its subsidiaries from the divestment of properties owned by the Company and its subsidiaries, or of property development projects in which the Company had engaged before the arrangement bankruptcy was declared. This means that a potential unexpected downturn in

the property market may significantly affect the Company's ability to secure funds required to satisfy claims under the arrangement or to redeem the bonds. Bearing in mind the risk of not receiving the proceeds from the development project in Ukraine due to changes in or escalation of the political conflict in the country, the Company's Management Board negotiated a transaction to 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 Company resolved to sell the claim. In exchange for accelerating the cash inflow and a significant reduction of the risk involved, the Company expects to receive PLN 80m (after the agreed discount) out of the PLN 109m provided for in the conditional agreement. 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 Company's Management Board will request the Bondholders for their consent to execute the transaction on the terms specified in the receivables sale agreement. A potential threat to implementation of the arrangement or the Company's ability to redeem outstanding bonds may also come from lower than expected operating cash receipts of the Company and its subsidiary PBG oil and gas, mainly due to the Company's and PBG oil and gas Sp. z o.o.'s failure to secure contracts the two companies intend to win and perform during the term of the arrangement. Another risk to the Company's ability to perform the arrangement and redeem the bonds may come from potential difficulty in obtaining, or inability to obtain, the borrowing which the Company expects to use to fund the PLN 280m balloon (last) payment under the arrangement and to redeem the bonds. Taking into account mainly the volatile market environment 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 Company to make repayments under the arrangement could prompt creditors to submit a request for the arrangement to be rescinded under Art. 302 of the Bankruptcy and Restructuring Law (as in effect until December 31st 2015, which is applicable to the proceedings), under which the court may rescind an arrangement upon a creditor's request if the debtor fails to perform any provisions of the arrangement or it is evident that the arrangement will not be implemented. In such a case, pursuant to Art. 304 of the Bankruptcy and Restructuring Law, the insolvency proceedings could be reopened and converted into liquidation bankruptcy. Moreover, in accordance with the terms and conditions of the bonds, Bondholders have the right to demand acceleration or early redemption of the bonds upon the occurrence of any of the acceleration or early redemption triggers defined in the terms and conditions of the respective series of the bonds. Therefore, as the bonds are secured with assets of the Company and its selected subsidiaries, in a situation where it is impossible to redeem the bonds when due – which would constitute an acceleration trigger – there is a potential risk that the security agent, acting on behalf of bondholders, would commence enforcement of claims against the Company's and its selected subsidiaries' assets. The assets pledged as security for the bonds are described in detail in PBG Current Reports No. 26/2015, No. 34/2016, and No. 54/2016.

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

2.4. EFFECT OF THE ARRANGEMENT WITH CREDITORS ON THE FINANCIAL STATEMENTS

After the bankruptcy court's decision of October 8th 2015 to sanction the Company's arrangement with creditors became final on June 13th 2016 (see PBG CURRENT REPORT NO. 11/2016 AND PBG CURRENT REPORT NO. 24/2016), the Company 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 event referred to above is included in the most recent full-year financial statements.

In these interim condensed financial statements, the Company disclosed:

- ✓ 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;
- ✓ Liabilities under the bonds issued to partially repay claims in the arrangement of PLN 380,316 thousand, including PLN 254,278 thousand as discounted non-current liabilities and PLN 126,037 thousand as current liabilities.

In the six months ended June 30th 2018, the Company repaid arrangement claims of PLN 900 thousand (repaid in December).

In the six months ended June 30th 2018, the Company 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 66,255 thousand, by the date of issue of these financial statements the Company:

- redeemed the Bonds of PLN 50,329 thousand;
- repaid, in cash, liabilities under the Arrangement of PLN 9,449 thousand;
- repaid, on an offset basis, liabilities under the arrangement of PLN 1,570 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 financial statements, in the statement of profit or loss, under "Gain (loss) on arrangement with creditors", the Company recognised a loss of PLN 9,824 thousand resulting primarily from revaluation of the discount of claims in the arrangement and of bonds issued by the Company to partially repay those claims.

2.5. AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The accounting policies applied in preparing these interim condensed financial statements are consistent with the policies applied in preparing the Company's full-year financial statements for the year beginning January 1st 2017, with the exception of new IFRS 9.

IFRS 9 Financial Instruments

The Company 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 Company's statement of financial position or equity, except for an impact on impairment. The Company recognised additional impairment losses, which will have an adverse effect on its equity.

- 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.

In accordance with IAS 39, the Company's trade receivables were classified as loans and receivables and measured at amortised cost, less 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 Company continues to measure trade receivables at amortised cost through profit or loss. The Company 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 Company 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. The Company applies a simplified approach to trade receivables and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the entire life of the financial instrument. As at the date of the first application of IFRS 9, i.e. January 1st 2018, the Company estimated the amount of future credit losses using the model described above; consequently, the impairment loss on receivables was reduced by PLN 989 thousand as on that date, which drove equity up.

As at June 30th 2018, impairment losses totalled PLN 100,927 thousand. In the six months ended June 30th 2018, the balance of impairment losses declined by PLN 1,868 thousand, of which PLN 1,975 thousand was income arising on reversal of an impairment loss and PLN 107 thousand was recognised in the cost of an increase in an impairment loss.

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. IFRS 15 applies for annual reporting periods beginning on or after January 1st 2018. The Company has not used the option of early application of the standard.

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.

Having analysed all running contracts in terms of their recognition in accordance with the amended revenue recognition criteria, the Company's Management Board came to the conclusion that the implementation of IFRS 15 would not have any significant impact on the Company's statement of financial position or profit or loss..

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. The Company does not expect the impact of IFRS 15 to be material in this respect either.

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 Company is a lessee under lease agreements.

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 Company has not elected to early adopt IFRS 16.

At the date of authorisation of these interim condensed financial statements for issue, the Company's Management Board was assessing the impact of IFRS 16 on the accounting principles (policy) applied by the Company with respect to the Company'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 financial statements for 2017. The Company did not elect to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective.

2.6. ACCOUNTING POLICIES

SUBSTANCE-OVER-FORM RULE

In accordance with the substance-over-form rule, the financial statements should present information which reflects the economic substance of events and transactions, not only their legal form.

CORRECTION OF ERRORS AND CHANGES IN ACCOUNTING POLICIES

No changes in accounting policies were introduced and no errors were corrected in these interim condensed financial statements.

MATERIAL JUDGEMENTS AND ESTIMATES

PROFESSIONAL JUDGEMENT

When applying the accounting policies, the 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 borrowing costs expected by the Company. The Management Board made the estimation based on information provided by lending institutions. The claims under the arrangement and bonds issued by the Company were discounted at 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 Company 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 under contracts as at the end of a reporting period is estimated based on incurred and planned 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

As at the end of a reporting period, the Company tests for impairment the shares held in the subsidiary RAFAKO S.A. ("RAFAKO") 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 Company 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 Company prepares plans to sell its own non-core assets.

Measurement of investment property

The Company 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 material bearing on the value of investment property.

Classification of lease contracts

The Company 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 Company 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 Company, including voting rights, if any, held by the Company and other entities.

UNCERTAINTY OF ESTIMATES AND ASSUMPTIONS

These interim condensed 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 Management Board had not made this assumption.

The preparation of these interim financial statements requires the 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 Management Board due to the uncertainty surrounding the Company as at the date of these financial statements, which may necessitate an adjustment to the disclosed carrying amounts of assets and liabilities in future reporting periods.

The Company also recognised a provision for its liabilities under the sureties and guarantees issued earlier and under joint and several liability to subcontractors related to projects performed as part of consortium agreements. After the bankruptcy court's decision of October 8th 2015 to sanction the arrangement between the Company and its Creditors became final, a large portion of the provision was used and it currently amounts to PLN 26,617 thousand (2017: PLN 33,895 thousand). To a significant extent the amount of the provision depends on the Management Board's estimate of the probability of contingent liabilities (i.e. payments from 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 subsequently assigns to each guarantee and surety such probability expressed as a percentage as is 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 in the Company's share capital was preserved at 23.61%.

Provisions for warranty repairs 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, the provisions for warranty repairs decreased to PLN 6,705 thousand (2017: PLN 10,981 thousand), as describe in Note 23. The provision related to the contract for construction of the Wierzchowice Underground Gas Storage Facility of PLN 13,657 thousand is presented under 'Long-term contract liabilities and provisions' (see Note 17.1).

Provisions for estimated losses on construction contracts are recognised if it is probable that the total cost to complete a construction contract exceeds the total contract revenue. The anticipated loss is immediately expensed in profit or loss. 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 estimated losses increases or reduces current operating expenses relating to the construction contract to which such provisions relate. The Company did not carry any provisions for estimated losses on construction contracts as at June 30th 2018 or December 31st 2017 (see Note 23).

The restructuring provision was recognised in 2012 and estimated at PLN 32,023 thousand as at the date of its recognition. In H1 2018, the Company used PLN 1,018 thousand (as at June 30th 2017: PLN 6,542 thousand) of that provision. As at June 30th 2018, the provision was measured at PLN 3,203 thousand (2017: PLN 6,926 thousand) (see Note 23).

Provisions for employee benefits – retirement gratuity and accrued holiday entitlement – are assessed using the projected unit credit method. The amount of provisions for employee benefits disclosed in the financial statements increased slightly relative to the previous reporting date, to PLN 202 thousand (2017: PLN 200 thousand) (see Note 23).

Impairment of non-current assets

As at June 30th 2018, the Company 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 property as at June 30th 2018 was assessed based on the Company's value appraisal reports prepared by an independent appraiser in previous reporting periods. In the course of in-house analysis, no indications were found that investment property needs to be reappraised.

The Company assessed whether there were any indications of impairment in respect of its shares in subsidiaries. The assessment revealed the need to adjust the impairment losses recognised in earlier periods (see Note 11).

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 Company's Management Board reviews the useful lives of its depreciable and amortisable assets annually, based on current estimates. In the Management Board's opinion as at June 30th 2018, the useful lives of assets applied by the Company as at December 31st 2017 reflected the periods during which future economic benefits associated with the assets were expected to flow to the Company.

Deferred tax asset

Since there is no certainty that the recognised tax losses may be recovered, the Company's Management Board 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

As a rule, construction contract revenue and amounts due depend on the Management Board's estimates regarding the stage of completion of and profit margins expected to be achieved on individual contracts. In these interim condensed financial statements, the largest components of the Company's revenue are those recognised as revenue of the "Organisational support" segment (PLN 2.9m) and the "Gas and oil" segment (PLN 2.8m). At present, the contract to construct underground fuel depot tanks for the NATO Security Investment Programme Management Office (ZIOTP) remains the largest contract in the Company's order book. In the first half of 2018, the Company reported revenue of PLN 2.8m from this segment.

Given the Company's present situation, the cost estimates are affected by additional risks, which may lead to their possible adjustment in the future. According to the Management Board, these risks include mainly the Company's limited liquidity as at the date of these financial statements, which may adversely affect the pace of 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. These factors may in the future affect the planned costs and revenues and thus the margins which are currently budgeted. Detailed information on the Company's revenue from construction contracts is presented in Note 7.

Impairment losses on financial assets

As at the end of the reporting period, the Company 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. The Company applies a simplified approach to trade receivables and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the entire life of the financial 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 their diverse interpretations, 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 artificial schemes 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.

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 PBG

On January 19th 2018, the Company's registry court registered a PLN 4,272.20 increase in the Company'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 Company'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).

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).

Appointment of qualified auditor to review and audit financial statements

On May 16th 2018, the Company's having carried out the procedure to select an auditor for the purpose of a statutory audit, as such procedure is defined in the Company'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 Company's Supervisory Board, the body authorised to do so under the Company'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 that the formal and legal analysis had been carried out of the Company's situation following listing PBG shares in the ALERT LIST.

4. SEASONALITY OF OPERATIONS

Given the structure of its order book, the Company's operations are not currently subject to seasonality and so the presented results do not exhibit any material fluctuations over the year.

5. 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 20.1).

6. OPERATING SEGMENTS

In identifying operating segments, the Company's Management Board is guided by the product lines and services within particular industries, representing the main services and goods provided by the Company. Each of the segments is managed separately within each product line, given the nature of the Company's services and products, requiring different technologies, resources and execution approaches.

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

The Company has identified an additional segment called "Other", where it recognises revenue from sale of merchandise and materials as well as other services not allocated to any of the key segments.

In compliance with IFRS 8 Operating Segments, results of the operating segments are based on internal reports regularly reviewed by the Company's Management Board. The Company's 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 Company presents revenue, costs 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 assets are used in production that is classified in different segments, inventories of materials cannot be allocated to any particular segment, and it is impossible to make segmental allocation of trade payables, other income and expenses, and finance income and costs. The Group's finance income and costs, other income and expenses, distribution costs, administrative expenses, restructuring costs, and income tax are monitored at the Company level and are not allocated to operating segments.

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.

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

- **Gas, oil and fuels** (strategic business segment),
- **Power construction** (strategic business segment),
- **Corporate support for subsidiaries.**

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.
- **Corporate support segment:**
  - building the image and brand of subsidiaries,
  - planning and coordination of work of subsidiaries' corporate bodies,
  - property portfolio management,
  - Business support.

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

Revenue and performance in the six months ended June 30th 2018 by segment

	Segment				
	Gas, oil and fuels	**Power construction**	**Corporate support for subsidiaries**	**Other**	**Total**
Segment total revenue	**2,774**	**-**	**2,912**	**1,311**	**6,997**
Revenue from external customers	2,774	-	2,912	1,311	**6,997**
Inter-segment sales	-	-	-	-	**-**
Total cost	**(2,828)**	**(2,000)**	**(1,933)**	**(741)**	**(7,502)**
Segment profit (loss)	**(54)**	**(2,000)**	**979**	**570**	**(505)**
Distribution costs/administrative expenses	x	x	x	x	(5,316)
Other income/expenses	x	x	x	x	5,386
Gain (Loss) on arrangement with creditors	x	x	x	x	(9,824)
Operating profit (loss)	x	x	x	x	**(10,260)**
Finance income	x	x	x	x	10
Finance costs	x	x	x	x	(26,848)
Profit (loss) before tax	x	x	x	x	**(37,098)**
Income tax expense	x	x	x	x	-
Net profit (loss)	x	x	x	x	**(37,098)**

All amounts in PLN '000 unless indicated otherwise

Revenue and performance in the six months ended June 30th 2017 by segment

	Segment				
	Gas, oil and fuels	Power construction	Corporate support for subsidiaries	Other	Total
Segment total revenue	**65**	**230**	**3,705**	**2,472**	**6,472**
Revenue from external customers	65	230	3,705	2,472	**6,472**
Inter-segment sales	-	-	-	-	**-**
Total cost	**(507)**	**(77)**	**(1,690)**	**(379)**	**(2,653)**
Segment profit (loss)	**(442)**	**153**	**2,015**	**2,093**	**3,819**
Distribution costs/administrative expenses	x	x	x	x	(5,653)
Other income/expenses	x	x	x	x	3,172
Gain (Loss) on arrangement with creditors	x	x	x	x	(10,233)
Operating profit (loss)	x	x	x	x	**(8,895)**
Finance income	x	x	x	x	40
Finance costs	x	x	x	x	(563)
Profit (loss) before tax	x	x	x	x	**(9,418)**
Income tax expense	x	x	x	x	-
Net profit (loss)	x	x	x	x	**(9,418)**

As stated above, the Company does not present assets and liabilities by operating segments as their amounts are not reported to the Company's Management Board.

All amounts in PLN ‘000 unless indicated otherwise

7. INCOME AND EXPENSES

Amounts due from (and to) customers for construction contract work are recognised as the aggregate costs incurred on a contract increased by profit (or decreased by loss) on the contract, less progress billings. The amounts due to and from customers for construction contract work are presented in the table below.

The Company performs long-term contracts whose valuation as at the reporting date is based on the Management Board's estimates of the contracts' planned results.

	Jun 30 2018	Dec 31 2017
Initial amount of revenue agreed in contract	561,810	586,401
Change in contract revenue	(68,898)	(68,899)
Aggregate contract revenue	**492,912**	**517,502**
Costs incurred to the reporting date	394,539	398,241
Costs expected to be incurred to complete contract work	94,852	99,904
Aggregate estimated contract costs	**489,391**	**498,145**
Aggregate estimated profit (loss) on contracts, including:	**3,521**	**19,357**
gain	3,521	19,357
loss (-)	-	-

	Jun 30 2018	Dec 31 2017
Stage of completion as at the reporting date	80.62%	79.94%
Prepayments received as at the reporting date	-	1,717
Prepayments that can be set off with amounts due from customers for construction contract work	-	-
Retentions total	3,101	25,398
Contract costs incurred to the reporting date	394,539	398,241
Accumulated gains recognised by the reporting date (+)	3,143	14,526
Accumulated losses by the reporting date (-)	-	-
Cumulative revenue from contract by reporting date (+)	**397,682**	**412,767**
Progress billings (cumulative)	386,362	401,017
Settlement of contracts as at the reporting date, including:	**11,320**	**11,750**
including: Amounts due from customers for construction contract work as at the reporting date	**11,703**	**11,941**
Contract assets	**11,703**	**11,941**
Contract liabilities	**383**	**191**

Amounts due from customers for contract work disclosed in the financial statements totalled PLN 11,703 thousand as at the reporting date, of which PLN 11,637 thousand was presented in long-term amounts due from customers for construction contract work (see Note 17.1). As at the end of June 2018, amounts due to customers for construction contract work were PLN 383 thousand. In the corresponding period of the previous year, amounts due from customers for construction contract work were PLN 12,160 thousand, while amounts due to customers for construction contract work amounted to PLN 750 thousand. Thus, as at June 30th 2018, amounts due both from and to customers for construction contract work decreased by several hundred thousand złoty year on year.

Revenue from contract work reflects the Company's best estimates of costs planned to be incurred, the expected results, and the stage of completion of particular contracts determined in line with the Company's accounting policies.

In view of the binding confidentiality agreements, the Company's Management Board disclosed the information required under IFRS 15 as aggregate amounts, without itemising the individual contracts.

8. INTANGIBLE ASSETS

In the six months ended June 30th 2018, the Company did not acquired any intangible assets (2017: PLN 115 thousand).

In the six months ended June 30th 2018 and in the comparative period, the Company did not dispose of any intangible assets.

As in 2017, in the six months ended June 30th 2018, the Company did not recognise or reverse any impairment losses on intangible assets.

The Company did not make any commitments to incur capital expenditure on intangible assets. As at the date of these interim condensed financial statements, the Company's intangible assets were pledged as security for the Company's liabilities (see Note 22.2).

9. PROPERTY, PLANT AND EQUIPMENT

In the six months ended June 30th 2018, the Company acquired property, plant and equipment of PLN 10 thousand (2017: PLN 43 thousand).

In the six months ended June 30th 2018, the Company sold property, plant and equipment of PLN 3,008 thousand (2017: PLN 937 thousand), recording a loss of PLN 3,126 thousand on the sale (2017: a gain of PLN 617 thousand). The net gain was calculated taking into account the impairment losses recognised in previous periods.

In the six months ended June 30th 2018, the Group identified no impairment indications for property, plant and equipment, other than impairment losses recognised in past years in an amount of PLN 10,499 thousand.

In the six months ended June 30th 2018, the Company did not reverse any impairment losses on property, plant and equipment (2017: PLN 7,129 thousand).

The Company did not make any commitments to incur capital expenditure on property, plant and equipment. As at the date of these interim condensed financial statements, the Company's property, plant and equipment was pledged as security for the Company's liabilities (see Note 22.2).

10. NON-CURRENT ASSETS HELD FOR SALE

The carrying amount of non-current assets classified as held for sale as at June 30th 2018 was PLN 6,612 thousand (2017: PLN 21,867 thousand). In the six months ended June 30th 2018, the Company disposed of the following assets:

- ✓ an 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;
- ✓ a 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.

The net gain was calculated taking into account the impairment losses recognised in previous periods.
In December 2017, the Company was presented with an offer to sell an office building with a production hall (Building A). The property was finally sold on July 27th 2018.
As at the date of these interim condensed financial statements, non-current assets held for sale were pledged as security for the Company's liabilities (see Note 22.2).

11. INVESTMENTS IN SUBSIDIARIES

In its financial statements as at June 30th 2018 the Company disclosed investments in subsidiaries of PLN 234,465 thousand, of which the largest item was the investment in RAFAKO shares, of PLN 223,854 thousand (gross value: PLN 551,223 thousand, impairment: PLN 327,369 thousand).
The Management Board assessed RAFAKO shares and PBG oil and gas shares for indications of impairment – as a result, as at June 30th 2018, the Management Board tested RAFAKO shares for impairment, following which the impairment loss on the shares was increased by 26,018 thousand. The value of shares in other entities did not change relative to December 31st 2017.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 financial statements, the following assets are measured at fair value:

- Investment property (see Note 13),
- Long-term investments in works of art (see Note 14).

All amounts in PLN '000 unless indicated otherwise

Furthermore, loans advanced to subsidiary PBG Dom Sp. z o.o. were measured based on the fair value of properties held by the subsidiary and the portfolio companies of the PBG Dom Group included in the divestment plan for the property development business (see Note 15).

The fair value of these assets was estimated solely based on unobservable inputs (level 3 of the fair value hierarchy according to IFRS 13 Fair Value Measurement).

13. INVESTMENT PROPERTY

CHANGES IN INVESTMENT PROPERTY

	Six months ended Jun 30 2018	Twelve months ended Dec 31 2017
Net value	**5,199**	**28,107**
Reclassifications:	-	322
- from property, plant and equipment (land)	-	322
Reclassifications (-):	-	(23,230))
- to non-current assets held for sale	-	(23,230)
Net value	**5,199**	**5,199**

In the six months ended June 30th 2018, there were no changes in investment property.

The Company's investment property is pledged as security for its liabilities (see Note 22.2).

14. LONG-TERM INVESTMENTS

In the six months ended June 30th 2018, the Company did not dispose of any long-term investments.

In 2017, the Company sold some works of art, classified as long-term investments of PLN 2,787 thousand, earning a net gain of PLN 650 thousand. The net gain was calculated taking into account the impairment losses recognised in previous periods.

As at the date of these interim condensed financial statements, long-term investments were pledged as security for the Company's liabilities (see Note 22.2).

15. LOANS ADVANCED

In the statement of financial position as at June 30th 2018, the Company disclosed loans advanced of PLN 110,705 thousand (December 31st 2017: PLN 135,264 thousand).Loans of PLN 77,119 thousand (advanced to PBG Dom Sp. z o.o.) presented in these interim condensed financial statements reflect the Company's divestment strategy. The amount of expected inflows from loan repayments has been estimated using net cash flow projections of the property development subsidiaries of the PBG Dom Group, prepared on the basis of historical sales data (time required to complete sale transactions, prices), valuations by qualified appraisers, and the current trends on the property market. The deadlines for closing the projects fall in the period until Q4 2019.

All amounts in PLN '000 unless indicated otherwise

Other assets presented under loans include registered investment certificates in Dialog Plus – "Direct Investment Fund – High-Potential Property," a closed-end non-diversified venture-type investment fund. The Company acquired a total of 234,250 certificates with a par value of UAH 1,000 each. The carrying amount of these securities disclosed in these financial statements as at June 30th 2018 was PLN 33,580 thousand (December 31st 2017: PLN 29,167 thousand). Due to their economic substance, the certificates are presented as loans. As at June 30th 2018, the Management Board reviewed the certificates for impairment, as a result of which the impairment loss on the certificates was increased by PLN 1,980 thousand.

CHANGE IN CARRYING AMOUNT OF LOANS

	Six months ended Jun 30 2018	Twelve months ended Dec 31 2017
Balance at beginning of period	**135,264**	**185,128**
Loans repaid	(26,313)	(54,017)
New loans advanced	-	15
Accrued interest	8,042	18,679
Impairment loss	(10,835)	48,997
Discount	135	2,312
Exchange differences	4,413	(7,222)
Sale/cancellation of debt	-	(58,629)
Balance at end of period	**110,705**	**135,264**

The Company recognised PLN 10,835 thousand of impairment losses (on interest accrued) in the statement of profit or loss under other expenses, net of interest on loans accrued during the reporting period of PLN 8,042 thousand. In the six months ended June 30th 2018, the Company did not reverse any impairment losses on loans.

16. INVENTORIES

In the reporting period, the value of inventories increased by PLN 636 thousand. As at June 30th 2018, the carrying amount of inventories was PLN 692 thousand (2017: PLN 56 thousand).
In the reporting period, the Company made no changes to previous inventory write-downs.
The inventories pledged as security for the Company's liabilities are presented in Note 21.2.

17. RECEIVABLES

In the six months ended June 30th 2018, there were no major changes in the carrying amount of receivables. For details, see Note 18.

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

In the six months ended June 30th 2018, the Company 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 most recent full-year financial statements. In these interim condensed financial statements, the Company disclosed as a separate item of the statement of financial position the Company'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 Company 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 Company 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 Company against PGNiG's disputed claims under the Wierzchowice UGSF contract.

On April 2nd 2014, the Company 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 Company as its leader, considers PGNiG's contract termination notice and claim 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 Company'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 Company also refuses to accept any late interest charged by the employer and related debit notes are not recognised in the Company'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 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 Company 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 288,235,489, being the sum of the Company'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).

All amounts in PLN '000 unless indicated otherwise

The Company 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.

18. IMPAIRMENT LOSSES ON RECEIVABLES

In the six months ended June 30th 2018, the Company recognised impairment losses on receivables of PLN 106 thousand (2017: PLN 162 thousand). In the six months ended June 30th 2018, the Company reversed impairment losses on receivables of PLN 1,975 thousand (2017: PLN 13,800 thousand). The change in impairment losses in H1 2018 was mainly attributable to the first-time adoption of IFRS 9.

19. 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. The carrying amounts of these assets correspond to their fair values.

For the purposes of the interim statement of cash flows, cash and cash equivalents comprise the following items:

	Jun 30 2018	Dec 31 2017
Cash at bank and in hand	29,181	1,921
Total cash and cash equivalents	**29,181**	**1,921**

As at June 30th 2018, the Company carried restricted cash of PLN 27,642 thousand (December 31st 2017: PLN 162 thousand). The entire restricted cash is held in the divestment account (see Note 22.2).

20. EQUITY

20.1. SHARE CAPITAL

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

	Jun 30 2018 (PLN)	Dec 31 2017 (PLN)
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**

All amounts in PLN '000 unless indicated otherwise

CHANGES IN THE SHAREHOLDING STRUCTURE DURING THE REPORTING PERIOD

On January 19th 2018, the Company'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 Company's share capital increased to PLN 16,085 (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). Following the transaction, the Company's share capital increased to PLN 16,087 and is now divided into 804,330,222 shares, with a par value of PLN 0.02 per share.

Structure of the share capital as at the date of authorisation of these interim condensed 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	258	conversion of liabilities
				16,087	

**213,160 Series H shares are ordinary registered shares, not introduced to trading.*
***66,021 Series I shares are ordinary bearer shares, not introduced to trading.*

CHANGES IN THE SHAREHOLDING STRUCTURE IN THE REPORTING PERIOD

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

- upon court registration of an increase in the Company's share capital through the issue of 231,610 Series H ordinary registered shares (see Current Report No. 3/2018 of January 19th 2018), the Company's share capital was increased to PLN 16,085 thousand and 804,264,201 shares;
- upon the delivery of 66,021 Series I ordinary shares to Jerzy Wiśniewski (see Current Report No. 4/2018 of January 23rd 2018), the Company's share capital was increased to PLN 16,087 thousand and 804,330,201 shares.

All amounts in PLN '000 unless indicated otherwise

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 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%

20.2. OTHER COMPONENTS OF EQUITY

'Other components of equity' includes the effect of the acquisition of 213,610 Series H ordinary registered shares (see PBG Current Report No. 27/2017) and of the delivery by the Company of Series I shares following the registration in the National Court Register of the increase in the Company's share capital to include Series H shares (PLN 108 thousand).

21. DIVIDENDS

In the six months ended June 30th 2018, as in 2017, the Company paid no dividends.

22. TRADE AND OTHER PAYABLES

NON-CURRENT LIABILITIES

	Jun 30 2018	Dec 31 2017
Financial liabilities	**48,715**	**66,789**
Retentions under construction contracts	108	77
Other financial liabilities	48,607	66,712
Non-financial liabilities	**431**	**82**
Other non-financial liabilities	431	82
Long-term trade and other payables	**49,146**	**66,870**

CURRENT LIABILITIES

	Jun 30 2018	Dec 31 2017
Financial liabilities	**50,711**	**39,805**
Trade payables	4,340	12,158
Purchase of property, plant and equipment and intangible assets	-	121
Other financial liabilities*	46,371	27,527

All amounts in PLN '000 unless indicated otherwise

Non-financial liabilities	**6,406**	**14,151**
Taxes and other duties payable	643	767
Prepayments received for deliveries	5,458	5,093
Other non-financial liabilities	306	8,290
Short-term trade and other payables	**57,118**	**53,956**

* Under other financial liabilities the Company presents arrangement liabilities 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 Company's liabilities fell, mainly due to a PLN 7,818 thousand decrease in trade payables, and a PLN 7,635 thousand decrease in other non-financial liabilities.

The significant decrease in non-current liabilities was mainly attributable to the reclassification of a portion of arrangement liabilities into current liabilities (see Note 2.4).

All amounts in PLN '000 unless indicated otherwise

AGING ANALYSIS OF CURRENT FINANCIAL LIABILITIES

Jun 30 2018	Total	Not past due	up to 30 days	30 – 90 days	90 – 180 days	180 – 360 days	Over 1 year
Trade payables	**4,340**	1,684	1,193	1,074	354	8	27
Other financial liabilities	**46,371**	46,302	-	7	62	-	0
Total	**50,711**	**47,986**	**1,193**	**1,082**	**416**	**8**	**27**

Dec 31 2017	Total	Not past due	up to 30 days	30 – 90 days	90 – 180 days	180 – 360 days	Over 1 year
Trade payables	**12,158**	9,270	1,536	1,248	75	28	1
Investment liabilities	**121**	121	-	-	-	-	-
Other financial liabilities	**27,528**	27,513	-	-	-	14	-
Total	**39,807**	**36,904**	**1,536**	**1,248**	**75**	**42**	**1**

22.1. NON-CURRENT CONTRACT OBLIGATIONS AND PROVISIONS

In the opinion of the Company'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 most recent full-year financial statements. In accordance with an agreement between the Company's Management Board and consortium partners, liabilities towards consortium partners of PLN 21,684 thousand, provisions related to the Wierzchowice UGSF project of PLN 16,968 thousand (PLN 38,652 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 17.1).

22.2. BORROWINGS AND OTHER DEBT INSTRUMENTS

In the six months ended June 30th 2018, the Company recorded:

- ✓ an increase in liabilities under debt securities, following their valuation at amortised cost (see Note 2.4);
- ✓ a decrease in non-bank borrowings as a result of repayment of a PLN 2,600 thousand loan from a subsidiary, receipt of a new loan of PLN 3,900 thousand and interest accrued in the amount of PLN 578 thousand.

In accordance with the issue and agency agreement, referred to in Note 2.17, the bonds issued by the Company 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 issue programme). The security interests encumber assets owned by the Company 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 403,635 thousand was outstanding under the bonds issued by PBG;

• registered pledges over the Company's shares in selected subsidiaries;

• pledges over business assets of the Company and selected subsidiaries;

• mortgages on most of the real properties owned by the Company and its subsidiaries;

• assignment by way of security of receivables of the Company and selected subsidiaries under: (a) insurance contracts in respect of mortgaged properties, (b) loan agreements between the Company or the obligor companies and the subsidiaries, (c) loan agreements between the Company and PBG oil and gas Sp. z o.o. (POG); (d) intra-group service agreements and subcontractor agreements under construction contracts concluded by POG and the Company, and other subcontractor agreements under construction contracts;

• registered pledges over receivables arising under the Company's divestment account agreement and from the bank accounts of its selected subsidiaries;

• declarations of voluntary submission to enforcement, made by the Company 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 Company (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 Company (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 in delivery of the divestment plan in the second calendar quarter of 2018 (between April 1st and June 30th 2018).

Company name:	*PBG S.A.*		
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,	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 Disinvestment Plan in the previous quarters was presented in the financial statements issued by the Company (the financial statements for 2016 contained the first such report).

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.

23. PROVISIONS

Employee benefit obligations and provisions

Employee benefits obligations and provisions are assessed using the projected unit credit method. The amount of provisions depends on the assumptions concerning the discount rate and the expected salary growth index.

In the six months ended June 30th 2018, the Company reduced the provision for retirement gratuities following its use of PLN 5 thousand (use as at December 31st 2017: PLN 14 thousand); provision created was PLN 1 thousand (2017: PLN 14 thousand).

In the six months ended June 30th 2018, the Company increased the provision for accrued holiday entitlement by PLN 29 thousand (in 2017: PLN 47 thousand of the provision was reversed).

All amounts in PLN ‘000 unless indicated otherwise

Other provisions

Changes in other provisions are presented in the table below.

	provision for warranty repairs	provision for public charges (provision for other costs)	provision for costs of bank guarantees and sureties given	restructuring provision	Total
As at January 1st 2018	**6,617**	**3,929**	**28,682**	**4,221**	**43,449**
Provisions recognised	2,013	-	-	-	**2,013**
Provisions reversed	-	(347)	(2,065)	-	**(2,412)**
Costs incurred	(1,925)	-	-	(1,018)	**(2,943)**
As at June 30th 2018	**6,705**	**3,582**	**26,617**	**3,203**	**40,107**
non-current	214	3,582	15,944	1,247	**20,987**
current	6,491	-	10,674	1,956	**19,121**
As at January 1st 2017	**14,641**	**5,562**	**34,913**	**13,468**	**68,584**
Provisions recognised	-	3,347	-	-	**3,347**
Provisions reversed	(1,732)	-	(6,231)	(2)	**(7,965)**
Costs incurred	(6,293)	(4,970)	-	(9,245)	**(20,517)**
As at December 31st 2017	**6,616**	**3,930**	**28,682**	**4,221**	**43,449**
non-current	53	3,930	28,682	1,605	**34,270**
current	6,563	-	-	2,616	**9,179**

24. 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:	259	244
Promissory notes received as security	8	8
Total off-balance-sheet receivables	**267**	**252**

Off-balance-sheet liabilities	Jun 30 2018	Dec 31 2017

All amounts in PLN '000 unless indicated otherwise

Liabilities under bank and insurance guarantees provided mainly as security for performance of contracts	2,127	2,181
Liabilities under sureties	3,586	4,269
Promissory notes issued as security	-	340
Total off-balance-sheet liabilities	**5,713**	**6,790**

In these interim condensed financial statements, the Company disclosed contingent off-balance-sheet receivables of PLN 267 thousand. The contingent receivables included mainly performance bonds of PLN 259 thousand and promissory notes received as security for the performance of contracts of PLN 8 thousand.

In H1 2018, the Company recorded an increase in contingent receivables, mainly comprising amounts received as security for the performance of contracts (PLN 15 thousand), including a PLN 15 thousand increase in receivables under guarantees received.

As at June 30th 2018, the Company disclosed contingent off-balance-sheet liabilities of PLN 5,713 thousand. They included mainly liabilities under sureties issued by the Company for third parties, liabilities under guarantees issued at PBG's request for third parties.

On June 13th 2016, the Company was notified that the bankruptcy court's decision to sanction the arrangement between PBG and its creditors became final, and on July 29th 2016 the Company received a decision on closing of the insolvency proceedings. Therefore, the Company's contingent liabilities as at June 30th 2018 are presented in accordance with the terms of the arrangement.

The contingent liabilities included liabilities under guarantees provided at the Company's request for third parties as security for contract performance (PLN 2,127 thousand) and sureties provided by the Company for third parties (PLN 3,586 thousand).

In H1 2018, the Company recorded a PLN 1,077 thousand decrease in contingent liabilities, including mainly a PLN 683 thousand decrease in liabilities under sureties issued, a PLN 340 thousand decrease in liabilities under promissory notes issued to secure the performance of contracts, and a PLN 54 thousand decrease in liabilities under guarantees provided at the Company's request for third parties as security for contract performance.

25. LITIGATION AND DISPUTES

As at the date of these interim condensed financial statements, the Company was involved in court proceedings either as a defendant or plaintiff.

Except as discussed below, in H1 2018 there were no material changes regarding disputes and litigation to which the Company was party.

For a detailed description of the disputes and litigation, see the most recent full-year 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. The judge was changed, and the hearing set for May 5th 2016 was lifted. Another hearing was held on June 14th 2016, when further witnesses were heard. Then subsequent hearings were held on April 3rd 2017, September 22nd 2017 and December 6th 2017. Hearing of witnesses continued during the sessions. By way of its decision of April 9th 2018, the court discontinued the proceedings in part against 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 Company 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 a letter of July 7th 2016, Haitong Bank S.A. filed a nonparty 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, though the hearing was later lifted. The hearing of June 7th 2018 was lifted. 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, 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 18,463 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 thousand was 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.

26. 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 financial statements for 2017.

27. DISCONTINUED OPERATIONS

Not applicable.

28. 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 financial statements are presented below.

All amounts in PLN '000 unless indicated otherwise

RELATED-PARTY TRANSACTIONS IN JAN 1–JUN 30 2018

Related entities	Receivables	Liabilities	Loans advanced	Borrowings	Dividends	Revenue	Purchases	Other income	Other expenses	Finance income (cost)
CONSOLIDATED RELATED ENTITIES (EQUITY LINKS)										
INVEST WSCHODNI Sp. z o.o.	-	-	-	-	-	-	-	820	820	-
PBG OPERATOR Sp. z o.o.	-	-	-	-	-	-	-	-	-	-
PBG Dom Group	227	1,653	77,119	-	-	150	-	4,708	7,680	13
RAFAKO Group	626	517	-	-	-	2,528	565	58	-	-
PBG oil and gas Sp. z o.o.	144	1,825	-	22,608	-	1,323	299	58	-	(578)
Multaros LTD.	-	3,376	-	-	-	-	-	-	-	-
Total	**997**	**7,371**	**77,119**	**22,608**	**-**	**4,001**	**864**	**5,644**	**8,500**	**565**
NON-CONSOLIDATED RELATED ENTITIES (PERSONAL LINKS)										
Total	**1,706**	**1,777**	**195**	**11,297**	**-**	**29**	**1,925**	**-**	**-**	**-**

RELATED-PARTY TRANSACTIONS IN JAN 1–DEC 31 2017

Related entities	Receivables	Liabilities	Loans advanced	Borrowings	Dividends	Revenue	Purchases	Other income	Other expenses	Finance income (cost)
CONSOLIDATED RELATED ENTITIES (EQUITY LINKS)										
INVEST WSCHODNI Sp. z o.o.	-	-	-	-	-	-	-	1,483	1,483	-
PBG AVATIA Sp. z o.o.	-	599	-	-	-	3	-	30	-	-
Brokam Sp. z o.o.	-	-	-	-	-	-	-	26	26	-
PBG OPERATOR Sp. z o.o.	-	3	-	-	-	2	5	-	-	-
PBG Dom Group	233	1,680	-	-	-	474	98	10,486	11,697	(39)
RAFAKO Group	559	570	98,691	-	-	5,589	2,388	-	1	(24)
PBG oil and gas Sp. z o.o.	-	2,294	-	20,730	-	4,029	400	-	-	(571)
BATHINEX Sp. z o.o.	-	-	-	-	-	-	-	1,559	1,599	-
Multaros LTD	81	3,376	-	-	-	-	-	1	1	-
Total	**873**	**8,522**	**98,691**	**20,730**	**-**	**10,097**	**2,891**	**13,585**	**14,807**	**(634)**
NON-CONSOLIDATED RELATED ENTITIES (PERSONAL LINKS)										
Total	**1,749**	**6**	**-**	**11,104**	**195**	**-**	**2195**	**1,922**	**-**	**-**

29. BUSINESS COMBINATIONS

In the period covered by these interim condensed financial statements, PBG S.A. merged with its wholly-owned subsidiary PBG Avatia Sp. z o.o. The merger was registered by the District Court for Poznań-Nowe Miasto and Wilda of Poznań, 8th Commercial Division of the National Court Register, on March 21st 2018. As a result of the merger, pursuant to Art. 494 of the Commercial Companies Code, as of the merger date the acquirer (PBG S.A.) assumed all the rights and obligations of the acquiree (PBG Avatia Sp. z o.o.).
The merger was effected as part of the integration of the PBG Group, with a view to optimising costs and streamlining the PBG Group's structure.
In accordance with Art. 516.6 of the Commercial Companies Code, the merger was carried out pursuant to the simplified procedure: the Management Board report was not prepared (Art. 501 of the Commercial Companies Code) and the merger plan was not audited by a qualified auditor.
Given the fact that PBG S.A. held 100% of shares in PBG Avatia Sp. z o.o., the merger was carried out based on the simplified procedure provided for in Art. 516.6 of the Commercial Companies Code, i.e. without increasing the share capital of PBG S.A. and without issuing acquirer shares in exchange for the acquiree's assets.
The merger of PBG S.A. with PBG Avatia Sp. z o.o. was accounted for and disclosed in the accounting books of the company that took over the merged companies' assets, i.e. PBG S.A. No goodwill arose as a result of the merger, because the Company took control of the acquiree at the moment it was established.
The Company did not restate the separate comparative data presented in these interim condensed financial statements, because as in the Management Board's opinion the effect of the merger on that data was not material.
The method of accounting for the merger in PBG S.A.'s accounts is presented below:

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

	PBG S.A. Jan 1-Mar 31 2018	PBG Avatia Sp. z o.o. Jan 1-Mar 31 2018	TOTAL	Adjustments	PBG S.A. after the merger Jan 1-Mar 31 2018
Continuing operations					
Revenue	**3,427**	**-**	**3,427**	**-**	**3,427**
Rendering of services	3,427	-	3,427	-	3,427
Cost of sales	**(2,747)**	**-**	**(2,747)**	**-**	**(2,747)**
Services rendered	(2,747)	-	(2,747)	-	(2,747)
Gross profit	**680**	**-**	**680**	**-**	**680**
Administrative expenses	(2,855)	(3)	(2,858)	-	(2,858)
Other income	3,388	-	3,388	-	3,388
Other expenses	(39)	-	(39)	-	(39)
Loss on arrangement with creditors	**(3,028)**	**-**	**(3,028)**	**(3)**	**(3,025)**
Operating profit (loss)	**(1,854)**	**(3)**	**(1,857)**	**3**	**(1,854)**
Net finance costs	(450)	3	(447)	(8)	(455)
Profit (loss) before tax	**(2,309)**	**-**	**(4,007)**	**(5)**	**(2,309)**
Net profit (loss) from continuing operations	**(2,309)**	**-**	**(4,007)**	**(5)**	**(2,309)**
Net profit (loss)	**(2,309)**	**-**	**(4,007)**	**(5)**	**(2,309)**

All amounts in PLN '000 unless indicated otherwise

	PBG S.A. Mar 31 2018	PBG Avatia Sp. z o.o. Mar 31 2018	TOTAL	Adjustments	PBG S.A. after the merger Mar 31 2018
Assets					
Non-current assets	**355,503**	**293**	**355,796**	**(347)**	**355,449**
Intangible assets	183	-	183	-	184
Property, plant and equipment	4,009	-	4,009	-	4,009
Investment property	5,199	-	5,199	-	5,199
Long-term investments	1,790	-	1,790		1,790
Investments in subsidiaries	260,537	-	260,537	(54)	260,483
Long-term contract receivables and amounts due from customers for construction contract work	39,150	-	39,150	-	39,150
Receivables	3,941	293	4,234	(293)	3,941
Loans advanced	40,638	-	40,638	-	40,638
Other non-current financial assets	1	-	1	-	1
Non-current accruals and deferred income	54	-	54	-	54
Current assets	**119,078**	**393**	**119,471**	**(310)**	**119,161**
Inventories	286	286	286	-	286
Amounts due from customers for construction contract work	211	211	211	-	211
Trade and other receivables	9,419	310	9,729	(310)	9,419
Loans advanced	94,591	-	94,591	-	94,591
Cash and cash equivalents	5,341	83	5,424	-	5,424
Current prepayments and accrued income	311	-	311	-	311
Non-current assets held for sale	**8,919**	**-**	**8,919**	**-**	**8,919**
Total assets	**474,581**	**686**	**475,267**	**(657)**	**474,610**

All amounts in PLN '000 unless indicated otherwise

	PBG S.A. Mar 31 2018	PBG Avatia Sp. z o.o. Mar 31 2018	TOTAL	Adjustments	PBG S.A. after the merger Mar 31 2018
Equity and liabilities					
Equity	**(123,360)**	**687**	**(122,673)**	**(54)**	**(122,727)**
Share capital	16,087	50	16,137	(50)	16,087
Share premium	1,021,947	-	1,021,947	-	1,021,947
Other components of equity	511,930	715	512,645	900	513,545
Retained earnings (accumulated losses)	**(1,673,324)**	(78)	**(1,673,402)**	**(904)**	**(1,674,306)**
- accumulated profit (loss) from prior years	(1,672,975)	(78)	(1,672,897)	(900)	(1,671,997)
- net profit (loss) for current year	(2,305)	-	(2,305)	(4)	(2,309)
Liabilities	**597,941**	**(1)**	**597,940**	**(603)**	**597,337**
Non-current liabilities	**462,242**	**-**	**462,242**	**(294)**	**461,948**
Borrowings and other debt instruments	320,067	-	320,067	-	320,067
Finance lease liabilities	2,128	-	2,128	-	2,128
Non-current contract liabilities and provisions	38,353	-	38,353	-	38,353
Other liabilities	67,615	-	67,615	(294)	67,321
Employee benefit obligations and provisions	83	-	83	-	83
Other long-term provisions	33,874	-	33,874	-	33,874
Non-current accruals and deferred income	122	-	122	-	122
Current liabilities	**135,699**	**(1)**	**135,698**	**(309)**	**135,389**
Borrowings and other debt instruments	86,294	-	86,294	-	86,294
Finance lease liabilities	788	-	788	-	788
Trade and other payables	40,079	(1)	40,078	(309)	39,768
Amounts due to customers for construction contract work	628	-	628	-	628
Employee benefit obligations and provisions	712	-	712	-	712
Other short-term provisions	7,105	-	7,105	-	7,105
Current prepayments and accrued income	94	-	94	-	94
Total equity and liabilities	**474,581**	**686**	**475,267**	**(657)**	**474 610**

All amounts in PLN '000 unless indicated otherwise

30. REMUNERATION OF MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS

REMUNERATION OF MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS IN JANUARY 1ST – JUNE 30TH 2018

Item	Base pay	Other benefits	Total
Remuneration of Management Board members	1,094	-	1,094
Remuneration of Supervisory Board members	210	-	210

REMUNERATION OF MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS FOR HOLDING OFFICE AT THE COMPANY IN JANUARY 1ST – JUNE 30TH 2017

Item	Base pay	Other benefits	Total
Remuneration of Management Board members	1,053	-	1,053
Remuneration of Supervisory Board members	208	-	208

31. EVENTS SUBSEQUENT TO THE REPORTING DATE REQUIRING DISCLOSURE

Material events after June 30th and before October 1st 2018 which should be accounted for or disclosed in these interim condensed financial statements.

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 thousand. The shares were acquired following satisfaction of a condition applicable to the contingent claim, satisfied on the terms specified for Group 6 claims under the arrangement (i.e. through conversion into Series H shares).
Accordingly, after the registration with the National Court Register, the Company's share capital will be PLN 16,302 thousand.

32. OTHER INFORMATION WHICH IN THE COMPANY'S OPINION IS RELEVANT FOR THE ASSESSMENT OF ITS PERSONNEL, ASSETS, FINANCIAL CONDITION AND CHANGES IN ANY OF THE FOREGOING, OR FOR THE ASSESSMENT OF ITS ABILITY TO FULFIL OBLIGATIONS

Except for the events referred to and discussed in Note 2 and Note 31 to these financial statements, no other material events occurred in the first half of 2018 which could have significant bearing on the assessment of the Company's assets, financial condition or financial performance, or which would be likely to cause significant changes in any of the foregoing.

All amounts in PLN '000 unless indicated otherwise

33. 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	211	325
b) raw materials and consumables used	520	440
c) services	8,217	6,202
d) taxes and duties	52	823
e) remuneration	2,819	3,151
f) social security and other benefits	361	473
g) other expenses	2,365	411
Total expenses by nature of expense	**14,545**	**11,825**
Changes in inventories of finished goods and work in progress (-)	(1,726)	(3,520)
Cost of merchandise and materials sold	-	1
Cost of sales, distribution costs and administrative expenses	**12,819**	**8,306**

In the six months ended June 30th 2018, the Company recorded a year-on-year increase in costs, in particular costs of services and other expenses. The increase was mainly attributable to higher provision for warranty repairs and higher costs of construction services.

OTHER INCOME

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Gain on disposal of non-financial non-current assets	348	1,696
Reversals of impairment losses and write-downs on assets, including:	1,975	2,184
- trade receivables	1,823	761
- other receivables	151	-
- loans and borrowings	-	1,423
Interest related to operating activities, including interest on:	70	6
- Interest on loans advanced as part of operating activities	-	5
- Other interest related to operating activities	70	1
Discount on long-term receivables and payables	303	1,967
Grants received	3	21
Compensations received	2	10
Exchange differences on operating activities	4,388	-
Other	1,337	2,703
Total other income	**8,426**	**8,588**

All amounts in PLN '000 unless indicated otherwise

The largest items of other income include:

- reversal of an impairment loss on trade receivables loans, of PLN 1,823 thousand,
- accrued exchange differences relating to operating activities, of PLN 4,388 thousand,
- income from VAT refund: PLN 563 thousand.

OTHER EXPENSES

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Impairment loss on assets, including:	2,900	805
- trade receivables	106	162
- loans and borrowings	2,793	643
Fair value measurement of property	-	1,500
Interest accrued on trade and other payables	22	-
Donations and grants	10	-
Exchange differences on operating activities	-	2,779
Compensations	7	-
Non-tax-deductible costs	2	4
Other	100	327
Total other expenses	**3,040**	**5,416**

The largest items of other expenses include impairment losses on loans advanced, of PLN 2,793 thousand.

FINANCE INCOME

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Interest on financial instruments, including:	9	40
- on deposits	9	40
Foreign exchange gains	1	-
Total finance income	**10**	**40**

All amounts in PLN '000 unless indicated otherwise

FINANCE COSTS

	Six months ended Jun 30 2018	Six months ended Jun 30 2017
Interest on financial instruments, including:	826	554
- on non-bank borrowings	771	485
- on leases	55	68
Foreign exchange losses	-	10
Impairment losses recognised:	26,018	-
- investments in subsidiaries, associates and jointly-controlled entities	26,018	-
Other finance costs	4	-
Total finance costs	**26,848**	**564**

34. CASH FLOWS

The main sources of the PLN 4,183 thousand decrease in receivables disclosed in the 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	increase	(3,988)
Retentions under construction contracts	increase	(9)
Other financial receivables	decrease	13
Prepayments received for construction contract work	increase	(8,102)
Other non-financial receivables	decrease	65
		4,183

The main sources of the PLN (14,612) thousand decrease in liabilities disclosed in the 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 payables	decrease	(7,818)
Non-current contract liabilities and provisions	decrease	(170)
Retentions under construction contracts	increase	31
Other financial liabilities	increase	740
Prepayments received for deliveries	decrease	(1,073)
Other non-financial liabilities	decrease	(6,322)
		(14,612)

The main sources of the PLN (3,327) thousand change in provisions, accruals and prepaid expenses disclosed in the 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 retirement severance payments	decrease	(4)
Provisions for accrued holiday entitlement	increase	29

All amounts in PLN '000 unless indicated otherwise

Provisions for warranties	increase	161
Other provisions for liabilities	decrease	(3,536)
Accruals and deferrals	increase	21
		(3,327)

The main causes of the PLN 192 thousand change in construction contracts disclosed in the 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 to customers for construction contract work	increase	192
		192

Under other adjustments, the amount of PLN 781 thousand includes mainly PLN 563 thousand of VAT refund.

The amount of PLN 9,644 thousand disclosed under adjustments for arrangement with creditors comprises change of discount on bonds.

All amounts in PLN '000 unless indicated otherwise

OTHER INFORMATION – KEY ITEMS TRANSLATED INTO THE EURO

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

a) 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 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,**

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. **4.2447 PLN/EUR.**

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. **4.1709 PLN/EUR.**

	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

The table below presents key items of the interim condensed statement of financial position, interim condensed statement of profit or loss and interim condensed statement of cash flows, translated into the euro.

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

	Six months ended Jun 30 2018 PLN	**Six months ended Jun 30 2017 PLN**	**Six months ended Jun 30 2018 EUR**	**Six months ended Jun 30 2017 EUR**
Revenue	6,997	6,472	1,650	1,524
Operating profit (loss)	(10,260)	(8,895)	(2,420)	(2,094)
Profit (loss) before tax	(37,098)	(9,418)	(8,751)	(2,217)
Net profit (loss) from continuing operations	(37,098)	(9,418)	(8,751)	(2,217)
Net profit (loss)	(37,098)	(9,418)	(8,751)	(2,217)
Basic earnings (loss) per share (PLN/EUR)	(0.05)	(0.01)	(0.01)	(0,003)
Diluted earnings (loss) per share (PLN/EUR)	(0.05)	(0.01)	(0.01)	(0,003)
Average PLN/EUR exchange rate	x	x	4.2395	4.2474
Statement of cash flows				
Net cash from operating activities	(18,636)	(47,979)	(4,396)	(11,296)
Net cash used in investing activities	45,073	52,798	10,632	(12,431)
Net cash from financing activities	823	(6,189)	194	(1,457)
Net increase/(decrease) in cash and cash equivalents	27,261	(1,370)	6,430	(323)
Average PLN/EUR exchange rate	x	x	4.2395	4.2474

	Jun 30 2018 PLN	**Dec 31 2017 PLN**	**Jun 30 2018 EUR**	**Dec 31 2017 EUR**
Statement of financial position				
Assets	471,532	487,538	108,110	116,890
Non-current liabilities	376,089	458,565	86,227	109,944
Current liabilities	226,941	151,017	52,031	36,207
Equity	(131,498)	(122,044)	(30,149)	(29,261)
Share capital	16,087	16,081	3,688	3,856
Number of shares	804,330,222	804,050,591	804,330,222	804,050,591
Weighted average number of ordinary shares	804,330,222	804,281,191	804,330,222	804,281,191
Diluted weighted average number of ordinary shares	804,330,222	804,281,191	804,330,222	804,281,191
Book value per share (PLN/EUR)	(0.16)	(0.15)	(0.04)	(0.04)
Dividend declared or paid per share (PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period	x	x	4.3616	4.1709

35. AUTHORISATION FOR ISSUE

These interim condensed financial statements for the six months ended June 30th 2018 (including the comparative information) were authorised for issue by the Company'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 separate financial statements

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