PBG GROUP

Interim Condensed Consolidated Financial Statements
for the third quarter of 2018

prepared in accordance with International Financial Reporting Standards

WYSOGOTOWO, NOVEMBER 29th 2018

PBG Spółka Akcyjna
(company name)

PBG S.A.
(abbreviated name)

Construction
(sector according to the WSE classification)

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1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE PBG GROUP FOR Q3 2018

SELECTED FINANCIAL DATA

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017 (restated)	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017 (restated)
	PLN	PLN	EUR	EUR
Consolidated statement of profit or loss				
Revenue	908,519	1,396,316	213,593	328,036
Operating profit (loss)	(29,666)	47,794	(6,974)	11,228
Profit (loss) before tax	(27,131)	36,763	(6,379)	8,637
Net profit/(loss) from continuing operations attributable to:	(40,483)	11,551	(9,518)	2,714
- owners of the parent	(24,361)	(2,252)	(5,727)	(529)
- non-controlling interests	(16,121)	13,803	(3,790)	3,243
Net profit/(loss) from continuing and discontinued operations attributable to:	(41,799)	11,551	(9,827)	2,714
- owners of the parent	(25,677)	(2,252)	(6,037)	(529)
- non-controlling interests	(16,121)	13,803	(3,790)	3,243
Total comprehensive income for the period attributable to:	(42,283)	2,923	(9,941)	686
- owners of the parent	(25,150)	(10,381)	(5,913)	(2,439)
- non-controlling interests	(17,133)	13,304	(4,028)	3,125
Net profit (loss) per ordinary share	(0.032)	(0.003)	(0.008)	(0.001)
Diluted earnings (loss) per ordinary share	(0.032)	(0.003)	(0.008)	(0.001)
Average PLN/EUR exchange rate	x	x	4.2535	4.2566
Consolidated statement of cash flows				
Net cash from operating activities	(105,464)	29,922	(24,795)	7,030
Net cash from investing activities	43,668	26,017	10,266	6,112
Net cash from financing activities	(1,909)	(30,373)	(449)	(7,136)
Increase/(decrease) in cash and cash equivalents	(63,705)	25,566	(14,977)	6,006
Average PLN/EUR exchange rate	x	x	4.2535	4.2566

QSr 3/2018** (all amounts in PLN '000 unless stated otherwise)

	Sep 30 2018	Dec 31 2017 _(restated)_	Sep 30 2018	Dec 31 2017 _(restated)_
	PLN	PLN	EUR	EUR
Consolidated statement of financial position				
Assets	1,462,958	1,767,796	342,501	423,840
Non-current liabilities	486,619	562,746	113,925	134,922
Current liabilities	760,779	882,611	178,110	211,612
Liabilities directly related to assets classified as held for sale	-	47,496	-	11,387
Equity attributable to owners of the parent	(196,922)	(166,733)	(46,102)	(39,975)
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	(0.24)	(0.21)	(0.06)	(0.05)
PLN/EUR exchange rate at end of period	x	x	4.2714	4.1709

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Three months ended Sep 30 2018	Nine months ended Sep 30 2018	Three months ended Sep 30 2017 (restated)	Nine months ended Sep 30 2017 (restated)
Continuing operations				
Revenue	**270,516**	**908,519**	**482,316**	**1,396,316**
Revenue from sale of finished goods and services	269,597	906,817	482,304	1,393,887
Revenue from sale of merchandise and materials	919	1,702	12	2,429
Cost of sales	**(242,991)**	**(815,539)**	**(420,672)**	**(1,241,751)**
Cost of finished goods and services sold	(242,502)	(813,737)	(419,985)	(1,239,829)
Cost of merchandise and materials sold	(489)	(1,802)	(687)	(1,922)
Gross profit (loss)	**27,525**	**92,980**	**61,644**	**154,565**
Distribution costs	(148)	(8,405)	(8,232)	(19,803)
Administrative expenses	(21,124)	(62,935)	(20,396)	(68,721)
Other income	4,939	18,602	1,423	19,813
Other expenses	(2,280)	(57,162)	(2,162)	(24,107)
Gain (Loss) on arrangement with creditors	(3,715)	(12,746)	(4,199)	(13,953)
Operating profit (loss)	**5,197**	**(29,666)**	**28,078**	**47,794**
Finance costs	(1,510)	(2,846)	(1,739)	(7,544)
Share of profit of equity-accounted entities	-	5,381	(1,710)	(3,487)
Profit (loss) before tax	**3,687**	**(27,131)**	**24,629**	**36,763**
Income tax expense	(1,376)	(13,352)	(13,261)	(25,212)
Net profit (loss) from continuing operations	**2,311**	**(40,483)**	**11,368**	**11,551**
Net profit (loss) from discontinued operations attributable to:	**949**	**(1,316)**	**-**	**-**
- owners of the parent	949	(1,316)	-	-
- non-controlling interests	-	-	-	-
Net profit/(loss) from continuing and discontinued operations attributable to:	**3,260**	**(41,799)**	**11,368**	**11,551**
- owners of the parent	(1,067)	(25,677)	2,069	(2,252)
- non-controlling interests	4,327	(16,122)	9,299	13,803

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NET PROFIT PER ORDINARY SHARE

	Three months ended Sep 30 2018	Nine months ended Sep 30 2018	Three months ended Sep 30 2017 (restated)	Nine months ended Sep 30 2017 (restated)
Net profit/(loss) from continuing and discontinued operations attributable to:	3,260	(41,799)	11,368	11,551
- owners of the parent	(1,067)	(25,677)	2,069	(2,252)
- non-controlling interests	4,327	(16,122)	9,299	13,803
Diluted weighted average number of ordinary shares	804,330,222	804,330,222	804,330,222	804,264,667
Diluted earnings (loss) per ordinary share attributable to:	0.004	(0.052)	0.014	0.014
- owners of the parent	(0.001)	(0.032)	0.003	(0.003)
- non-controlling interests	0.005	(0.020)	0.012	0.017

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Three months ended Sep 30 2018	Nine months ended Sep 30 2018	Three months ended Sep 30 2017 (restated)	Nine months ended Sep 30 2017 (restated)
Net profit	**3,260**	**(41,799)**	**11,368**	**11,551**
Gains (losses) for the period recognised in other comprehensive income	135	280	9	314
Exchange differences on translating foreign operations	(4,181)	447	(951)	(8,079)
Income tax on other comprehensive income	(25)	(53)	(2)	(60)
Actuarial gains (losses) on employee benefits	(955)	(1,429)	(1,091)	(991)
Income tax on other comprehensive income	181	271	207	188
Other comprehensive income, net of tax	**(4,845)**	**(484)**	**(1,828)**	**(8,628)**
Comprehensive income	**(1,585)**	**(42,283)**	**9,540**	**2,923**
- owners of the parent	(5,231)	(25,150)	685	(10,381)
- non-controlling interests	3,644	(17,133)	8,855	13,304

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Sep 30 2018	Dec 31 2017 *(restated)*	Sep 30 2017 *(restated)*
Non-current assets	**421,506**	**470,152**	**578,963**
Goodwill	57,131	102,536	186,297
Intangible assets	7,273	8,300	8,628
Property, plant and equipment	190,021	199,953	213,270
Investment property	4,559	1,319	4,237
Long-term investments	1,790	1,790	1,790
Investments in associates	102	102	102
Investments in joint ventures	23,311	19,312	22,723
Long-term contract receivables and amounts due from customers for construction contract work	39,150	39,150	39,150
Trade and other receivables	43,885	50,232	53,709
Shares and other equity instruments	2,613	1,497	1,548
Other non-current financial assets	1	-	-
Deferred tax assets	41,549	43,447	45,961
Non-current accruals and deferred income	10,121	2,514	1,548
Current assets	**928,933**	**1,133,972**	**773,059**
Inventories	29,739	16,954	16,093
Amounts due from customers for construction contract work	374,871	361,537	190,981
Trade and other receivables	370,531	536,777	386,155
Income tax receivable	200	10	2,422
Loans advanced	7,507	6	147
Derivative financial instruments	-	479	13
Other current financial assets	-	3,010	3,010
Cash and cash equivalents	127,966	192,175	146,484
Current prepayments and accrued income	18,119	23,024	27,754
Non-current assets held for sale	**112,519**	**163,672**	**154,423**
TOTAL ASSETS	**1,462,958**	**1,767,796**	**1,506,445**

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EQUITY AND LIABILITIES	Sep 30 2018	Dec 31 2017 *(restated)*	Sep 30 2017 *(restated)*
Equity attributable to owners of the parent	**(196,922)**	**(166,733)**	**(81,118)**
Share capital	16,087	16,081	16,081
Share premium	1,019,084	1,021,844	1,021,844
Cash flow hedging reserve	(418)	(645)	(732)
Other components of equity	530,927	521,596	516,884
Translation reserve	(23,063)	(23,749)	(18,843)
Retained earnings (accumulated losses)	(1,739,539)	(1,701,860)	(1,616,352)
- accumulated profit (loss) from prior years	(1,713,862)	(1,670,419)	(1,614,100)
- net profit (loss) for current year	(25,677)	(31,441)	(2,252)
Non-controlling interests	**412,482**	**441,676**	**302,317**
Total equity	**215,560**	**274,943**	**221,200**
Non-current liabilities	**486,619**	**562,746**	**565,225**
Borrowings and other debt instruments	259,212	302,721	307,123
Finance lease liabilities	24,075	24,784	25,486
Derivative financial instruments	516	796	904
Non-current contract liabilities and provisions	38,041	38,240	38,627
Trade and other payables	80,957	105,450	116,845
Employee benefit obligations and provisions	21,436	21,371	23,785
Other long-term provisions	55,874	64,498	47,637
Deferred tax liabilities	6,476	4,796	3,686
Non-current accruals and deferred income	32	90	1,132
Current liabilities	**760,779**	**882,611**	**669,945**
Borrowings and other debt instruments	229,256	165,956	175,960
Finance lease liabilities	3,289	3,606	3,486
Derivative financial instruments	197	237	-
Trade and other payables	430,385	577,032	316,152
Amounts due to customers for construction contract work	24,612	25,400	45,897
Income tax liabilities	579	2,280	41
Employee benefit obligations and provisions	35,168	37,192	38,490
Other short-term provisions	16,561	54,705	73,476
Current prepayments and accrued income	20,733	16,203	16,443
Liabilities directly related to assets classified as held for sale	**-**	**47,496**	**50,075**
Total liabilities	**1,247,398**	**1,492,853**	**1,285,245**
TOTAL EQUITY AND LIABILITIES	**1,462,958**	**1,767,796**	**1,506,445**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Cash flow hedging reserve	Other components of equity	Translation reserve	Retained earnings (accumulated losses)	Equity	Non-controlling interests	Total equity
January 1st 2018	**16,081**	**1,021,844**	**(645)**	**521,596**	**(23,749)**	**(1,697,639)**	**(162,512)**	**450,118**	**287,606**
Changes in accounting policies	-	-	-	-	-	*(9,259)*	***(9,259)***	*(20,505)*	***(29,765)***
January 1st 2018 after adjustments	**16,081**	**1,021,844**	**(645)**	**521,596**	**(23,749)**	**(1,706,898)**	**(171,771)**	**429,613**	**257,841**
Share issue	6	102	-	(108)	-	-	**-**	**-**	**-**
Net profit (loss) for the period	-	-	-	-	-	(25,677)	**(25,677)**	**(16,121)**	**(41,798)**
Other comprehensive income net of tax for the period	-	-	227	(385)	686	-	**528**	(1,010)	**(482)**
Transfer to reserves	-	(2,862)	-	9,824	-	(6,962)	**-**	-	**-**
September 30th 2018	**16,087**	**1,019,084**	**(418)**	**530,927**	**(23,063)**	**(1,739,539)**	**(196,922)**	**412,482**	**215,560**

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	Share capital	Share premium	Cash flow hedging reserve	Other components of equity	Translation reserve	Retained earnings (accumulated losses)	Equity	Non-controlling interests	Total equity
January 1st 2017	**15,414**	**1,009,665**	**(986)**	**524,314**	**(10,862)**	**(1,603,486)**	**(65,941)**	**294,276**	**228,335**
Changes in accounting policies	-	-	-	-	-	*(4,788)*	***(4,788)***	*(4,788)*	***(9,576)***
January 1st 2017 after adjustments	**15,414**	**1,009,665**	**(986)**	**524,314**	**(10,862)**	**(1,608,274)**	**(70,729)**	**289,488**	**218,759**
Share issue	667	12,184	-	(12,743)	-	-	**108**	-	**108**
Net profit (loss) for the period	-	-	-	-	-	(2,252)	**(2,252)**	**13,802**	**11,551**
Other comprehensive income net of tax for the period	-	-	254	(402)	(7,981)	-	**(8,129)**	(499)	**(8,628)**
Transfer to reserves	-	-	-	5,750	-	(5,750)	-	-	-
Other adjustments	-	(5)	-	(35)	-	(76)	**(116)**	11	**(105)**
Change in the Group structure	-	-	-	-	-	-	-	(485)	**(485)**
September 30th 2017	**16,081**	**1,021,844**	**(732)**	**516,884**	**(18,843)**	**(1,616,352)**	**(81,118)**	**302,317**	**221,200**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017 *(restated)*
Cash flows from operating activities		
Profit (loss) from continuing operations before tax	**(27,131)**	**36,763**
Profit (loss) from discontinued operations before tax	(1,316)	-
Profit (loss) before tax	**(28,447)**	**36,763**
Adjustments for:	**(77,017)**	**(6,841)**
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	12,131	12,067
Change in fair value of investment property and non-current assets held for sale	(1,167)	6,278
Fair value gains (losses) on long-term investments	92	
Gains (losses) on financial assets and liabilities at fair value through profit or loss	85	(213)
Cash flow hedges recycled from equity	(98)	791
Impairment of financial and non-financial assets	53,932	(6,979)
Foreign exchange gains (losses)	(519)	(1,286)
Interest and dividends, net	2,800	3,507
Gain (loss) on investing activities	648	(223)
Settlement of derivative financial instruments	479	-
Share of profit/(loss) of equity-accounted entities	(5,381)	3,487
Change in receivables	172,593	470,140
Change in inventories	(12,785)	987
Change in liabilities other than borrowings	(171,340)	(376,364)
Change in provisions, accruals and prepaid expenses	(51,495)	(8,659)
Change in construction contracts	(9,585)	(117,973)
Income tax paid	(7,561)	(5,361)
Other	(23,838)	420
Adjustments for arrangement with creditors	(36,009)	12,540
Net cash from operating activities	**(105,464)**	**29,922**
Cash flows from investing activities		
Sale of property, plant and equipment	27,625	3,509
Purchase of property, plant and equipment	(1,393)	(3,055)
Purchase of intangible assets	(229)	(953)
Sale of investment property and non-current assets held for sale	19,757	19,764
Purchase of investment property	(62)	-
Sale of financial assets	6,539	6,000
Purchase of financial assets	(1,209)	(603)
Acquisition of subsidiary, net of cash acquired	-	(243)
Dividends and interest received	-	
Repayment of loans advanced	9,160	1,578
Loans advanced	(16,568)	24
Interest on loans advanced	52	-
Other	(4)	(4)
Net cash from investing activities	**43,668**	**26,017**

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Cash flows from financing activities		
Finance lease liabilities	-	20,649
Payment of finance lease liabilities	(3,815)	(3,655)
Proceeds from borrowings	13,884	26,256
Repayment of borrowings	(6,659)	(70,797)
Payment of interest on borrowings	(1,668)	(3,531)
Interest received	191	58
Interest paid	(3,253)	(917)
Other	(589)	1,564
Net cash from financing activities	**(1,909)**	**(30,373)**
Increase/(decrease) in cash and cash equivalents	(63,705)	25,566
Net foreign exchange differences	(422)	(191)
Cash and cash equivalents at beginning of period	**192,093**	**121,109**
Cash and cash equivalents at end of period	**127,966**	**146,484**

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2 NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR Q3 2018

2.1 The Parent and the PBG Group

2.1.1. The Parent

The parent of the PBG Group ("the Group" or "the PBG Group") is PBG S.A. ("the parent" or "the Company"). The Parent was incorporated on January 2nd 2004 by virtue of a Notarial Deed of December 1st 2003. It is entered in the Register of Businesses in the National Court Register maintained by the District Court for Poznań-Nowe Miasto and Wilda, 8th Commercial Division of the National Court Register, under KRS No. 0000184508. The parent's Industry Identification Number (REGON) is 631048917.
PBG shares are listed on the Warsaw Stock Exchange.
The parent's registered office is located at ul. Skórzewska 35 in Wysogotowo near Poznań, 62-081 Przeźmierowo, Poland.
The parent and the Group were incorporated for indefinite time.

Parent's Management Board and Supervisory Board

Composition of the Parent's Management Board and Supervisory Board as at September 30th 2018 is presented below:

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

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

2.1.2. Group's principal business activities

The parent's principal business activities consist in engineering activities and related technical consultancy in the area of natural gas, crude oil and fuels (PKD 71.12 Z, according to the Polish Classification of Activities). The Parent also provides organisational support to other Group companies, consisting mainly in image and brand building, property management, planning and coordinating the operations of Group companies' governing bodies, as well as providing financial, administrative and controlling services. In these interim condensed consolidated financial statements, the effect of these transactions is excluded in the course of consolidation procedures.

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The Group provides general contractor services for construction projects in the natural gas, crude oil, fuels and power construction sectors.

2.1.3. PBG Group

The Group consists of the parent and the following subsidiaries:

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

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Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Sep 30 2018	Dec 31 2017
City Development Sp. z o.o. (9)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%
PBG ERIGO PROJEKT Sp. z o.o. Ecoria II SKA (10)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%
PBG Dom Invest X Sp. z o.o. Invest I SKA (11)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z Renting and operating of own or leased real property PKD 68.20.Z	100.00%	100.00%
PBG Dom Invest X Sp. z o.o. Złotowska 51 SKA (12)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
PBG ERIGO PROJEKT Sp. z o.o. Quadro House SKA (13)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%
PBG Erigo Projekt Sp. z o.o. Strzeszyn SKA (14)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Development of building projects PKD 41.10.Z	100.00%	100.00%
PBG Dom Invest X Sp. z o.o. (15)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
PBG ERIGO PROJEKT Sp. z o.o. (16)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%
PBG ERIGO PROJEKT Sp. z o.o. Platan Hotel SKA (17)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Hotels and similar accommodation PKD 55.10.Z	100.00%	100.00%
PBG Erigo Projekt Sp. z o.o. Malta Hotel Sp.k.* (18)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Hotels and similar accommodation PKD 55.10.Z	100.00%	100.00%
Ecoria Sp. z o.o. (19)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Buying and selling of own real property PKD 68.10.Z	100.00%	100.00%

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Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Sep 30 2018	**Dec 31 2017**
Wschodni Invest Sp. z o.o. (20)	ul. Mazowiecka 42, 60 – 623 Poznań POLAND	Other financial intermediation PKD 64.19.Z	100.00%	100.00%
PBG Ukraina LLC (21)	ul. Kondratiuka 1, 04201 Kiev UKRAINE	Construction of buildings and other structures, assembly and installation of prefabricated structures, assembly of metal structures, organisation of property construction projects intended for sale or rental; engineering activities.	100.00%	100.00%
PBG Operator Sp. z o.o. (22)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Other credit granting PKD 64.92.Z	100.00%	100.00%
PBG oil and gas Sp. z o.o. (23)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Other specialised construction activities PKD 43.99.Z	100.00%	100.00%
Multaros Trading Company Limited (24)	Vasili Michalidi 9, 3026 Limassol CYPRUS	Holding of securities	100.00%	100.00%
SPV2 PL Sp. z o.o. (25)	ul. Skórzewska 35, Wysogotowo 62 – 081 Przeźmierowo POLAND	Engineering activities and related technical consultancy PKD 71.12.Z	100.00%	100.00%
RAFAKO S.A. (26)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Manufacture of steam generators except central heating hot water boilers (PKD 25.30.Z)	33.32%	33.32%
PGL – DOM Sp. z o.o. (27)	ul. Bukowa 1, 47-400 Racibórz, POLAND	Real property activities with own property (PKD 68.32.Z)	33.32%	33.32%
RAFAKO ENGINEERING Sp. z o. o. (28)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Construction and process design, urban planning PKD 71.12.Z	65.96%	65.96%
ENERGOTECHNIKA Engineering Sp. z o. o. (29)	ul. Bojkowska 43C, 44-100 Gliwice, POLAND	Construction and process design, urban planning PKD 71.12.Z	33.32%	33.32%

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Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Sep 30 2018	Dec 31 2017
RAFAKO ENGINEERING SOLUTION Sp. z o.o. (30)	Belgrade SERBIA	Process design, construction, industry, and environmental protection consultancy and supervision PKD 74.20.A	25.66%	25.66%
RAFAKO Hungary Kft. (31)	Budapest HUNGARY	Equipment assembly in the power and chemical industry	33.32%	33.32%
E001RK Sp. z o.o. (32)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	33.32%	33.32%
E003B7 Sp. z o.o. (33)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Development of construction projects, business consultancy and construction design, engineering and technology	33.32%	33.32%
RENG-Nano Sp. z o.o. (34)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Manufacture of metal structures and parts thereof PKD 25.11.Z	39.58%	39.58%
RAFAKO MANUFACTURING Sp. z o.o. (35)	ul. Łąkowa 33, 47-400 Racibórz, POLAND	Manufacture of steam generators except central heating hot water boilers	33.32%	-
BIO-FUN Sp. z o.o. (36)	Ul. Mazowiecka 42, 60-623 Poznań	Real estate services	100%	-

*On April 3rd 2018, the change of legal form of a limited joint-stock partnership to a limited partnership was entered in the National Court Register maintained by the District Court for Poznań-Nowe Miasto and Wilda in Poznań, 8th Commercial Division.

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

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

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

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

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

- RAFAKO S.A.
- PGL-DOM Sp. z o.o.
- ENERGOTECHNIKA Engineering Sp. z o.o.
- RAFAKO Engineering Solution Sp. z o.o.
- RAFAKO Hungary Kft.
- E001RK Sp. z o.o.
- E003B7 Sp. z o.o.
- RENG-Nano Sp. z o.o.
- RAFAKO MANUFACTURING Sp. z o.o.

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

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

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

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

The parent also holds 39.09% of shares in HYDROBUDOWA POLSKA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy), which is not covered by these interim condensed consolidated financial statements, as it was placed under the control of authorities appointed in the insolvency proceedings.

<u>CHANGES IN THE GROUP</u>

In the first nine months of 2018, the following transactions took place within the Group:

Merger with PBG AVATIA Sp. z o.o.

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

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

On February 13th 2018, Górecka Projekt Sp. z o.o., a subsidiary, acquired a 100% interest in the share capital of Bio-Fun Sp. z o.o. The company's business activities include provision of services on the real estate market.

The financial data of the above-mentioned company was not consolidated in these interim condensed consolidated financial statements due to its negligible effect.

Establishment of a new subsidiary RAFAKO MANUFACTURING Sp. z o.o.

On July 4th 2018, a new subsidiary RAFAKO MANUFACTURING Sp. z o.o. was established on the basis of a notarial deed. The share capital of the subsidiary is PLN 30 thousand and is divided into 300 shares with a par value of PLN 100 per share. The shares were subscribed for by RAFAKO S.A. in exchange for a cash contribution. On July 9th 2018, the District Court of Gliwice, 10th Commercial Division of the National Court Register, entered RAFAKO MANUFACTURING Sp. z o.o. in the National Court Register under No. 0000739782.

2.2 Policies applied in the preparation of the Q3 2018 interim condensed consolidated financial statements

2.2.1 Statement of compliance and general rules of preparation

These interim condensed consolidated financial statements have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"),and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated March 29th 2018.

These interim condensed consolidated financial statements of the Group cover the nine months ended September 30th 2018 and contain comparative data for the nine months ended September 30th 2017, as at December 31st 2017 and as at September 30th 2017.

The parent's separate financial statements included in this report were also prepared in accordance with the above policies, as pursuant to Par. 62.1 of the Minister of Finance's Regulation of March 29th 2018, an issuer that is a parent of a group is not obliged to issue a separate quarterly report, provided that in its consolidated quarterly report the issuer discloses its quarterly financial information comprising a statement of financial position, a statement of profit or loss, a statement of changes in equity and a statement of cash flows.

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

2.2.2 Going concern assumption

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

Parent's formal and legal status

The decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Restructuring Division, to approve the parent's voluntary arrangement with creditors became final on June 13th 2016. On that date, the parent began to perform its obligations under the arrangement. Apart from repaying the claims under the arrangement and redeeming the bonds issued, the parent is implementing other provisions of the restructuring documents. Detailed information on the formal and legal status of the parent was presented in the parent's financial statements for previous reporting periods, including the separate financial statements for 2015, 2016, and 2017.

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

The consolidated financial statements of the RAFAKO Group were prepared on the assumption that the RAFAKO Group would continue as a going concern for at least 12 months as of the end of the reporting period. The circumstances that may pose a threat to the RAFAKO Group's ability to continue as a going concern are described in the RAFAKO Group's consolidated financial statements for Q3 2018, issued on November 27th 2018.

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

Going concern assumption – the parent

Given the Company's current financial situation, which is materially affected by the Company's obligations relating to the performance of the arrangement and servicing Bond issuance process, there are risks regarding its status as a going concern. As at September 30th 2018, the parent's current liabilities (disclosed in the separate financial statements) exceeded its current assets and assets classified as held for sale by approximately PLN 76.8m. Nonetheless, the parent's separate financial statements for Q3 2018 have been prepared on the assumption that the parent will continue as a going concern in the foreseeable future, i.e. for at least 12 consecutive months. The assumption was based on the fact that the court's decision to approve the arrangement with creditors became final, which allowed the parent to continue as a going concern. In 2016, the parent began to perform its obligations under the arrangement and the bonds, which is scheduled to continue until June 2020. Presented below is the Management Board's plan of how it intends to cover the deficit in net working capital.

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

Performance of the arrangement obligations and redemption of the bonds

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

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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 and 35/2016).

As at the date of issue of these consolidated financial statements for Q3 2018, the parent had issued Series A, B, C, D, E, F, G, H and I first issue bonds (see PBG Current Report No. 54/2016) of PLN 388,795,000, Series B1, C1, D1, E1, F1, G1, H1 and I1 second issue bonds (see PBG Current Report No. 6/2017) of PLN 85,291,000 and Series F3, G3, H2 and I3 next issue bonds (see PBG Current Report No. 25/2018) of PLN 9,189,400.00. The parent is obliged to have the bonds listed on the stock exchange. As at the date of issue of these financial statements, the Series F, F1, G, G1, H, H1, I and I1 bonds were listed on the Catalyst multilateral trading facility operated by the Warsaw Stock Exchange (see PBG Current Reports No. 10/2017, 12/2017, 16/2017 and 18/2017).
To the best of the parent's knowledge, the schedule of payments under the arrangement and of the bonds redemption, including payment of liabilities towards subsidiaries, is as follows (amounts rounded to the nearest whole złoty):

Period	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	H1 2020	Total
Repayment of the parent’s liabilities under the arrangement and the bonds, including:	**30,548,341**	**-**	**81,544,251**	**-**	**50,245,759**	**301,354,016**	**463,692,367**
- redemption of bonds	15,239,200	-	61,934,800	-	46,875,600	238,445,700	**362,495,300**
- payment of arrangement instalments	15,250,061*	-	19,157,874	-	3,292,862	47,555,361	**85,256,159**
- payment of contingent claims after the date of fulfilment of the condition	59,080	-	451,577	-	77,297	2,317,947	**2,905,901**
- payment of disputed claims	-	-	-	-	-	13,035,007	**13,035,007**

** Including PLN 5,483,674.44 in respect of the arrangement instalment, maturing on June 30th 2018, of which PLN 4,890,790.10 was repaid by the date of issue of these financial statements.*

The parent recognised a provision of PLN 15,940,909 for the repayment of contingent or disputed claims. As estimated by the parent’s Management Board, of that amount contingent claims of PLN 2,905,901 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 15,940,909 referred to in the preceding sentence includes disputed claims of PLN 13,035,007 which will be paid when the dispute is resolved, but the time of their payment cannot be reasonably determined as at the date of these financial statements. Therefore, it was assumed that the disputed claims would be paid at the end of the arrangement term.

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Amount of liabilities repaid from the date when the parent began to perform the arrangement to the date of performance data publication (rounded to the nearest whole złoty)	
Liabilities repaid by the date of issue of these financial statements, including:	190,719,688
repayments under the arrangement	69,939,588
redemption of bonds	120,780,100

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

Expected cash proceeds from:	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	H1 2020	Total
Sale of the parent's properties and other non-core assets	3,260,000	-	1,000,000	-	4,877,000	1,000,000	**10,137,000**
Repayment of loans by the parent's subsidiaries implementing the divestment plan	35,000,000	-	-	-	10,550,000	-	**45,550,000**
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.	(27,441,913)	1,592,216	7,678,664	5,671,540	3,987,074	(10,723,460)	**(19,235,879)**
Cash generated from the Company's other operations	2,439,764	(2,489,551)	12,489,069	(1,554,138)	27,261,960	33,872,417	**72,019,520**
Refinancing of the balloon payment	-	-	-	-	-	280,000,000	**280,000,000**
TOTAL	**33,257,850**	**(897,335)**	**81,167,733**	**4,117,402**	**46,676,034**	**304,148,957**	**468,470,641**

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

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Cash balance after: (i) redemption of bonds; (ii) payment of arrangement instalments [PLN]	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	H1 2020
Cash balance	2,709,510	1,812,174	1,435,656	5,553,058	1,983,333	4,778,274

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

As disclosed in the separate financial statements as at September 30th 2018, the total amount of current assets and non-current assets held for sale was PLN 106.2m, while the amount of current liabilities was PLN 183.0m, which implies negative net working capital of approximately PLN -76.8m. Considering the above, the parent's Management Board carried out a detailed analysis of sources of covering the deficit and concluded that within 12 months from the reporting date the parent would be able to generate cash of approximately PLN 9.0m 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 106.2m as at the reporting date, indicates that within 12 months from the reporting date the Company will be able to release PLN 147.8m, and the difference between individual current assets and assets held for sale resulted mainly from the following assumptions:

- Estimates concerning the Group's divestment process indicate that within 12 months from the reporting date loan repayments and proceeds from the planned sale of claims will total approximately PLN 115.0m, i.e. about PLN 19.8m 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 September 30th 2018 the parent intends to raise PLN 80m under a contract related to the exit from the development project in Kiev, including PLN 20m by the end of Q4 2018.
- The parent's Management Board estimates that it will be possible to increase the amount of potential proceeds from non-current assets that may be sold in a short term by PLN 2.4m, mainly in connection with the ongoing divestments of the parent's non-core assets.
- The parent's Management Board increased the estimated inflow of short-term receivables by about PLN 19.9m. The change is primarily attributable to a detailed assessment of the ability to recover individual receivables in a short term, which as at the reporting date were measured in accordance with IFRS 9;
- The Parent's Management Board believes it will be possible for the Company to receive cash in the form of a loan granted by PBG oil and gas Sp. z o.o.

The amount of current liabilities disclosed in the parent's financial statements as at September 30th 2018 was PLN 183.0m. However, the analysis carried out by the parent's Management Board indicates that approximately PLN 138.8m will become due and payable within 12 months from the reporting date. The discrepancy mainly results from the classification of liabilities under received loans and security deposits as current liabilities which will not become due over the next 12 months.

Expected sources of funding for the arrangement and redemption of the bonds

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

- Time-optimised proceeds from divestment of the parent's non-core assets – expected proceeds over the entire term of the arrangement: PLN 10.1m;
- Receivables under intra-group loans which can be realised after the sale of properties – expected proceeds over the entire term of the arrangement: PLN 125.6m, 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, including the contracts to be executed in close cooperation with RAFAKO S.A., and cash generated from other activities by the Company and PBG oil and gas sp. z o.o.

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

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

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

Considering the expected duration of the arrangement, under which the parent is obliged to make final repayments to the creditors by June 30th 2020, the parent has identified possible risks that may occur in that period, which, if materialised, may significantly limit the parent's ability to perform the arrangement or redeem the bonds it has issued. Accordingly, to successfully implement the arrangement (and to ensure that all outstanding bonds are redeemed) the parent intends to rely in large part on funds to be raised by the parent or its subsidiaries from the divestment of properties owned by the parent and its subsidiaries, or of property development projects in which the parent had engaged before the arrangement bankruptcy was declared. This means that a potential unexpected downturn in the property market may significantly affect the parent's ability to secure funds required to satisfy claims under the arrangement or to redeem the bonds. Bearing in mind the risk of not receiving the proceeds from the development project in Ukraine due to changes in or escalation of the political conflict in the country, the parent's Management Board negotiated a transaction to sell the receivables under the conditional sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. Pursuant to the terms of the transaction, the parent expects to receive PLN 80m (taking into account the agreed discount). Planned dates and amounts of cash inflows: PLN 20m by the end of Q4 2018 and PLN 60m in the first half of 2019. In connection with the change of the assumptions, the parent's Management Board intends to request the Bondholders for their consent to execute the transaction on the terms specified in the receivables sale agreement. A potential threat to the implementation of the arrangement or the parent's ability to redeem outstanding bonds may also come from lower than expected operating cash flows of the parent and its subsidiary PBG oil and gas, mainly due to the parent's and PBG oil and gas Sp. z o.o.'s failure to secure contracts the two companies intend to win and perform during the term of the arrangement. Another risk to the Company's ability to perform the arrangement and redeem the bonds may come from potential difficulty in obtaining, or inability to obtain, the borrowing which the Company expects to use to fund the PLN 280m balloon (last) payment under the arrangement and to redeem the bonds. Taking into account mainly the volatile market environment, 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: i). in the case of creditors covered by the Arrangement – extend the deadline for a repayment in agreement with the relevant creditor and ii). in the case of bondholders – request that the Bondholders Meeting pass a resolution approving a change of the bonds redemption date. A potential delay or failure by the parent to make repayments under the arrangement could prompt creditors to submit a motion for the arrangement to be rescinded under Art. 302 of the Bankruptcy and Restructuring Law (as in effect until December 31st 2015, which is applicable to the proceedings), under which the court may rescind an arrangement upon a creditor's motion if the debtor fails to perform any provisions of the arrangement or it is obvious that the arrangement will not be implemented. In such a case, pursuant to Art. 304 of the Bankruptcy and Restructuring Law, the insolvency proceedings could be reopened and converted into liquidation bankruptcy. Moreover, in accordance with the terms and conditions of the bonds, bondholders have the right to demand acceleration or early redemption of the bonds upon the occurrence of any of the acceleration or early redemption triggers defined in the terms and conditions of the respective series of the bonds. Therefore, as the bonds are secured with assets of the parent and its selected subsidiaries, should it become impossible to redeem the bonds when due – which would constitute an acceleration trigger – there is a potential risk that the security agent, acting on behalf of bondholders, could commence enforcement of the relevant claims against the parent's and its selected subsidiaries' assets. The assets pledged as security for the bonds are described in detail in PBG Current Reports No. 26/2015, No. 34/2016, and No. 54/2016.

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

2.2.3 Effect of the arrangement with creditors on these interim condensed consolidated financial statements

After the bankruptcy court's decision of October 8th 2015 to sanction the Parent's arrangement with creditors became final on June 13th 2016 (see PBG Current Reports No. 11/2016 and No. 24/2016 and Note 2.2.2), the Parent recognised in its accounts the effect of debt reduction, as set out in the arrangement and in agreements concluded with certain arrangement creditors. Detailed information on the recognition and presentation of the arrangement is included in the full-year consolidated financial statements for 2017.
In these interim condensed consolidated financial statements, the Group presents:

- ✓ Claims under the arrangement of PLN 93,195 thousand, including PLN 55,512 thousand as discounted non-current liabilities and PLN 37,683 thousand as current liabilities (before exclusions, claims under arrangement totalled PLN 95,003 thousand);
- ✓ Liabilities under the bonds issued to partially repay claims under the arrangement of PLN 305,420 thousand, including PLN 235,938 thousand as discounted non-current liabilities and PLN 69,482 thousand as current liabilities (before exclusions, claims under the bonds totalled PLN 332,784 thousand);

From January 1st 2018 to the date of issue of these interim condensed consolidated financial statements, the parent:

- ✓ Repaid claims under arrangement of PLN 14,883 thousand, in cash and as instalment set-off in accordance with the terms of the arrangement;
- ✓ Redeemed the Bonds of PLN 50,329 thousand;
- ✓ Was granted extension for repayments totalling PLN 682 thousand.

In these interim condensed consolidated financial statements, in the statement of profit or loss, under "Gain/(Loss) on the arrangement with creditors", the Group recognised a loss of PLN 3,557 thousand for the nine months ended September 30th 2018 resulting from revaluation at adjusted acquisition cost of claims under the arrangement and of zero-coupon bonds issued by the parent to partially repay those claims.

2.2.4 Representation by the Management Board

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

2.2.5 Significant accounting policies

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

IFRS 9 *Financial Instruments*

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

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

- Classification and measurement

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

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

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

- Impairment

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

- Hedge accounting

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

- Other adjustments

External bank ratings and publicly available information from rating agencies' websites were used for the purpose of credit risk assessment.

As at January 1st 2018, the Group estimated its future credit losses according to the model described above, and thus reduced its retained earnings as at January 1st 2018 by PLN 3,367 thousand.

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

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

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

- IFRS 15 has no material impact on the recognition of revenue and profit from contracts that have only one performance obligation (sale of goods). Revenue is recognised at a point in time, i.e. when the customer obtains control of the goods. In accordance with IFRS 15, the Group continues to recognise sales revenue from such contracts in the same way, taking into account such elements of variable consideration as:
    - price indexation – the Group performs contracts containing inflation price adjustment clauses,
    - post-completion settlement based on the weight of deliveries, which normally takes place after their final completion,
    - contractual penalties recognised as a decrease in sales revenues – the Group has not identified any higher or new losses on contracts which would result in the necessity to recognise additional provisions,

  - right to return delivered goods – as the Group performs contracts that mainly comprise the delivery of products installed at the customer's site or the construction of complete assets for the customer, it does not recognise the right of return.
- The Group performs contracts for the sale of bundles of goods and services delivered or rendered in different periods, comprising the delivery of a series of similar process units generating economic benefits consumed by the customer in different periods.
  Under IFRS 15, the transaction price of each performance obligations allocated on the basis of the relative stand-alone selling price. Following the adoption of IFRS 15, the allocation of the transaction price to goods and services within a bundle and the recognition of related revenue changed. The Group is of the opinion that in such cases the customer simultaneously receives and consumes the benefits from the service provided by the Group. Consequently, the Group transfers control of a good or service and satisfies a performance obligation over time. The Group recognises revenue from construction services in accordance with the percentage of completion method, in correspondence with Amounts due from customers under construction contracts or Amounts payable under construction contracts.
- The Group discloses advance payments received from customers under Other non-financial liabilities.
  The amounts disclosed in the statement of financial position are presented taking into account a partial set-off with amounts due from customers for construction contract work.
  The Group has not entered into contracts which would require payment of interest on advance payments received from customers.
- The Group provides warranties for the goods sold and construction services rendered. As a rule, a warranty is an assurance provided to the customer that a product complies with the specifications agreed upon by the parties, and does not constitute an additional service. Accordingly, the majority of existing warranties continues to be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* No non-standard extended warranties were identified by the Group in contracts with customers, therefore the Group did not recognise any such warranties as a separate service that would have to be accounted for as a performance obligation requiring allocation of part of the transaction price.
- In addition to the adjustments described above, other items of the statement of financial position presented in the table below also changed.

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

Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 *Leases* ("IFRS 16"), which replaced IAS 17 *Leases*, IFRIC 4: *Determining Whether an Arrangement Contains a Lease*, SIC-15: *Operating Leases – incentives*, and SIC-27: *Evaluating the Substance of Transactions*

QSr 3/2018 (all amounts in PLN '000 unless stated otherwise)

Involving the Legal Form of a Lease. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

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

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

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

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

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

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

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

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

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

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

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

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

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

QSr 3/2018 (all amounts in PLN '000 unless stated otherwise)

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

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

Assets	
Deferred tax assets	684
Inventories	(339)
Assets and accruals and deferrals relating to construction contracts	(2,180)
Equity and liabilities	
Retained earnings (accumulated losses), including:	(2,914)
- retained earnings	4,509
- net loss	(7,424)
Trade and other payables	(9,042)
Amounts due to customers for contract work	11,515
Provisions under construction contracts	(1,393)
Statement of comprehensive income	
Revenue	(23,457)
Cost of sales	14,688
Loss before tax	(8,769)
Income tax expense	1,345
Net loss attributable to:	**(7,424)**
- owners of the parent	(2,474)
- non-controlling interests	(4,950)

2.2.6 Professional judgement, uncertainty of estimates and assumptions, and changes in estimates

PROFESSIONAL JUDGEMENT

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

Estimating discount rate for claims under the arrangement and bonds

The discount rate for claims under the arrangement was estimated at the level of the parent's expected borrowing costs. As no material changes were recorded in financing cost on the credit market, the parent's Management Board assumed the discount rate based on the bank margin in the previous reporting period. Claims under the arrangement and bonds issued by the parent were discounted at a rate of 4.79%.

Calculation of provision for liabilities under sureties and guarantees

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

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

Estimating the stage of contract completion

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

Impairment of non-current assets (including goodwill)

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

Assets classified as held for sale

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

Measurement of investment property

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

Consortium agreements

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

Classification of lease contracts

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

Classification of interests in other entities

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

UNCERTAINTY OF ESTIMATES AND ASSUMPTIONS

These interim condensed consolidated financial statements have been prepared based on the going concern assumption. The assumption has an effect on the measurement of assets and liabilities, which would be different if the Parent's Management Board did not assume a going concern.

The preparation of these interim condensed consolidated financial statements requires the Parent's Management Board's judgement in making numerous estimates and assumptions, which have an effect on the accounting policies applied and the amounts of assets, liabilities, income and expenses reported.

Actual amounts may differ from the amounts estimated by the Parent's Management Board due to the uncertainty surrounding the Group as at the date of these interim condensed consolidated financial statements, which may necessitate an adjustment to the disclosed carrying amounts of assets and liabilities in future reporting periods.

The parent also recognised a provision for its liabilities under the sureties and guarantees issued and under joint and several liability to subcontractors related to projects performed as part of consortium agreements. Since the bankruptcy court's decision of October 8th 2015 to sanction the arrangement between the parent and its creditors became final, a large portion of the provision has been used. As at September 30th 2018, the provision was reduced to PLN 17,795 thousand (December 31st 2017: PLN 28,682 thousand). The provision amount depends to a large extent on the Management Board's estimate of the probability of contingent liabilities (i.e. actual payments under performance or maintenance bonds) becoming due and payable. While estimating the amount of the provision, the Management Board analyses each guarantee and surety to assess the probability of the respective payment and assigns such probability, expressed as a percentage (0% to 100%), to each guarantee and surety based on the Management Board's best knowledge and expectations. The amount of the provision was calculated in accordance with the terms of the arrangement, i.e. it was determined at the level of expected payments of potential claims under the arrangement, with the payments representing 21% of such claims. The Company also estimated the fair value of shares which, in accordance with the terms of the arrangement, are to be delivered to Group 6 and Group 7 creditors. Given the subscription warrants acquired by the Main Shareholder, the shareholder's share was preserved at 23.61%.

Provisions for warranty repairs are estimated based on probability-weighted costs of current construction contracts assessed by the management boards of Group companies. They are reported as long as it is probable that a warranty claim or a claim for repair work will arise, until the right to make such claim expires. As at September 30th 2018, recognised provisions for warranty repairs were PLN 42,976 thousand, down PLN 5,481 thousand on the previous reporting date, i.e. December 31st 2017, when they amounted to PLN 48,457 thousand.

Restructuring provision: In the first nine months of 2018, the Group used PLN 3,713 thousand from the provision and reversed the provision in an amount PLN 5,747 thousand. As at September 30th 2018, the available amount of the provision was PLN 3,129 thousand (December 31st 2017: 12,589 thousand), of which PLN 3,096 thousand represents a provision at the parent.

Provisions for losses on construction contracts are recognised if it is probable that the total cost to complete a construction contract will exceed the total contract revenue. The anticipated loss is immediately recognised as cost. Its amount is determined irrespective of the commencement of contract work, the stage of the contract's completion or expected profits on other contracts which are not single construction contracts. Any change in provisions for expected losses increases or reduces operating expenses arising under the construction contract to which such provisions relate. As at the reporting date, provisions for expected losses were PLN 1,623 thousand, down PLN 12,048 thousand on the previous reporting date, i.e. December 31st 2017, when they had been PLN 13,671 thousand.

Provisions for employee benefits were estimated using actuarial methods and the projected unit credit method for the Group companies. As at September 30th 2018, provisions for employee benefits were PLN 35,880 thousand, down PLN 2,752 thousand on the previous reporting date.

IMPAIRMENT OF NON-CURRENT ASSETS

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

IMPAIRMENT OF GOODWILL

As at September 30th 2018, the Group tested for impairment the goodwill of the RAFAKO Group. This required making an estimate of the cash-generating unit's value in use and involves calculating the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. Based on the test, the parent's Management Board identified no further indication of impairment of these assets and thus found no need to revalue the impairment loss estimated as at June 30th 2018.

USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

DEFERRED TAX ASSET

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

CONSTRUCTION CONTRACT REVENUE

Construction contract revenue and amounts due recognised in these interim condensed consolidated financial statements depend on the estimates of the management boards of individual PBG Group companies regarding the stage of completion of and profit margins expected to be achieved on individual contracts. Budgeted costs related to specific projects which have not yet been incurred are monitored on an ongoing basis by the management staff supervising the progress of construction work, as a result of which the budgets of individual contracts are revised at least monthly. However, the costs not yet incurred and the profit margins on individual running contracts thus estimated involve a degree of uncertainty, especially in the case of highly complex projects, which take several years to complete. The estimates are affected by the following risks, which may lead to their possible adjustment in the future:
- movements in the PLN/EUR exchange rate, as its significant change may have a material effect on the profitability of EUR-denominated contracts;
- limited bargaining power in negotiations with subcontractors and suppliers of goods and raw materials concerning new contracts;
- the adequacy of recognised provisions and impairment losses for current contracts;
- possible need to recognise a provision for contractual penalties for untimely performance of contracts or failure to meet guaranteed technical specifications under certain contracts;
- seasonality of the construction and assembly services market, including the operational cycle in the power sector, where investment projects as well as repairs and upgrade work are performed mainly in the summer season.

The Group is to some extent exposed to the risk of a downturn in the property market. The need to adjust to the market conditions may lead to a decrease in the selling prices, and thus affect the planned revenue. Given the type of their operations, the subsidiaries identify also purely technological risks, following from the implementation of complex and innovative technological processes and quality procedures, and the risk of failure to meet the guaranteed technical specifications of the installed equipment or supplied technologies. These factors may in the future affect the planned costs and revenues and thus the margins which are currently budgeted.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

DEPRECIATION AND AMORTISATION RATES

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

IMPAIRMENT LOSSES ON FINANCIAL ASSETS

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

UNCERTAINTY RELATED TO TAX SETTLEMENTS

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

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

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

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

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

2.3 Correction of errors and changes in accounting policies

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

The changes in the accounting policies applied to implement IFRS 9 and IFRS 15 and their effect on the interim condensed consolidated financial statements are presented in Note 2.2.5.

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

Until the end of 2017, the RAFAKO Group subsidiaries recognised provisions for warranty repairs based on estimates of costs of oversight, repairs and warranty work related to the RAFAKO Group's contractual commitments, after completion of construction contracts, expected and measurable as at the completion of a construction contract. The Group has reviewed its position and has decided to change the time of provision recognition at some subsidiaries, so that now the provision is recognised during contract performance, and not after its completion, as the new policy is believed to better reflect the actual result of each contract and the Group's aggregate equity.

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

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

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

September 30th 2017	Deferred tax assets	Other short-term provisions	Retained earnings (accumulated losses)	Non-controlling interests
Changes to accounting policies applicable to estimating provisions for warranty repairs	2,831	12,572	(4,871)	(4,871)

2.4 Functional currency and presentation currency of the financial statements; rules followed to translate financial data expressed in foreign currencies

2.4.1 Functional currency and presentation currency

The functional currency of the Parent and the presentation currency of these interim condensed consolidated financial statements and interim condensed separate financial statements is the Polish złoty, and all amounts are expressed in thousands of Polish złoty (unless indicated otherwise).
For consolidation purposes, the financial statements of foreign operations are translated into the Polish currency as follows:

- Assets and liabilities in each presented statement of financial position (balance sheet) are translated at the closing exchange rate on the reporting date,
- The items in the statement of profit or loss are translated at the exchange rate being the arithmetic mean of the mid-rates as quoted by the National Bank of Poland (NBP) on the last day of each month in the reporting period. Foreign exchange gains/(losses) on the translation are credited to/charged against the translation reserve in equity.

2.4.2 Rules followed to translate financial data expressed in foreign currencies

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

a) Revenue from sale of finished goods, operating profit/(loss), net profit/(loss), as well as net cash from operating activities, net cash from investing activities, net cash from financing activities, and net increase/(decrease) in cash and cash equivalents for Q1–Q3 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 4.2535 = 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 Q1–Q3 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 4.2566 = EUR 1.**

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

d) Total assets, liabilities and provisions for liabilities, non-current liabilities, current liabilities, equity and share capital as at September 30th 2018 were translated at the EUR mid-rate effective for that date, i.e. **PLN 4.2714 = EUR 1.**

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

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f) Total assets, liabilities and provisions for liabilities, non-current liabilities, current liabilities, equity and share capital as at September 30th 2017 were translated at the EUR mid-rate effective for that date, i.e. **PLN 4.3091 = EUR 1.**

2.5 Selected additional explanatory notes

2.5.1 Expenses by nature

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017 *(restated)*
a) depreciation and amortisation	12,132	12,067
b) raw materials and consumables used	137,234	83,479
c) services	580,654	1,042,882
d) taxes and duties	5,657	8,622
e) employee benefits	155,402	164,000
f) other expenses	10,567	10,998
Total expenses by nature of expense	**901,645**	**1,322,048**
Changes in inventories of finished goods and work in progress	(15,565)	1,922
Cost of merchandise and materials sold	1,802	6,986
Cost of products for own needs	(1,004)	(681)
Cost of sales, distribution costs and administrative expenses	**886,878**	**1,330,275**

2.5.2 Other income

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Reversal of provisions	9,110*	-
Gain on disposal of non-financial non-current assets	308	3,842
Reversals of impairment losses and write-downs on assets, including:	3,153	8,854
- receivables	3,063	1,542
- other	90	7,312
Lease	1,486	1,812
Interest related to operating activities	233	1,598
Discount on long-term receivables and payables	1,056	-
Compensation and penalties received	1,067	205
Other	2,189	3,502**
Total other income	**18,602**	**19,813**

* The amount includes proceeds from a subsidiary's reversal of a provision for restructuring costs and Voluntary Redundancy Programme (PLN 5,857 thousand) and provision for costs under a dispute with a foreign trading partner (PLN 2,550 thousand).

** The amount includes the effect of the Parent's VAT accounting adjustments related to bad debts of PLN 2,070 thousand.

2.5.3 Other expenses

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	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Provisions recognised	513	-
Impairment loss on assets, including:	53,534	5,575
- property, plant and equipment and intangible assets	44	-
- receivables	4,328	4,777
- loans and borrowings	3,728	-
- goodwill	45,405	-
- other	30	798
Fair value measurement of property	-	6,278
Loss on investments in related entities	-	3,810
Interest accrued on trade and other payables	25	1,330
Discount on long-term receivables and payables	101	1,465
Donations and grants	242	1,896
Court costs	62	343
Exchange differences on operating activities	227	539
Compensations	196	74
Statute barred, cancelled or uncollectible receivables written-off	388	-
Other	1,874	2,797
Total other expenses	**57,162**	**24,107**

2.5.4 Finance income

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Interest on financial instruments, including:	1,293	626
- cash	579	81
- receivables	246	3
- loans advanced	468	-
- other	-	542
Foreign exchange gains	745	-
Other finance income	123	535
Total finance income	**2,161**	**1,161**

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2.5.5 Finance costs

	Nine months ended September 30th 2018	Nine months ended September 30th 2017
Interest on financial instruments, including:	4,093	5,563
- loans	1,846	3,591
- non-bank borrowings	794	1,082
- liabilities	18	88
- lease	961	802
- other	474	-
Commission on bank borrowings	746	-
Foreign exchange losses	-	2,109
Total fair value and disposal losses on financial instruments at fair value through profit or loss	85	743
Recognition of provisions for interest expense	48	-
Other finance costs	35	290
Total finance costs	**5,007**	**8,705**

2.6 Operating segments

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

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

The following areas are identified within particular segments:

- **Gas, oil and fuels segment:**
  - Surface installations for crude oil and natural gas production,
  - Installations for liquefying natural gas and for LNG storage and regasification,
  - LPG, C5+ separation and storage facilities,
  - LNG storage and evaporation facilities,
  - underground gas storage facilities,
  - Desulfurisation units,
  - Surface infrastructure of underground gas storage facilities,
  - Crude oil tanks,
  - Transmission systems for natural gas and crude oil, including pressure reduction and metering stations and metering and billing stations, mixing plants, distribution nodes, compressor stations, etc.,
  - Fuel terminals.
- **Power construction segment:**
  - Construction, assembly, modernisation and repair of power equipment and industrial units.

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

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

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

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

Revenue comprises amounts derived from sales to external customers.

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

The tables below present data for the individual operating segments.

OPERATING SEGMENTS – JAN 1– SEP 30 2018

	Segment		Other	Total
	Gas, oil and fuels	Power construction		
Segment total revenue	**12,326**	**889,506**	**6,687**	**908,519**
Revenue from external customers	11,426	890,406	6,687	908,519
Inter-segment sales	900	(900)	-	-
Total cost	**(7,327)**	**(803,679)**	**(4,533)**	**(815,539)**
Segment profit (loss)	**4,999**	**85,827**	**2,154**	**92,980**
Distribution costs/administrative expenses	x	x	x	(71,340)
Other income/expenses	x	x	x	(38,560)
Gain (Loss) on arrangement with creditors	x	x	x	(12,746)
Operating profit	x	x	x	**(29,666)**
Finance costs	x	x	x	(2,846)
Share of profit of equity-accounted entities	x	x	x	5,381
Profit (loss) before tax	x	x	x	**(27,131)**
Income tax expense	x	x	x	(13,352)
Net profit (loss) from continuing operations	x	x	x	**(40,483)**
Net profit (loss) from discontinued operations	x	x	x	**(1,316)**

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OPERATING SEGMENTS – JAN 1– SEP 30 2017

	Segment		Other	Total *(restated)*
	Gas, oil and fuels	Power construction		
Segment total revenue	**29,953**	**1,350,600**	**15,763**	**1,396,316**
Revenue from external customers	29,953	1,350,600	15,763	1,396,316
Inter-segment sales	-	-	-	-
Total cost	**(27,667)**	**(1,206,852)**	**(7,232)**	**(1,241,751)**
Segment profit (loss)	**2,286**	**143,748**	**8,531**	**154,565**
Distribution costs/administrative expenses	x	x	x	(88,524)
Other income/expenses	x	x	x	(4,294)
Gain (Loss) on arrangement with creditors	x	x	x	(13,953)
Operating profit (loss)	x	x	x	**47,794**
Finance costs	x	x	x	(7,544)
Share of profit of equity-accounted entities	x	x	x	(3,487)
Profit (loss) before tax	x	x	x	**(36,763)**
Income tax expense	x	x	x	(25,212)
Net profit (loss) from continuing operations	x	x	x	**11,551**

2.7 Discontinued operations

In the nine months ended September 30th 2018, the Group carried out operations classified as discontinued and consisting in the lease of space in the Skalar Office Center building in Poznań.
The table below presents income from, expenses and profit/loss on discontinued operations:

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Operating income	5,659	4,460
Cost of sales	(3,624)	(1,640)
Net finance income (cost)	(2,632)	(272)
Pre-tax profit (loss) from discontinued operations	(1,316)	(1,630)
Income tax expense	-	887
Profit/(Loss) after tax	**(1,316)**	**(742)**

2.8 Notes to interim condensed consolidated statement of cash flows

The amount of PLN 36,009 thousand was disclosed under adjustments for arrangement with creditors, comprising change of discount on bonds in the first nine months of 2018 and repayments of arrangement instalments.
Other adjustments include:
- effect of implementation of IFRS 9 and IFRS 15 on equity of PLN (17,103) thousand,
- effect of reclassification of receivables to liabilities related to non-current assets held for sale of PLN (2,085) thousand.

2.9 PBG Group's most significant achievements and failures in Q3 2018, and key related events

In Q3 2018, the PGB Group's net revenue from sale of finished goods, services, merchandise and materials was PLN 270,516 thousand, with gross profit of PLN 27,525 thousand.
The following construction contracts were the key sources of the Group's revenue from core business in Q3 2018:

a. Construction of a supercritical 800−910 MW power generation unit at Jaworzno III Power Plant – Power Plant II; contract executed between TAURON WYTWARZANIE S.A. and RAFAKO S.A. − recognised revenue: PLN 131,932 thousand;

b. Delivery and installation of a catalytic flue gas denitrification system for AP-1650 boilers No. 9 and 10, and for the upgrade of electrostatic precipitators at the Kozienice Power Plant; contract executed between Enea Wytwarzanie S.A. and RAFAKO S.A. – recognised revenue: PLN 24,722 thousand;

c. Construction of a biomass-fired CHP unit consisting of fluidised bed boilers and biomass transport and feeder systems in Vilnius; contract executed between UAB VILNIAUS KOGENERACINE JEGAINE and RAFAKO S.A. – recognised revenue: PLN 19,393 thousand.

Key events related to PBG Group's material achievements and failures in Q3 2018

Changes in the Group

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

Management Board's representation on capital increase at PBG

In Current Report No. 21/2018, the Management Board of PBG S.A. announced the Company's acquisition, on August 14th 2018, of another 10,763,420 Series H ordinary registered shares with a par value of PLN 0.02 per share. 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.

Selection of the best bid and execution of contract to upgrade FGD systems at Units 3, 4, 5 and 6 at Bełchatów Power Plant

On July 11th 2018, the Management Board of RAFAKO S.A. was notified that RAFAKO's bid was selected by PGE Górnictwo i Energetyka Konwencjonalna S.A. as the best bid in the tender process for comprehensive upgrade of the flue gas desulphurisation systems at units No. 3, 4, 5 and 6 at the Bełchatów Power Plant of PGE GiEK S.A. The value of RAFAKO's bid was PLN 181.6m, VAT exclusive (PLN 223.4m VAT inclusive). The project completion deadline is the end of May 2021. On August 1st 2018, the contract for the project execution was signed. The contract completion deadline was set on May 31st 2021.

Cancellation of selection of winning bid in tender procedure

On July 17th 2018, the Management Board of RAFAKO S.A. was notified that Elering AS of Tallinn, Estonia (the "Employer"), had cancelled the selection of company's bid as the best bid in the tender "Turnkey Construction of Paldiski i Puiatu Gas Compressor Stations in Estonia". The Employer's decision is final and follows from an appeal filed by another bidder.

Selection of the best bid and execution of contract for construction of flue gas desulfurization unit II at Ostrołęka Power Plant B

On July 18th 2018, the Management Board of the subsidiary RAFAKO S.A. was notified that Energa Wytwarzanie S.A. of Gdańsk had selected the company's bid, submitted as part of the consortium comprising RAFAKO S.A. (consortium leader) and ENERGA Serwis Sp. z o.o. of Ostrołęka (the "Consortium"), as the best bid in the tender procedure for construction of a gas desulfurization unit II at the Ostrołęka Power Plant B. The value of the consortium's bid was PLN 199.3m, VAT exclusive, with RAFAKO S.A. accounting for ca. 63.3% of this amount. On July 24th 2018, the contract for the project execution was signed. The contract completion deadline was set on September 30th 2020.

Execution of contract to upgrade FGD systems at Units 3, 4, 5 and 6 at Bełchatów Power Plant

On July 31st 2018, a contract was signed between the subsidiary RAFAKO S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. to upgrade the flue gas desulphurisation systems at Units 3, 4, 5 and 6 at PGE GiEK S.A., Bełchatów Power Plant Branch. The total value of the contract is PLN 181,600 thousand (VAT exclusive). The contract completion deadline was set on May 31st 2021.

Completion of another stage of RAFAKO S.A. reorganisation

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

2.10 Non-recurring factors and events with a significant bearing on the consolidated financial results

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

As at September 30th 2018, the PBG Group carried no derivatives hedging currency risk.

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

The parent's subsidiaries use interest rate swaps (IRS) to hedge interest rate risk.

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

In Q1–Q3 2018, the effect of derivatives used to hedge interest rate risk, recognised in the consolidated statement of profit or loss was as follows:

Effect of derivative instruments hedging interest rate risk

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
	PLN '000	PLN '000
Finance costs	411	791
Total expenses	**411**	**791**
Effect on profit/(loss)	**(411)**	**(791)**

As at September 30th 2018, the fair value of open positions used to hedge interest rate risk was negative at PLN -713 thousand and related to cash flow hedge derivatives.

2.11 Objectives and policies of financial risk management

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

2.12 Seasonality or cyclicality of the Company's activities in the period

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

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

2.13 Total and per share dividend declared or paid on ordinary and preference shares

In the nine months ended September 30th 2018, the Group subsidiaries paid no dividends to non-controlling interests. No dividends were paid by the Parent during the period, either. In accordance with applicable laws, dividends may only be distributed from the profit of individual Group companies, and not based on the Group's consolidated profit or loss.

2.14 Events subsequent to September 30th 2018, undisclosed in these financial statements, which may materially affect future consolidated financial results of the PBG Group and separate financial results of the Company

Execution of annex concerning change of deadline for completion of construction of Units 5 and 6 in Opole Power Plant

On October 10th 2018 the consortium comprising RAFAKO S.A., Mostostal Warszawa S.A., and Polimex-Mostostal S.A. signed with PGE Górnictwo i Energetyka Konwencjonalna S.A. Annex 9 to the contract for the construction of power generating units No. 5 and No. 6 at the Opole Power Plant of PGE GiEK S.A., dated February 15th 2012, performed by the Consortium and GE Power sp. z o.o., a general designer and consortium leader managing the execution of the project. Under the annex, the deadlines for commissioning units No. 5 and No. 6 were changed to June 15th 2019 and September 30th 2019, respectively. The parties also confirmed the amount of remuneration due to the Consortium, provided that the deadlines for commissioning the units agreed on in the Annex are met.

Cancellation of tender for construction of DN 1,000 MOP 8.4 MPa Pogórska Wola-Tworzeń gas pipeline

On November 6th 2018, the subsidiary RAFAKO S.A. was notified by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. of Warsaw of cancellation of the tender procedure for construction work under the project to construct the DN 1,000 MOP 8.4 MPa Pogórska Wola-Tworzeń gas pipeline. The bid submitted by the subsidiary as part of a consortium with Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. had been earlier selected by the Employer as the best bid in the tender procedure. The VAT-exclusive price proposed in the consortium's bid was PLN 687m (PLN 845m, inclusive of VAT), of which RAFAKO S.A.'s share was 50%. The tender procedure was cancelled on the grounds that the price in the best bid was in excess of the Employer's project budget.

Best bid selected for construction work for Kędzierzyn Compressor Station project

On November 21st 2018, the Management Board of the subsidiary RAFAKO S.A. was notified that Operator Gazociągów Przesyłowych GAZ- SYSTEM S.A. of Warsaw had selected the bid submitted by a consortium composed of RAFAKO S.A. as the consortium leader and PBG oil and gas Sp. z o.o. as the best bid in the tender procedure for construction work under the project to build the Kędzierzyn Compressor Station. The value of the consortium's bid was PLN 168.7m, VAT exclusive, with RAFAKO S.A. accounting for 95% of this amount.

Subscription for Next Issue Bonds – summary

On November 28th 2018, the parent's Management Board announced that on November 27th 2018 it received from Pekao Investment Banking S.A. information summarising the subscription for the Next Issue Bonds issued by PBG S.A. All 91,894 Bonds, with a total issue price of PLN 9,189 thousand, were allotted to an Eligible Creditor classified under the Arrangement in Group 6, as partial satisfaction of its arrangement claims.

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Consolidation of the PBG DOM Group's organisational structure

The Group started the consolidation of the PBG DOM Group's organisational structure. In the current stage of the process, the Group intends to:
- merge subsidiary Galeria Kujawska Nova Sp. z o.o. (the Acquiree) with subsidiary PBG DOM Sp. z o.o. (the Acquirer) under Art. 492.1.1 of the Commercial Companies Code, i.e. through the acquisition of all the Acquiree's assets by the Acquirer;
- merge the special purpose vehicles listed below through the establishment of a new company under Art. 492.1.2 of the Commercial Companies Code.

By the date of issue of these interim condensed consolidated financial statements:
– the registry court has entered a merger plan for Galeria Kujawska Nova Sp. z o.o. and PBG DOM Sp. z o.o. into the registration files of both companies, and the shareholders received the first and second notice of intended merger. In the next stage, the Extraordinary General Meetings of the both subsidiaries will pass merger resolutions and an application will be submitted to the registry court for registering the merger;
- merger plans for PBG ERIGO PROJEKT Sp. z o.o., QUADRO HOUSE SKA, PBG ERIGO PROJEKT Sp. z o.o., STRZESZYN SKA, PBG ERIGO PROJEKT Sp. z o.o., Ecoria II SKA, PBG DOM INVEST X Sp. z o.o., Invest I SKA and Erigo V Sp. z o.o. were filed with the registry court, along with a joint application to appoint an auditor.

In connection with the planned consolidation of the PBG DOM Group organisational structure as described above, the Parent's Management Board will request the Bondholders to approve the transaction, as required by the restructuring documents.

2.15 Management Board's position on the feasibility of delivering results stated in any previously announced forecasts for a given year in light of the result presented in the consolidated and condensed separate quarterly reports

The Parent's Management Board does not publish any performance forecasts for 2018.

2.16 Shareholders holding – directly or indirectly, through subsidiaries – 5% or more of total voting rights at the Company's general meeting as at this report issue date

Shareholders holding – directly or indirectly, through subsidiaries – 5% or more of total voting rights at the Company's general meeting as at the issue date of this interim condensed consolidated quarterly report; number of shares and percentage of the Company's share capital held by each such shareholder; number of votes carried by shares held by each such shareholder and their percentage share in total voting rights at the General Meeting; changes in the ownership of major holdings of Company shares after the issue of the interim condensed consolidated half-year report for H1 2018, based on information available to the Parent:

Shareholder	Number of shares	Par value of shares (PLN)	% ownership interest	% of voting rights held
Jerzy Wiśniewski	189,836,345	3,796,726.9	23.61%	23.61%

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Powszechna Kasa Oszczędności Bank Polski S.A.	53,060,500	1,061,210	6.60%	6.60%
Bank Polska Kasa Opieki S.A.	62,848,380	1,256,967.6	7.82%	7.82%
Bank BGŻ BNP Paribas S.A.*	49,885,899	997,717.98	6.202%	6.202%
Other	448,633,077	8,972,661.54	55.78%	55.78%

** Since October 31st 2018, as announced in Current Report No. 23/2018.*

The table above illustrates the Parent's best knowledge of the acquisition of new shares, representing more than 5% of the Parent's share capital, by the indicated entities as part of the arrangement.

Changes in the Company's shareholding structure in Q3 2018

In the first three quarters of 2018, no material changes occurred in the Company's shareholding structure. Changes in the share capital that occurred in the financial year 2018 are disclosed in Section 20 of the interim condensed consolidated financial statements of the PBG Group for the first half of 2018. Equity, Section 20.1 Share capital, pages 57–58, available on the Parent's website at: http://www.pbg-sa.pl/pub/pl/uploaddocs/raporty-okresowe/pbg-gk-ssf-i-h-2018.2888685607.pdf. As at September 30th 2018 and as at the date of these interim condensed consolidated financial statements for Q3 2018, no increase in the Company's share capital was registered on the basis of the application containing the Management Board's Statement dated August 14th 2018. Accordingly, on the both dates, the Parent's share capital amounted to PLN 16,086,604.44. After the capital increase is registered with the National Court Register based on the abovementioned application, the Parent's share capital will be PLN 16,301,872.84.

Changes in the Company's shareholding structure subsequent to September 30th 2018

On October 31st 2018, Bank BGŻ BNP Paribas S.A. (the "Bank"), which prior to that date held less than 5% of the parent's share capital and of total vote at the parent's general meeting, notified PBG that following the registration by the competent registry court of the demerger of Raiffeisen Bank Polska S.A. ("Raiffeisen") an organised part of business of Raiffeisen was transferred to the Bank and that the Bank came to directly hold 49,885,899 shares in PBG, representing 6.202% of its share capital (see PBG Current Report No. 23/2018 of November 8th 2018). The Bank's parent (BNP PARIBAS SA of Paris, France) also reported holding indirectly, through the Bank, a major holding of PBG shares (see PBG Current Report No. 24/2018).

2.17 Changes in holdings of Company shares or rights to Company shares (options) held by members of the Management and Supervisory Boards

Changes in holdings of Company shares or rights to Company shares (options) held by members of the Management and Supervisory Boards after the issue date of the 2017 full-year report, based on information available to the Parent as at **November 29th 2018**.

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	Number of shares	
	As at the date of the Q3 2017 report: Nov 29 2017	As at the date of the Q3 2018 report: Nov 29 2018
Managing personnel		
Jerzy Wiśniewski	183,488,639	189,902,366
Mariusz Łożyński	3,553	-
Kinga Banaszak – Filipiak	-	-
Dariusz Szymański	-	-
Supervisory personnel		
Helena Fic	-	-
Małgorzata Wiśniewska	3,279	3,279
Andrzej Stefan Gradowski	-	-
Dariusz Sarnowski	-	-
Faustyn Wiśniewski	-	-
Maciej Stańczuk	-	-
Przemysław Lech Figarski	-	-

2.18 Litigation, arbitration or administrative proceedings

As at the date of these interim condensed consolidated financial statements, the Group companies were involved in litigation either as defendants and plaintiffs.
Other than specified below, in Q3 2018 there were no material changes in disputes and litigation involving Group companies as parties that could affect the companies' financial condition. For a detailed description of the disputes and litigation, see the most recent full-year consolidated financial statements prepared in accordance with IFRS, which were authorised for issue on April 26th 2018.

- **Dispute between PBG SA and the Gas Transmission Operator Gaz-System SA**

On February 20th 2017 the parent filed a claim for payment of PLN 3,241 thousand due for the performance of the 'Construction of the Goleniów Gas Compression Station' contract. 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. On October 4th 2018, the court dismissed the claim. On November 21st 2018, the Company's attorney lodged an appeal against the Regional Court's ruling of October 4th 2018. The parent has recognised a provision for the entire amount of the claim.

- **PBG, SIAC Construction Ltd., Bankruptcy Administrator of and APRIVIA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) vs the State Treasury – Director General for National Roads and Motorways (GDDKiA)**

On March 3rd 2017, PBG together with SIAC Construction Ltd and the bankruptcy administrator of APRIVIA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) ("Plaintiffs") filed an action with the Regional Court in Warsaw, 25th Civil Division, against the State Treasury – General Directorate for National Roads and Motorways ("GDDKiA"). The Plaintiffs sought an award of PLN 508,042 thousand due for the performance of the 'Construction of Motorway A4 Tarnów-Rzeszów (from the Krzyż junction to the Dębica Pustynia junction, from 502+796.97 km to ca. 537+550 km)' contract ("Contract"), executed by a consortium including the Plaintiffs. PBG S.A.'s share in the claim is PLN 101,608 thousand. On August 31st 2018, the defendant filed its reply to the claim.

- **The State Treasury – Director General for National Roads and Motorways (GDDKiA) vs PBG, Bankruptcy Administrator of APRIVIA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości likwidacyjnej**

In the District Court in Warsaw, 25th Civil Division, proceedings are being brought by the State Treasury - Director General of National Roads and Motorways ("GDDKiA") against PBG, Bankruptcy Administrator of APRIVIA SA w upadłości układowej and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości układowej (the "Defendants") for the payment of PLN 54,994 thousand as refund of the payments made by GDDKiA to certain businesses pursuant to the Act of June 28th 2012 on the payment of certain outstanding claims of entrepreneurs who concluded contracts with members of the consortium performing the 'Construction of Motorway A-4 Tarnów-Rzeszów (from the Krzyż junction to the Dębica Pustynia junction, from 502+796.97 km to ca. 537+550 km)' contract. The position of the parent's Management Board is that the claim is groundless. On December 21st 2017, the Company's attorney filed its reply to the claim.

- **The State Treasury – Director General for National Roads and Motorways (GDDKiA) vs PBG, Bankruptcy Administrator of APRIVIA S.A. w upadłości likwidacyjnej and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości likwidacyjnej**

In the District Court in Warsaw, XXV Civil Division, proceedings are being brought by the State Treasury - Director General of National Roads and Motorways ("GDDKiA") against PBG, Bankruptcy Administrator APRIVIA S.A. w upadłości likwidacyjnej and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości likwidacyjnej ("Defendants") for the payment of liquidated damages with interest for withdrawal from the contract 'Construction of Motorway A4 Tarnów-Rzeszów from the Krzyż junction to the Dębica Pustynia junction (from 502+796.97 km to ca. 537+550 km) ("Contract"), performed by a consortium including the Defendants. The total amount of the claim is PLN 264,875 thousand, including the plaintiff's claim for payment of PLN 176,361 thousand from PBG and jointly and severally from all the Defendants of compounded default interest of PLN 88,514 thousand, all amounts together with statutory default interest accrued from the date of the action was filed until the payment date. The position of the parent's Management Board is that the claim is groundless. On March 12th 2018, the parent's attorney filed its reply to the claim.

- **Disputes between Obrascon Huarte Lain S.A. and the Company**

On August 30th 2016, Obrascon Huarte Lain S.A. filed an action with the Regional Court in Poznań, 9th Commercial Division, for payment of PLN 191,518 thousand due for the performance of the contract for the 'Connection between the Gdańsk Airport and the Sea Port of Gdańsk – Słowacki Route – Task 4, Marynarki

Polskiej Junction Section – Ku Ujściu Junction' project, entered into on October 14th 2011 by and between the Municipality of Gdańsk and a consortium comprising Obrascon Huarte Lain S.A., the parent, HYDROBUDOWA Polska S.A., PRG Sp. z o.o. and APRIVIA S.A. On December 21st 2016, the parent filed its reply to the claim. Obrascon Huarte Lain SA did not agree for the dispute to be resolved through mediation. Two hearings were held in September 2018. The date of the next hearing was on February 5th 2019. The parent considers the claim unfounded. No provision was recognised for the outcome of the dispute. On January 19th 2016, the parent filed with the Regional Court of Warsaw, 20th Commercial Division, an action for determining the non-existence of the legal relationship under the consortium agreement. The Court resolved to dismiss the action as the dispute had earlier been pending before the Regional Court of Poznań. The Company filed a complaint against the Court's decision. The case is pending.

- **Disputes between PBG oil and gas and the Gas Transmission Operator GAZ-SYSTEM SA**

On November 25th 2016 the Employer, the Gas Transmission Operator GAZ-SYSTEM SA, ("Gaz-System"), and the Contractor, a consortium comprising PBG oil and gas Sp. z o.o., Przedsiębiorstwo Inżynierskie Ćwiertnia Sp. z o.o. and ELTEL Sp. z o.o., entered into an agreement to terminate the 'Expansion of gas compressor station in Rembelszczyzna as part of construction of high-pressure DN700 MOP 8.4 MPa Rembelszczyzna–Gustorzyn gas pipeline with ancillary technical infrastructure' contract and perform mutual settlements. The Parties terminated the contract with effect as of the date of the agreement, by acknowledging partial performance of the contract subject matter and agreeing that the final settlement of such partial performance would be made on the basis of the final court ruling. In the pending court proceedings instigated by Gaz-System and concurrently by the subsidiary, the parties' mutual claims amount to PLN 20,890 thousand and PLN 23,621 thousand, respectively. The subsidiary's Management Board maintains the grounds for its claims, as described in the previous financial statements, rejects Gaz-System's claim in its entirety and expects the dispute to be resolved to the subsidiary's favour. As early as in 2016, the Group recognised an impairment loss on claims raised by subcontractors and, taking a precautionary approach, an impairment loss on a substantial portion of the amount claimed by Gaz-System. At its session held on July 11th 2018, the Court referred the case to mediation.

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

The parent 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 parent on May 7th 2018. On May 10th 2018, PBG S.A. filed a request for an obligation to respond. On July 17th 2018, the parent received the Court's decision obliging it to submit a pre-trial pleading. On July 27th 2018, the Company filed the pleading. On September 20th 2018, the Company's attorney received the defendant's pleading. The Court set the date of the hearing to March 29th 2019. On November 9th 2018, the Company received the court's summons to file a pleading, which the Company did on November 23rd 2018.

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

By letter of July 19th 2018, the parent 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 the second and third categories. 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. On October 3rd 2018, a partial asset distribution plan for the first, second and third categories was approved. The fourth supplementary list of claims was announced in Monitor Sądowy i Gospodarczy on October 10th 2018.

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

By letter of July 19th 2018, the parent 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. The amount of PLN 17,677 thousand has not been acknowledged. The receiver has acknowledged the claim at PLN 746 thousand. A partial distribution plan for the second and third categories 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.On October 5th 2018, the final asset distribution plan was presented. It has not been approved.

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

By letter of July 19th 2018, the parent 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. The amount of 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 parent 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.

- **Dispute with Polskie Górnictwo Naftowe i Gazownictwo S.A.**

In the nine months ended September 30th 2018, the parent did not report any changes in long-term contract receivables and amounts due from customers for construction contract work, compared with the figure presented in the Group's most recent full-year consolidated financial statements. In these interim condensed consolidated financial statements, the Group disclosed as a separate item of the consolidated statement of financial position the parent's assets related to settlements under the contract for construction of the

Wierzchowice Underground Gas Storage Facility ("Wierzchowice UGSF"), and the contract for delivery and construction of the LMG Project – Central Facility, Well Areas, Pipelines and Other Infrastructure ("LMG").

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

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

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

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

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

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

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

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

On October 4th 2018, the parent was served a copy of the action for payment, filed by PGNiG on July 15th 2016. The action was brought against three defendants: the parent and two entities which jointly with the parent executed the UGSF contract, i.e. Tecnimont S.p.A. of Italy and TCM FR S.A. of France. PGNiG claims payment of a contractual penalty it charged for renouncing the Wierzchowice UGSF contract, in an amount of PLN 133,399 thousand plus interest of PLN 26,214 thousand, that is in an aggregate amount of PLN 159,613. On November 16th 2018, the parent filed its reply to the claim by requesting dismissal of the claim in its entirety.

- **ADMINISTRATIVE PROCEEDINGS**

On April 28th 2016, the Parent received a decision by the Polish Financial Supervision Authority imposing an administrative fine of PLN 800 thousand on the Parent under Art. 96.1.1 of the Act on Public Offering, in connection with an alleged breach of Art. 56 of the Act on Public Offering. On May 12th 2016, the Parent filed a request for re-examination of the case by the PFSA. The PFSA upheld the fine by its decision of May 16th 2017. The Parent paid the fine in August 2017, but it appealed against the PFSA's decision in its entirety to the Provincial Administrative Court on June 22nd 2017. As at the date of issue of these financial statements, no decision has been issued by the court.

Below are described key disputes and court proceedings involving a subsidiary as a party

RAFAKO S.A.

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

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

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

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2.19 Material related-party transactions

The related-party transactions within the PBG Group which were eliminated in the consolidation process are presented in the separate financial statements of the respective companies.

Transactions with associates, non-consolidated subsidiaries and other related parties, disclosed in these interim condensed consolidated financial statements, are presented below.

2.19.1 Transactions with non-consolidated related parties

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.

RELATED-PARTY TRANSACTIONS – SALES AND RECEIVABLES

	Revenue		Receivables	
	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017	Sep 30 2018	Sep 30 2017
Sales to:				
Other related parties	46	513	2,813	2,660
Total	**46**	**513**	**2,813**	**2,660**

RELATED-PARTY TRANSACTIONS – PURCHASES AND LIABILITIES

	Purchases (costs, assets)		Liabilities	
	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017	Sep 30 2018	Sep 30 2017
Purchases from:				
Other related parties	15,186	4,300	4,951	1,594
Total	**15,186**	**4,300**	**4,951**	**1,594**

RELATED-PARTY TRANSACTIONS – LOANS ADVANCED

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

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RELATED-PARTY TRANSACTIONS – BORROWINGS

	Sep 30 2018		Dec 31 2017	
	Principal amount as per agreement	Outstanding balance	Principal amount as per agreement	Outstanding balance
Borrowings from:				
Other related parties	21,089	23,272	10,540*	11,173*
Total	**21,089**	**23,272**	**10,540**	**11,173**

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

2.20 Issue, redemption and repayment of debt and equity securities

In the nine months ended September 30th 2018, the parent issued neither debt nor equity securities.

In the nine months ended September 30th 2018, the parent redeemed PLN 50,329 thousand worth of Series E and E1 bonds on maturity (including PLN 46,190 thousand in bonds held by investors from outside the PBG Group).

Delivery of the divestment plan in the third quarter of 2018

Given the terms of the bonds issued by the Parent (Art. 11.5.4 of the terms and conditions applicable to Series A–Series I bonds, to Series B1–Series I1 bonds, and to Series F3–Series I3 bonds, respectively), p), presented below is information on the progress of delivery of the divestment plan in the third quarter of 2018 (between July 1st and September 30th 2018).

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No.	Seller's name	Location	Address	Sale price (VAT inclusive, PLN)	Divestment property value – within the meaning of the definition in the terms and conditions of the bonds Expected proceeds (PLN)	Early repayment trigger
1	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	ul. Chełmońskiego 4C/3	500,000	359,385	NO
2	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space P41	20,000	5,000	NO
3	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space P42	24,000	5,000	NO
4	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space P25	32,000	5,000	NO
5	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space P71	33,000	5,000	NO
6	PBG S.A.	Wysogotowo	ul. Skórzewska 35, Building A	8,487,000	Sale in accordance with the Bondholders' Common Position, with the minimum impact determined as PLN 6.9m	NO
7	PBG S.A.	Wysogotowo	ul. Skórzewska 36 Land behind Building A			
8	PBG S.A.	Wysogotowo	ul. Skórzewska 37 Land for external storage facility			

Information on the progress of execution of the Disinvestment Plan in the previous quarters was presented in the financial statements issued by the parent, with the consolidated financial statements for 2016 containing 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.

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2.21 Loan sureties or guarantees issued by the Company or its subsidiaries where the aggregate value of such outstanding sureties or guarantees issued to a single entity or its subsidiaries represents 10% or more of the Company's equity

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

• Civil-law sureties provided by selected subsidiaries up to an amount of PLN 1,065,000 thousand (i.e. 150% of the maximum value of the bond programme); as at September 30th 2018, PLN 353,306 thousand was outstanding under the bonds issued by the PBG Group;

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

• Pledges over the parent's and selected subsidiaries' business assets;

• Mortgages on most of the real properties owned by the parent and selected subsidiaries;

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

• Registered pledges over receivables under the parent's divestment account agreement and amounts in bank accounts of its selected subsidiaries;

• Declarations of voluntary submission to enforcement, made by the parent and selected subsidiaries.

PBG oil and gas Sp. z o.o. also provided a surety to the security agent for the divestment account funds used by the parent as "new financing". The security was provided for the lower of: 150% of the funds amount and PLN 120,000 thousand. The surety will expire on or before September 30th 2023.

As at September 30th 2018, the amount of the divestment account funds used by the Parent as "new financing" was PLN 0.

2.22 Contingent assets and liabilities

Receivables	Sep 30 2018	Dec 31 2017
Receivables under bank and insurance guarantees received mainly as security for performance of contracts:	696,031	672,684
Promissory notes received as security	16,813	13,791
Total off-balance-sheet receivables	**712,844**	**686,475**

Liabilities	Sep 30 2018	Dec 31 2017

QSr 3/2018** (all amounts in PLN '000 unless stated otherwise)

Liabilities under bank and insurance guarantees provided mainly as security for performance of contracts:	374,319	328,619
Liabilities under sureties	1,428,449	1,429,147
Promissory notes issued as security	39,932	17,200
Total off-balance-sheet liabilities	**1,842,700**	**1,774,966**

In these interim condensed consolidated financial statements as at September 30th 2018, the Group disclosed contingent receivables recognised as off-balance-sheet items of **PLN 712,844 thousand**. The contingent receivables included mainly performance bonds of PLN 696,031 thousand and promissory notes received as security for the performance of contracts of PLN 16,813 thousand.

In the first three quarters of 2018, the PBG Group recorded an increase in contingent receivables, mainly comprising amounts received as security for the performance of contracts (PLN 26,369 thousand), including a PLN 23,347 thousand increase in receivables under guarantees received, and PLN 3,022 thousand increase in receivables under promissory notes.

As at September 30th 2018, the PBG Group disclosed contingent liabilities recognised as off-balance-sheet items of **PLN 1,842,700 thousand**. These included liabilities under sureties issued by Group companies for third parties, liabilities under guarantees provided at the request of Group companies for third parties and liabilities under promissory notes.

On June 13th 2016, the Parent was notified that the bankruptcy court's decision to sanction the arrangement between the Parent and its creditors had become final, and on July 29th 2016 the Parent received a decision on closing of the insolvency proceedings. Following the above events, the Parent's contingent liabilities as at September 30th 2018 were presented as total contingent liabilities in accordance with the terms of the arrangement.

The contingent liabilities included liabilities under guarantees provided at the request of Group companies for third parties to secure the performance of contracts (PLN 374,319 thousand), sureties issued by Group companies for third parties (PLN 1,428,449 thousand), as well as promissory notes issued to secure the performance of contracts (PLN 39,932 thousand).

In the first nine months of 2018, the PBG Group recorded a PLN 67,734 thousand increase in contingent liabilities, including a PLN 45,700 thousand increase in liabilities under guarantees issued, a PLN 22,732 thousand increase in liabilities under promissory notes issued to secure the performance of contracts, and a PLN 698 thousand decrease in sureties issued.

2.23 Other information which in the Company's opinion is relevant for the assessment of its personnel, assets, financial condition and profit or loss, or 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 2.2.2 and Note 2.9, no other material events occurred in the first nine months of 2018 which could have a significant bearing on the assessment of the Group's assets, financial position or profit or loss, or which would be likely to cause significant changes in the foregoing.

2.24 Factors which in the Company's opinion will affect its performance in the next quarter or in a longer term

In Q4 2018, the Company will continue the construction works under running contracts, including the following key projects:

a. Construction of a supercritical 800−910 MW power generation unit at Jaworzno III Power Plant – Power Plant II; contract executed between TAURON WYTWARZANIE S.A. and RAFAKO S.A. − planned revenue: PLN 185,974 thousand;

b. Construction of a biomass-fired CHP unit consisting of fluidised bed boilers and biomass transport and feeder systems in Vilnius; contract executed between UAB VILNIAUS KOGENERACINE JEGAINE and RAFAKO S.A. – planned revenue: PLN 75,734 thousand;

c. Comprehensive upgrade of the flue gas desulphurisation systems at units No. 3, 4, 5 and 6 at the Bełchatów Power Plant of PGE GiEK S.A.; contract executed between PGE Górnictwo i Energetyka Konwencjonalna S.A. and RAFAKO S.A. – planned revenue: PLN 37,056 thousand;

d. Delivery and installation of a catalytic flue gas denitrification system for AP-1650 boilers No. 9 and 10, and for the upgrade of electrostatic precipitators at the Kozienice Power Plant; contract executed between Enea Wytwarzanie S.A. and RAFAKO S.A. – planned revenue: PLN 25,423 thousand;

e. Design, manufacture, delivery, installation and commissioning of two steam units (2x50 MW) on Lombok Island, Indonesia; contract executed between PT.PLN (Persero) and RAFAKO S.A. – planned revenue: PLN 19,243 thousand;

f. Design, manufacture, delivery, installation, supervision of start-up and commissioning of a biomass-fired steam unit in Mangualde, Portugal; contract executed between VYNCKE N.V. and RAFAKO S.A. – planned revenue: PLN 15,730 thousand;

g. Construction of fuel tanks (2x32,000 m^3) on the premises Fuel Depot No. 2 in Nowa Wieś Wielka; contract executed between AGAT S.A. and PBG oil and gas Sp. z o.o. – planned revenue: 11,193 thousand; and

h. Construction of the fifth Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk pipeline; contract executed between the Gas Transmission Operator GAZ-SYSTEM S.A. and RAFAKO S.A. – planned revenue: PLN 10,678 thousand.

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3. INTERIM CONDENSED FINANCIAL STATEMENTS OF PBG S.A.

SELECTED FINANCIAL DATA

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
	PLN		EUR	
Revenue	10,394	9,945	2,444	2,337
Operating profit (loss)	(20,451)	(15,571)	(4,808)	(3,658)
Profit (loss) before tax	(48,047)	(16,370)	(11,296)	(3,846)
Net profit (loss) from continuing operations	(48,047)	(16,370)	(11,296)	(3,846)
Net cash from operating activities	(73,568)	(71,209)	(17,296)	(16,729)
Net cash from investing activities	45,787	73,194	10,765	17,195
Net cash from financing activities	26,252	(4,960)	6,172	(1,165)
Net increase/(decrease) in cash and cash equivalents	(1,529)	(2,975)	(359)	(699)
Weighted average number of ordinary shares	804,330,222	804,264,667	804,330,222	804,330,222
Diluted weighted average number of ordinary shares	804,330,222	804,264,667	804,330,222	804,330,222
Net profit (loss) per ordinary share (PLN/EUR)	(0.060)	(0.020)	(0.014)	(0.005)
Diluted earnings (loss) per ordinary share (PLN/EUR)	(0.060)	(0.020)	(0.014)	(0.005)
Average PLN/EUR exchange rate	x	x	4.2535	4.2566

	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017
	PLN		EUR	
Assets	402,514	487,538	94,235	116,890
Non-current liabilities	388,015	458,565	90,840	109,944
Current liabilities	182,964	151,017	42,835	36,207
Share capital	16,087	16,081	3,766	3,856
Number of shares	804,330,222	804,050,591	804,330,222	804,050,591
Book value per share (PLN/EUR)	(0.21)	(0.15)	(0.05)	(0.04)
PLN/EUR exchange rate at end of period	x	x	4.2714	4.1709

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INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS OF PBG S.A.

	Three months ended Sep 30 2018	Nine months ended Sep 30 2018	Three months ended Sep 30 2017	Nine months ended Sep 30 2017
Continuing operations				
Revenue	**3,397**	**10,394**	**3,473**	**9,945**
Revenue from sale of finished goods and services	3,397	10,394	3,404	9,875
Revenue from sale of merchandise and materials	-	-	69	70
Cost of sales	**(2,354)**	**(9,856)**	**(2,243)**	**(4,896)**
Cost of finished goods and services sold	(2,354)	(9,856)	(2,184)	(4,836)
Cost of merchandise and materials sold	-	-	(59)	(60)
Gross profit (loss)	**1,043**	**538**	**1,230**	**5,049**
Administrative expenses	(2,560)	(7,876)	(2,585)	(8,238)
Other income	(2,200)	6,226	230	8,818
Other expenses	(2,530)	(5,570)	(1,362)	(6,778)
Gain (Loss) on arrangement with creditors	(3,944)	(13,769)	(4,189)	(14,422)
Operating profit (loss)	**(10,191)**	**(20,451)**	**(6,676)**	**(15,571)**
Finance costs	(758)	(27,596)	(276)	(799)
Profit (loss) before tax	**(10,949)**	**(48,047)**	**(6,952)**	**(16,370)**
Income tax expense	-	-	-	-
Net profit (loss) from continuing operations	**(10,949)**	**(48,047)**	**(6,952)**	**(16,370)**

NET PROFIT (LOSS) PER ORDINARY SHARE

	Three months ended Sep 30 2018	Nine months ended Sep 30 2018	Three months ended Sep 30 2017	Nine months ended Sep 30 2017
Net profit (loss) from continuing operations	(10,949)	(48,047)	(6,952)	(16,370)
Weighted average number of ordinary shares	804,330,222	804,330,222	804,330,222	804,264,667
Diluted weighted average number of ordinary shares	804,330,222	804,330,222	804,330,222	804,264,667
from continuing operations				
- basic	(0.014)	(0.060)	(0.009)	(0.020)
- diluted	(0.014)	(0.060)	(0.009)	(0.020)
from continuing and discontinued operations				
- basic	(0.014)	(0.060)	(0.009)	(0.020)
- diluted	(0.014)	(0.060)	(0.009)	(0.020)

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INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Three months ended Sep 30 2018	Nine months ended Sep 30 2018	Three months ended Sep 30 2017	Nine months ended Sep 30 2017
Net profit (loss)	**(10,949)**	**(48,047)**	**(6,952)**	**(16,370)**
Total comprehensive income for the period	**(10,949)**	**(48,047)**	**(6,952)**	**(16,370)**

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION OF PBG S.A.

ASSETS	Sep 30 2018	Dec 31 2017
Non-current assets	**296,322**	**354,882**
Intangible assets	124	213
Property, plant and equipment	1,777	4,081
Investment property	5,199	5,199
Long-term investments	1,790	1,790
Investments in subsidiaries	234,465	260,537
Long-term contract receivables and amounts due from customers for construction contract work	39,150	39,150
Trade and other receivables	3,625	4,679
Loans advanced	10,142	39,175
Other non-current financial assets	1	1
Non-current accruals and deferred income	49	57
Current assets	**105,232**	**110,789**
Inventories	478	56
Amounts due from customers for construction contract work	69	66
Trade and other receivables	8,881	12,231
Loans advanced	95,189	96,089
Cash and cash equivalents	392	1,921
Current prepayments and accrued income	223	426
Non-current assets held for sale	**960**	**21,867**
TOTAL ASSETS	**402,514**	**487,538**

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EQUITY AND LIABILITIES	Sep 30 2018	Dec 31 2017
Equity	**(168,465)**	**(122,044)**
Share capital	16,087	16,081
Share premium	1,021,947	1,021,844
Reserve funds	513,545	512,038
Retained earnings (accumulated losses)	(1,720,044)	(1,672,007)
- accumulated profit (loss) from prior years	(1,671,997)	(1,588,284)
- net profit (loss) for current year	(48,047)	(83,723)
Non-current liabilities	**388,015**	**458,565**
Borrowings and other debt instruments	268,472	316,497
Finance lease liabilities	1,646	2,329
Non-current contract liabilities and provisions	38,226	38,426
Trade and other payables	56,934	66,870
Employee benefit obligations and provisions	75	83
Other long-term provisions	22,630	34,270
Non-current accruals and deferred income	32	90
Current liabilities	**182,964**	**151,017**
Borrowings and other debt instruments	124,388	86,009
Finance lease liabilities	816	776
Trade and other payables	50,462	53,956
Amounts due to customers for construction contract work	132	191
Employee benefit obligations and provisions	899	813
Other short-term provisions	6,153	9,179
Current prepayments and accrued income	114	93
Total liabilities	**570,979**	**609,582**
TOTAL EQUITY AND LIABILITIES	**402,514**	**487,538**

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INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY OF PBG S.A.

	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**	**(1,672,007)**	**(122,044)**
Changes in accounting policy	-	-	-	989	989
As at January 1st 2018 after adjustments	**16,081**	**1,021,844**	**512,038**	**(1,671,018)**	**(121,055)**
Share issue	6	102	(108)	-	-
Comprehensive income for the period	-	-	-	(48,047)	(48,047)
Other adjustments	-	-	1,615	(978)	637
September 30th 2018	**16,087**	**1 021 9467**	**513,545**	**(1,720,044)**	**(168,465)**

	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)**
Changes in accounting policies	-	-	-	-	-
January 1st 2017 after adjustments	**15,414**	**1,009,665**	**524,816**	**(1,588,284)**	**(38,389)**
Share issue	667	12,179	(2,697)		10,149
Net profit for the period	-	-	-	-	-
Distribution of retained earnings	-	-	(10,081)	(16,370)	(26,451)
September 30th 2017	**16,081**	**1,021,844**	**512,038**	**(1,604,654)**	**(54,691)**

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INTERIM CONDENSED STATEMENT OF CASH FLOWS OF PBG S.A.

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Cash flows from operating activities		
Profit (loss) before tax	**(48,047)**	**(16,370)**
Adjustments for:	**(25,521)**	**(54,839)**
Depreciation and amortisation	297	488
Change in fair value of investment property and non-current assets held for sale	-	1,500
Impairment of financial and non-financial assets	30,619	(779)
Foreign exchange gains (losses)	(1,534)	3,988
Interest and dividends, net	1,429	769
Gain (loss) on investing activities	486	(1,903)
Change in receivables	5,763	395
Change in inventories	(422)	57
Change in liabilities other than borrowings	(13,509)	(87,307)
Change in provisions, accruals and prepaid expenses	(14,413)	(14,669)
Change in amounts due from customers for construction contract work	(62)	(601)
Adjustments for arrangement with creditors	(35,605)	44,906
Other	1,430	(1,683)
Net cash from operating activities	**(73,568)**	**(71,209)**
Cash flows from investing activities		
Sale of property, plant and equipment	3,423	1,843
Purchase of property, plant and equipment	(6)	(56)
Purchase of intangible assets	-	(135)
Sale of investment property and non-current assets held for sale	15,431	17,157
Purchase of investment property	(62)	-
Disposal of subsidiary	-	6,000
Repayment of loans advanced	27,001	48,400
Loans advanced	-	(15)
Net cash from investing activities	**45,787**	**73,194**
Cash flows from financing activities		
Payment of finance lease liabilities	(570)	(791)
Proceeds from borrowings	29,449	2,390
Repayment of borrowings	(2,669)	(6,500)
Interest received	164	43
Interest paid	(122)	(102)
Net cash from financing activities	**26,252**	**(4,960)**
Net increase/(decrease) in cash and cash equivalents	**(1,529)**	**(2,975)**
Net foreign exchange differences	-	**-**
Cash and cash equivalents at beginning of period	**1,921**	**3,589**
Cash and cash equivalents at end of period, including:	**392**	**614**

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- restricted cash	-	-

SELECTED ADDITIONAL EXPLANATORY NOTES

EXPENSES BY NATURE

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Depreciation and amortisation	297	487
Raw materials and consumables used	931	768
Services	9,145	9,534
Taxes and duties	416	1,073
Employee benefits	4,745	5,472
Other operating expenses	2,524	640
Expenses by nature	**18,058**	**17,974**
Cost of merchandise and materials sold	-	60
Changes in inventories of finished goods and work in progress (-)	(325)	(4,901)
Cost of finished goods and services sold	**17,733**	**13,133**

OTHER INCOME

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Reversal of provisions	347	1
Gain on disposal of non-financial non-current assets	-	1,903
Reversals of impairment losses and write-downs on assets, including:	2,704	2,184
- trade receivables	2,704	761
- other	-	1,423
Interest related to operating activities	171	6
Discount on long-term receivables and payables	280	1,871
Grants received	92	31
Exchange differences on operating activities	1,516	-
Other	1,116	2,822
Total other income	**6,226**	**8,818**

OTHER EXPENSES

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Loss on disposal of non-financial non-current assets	486	-
Impairment loss on assets, including:	4,707	858
- trade receivables	106	215
- loans and borrowings	4,601	643

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Fair value measurement of property	-	1,500
Exchange differences on operating activities	-	3,981
Compensations	196	-
Cost of litigation	61	231
Other	120	208
Total other expenses	**5,570**	**6,778**

FINANCE INCOME

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Interest on financial instruments	12	43
Foreign exchange gains	2	-
Total finance income	**14**	**43**

FINANCE COSTS

	Nine months ended Sep 30 2018	Nine months ended Sep 30 2017
Interest on financial instruments, including:	1,587	832
- non-bank borrowings	1,492	732
- lease	87	100
- other	8	-
Foreign exchange losses	-	9
Recognition of impairment losses on investments in subsidiaries, associates and jointly controlled entities	26,018	-
Other	5	-
Total finance costs	**27,610**	**841**

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OPERATING SEGMENTS – JAN 1– SEP 30 2018

	Segment				
	Gas, oil and fuels	Power construction	Organisational support	Other	Total
Segment total revenue	**4,055**	**-**	**4,557**	**1,782**	**10,394**
Revenue from external customers	4,055	-	4,557	1,782	10,394
Total cost	**(4,081)**	**(2,000)**	**(2,879)**	**(896)**	**(9,856)**
Segment profit (loss)	**(26)**	**(2,000)**	**1,678**	**886**	**538**
Administrative expenses	x	x	x	x	(7,876)
Other income/expenses	x	x	x	x	656
Gain (Loss) on arrangement with creditors	x	x	x	x	(13,769)
Operating profit (loss)	x	x	x	x	**(20,451)**
Finance income (cost)	x	x	x	x	(27,596)
Profit (loss) before tax	x	x	x	x	**(48,047)**
Income tax expense	x	x	x	x	-
Net profit (loss)	x	x	x	x	**(48,047)**

OPERATING SEGMENTS – JAN 1– SEP 30 2017

	Segment				
	Gas, oil and fuels	Power construction	Organisational support	Other	Total
Segment total revenue	**650**	**-**	**5,686**	**3,610**	**9,946**
Revenue from external customers	650	-	5,686	3,610	9,946
Total cost	**(1,296)**	**47**	**(2,441)**	**(1,207)**	**(4,897)**
Segment profit (loss)	**(646)**	**47**	**3,245**	**2,403**	**5,049**
Administrative expenses	x	x	x	x	(8,238)
Other income/expenses	x	x	x	x	2,040
Gain (Loss) on arrangement with creditors	x	x	x	x	(14,422)
Operating profit (loss)	x	x	x	x	**(15,571)**
Finance income (cost)	x	x	x	x	(799)
Profit (loss) before tax	x	x	x	x	**(16,370)**
Income tax expense	x	x	x	x	-
Net profit (loss)	x	x	x	x	**(16,370)**

Business combinations

In the nine months ended September 30th 2018, 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.).

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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:

	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)**

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	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**

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	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**

Effect of arrangement with creditors on separate financial statements of the Parent

After the bankruptcy court's decision of October 8th 2015 to sanction the Parent's arrangement with creditors became final on June 13th 2016 (see PBG Current Reports No. 11/2016 and No. 24/2016 and Note 2.2.2), the Parent recognised in its accounts the effect of debt reduction, as set out in the arrangement and in agreements concluded with certain arrangement creditors. Detailed information on the recognition and presentation of the event referred to above is included in the most recent full-year financial statements.

QSr 3/2018** (all amounts in PLN '000 unless stated otherwise)

As at September 30th 2018, the Parent disclosed:

- ✓ claims in the arrangement of PLN 85,814 thousand, including PLN 49,389 thousand as discounted non-current liabilities and PLN 36,425 thousand as current liabilities;
- ✓ liabilities under the bonds issued to partially repay claims in the arrangement of PLN 332,784 thousand, including PLN 257,076 thousand as discounted non-current liabilities and PLN 75,708 thousand as current liabilities.

In the period from January 1st 2018 to the date of issue of these interim condensed financial statements, the parent:

- redeemed bonds of PLN 50,329 thousand;
- repaid, in casha nd as instalment set-off, liabilities under the Arrangement of PLN 14,883 thousand;
- was granted extension for repayments totalling PLN 682 thousand.

In the separate financial statements, in the statement of profit or loss, the item "Gain/(Loss) on implementation of arrangement with creditors" includes a loss of PLN 13,769 thousand for the nine months ended September 30th 2018, resulting from revaluation of discount on claims in the arrangement and zero-coupon bonds issued to partially repay those claims.

4. AUTHORISATION FOR ISSUE

These interim condensed consolidated financial statements of the PBG Group for Q3 2018 and interim condensed separate financial statements of the Parent for Q3 2018 (together with comparative data) were authorised for issue by the Parent's Management Board on November 29th 2018.

Signatures of all Management Board members			
Date	**Full name**	**Position**	**Signature**
Nov 29 2018	Jerzy Wiśniewski	President of the Management Board	
Nov 29 2018	Mariusz Łożyński	Vice President of the Management Board	
Nov 29 2018	Dariusz Szymański	Vice President of the Management Board	
Nov 29 2018	Kinga Banaszak-Filipiak	Member of the Management Board	
Signature of the person responsible for the preparation of the consolidated financial statements			
Date	**Full name**	**Position**	
Nov 29 2018	Sylwia Sobczak	Independent reporting and consolidation accountant	

Wysogotowo, November 29th 2018