Polish Financial Supervision Authority

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the first quarter of 2018

prepared in accordance with International Financial Reporting Standards

Date of filing: May 28th 2018

PBG Spółka Akcyjna
(company name)

PBG S.A. Construction
(abbreviated name) (sector according to the WSE classification)

62-081 Wysogotowo near Poznań
(postal code) (place)

Skórzewska 35
(street) (number)

+48 61 66 51,700 +48 61 66 51,701
(telephone) (fax)

polska@pbg-sa.pl http://www.pbg-sa.pl
(email) (website)

777-21-94-746 631048917
TAX IDENTIFICATION NUMBER (NIP) INDUSTRY IDENTIFICATION NUMBER (REGON)

Table of contents

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE PBG GROUP FOR Q1 2018

SELECTED FINANCIAL DATA

Item	for the period Jan 1–Mar 31 2018 PLN	for the period Jan 1–Mar 31 2017 PLN	for the period Jan 1–Mar 31 2018 EUR	for the period Jan 1–Mar 31 2017 EUR
Statement of profit or loss				
Revenue	310,462	456,181	74,302	106,358
Operating profit	14,389	25,045	3,444	5,839
Profit before tax	12,199	21,885	2,920	5,102
Profit (loss) from continuing operations	3,010	11,725	720	2,734
- owners of the parent	(2,055)	6,422	(492)	1,497
- non-controlling interests	5,065	5,303	1,212	1,236
Net profit (loss) from continuing and discontinued operations attributable to:	3,010	11,725	720	2,734
- owners of the parent	(2,055)	6,422	(492)	1,497
- non-controlling interests	5,065	5,303	1,212	1,236
Statement of comprehensive income				
Total comprehensive income attributable to:	3,714	7,532	889	1,756
- owners of the parent	(1,190)	2,192	(285)	511
- non-controlling interests	4,904	5,340	1,174	1,245
Basic earnings per share				
Basic earnings (loss) per share (PLN/EUR)	(0,003)	0.01	(0,001)	0,002
Diluted earnings (loss) per share (PLN/EUR)	(0,003)	0.01	(0,001)	0,002
Average PLN/EUR exchange rate	x	x	4.1784	4.2891

Statement of cash flows				
Net cash from operating activities	(1,465)	179,847	(351)	41,931
Net cash used in investing activities	10,059	3,055	2,407	712
Net cash from financing activities	9,496	1,580	2,273	368
Net increase/(decrease) in cash and cash equivalents	18,090	184,482	4,329	43,012
Average PLN/EUR exchange rate		x	4.1784	4.2891

QSr1/2018** (all amounts in PLN '000 unless stated otherwise)

Item	as at Mar 31 2018 PLN	as at Dec 31 2017 PLN (restated)	as at Mar 31 2017 PLN (restated)	as at Mar 31 2018 EUR	as at Dec 31 2017 EUR (restated)	as at Mar 31 2017 EUR (restated)
Statement of financial position						
Assets	1,549,124	1,627,841	1,767,964	368,094	390,285	418,969
Non-current liabilities	539,541	550,451	639,182	128,203	131,974	151,472
Current liabilities	704,706	777,569	902,022	167,448	186,427	213,759
Equity attributable to owners of the parent	(174,219)	(174,272)	(68,728)	(41,397)	(41,783)	(16,287)
Share capital	16,087	16,081	15,414	3,823	3,856	3,653
Number of shares	804,330,222	804,050,591	804,050,591	804,330,222	804,050,591	804,050,591
Weighted average number of ordinary shares	804,330,222	804,281,191	804,050,591	804,330,222	804,281,191	804,050,591
Diluted weighted average number of ordinary shares	804,330,222	804,281,191	804,050,591	804,330,222	804,281,191	804,050,591
Book value per share (PLN/EUR)	(0.22)	(0.22)	(0.08)	(0.05)	(0.05)	(0.02)
PLN/EUR exchange rate at the end of the period	x	x	x	4.2085	4.1709	4.2198

QSr1/2018** (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Item	Q1 2018 Jan 1–Mar 31 2018	Q1 2017 Jan 1–Mar 31 2017
Continuing operations		
Revenue	**310,462**	**456,181**
Revenue from sale of finished goods and services	309,890	455,538
Revenue from sale of merchandise and materials	592	643
Cost of sales	**(269,893)**	**(406,252)**
Cost of finished goods and services sold	(269,369)	(405,995)
Cost of merchandise and materials sold	(524)	(257)
Gross profit	**40,569**	**49,929**
Distribution costs	(2,691)	(7,869)
Administrative expenses	(21,645)	(20,572)
Other income	5,705	9,045
Other expenses	(4,707)	(3,625)
Loss on arrangement with creditors	(2,842)	(1,863)
Operating profit	**14,389**	**25,045**
Net finance income (costs)	(2,190)	(3,160)
Profit before tax	**12,199**	**21,885**
Income tax expense	(9,189)	(10,160)
Profit from continuing operations	**3,010**	**11,725**
Net profit	**3,010**	**11,725**
Profit attributable to:	**3,010**	**11,725**
- owners of the parent	(2,055)	6,422
- non-controlling interests	5,065	5,303

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

NET PROFIT (LOSS) PER ORDINARY SHARE

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Net profit (loss) from continuing operations attributable to:	**3,010**	**11,725**
- owners of the parent	(2,055)	6,422
- non-controlling interests	5,065	5,303
Net profit (loss) from continuing and discontinued operations attributable to:	**3,010**	**11,725**
- owners of the parent	(2,055)	6,422
- non-controlling interests	5,065	5,303
Weighted average number of ordinary shares	804,330,222	804,050,591
Diluted weighted average number of ordinary shares	804,330,222	804,050,591
from continuing operations		
- basic	0,003	0.01
- diluted	0,003	0.01

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Net profit	**3,010**	**11,725**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met, relating to:		
Cash flow hedges:		
- gains (losses) for period recognised in other comprehensive income	72	209
Exchange differences on translating foreign operations	828	(4,505)
Income tax on other comprehensive income	(14)	(40)
Other comprehensive income that will not be reclassified to profit or loss, relating to:		
Actuarial gains on employee benefits	(225)	177
Income tax on other comprehensive income	43	(34)
Other comprehensive income, net of tax	**704**	**(4,193)**
Comprehensive income	**3,714**	**7,532**
Total comprehensive income attributable to:		
- owners of the parent	(1,190)	2,192
- non-controlling interests	4,904	5,340

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Item	as at Mar 31 2018	as at Dec 31 2017 (restated)	as at Mar 31 2017 (restated)
Assets			
Non-current assets	**464,536**	**474,970**	**718,373**
Goodwill	102,536	102,536	186,580
Intangible assets	7,928	8,300	8,673
Property, plant and equipment	197,070	199,953	221,649
Investment property	1,319	1,319	130,888
Long-term investments	1,790	1,790	3,313
Investments in associates	102	102	-
Investments in joint ventures	20,919	19,312	27,514
Long-term contract receivables and amounts due from customers for construction contract work	39,150	39,150	39,150
Receivables	49,656	50,143	40,146
Other non-current financial assets	2,660	1,497	1,522
Deferred tax assets	39,057	48,354	56,022
Non-current prepayments and accrued income	2,349	2,514	2,916
Current assets	**935,011**	**1,008,172**	**991,419**
Inventories	18,083	17,486	15,320
Amounts due from customers for construction contract work	297,692	231,966	109,834
Trade and other receivables	382,548	526,995	509,258
Current tax assets	235	10	21,194
Loans advanced	4,036	6	242
Derivative financial instruments	-	479	-
Other current financial assets	-	3,010	-
Cash and cash equivalents	210,193	192,175	305,495
Current prepayments and accrued income	22,224	23,024	30,076
Assets classified as held for sale	**149,577**	**163,672**	**58,172**
Total assets	**1,549,124**	**1,633,793**	**1,767,964**

QSr1/2018 _(all amounts in PLN '000 unless stated otherwise)_

Item	as at Mar 31 2018	as at Dec 31 2017 (restated)	as at Mar 31 2017 (restated)
Equity and liabilities			
Equity	**257,279**	**253,567**	**225,846**
Equity attributable to owners of the parent	**(174,219)**	**(173,030)**	**(68,728)**
Share capital	16,087	16,081	15,414
Share premium	1,021,947	1,021,844	1,009,660
Cash flow hedging reserve	(586)	(645)	(817)
Translation reserve	(22,881)	(23,749)	(15,332)
Other components of equity	585,318	521,596	559,415
Accumulated losses:	**(1,774,104)**	**(1,708,157)**	**(1,637,068)**
- accumulated loss from prior years	(1,772,049)	(1,677,745)	(1,643,490)
- net profit (loss) for current year attributable to owners of the parent	(2,055)	(30,412)	6,422
Non-controlling interests	**431,498**	**426,597**	**294,574**
Liabilities	**1,244,247**	**1,332,730**	**1,542,118**
Non-current liabilities	**539,541**	**550,451**	**639,182**
Borrowings and other debt instruments	306,163	302,721	381,882
Finance lease liabilities	24,467	24,784	6,013
Derivative financial instruments	724	796	1,008
Non-current contract liabilities and provisions	38,168	38,240	38,486
Other liabilities	92,629	105,450	126,652
Deferred tax liabilities	3,723	4,796	4,725
Employee benefit obligations and provisions	21,376	21,371	24,132
Other long-term provisions	52,168	52,203	55,133
Non-current accruals and deferred income	123	90	1,151
Current liabilities	**704,706**	**782,279**	**902,936**
Borrowings and other debt instruments	178,637	165,956	228,157
Finance lease liabilities	3,570	3,606	2,856
Derivative financial instruments	289	237	-
Trade and other payables	408,244	463,545	480,774
Amounts due to customers for construction contract work	5,671	20,109	68,603
Current tax liabilities	334	2,280	142
Employee benefit obligations and provisions	37,741	37,192	44,056
Other short-term provisions	52,395	73,151	64,881
Current accruals and deferred income	17,825	16,203	12,553
Liabilities related to assets classified as held for sale	**47,598**	**47,496**	**914**
Total equity and liabilities	**1,549,124**	**1,633,793**	**1,767,964**

QSr1/2018** (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD JANUARY 1ST – MARCH 31ST 2018

Item	Equity attributable to owners of the parent								Non-controlling interests	Total equity
	Share capital	Treasury shares (-)	Share premium	Cash flow hedging reserve	Translation reserve	Other components of equity	Retained earnings / accumulated losses	Total		
Balance as at Jan 1 2018	**16,081**	**-**	**1,021,844**	**(645)**	**(23,749)**	**521,596**	**(1,697,639)**	**(162,512)**	**450,119**	**287,607**
Opening adjustment *(effect of IFRS 15, IFRS 9, provisions for warranty repairs)*	-	-	-	-	-	-	(10,518)	(10,518)	(23,522)	(34,040)
Restated balance	**16,081**	**-**	**1,021,846**	**(645)**	**(23,749)**	**521,596**	**(1,708,157)**	**(173,030)**	**426,597**	**253,567**
Changes in equity in the period Jan 1–Mar 31 2018										
Share issue	6	-	101	-	-	(107)	-	-	-	-
Transfer to reserves	-	-	-	-	-	63,890	(63,890)	-	-	-
Total transactions with owners	**6**	**-**	**101**	**-**	**-**	**63,783**	**(63,890)**	**-**	**-**	**-**
Net profit for the period Jan 1–Mar 31 2018	**-**	**-**	**-**	**-**	**-**	**-**	**(2,055)**	**(2,055)**	**5,065**	**3,010**
Other comprehensive income net of tax for the period Jan 1–Mar 31 2018	-	-	-	59	868	(61)	-	866	(164)	702
Total comprehensive income	**-**	**-**	**-**	**59**	**868**	**(61)**	**(2,055)**	**(1,189)**	**4,901**	**3,712**
Balance as at Mar 31 2018	**16,087**	**-**	**1,021,947**	**(586)**	**(22,881)**	**585,318**	**(1,774,104)**	**(174,219)**	**431,498**	**257,279**

QSr1/2018** (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD JANUARY 1ST – MARCH 31ST 2018

Item	Equity attributable to owners of the parent								Non-controlling interests	Total equity
	Share capital	Treasury shares (-)	Share premium	Cash flow hedging reserve	Translation reserve	Other components of equity	Retained earnings / accumulated losses	Total		
Balance as at Jan 1 2017	**15,414**	**-**	**1,009,665**	**(986)**	**(10,862)**	**524,314**	**(1,603,486)**	**(65,941)**	**294,276**	**228,335**
Opening adjustment *(effect of provisions for warranty repairs)*	**-**	**-**	**-**	**-**	**-**	**-**	**(4,788)**	**(4,788)**	**(4,788)**	**(9,576)**
Restated balance	**15,414**	**-**	**1,009,665**	**(986)**	**(10,862)**	**524,314**	**(1,608,274)**	**(70,729)**	**289,488**	**218,759**
Changes in equity in the period Jan 1–Mar 31 2017										
Other adjustments	-	-	(5)	-	-	-	(8)	(13)	(75)	(88)
Transfer to reserves	-	-	-	-	-	35,030	(35,030)	-	-	-
Total transactions with owners	**-**	**-**	**(5)**	**-**	**-**	**35,030**	**(35,038)**	**(13)**	**(75)**	**(88)**
Net profit for the period Jan 1–Mar 31 2017	**-**	**-**	**-**	**-**	**-**	**-**	**6,244**	**6,244**	**5,124**	**11,368**
Other comprehensive income net of tax for the period Jan 1–Mar 31 2017	-	-	-	169	(4,470)	71	-	(4,230)	37	(4,193)
Total comprehensive income	**-**	**-**	**-**	**169**	**(4,470)**	**71**	**6,244**	**2,014**	**5,161**	**7,175**
Balance as at Mar 31 2017 (restated)	**15,414**	**-**	**1,009,660**	**(817)**	**(15,332)**	**559,415**	**(1,637,068)**	**(68,729)**	**294,574**	**225,846**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Cash flows from operating activities		
Net profit from continuing operations before tax	12,199	21,885
Profit before tax	**12,199**	**21,885**
Adjustments for:		
Depreciation and impairment of property, plant and equipment	3,407	3,645
Amortisation and impairment of intangible assets	447	399
Change in fair value of investment property	456	-
Gains (losses) on financial assets and liabilities at fair value through profit or loss	-	694
Cash flow hedges recycled from equity	436	-
Impairment of financial assets	(691)	(4,220)
Gain on disposal of non-financial non-current assets	(436)	(2,135)
Foreign exchange gains (losses)	367	(2,506)
Interest expense	1,588	1,857
Interest income	(318)	(21)
Adjustments for implementation of arrangement with creditors	3,188	76,695
Other adjustments	(97)	966
Total adjustments:	**8,347**	**75,374**
Change in inventories	(597)	214
Change in receivables	143,406	356,933
Change in liabilities	(68,194)	(245,072)
Change in provisions, accruals and prepaid expenses	(12,872)	(11,927)
Change relating to construction contracts	(80,400)	(12,365)
Net changes in working capital	**(18,657)**	**87,783**
Income taxes paid	(3,833)	(5,195)
Net cash from operating activities	**(1,465)**	**179,847**
Cash flows from investing activities		
Purchase of intangible assets	(38)	(97)
Proceeds from disposal of intangible assets	-	(276)
Purchase of property, plant and equipment	(622)	(1,930)
Proceeds from disposal of property, plant and equipment	562	1,220
Purchase of investment property	(98)	-
Proceeds from disposal of investment property	13,827	3,808
Acquisition of subsidiaries, net	(1,209)	-
Net proceeds from sale of subsidiaries	1,630	-
Repayment of loans advanced	-	150
Loans advanced	(3,999)	-

QSr1/2018** (all amounts in PLN '000 unless stated otherwise)

Interest received	7	15
Net cash used in investing activities	**10,059**	**3,055**
Cash flows from financing activities		
Proceeds from borrowings	13,154	6,000
Repayment of borrowings	**(1,245)**	**(1,852)**
Payment of interest on borrowings	**(1,049)**	**(1,278)**
Payment of finance lease liabilities	**(1,222)**	**(1,124)**
Payment of interest on finance lease liabilities	**(418)**	**(143)**
Interest paid	(42)	(43)
Interest on bank deposits (from financial surplus)	280	12
Other interest received	38	4
Other cash from/(used in) financing activities	-	4
Net cash from financing activities	**9,496**	**1,580**
Net increase/(decrease) in cash and cash equivalents	**18,090**	**184,482**
Cash and cash equivalents at beginning of period	**192,175**	**121,109**
Foreign exchange effect	(72)	(96)
Cash and cash equivalents at end of period	**210,193**	**305,495**

QSr1/2018** (all amounts in PLN ‘000 unless stated otherwise)

2 NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2018

2.1 The Parent and the PBG Group

2.1.1. The Parent

The parent of the Group („the Group” or „the Group”) is PBG S.A. („the Parent”, „the Company”) (the composition of the Group is presented in Note 2.1.3).

The Parent was incorporated on January 2nd 2004 by virtue of a Notary 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 March 31st 2018 is presented below.

As at Mar 31 2018	
Management Board	**Supervisory Board**
Jerzy Wiśniewski – President of the Management Board Mariusz Łożyński – Vice President of the Management Board Dariusz Szymański – Vice President of the Management Board Kinga Banaszak-Filipiak − Member of the Management Board	Helena Fic – Chair of the Supervisory Board Małgorzata Wiśniewska – Deputy Chair of the Supervisory Board Andrzej Stefan Gradowski − Secretary of the Supervisory Board Dariusz Sarnowski – Member of the Supervisory Board Maciej Stańczuk – Member of the Supervisory Board Przemysław Lech Figarski – Member of the Supervisory Board Faustyn Wiśniewski – Member of the Supervisory Board

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

2.1.2. Group’s principal business activities

The Parent’s principal business consists 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 Group provides general contractor services for construction projects in the natural gas, crude oil, fuels and power construction sectors.

For description of the Group’s business, see the table in Note 2.1.3 to these interim condensed consolidated financial statements.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

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

QSr1/2018** (all amounts in PLN '000 unless stated otherwise)

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

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

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%	50.000001%
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%	50.000001%
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%	74.48%
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%	51.53%
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%	38.50%
RAFAKO Hungary Kft. (31)	Budapest HUNGARY	Equipment assembly in the power and chemical industry	33.32%	50.000001%

QSr1/2018 _(all amounts in PLN '000 unless stated otherwise)_

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%	50.000001%
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%	50.000001%
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%	44.69%
BIO-FUN Sp. z o.o. (35)	Ul. Mazowiecka 42, 60-623 Poznań	Real property activities	100%	-

The table above shows the Parent's ownership interests in the share capital of the Group companies.
The percentage interests are presented as aggregate interests (the percentage share held by the Parent in the share capital of a given Group company times the percentage share held by that Group company in its subsidiary).
The number of shares equals the number of voting rights held by the Parent in the Group companies.
The Parent holds equity interests below 50% of share capital in the following Group companies:

- RAFAKO S.A.
- PGL-DOM Sp. z o.o.,
- ENERGOTECHNIKA ENGINEERING Sp. z o.o.
- RAFAKO ENGINEERING Sp. z o.o.
- RAFAKO Hungary Kft.
- E001RK Sp. z o.o.
- E003B7 Sp. z o.o.
- RENG-Nano Sp. z o.o.

The Parent recognises these companies as subsidiaries as its relations with these undertakings indicate that the Parent exercises control over the companies within the meaning of IFRS 10 *Consolidated Financial Statements*. The Parent recognises that indirectly through RAFAKO S.A., a subsidiary, it is exposed to variable returns from its investments in the companies and is able to affect the amount of such returns (see Note 1.4.3).

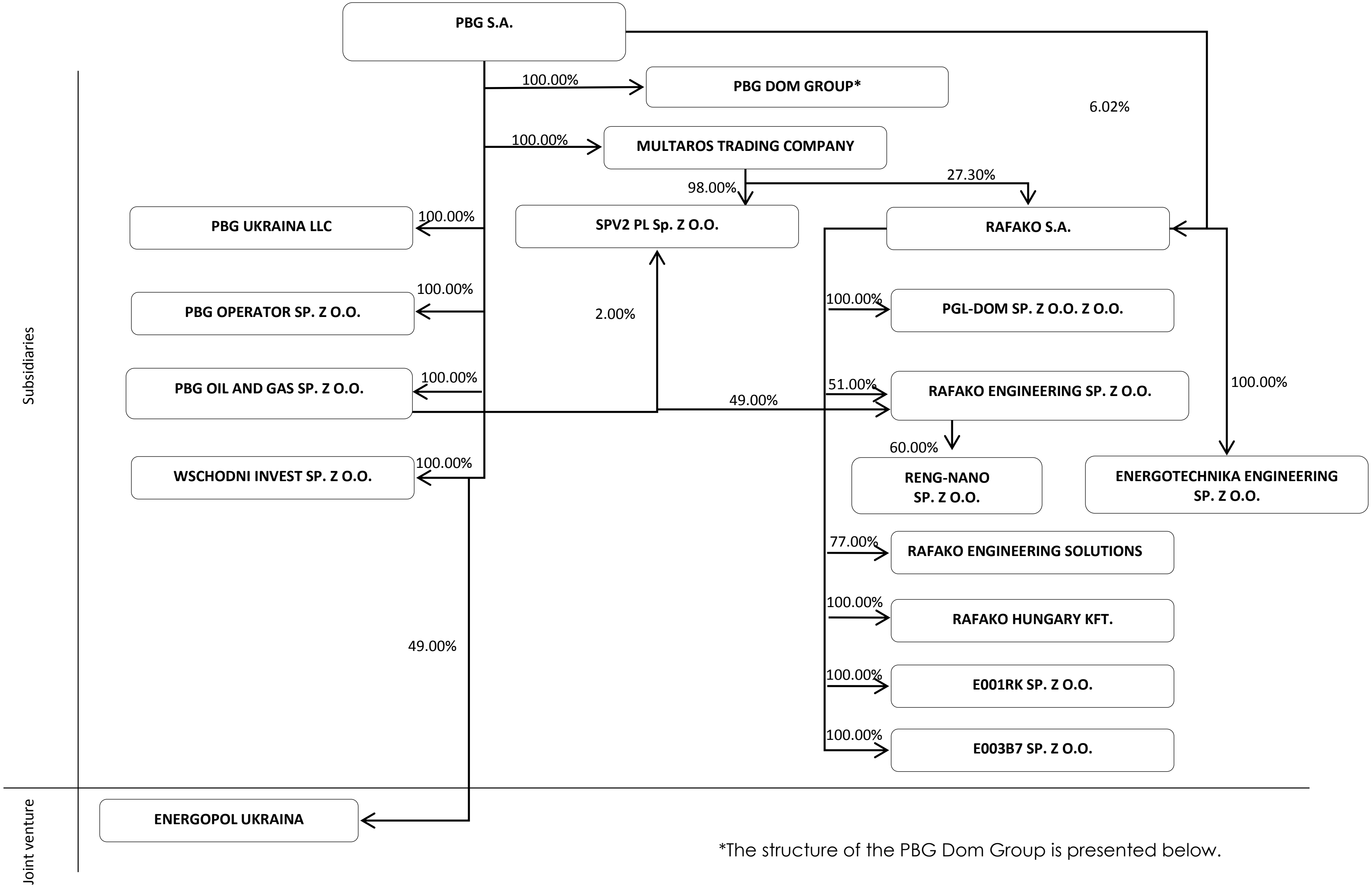
The Parent also holds interests exceeding 50% of the share capital in the following Group companies:

- Aprivia S.A. w upadłości likwidacyjnej (in liquidation bankruptcy),
- PBG Technologia Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy),
- Energomontaż Południe S.A. 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 bodies and officials appointed in the insolvency proceedings.

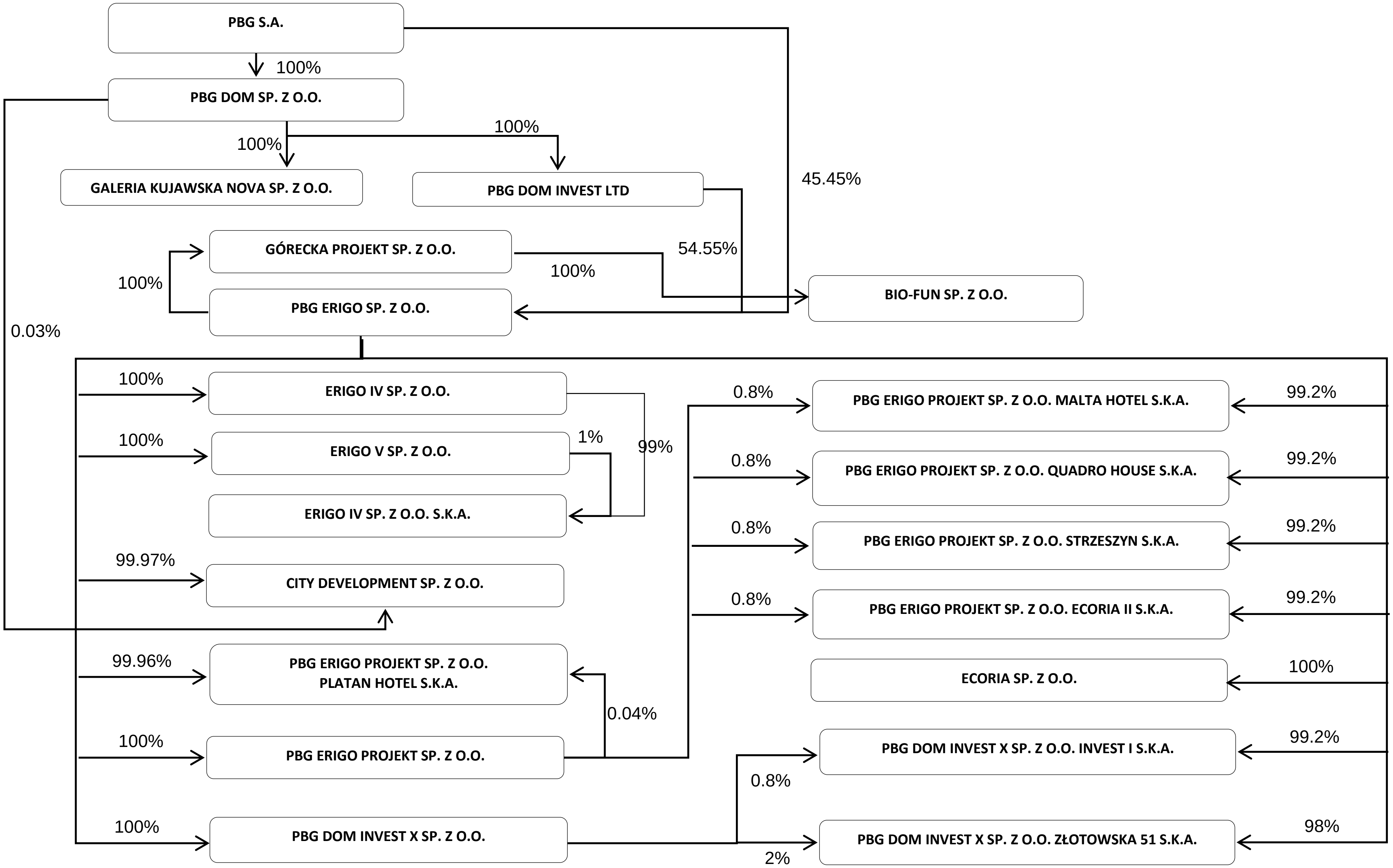
The Parent also holds 39.09% of shares in Hydrobudowa Polska S.A., which is not covered by these interim condensed consolidated financial statements as it is currently under the supervision of bodies and officials appointed in the insolvency proceedings.

STRUCTURE OF THE PBG GROUP AS AT MARCH 31ST 2018



*The structure of the PBG Dom Group is presented below.

STRUCTURE OF THE PBG DOM GROUP AS AT MARCH 31ST 2018



CHANGES IN THE GROUP

The following transaction within the Group took place in Q1 2018:

Merger with PBG AVATIA Sp. z o.o.

On March 21st 2018, the District Court for Poznań – Nowe Miasto i Wilda of Poznań registered a merger of PBG S.A. as the acquirer with PBG AVATIA Sp. z o.o. The merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code and Art. 515.1 of the Commercial Companies Code, in conjunction with Art. 516 of the Commercial Companies Code, and had no effect on the interim condensed consolidated financial statements, but only on the interim financial data of the Parent, as described in Section 3 of these 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 includes real property activities. Due to its immateriality, the company's financial data is not included in these interim condensed consolidated financial statements.

2.2 Policies applied in the preparation of the Q1 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").

These interim condensed consolidated financial statements cover the three months ended March 31st 2018 (unaudited) and contain comparative data for the three months ended March 31st 2017 (unaudited) and data as at December 31st 2017 (audited).

These interim condensed consolidated financial statements do not contain all the 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 Group's consolidated financial statements for 2017. 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 and 2016.

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

The consolidated financial statements of the RAFAKO Group were prepared on the assumption that the RAFAKO Group would continue as a going concern for at least 12 months as of the end of the reporting period. Circumstances indicating the existence of threats to the RAFAKO Group's ability to continue as a going concern were described in the RAFAKO Group's consolidated financial statements for Q1 2018, issued on May 25th 2018.

As at the date of these consolidated financial statements, the Parent's Management Board had examined 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 for the 12 months after the reporting date and in subsequent years depends on the company's ability to win profitable construction contracts, mainly in the key areas of the Group's business, that is the oil, gas and fuel sector, and the power sector. The PBG insolvency proceedings having been closed, the subsidiary's Management Board – acting in cooperation with other Group companies – has intensified steps to acquire new contracts.

Going concern assumption – the Parent

Given the current financial condition of the Parent, there are risks regarding its status as a going concern. As at March 31st 2018, the Parent's current liabilities (as disclosed in the separate financial statements) exceeded its current assets and assets classified as held for sale by approximately PLN 16.2m. Nonetheless, the Parent's separate financial statements for Q1 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 from the date of authorisation of these statements for issue. The assumption was based on the fact that the court's decision to approve the arrangement with creditors became final, which allowed the Parent to continue as a going concern. In 2016, the Parent began to perform its obligations under the arrangement and the bonds, which is scheduled to continue until June 2020. Also, presented below is the Management Board's plan of how it intends to cover the deficit in net working capital.

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

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Performance of the arrangement obligations and redemption of the bonds

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

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

As at the date of issue of the consolidated financial statements for Q1 2018, the Parent had issued Series A, B, C, D, E, F, G, H and I first issue bonds for PLN 388,795,000 (see PBG Current Report No. 54/2016), and Series B1, C1, D1, E1, F1, G1, H1 and I1 second issue bonds for PLN 85,291,000 (see PBG Current Report No. 6/2017). The Parent made a commitment to have the bonds listed on the stock exchange. As at the date of issue of the financial statements, the Series E, E1, F, F1, G, G1, H, H1, I and I1 bonds were traded on the Catalyst multilateral trading facility operated by the Warsaw Stock Exchange (see PBG Current Reports No. 10/2017, No. 12/2017, No. 16/2017 and No. 18/2017).

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

Period	H1 2018	H2 2018	2019	H1 2020	Total
Repayment of the Parent's liabilities under the arrangement and the bonds, including:	**68,324,628**	**24,662,549**	**131,875,614**	**300,075,115**	**524,937,905**
- redemption of bonds	*50,329,400*	*14,949,700*	*106,743,000*	*231,613,200*	**403,635,300**
- payment of arrangement instalments	*16,630,773*	*9,196,085*	*22,509,385*	*47,688,369*	**96,024,611**
- payment of contingent claims after the date of fulfilment of the condition	*1,364,454*	*516,764*	*2,623,229*	*7,738,539*	**12,242,987**
- payment of disputed claims	-	-	-	*13,035,007*	**13,035,007**

The Parent recognised a provision of PLN 25,277,994 for the repayment of contingent or disputed claims. As estimated by the Parent's Management Board, of that amount contingent claims of PLN 12,242,987 will become due and will be paid over the term of the arrangement (through payment of repayment instalments or conversion of the claims and then redemption of bonds), while disputed claims of PLN 13,035,007 will be paid when the dispute is resolved, but the time of their payment cannot be reasonably determined as at the date of these financial statements. Therefore, it was assumed that the disputed claims would be paid at the end of the arrangement term.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

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

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

Expected cash proceeds from:	**H1 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 – Q4 2019**	**H1 2020**	**Total**
Sale of the Parent's properties and other non-core assets	21,744,000	400,000	2,200,000	-	997,000	-	**25,341,000**
Repayment of loans by the Parent's subsidiaries implementing the divestment plan	26,026,446	-	55,000,000	-	10,550,000	-	**91,576,446**
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.	-65,647	-950,397	-2,588,976	2,443,826	7,623,089	3,647,443	**10,109,339**
Cash flows from the Company's other operations	-18,003,249	-3,174,605	3,746,709	-368,204	33,197,630	9,007,279	**24,405,561**
Cash flows under loans granted to the Company	18,800,000	3,800,000	-22,600,000	-	8,000,000	6,000,000	**14,000,000**
Refinancing of the balloon payment	-	-	-	-	-	280,000,000	**280,000,000**
TOTAL	**68,501,550**	**74,998**	**35,757,734**	**2,075,622**	**120,367,719**	**296,605,371**	**525,432,345**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Presented below is the balance of cash available after repayment of claims under the arrangement and redemption of bonds issued by the Parent:

Cash balance after: (i) redemption of bonds; (ii) payment of arrangement instalments [PLN]	**H1 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 – Q4 2019**	**H1 2020**
Sale of the Parent's properties and other non-core assets	176,922	251,920	11,347,105	13,422,727	1,914,832	494,440

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

As disclosed in the separate financial statements as at March 31st 2018, the total amount of current assets and non-current assets held for sale was PLN 119.2m, while the amount of current liabilities was PLN 135.4m, which implies negative net working capital of approximately PLN -16.2m. 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 15.8m 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 119.2m as at the reporting date, indicates that within 12 months from the reporting date the Company will be able to release PLN 126.7m, and the difference between individual current assets and assets held for sale followed mainly from the following assumptions:

- Estimates concerning the Group's Divestment Process indicate that within 12 months from the reporting date loan repayments will total approximately PLN 100.0m, i.e. about PLN 5.5m more compared with the amount disclosed in the financial statements prepared in accordance with IFRS. The higher amount is attributable to the repayment of loans by related entities; their valuation performed in accordance with IFRS is higher than the one based on the Management Board's detailed plans. In addition, throughout the first half of 2018 the Parent intends to raise an additional PLN 20m as a result of the performance of the agreement related to the Group's exit from the development project in Kiev.
- The Parent's Management Board estimates that it will be possible to increase the amount of potential proceeds from non-current assets that may be sold in a short term by PLN 3.2m, mainly in connection with the ongoing divestment of the Parent's non-core assets.
- The Parent's Management Board revised downward the estimated inflow of short-term receivables by about PLN 0.5m The revision resulted primarily from a detailed assessment of the collectability of individual receivables in a short term, which as at the reporting date were measured in accordance with IFRS 9.

The amount of current liabilities disclosed in the Parent's financial statements as at March 31st 2018 was PLN 135.4m. However, the analysis carried out by the Parent's Management Board indicates that approximately

PLN 111.0m will become due and payable within 12 months from the reporting date. The discrepancy is primarily due to the fact that liabilities under loans and security deposits were classified as current, i.e. ultimately repayable 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 (amounts given below have been calculated for the period from January 1st 2018):

- Time-optimised proceeds from divestment of the Parent's non-core assets – expected proceeds over the entire term of the arrangement: PLN 25.3m;
- Receivables under intra-group loans which can be realised after the sale of properties, and loans from other entities – expected proceeds over the entire term of the arrangement: PLN 171.6m, including PLN 80.0m from the sale of receivables under the Ministersky Project;
- Borrowings to be contracted at the end of the arrangement term to finance the last repayment under the arrangement in June 2020 – expected proceeds of PLN 280m;
- The balance will be covered with cash generated from core operations carried out jointly with other companies of the Group, including profits from current and potential future contracts, for instance in the power construction market, to be executed in close cooperation with RAFAKO S.A., and cash generated from other activities by the Company and PBG oil and gas.

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. Divestment of non-core assets as a source of funding of the arrangement will involve sale of properties owned by the Parent and its subsidiaries, or sale of subsidiaries. Proceeds from the sale of properties owned by subsidiaries will be transferred to the Parent as repayment of loans granted to the subsidiaries to finance their property development and investment activities before the arrangement bankruptcy was declared.

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

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

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

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

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 2.3), the Parent recognised in its accounts the effect of debt reduction, as set out in the arrangement and in agreements concluded with certain arrangement creditors. Detailed information on the recognition and presentation of the arrangement is included in the full-year consolidated financial statements for 2016.

These interim condensed consolidated financial statements disclose claims under the arrangement of PLN 91,704 thousand, including PLN 65,791 thousand as discounted non-current liabilities and PLN 25,913 thousand as current liabilities.

In these interim condensed consolidated financial statements, the Group discloses liabilities under bonds issued by the Parent to partially repay claims under the arrangement of PLN 343,380 thousand, including PLN 283,469 thousand as discounted non-current liabilities and PLN 59,911 thousand as current liabilities.

In the three months ended March 31st 2018, the Group repaid arrangement claims in the amount of PLN 908 thousand in the form of cash payments (in respect of the December instalment).

In the three months ended March 31st 2018, the Group did not redeem any bonds.

In these interim condensed consolidated financial statements, in the statement of profit or loss, under "Loss on arrangement with creditors", the Group recognised a loss of PLN 2,842 thousand resulting from revaluation of the discount of claims in the arrangement and of zero-coupon bonds issued by the Parent to partially repay those claims.

The figures presented above relate to the PBG Group and, given the consolidation procedures performed, do not include amounts of transactions related to the implementation of the arrangement that were made between the Parent and its subsidiaries in the capacity of arrangement creditors. A similar listing of figures which include the intragroup transactions is presented in the Parent's interim condensed financial statements on page 80 of this report.

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 Applied accounting policies

In 2018, the Group changed its accounting policies, restating the comparative data for the 12 months ended December 31st 2017, for the three months ended March 31st 2017 and as at January 1st 2017, taking into account the current accounting policies described below.

Change to accounting policies concerning recognition of provisions for warranty repairs

Previously, the RAFAKO Group subsidiaries recognised provisions for warranty repairs based on their estimates of expected and measurable costs of oversight, repairs and warranty works related to contractual commitments of the RAFAKO Group arising from completed construction contracts. While working on the implementation of IFRS 15, the Group revised its position and decided that a change of the timing of recognition of such provisions at some of its subsidiaries so they are recognised during the performance of a contract and not after its completion would better reflect the actual result on each contract and equity of the entire Group.

As a result of these changes in the Group's accounting policies, the Group's retained earnings as at December 31st 2017 decreased by PLN 5,446 thousand.

IFRS 9 *Financial Instruments*

The Group adopted IFRS 9 as of its effective date, i.e. as of January 1st 2018, without any comparative data restatements.

The Group did not identify any material impact of IFRS 9 on the Group's statement of financial position or equity, except for its impact on impairment. The Group recognised additional impairment losses with an adverse effect on equity. In addition, the classification of some financial instruments changed as a result of the IFRS 9 application.

- Classification and measurement

The Group did not identify any material impact of IFRS 9 on its statement of financial position or equity with respect to the classification and measurement of financial assets. All financial assets 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, in the case of investments in non-listed (unquoted) equities the Group elected to recognise their subsequent fair value changes 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 a 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 applies 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 an allowance for expected credit losses in an amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. The Group applies a simplified approach to trade receivables, measuring an allowance for expected credit losses in an amount equal to expected credit losses over the entire life of the instrument. The result was an increase in impairment losses.

- Hedge accounting

As IFRS 9 did not change the general principles governing the Group's hedge accounting, the application of IFRS 9 has no material impact 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.

Following the application of IFRS 9 as of January 1st 2018, the Group's retained earnings as at December 31st 2017 decreased by PLN 3,584 thousand.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014 and amended in April 2016, establishes a five-step model framework for the recognition of revenue from contracts with customers. Under IFRS 15, revenue is recognised in an amount reflecting the consideration to which the entity expects to be entitled in exchange for the transfer of promised goods or services to customers.

The new standard replaced all existing revenue recognition guidance under IFRS. IFRS 15 is effective for annual periods beginning on or after January 1st 2018, with early adoption permitted.

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

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

In the period covered by these interim condensed financial statements, 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 specific point in time, i.e. when control of the goods is passed to the customer. 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 to 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 obligation is 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 have 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 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 continue 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 also changed, including deferred income tax assets.

In conclusion, the main source of the IFRS 15 impact on the Group's consolidated financial statements 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 resulted in a decline in the Group's retained earnings as at December 31st 2017 of PLN 1,488 thousand.

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 in the Legal Form of a Lease*. IFRS 16 provides guidance for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 introduces 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 a right-of-use asset and a lease liability that reflects the lessee's obligation to make lease payments.

Depreciation of the right-of-use asset and interest on lease liabilities are recognised separately by the lessee.

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

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

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

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.

As 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 policies 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 were 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.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Impact of new standards on financial disclosures in the Group's interim condensed consolidated statement of financial position

Financial data disclosed in the interim condensed consolidated statement of financial position as at January 1st 2018 whose amounts changed relative to data disclosed in the financial statements for 2017 as a result of the IFRS 9 and IFRS 15 implementation was adjusted as shown below:

	Long-term receivables	Deferred tax assets	Inventories	Amounts due from customers for construction contract work	Trade and other receivables
IFRS 15	-	761	532	(1,878)	-
IFRS 9 (allowance for credit losses)	(89)	4,146	-	(1,893)	(11,301)

	Retained earnings	Non-controlling interests	Other long-term provisions	Other short-term provisions	Amounts due to customers under construction contracts	Trade and other payables
IFRS 15	(1,488)	(2,976)	-	(1,526)	(5,291)	10,696
IFRS 9 (allowance for credit losses)	(3,584)	(7,170)	-	-	-	1,617

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

If the Group had applied IAS 18 and IAS 11 to revenue recognition in Q1 2018, individual items of the interim condensed consolidated financial statements would have been higher or lower by:

Assets	
Deferred tax assets	(727)
Inventories	(527)
Amounts due from customers for construction contract work	3,350
Equity and liabilities	
Retained earnings	1,103
Accumulated loss from prior years	1,646
Net profit (loss) for current year attributable to owners of the parent	(543)
Non-controlling interests	2,208
Trade and other payables	(13,904)
Amounts due to customers under construction contracts	13,611
Other short-term provisions	(922)
Statement of comprehensive income	
Revenue	(2,463)
Cost of sales	1,909
Profit before tax	(554)
Income tax expense	11
Net profit	(543)

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, liabilities, revenue and costs.

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 contract costs. Based on these costs, the stage of contract completion is then estimated for the purposes of estimating revenue as at the end of the reporting period.

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, the completeness of which as at the reporting date is confirmed by relevant financial market institutions.

Estimating the discount rate for claims under the arrangement and bonds

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

Impairment of non-current assets

The Group assesses whether there is any objective evidence of asset 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 consolidated financial statements were 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 Group 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 under 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 March 31st 2018, the provision was PLN 27,447 thousand (December 31st 2017: PLN 28,682). 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 delivered to the main shareholder, the shareholder's equity interest in the Parent 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 March 31st 2018, recognised provisions for warranty repairs were PLN 56,636 thousand (December 31st 2017: PLN 31,021 thousand).

The restructuring provision was recognised by the Parent in 2012 and estimated at PLN 32,023 thousand as at the date of its recognition. In Q1 2018, the Parent used PLN 251 thousand of that provision. In 2017, the Management Board of the subsidiary RAFAKO S.A. decided to commence the next stage of company restructuring, and a provision was recognised for that purpose of PLN 8,368 thousand as at December 31st 2017. In Q1 2018, RAFAKO S.A. used PLN 482 thousand of the provision.
As at March 31st 2018, the provision available for use by the Group was PLN 11,856 thousand (December 31st 2017: PLN 12,589 thousand), of which PLN 7,886 thousand was a provision at RAFAKO S.A.

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 4,687 thousand (December 31st 2017: PLN 15,425 thousand).

Provisions for employee benefits were estimated using actuarial methods and the projected unit credit method for the Group companies.

IMPAIRMENT OF NON-CURRENT ASSETS

As at March 31st 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 as at March 31st 2018 was presented based of the Group's value appraisal reports prepared by an independent appraiser at the end of 2017 and at the beginning of 2018. In addition, the Group performed internal analyses to determine whether it was necessary to revise the value estimates provided by the independent appraiser. The Group assessed whether there were any indications of goodwill impairment in relation to the RAFAKO Group. The Parent's Management Board identified no indications of further impairment and no need to perform a goodwill impairment test (having used calculations from tests performed as at December 31st 2017).

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 the interim condensed consolidated financial statements depend on the estimates of the management boards of individual Group companies regarding the stage of completion of and profit margins expected to be achieved on individual contracts. Budgeted costs related to specific projects which have not yet been incurred are monitored on an ongoing basis by the management staff supervising the progress of construction work, as a result of which the budgets of individual contracts are revised at least monthly. However, the costs not yet incurred and the profit margins on individual running contracts thus estimated involve a degree of uncertainty, especially in the case of highly complex projects, which take several years to complete. In the present situation, the estimates are affected by additional risks, which may lead to their possible adjustment in the future. These risks include mainly the limited liquidity of the Parent and some of its subsidiaries, which may affect the pace of the contract work. This may in turn increase contract fixed costs, affect the Company's bargaining power in negotiations with subcontractors and suppliers and, in extreme cases, result in a failure to meet contractual deadlines for completing work and in a threat of penalties being imposed. Another type of risk affecting the pace of work are weather conditions, which cause seasonality of the construction and installation services market. In the case of some subsidiaries, the risk is exacerbated by the operational cycle in the power sector, where investment projects as well as repairs and upgrade work are performed mainly in the summer season. The Group is to some extent exposed to the risk of a downturn in the property market. The steadily falling property prices may affect the profitability of the property development projects. 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 a reporting period, the Group measures an allowance for expected credit losses in an amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. External bank ratings and publicly available information from rating agencies' websites were used for the purpose of credit risk assessment. The Company applies a simplified approach to trade receivables, measuring an allowance for expected credit losses in an amount equal to expected credit losses over the entire life 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 Functional currency and presentation currency of the financial statements; rules followed to translate financial data expressed in foreign currencies

2.3.1 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.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

2.3.2 Rules followed to translate financial data expressed in foreign currencies

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

a) net revenue from sale of finished goods, merchandise, and materials, operating profit, profit before tax, net profit, 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 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 4.1784;**

b) net revenue from sale of finished goods, merchandise, and materials, operating profit, profit before tax, net profit, 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 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 4.2891**;

c) total assets, liabilities and provisions for liabilities, current liabilities, non-current liabilities, equity and share capital as at March 31st 2018 were translated at the EUR mid-rate effective for that date, i.e. **PLN 4.2085**;

d) total assets, liabilities and provisions for liabilities, current liabilities, non-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**;

e) total assets, liabilities and provisions for liabilities, current liabilities, non-current liabilities, equity and share capital as at March 31st 2017 were translated at the EUR mid-rate effective for that date, i.e. **PLN 4.2198.**

2.4 Selected additional explanatory notes

2.4.1 Expenses by nature

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Depreciation and amortisation	3,854	4,044
Raw materials and consumables used	42,845	23,449
Services	195,515	343,031
Taxes and duties	2,154	2,891
Employee benefits	54,533	59,279
Other operating expenses	2,598	2,213
Expenses by nature	**301,499**	**434,907**
Cost of merchandise and materials sold	524	257
Changes in inventories of finished goods and work in progress (-)	(10,162)	(226)
Work performed by entity and capitalised	2,368	(245)
Cost of sales, distribution costs and administrative expenses	**294,229**	**434,693**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

2.4.2 Other income

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Gain on disposal of non-financial non-current assets	436	2,100
Reversal of impairment losses on property, plant and equipment and on intangible assets	2	-
Reversal of impairment losses on receivables	2,226	487
Reversal of inventory write-downs	293	813
Reversal of impairment losses on other assets	880	3,452
Reversal of unused provisions	-	126
Compensation and penalties received	686	9
Grants received	29	39
Lease income	369	586
Interest on cash in escrow account used for operating activities	265	451
Interest on loans advanced as part of operating activities	38	13
Other interest related to operating activities	129	98
Net exchange differences from operating activities	105	-
Court fees refunded	20	22
Other	227	849
Total other income	**5,705**	**9,045**

2.4.3 Other expenses

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Measurement of investment property to fair value	456	-
Impairment losses on property, plant and equipment and on intangible assets	8	-
Impairment losses on receivables	2,415	150
Impairment losses on other assets	195	16
Running costs of investments	-	25
Compensation and penalties paid	17	9
Grants	130	629
Interest on liabilities	247	259
Net exchange differences related to operating activities	-	327
Discount on long-term receivables and payables	332	1,140
Cost of litigation	-	86
Other costs	907	984
Total other expenses	**4,707**	**3,625**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

2.4.4 Finance income

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Interest income on financial assets other than at fair value through profit or loss:		
Cash and cash equivalents (bank deposits)	15	20
Loans and receivables	1	38
Other interest	15	74
Total interest income on financial assets other than at fair value through profit or loss	**31**	**132**
Fair value gains and realised gains on financial instruments at fair value through profit or loss		
Cash and cash equivalents	270	-
Loans and receivables	16	-
Gain (loss) (+/-) from exchange differences	**286**	**-**
Other finance income	11	14
Total finance income	**328**	**146**

2.4.5 Finance costs

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Interest expense on financial liabilities other than at fair value through profit or loss:		
Finance lease liabilities	418	130
Credit facilities	457	379
Bank overdrafts	678	902
Non-bank borrowings	414	336
Trade and other payables	-	53
Total interest expense on financial liabilities other than at fair value through profit or loss	**1,967**	**1,800**
Fair value losses and realised losses on financial instruments at fair value through profit or loss:		
Hedge derivatives	436	171
Listed equity instruments	-	(40)
Fair value losses and realised losses on financial instruments at fair value through profit or loss	**436**	**131**
Gain (loss) (-/+) from exchange differences on:		
Cash and cash equivalents	-	3,629
Financial liabilities at amortised cost (e.g. lease)	-	(2,300)
Gain (loss) (-/+) from exchange differences	**-**	**1,329**
Impairment losses on available-for-sale financial assets	45	-
Other finance costs	70	46
Total finance costs	**2,518**	**3,306**

2.5 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:**
  - 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 (the Group's chief operating decision maker) to make decisions on allocation of resources and evaluate the results of the allocation as well as 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 consolidated financial statements.

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

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

Revenue comprises amounts derived from sales to external customers. As in 2017, no inter-segment sales took place in Q1 2018.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

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– MAR 31 2018

Item	Segment		Other	Total
	Gas, oil and fuels	Power construction		
Financial highlights of the operating segments for the period January 1st–March 31st 2018				
Segment total revenue	**1,819**	**298,902**	**9,741**	**310,462**
Revenue from external customers	1,819	298,902	9,741	310,462
Total cost	**(1,831)**	**(258,740)**	**(9,322)**	**(269,893)**
Segment profit (loss)	**(12)**	**40,162**	**419**	**40,569**
Distribution costs/administrative expenses	x	x	x	(24,336)
Other income	x	x	x	998
Loss on arrangement with creditors	x	x	x	(2,842)
Operating profit	x	x	x	**14,389**
Net finance costs	x	x	x	(2,190)
Profit before tax	x	x	x	**12,199**
Income tax expense	x	x	x	(9,189)
Net profit from continuing operations	x	x	x	**3,010**

OPERATING SEGMENTS – JAN 1– MAR 31 2017

Item	Segment		Other	Total
	Gas, oil and fuels	Power construction		
Financial highlights of the operating segments for the period January 1st–March 31st 2017				
Segment total revenue	**8,467**	**443,454**	**4,260**	**456,181**
Revenue from external customers	8,467	443,454	4,260	456,181
Total cost	**(8,302)**	**(394,228)**	**(3,722)**	**(406,252)**
Segment profit (loss)	**165**	**49,226**	**538**	**49,929**
Distribution costs/administrative expenses	x	x	x	(28,441)
Other income/expenses	x	x	x	5,420
Loss on arrangement with creditors	x	x	x	(1,863)
Operating profit	x	x	x	**25,045**
Finance costs	x	x	x	(3,160)
Profit before tax	x	x	x	**21,885**
Income tax expense	x	x	x	(10,160)

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Net profit from continuing operations	x	x	x	**11,725**

2.6 PBG Group's most significant achievements and failures in Q1 2018, and key related events

In Q1 2018, the PGB Group's net revenue from sale of finished goods, services, merchandise and materials was PLN 307,086 thousand, with gross profit of PLN 38,484 thousand.
The following construction contracts were the key sources of the Group's revenue from principal business in Q1 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 139,911 thousand;

b. Delivery and installation of a catalytic flue gas NOx reduction 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 49,283 thousand;

c. Construction of a biomass-fired CHP unit consisting of fluidised bed boilers and biomass transport and feeder systems; contract executed between UAB VILNIAUS KOGENERACINE JEGAINE and RAFAKO S.A. – recognised revenue: PLN 25,721 thousand;

d. NOx reduction at OP-650 boilers No. 1, 2 and 3 at the Ostrołęka Power Plant B − design, construction, start-up and commissioning of a flue gas NOx reduction unit for coal- and biomass-fired type OP-650 boilers, executed between Energa Elektrownie Ostrołęka S.A. and RAFAKO S.A. - recognised revenue: PLN 14,130 thousand;

e. Design, delivery and construction of a grid, steam generator, and flue gas treatment unit for two lines at the Thermal Waste Treatment Plant in Szczecin, contract executed between Mostostal Warszawa S.A. and RAFAKO S.A. − recognised revenue: PLN 10,965 thousand.

Key events related to the PBG Group's material achievements and failures in Q1 2018

Share capital increase at the Parent

On January 19th 2018, the Parent's registry court registered a PLN 4,272.20 increase in the Parent's share capital effected through an issue of 213,610 ordinary Series H registered shares, while on January 22nd 2018, Mr Jerzy Wiśniewski took up over 66,021 Series I shares, which translated into an increase in the Parent's share capital to PLN 16,087 thousand.The share capital was increased in line with the arrangement (PBG Current Report No. 3/2018, PBG Current Report No. 4/2018).

Introduction of K Series shares of RAFAKO S.A. to public trading

On January 9th 2018, the Management Board of RAFAKO S.A. was notified of the decision of the Central Securities Depository of Poland to register Series K ordinary bearer shares in the depository for securities, provided that the WSE decides to introduce the shares to trading on the regulated market (RAFAKO Current Report No. 3/2018). On January 16th 2018, the RAFAKO management board announced that Series K shares were introduced to trading on the stock exchange (RAFAKO Current Report No. 4/2018); and on January 18th 2018 the management board was notified that the CSDP had registered Series K shares in the depository for securities (RAFAKO Current Report No. 6/2018).

Best bid selected for turnkey construction of the Paldiski and Puiatu gas compressor station in Estonia (Current Report No. 14/2018) On March 20th 2018, the RAFAKO Management Board was notified that Elering AS of Tallinn selected the company's bid as the best bid in the tender procedure for the turnkey construction of the Paldiski and Puiatu gas compressor station in Estonia. The total net-of-tax value of the company's bid is EUR 50m (approximately PLN 210m).

Agreement signed by a subsidiary

On March 29th 2018, RAFAKO S.A. signed a contract for the design, delivery and installation of a LNG tank in Finland. The contract sum is EUR 13.4m.

2.7 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 March 31st 2018, the PBG Group carried no derivatives hedging currency risk.

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

The Parent's subsidiary uses interest rate swaps (IRS) to hedge against interest rate risk.

Under a credit facility agreement and a lease contract, some of 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 2018, the effect of derivatives used to hedge interest rate risk, as recognised in the consolidated statement of profit or loss as at March 31st 2018, was as follows:

Effect of derivative instruments hedging interest rate risk		
Item	Mar 31 2018	Mar 31 2017
	PLN '000	PLN '000
Finance costs	162	171
total expenses	**162**	**171**
Effect on profit (loss)	**(162)**	**(171)**

As at March 31st 2018, the fair value of open positions used to hedge interest rates was negative at PLN -1,013 thousand and related to cash flow hedging derivatives.

2.8 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.

2.9 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,

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.

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

During the first quarter ended on March 31st 2018, the Group subsidiaries paid no dividend to non-controlling shareholders. No dividends were paid by the Parent during the period, either. In accordance with applicable laws, dividends may only be distributed from the profit of individual Group companies, and not based on the Group's consolidated profit or loss.

2.11 Events subsequent to March 31st 2018, undisclosed in these statements, which may materially affect future consolidated financial results of the PBG Group and the Company's separate financial results

Selection of RAFAKO S.A.'s bid as the best bid for construction of the DN700 gas pipeline from Szczecin to Gdańsk, Goleniów Płoty section (Current Report No. 17/2018)

On April 27th 2018, the Management Board of RAFAKO S.A. was notified that Operator Gazociągów Przesyłowych GAZ- SYSTEM S.A. selected the company's bid as the best bid in the tender procedure for delivery of construction work under the 'Construction of the DN 700 gas pipeline from Szczecin to Gdańsk, Goleniów-Płoty section' project. The net-of-tax value of the company's bid totals approximately PLN 124.9m (PLN 153.6m inclusive of VAT). The project completion deadline is 24 months from the contract date.

Update of the PBG Strategy

On April 5th 2018, the PBG Management Board approved the updated Strategy for the PBG Group for 2018-2020. The Strategy seeks to deliver long-term growth in the Group's value by building the largest engineering and construction group in Poland around the RAFAKO Group, which enjoys a strong position in international markets, offering specialist construction services for the power sector and for the oil and gas upstream and downstream sectors. One of the key factors in the delivery of the strategy will be the structure of the Group, with EPC and general contractor capabilities in the oil, gas and fuels segment transferred to the RAFAKO Group (RB PBG 11/2018).

Appointment of auditor

On May 16th 2018, the Supervisory Board, as the body authorised under the Company's Articles of Association, having considered the Audit Committee's recommendation prepared in accordance with Art. 130.1.8 of the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (Dz. U. of 6.06.2017, item 1089), following the Company's procedure to select a qualified auditor for statutory audit purposes, as defined in the Company's internal regulations on the policy and procedures for qualified auditor selection, selected Grant Thornton Polska sp. z o.o. sp. k., entered in the list of qualified auditors of financial statements maintained by the National Chamber of Statutory Auditors under No. 4055, as the auditor qualified to audit the separate and consolidated financial statements of the Company and its Group for 2018 and 2019, and to review the separate and consolidated interim financial statements of PBG S.A. and the Group for the first half of 2018 and 2019.

2.12 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.

2.13 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 previous consolidated quarterly report, based on information available to the Parent:

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Shareholder	Number of shares	Share in share capital and total voting rights
Jerzy Wiśniewski	189,836,345	23.6100%
Powszechna Kasa Oszczędności Bank Polski S.A.	53,060,500	6.5991%
Bank Polska Kasa Opieki S.A.	62,848,380	7.8165%

Changes in the Company's shareholding structure in Q1 2018

In Q1 2018, there were no changes in the ownership of Company shares by shareholders holding 5% or more of total voting rights at the General Meeting.

Changes in the Company's shareholding structure subsequent to March 31st 2018

Between March 31st 2018 and the date of authorisation of these interim condensed consolidated financial statements for issue, there were no changes in the ownership of Company shares by shareholders holding 5% or more of total voting rights at the General Meeting.

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

In the period from the issue date of the 2017 report, based on information available to the Parent as at: **May 28th 2018,** there were no changes in the holdings of Company shares or rights to Company shares (options) held by members of the Management and Supervisory Boards.

Item	***Number of shares***	
	As at the filing date of the Q1 2018 report: ***May 28th 2018***	*As at the filing date of the 2017 report:*
Management personnel:		
Jerzy Wiśniewski	*189,836,345*	*189,836,345*
Supervisory personnel:		
Małgorzata Wiśniewska	*3,279*	*3,279*

2.15 Litigation, arbitration or administrative proceedings

As at the date of these interim condensed consolidated financial statements, certain Group companies were involved in litigation as both defendants or plaintiffs.

Other than specified below, in Q1 2018 there were no material changes in the 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 25th 2018.

• PBG S.A. against DESA S.A., court docket No. XX GC 238/18

On February 26th 2018, the Company filed a claim for payment and application for a court fee waiver. The claimed amount was PLN 450 thousand. The defendant filed its response to the statement of claim, served on the Company on May 7th 2018. The Company applied for an obligation to file a reply. The case is pending.

• Bankruptcy administrator of Hydrobudowa Polska's claim for payment against subsidiary PBG Dom

On April 4th 2018, a hearing was held at which some of the witnesses were heard. The hearing of witnesses will be continued on June 8th 2018.

- **Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.**

On November 25th 2016 in Warsaw, the Employer – Operator Gazociągów Przesyłowych Gaz-System S.A. (hereinafter: Gaz-System) and the Contractor – a consortium of 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 contract for 'Expansion of the Rembelszczyzna gas compressor station as part of construction of the high-pressure DN700 MOP 8.4 MPa Rembelszczyzna-Gustorzyn gas pipeline with ancillary technical infrastructure' and to settle mutual accounts. The parties terminated the contract with effect as of the date of signing the agreement, recognising that the contract had been partly performed and determining that settlements for its partial performance would be made on the basis of a final court decision issued in the case brought to the court by the Contractor.

On June 23rd 2017, Gaz-System filed a claim against the consortium for payment of PLN 20,890 thousand with statutory interest accrued from November 26th 2016 until the payment date, as the difference between the 'Contractor's Fee Paid' (as defined in the agreement) and the 'Recognised Costs' (also defined in the agreement). On November 30th 2017, the consortium filed a response to the claim, questioning Gaz-System's claim in its entirety. The court set the hearing date for July 11th 2018 and summoned three witnesses.

On November 30th 2017, the consortium filed a claim against Gaz-System of PLN 23,621 thousand under settlement of the contract, i.e. payment of the fee due to the consortium and costs reasonably incurred to perform its obligations under the contract, which Gaz-System had agreed to pay under the agreement. Gaz-System filed its response to the statement of claim, and the court imposed an obligation for the claimants to present their position. The consortium is obliged to present its position on Gaz-System's response to the statement of claim by May 30th 2018.

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

Court proceedings against Mostostal Warszawa S.A.

On October 11th 2016, RAFAKO S.A. filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, demanding payment of PLN 8,042,475 with statutory interest accrued from August 3rd 2016 as a refund of 70% of the amounts retained by Mostostal as a performance bond. The grounds for the claim were that the parties terminated their cooperation under the subcontractor agreement for design, delivery and erection of a grid, boiler and flue gas treatment system for two lines of the Thermal Waste Treatment Plant in Szczecin, concluded on December 18th 2012 (eventually, on July 7th 2016, RAFAKO submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project came to an end, Mostostal Warszawa S.A. is obliged to return the amounts retained as a performance bond since contractual grounds for such bond ceased to exist. On October 19th 2016, the Regional Court of Gliwice issued a payment order for the full amount claimed by RAFAKO S.A. On November 25th 2016, the court received an objection against the payment order, lodged by Mostostal Warszawa S.A. On June 30th 2017, the Regional Court of Gliwice awarded the entire sum demanded by the subsidiary. On August 28th 2017, Mostostal Warszawa S.A. filed an appeal against the ruling of the court of first instance. After RAFAKO S.A. submitted a response to the appeal on October 5th 2017, the date of the hearing has not yet been set. In the opinion of the law firm representing RAFAKO S.A. in these proceedings, Mostostal Warszawa S.A. is obliged to return the amounts retained as a performance bond. In view of the current status of the proceedings and the first instance ruling, which was favourable to RAFAKO S.A., as well as the position of the law firm representing the subsidiary, the RAFAKO Management Board believes that the risk that the said asset will not be recovered is negligible as at the date of these interim condensed consolidated financial statements, and therefore no impairment loss was recognised for this disputed receivable.

Court proceedings against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o.

On March 20th 2017, RAFAKO S.A. filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 with statutory interest accrued from November 18th 2016, based on an invoice issued for the work performed by RAFAKO S.A. and not paid by Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów sp. z o.o. under the subcontract for construction and delivery of the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded as the works were completed, and, to support it, the company carried out a relevant survey of the work performed and delivered the results to the debtors. On March 29th 2017, the court issued a non-final order for payment of the claimed amounts. On April 19th 2017, the defendants lodged with the court their objections against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the defendants' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. So far, one preliminary hearing was held in this case, on October 6th 2017. The defendants submitted to the court a response to the plaintiff's pleading of July 27th 2017, in which the claim was extended. Since the subject matter of the dispute is very complicated, it is difficult to predict its closing date. In the course of the court proceedings, RAFAKO S.A. was given the right to inspect the survey of work performed on the project, commissioned to a court expert by the court reviewing the dispute between Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów sp. z o.o. concerning final settlement of contract performance after the contract was terminated. RAFAKO S.A. compared the results of that survey against the work survey prepared internally by RAFAKO S.A., finding no significant discrepancies. In RAFAKO S.A.'s opinion, the defendants may challenge the amount of RAFAKO's claim (determined by the company based on the surveyed scope of work and contractual fee agreed for that work), because the claim will be subject to award by the court and may ultimately be contingent on the results of the court expert's survey. In the opinion of the law firm representing RAFAKO S.A. in these proceedings, the claim is legitimate (the chances that the case will be resolved in RAFAKO's favour are about 90%), whereas the legitimacy of its amount will be assessed based on the collected evidence, in particular the court expert's opinion. In view of the current status of the proceedings and the position of the law firm representing the subsidiary, the RAFAKO Management Board believes that the risk that the said asset will not be recovered in the net amount stated is negligible as at the date of these interim condensed consolidated financial statements.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

2.16 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 condensed consolidated financial statements, are presented below.

2.16.1 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

Item	Revenue			Receivables		
	Jan 1–Mar 31 2018	Jan 1–Dec 31 2017	Jan 1–Mar 31 2016	as at Mar 31 2018	as at Dec 31 2017	as at Mar 31 2017
Sales to:						
Other related parties	47	2,878	26	617	2,228	95
Total	**47**	**2,878**	**26**	**617**	**2,228**	**95**

RELATED-PARTY TRANSACTIONS – PURCHASES AND LIABILITIES

Item	Purchases (costs, assets)			Liabilities		
	Jan 1–Mar 31 2018	Jan 1–Dec 31 2017	Jan 1–Mar 31 2017	as at Mar 31 2018	as at Dec 31 2017	as at Mar 31 2017
Purchases from:						
Other related parties	805	6,267	1,387	1,002	488	2,191
Total	**805**	**6,267**	**1,387**	**1,002**	**488**	**2,191**

RELATED-PARTY TRANSACTIONS – LOANS ADVANCED

Item	Mar 31 2018		Dec 31 2017		Mar 31 2017	
	Principal amount as per agreement	Outstanding balance	Principal amount as per agreement	Outstanding balance	Principal amount as per agreement	Outstanding balance
Loans advanced to:						
Other related parties	195	195	150	-	4,812	2
Total	**195**	**195**	**150**	**-**	**4,812**	**2**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

RELATED-PARTY TRANSACTIONS – BORROWINGS

Item	Mar 31 2018		Dec 31 2017		Mar 31 2017	
	Principal amount as per agreement	Outstanding balance	Principal amount as per agreement	Outstanding balance	Principal amount as per agreement	Outstanding balance
Borrowings from:						
Other related parties	13	15	13	15	63	66
Total	**13**	**15**	**13**	**15**	**63**	**66**

As at March 31st 2018, the amount of loans received by the Group from members of its key management personnel was PLN 11,266 thousand (December 31st 2017: PLN 11,158 thousand).

2.17 Issue, redemption and repayment of debt and equity securities

As announced in PBG's Current Report No. 34/2016, issued on November 9th 2016, the Parent and certain Group 5 and Group 6 arrangement creditors executed documents amending the agreements of July 31st 2015, setting out the terms of restructuring of the Parent's arrangement liabilities, including in particular: (i) the issue, agency and co-financing Agreement of July 31st 2015 as well as Model Terms and Conditions. Moreover, in accordance with the terms of the arrangement finally approved on June 13th 2016, the Parent undertook towards Group 1, Group 3, Group 4, Group 5 and Group 6 creditors to issue bonds ("**Bonds**"). Eligible creditors will have the right to convert their claims covered by the arrangement into the bonds, under the issue, agency and co-financing agreement of July 31st 2015, as amended by Annex 1 dated November 8th 2016, the execution of which was communicated by the Parent in PBG Current Report No. 34/2016 of November 9th 2016. On November 29th 2016, the Parent's Management Board was notified by Pekao Investment Banking S.A. (the issue agent) of the close of the First Issue of Bonds within the meaning of the issue, agency and co-financing agreement; see PBG Current Report No. 54/2016 of November 30th 2016. As part of the First Issue of Bonds, the Parent issued nine series of bonds, i.e. Series A, B, C, D, E, F, G, H, and I. The subscription period for the First Issue Bonds ran from November 15th to November 28th 2016. 5,767,005 bonds were subscribed for as part of the First Issue. On November 28th 2016, 3,887,950 bonds were allotted at the subscription price of PLN 100 per bond. The bonds were subscribed for by 42 entities, including 41 Group 5 creditors and one creditor classified in both Group 1 and Group 4. The value of the subscription in the First Issue of Bonds was PLN 388.795. In addition, on February 10th 2017 the Second Issue of Bonds took place, announced by the Parent in PBG Current Report No. 6/2017 of February 10th 2017. As part of the Second Issue of Bonds, the Parent issued eight series of bonds, i.e. Series B1, C1, D1, E1, F1, G1, H1, and I1. The subscription period for the Second First Issue Bonds was held December 30th 2016 to February 9th 2017. 1,180,488 bonds were subscribed for as part of the Second Issue. On February 9th 2017, 852,910 bonds were allotted at the subscription price of PLN 100 per bond. Bonds of the Second Issue were subscribed for by six entities, including three Group 5 creditors, one Group 3 creditor, one Group 1 creditor, and one entity classified in both Group 1 and Group 4. The value of the subscription was PLN 85,291 thousand, including PLN 38,849 thousand for subsidiary RAFAKO S.A.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

The nominal value of each issued bond is PLN 100, and their total nominal value, including the nominal value of further bonds which may issued under the issue, agency and co-financing agreement will not exceed PLN 710,000 thousand during the term of the bond programme. The bonds are secured non-interest bearing instruments. For details of the security used in the bond programme, see Section III 1) of PBG Current Report No. 26/2015 issued by the Parent on August 2nd 2015, and then updated in PBG Current Reports No. 12/2016 of June 17th 2016, 17/2016, 19/2016, and 34/2016. Additional security in respect of the bond programme is provided in the form of declarations of voluntary submission to enforcement by PBG oil and gas Sp. z o.o. and Multaros Trading Company Limited pursuant to Art. 777 of the Code of Civil Procedure. By the date of issue of these financial statements, the Parent had timely redeemed Series A, Series B, Series C, Series D, Series B1, Series C1 and Series D1 bonds, whose redemption dates in accordance with the Terms and Conditions of the Bonds fell on December 31st 2016 (Series A), March 31st 2017 (Series B and Series B1), June 30th 2017 (Series C and C1), and December 31st 2017 (Series D and D1). The redemption date for Series E and Series E1 Bonds falls on June 30th 2018.

Delivery of the divestment plan in the first quarter of 2018

Pursuant to the terms of the bonds issued by the Parent (Art. 11.5.4 of the Terms and Conditions of the Bonds applicable to Series A–Series I bonds, and to Series B1–Series I1 bonds, respectively), presented below is the information on the progress in delivery of the divestment plan in Q1 2018, that is from January 1st 2018 to March 31st 2018.

No.	Seller's name	Location	Address	Sale price (VAT inclusive)	*Divestment property value – within the meaning of the definition in the terms and conditions of the bonds Expected proceeds*	Early repayment trigger
1	PBG Erigo Projekt Sp. z o.o. Quadro House S.K.A.	Świnoujście	Ul. Wojska Polskiego 8E/4	PLN 420,000.00	PLN 151,199.20	NO
2	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E64	PLN 22,000.00	PLN 5,000.00	NO
3	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space I25	PLN 17,000.00	PLN 5,000.00	NO
4	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space H50	PLN 18,000.00	PLN 5,000.00	NO
5	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Ul. Wojska Polskiego 8D/1	PLN 455,000.00	PLN 305,664.00	NO
6	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E09	PLN 25,000.00	PLN 5,000.00	NO
7	PBG Erigo Projekt Sp. z o.o. Quadro House S.K.A.	Świnoujście	Ul. Chełmońskiego 6D/1	PLN 500,000.00	PLN 198,650.01	NO

Information on the progress in delivery of the divestment 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.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Disclosure of updates to or revisions of the appraisal report by the divestment adviser upon the Company's request

Pursuant to the terms of the bonds issued by the Company, below the Company presents information on the updates to and revisions of the appraisal report made by the divestment adviser (within the meaning of the Terms and Conditions of the Bonds) upon the Parent's request in the period from January 1st 2018 to the date of issue of these financial statements.

No.	Identification of property in accordance with the divestment plan*	Location	Address	Updated valuation	Date of the appraisal report
1	Wysogotowo Building A	Wysogotowo	Ul. Skórzewska 35,	5,820,000.00 PLN	06.03.2018
2	Wysogotowo Land behind the building A	Wysogotowo	Ul. Skórzewska 35,	1,675,000.00 PLN	17.04.2018
3	Wysogotowo Land under outdoor storage facility	Wysogotowo	Ul. Skórzewska 35,	950,000.00 PLN	17.04.2018
4	Poznań, Skalar Office Center	Poznań	ul. Górecka 1	26,310,000.00 EUR	23.03.2018

** Marked as specified in schedule 1 to the divestment plan attached to the Terms and Conditions of the Bonds.*

2.18 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, referred to in Note 2.17, 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 Company and selected obligor companies. The security comprises primarily:

• civil-law sureties provided by selected subsidiaries for up to PLN 1,065,000 thousand (i.e. 150% of the maximum value of the bond programme); as at March 31st 2018, the nominal amount outstanding under the bonds issued by PBG was PLN 403,635 thousand;

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

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

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

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

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

• declarations of voluntary submission to enforcement, made by the Company and selected subsidiaries.
Furthermore, PBG oil and gas Sp. z o.o. issued a surety to the security agent for the divestment account funds used by the Company (as "new financing") up to the lower of the amount equal at any time to 150% of the funds or PLN 120,000 thousand. The surety will expire on or before June 30th 2023.
As at March 31st 2018, the amount of the divestment account funds used by the Parent as "new financing" was PLN 0.

2.19 Contingent assets and liabilities

Off-balance-sheet receivables (PLN '000)	Mar 31 2018	Dec 31 2017
Receivables under bank and insurance guarantees received mainly as security for performance of contracts:	677,062	672,684
Promissory notes received as security	14,336	13,791
Total off-balance-sheet receivables, including:	**691,398**	**686,475**

Off-balance-sheet liabilities (PLN '000)	Mar 31 2018	Dec 31 2017
Liabilities under bank and insurance guarantees provided mainly as security for performance of contracts:	296,027	328,619
Liabilities under sureties	1,428,464	1,429,147
Promissory notes issued as security	26,946	17,200
Total off-balance-sheet liabilities, including:	**1,751,437**	**1,774,966**

In these interim condensed consolidated financial statements as at March 31st 2018, the Group disclosed contingent receivables as off-balance-sheet items of **PLN 691,398 thousand**. The contingent receivables included mainly performance bonds of PLN 677,062 thousand and promissory notes received as security for the performance of contracts of PLN 14,336 thousand.
In Q1 2018, the PBG Group recorded an increase in contingent receivables, mainly comprising amounts received as security for the performance of contracts (PLN 4,923 thousand), including a PLN 4,378 thousand increase in receivables under guarantees received, and a PLN 545 thousand increase in receivables under promissory notes.

As at March 31st 2018, the Group disclosed contingent liabilities as off-balance-sheet items of **PLN 1,751,437 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 March 31st 2018 are 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 296,027 thousand), sureties issued by Group

companies for third parties (PLN 1,428,464 thousand), as well as promissory notes issued to secure the performance of contracts (PLN 26,946 thousand).
In Q1 2018, the PBG Group recorded a PLN 23,529 thousand decrease in contingent liabilities, including mainly a PLN 32,592 thousand decrease in liabilities under provided guarantees, a PLN 683 thousand decrease in sureties issued, and a PLN 9,746 thousand increase in liabilities under promissory notes issued to secure the performance of contracts.

In accordance with the issue and agency agreement, referred to in Note 2.17, 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 for up to PLN 1,065,000 thousand (i.e. 150% of the maximum value of the bond programme); as at March 31st 2018, PLN 403,635 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 June 30th 2023.
As at March 31st 2018, the amount of the divestment account funds used by the Parent as "new financing" was PLN 0.

2.20 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 2.11, no other material events occurred in the first three months of 2018 which could have a significant bearing on the assessment of the Group's assets, financial position or financial performance or which would be likely to cause significant changes in the foregoing.

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

In Q2 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 292,449 thousand;

b. Delivery and installation of a catalytic flue gas NOx reduction 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 47,932 thousand;

c. Construction of a biomass-fired CHP unit consisting of fluidised bed boilers and biomass transport and feeder systems; contract executed between UAB VILNIAUS KOGENERACINE JEGAINE and RAFAKO S.A. – planned revenue: PLN 24,503 thousand.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

3. INTERIM CONDENSED FINANCIAL STATEMENTSOF THE PARENT

SELECTED FINANCIAL DATA

Item	for the period Jan 1–Mar 31 2018 PLN	for the period Jan 1–Mar 31 2017 PLN	for the period Jan 1–Mar 31 2018 EUR	for the period Jan 1–Mar 31 2017 EUR
Statement of profit or loss				
Revenue	3,427	2,750	820	641
Operating profit (loss)	(1,854)	(4,194)	(444)	(978)
Profit (loss) before tax	(2,309)	(4,491)	(553)	(1,047)
Net profit (loss) from continuing operations	(2,309)	(4,491)	(553)	(1,047)
Net profit (loss)	(2,309)	(4,491)	(553)	(1,047)
Comprehensive income (loss), net	(2,309)	(4,491)	(553)	(1,047)
Basic earnings (loss) per share (PLN/EUR)	(0,003)	(0.01)	(0,001)	(0,001)
Diluted earnings (loss) per share (PLN/EUR)	(0,003)	(0.01)	(0,001)	(0,001)
Average PLN/EUR exchange rate	x	x	4.1784	4.2891

Statement of cash flows				
Net cash from operating activities	(10,400)	(5,412)	(2,489)	(1,262)
Net cash from investing activities	14,042	11,206	3,361	2,613
Net cash from financing activities	(214)	(6,008)	(51)	(1,401)
Net increase/(decrease) in cash and cash equivalents	3,428	(214)	820	(50)
Average PLN/EUR exchange rate	x	x	4.1784	4.2891

Item	as at Mar 31 2018 PLN	as at Dec 31 2017 PLN	as at Mar 31 2017 PLN	as at Mar 31 2018 EUR	as at Dec 31 2017 EUR	as at Mar 31 2017 EUR
Statement of financial position						
Assets	474,610	487,538	619,810	112,774	116,890	146,881
Non-current liabilities	461,948	458,565	552,926	109,765	109,944	131,031
Current liabilities	135,389	151,017	109,769	32,170	36,207	26,013
Equity	(122,476)	(122,044)	(42,885)	(29,102)	(29,261)	(10,163)
Share capital	16,087	16,081	15,414	3,823	3,856	3,653
Number of shares	804,330,222	804,050,591	804,050,591	804,330,222	804,050,591	804,050,591
Weighted average number of ordinary shares	804,330,222	804,281,191	804,050,591	804,330,222	804,281,191	804,050,591
Diluted weighted average number of ordinary shares	804,330,222	804,281,191	804,050,591	804,330,222	804,281,191	804,050,591
Book value per share (PLN/EUR)	(0.15)	(0.15)	(0.05)	(0.04)	(0.04)	(0.01)
PLN/EUR exchange rate at end of period	x	x	x	4.2085	4.1709	4.2198

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS OF THE PARENT

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Continuing operations		
Revenue	**3,427**	**2,750**
Rendering of services	3,427	2,750
Cost of sales	**(2,747)**	**(1,621)**
Services rendered	(2,747)	(1,621)
Gross profit	**680**	**1,129**
Administrative expenses	(2,858)	(2,669)
Other income	3,388	2,150
Other expenses	(39)	(2,252)
Loss on arrangement with creditors	**(3,025)**	**(2,552)**
Operating profit (loss)	**(1,854)**	**(4,194)**
Net finance costs	(455)	(297)
Profit (loss) before tax	**(2,309)**	**(4,491)**
Net profit (loss) from continuing operations	**(2,309)**	**(4,491)**
Net profit (loss)	**(2,309)**	**(4,491)**

NET PROFIT (LOSS) PER ORDINARY SHARE OF THE PARENT

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Net profit (loss) from continuing operations	(2,309)	(4,491)
Weighted average number of ordinary shares	804,330,222	804,050,591
Diluted weighted average number of ordinary shares	804,330,222	804,050,591
from continuing operations		
- basic	(0,003)	(0.01)
- diluted	(0,003)	(0.01)

INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE PARENT

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Net profit (loss)	**(2,309)**	**(4,491)**
Other comprehensive income, net of tax	**-**	**-**
Comprehensive income	**(2,309)**	**(4,491)**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION OF THE PARENT

Item	as at Mar 31 2018	as at Dec 31 2017 (restated)	as at Mar 31 2017
Assets			
Non-current assets	**355,449**	**354,882**	**480,306**
Intangible assets	184	213	209
Property, plant and equipment	4,009	4,081	10,659
Investment property	5,199	5,199	28,107
Long-term investments	1,790	1,790	3,313
Investments in subsidiaries	260,483	260,537	325,744
Long-term contract receivables and amounts due from customers for construction contract work	39,150	39,150	39,150
Receivables	3,941	4,679	962
Loans advanced	40,638	39,175	72,096
Other non-current financial assets	1	1	-
Non-current prepayments and accrued income	54	57	66
Current assets	**110,242**	**111,778**	**118,609**
Inventories	286	56	134
Amounts due from customers for construction contract work	211	66	129
Trade and other receivables	9,419	13,220	11,176
Loans advanced	94,591	96,089	103,436
Cash and cash equivalents	5,424	1,921	3,375
Current prepayments and accrued income	311	426	359
Non-current assets classified as held for sale	**8,919**	**21,867**	**20,895**
Total assets	**474,610**	**488,527**	**619,810**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION OF THE PARENT

Item	as at Mar 31 2018	as at Dec 31 2017 (restated)	as at Mar 31 2017
Equity and liabilities			
Equity	**(122,727)**	**(121,055)**	**(42,885)**
Share capital	16,087	16,081	15,414
Share premium	1,021,947	1,021,844	1,009,660
Other components of equity	513,545	512,038	524,816
Retained earnings (accumulated losses)	**(1,674,306)**	**(1,671,018)**	**(1,592,775)**
- accumulated profit (loss) from prior years	(1,671,997)	(1,587,295	(1,588,284)
- net profit (loss) for current year	(2,309)	(83,723)	(4,491)
Liabilities	**597,337**	**609,582**	**662,695**
Non-current liabilities	**461,948**	**458,565**	**552,926**
Borrowings and other debt instruments	320,067	316,497	373,467
Finance lease liabilities	2,128	2,329	2,916
Non-current contract liabilities and provisions	38,353	38,426	38,672
Other liabilities	67,321	66,870	87,041
Employee benefit obligations and provisions	83	83	80
Other long-term provisions	33,874	34,270	49,599
Non-current accruals and deferred income	122	90	1,151
Current liabilities	**135,389**	**151,017**	**109,769**
Borrowings and other debt instruments	86,294	86,009	66,813
Finance lease liabilities	788	776	741
Trade and other payables	39,768	53,956	26,827
Amounts due to customers under construction contracts	628	191	-
Employee benefit obligations and provisions	712	813	953
Other short-term provisions	7,105	9,179	14,299
Current accruals and deferred income	94	93	136
Total equity and liabilities	**474,861**	**488,527**	**619,810**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY OF THE PARENT FOR THE PERIOD JANUARY 1ST – MARCH 31ST 2018

Item	Share capital	Share premium	Other components of equity	Retained earnings	Total
Balance as at Jan 1 2018	**16,081**	**1,021,844**	**512,038**	**(1,672,007)**	**(122,044)**
Changes in accounting policies (effect of IFRS 9)	-	-	-	989	989
Restated balance	**16,081**	**1,021,844**	**512,038**	**(1,671,018)**	**(121,054)**
Changes in equity in the period Jan 1–Mar 31 2018					
Share issue	6	103	(108)	-	-
Other adjustments (accounting for business combination)	-	-	1,615	(979)	636
Total transactions with owners	**6**	**103**	**1,507**	**(979)**	**636**
Net loss for the period Jan 1–Mar 31 2018	**-**	**-**	**-**	**(2,309)**	**(2,309)**
Total comprehensive income	**-**	**-**	**-**	**(2,309)**	**(2,309)**
Balance as at Mar 31 2018	**16,087**	**1,021,947**	**513,545**	**(1,674,306)**	**(122,727)**

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY OF THE PARENT FOR THE PERIOD JANUARY 1ST – MARCH 31ST 2017

Item	Share capital	Share premium	Other components of equity	Retained earnings	Total
Balance as at Jan 1 2017	**15,414**	**1,009,665**	**524,817**	**(1,588,285)**	**(38,389)**
Changes in equity in the period Jan 1–Mar 31 2017					
Other adjustments	-	(5)	(1)	1	(5)
Total transactions with owners	**-**	**(5)**	**(1)**	**1**	**(5)**
Net loss for the period Jan 1–Mar 31 2017	**-**	**-**	**-**	**(4,491)**	**(4,491)**
Total comprehensive income	**-**	**-**	**-**	**(4,491)**	**(4,491)**
Balance as at Mar 31 2017	**15,414**	**1,009,660**	**524,816**	**(1,592,775)**	**(42,885)**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

INTERIM CONDENSED STATEMENT OF CASH FLOWS OF THE PARENT

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Cash flows from operating activities		
Profit (loss) before tax	**(2,309)**	**(4,491)**
Depreciation and impairment of property, plant and equipment	76	129
Amortisation and impairment of intangible assets	30	30
Impairment of financial assets	(1,703)	-
Gain (loss) on disposal of non-financial non-current assets	(109)	(1,327)
Foreign exchange gains (losses)	(1,463)	1,935
Interest expense	455	290
Interest income	(18)	(8)
Adjustments for arrangement with creditors	3,474	77,385
Other adjustments	545	8
Total adjustments	**1,287**	**78,442**
Change in inventories	(230)	1
Change in receivables	6,670	560
Change in liabilities	(13,688)	(75,396)
Change in provisions, accruals and prepaid expenses	(2,421)	(4,499)
Change relating to construction contracts	291	(29)
Net changes in working capital	**(9,378)**	**(79,363)**
Net cash from operating activities	**(10,400)**	**(5,412)**
Purchase of property, plant and equipment	-	(6)
Proceeds from disposal of property, plant and equipment	271	602
Purchase of investment property	(98)	-
Proceeds from disposal of investment property	12,370	2,962
Repayment of loans advanced	1,499	7,645
Interest received	-	3
Net cash from investing activities	**14,042**	**11,206**
Proceeds from borrowings	2,600	-
Repayment of borrowings	(2,600)	(5,800)
Payment of finance lease liabilities	(218)	(213)
Interest on bank deposits	4	5
Net cash from financing activities	**(214)**	**(6,008)**
Net increase/(decrease) in cash and cash equivalents	**3,428**	**(214)**
Cash and cash equivalents at beginning of period	**1,996**	**3,589**
Foreign exchange effect	-	-
Cash and cash equivalents at end of period	**5,424**	**3,375**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Effect of changes on financial data disclosed in the interim condensed statement of financial position of the Parent

Financial data disclosed in the Parent's interim condensed statement of financial position as at January 1st 2018 whose presentation changed relative to data disclosed in the financial statements for 2017 was adjusted as shown below:

	Trade and other receivables	Retained earnings
Before adjustment	**12,231**	**(1,672,007)**
IFRS 9 (allowance for credit losses)	989	989
After adjustment	**13,220**	**(1,671,018)**

SELECTED ADDITIONAL EXPLANATORY NOTES

EXPENSES BY NATURE

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Depreciation and amortisation	106	159
Raw materials and consumables used	230	260
Services	4,301	3,033
Taxes and duties	215	533
Employee benefits	1,626	1,769
Other operating expenses	152	199
Expenses by nature	**6,630**	**5,953**
Changes in inventories of finished goods and work in progress (-)	(1,025)	(1,663)
Cost of finished goods and services sold	**5,605**	**4,290**

OTHER INCOME

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Gain on disposal of non-financial non-current assets	109	1,327
Reversal of impairment losses on receivables	1,703	160
Reversal of provision for warranty repairs	-	116
Compensation and penalties received	1	-
Grants received	2	12
Net exchange differences from operating activities	1,477	-
Interest on loans advanced as part of operating activities	-	3
Other interest related to operating activities	46	-
Discount on long-term receivables and payables	22	-

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Other	28	532
Total other income	**3,388**	**2,150**

OTHER EXPENSES

Item	Q1 2018 Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Impairment losses on receivables	-	160
Impairment losses on other assets	-	16
Running costs of investments	-	25
Net exchange differences related to operating activities	-	1,951
Cost of litigation	2	49
Other costs	37	51
Total other expenses	**39**	**2,252**

FINANCE INCOME

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Interest income on financial assets other than at fair value through profit or loss:		
Cash and cash equivalents (bank deposits)	5	6
Total interest income on financial assets other than at fair value through profit or loss	**5**	**6**
Total finance income	**5**	**6**

FINANCE COSTS

Item	Q1 2018, Jan 1–Mar 31 2018	Q1 2017, Jan 1–Mar 31 2017
Interest expense on financial liabilities other than at fair value through profit or loss:		
Finance lease liabilities	28	35
Non-bank borrowings	426	255
Total interest expense on financial liabilities other than at fair value through profit or loss	**454**	**290**
Fair value losses and realised losses on financial instruments at fair value through profit or loss:		
Gain/(loss) (-/+) from exchange differences on:		
Cash and cash equivalents	-	13
Gain/(loss) (-/+) from exchange differences	**-**	**13**
Other finance costs	**6**	**-**
Total finance costs	**460**	**303**

OPERATING SEGMENTS – JAN 1– MAR 31 2018

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Item	Segment		Other	Total
	gas, oil and fuels	corporate support for subsidiaries		
Financial highlights of the operating segments for the period January 1st–March 31st 2018				
Segment total revenue	**1,352**	**1,377**	**698**	**3,427**
Revenue from external customers	1,352	1,377	698	3,427
Total cost	**(1,363)**	**(988)**	**(396)**	**(2,747)**
Segment profit (loss)	**(11)**	**389**	**302**	**680**
Administrative expenses	x	x	x	(2,858)
Other income/expenses	x	x	x	3,349
Loss on arrangement with creditors	x	x	x	(3,025)
Operating loss	x	x	x	**(1,854)**
Net finance costs	x	x	x	(455)
Profit (loss) before tax	x	x	x	**(2,309)**
Net profit (loss)	x	x	x	**(2,309)**

OPERATING SEGMENTS – JAN 1– MAR 31 2017

Item	Segment		Other	Total
	gas, oil and fuels	corporate support for subsidiaries		
Financial highlights of the operating segments for the period January 1st–March 31st 2017				
Segment total revenue	**29**	**1,795**	**926**	**2,750**
Revenue from external customers	29	1,795	926	2,750
Total cost	**(111)**	**(729)**	**(781)**	**(1,621)**
Segment profit (loss)	**(82)**	**1,066**	**145**	**1,129**
Administrative expenses	x	x	x	(2,669)
Other income/expenses	x	x	x	(102)
Loss on arrangement with creditors	x	x	x	(2,552)
Operating loss	x	x	x	**(4,194)**
Net finance costs	x	x	x	(297)
Profit (loss) before tax	x	x	x	**(4,491)**
Net profit (loss)	x	x	x	**(4,491)**

Business combination in the reporting period

In the period covered by these interim condensed consolidated financial statements, PBG S.A. merged with its wholly-owned subsidiary PBG Avatia Sp. z o.o. The merger was registered with the District Court for Poznań–Nowe Miasto and Wilda of Poznań, 8th Commercial Division of the National Court Register, on March 21st 2018.

Following the merger, pursuant to Art. 494 of the Commercial Companies Code, as of the merger date the acquirer (PBG S.A.) assumed all rights and obligations of the acquiree (PBG Avatia Sp. z o.o.).

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

The merger was part of the PBG Group's integration, intended to optimise costs and streamline the Group's structure.

As permitted in the case of a simplified merger procedure under Art. 516.6 of the Commercial Companies Code, no management reports were 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., a simplified merger procedure provided for in Art. 516.6 of the Commercial Companies Code was applied, without increasing the share capital of PBG S.A. and without delivering 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 records of the Company which acquired the assets of the merged companies, i.e. PBG S.A. No goodwill was recognised on the merger, as the Company acquired control of the acquiree at the time of its inception.

The Company did not restate any separate comparative data presented in these interim condensed financial statements, as the Management Board believes the effect of the merger on that data to be immaterial.

The method of accounting for the merger in PBG S.A.'s books is presented below:

Item	PBG S.A.	PBG Avatia Sp. z o.o.	TOTAL	Adjustments	PBG S.A. post merger
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)**

Item	PBG S.A.	PBG Avatia Sp. z o.o.	TOTAL	Adjustments	PBG S.A. post merger
Assets					
Non-current assets	**355,503**	**293**	**355,796**	**(347)**	**355,449**
Intangible assets	183	-	183	-	184

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

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 prepayments and accrued 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 classified as held for sale	**8,919**	**-**	**8,919**	**-**	**8,919**
Total assets	**474,581**	**686**	**475,267**	**(657)**	**474,610**

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

Item	PBG S.A.	PBG Avatia Sp. z o.o.	TOTAL	Adjustments	PBG S.A. post merger
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 under construction contracts	628	-	628	-	628
Employee benefit obligations and provisions	712	-	712	-	712
Other short-term provisions	7,105	-	7,105	-	7,105
Current accruals and deferred 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

As at March 31st 2018, the Parent presented claims under the arrangement of PLN 93,490 thousand, including PLN 67,173 thousand as discounted non-current liabilities and PLN 26,317 thousand as current liabilities.

As at March 31st 2018, the Parent presented liabilities under the bonds issued to partially repay claims under the arrangement of PLN 374,146 thousand, including PLN 308,867 thousand as discounted non-current liabilities and PLN 65,279 thousand as current liabilities.

In the three months ended March 31st 2018, the Parent made the following repayments of the arrangement claims:

- PLN 1,510 thousand, of which PLN 908 thousand was repaid in cash.

In the three months ended March 31st 2018, the Parent did not redeem any bonds.

In the separate financial statements, in the statement of profit or loss, the item "Loss on arrangement with creditors" includes a loss of PLN 3,025 thousand resulting from revaluation of discount of claims in the arrangement and zero-coupon bonds issued to partially repay those claims.

QSr1/2018 (all amounts in PLN '000 unless stated otherwise)

4. AUTHORISATION FOR ISSUE

These interim condensed consolidated financial statements of the PBG Group for Q1 2018 and interim condensed separate financial statements of the Parent for Q1 2018 (together with comparative data) were authorised for issue by the Parent's Management Board on May 28th 2018.

Signatures of all Management Board members			
Date	Full name	Position	Signature
May 28th 2018	Jerzy Wiśniewski	President of the Management Board	
May 28th 2018	Mariusz Łożyński	Vice President of the Management Board	
May 28th 2018	Dariusz Szymański	Vice President of the Management Board	
May 28th 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	
May 28th 2018	Sylwia Sobczak	Senior accountant for reporting and consolidation	

Wysogotowo, May 28th 2018