<table>
<tr><td>Company name:</td><td colspan="3">PBG S.A.</td></tr>
<tr><td>Reporting period:</td><td>Jan 1–Dec 31 2017</td><td>Reporting currency:</td><td>Polish złoty (PLN)</td></tr>
<tr><td>Rounding:</td><td colspan="3">All amounts in PLN '000 unless indicated otherwise</td></tr>
</table>

FINANCIAL STATEMENTS

FOR THE PERIOD JANUARY 1ST–DECEMBER 31ST 2017

WYSOGOTOWO, APRIL 26TH 2018

TABLE OF CONTENTS

1. FULL-YEAR FINANCIAL STATEMENTS 5
1.1. STATEMENT OF PROFIT OR LOSS 5
1.2. STATEMENT OF COMPREHENSIVE INCOME 6
1.3. STATEMENT OF FINANCIAL POSITION 6
1.4. STATEMENT OF CHANGES IN EQUITY 8
1.5. STATEMENT OF CASH FLOWS 10
2. GENERAL INFORMATION 11
2.1. COMPANY OVERVIEW 11
2.1.1. IDENTIFICATION OF CONSOLIDATED FINANCIAL STATEMENTS 11
2.1.2. MANAGEMENT BOARD AND SUPERVISORY BOARD 11
2.2. COMPANY'S INVESTMENTS 12
2.3. AUTHORISATION OF THE FINANCIAL STATEMENTS FOR ISSUE 14
2.4. BASIS OF PREPARATION 14
2.4.1. STATEMENT OF COMPLIANCE AND GENERAL POLICIES 14
2.4.2. REPORTING CURRENCY AND ROUNDING 14
2.4.3. GOING CONCERN ASSUMPTION 14
2.4.4. EFFECT OF THE ARRANGEMENT WITH CREDITORS ON THE FINANCIAL STATEMENTS 20
2.4.5. REPRESENTATION BY THE MANAGEMENT BOARD 21
2.4.6. APPLIED ACCOUNTING POLICIES 22
2.4.7. SUBSTANCE-OVER-FORM RULE 29
2.4.8. CORRECTION OF ERROR 29
2.5. MATERIAL JUDGEMENTS AND ESTIMATES 30
2.5.1. PROFESSIONAL JUDGEMENT 30
2.5.2. UNCERTAINTY OF ESTIMATES AND ASSUMPTIONS 31
2.5.2.1. PROVISIONS 31
2.5.2.2. IMPAIRMENT OF NON-FINANCIAL AND FINANCIAL ASSETS 32
2.5.2.3. CONSTRUCTION CONTRACT REVENUE 33
2.5.2.4. CLASSIFICATION OF FINANCIAL ASSETS 33
2.5.2.5. DEFERRED TAX ASSETS 34
2.5.2.6. ALLOWANCES FOR RECEIVABLES AND LOANS 34
2.5.2.8. UNCERTAINTY RELATED TO TAX SETTLEMENTS 34
2.5.2.9. ESTIMATING THE TERMS OF FUTURE ISSUES OF SERIES H AND I SHARES 35
2.5.2.10. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS 35
2.6. SEASONALITY OF OPERATIONS 35
3. SIGNIFICANT ACCOUNTING POLICIES 35
3.1. OPERATING SEGMENTS 35
3.2. FAIR VALUE MEASUREMENT 36
3.3. TRANSLATION OF FOREIGN-CURRENCY ITEMS 37
3.4. BORROWING COSTS 38
3.5. INTANGIBLE ASSETS 38
3.6. PROPERTY, PLANT AND EQUIPMENT 39
3.7. LEASED ASSETS 40
3.8. IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS 41
3.9. INVESTMENT PROPERTY 42
3.10. SHARES IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES 43
3.10.1. INVESTMENTS IN SUBSIDIARIES 43
3.10.2. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES 43
3.11. INTERESTS IN JOINT OPERATION 44
3.12. FINANCIAL INSTRUMENTS 45

3.12.1. FINANCIAL ASSETS ...45
3.12.2. FINANCIAL LIABILITIES ...48
3.12.3. HEDGE ACCOUNTING ...49
3.13. IMPAIRMENT OF FINANCIAL ASSETS ...50
3.13.1. FINANCIAL ASSETS CARRIED AT AMORTISED COST ...50
3.13.2. FINANCIAL ASSETS CARRIED AT COST ...50
3.13.3. AVAILABLE-FOR-SALE FINANCIAL ASSETS ...50
3.14. INVENTORIES ...51
3.15. TRADE AND OTHER RECEIVABLES ...52
3.16. CASH AND CASH EQUIVALENTS ...52
3.17. NON-CURRENT ASSETS AND GROUPS OF NET ASSETS HELD FOR SALE ...52
3.18. EQUITY ...52
3.19. EMPLOYEE BENEFITS ...53
3.19.1. SHORT-TERM EMPLOYEE BENEFITS ...53
3.19.2. PROVISIONS FOR ACCRUED HOLIDAY ENTITLEMENTS ...53
3.19.3. RETIREMENT SEVERANCE PAYMENTS ...53
3.20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS ...54
3.20.1. PROVISIONS FOR WARRANTIES ...54
3.20.2. PROVISION FOR CONTRACT LOSSES ...55
3.21. INTEREST-BEARING BORROWINGS AND OTHER DEBT INSTRUMENTS ...55
3.22. ACCRUALS AND DEFERRALS ...55
3.23. REVENUE ...56
3.23.1. SALE OF GOODS (MERCHANDISE AND PRODUCTS) ...56
3.23.2. RENDERING OF SERVICES ...56
3.23.3. DIVIDENDS AND OTHER INCOME AND FINANCE INCOME ...58
3.24. EXPENSES ...58
3.25. INCOME TAX (CURRENT AND DEFERRED) ...59
3.26. VALUE ADDED TAX ...60
3.27. ASSESSMENT OF TAX UNCERTAINTIES ...60
3.28. EARNINGS PER SHARE ...60
4. NOTES TO THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF PROFIT OR LOSS ...60
4.1. OPERATING SEGMENTS ...60
4.2. INTANGIBLE ASSETS ...64
4.3. PROPERTY, PLANT AND EQUIPMENT ...65
4.4. LEASED ASSETS ...66
4.5. ASSETS CLASSIFIED AS HELD FOR SALE ...67
4.6. INVESTMENT PROPERTY ...68
4.7. LONG-TERM INVESTMENTS ...69
4.8. INVESTMENTS IN SUBSIDIARIES ...69
4.9. FINANCIAL ASSETS AND LIABILITIES ...73
4.9.1. CATEGORIES OF ASSETS AND LIABILITIES ...73
4.10. LOANS ADVANCED ...77
4.11. BORROWINGS AND OTHER DEBT INSTRUMENTS ...78
4.12. SECURITY FOR BONDS ...81
4.13. OTHER INFORMATION ON FINANCIAL INSTRUMENTS ...82
4.14. DISCLOSURES CONCERNING FAIR VALUE MEASUREMENT METHODS FOR FINANCIAL INSTRUMENTS 82
4.15. INVENTORIES ...82
4.16. NON-CURRENT CONTRACT RECEIVABLES, LIABILITIES AND PROVISIONS ...82
4.17. TRADE AND OTHER RECEIVABLES ...84

4.18. CASH AND CASH EQUIVALENTS 87
4.19. EQUITY 87
4.19.1. SHARE CAPITAL 87
4.19.2. SHARE PREMIUM 90
4.20. DIVIDENDS 91
4.21. PROVISIONS 91
4.21.1. EMPLOYEE BENEFITS 91
4.21.2. OTHER PROVISIONS 91
4.22. TRADE AND OTHER PAYABLES 92
4.23. ACCRUALS AND DEFERRALS 94
4.24. CONSTRUCTION CONTRACTS 94
5. NOTES TO SELECTED ITEMS OF THE STATEMENT OF PROFIT OR LOSS 96
5.1. DEPRECIATION, AMORTISATION, IMPAIRMENT LOSSES, EXCHANGE DIFFERENCES AND INVENTORIES RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS FOR THE PERIOD FROM JANUARY 1ST–DECEMBER 31ST 2017 96
5.2. EXPENSES BY NATURE 96
5.3. OTHER INCOME 97
5.4. OTHER EXPENSES 98
5.5. FINANCE INCOME 98
5.6. FINANCE COSTS 98
6. INCOME TAX EXPENSE 99
6.1. CURRENT INCOME TAX 99
7. EARNINGS/ (LOSS) PER SHARE 102
8. CASH FLOWS 102
9. CONTINGENT RECEIVABLES AND LIABILITIES 104
10. LITIGATIONS AND DISPUTES 105
11. OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT 111
12. CAPITAL MANAGEMENT 119
13. DISCONTINUED OPERATIONS 120
14. RELATED-PARTY TRANSACTIONS 120
15. EVENTS SUBSEQUENT TO THE REPORTING DATE REQUIRING DISCLOSURE 121
16. REMUNERATION OF THE MANAGEMENT BOARD MEMBERS 122
17. AUDITOR'S FEES 123
AUTHORISATION FOR ISSUE 125

1. FULL-YEAR FINANCIAL STATEMENTS

1.1. STATEMENT OF PROFIT OR LOSS

Item	Note	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Continuing operations			
Revenue	4.1	**13,448**	**31,995**
- from related entities	14	8,059	12,062
Revenue from sale of finished goods and services		13,377	31,942
Revenue from sale of merchandise and materials		71	53
Cost of sales	4.1	**(7,117)**	**(35,257)**
- from related entities	14	(1,691)	(2,894)
Cost of finished goods and services sold		(7,055)	(35,204)
Cost of merchandise and materials sold		(62)	(53)
Gross profit (loss)		**6,331**	**(3,262)**
Gain on losing joint control of joint operation		-	**24,239**
Administrative expenses		(11,132)	(11,755)
Other income	5.3	19,179	16,049
Other expenses	5.4	(13,419)	(28,143)
Restructuring costs		-	(3,852)
Gain (loss) on arrangement with creditors and valuation of claims under the arrangement and bonds acquired by arrangement creditors		(19,160)	1,060,495
Operating profit (loss)		**(18,201)**	**1,053,771**
Net finance costs	5.5/ 5.6	(65,522)	(96,384)
Profit (loss) before tax		**(83,723)**	**957,387**
Income tax expense	6	-	-
Net profit (loss)		**(83,723)**	**957,387**

NET PROFIT (LOSS) PER ORDINARY SHARE (PLN)

Item	for the period Jan 1–Dec 31 2017 PLN/share	for the period Jan 1–Dec 31 2016 PLN/share
Net profit (loss) from continuing operations	(83,723)	957,387

Net profit/(loss) from continuing and discontinued operations	(83,723)	957,387
Weighted average number of ordinary shares*	804,281,191	438,785,030
Diluted weighted average number of ordinary shares*	804,281,191	438,785,030
from continuing operations		
- basic	(0.10)	2.18
- diluted	(0.10)	2.18

* For the method of calculation of the weighted average number of shares, see Note 7.

1.2. STATEMENT OF COMPREHENSIVE INCOME

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Net profit (loss)	(83,723)	957,387
Other comprehensive income, net of tax	-	-
Comprehensive income	(83,723)	957,387

1.3. STATEMENT OF FINANCIAL POSITION

Item	Note	as at Dec 31 2017	as at Dec 31 2016
Assets			
Non-current assets		**354,882**	**535,351**
Intangible assets	4.2	213	239
Property, plant and equipment	4.3	4,081	11,096
Investment property	4.6	5,199	28,107
Long-term investments	4.7	1,790	4,577
Investments in subsidiaries	4.8	260,537	325,744
Long-term contract receivables and amounts due from customers for construction contract work	4.16	39,150	39,150
Receivables	4.17	4,679	980
Loans advanced	4.10	39,175	125,387
Other non-current financial assets		1	1
Non-current accruals and deferred income	4.23	57	70
Current assets		**110,789**	**75,588**
Inventories	4.15	56	135
Amounts due from customers for construction contract work	4.24	66	100
Trade and other receivables	4.17	12,231	11,711
Loans advanced	4.10	96,089	59,741
Cash and cash equivalents	4.18	1,921	3,589
Current prepayments and accrued income	4.23	426	312
Assets classified as held for sale	**4.5**	**21,867**	**21,561**
Total assets		**487,538**	**632,500**

STATEMENT OF FINANCIAL POSITION (CONTINUED)

Item	Note	as at Dec 31 2017	as at Dec 31 2016
Equity and liabilities			
Equity		**(122,044)**	**(38,389)**
Share capital	4.19.1	16,081	15,414
Share premium	4.19.2	1,021,844	1,009,665
Other components of equity		512,038	524,816
Retained earnings (losses):		(1,672,007)	(1,588,284)
- accumulated loss from prior years		(1,588,284)	(2,545,671)
- net profit (loss) for current year		(83,723)	957,387
Liabilities		**609,582**	**670,889**
Non-current liabilities		**458,565**	**556,767**
Borrowings and other debt instruments	4.11	316,497	307,744
Finance lease liabilities	4.4	2,329	3,105
Non-current contract liabilities and provisions	4.16	38,426	38,686
Other liabilities	4.22	66,870	153,018
Employee benefit obligations and provisions	4.21.1	83	83
Other long-term provisions	4.21.2	34,270	52,970
Non-current accruals and deferred income	4.23	90	1,161
Current liabilities		**151,017**	**114,122**
Borrowings and other debt instruments	4.11	86,009	60,697
Finance lease liabilities	4.4	776	730
Trade and other payables	4.22	53,956	36,235
Amounts due to customers for construction contract work		191	-
Employee benefit obligations and provisions	4.21.1	813	738
Other short-term provisions	4.21.2	9,179	15,614
Current prepayments and accrued income	4.23	93	108
Total equity and liabilities		**487,538**	**632,500**

Company name:	PBG S.A.		
Reporting period:	Jan 1–Dec 31 2017	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 unless indicated otherwise		

1.4. STATEMENT OF CHANGES IN EQUITY

For the period Jan 1−Dec 2017

Item	Share capital	Share premium	Other components of equity	Retained earnings (losses)	Total
Balance as at Jan 1 2017	**15,414**	**1,009,665**	**524,817**	**(1,588,285)**	**(38,389)**
Changes in accounting policies	-	-	-	-	-
Restated balance	**15,414**	**1,009,665**	**524,817**	**(1,588,285)**	**(38,389)**
Changes in equity in the period Jan 1–Dec 31 2017					
Share issue	667	12,179	(12,743)	-	103
Other adjustments	-	-	(36)	-	(36)
Total transactions with owners	**667**	**12,179**	**(12,779)**	**-**	**67**
Net profit for the period Jan 1–Dec 31 2017	-	-	-	(83,723)	(83,723)
Total comprehensive income	**-**	**-**	**-**	**(83,723)**	**(83,723)**
Balance as at Dec 31 2017	**16,081**	**1,021,844**	**512,038**	**(1,672,007)**	**(122,044)**

STATEMENT OF CHANGES IN EQUITY

For the period Jan 1−Dec 2016

Item	Share capital	Share premium	Other components of equity	Retained earnings (losses)	Total
Balance as at Jan 1 2016	**14,295**	**733,348**	**547,868**	**(2,545,672)**	**(1,250,161)**
Changes in accounting policies	-	-	-	-	-
Restated balance	**14,295**	**733,348**	**547,868**	**(2,545,672)**	**(1,250,161)**
Changes in equity in the period Jan 1–Jun 30 2016					
Share issue	15,128	276,317	12,851	-	304,296
Exclusion of loan from majority shareholder	-	-	(35,902)	-	(35,902)
Reduction in par value of shares	(14,009)	-	-	-	(14,009)
Total transactions with owners	**1,119**	**276,317**	**(23,051)**	**-**	**254,385**
Net profit for the period Jan 1–Jun 30 2016	-	-	-	957,387	957,387
Total comprehensive income	**-**	**-**	**-**	**957,387**	**957,387**
Balance as at Dec 31 2016	**15,414**	**1,009,665**	**524,817**	**(1,588,285)**	**(38,389)**

Company name:	PBG S.A.		
Reporting period:	Jan 1–Dec 31 2017	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 unless indicated otherwise		

1.5. STATEMENT OF CASH FLOWS

Item	Note	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Cash flows from operating activities			
Net profit before tax		**(83,723)**	**957,387**
Adjustments for:			
Depreciation and impairment of property, plant and equipment	4.3	997	4,909
Amortisation and impairment of intangible assets	4.2	141	621
Change in fair value of investment property		1,870	90
Fair value gains (losses) on long-term investments		-	3,000
Cash of joint venture as at the date of loss of joint control		-	(91,708)
Impairment of financial assets		56,165	103,970
(Gain)/loss on disposal of non-financial non-current assets	5.3	(2,200)	439
(Gain)/loss on disposal of non-derivative financial assets		(768)	-
Foreign exchange gains (losses)		7,221	1,888
Interest expense	5.6	1,145	847
Interest income	5.5	(248)	(852)
Interest on deposits (from prepayments)		(47)	-
Dividends received		-	(2,807)
Adjustments for loss of joint control of joint operation		-	(21,031)
Change in liabilities under bonds		28,467	(653,419)*
Other adjustments		(3,502)	(4,123)
Total adjustments:		**89,241**	**(658,176)**
Change in inventories		78	777
Change in receivables	8	3,544	(17,446)
Change in liabilities	8	(76,935)	(166,776)
Change in provisions, accruals and prepaid expenses	8	(26,247)	(324,620)
Change relating to construction contracts	8	225	37,034
Net changes in working capital		**(99,335)**	**(471,031)**
Net cash from operating activities		**(93,817)**	**(171,820)**
Cash flows from investing activities			
Purchase of intangible assets		(110)	(2)
Purchase of property, plant and equipment		(50)	(11)
Proceeds from disposals of property, plant and equipment		2,281	632
Purchase of investment property		(142)	(3)
Proceeds from disposals of investment property		26,426	2,223
Repayment of loans advanced		54,013	35,278
Loans advanced		(15)	-
Proceeds from disposals of other financial assets		6,000	-
Interest received		5	80
Other cash used in investing activities		-	(1,635)
Net cash used in investing activities		**88,408**	**36,562**
Cash flows from financing activities			
Proceeds from borrowings		11,690	16,000
Repayment of borrowings		(7,590)	(3,081)
Payment of finance lease liabilities		(860)	(688)
Interest paid		(314)	(364)
Interest on bank deposits (from financial surplus)	5.5	47	309
Other cash from/(used in) financing activities		768	-
Net cash from financing activities		**3,741**	**12,176**
Net increase/(decrease) in cash and cash equivalents		**(1,668)**	**(123,082)**
Cash and cash equivalents at beginning of period	**4.18**	**3,589**	**126,671**
Foreign exchange effect		-	-
Cash and cash equivalents at end of period	**4.18**	**1,921**	**3,589**

*Also includes the effect of accounting for the arrangement in the Company accounting books.

2. GENERAL INFORMATION

2.1. COMPANY OVERVIEW

PBG S.A. is the parent of the PBG Group. The Company was incorporated on January 2nd 2004 by virtue of a Notary Deed of December 1st 2003. The Company operates in all parts of Poland, pursuant to the provisions of the Polish Commercial Companies Code. It is entered in the business register of the National Court Register maintained by the District Court for Poznań-Nowe Miasto and Wilda, 8th Commercial Division of the National Court Register, under KRS No. 0000184508. The Company's Industry Identification Number (REGON) is 631048917. PBG shares are listed on the Warsaw Stock Exchange.

The Company's registered office is located at ul. Skórzewska 35 in Wysogotowo near Poznań, 62-081 Przeźmierowo, Poland. PBG's registered office is also its principal place of business. The Company was established for an indefinite term.

PBG's principal business activities:

- PKD 7112Z Engineering activities and related technical consultancy.

For a more detailed description of the Company's business activities, see Note 4.1 on operating segments.

2.1.1. IDENTIFICATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company prepared the consolidated financial statements for the year ended December 31st 2017, which were authorised for issue on April 26th 2018.

2.1.2. MANAGEMENT BOARD AND SUPERVISORY BOARD

Composition of the Company's Management Board and Supervisory Board as at December 31st 2017 is presented below.

As at Dec 31 2017	
Management Board	**Supervisory Board**
Jerzy Wiśniewski – President of the Management Board	Helena Fic – Chairwoman of the Supervisory Board;
Mariusz Łożyński – Vice President of the Management Board	Małgorzata Wiśniewska – Deputy Chairwoman of the Supervisory Board
Dariusz Szymański – Vice President of the Management Board	Andrzej Stefan Gradowski − Secretary of the Supervisory Board
Kinga Banaszak-Filipiak − Member of the Management Board	Dariusz Sarnowski – Member of the Supervisory Board
	Maciej Stańczuk – Member of the Supervisory Board
	Przemysław Lech Figarski – Member of the Supervisory Board
	Faustyn Wiśniewski – Member of the Supervisory Board.

In the period from January 1st 2017 to the date of authorisation of these financial statements for issue, there were no changes in the composition of the Management Board and the Supervisory Boards.

2.2. COMPANY'S INVESTMENTS

The Company holds investments in the following subsidiaries.

Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Dec 31 2017	Dec 31 2016
PBG Avatia Sp. z o.o. (1)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Reproduction of recorded media PKD 18.20.Z	100%	100.00%
PBG Dom Sp. z o.o. (2)	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%	100.00%
Wschodni Invest Sp. z o.o. (3)	ul. Mazowiecka 42, 60 – 623 Poznań POLAND	Other financial intermediation PKD 64.19.Z	100%	100.00%
PBG Ukraina LLC (4)	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%	100.00%
PBG Operator Sp. z o.o. (5)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Other credit granting PKD 64.92.Z	100%	100.00%

Company	Country of incorporation and principal place of business	Principal business activity (according to PKD 2007)	% ownership interest	
			Dec 31 2017	Dec 31 2016
PBG oil and gas Sp. z o. o. (6)	ul. Skórzewska 35, Wysogotowo 62-081 Przeźmierowo POLAND	Other specialised construction activities PKD 43.99.Z	100%	100.00%
Multaros Trading Company Limited (7)	Vasili Michalidi 9, 3026 Limassol CYPRUS	Holding of securities	100%	100.00%
RAFAKO S.A. (8)	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%*

*Total direct interest and indirect interest through Multaros Trading Company Limited.

The Company also holds interests exceeding 50% of the share capital in the following entities:

- Strateg Capital Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy),
- 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 Company lost control of the subsidiaries as they were placed under the control of authorities appointed in the insolvency proceedings.

Changes in investments in subsidiaries in the period January 1st - December 31st 2017

Sale of assets related to subsidiaries of Brokam Sp. z oo and Bathinex Sp. z o. o

On June 29th 2017, the Company executed an agreement to sell its shares in and claims against Brokam Sp. z o.o. and Bathinex Sp. z o.o. for a total consideration of PLN 6,000 thousand, thus losing control of the companies. As the Company recognised impairment losses for the assets in previous periods, the transaction had no effect on the profit or loss for the year.

Share capital increase at RAFAKO S.A.

Under Resolution No. 4 of the Extraordinary General Meeting of RAFAKO S.A. of September 12th 2017, RAFAKO S.A. increased its share capital from PLN 169,863,996 to PLN 254,863,996, i.e. by PLN 85,000,000, through an issue of 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 per share. The Company did not acquire any new issue shares, and therefore its interest in RAFAKO S.A. 's share capital and total voting rights decreased to 33.32%. As a result, the parent will have personal rights for a period of three years (assuming no other changes that would cause the personal rights to expire) and the right to appoint most of the members of the RAFAKO supervisory board, which in turn appoints the RAFAKO management board. Therefore, the Company is of the opinion that the requirements of IFRS 10 will be satisfied and that it will not lose control of RAFAKO S.A.

2.3. AUTHORISATION OF THE FINANCIAL STATEMENTS FOR ISSUE

These financial statements for the financial year ended December 31st 2017 were authorised for issue by the Company's Management Board on April 26th 2018.

2.4. BASIS OF PREPARATION

The Company's financial statements have been prepared based on the historical cost approach, except with respect to investment property, which is measured at fair value.

2.4.1. STATEMENT OF COMPLIANCE AND GENERAL POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the EU ('EU IFRS'). At the date of authorisation of these financial statements for issue, taking into account the ongoing process of implementation of IFRS in the EU, the policies applied by the Group with respect to these financial statements did not differ from EU IFRS.
EU IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB").
These financial statements were prepared based on the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated February 2009 19 (Dz.U. of 2014, item 133, as amended), and cover the period from January 1st to December 31st 2017 and the comparative period from January 1st to December 31st 2016.

2.4.2. REPORTING CURRENCY AND ROUNDING

The reporting currency in these financial statements is the Polish złoty, which is the functional and presentation currency, and all amounts are expressed in thousands of Polish złoty unless indicated otherwise.

2.4.3. GOING CONCERN ASSUMPTION

<u>Current formal and legal status of the Company</u>

On June 13th 2016, the decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Restructuring Division, to approve the Company's voluntary arrangement with its creditors became final. Starting from that date, the Company has been performing its obligations under the

arrangement. Apart from paying the repayment instalments and redeeming the bonds it has issued, the Company has been implementing other provisions of the restructuring documents when due. For detailed information on the Company's formal and legal status, see PBG's financial statements for the previous reporting periods, in particular its separate financial statements for 2015 and 2016.

Going concern assumption

Given the Company's current financial condition, there are risks to its going concern status. As at December 31st 2017, the Company's current liabilities (disclosed in the separate financial statements) exceeded its current assets and assets classified held for sale by approximately PLN 18.4m. However, the separate financial statements for 2017 have been prepared on the assumption that the Company will continue as a going concern for the foreseeable future, i.e. for at least 12 consecutive months from the date of authorisation of this Report for issue. The assumption was based on the court's decision to approve the arrangement with creditors having become final, allowing the Company to continue as a going concern. In 2016, the Company began to perform its obligations under the arrangement and the bonds, which is scheduled to continue until June 2020. Also, presented below is the Management Board's plan of how it intends to cover the deficit in net working capital.

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

Performance of the arrangement and redemption of the Bonds

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

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

As at the date of issue of the separate financial statements for 2017, the Company 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 Company made a commitment to have the bonds listed on the exchange. As at the date

of issue of the financial statements, the Series E, E1, F, F1, G, G1, H, H1, I and I1 bonds were traded on the Catalyst multilateral trading facility operated by the Warsaw Stock Exchange (see PBG Current Reports No. 10/2017, No. 12/2017, No. 16/2017 and No. 18/2017).

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

Period:	H1 2018	H2 2018	2019	H2 2020	Total
Repayment of the Company's liabilities under the arrangement and the bonds, including:	**68,455,629**	**25,130,180**	**133,019,662**	**298,430,057**	**525,035,527**
- redemption of bonds	50,329,400	14,949,700	106,743,000	231,613,200	403,635,300
- payment of arrangement instalments	16,720,747	9,639,861	23,594,966	45,845,094	95,800,667
- payment of contingent claims after the date of fulfilment of the condition	1,405,482	540,619	2,681,696	7,936,756	12,564,553
- payment of disputed claims	-	-	-	13,035,007	13,035,007

The Company recognised a provision of PLN 25,599,906 for the repayment of contingent or disputed claims. As estimated by the Company's Management Board, of that amount contingent claims of PLN 12,564,899 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 this Report. Therefore, it was assumed that the disputed claims would be paid at the end of the arrangement term.

Amount of liabilities repaid from the date when the Company began to perform the arrangement (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 Company'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	H1 2019	H2 2019	H1 2020	Total
Sale of the Company'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 Company'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	6,370,622	3,696,294	3,647,443	10,109,339
Cash flows from the Company's other operations	-17,322,460	-3,174,605	3,574,758	19,660,366	14,140,091	6,957,927	23,836,078
Cash flows under loans granted to the Company	18,300,000	4,000,000	-22,300,000	-	8,800,000	6,000,000	14,800,000
Refinancing of the balloon payment	-	-	-	-	-	280,000,000	280,000,000
TOTAL	**68,682,339**	**274,998**	**35,885,783**	**86,030,987**	**38,183,385**	**296,605,371**	**525,662,862**

Divestments will be the main source of cash to repay the liabilities over the next 12 months, i.e. in the period from January 1st to December 31st 2018. In this period, the Company and its subsidiaries expect to raise a total of PLN 125.4m from divestments.

Cash balance after: (i) redemption of bonds; (ii) payment of arrangement instalments [PLN]	***H1 2018***	***Q3 2018***	***Q4 2018***	***H1 2019***	***H2 2019***	***H1 2020***
	226,710	501,708	11,257,311	14,694,113	2,452,021	627,335

Net working capital disclosed in the separate financial statements

As disclosed in the separate financial statements as at December 31st 2017, the total amount of current assets and non-current assets held for sale was PLN 132.7m, while the amount of current liabilities was PLN 151.0m, which implies negative net working capital of approximately PLN -18.4m. Considering the above, the Company's Management Board carried out a detailed analysis of sources of covering the deficit and concluded that within 12 months from the reporting date the Company would be able to generate cash of approximately PLN 17.2m 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 132.7m as at the reporting date, indicates that within 12 months from the reporting date the Company will be able to release PLN 143.3m, 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 101.0m, i.e. about PLN 4.9 more compared with the amount disclosed in the financial statements prepared in accordance with

the IFRS. The higher amount is attributable to the repayment of loans by related entities. Valuation of the loans performed in accordance with the IFRS is higher than the one based on the Management Board's detailed plans, but by the end of the first half of 2018 the Company 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 Company's Management Board estimates that it will be possible to increase the amount of potential proceeds from non-current assets that may be sold in a short term by PLN 3.2m, mainly in connection with divestment of the Company's non-core assets.
- The Company's Management Board increased the estimated inflow of short-term receivables by about PLN 2.7m after a detailed assessment of the possibility of recovering a part of receivables for which impairment losses had been recognised in accordance with the IFRS, including the receivables that are to be offset within 12 months from the reporting date against the arrangement claims maturing in that period.

The amount of current liabilities disclosed in the Company's full-year financial statements as at December 31st 2017 was PLN 151.0m. However, the analysis carried out by the Company's Management Board indicates that approximately PLN 126.1m will become due and payable within 12 months from the reporting date. The difference follows mainly from the classification of some arrangement claims as current liabilities, which will ultimately be offset against trade receivables from creditors, and from the lack of necessity to repay loans to subsidiary PBG oil and gas in the short term.

Expected sources of funding 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 Company's non-core assets – expected proceeds over the entire term of the arrangement – PLN 24.3m;
- 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 on current and potential future contracts, particularly in the power construction market, to be executed in close cooperation with RAFAKO S.A., and cash generated from other activities by the Company and PBG oil and gas Sp. z o.o.

The Company expects to receive funds specified above in such amounts and on such dates as to be able to make repayments under the arrangement in line with its terms and to redeem the bonds on the

dates specified in the terms and conditions of each relevant series of the bonds issued by the Company and acquired by eligible creditors, in particular the Company's financial creditors who have signed or acceded to the restructuring agreement. The source of funding of the arrangement, i.e. the divestment of non-core assets, will be based on proceeds from the sale of properties owned by the Company and its subsidiaries, or from the sale of subsidiaries themselves. Proceeds from the sale of properties owned by subsidiaries will be transferred to the Company as repayment of loans granted to the subsidiaries to finance their property development and investment activities before the arrangement bankruptcy was declared.

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

Risks which, if materialised, may limit the Company's ability to perform the arrangement

Considering the expected duration of the arrangement, under which the Company is obliged to make final repayments to the creditors by June 30th 2020, the Company has identified possible risks that may occur in that period, which, if materialised, may significantly limit the Company's ability to perform the arrangement or redeem the bonds it has issued. Accordingly, to successfully implement the arrangement (and to ensure that all outstanding bonds are redeemed) the Company intends to rely in large part on funds to be raised by the Company or its subsidiaries from the divestment of properties owned by the Company and its subsidiaries, or of property development projects in which the Company had engaged before the arrangement bankruptcy was declared. This means that a potential unexpected downturn in the property market may significantly affect the Company's ability to secure funds required to satisfy claims under the arrangement or to redeem the bonds. Bearing in mind the risk of not receiving the proceeds from the development project in Ukraine due to changes in or escalation of the political conflict in the country, the Company's Management Board negotiated a transaction to sell the receivables under the conditional sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. The agreement, the conclusion of which will be possible after all formal and legal documents required by the purchaser are finalised, will enable proceeds from the project to be accelerated. Pursuant to the terms of the transaction, the Company 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 Company's Management Board will request the Bondholders for their consent to execute the transaction on the terms specified in the receivables sale agreement. A potential threat to implementation of the arrangement or the Company's ability to redeem outstanding bonds may also come from lower than expected operating cash receipts of the Company and its subsidiary PBG oil and gas, mainly due to the Company's and PBG oil and gas Sp. z o.o.'s failure to secure contracts the two companies intend to win and perform during the term of the arrangement. Another risk to the Company's ability to perform the arrangement and redeem the bonds may come from potential difficulty in obtaining, or inability to obtain, the borrowing which the Company expects to use to fund the PLN 280m balloon (last) payment under the arrangement and to redeem the bonds. A potential delay or failure by the Company to make repayments under the arrangement could prompt creditors to submit a request for the arrangement to be rescinded under Art. 302 of the Bankruptcy and Restructuring Law (as in effect until December 31st 2015, which is applicable to the proceedings), under which the court may rescind an arrangement upon a creditor's request if the debtor fails to perform any provisions of the arrangement or it is evident that the arrangement will not be implemented. In such a case, pursuant to Art. 304 of the Bankruptcy and Restructuring Law, the insolvency proceedings could be reopened and converted into liquidation bankruptcy. Moreover, in accordance with the terms and conditions of the bonds, bondholders have the right to demand acceleration or early redemption of the bonds upon the occurrence of any of the acceleration or early redemption triggers defined in the terms and conditions of the respective series of the bonds. Therefore, as the bonds are secured with assets of the Company and its selected subsidiaries, in a situation where it is impossible to redeem the bonds when due – which would constitute an acceleration trigger – there is a potential risk that the security agent, acting on behalf of bondholders, would commence enforcement of claims against the Company's and its selected subsidiaries' assets. The assets pledged as security for the bonds are described in detail in PBG Current Reports No. 26/2015, No. 34/2016, and No. 54/2016.
Notwithstanding the uncertainties described above, the Management Board is of the opinion that, based on the Company's financial estimates, the Company will be able to redeem the bonds in line with the agreed schedule and to pay all other claims under the arrangement, and therefore the assumption that the Company will continue as a going concern for the foreseeable future (i.e. for at least 12 consecutive months from the date of authorisation of this Report for issue) is justified.

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

After the bankruptcy court's decision of October 8th 2015 to sanction the Company's arrangement with creditors became final on June 13th 2016 (see PBG CURRENT REPORTS NO. 11/2016 AND NO. 24/2016), THE COMPANY RECOGNISED IN ITS ACCOUNTS THE EFFECT OF DEBT REDUCTION, AS SET OUT IN THE ARRANGEMENT AND IN AGREEMENTS CONCLUDED WITH CERTAIN ARRANGEMENT CREDITORS. Detailed information on the recognition and presentation of the event referred to above is included in the most recent full-year financial statements.
As at December 31st 2017, the Company disclosed:

- ✓ Claims under the arrangement of PLN 94,238 thousand, including PLN 66,711 thousand as discounted non-current liabilities and PLN 27,527 thousand as current liabilities;
- ✓ Liabilities under the bonds issued to partially repay claims under the arrangement of PLN 367,619 thousand, including PLN 302,340 thousand as discounted non-current liabilities and PLN 65,279 thousand as current liabilities.

In the 12 months ended December 31st 2017, the Company repaid the following amounts under the arrangement:

- PLN 18,735 thousand, as another repayment under the terms of the arrangement;
- PLN 85,291 thousand, as refinancing of a part of claims under the arrangement with the parent's new debt by issuing second issue bonds.

In the 12 months ended December 31st 2017, the Company redeemed PLN 68,812 thousand worth of Series B, B1, C, C1, D and D1 bonds at maturity.

As at December 31st 2016, the Company disclosed claims under the arrangement of PLN 184,967 thousand, including PLN 153,018 thousand as discounted non-current liabilities and 31,949 thousand as current liabilities.

In the 12 months ended December 31st 2016, the Company repaid the following amounts under the arrangement:

- PLN 35,291 thousand in cash,
- PLN 388,795 thousand in the form of the first issue of bonds, of which Series A bonds of PLN 1,638 thousand were redeemed by the Company at maturity.

In the separate financial statements, in the statement of profit or loss, under Gain/(loss) on arrangement with creditors, the Company recognised a loss of PLN 19,160 thousand (2016: gain of PLN 1,060,495 thousand) resulting from revaluation of the discount of claims under the arrangement and of zero-coupon bonds issued to partially repay claims under the arrangement.

2.4.5. REPRESENTATION BY THE MANAGEMENT BOARD

The Company's Management Board represents that these financial statements and the comparative information have been prepared in accordance with the accounting policies applied by the Company, give a true, clear and fair view of the Company's assets, its profit or loss, and that the Directors' Report gives a true picture of the development, achievements and position of the Company, including its key risks and threats.

The Company's Management Board hereby represents that the audit firm which audited the financial statements was appointed in compliance with the applicable laws and that the audit firm and the auditors who conducted the audit satisfy the requirements to issue an unbiased and independent auditor's opinion in compliance with the applicable laws.

On March 22nd 2017, acting pursuant to applicable regulations and having considered the recommendation of the Audit Committee, the Company's Supervisory Board resolved to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. ("E&Y"), with its registered office at Rondo ONZ 1, 00-124 Warsaw, Poland, entered in the list of entities qualified to audit financial statements maintained by the National Chamber of Statutory Auditors under Reg. No. 130, to audit the interim financial statements of PBG S.A. and of the Group for the first half of 2017, and to audit the separate financial statements of PBG S.A. and the consolidated financial statements of the Group for 2017.

2.4.6. APPLIED ACCOUNTING POLICIES

The accounting principles (policy) applied to prepare these financial statements are consistent with those applied to prepare the Company's financial statements for the year ended December 31st 2016, save for the following. Amendments to the IFRS presented below were applied in these financial statements as of their effective dates. However, they had no material effect on the disclosed financial information, they did not apply to transactions executed by the Company, or the Company elected not to apply new measurement options:

- Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses*
  The amendments clarify issues relating to debt instruments measured at fair value giving rise to deductible temporary differences, estimates of future taxable income, and an assessment of whether the income will allow deductible temporary differences to be realised. The amendments apply retrospectively.
- Amendments to IAS 7 *Disclosure Initiative*
  The amendments require that an entity disclose information which enables users of financial statements to evaluate changes in liabilities arising from financing activities. Presentation of comparative data for previous periods is not required.
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities*, resulting from the 2014-2016 improvements cycle

  The amendments clarify that the disclosure requirements in the standard apply also to an entity's interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates or unconsolidated structured entities that are classified (or are included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Company did not elect to early adopt any of the standards, interpretations or amendments that have been published but are not yet adopted by the European Union.

The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, but are not yet effective:

- IFRS 9 *Financial Instruments* (published on July 24th 2014) − effective for annual periods beginning on or after January 1st 2018,

- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) − pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not endorsed by the EU by the date of authorisation of these financial statements – effective for annual periods beginning on or after January 1st 2016.
- IFRS 15 *Revenue from Contracts with Customers* (published on May 28th 2014), including amendments to IFRS 15 Effective Date of IFRS 15 (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) − work leading to approval of the amendments was deferred by the EU for an indefinite period – effective date was deferred by the IASB for an indefinite period.
- IFRS 16 *Leases* (published on January 13th 2016) − effective for annual periods beginning on or after January 1st 2019,
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (published on September 12th 2016) − effective for annual periods beginning on or after January 1st 2018,
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (published on April 12th 2016) − effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on June 20th 2016) − not endorsed by the EU by the date of authorisation of these financial statements − effective for annual periods beginning on or after January 1st 2018.
- Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2014−2016 Cycle (published on December 8th 2016) − as at the date of authorisation of these financial statements, the amendments were not adopted by the EU. Amendments to IFRS 12 are effective for annual periods beginning on or after January 1st 2017; amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1st 2018.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 40: *Transfer of Investment Property* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018,
- IFRS 17 *Insurance Contracts* (published on May 18th 2017) − effective for annual periods beginning on or after January 1st 2021; as at the date of authorisation of these financial statements, the standard was not adopted by the EU,
- IFRIC 23 *Uncertainty over Income Tax Treatments* (published on June 7th 2017) − effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the interpretation was not adopted by the EU,

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on October 12th 2017) − not endorsed by the EU by the date of authorisation of these financial statements for issue − effective for annual periods beginning on or after January 1st 2019,
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (published on October 12th 2017) − effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments introduced as part of the Annual Improvements to IFRS Standards 2015–2017 Cycle (published on December 12th 2017) − effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (published on February 7th 2018) – effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to the Conceptual Framework for Financial Reporting (published on March 29th 2018) − effective for annual periods beginning on or after January 1st 2020; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,

The Management Board's analysis and preliminary assessment of the impact of new and amended standards on the Company's accounting policies and future financial statements related in particular to the new IFRS 9, IFRS 15 and IFRS 16:

- IFRS 9 *Financial Instruments* − the new IFRS 9 removes the categories of financial assets under IAS 39 and introduces classification of instruments as measured at fair value (fair value through profit or loss − FVTPL, or fair value through other comprehensive income − FVTOCI) or at amortised cost. IFRS 9 introduces a new impairment model based on expected loss, and new guidelines for hedge accounting, designed to simplify the existing solutions and better reflect risk management rules.

In July 2014, the International Accounting Standards Board issued International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"). IFRS 9 deals with three aspects of financial instruments: classification and measurement, impairment and hedge accounting. The standard applies for annual periods beginning on or after January 1st 2018, and may be adopted early.

The Company decided to implement the standard as of January 1st 2018 without restating the comparative data, which means that the data for 2017 and 2018 will not be comparable. Any required adjustments will be made as of January 1st 2018, with effects charged to equity.

In 2017, the Company carried out a detailed assessment of the impact of IFRS 9 on its accounting policies relating to its operations and profit or loss. The assessment was based on the available information and may be subject to change if the Company obtains reasonable and supportable information in the period when IFRS 9 is applied for the first time.

The Company does not expect the implementation of IFRS 9 to have a material impact on the Company's statement of financial position or equity, but may have an impact on impairment. The Company expects

an increase in impairment losses, which will adversely affecting equity, as discussed below. The classification of some financial instruments will also change as a result of application of IFRS 9.

a) Classification and measurement

The Company expects the application of IFRS 9 with respect to the classification and measurement of financial assets will not have a material impact on its statement of financial position or equity. All financial assets previously measured at fair value are expected to continue to be measured at fair value.

The Company has a portfolio of loans. For details, see Note 4.10. In accordance with IAS 39, these loans were classified as loans and receivables and measured at amortised cost using the effective interest rate method, less impairment losses which reflect the Company's divestment strategy.
In accordance with IFRS 9, these loans were classified as measured at fair value through profit. None of the loans satisfies the requirements of the SPPI classification as the interest periods and interest calculation formulas do not match, and therefore the application of IFRS 9 will not affect the Company's financial statements.

The Company 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 the guidelines provided in IAS 39, the carrying amount of the financial assets was zero as at December 31st 2017. In accordance with IFRS 9, the Company may classify the investments in non-listed equity instruments as measured at fair value through other comprehensive income. The Company will elect to recognise subsequent changes in the fair value through other comprehensive income, no impairment losses will be recognised in the statement of profit or loss; if an asset (equity instrument) is sold, any gain/(loss) will not be reclassified to profit or loss and will be transferred directly to retained earnings at the time of disposal of the shares. Accordingly, the application of IFRS 9 will have no effect on the Company's financial statements.

Debt securities (commercial papers) currently held by the Company, classified as held to maturity in accordance with IAS 39, will be classified as financial assets measured at fair value through profit or loss, and therefore IFRS 9 will not affect the Company's financial result.

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

equals the amount of expected credit losses over the entire life of a receivable. For the valuation details see the Note below.

No potential impact on trade payables was identified in comparison with the current accounting treatment under IAS 39.

b) Impairment

Under the previous impairment model, the Company was required to assess whether objective evidence of impairment existed and (where such evidence was found) to estimate impairment based on expected cash flows. IFRS 9 requires that expected losses be estimated regardless of whether there is evidence of impairment. The standard provides for a 3-step classification of the financial assets for impairment:
- Level 1 – balances for which there has been no significant increase in credit risk since the initial recognition and for which the expected loss is determined based on the probability of default within 12 months;
- Level 2 – the balances for which a significant increase in credit risk has occurred since the initial recognition and for which expected loss is based on probability of default over the entire lending period;
- Level 3 – impaired balances.

Trade receivables are the most significant item of the Company's financial assets which will be subject to new rules of calculation of expected credit losses. The Company applies a simplified approach to trade receivables and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the entire life of the financial instrument.
With respect to trade receivables (except for those which are reviewed separately), the Company has developed and will update the model for determining expected credit losses, which will estimate the probability of such costs being incurred based on historical data. The analysis was made on the basis of historical data on default rates in 2015-2017. The default rates were determined for the following ageing groups: (i) up to 30 days, (ii) between 31 and 90 days, (iii) between 91 and 180 days, (iv) between 181 and 360 days, (vi) over 361 days. To determine default rates for each of the ageing groups, the Company compared the amount of written off trade receivables with the amount of outstanding receivables. The following default rates were assumed for unimpaired trade receivables:

Past due receivables				
up to 30 days	**31–90 days**	**91–180 days**	**181–360 days**	**above 361**
31.8%	73.2%	81.6%	84.2%	87.7%

Therefore, the Company believes that impairment losses on trade receivables will increase by approximately PLN 3.7m, while the related deferred tax asset will increase by PLN 690 thousand. These adjustments will reduce the Company's equity by approximately PLN 3 million.

c) Hedge accounting

As IFRS 9 does not change the general principles governing the Company's hedge accounting, the application of IFRS 9 will not have a material effect on the Company's financial statements.

- IFRS 15 *Revenue from Contracts with Customers* – IFRS 15 *Revenue from Contracts with Customers*, which is to replace IAS 18, IAS 11 and the related interpretations, establishes in a systematic way the principles for recognition of revenue from contracts with customers. The standard introduces, among other things, a single five-step model for revenue recognition, applicable to all contracts with customers and based on the identification of performance obligations under a contract and allocation of transaction revenue to such obligations. The standard also clarifies how variable consideration should be estimated and how to determine whether a contract includes a financing arrangement, and differentiates between recognition of performance obligations under a contract as satisfied over time or satisfied at a certain point in time.

IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014 and amended in April 2016, was adopted by the European Union and is effective for annual periods beginning on or after January 1st 2018. The new standard will replace the existing revenue recognition requirements under IFRS (including IAS 11, IAS 18 and the relevant IFRIC interpretations).

The purpose of the new standard is:

* to ensure comparability of revenues from the point of view of enterprises, industries, jurisdictions and capital markets,

* to limit the amount of regulations regarding revenues, and thus simplify the rules for recognizing revenues,

* to provide users of financial statements with more useful information by improving the requirements for various and more detailed disclosures.

The new standard applies to all revenue-generating contracts and its core principle is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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.

Based on the possibilities provided for in the standard, the Management Board of the Company decided to apply IFRS 15 from the effective date of the standard, using a modified retrospective method.

In accordance with this method, the Company is obliged to disclose the impact of IFRS 15 on individual elements of its financial statement as at the date of its first application, i.e. January 1st 2018.

In the reporting period, the Company provided support services to its Group companies, lease services and construction services in the gas and oil segment.
The Company expects that as a result of the application of IFRS 15, the allocation of the transaction price to goods and services under the current contracts, and consequently the recognition of revenue, will not change. Below are presented significant provisions of the standard and the assessment of their impact on the individual components of the Company's financial statements.

- The Company 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. Therefore, under IFRS 15 the Company will continue to recognise revenue from the sale of these services in a similar manner.
- The Company discloses advance payments received from customers under Other non-financial liabilities. The Company has not entered into contracts which would require payment of interest on advance payments received from customers.
- The Company 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 will continue to be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*
- In terms of presentation and disclosure, IFRS 15 introduces new requirements and obligations related to the data presented in the statements. The Management Board believes that some of these disclosures will provide additional, more detailed and transparent information to the users of the financial statements.
- 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 Company expects the impact of IFRS 15 will not be material.

In summary, the Company's Management Board believes that the entry into force and application of IFRS 15 will have no effect on the financial statements for the year ended December 31st 2017.

- IFRS 16 *Leases* − the new IFRS 16 *Leases* establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard will abolish the classification of leases as operating and finance leases under IAS 17, and will provide a single lessee accounting model.

IFRS 16 is effective for annual periods beginning on or after January 1st 2019, and has been endorsed by the European Union. The standard will replace IAS 17, IFRIC 4, SIC 15, and SIC 27. The Company will apply IFRS 16 as of January 1st 2019.

The new standard introduces a single lease accounting model in the lessee's accounting books, which is equivalent to the recognition of finance leases under IAS 17. Under IFRS 16, a contract is a lease or contains a lease component if it transfers the right to control the use of the identified asset for a given period for consideration. In the Company's opinion, an essential element that differentiates the definitions of leasing under IAS 17 and IFRS 16 is the requirement to exercise control over a specific asset used, identified in the contract explicitly or implicitly.

The Company is a lessee with under contracts for lease of office space and equipment (see Notes 4.3 and 4.4). The contracts are currently recognized as operating leases. After the new standard takes effect, the Company will change its method of accounting and will present the contracts in line with the requirements of the new standard. As a result, the Group will recognise in its statement of financial positions amounts of assets and liabilities arising under these contracts.

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

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

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

As at the date of these financial statements, the Company is assessing the impact that the new regulations may have on the financial statements. Since it is not possible to reliably assess the full impact of the changes as at the date of these financial statements, the Management Board has not disclosed the quantitative effect of the standard on its financial results.

2.4.7. SUBSTANCE-OVER-FORM RULE

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

2.4.8. CORRECTION OF ERROR

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

PRESENTATION CHANGES

In these financial statements, rental income and expenses are disclosed in a different way than in the full-year financial statements for 2016. Given the increase in the share of rental income in the Company's total revenue, a decision was made to reclassify rental income and expenses from other income and expenses to revenue and cost of sales. The Management Board believes this form of presentation better

reflects the Company's economic position. In these financial statements, relevant comparative data was restated, namely an amount of PLN 3,703 thousand is presented as revenue from rendering of services instead of other income, and an amount of PLN (2,222) thousand is presented as cost of services sold rather than as administrative expenses.

2.5. MATERIAL JUDGEMENTS AND ESTIMATES

2.5.1. PROFESSIONAL JUDGEMENT

When applying the accounting policies, the Management Board made the following judgements which most significantly affect the presented carrying amounts of assets and liabilities, revenue and costs, as well as related notes.

Estimating the discount rate for claims under the arrangement and bonds

The discount rate for claims under the arrangement was estimated at the level of borrowing costs expected by the Company. The Management Board made the estimation based on information provided by an adviser. The claims under the arrangement and bonds issued by the Company were discounted at 4.81%.

A 1% increase in the discount rate would reduce the amount of claims under the arrangement by PLN 1,291 thousand, while a 1% decrease in the discount rate would increase the amount of claims under the arrangement by PLN 1,345 thousand.

A 1% increase in the discount rate would reduce the value of bonds by PLN 5,921 thousand, while a 1% decrease in the discount rate would increase the value of bonds by PLN 6,169 thousand.

Estimating provision for liabilities relating to joint and several liability for sureties and guarantees issued

While estimating the amount of a provision for 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.

Consortium agreements

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

Estimating the stage of contract completion

Revenue as at the end of a reporting period is estimated based on costs incurred. Costs incurred as at the end of a reporting period include costs of purchased materials, equipment and other components dedicated to a particular contract, which provide a basis for estimating the stage of contract completion and revenue as at the end of the reporting period.

Classification of lease contracts

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

Impairment of non-current assets

The Company assesses whether there is any objective evidence 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 Company assesses the probability of sale of such assets within one year as of the reclassification date. An asset is reclassified only if the probability of sale is high and the conditions set out in IFRS 5 are met. The Company prepares plans to sell its own non-core assets.

Measurement of investment property

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

2.5.2. UNCERTAINTY OF ESTIMATES AND ASSUMPTIONS

These financial statements were prepared based on the assumption that the Company would continue as a going concern (see Note 2.4.3). The assumption has an effect on the measurement of assets and liabilities, which would be different if the Management Board had not made this assumption.

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

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

2.5.2.1. PROVISIONS

The Company also recognised a provision for its liabilities under the sureties and guarantees issued earlier and under joint and several liability to subcontractors related to projects performed as part of consortium

agreements. Since the bankruptcy court's decision of October 8th 2015 to sanction the arrangement between the Company and its creditors became final, a large portion of the provision has been used and the provision currently amounts to PLN 28,682 thousand (2016: PLN 34,913 thousand) (see Note 4.21.2). To a significant extent the amount of the provision depends on the Management Board's estimate of the probability of contingent liabilities (i.e. payments from performance or maintenance bonds) becoming due and payable. While estimating the amount of the provision, the Management Board analyses each guarantee and surety to assess the probability of the respective payment and subsequently assigns to each guarantee and surety such probability expressed as a percentage as is based on the Management Board's best knowledge and expectations. The amount of the provision was calculated in accordance with the terms of the arrangement, i.e. it was determined at the level of expected payments of potential claims under the arrangement, with the payments representing 21% of such claims. The Company also estimated the fair value of shares which, in accordance with the terms of the arrangement, are to be delivered to Group 6 and Group 7 creditors. Given the subscription warrants acquired by the main shareholder, the shareholder's share in the Company's share capital was preserved at 23.61%.

Provisions for warranty repairs are estimated based on probability-weighted costs of current construction contracts assessed by the Company's Management Board. 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 December 31st 2017, recognised provisions for warranty repairs were PLN 6,779 thousand (2016: PLN 14.641 thousand) (see Note 4.21.2). The provision related to the contract for construction of the Wierzchowice Underground Gas Storage Facility of PLN 13,657 thousand is presented under 'Long-term contract liabilities and provisions' (see Note 4.16).

The restructuring provision was recognised in 2012 and estimated at PLN 32,023 thousand as at the date of its recognition. In 2017, the Company used PLN 9,245 thousand (2016: PLN 7,684 thousand) of that provision. As at December 31st 2017, the unused amount of the provision was PLN 4,221 thousand (including PLN 1,605 thousand as a long-term provision and PLN 2,616 thousand as a short-term provision) (2016: PLN 13,468 thousand) (see Note 4.21.2).

Provisions for employee benefits – retirement gratuity and accrued holiday entitlements – are assessed using the projected unit credit method. The amount of provisions for employee benefits disclosed in the financial statements is PLN 177 thousand (December 31st 2016: PLN 224 thousand) (see Note 4.21.1).

2.5.2.2. IMPAIRMENT OF NON-FINANCIAL AND FINANCIAL ASSETS

As at December 31st 2017, the Company performed tests for impairment of property, plant and equipment and intangible assets with definite useful lives, for which there was objective indication of impairment. For a detailed description of the methods and techniques used and their effect on these financial statements, see Notes 4.2 and 4.3.
In order to measure the fair value of the investment property as at December 31st 2017, the Company assessed its value based on estimate surveys prepared by an independent expert appraiser and the

Company's own judgement. The estimate surveys were prepared based on the current plans regarding the benefits that may be obtained. For a detailed description of the measurement methods and techniques used and their effect on fair value adjustment, see Note 4.6.
The Company assessed the value of its shares in subsidiaries, for which there was objective indication of impairment. For a detailed description of the measurement methods and techniques used and their effect on fair value adjustment, see Note 4.8. Financial assets in the form of loans advanced (Note 4.10) and financial receivables (Note 4.17) were also tested for impairment.

2.5.2.3. CONSTRUCTION CONTRACT REVENUE

Construction contract revenue and amounts due recognised in these financial statements depend on the Management Board's estimates regarding the stage of completion of and profit margins expected to be earned 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. Given the Company's present situation, the estimates are subject to additional risks, which may results in their possible adjustment in the future. According to the Management Board, the risks include mainly the Company's limited liquidity as at the date of these financial statements, which may adversely affect the pace of contract work. This may in turn increase contract fixed costs, affect the Company's bargaining power in negotiations with subcontractors and suppliers and, in extreme cases, result in a failure to meet contractual deadlines for completing work and in a threat of penalties being imposed. These factors may in the future affect the planned costs and revenues and thus the margins which are currently budgeted.
If the total costs to be incurred in connection with the running contracts increased by 10% on the current estimates, the amounts due from customers would decrease by PLN 114 thousand as at the reporting date, the provision for estimated losses would amount to PLN 9,115 thousand, and net profit would decrease by a total of 9,229 thousand PLN.

Detailed information on the Company's revenue from construction contracts is presented in Note 4.24.

2.5.2.4. CLASSIFICATION OF FINANCIAL ASSETS

Pursuant to the guidelines of IAS 39 *Financial Instruments: Recognition and Measurement* regarding the classification of non-derivative financial instruments with fixed payment dates or determinable maturity dates, such assets are classified as held-to-maturity financial assets. In making such a judgement, the intentions and ability to hold such investments to their maturity should be considered. If the Company fails to satisfy the requirement of holding assets to their maturity, apart from the circumstances provided for in IAS 39 *Financial Instruments: Recognition and Measurement*, it will be required to re-classify all held-to-

maturity financial assets as available-for-sale assets. In such a case, the re-classified investments will be measured at fair value and not at adjusted acquisition cost.

2.5.2.5. DEFERRED TAX ASSETS

Because there was no certainty whether tax losses incurred in 2012-2016 would be utilised in subsequent years, the Management Board decided not to recognise a deferred tax asset relating to tax losses. The Management Board also decided not to recognise a deferred tax asset relating to other temporary differences in an amount exceeding deferred tax liabilities.

2.5.2.6. ALLOWANCES FOR RECEIVABLES AND LOANS

The Company's Management Board reviews receivables at each reporting date. All receivable balances of significant value are subject to individual assessment in the case of debtors whose balances are past due or when objective evidence has been obtained that the debtor may not pay the receivable (e.g. the debtor is in a difficult financial position, judicial proceedings are conducted against the debtor, there have been changes in the economic environment adverse to the debtor).

Impairment losses on doubtful receivables are estimated when the collection of the full amount of the receivable is no longer probable (see Notes 4.17 and 4.16).

2.5.2.8. 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.

2.5.2.9. ESTIMATING THE TERMS OF FUTURE ISSUES OF SERIES H AND I SHARES

In these financial statements, the Company has estimated the number of Series H shares to be issued on the terms and conditions stipulated in the arrangement, as part of the conversion of future liabilities under the arrangement into the Company's equity, when such liabilities become due following the fulfilment of conditions precedent. The estimate is based on the same assumptions which the Company used to estimate the amount of the provision for liabilities under sureties and guarantees (see Note 2.5.2.1). Each issue of Series H registered shares will trigger an issue of Series I registered shares designed for the majority shareholder to maintain his share in the share capital, as defined in the arrangement.

2.5.2.10. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Depreciation and amortisation rates are determined based on the expected useful lives of property, plant and equipment and intangible assets.
The Company's Management Board reviews the useful lives of its depreciable and amortisable assets annually, based on current estimates. In the Management Board's opinion, as at December 31st 2017, the useful lives of assets assumed by the Company reflect the expected period of use and usefulness of the assets.

2.6. SEASONALITY OF OPERATIONS

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. OPERATING SEGMENTS

In identifying operating segments, the Company's Management Board is guided by the product lines and services within particular industries, representing the main services and goods provided by the Company. Each of the segments is managed separately within each product line, given the nature of the Company's services and products, requiring different technologies, resources and execution approaches.
None of the Company's operating segments has been combined with another segment to form a reportable operating segment.
The Company has identified an additional segment 'Other', where it recognises revenue from sale of merchandise and materials as well as other services not allocated to any of the key segments.

In compliance with IFRS 8 *Operating Segments*, results of the operating segments are based on internal reports regularly reviewed by the Company's Management Board. The Company's Management Board analyses the operating segments' results at the operating profit (loss) level. Measurement of the operating segments' results used in the management calculations is consistent with the accounting policies applied in the preparation of the financial statements.
The Company presents revenue, costs and profit (loss) on sales (gross margin) by individual segments. Assets and equity and liabilities are not presented by operating segments as some of the non-current assets are used in production operations of various segments and therefore inventories cannot be allocated to the segments, and it is impossible to make a segmental allocation of trade payables, other income, other expense, and finance costs. The Group's finance income and costs, other income and expenses, distribution costs, administrative expenses, restructuring costs, and income tax are monitored at the Company level and are not allocated to operating segments.
Transaction prices used in transactions between operating segments are determined on arm's length basis, which is also the case for transactions with unrelated parties.

3.2. FAIR VALUE MEASUREMENT

The Company measures the following assets at fair value as at each reporting date:

- instruments available for sale,
- investment property,
- non-current assets classified as held for sale,
- long-term investments in works of art.

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in a transaction carried out on typical terms of sale of the asset between market participants at the measurement date in the current market conditions. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs either:

- on the principal market for the asset or liability,
- in the absence of a principal market − on most advantageous market for the asset or liability.

Both the principal and the most advantageous markets must be available to the Company. The fair value of the asset or liability is measured on the assumption that market participants when determining the price of an asset or liability act in their best economic interest.
In the valuation of a non-financial asset at fair value the ability of a market participant to generate economic benefits by making maximum and optimal use of the asset or by selling it to another market participant who would make maximum and optimal use of the asset is taken into account.
The Company applies valuation methods that are appropriate given the circumstances and for which sufficient information is available to determine the fair value, whereby as many relevant observable inputs as possible are used and as little as possible non-observable inputs are used.
All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines at the end of each reporting period whether, due to a reassessment, a change has occurred in the level classification of the hierarchy, based on the input of the lowest level that is significant for the whole valuation.

The Company's Management Board determines the rules and procedures for systematic fair value measurement of such assets as investment property or unlisted financial assets.

Independent property appraisers and Company employees, by way of internal analyses, measure significant assets, such as property and assets available for sale, taking into account their location, nature, and current market conditions.

For the purposes of the disclosure of the results of measurement to fair value the Company establishes classes of assets and liabilities based on the nature, characteristics and risks of the various components of assets and liabilities and the level in the fair value hierarchy as described above.

3.3. TRANSLATION OF FOREIGN-CURRENCY ITEMS

The financial statements are presented in the Polish złoty (PLN), which is also the functional currency.

Transactions denominated in currencies other than Polish zloty are translated into the Polish zloty at the rate of exchange prevailing on the transaction date.

As at the end of the reporting period, cash assets and liabilities denominated in currencies other than the Polish zloty are translated into the Polish zloty at the relevant mid-rate quoted by the National Bank of Poland for a given currency, effective as at the end of the reporting period. Foreign exchange gains and losses arising on translation are recognised as finance income (costs) or operating income (expenses), as appropriate, and where the accounting policies so provide they are capitalised in assets (as adjustment to interest expense). Non-cash items of assets and liabilities recognised at historical cost denominated in a foreign currency are disclosed at the historical exchange rate from the transaction date. Non-monetary assets and liabilities recognised at fair value in a foreign currency are translated at the exchange rate effective on the date of determining the fair value. Gains and losses on translation of non-monetary assets and liabilities measured at fair value are recognised in correspondence with gains and losses on change in the fair value of the asset.

The following exchange rates were used to determine the carrying amounts:

Item	Average exchange rate as at Dec 31 2017	Average exchange rate as at Dec 31 2016
EUR	4.1709	4.4240
USD	3.4813	4.1793
CHF	3.5672	4.1173
CAD	2.7765	3.0995
GBP	4.7001	5.1445

3.4. BORROWING COSTS

Borrowing costs which may be directly attributed to an acquisition, construction or production of a qualifying asset are capitalised as part of the cost of such an asset. Borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of finance leases, and foreign exchange differences related to borrowings up to the amount of interest expense adjustment.

3.5. INTANGIBLE ASSETS

Include trademarks, patents and licences, software, costs of development work and other intangible assets which meet the recognition criteria specified in IAS 38. This item also includes such intangible items which have not yet been placed in service (intangible assets under construction) and prepayments for intangible assets.
As at the reporting date, intangible assets are carried at cost less accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised using the straight-line method over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Useful lives of individual intangible items are reviewed annually, and where necessary - adjusted from the beginning of the next financial year.
Expected useful lives for particular groups of intangible assets are presented below:

Groups of intangible assets	Period
Trademarks	2–5 years
Patents and licences	2–10 years
Software	2–10 years
Other	2–5 years

Intangible assets with indefinite lives are not amortised, but instead they are annually tested for impairment. The Company does not carry intangible assets with infinite lives.
Software maintenance costs incurred in subsequent periods are charged to expense of the period as incurred.

Research costs are charged to profit and loss as and when incurred.

The expenditure directly related to development work is recognised as intangible assets only when the following criteria are met:

- technical feasibility of the asset for sale or use has been established,
- the Company intends to complete the asset and either use it or sell it,
- the Company is able to either use or sell the intangible asset,
- the intangible asset will bring economic benefits and the Company is able to demonstrate that (existence of a market or usefulness of the item for the Company),
- the Company has all the technical, financial and other means necessary to complete the development work and either sell or use the asset,
- the expenditure incurred in the course of development work can be measured reliably and attributed to the given intangible item.

Expenditure incurred on development work performed as part of a given project is carried forward to the next period when it can be assumed that it will be recovered in the future. Future benefits are estimated in accordance with IAS 36.

Following initial recognition of expenditure on development work, the historical cost model is used, according to which individual assets are carried at cost less accumulated amortisation and accumulated impairment losses. Completed development work is amortised using the straight-line method over the period during which they are expected to generate benefits.

Gains or losses on disposal of intangible assets are calculated as the difference between the sales proceeds and the carrying amount of the given intangible assets and are recognised in profit or loss as other income or other expenses.

Any prepayments made in connection with purchase of intangible assets are recognised in the Company's financial statements under Intangible assets.

For the policies of recognising impairment losses, see Note 3.8.

3.6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are assets:

- which are held by the Company with a view to being used in the production process, in supply of goods or provision of services, or for administrative purposes,
- which will be used for a period longer than one year,
- in respect of which it is probable that the future economic benefits associated with the asset will flow to the Company,
- whose cost can be measured reliably.

Property, plant and equipment is initially recognised at cost. Such cost is increased by any expenses directly attributable to the purchase and preparation or adaptation of the item for use.

Following initial recognition, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. An item of property, plant and equipment under construction are not depreciated until the construction or erection work is completed and the item is placed in use. If

construction is abandoned, the total of the incurred expenses connected with work performed up to that point is charged to expense of the period. A project may be suspended if there is reasonable intention to continue the project in subsequent periods. Projects are suspended by the PBG Management Board. The cost of property, plant and equipment transferred by customers is determined at fair value as at the date of obtaining control of such assets.

Assets are depreciated with the straight-line method over their estimated useful lives at the following rates:

Groups of property, plant and equipment	Period
Land (usufruct rights)	not depreciated
Buildings and structures	10–66 years
Machinery and equipment	2−20 years
Motor vehicles	2−20 years
Other	2.5−10 years

The Company also holds paintings and antiques that are not depreciated.

Depreciation begins in the month in which an element of property, plant and equipment becomes available for use. Useful lives and depreciation methods are reviewed once a year, with any adjustments applied from the beginning of the next reporting period.
An item of property, plant and equipment may be divided into components of significant value with separate useful lives. Costs of major inspections and of significant spare parts and fittings can also be considered such components, provided that they will be used for a period longer than one year. Day-to-day maintenance expenses incurred when the item is available for use, including costs of maintenance and repairs, are expensed in profit or loss as incurred.
An item of property, plant and equipment may be derecognised from the statement of financial position if it is sold or if the Company does not expect to realise any economic benefits from its further use. Any gains or losses arising from the sale, liquidation or withdrawal from use are calculated as the difference between the sale proceeds and carrying amount of an item of property, plant and equipment, and are recognised in profit or loss as other income or other expenses.
Any prepayments made in connection with a planned purchase of property, plant and equipment are presented in the Company's financial statements under Property, plant and equipment in the statement of financial position.
Land usufruct rights purchased on the secondary market are measured at cost and are not subject to revaluation.
Land usufruct rights are not amortised.

3.7. LEASED ASSETS

Finance leases, which transfer to the Company substantially all the risks and rewards incident to ownership of the leased asset, are recognised in the statement of financial position at commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability, in such a way as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rent is recognised as an expense in the period in which it is incurred.
The policy of depreciating leased assets held under finance lease contracts is consistent with the policy applied to assets owned by the Company. However, if there is no reasonable certainty that the Company will obtain ownership before the end of the lease, the asset is depreciated over the shorter of the useful life of the asset and the lease term.
Leases whereby the lessor retains substantially all the risks and rewards incident to ownership of the leased asset, are classified as operating leases. Lease payments under operating leases are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.
Contingent lease payments are expensed in the period in which they become due.

3.8. IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS

The following assets are tested for impairment on an annual basis:

- goodwill (the first impairment test is performed before the end of the period in which the acquisition occurred),
- intangible assets with infinite lives,
- intangible assets not yet available for use.

Other intangible assets and property, plant and equipment are tested for impairment annually.
Key external indicators of impairment are that an asset's market value may be impaired more rapidly during a period than would be expected as a result of its normal use or its carrying amount exceeds its market capitalisation. Moreover, the most important indications include the occurrence of unfavourable changes of technological, market or economic nature in the environment in which the Company operates.
Internal indications of impairment which should be considered include first of all a situation where the actual net cash inflows are significantly lower than those budgeted or where an asset has become obsolete or has been physically damaged.
If certain developments or circumstances indicate that the asset's carrying amount may not be recoverable, the asset is tested for impairment.
For impairment testing, assets are grouped into smallest groups at which they generate cash flows independently of other assets or asset groups (cash-generating units). Assets which generate cash-flows independently from other assets are tested for impairment individually.
Goodwill is allocated to those cash-generating units that are expected to benefit from the synergies of a business combination, provided that a cash generating unit is not larger than an operating segment.
If the carrying amount exceeds the estimated recoverable amount of the assets or cash-generating units to which they belong, the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. In determining value in use, the estimated future

cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment loss is first allocated to the carrying amount of goodwill. Then the carrying amounts of the assets comprising the cash-flow generating unit are reduced pro rata.

Impairment losses are recognised in profit or loss as other expenses.

At the reporting date, the Company assesses whether there is any indication that an impairment loss recognised in previous periods with respect to a given asset is no longer necessary or whether it should be reduced. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. Such increased amount may not exceed the carrying amount of the asset that would have been determined, net of accumulated amortisation or depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is immediately recognised as income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

Impairment losses for goodwill cannot be reversed in subsequent periods. Reversed impairment losses are recognised in profit or loss as other income.

3.9. INVESTMENT PROPERTY

Investment property is held to earn rentals and/or for capital appreciation and is measured based on fair value.

Investment property is initially measured at cost, including transaction costs. As at subsequent reporting dates, investment property is measured at fair value, determined by an independent expert, taking into account the location and nature of the property and current market conditions.

Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they occur as other income or expense.

Investment property is derecognised from the statement of financial position if it is sold or if it is permanently withdrawn from use, and no future benefits are expected from its sale. Any gains or losses arising from such derecognition of investment property from the statement of financial position are recognised in profit or loss of the period.

Assets are transferred to investment property only when there is a change in the manner of their use, confirmed by the termination of the use of the asset by the owner (the Company) or the conclusion of an operating lease contract. If owner-occupied property (where the owner is the Company) becomes investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment until the date of the change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. For a transfer of investment property to owner-used assets

or to inventories, the presumed cost of such an asset, which will be accepted for the purpose of its recognition in another category, is equal to the fair value of the property determined as at the date of change in its use.

Any prepayments made in connection with a planned purchase of investment property or land are recognised in the Company's financial statements under Investment property in the statement of financial position.

3.10. SHARES IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

3.10.1. INVESTMENTS IN SUBSIDIARIES

The Company recognizes as subsidiaries those entities in relation to which, regardless of the nature of its involvement in a given entity (the entity in which the investment was made), it determines its status as a parent entity, assessing whether it exercises control over the entity in which the investment was made.

The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Company controls an investee if and only if all of the following conditions are met:

- ✓ it exercises power over the investee, and
- ✓ it is exposed, or has rights, to variable returns from its involvement with the investee, and
- ✓ it has the ability to affect those returns through its power over the investee.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control listed above.

If the Company holds less than a majority of voting rights at an investee, but the voting rights held are sufficient to direct the relevant activities of the investee unilaterally, this means that the Company has control of the investee. When assessing whether the Company's voting rights at an investee are sufficient to give the control, the Company considers all material circumstances, including:

- the size of its holding of voting rights relative to the size and dispersion of other holders of voting rights,
- potential voting rights held by the Company, other shareholders and other parties;
- rights arising from other contractual arrangements, and
- any additional circumstances that may indicate that the Company has, or does not have, the ability to direct the relevant activities when decisions need to be made, including voting patterns at previous general meetings.

3.10.2. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Associates are those entities over which the Company has significant influence, either directly or indirectly through its subsidiaries, but which are neither its subsidiaries nor joint ventures. Significant influence is the power to participate in the operating and financial policy decisions of an entity, but it is not control or joint control over such policies.

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control. Joint control is the contractually agreed sharing of control over an economic

activity. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of ventures.

The Company's investments in associates and joint ventures are accounted for in the financial statements using the equity method. Under the equity method, an investment in an associate or joint venture is initially recognised at cost and adjusted thereafter to account for the Company's share of profits/losses and other comprehensive income of the associate or joint venture. If the Company's share of losses of an associate or joint venture exceeds the value of its interest in the associate or joint venture, the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or joint venture is recognised using the equity method starting from the date on which an entity becomes a joint venture or associate. As at the date of an investment in an associate or joint venture, the amount by which the cost of the investment exceeds the Company's interest in the net fair value of the associate's identifiable assets and liabilities is recognised as goodwill and included in the carrying amount of the investment. The amount by which the Company's share of the net fair value of the identifiable assets and liabilities exceeds the cost of the investment is recognised directly in profit or loss in the period in which the investment is made.

The Company applies IAS 39 to determine whether it is necessary to recognise any impairment loss with respect to its investment in an associate or joint venture. If necessary, the entire carrying amount of the investment shall be tested for impairment in accordance with IAS 36 *Impairment of Assets*, as a single asset, by comparing its recoverable amount with its carrying amount. Any impairment loss recognised is included in the carrying amount of the investment. A reversal of such an impairment loss is recognised in accordance with IAS 36 to the extent that it relates to a subsequent increase in the recoverable amount of the investment.

The Company discontinues the equity method from the date when the investment ceases to be its associate or joint venture and when it is classified as held for sale. The difference between the carrying amount of an associate or joint venture at the date when the equity method ceases to be applied and the fair value of the retained shares and proceeds from the disposal of part of the shares in that associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

If the Company reduces its interest in an associate or joint venture, but continues to account the interest with the equity method, reclassifies to profit or loss the portion of the gain or loss previously recognised in other comprehensive income that corresponds to the reduction in its ownership interest if that gain or loss is to be reclassified to profit or loss at the time of disposal of the related assets or liabilities.

3.11. INTERESTS IN JOINT OPERATION

A joint operation is a form of a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets, and obligations related to the arrangement, to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an economic

activity, which exists when strategic financial and operating decisions about the activity require unanimous consent of the parties sharing control.

In relation to its interest in a joint operation, a joint operator recognises in its accounting books and financial statements:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output of the joint operation;
- Its share in proceeds from the sale of the joint operation;
- Expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenue and expenses relating to its interests in joint operations in accordance with relevant IFRSs pertaining to individual assets, liabilities, revenue and expense items.

3.12. FINANCIAL INSTRUMENTS

Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity is a financial instrument.

A financial asset or financial liability is recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and liabilities is recognised using trade date accounting.

A financial asset is derecognised from the statement of financial position when the rights to economic benefits specified in the contract and the risks associated with the contract are either discharged or cancelled, or the Company has waived them.

A financial liability is derecognised when it is extinguished – that is when the obligation specified in the contract is discharged or cancelled or expires.

On acquisition, the Company recognises financial assets and liabilities at their fair value, that is most frequently the fair value of the payment made in the case of an asset or of the amount received in the case of a liability. Transaction costs are included in the initial value of all financial assets and liabilities, except in the case of financial assets and liabilities at fair value through profit or loss.

As at each reporting date, financial assets and liabilities are measured in accordance with the principles discussed below.

3.12.1. FINANCIAL ASSETS

For the purpose of measurement subsequent to initial recognition, financial assets other than hedging derivatives are classified by the Company as follows:

- loans and receivables,

- financial assets at fair value through profit or loss,
- held-to-maturity financial assets,
- available-for-sale financial assets.

These categories determine the measurement policies to be applied and recognition of gains or losses from such measurement in profit or loss or in other comprehensive income.

Except for the financial assets at fair value through profit or loss, all the financial assets are assessed at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. If there is objective evidence that a financial asset is impaired, a relevant impairment loss is recognised. Impairment indicators are analysed separately for each category of financial assets, as presented below.
If the Company:

- holds a valid legal title to set off the recognised amounts, and
- intends to settle on a net basis, or to recover the asset and settle the liability simultaneously,

then financial assets and liabilities are set off against each other and are disclosed on a net basis in the statement of financial position. The framework agreement referred to in IAS 32.50 does not provide any basis for the offset of assets and liabilities, unless the criteria specified above are satisfied.
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, using the effective interest rate method. Current receivables are measured at amounts expected to be received, as the effect of discounting future receipts would be negligible.
Financial assets classified as loans and receivables are presented in the statement of financial position as:

- non-current assets under Receivables and Loans advanced if they mature in more than 12 months after the reporting date. Where the effect of changes in the time value of money is material, the value of receivable is determined by discounting forecast future cash flows to their current value, with the use of a gross discount rate reflecting the current market assessments of the time value of money.
- current assets under Loans advanced, Trade and other receivables and Cash and cash equivalents if they mature in less than 12 months as of the reporting date. Impairment losses on doubtful receivables are estimated when the collection of the full amount of the receivable is no longer probable. All receivable balances of significant value are subject to individual assessment in the case of debtors whose balances are past due or when objective evidence has been obtained that the debtor may not pay the receivable (e.g. the debtor is in a difficult financial position, judicial proceedings are conducted against the debtor, there have been changes in the economic environment adverse to the debtor). In the case of those receivables which are not subject to individual assessment, evidence of impairment are analysed for particular credit risk classes of assets e.g. credit risk specific to the sector, region or structure of customer base).

The ratio of impairment losses recognised in respect of any class is based on the recently observable trends as to debtors' payment difficulties.

Financial assets measured at fair value through profit or loss include *assets* classified as *held for trading* or which were designated on initial recognition as ones to be measured at *fair value through profit or loss because they met the criteria defined in IAS 39.*

A financial asset is classified as held for trading if:

- it is acquired primarily for the purpose of selling it in the near term, or
- it is part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future, or
- it is a derivative (except for a derivative that is part of hedge accounting or financial guarantee contracts).

Asset or liability may be designated by the Company on initial recognition as at fair value through profit or loss only if such designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases,
- applies to a group of financial instruments which, in accordance with a documented risk management policy or investment strategy, is managed and evaluated on a fair value basis.

This category includes all derivatives disclosed in the statement of financial position separately as Other financial assets, except hedging derivatives, which are measured in accordance with the requirements of hedge accounting.

Instruments classified in this category are measured at fair value through profit or loss, based on their market value as at the end of the reporting period, without reflecting costs to sell. Gains and losses on measurement of financial assets are the change in their fair value established on the basis of quoted prices in an active market or – if there is no active market – using valuation techniques.

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that an entity intends and is able to hold to maturity, other than the assets which are classified as loans and receivables, financial assets at fair value and financial assets available for sale.

In this category the Company classifies bonds/notes and other debt securities held to maturity and presents them in the statement of financial position under Other financial assets.

Held-to-maturity investments are measured at amortised cost, using the effective interest rate method. If there is evidence that a held-to-maturity investment may be impaired (e.g. credit rating of an issuer of bonds or notes), the assets are measured at the present value of the estimated future cash flows. Any changes in the carrying amount of an investment, including impairment losses, are recognised in profit or loss.

Available-for-sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified into any of the categories discussed above.

The Company classifies in this category listed bonds or notes that are not held to maturity and shares in companies other than its subsidiaries or associates. In the statement of financial position, such assets are disclosed under Other current financial assets.

Shares of non-listed companies are measured at cost less impairment, due to the fact that it is not possible to reasonably determine their fair value. Impairment losses are recognised in the statement of profit or loss.

All other financial assets available for sale are recognised at fair value increased by the transaction costs which may be directly attributed to the acquisition or issue of the financial asset. Any gains and losses on such measurement are recognised in other comprehensive income and accumulated in equity, except for impairment losses and foreign exchange gains or losses on monetary items, which are recognised in the statement of profit or loss. Interest which would be recognized at the measurement of these financial assets at amortized cost using the effective interest rate method is also recognised in profit or loss.

Reversals of impairment losses on available-for-sale financial assets are recognised in other comprehensive income, except in the case of impairment losses on debt instruments, the reversals of which are recognised in the statement of profit or loss if the increase of fair value of the asset may be objectively associated with an event that occurred after impairment was recognised.

On derecognition of an asset, all cumulative gains and losses previously recognised in other comprehensive income are reclassified from equity to profit or loss, and are presented in other comprehensive income as reclassification to profit or loss.

3.12.2. FINANCIAL LIABILITIES

Financial liabilities other than derivative hedging instruments are presented in the statement of financial position under the following items:

- borrowings, other debt instruments,
- finance leases,
- trade and other payables
- derivative financial instruments.

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities held for trading or designated as ones to be measured at fair value through profit or loss. Financial liabilities measured at fair value through profit or loss include derivatives other than designated as hedging instruments. Short-term trade payables are measured at amounts expected to be paid, as the effect of discounting future outflows would be negligible.

A financial liability is derecognised from the statement of financial position when it is extinguished – that is when the obligation specified in the contract is discharged or cancelled or expires. When an existing debt instrument is replaced by another instrument on substantially different terms, where the same parties are involved, such replacement is treated by the Company as derecognition of the original financial

liability and recognition of a new financial liability. Similarly, when the terms of an existing financial liability are substantially modified, the Company treats such modification as the derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts is recognised in profit or loss.

3.12.3. HEDGE ACCOUNTING

In accordance with the risk management strategy adopted by the Company, when executing construction contracts which are settled in foreign currencies, the Company is obliged to use hedge accounting in order to limit the impact of financial risk on operating profit as far as possible. The Company's hedging strategy assumes hedging of individual contracts the future inflows from which will be received or denominated in a foreign currency. The strategy is based on the principle of matching hedging instruments with planned transactions under the contract, always taking into account the actual net exposure, given budgeted exchange rates determined in accordance with the relevant definition, possible foreign-currency expenses, the time horizon and the quantitative distribution of the currency flows in the particular quarters.
Under the strategy, the key financial risk management tools used by the Company include forward contracts and interest rate swaps. The strategy also permits purchase of currency options and interest rate options.

With respect to derivatives designated as cash flow hedges, the Company applies specific accounting policies. The application of hedge accounting requires the Company to meet the conditions specified in IAS 39 concerning the documentation of the hedge policy, the probability of the occurrence of the hedged transaction and the effectiveness of the hedge.

All the hedging derivatives are measured at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity. The ineffective portion of the hedge is immediately recognised in profit or loss.
At the moment when the hedged item affects profit or loss, the cumulative gains and losses previously recognised in other comprehensive income are transferred from equity to profit or loss. The reclassification is presented in the statement of comprehensive income under Cash-flow hedges - reclassification to profit or loss.
If the hedged transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, any gains or losses previously recognised in other comprehensive income, are reclassified from equity and included in the initial cost of the asset or liability. The reclassification would be presented in the statement of comprehensive income under Cash-flow hedges - amounts recognised in initial carrying amount of hedged items.
If it is probable that the planned future hedged transaction will not be executed, gains and losses on measurement of cash flow hedging instruments are immediately transferred to profit or loss.

At present, the Company does not apply hedge accounting as it does not execute any construction contracts in foreign currencies.

3.13. IMPAIRMENT OF FINANCIAL ASSETS

As at each reporting date, the Company assesses whether there is any objective indication of impairment of a financial asset or a group of financial assets.

3.13.1. FINANCIAL ASSETS CARRIED AT AMORTISED COST

If there is objective evidence that a loss has occurred due to impairment of loans and receivables carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses on irrecoverable receivables that have not been incurred) discounted at the effective interest rate. The amount of the loss is charged to profit or loss.

First, the Company assesses whether there is any objective evidence of impairment of any financial assets that are individually significant, as well as evidence of impairment of any financial assets that are not individually significant. If the analysis shows that there is no objective evidence of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the Company includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses their impairment. Assets that are individually reviewed for impairment and for which an impairment loss has been recognised or it has been concluded that the existing impairment loss will not change, are not taken into account in collective review of assets for impairment.

If in a subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, in so far at the reversal date the carrying amount of the asset does not exceed its amortised cost.

3.13.2. FINANCIAL ASSETS CARRIED AT COST

If there is objective evidence of impairment of an unquoted equity instrument that is not carried at fair value because its fair value can not be reliably measured, or of a derivative instrument that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount if impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

3.13.3. AVAILABLE-FOR-SALE FINANCIAL ASSETS

If there is objective evidence of impairment of a financial asset available for sale, the amount of the difference between the purchase price of the asset (net of any principal repayment and amortisation) and its current fair value, less any impairment loss on that asset previously recognised in profit or loss, is reclassified from equity to profit or loss. Reversal of an impairment loss on equity instruments classified as

available for sale may not be recognised in profit or loss. If in a subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in profit or loss, the amount of the reversal is recognised in profit or loss.

3.14. INVENTORIES

Inventories include:

- materials,
- semi-finished products and work in progress,
- finished goods,
- merchandise,
- prepayments for materials or merchandise classified as inventories.

Inventories are measured at the lower of cost and net realisable value. Cost includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

- Cost of finished goods and work in progress includes all expenses directly attributable to the manufacturing process (mainly materials and labour) as well as suitable portions of related production overheads, based on normal operating capacity.
- Costs of finished goods are assigned using the weighted average cost formula. Costs of materials and merchandise are assigned using the first in, first out cost formula.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

Write-downs of current property, plant and equipment related to impairment or measurement as at the reporting date are charged to other expenses. If the cause of the impairment loss ceases to exist, the value of current property, plant and equipment is recognised as other income.

Circumstances that cause inventories to be written down include:

- obsolete and damaged items,
- overstocked items which are no longer needed or difficult to sell,
- slow moving items,
- items with declining selling prices due to lower prices of competitors.

When the cost of an inventory item cannot be recovered, the item is written down to its net realisable value. The amount of write-downs to net realisable value as well as inventory losses are recognised as expenses for the period in which the write-down or loss occurred.

Any prepayments made in connection with a planned purchase of inventories are recognised under Inventories in the statement of financial position.

3.15. TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised and disclosed at originally invoiced amounts, net of impairment on doubtful receivables. Impairment losses on receivables are estimated when the collection of the full amount of the receivable is no longer probable.

Where the effect of changes in the time value of money is material, the value of receivable is determined by discounting forecast future cash flows to their current value, with the use of a gross discount rate reflecting the current market assessments of the time value of money. If discounting is used, any increase in the amount of receivables reflecting the passage of time is recognised as other income.

Receivables from the state budget are presented as other non-financial assets, except income tax receivable disclosed as a separate item of the statement of financial position.

3.16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and cash at banks, demand deposits and highly liquid short-term investments (with maturities up to three months), that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.17. NON-CURRENT ASSETS AND GROUPS OF NET ASSETS HELD FOR SALE

Non-current assets (or a group of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use of the asset. That condition is met only if an asset (or a disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets, and its sale is highly probable within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Some of the Company's non-current assets classified as held for sale (e.g. financial assets and deferred tax assets) continue to be measured in accordance with the Company's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

3.18. EQUITY

Share capital represents the nominal value of shares that have been issued, as specified in the Company's articles of association and the relevant entry in the National Court Register.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Other components of equity include the following:

- share-based payment reserve,
- other comprehensive income accumulated in equity, including:

- ✓ measurement of available-for-sale financial assets (see subsection on financial instruments),
- ✓ cash-flow hedges reserve (see Note on hedge accounting).

Retained earnings include profits or losses from previous years (also those transferred to equity by resolutions of the shareholders) and the financial result for the current year.

Transactions with owners of the Company are presented separately in the statement of changes in equity.

3.19. EMPLOYEE BENEFITS

Employee benefits obligations and provisions reported in the statement of financial position include:

- provisions for accrued holiday entitlements,
- short-term employee benefits,
- other long-term employee benefits, under which the Company presents provisions for retirement gratuity.

3.19.1. SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefit obligations are disclosed in the statement of financial position at amounts that the Company expects to pay.

3.19.2. PROVISIONS FOR ACCRUED HOLIDAY ENTITLEMENTS

The Company recognises provision for the expected cost of accumulating compensated absences, as a result of the accrued holiday entitlements as at the reporting date.

The provision for accrued holiday entitlements is calculated on the basis of the number of vacation days unused in the current period, plus the number of vacation days unused in prior periods. The provision for the cost of accumulating compensated absences is recognised under provisions for employee benefits, after deducting any amount already paid. The provision for accumulating compensated absences is classified as a short-term provision and is not discounted.

3.19.3. RETIREMENT SEVERANCE PAYMENTS

In accordance with the remuneration systems in place at the Company, employees of are entitled to retirement gratuity benefits, which are one-off benefits, paid out when the employee retires. The amount of such benefits depends on the length of service and the average remuneration of an employee.

PBG recognises a provision for future retirement gratuity in order to allocate costs to the periods in which the benefits become vested.

According to IAS 19, retirement gratuity benefits are defined post-employment benefit plans.

The present value of the provisions as at the reporting date is assessed using the projected unit credit method. The provision recognised in the statement of financial position is the present value of the benefit

obligations at the reporting date. Information on demographics and employment turnover is sourced from historical data.

Revaluation of employee benefit obligations under defined benefit programmes, including actuarial gains and losses, is recognised in other comprehensive income and is not subject to subsequent reclassification to profit or loss.

The Company recognizes the following changes in net defined benefit obligations as part of cost of sales and general and administrative expenses:

- service cost (including current service cost and past service cost),
- net interest on net defined benefit obligations.

3.20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The timing and amount of the obligation may be uncertain.

Provisions are recognised for:

- warranties to provide after-sale support of products and services,
- pending litigations and disputes,
- losses on construction contracts, accounted for in accordance with IAS 11,
- restructuring, only if the Company is required to undertake restructuring under separate regulations or a binding agreement.

Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, based on the most reliable evidence available on the date on which the financial statements are prepared, including evidence as to risks and uncertainties. If the effect of the time value of money is material, the provision is measured by discounting expected future cash flows to their present value, using a discount rate that reflects current market assessments of the time value of money and the risks, if any, specific to the liability. If discounting is used, any increase in the amount of the provision reflecting the passage of time is recognised as finance costs.

Any unused provisions are reversed on the day when they are no longer necessary.

A provision is used only for expenditures for which the provision was originally recognised.

3.20.1. PROVISIONS FOR WARRANTIES

Provisions for warranties reflect future obligations to make a payment or provide a service (in connection with current operations) to unknown persons, if the amount of the liability can be estimated, even though its timing is unknown. Provisions for warranty repairs are estimated based on probability-weighted costs of running construction contracts assessed by the Management Board. Provisions for warranties are charged to contract costs, based on the proportion of direct expenditures already incurred to total estimated

direct costs. The costs related to accrued provisions for warranties do not influence the stage of a contract's completion. At the Company, provisions for warranties are broken down into individual construction contracts. 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. If any provisions remain unused (after their effective period), they are reversed to other income. Depending on expected exercise date, a warranty provision is classified in the statement of financial position as a non-current provision or a current provision.

3.20.2. PROVISION FOR CONTRACT LOSSES

Provisions for losses on construction contracts are recognised if it is probable that the total cost to complete a construction contract exceeds the total revenue under the contract. The anticipated loss is immediately expensed in profit or loss. Its amount is determined irrespective of the commencement of contract work, the stage of the contract's completion or expected profits on contracts which are not single construction contracts. Any change in provisions for expected losses increases or reduces operating expenses.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount recognised for the reimbursement may not exceed the amount of the provision. Cost related to a given provision is recognised in profit or loss net of any recoveries.

Any unused provisions are reversed on the day when they are no longer necessary. A provision is used only for expenditures for which the provision was originally recognised.

3.21. INTEREST-BEARING BORROWINGS AND OTHER DEBT INSTRUMENTS

All borrowings and other debt instruments are initially recognised at fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method.

Amortised cost includes the cost of obtaining the borrowing as well as any discounts or premiums obtained in connection with the liability.

Any gains or losses are taken to profit or loss when the liability is derecognised from the statement of financial position or accounted for using the effective interest rate method.

The non-interest-bearing notes issued by the Company (see Note 4.11) are stated at nominal amount less the effect of discounting the long-term portion of the liability.

3.22. ACCRUALS AND DEFERRALS

In the statement of financial position, under the asset line item Prepaid expenses the Company reports prepaid costs relating to future reporting periods, mainly lease payments or costs incurred to obtain construction contracts (if the probability of obtaining the contract is high).

The liabilities line item Deferred income includes deferred income, including cash transferred to the Company by the government to finance property, plant and equipment, accounted for under IAS 20 *Grants*. Prepaid expenses are presented as non-current and current.
Grants are recognised only when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grant will be received.
A grant related to an item of expense is recognised as income over the period necessary to match it with the related expense.
A grant financing an asset is gradually recognised in profit and loss as income over the periods in proportion to the depreciation write-offs made on the asset. Instead of deducting the grant from the asset's carrying amount, PBG presents it in the statement of financial position as deferred income, under Deferred income.

3.23. REVENUE

Revenue is measured by reference to the fair value of the consideration received or receivable, less discounts, VAT and other sales-related taxes (i.e. excise duty), and arises from the sale of goods and the rendering of services in the course of ordinary activities. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Company and its amount can be measured reliably.

3.23.1. SALE OF GOODS (MERCHANDISE AND PRODUCTS)

Revenue from sale of goods is recognised when the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods; That condition is deemed satisfied when the goods are undisputedly delivered to the buyer;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.23.2. RENDERING OF SERVICES

Rental income from operating lease

Rental income from operating leases of investment property is recognised on the straight-line basis over the term of the lease.

Contract revenue

Construction work contracts are executed at fixed price and fall within the scope of IAS 11.

When the outcome of a construction contract can be estimated reliably, contract revenue are recognised by reference to the stage of completion of the contract activity. The stage of completion, expressed as a percentage, is determined as the proportion that contract costs incurred for work

performed by the reporting date bear to the estimated total contract costs. Revenue and costs of construction contracts in progress are determined at the end of each month, at least once a quarter. Both revenue and costs are determined for the period from the start of work under a given contract until the reporting date.

If the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent that contract costs incurred are expected by the Company to be recoverable.

The percentage of completion method is applied on a cumulative basis in each reporting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs and the effect of a change in the estimate of the outcome of the contract are accounted for as a change in accounting estimate (IAS 8). The revised estimates are used to determine the amount of revenue and expense recognised in profit or loss in the reporting period in which the change occurs and in subsequent periods.

The total revenue determined at the end of each reporting period (reporting date) includes only revenue that can be reliably measured and is assessed as likely to be paid by the customer.

No retentions are taken into account when determining the amount of revenue.

When contract revenue receivable under a construction contract in foreign currency exceeds progress billings, the contract revenue is measured using the mid-exchange rate quoted by the National Bank of Poland. When the Company receives prepayments in foreign currencies, the revenue receivable under a construction contract, measured as at the reporting date, includes the amount of the prepayment.

The excess of contract revenue over progress billings disclosed in the financial statements is presented as a separate asset item under Amounts due from customers for construction contract work in progress.

When progress billings for a construction contract in foreign currency exceed contract revenue (presented under liabilities), the progress billings are measured as at the reporting date at the exchange rate effective as at the invoice date, applying the first in, first out formula, and are not remeasured at the reporting date.

The excess of progress billings over contract revenue, when estimating the amount of revenue disclosed in the financial statements, is presented as a separate item under Amounts payable to customers for construction contract work in progress.

When executing construction contracts in foreign currencies, the Company is obliged to comply with its hedging policy in order to ensure adequate level of future cash flows and mitigate the adverse impact of exchange rate fluctuations on its operating activities, which is aimed at securing the operating margin calculated in the contract budget. The policy is based on matching hedging instruments with the planned transactions under the hedged contract, with the actual net exposure, bid price, time horizon and the quantitative distribution of foreign-currency revenues in the individual quarters being taken into account Using the approach of limiting the impact of currency risk on the operating performance of the Company to the largest extent possible, the Company selected forward transactions for hedging purposes. If it is probable that the total contract costs will exceed the total contract revenue, an expected loss on a construction contract is immediately recognised as an expense.

Revenue from provision of support services to subsidiaries

Revenue is recognised in accordance with the terms and conditions agreed with the subsidiaries in the period for which the service was provided to a subsidiary.

3.23.3. DIVIDENDS AND OTHER INCOME AND FINANCE INCOME

INTEREST AND DIVIDENDS

Interest income is recognised as it accrues using the effective interest rate method. Dividends are recognised when the shareholder's right to receive payment is established.

Income for the reporting period includes:

- **other income**, related indirectly to operating activities, including:
  - gains on financial investments,
  - gains on derivative instruments relating to operating activities,
  - foreign exchange gains, excluding exchange differences on liabilities used to finance the Company's operations,
  - reversals of impairment losses on held-to-maturity financial assets, available-for-sale financial assets and loans,
  - reversal of unused provisions previously recognised in other expenses,
  - gain on disposal of property, plant and equipment and intangible assets;

- **finance income**, related to the financing of the Company's operations, including:
  - net foreign exchange gains earned exclusively on liabilities which constitute the Company's financing (contracted loans, credit facilities, notes, finance leases, etc.),
  - gains on the realisation and fair value measurement of derivative instruments securing liabilities financing the Company's operations.

Finance income and costs related to **raising the financing** are disclosed in as **net finance costs**.

3.24. EXPENSES

Cost of sales as at the reporting date is adjusted to account for changes in the fair value of financial instruments designated as cash-flow hedges, if the hedge relationship is no longer effective or if the hedged item affects profit or loss.

Expenses are analysed by function and by nature. Expenses in the statement of profit or loss are classified using the former method.

The total cost of sales includes:

- cost of products sold,
- cost of services sold,
- cost of merchandise and materials sold,

- administrative expenses.

In addition, the costs of the reporting period affecting the financial result are other operating costs, related indirectly to the operating activity, including in particular:

- loss on disposal of property, plant and equipment and intangible assets,
- donations granted,
- provisions for litigation, penalties, damages, and other costs related indirectly to operating activities,
- foreign exchange losses, excluding exchange differences on liabilities used to finance the Company's operations,

as well as finance costs related to the financing of the Company's operations, including in particular:

- interest on a credit facility,
- interest on short- and long-term loans, borrowings and other sources of financing,
- net foreign exchange losses.

3.25. INCOME TAX (CURRENT AND DEFERRED)

Mandatory decrease of profit (increase of loss) comprises current income tax and deferred income tax not recognised in other comprehensive income or directly in equity.

Current tax is calculated based on the taxable profit (tax loss) for a financial year, which differs from profit or loss in the financial statements due to temporary differences and items which will never be subject to taxation. Current tax is based on the tax rates that have been enacted by the end of the reporting period.

Deferred income tax is calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax liabilities are always provided for in full, while deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. Deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax liability is not provided on the initial recognition of goodwill and when goodwill has a tax base of nil.

Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

3.26. VALUE ADDED TAX

Revenue, expenses, assets and liabilities are recognised net of the VAT, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognised in the cost of a given asset or as part of the cost item, and
- in the case of receivables and payables which are recognised inclusive of VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

3.27. ASSESSMENT OF TAX UNCERTAINTIES

If in the opinion of the Company it is probable that the tax authority will accept the Company's approach to a tax matter or a group of tax matters, the Company determines taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the Company's taxation approach planned for or used in the Company's tax return.

If in the opinion of the Company it is improbable that the tax authority will accept the Company's approach to a tax matter or a group of tax matters, the Company reflects the effect of uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits and tax rates. The company reflects this effect using one of the following methods, which allows it to better assess uncertainty:

- the Company identifies the most probable scenario – a single amount selected from among possible outcomes,
- The Company discloses the expected value − the aggregate of amounts weighted by their respective probabilities,

3.28. EARNINGS PER SHARE

Earnings per share (EPS) are calculated by dividing profit or loss for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS for each period is calculated by dividing profit or loss for period, adjusted for the effects of all dilutive potential ordinary shares, attributable to equity holders of the parent, by the adjusted weighted average number of ordinary shares.

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF PROFIT OR LOSS

4.1. OPERATING SEGMENTS

Currently, the Company divides its business into the following three operating segments:

- **Gas, oil and fuels**
- **Power construction**
- **Corporate support for subsidiaries**

The following areas are identified within particular segments:

- **Gas, oil and fuels segment:**
  - Surface installations for crude oil and natural gas production,
  - Installations for liquefying natural gas and for LNG storage and regasification,
  - LPG, C5+ separation and storage facilities,
  - LNG storage and evaporation facilities,
  - Underground gas storage facilities,
  - Desulfurisation units,
  - Surface infrastructure of underground gas storage facilities,
  - Crude oil tanks,
  - Transmission systems for natural gas and crude oil, including pressure reduction and metering stations and metering and billing stations, mixing plants, distribution nodes, compressor stations, etc.,
  - Fuel terminals.
- **Power construction segment:**
  - Assembly, modernisation and repair of power equipment and industrial units.
- **Corporate support segment:**
  - building the image and brand of subsidiaries,
  - planning and coordination of work of subsidiaries' corporate bodies,
  - financial, administrative and controlling services,
  - property portfolio management,
  - rental of office space.

Revenue and results by operating segment

For the period Jan 1−Dec 2017

Item	Segment			Other	Par value of shares
	Gas, oil and fuels	Power construction	corporate support for subsidiaries		
Financial results of the operating segments for the period January 1st–December 31st 2017					
Segment total revenue	**1,565**	**390**	**10,696**	**797**	**13,448**
Revenue from external customers	1,565	390	10,696	797	13,448
Total cost	(2,726)	(73)	(4,918)	600*	(7,117)
Segment profit (loss)	**(1,161)**	**317**	**5,778**	**1,397**	**6,331**
Distribution costs/administrative expenses	x	x	x	x	(11,132)
Other income/expenses	x	x	x	x	5,760
Loss on arrangement with creditors	x	x	x	x	(19,160)
Operating profit (loss)	x	x	x	x	**(18,201)**
Finance costs	x	x	x	x	(65,522)
Profit (loss) before tax	x	x	x	x	**(83,723)**
Income tax expense	x	x	x	x	-
Net profit (loss)	x	x	x	x	**(83,723)**

* The positive amount arises from reversal of provisions recognised in previous periods.

For the period from January 1st to December 31st 2016

Item	Segment		Other	Par value of shares
	Gas, oil and fuels	corporate support for subsidiaries		
Financial results of the operating segments for the period January 1st – December 31st 2016				
Segment total revenue	**17,255**	**14,087**	**653**	**31,995**
Revenue from external customers	17,255	14,087	653	31,995
Inter-segment sales				-
Total cost	(18,864)	(5,321)	(11,072)	(35,257)
Segment profit (loss)	**(1,609)**	**8,766**	**(10,419)**	**(3,262)**
Gain on losing joint control of joint operation	x	x	x	**24,239**
Distribution costs/administrative expenses	x	x	x	(11,755)
Other income/expenses	x	x	x	(12,094)
Restructuring costs	x	x	x	(3,852)
Gain on arrangement with creditors	x	x	x	1,060,495
Operating profit (loss)	x	x	x	**1,053,771**
Finance income	x	x	x	-
Finance costs	x	x	x	(96,384)
Share of profit of equity-accounted entities	x	x	x	-
Profit (loss) before tax	x	x	x	**957,387**
Income tax expense	x	x	x	-
Net profit (loss)	x	x	x	**957,387**

In 2016, the power construction segment did not recognise any income or expenses.

The Company operates in Poland only.

Key customers

The Company classifies as key customers those customers whose share in its total revenue exceeds 10%. In 2017, revenue from key customers was PLN 6,673 thousand (including PLN 6,337 thousand in the Corporate support segment and PLN 296 thousand in the Gas, oil, gas and fuels segment (2016: PLN 26,879 thousand, including PLN 16,313 thousand in the Gas, oil and fuels segment; the balance was derived almost exclusive from the Corporate support segment).

4.2. INTANGIBLE ASSETS

Item	as at Dec 31 2017	as at Dec 31 2016
Patents and licences	110	224
Software	100	9
Other	3	6
Net carrying amount	**213**	**239**

Item	Trademarks	Patents and licences	Software	Other	Total
for the period Jan 1–Dec 31 2017					
Net carrying amount at Jan 1 2017	**-**	**224**	**9**	**6**	**239**
Additions	5	-	110	-	**115**
Depreciation (-)	(5)	(114)	(19)	(3)	**(141)**
Net carrying amount at Dec 31 2017	**-**	**110**	**100**	**3**	**213**
for the period Jan 1–Dec 31 2016					
Net carrying amount at Jan 1 2016	**-**	**547**	**304**	**9**	**860**
Additions	-	-	1	-	**1**
Disposals (-)	-	(1)	-	-	**(1)**
Depreciation (-)	-	(322)	(296)	(3)	**(621)**
Net carrying amount at Dec 31 2016	**-**	**224**	**9**	**6**	**239**

During the 12 months ended December 31st 2017, as in the previous reporting period, amortisation of intangible assets was fully charged to administrative expenses.

During the 12 months ended December 31st 2017, as in the previous reporting period, the Company did not recognise or reverse any impairment losses on intangible assets.

The Company does not use intangible assets with indefinite useful lives and does not own intangible assets of significant unit value.

The Company has not made any commitments to incur any capital expenditure on intangible assets in the future.

Intangible assets pledged as security for the Company's liabilities are described in Note 4.12.

4.3. PROPERTY, PLANT AND EQUIPMENT

Item	as at Dec 31 2017	as at Dec 31 2016
Land	695	3,698
Buildings and structures	1,759	4,357
Machinery and equipment	827	1,010
Motor vehicles	60	76
Other	740	1,955
Net carrying amount	**4,081**	**11,096**

CHANGES IN CARRYING AMOUNTS OF PROPERTY, PLANT AND EQUIPMENT

Item	Land	Buildings and structures	Machinery and equipment	Vehicles	Other	Total
for the period Jan 1–Dec 31 2017						
Net carrying amount at Jan 1 2017	**3,698**	**4,357**	**1,010**	**76**	**1,955**	**11,096**
Additions	-	-	37	-	6	**43**
Disposals (-)	(31)	(553)	(13)	(34)	(2,614)	**(3,245)**
Decrease on reclassification to another asset category, excluding reclassification to assets held for sale (-)	-	(2,038)	-	-	-	**(2,038)**
Decrease on reclassification to assets held for sale (-)	(2,992)	(4,916)	-	-	-	**(7,908)**
Impairment loss (-)	-	(493)	-	-	-	**(493)**
Impairment loss reversed	20	5,635*	6	34	1,434**	**7,129**
Depreciation (-)	-	(233)	(213)	(16)	(41)	**(503)**
Net carrying amount at Dec 31 2017	**695**	**1,759**	**827**	**60**	**740**	**4,081**
for the period Jan 1–Dec 31 2016						
Net carrying amount at Jan 1 2016	**3,718**	**6,073**	**4,016**	**152**	**3,702**	**17,661**
Additions	-	-	13	-	5	**18**
Increase due to lease contracts	-	-	-	2	-	**2**
Decrease due to loss of joint control – joint operation	-	(1,417)	(57)	-	(57)	**(1,531)**
Disposals (-)	(20)	-	(1)	(45)	-	**(66)**
Liquidation (-)	-	-	(28)	-	(1)	**(29)**
Impairment loss (-)	-	-	(2,568)	-	(1,639)	**(4,207)**
Impairment loss reversed	-	-	25	-	1	**26**
Depreciation (-)	-	(299)	(390)	(33)	(56)	**(778)**
Net carrying amount at Dec 31 2016	**3,698**	**4,357**	**1,010**	**76**	**1,955**	**11,096**

* Decrease in impairment losses of PLN 123 thousand on disposal of an item of property, plant and equipment and PLN 5,512 thousand attributable to transfer of property, plant and equipment to non-current assets classified as held for sale.
** Decrease in impairment losses upon disposal of property, plant and equipment

In the 12 months ended December 31st 2017, the Company disposed of property, plant and equipment with a total carrying amount of PLN 3,245 thousand, earning a net gain of PLN 617 thousand. In the same period of the previous year, the Company did not dispose of any items of property, plant and equipment.

As at December 31st 2017, in accordance with IAS 36.9, the Management Board of the Company assessed whether there is any indication of impairment of items of property, plant and equipment. Taking into account the Company's negative cash flows from operating activities, the Management Board decided to test items of property, plant and equipment for impairment.

- real estate entered in the register of property, plant and equipment was assessed based on the Company's judgement and preliminary sale agreements. Having considered the estimates and valuations, the Management Board decided not to recognise any impairment losses;
- works of art classified as property, plant and equipment are assessed based on valuation by independent property appraisers and the Company's own judgement. Having considered the estimates and valuations, the Management Board decided not to recognise any impairment losses.

Depreciation of property, plant and equipment was recognised in the following items of the statement of profit or loss:

Item	as at Dec 31 2017	as at Dec 31 2016
Cost of sales	61	374
Administrative expenses	442	404
Total depreciation of property, plant and equipment	**503**	**778**

Gross carrying amount of fully depreciated property, plant and equipment which the Company continued to use was PLN 4,818 thousand as at December 31st 2017. (2016: PLN 4.581 thousand).
As at the reporting date, the Company leases (or rents) other tangible assets, which mostly comprise properties used in the operating activities, including construction camps, office premises, accommodation for project employees, land properties for storage of equipment and materials, etc. Costs related to using these assets are recognised in the statement of profit or loss. The agreements were concluded for indefinite term and therefore it is impossible to determine the total value of future minimum payments.
The Company did not make any commitments to incur capital expenditure on property, plant and equipment.
Property, plant and equipment pledged as security for the Company's liabilities are described in Note 4.12.

4.4. LEASED ASSETS

The Company as a lessee uses property, plant and equipment under finance lease contracts.
The following table presents future minimum lease payments due as at the reporting date:

Item	Minimum lease payments due			
	within 1 year	1 to 5 years	over 5 years	Total
As at Dec 31 2017				
Future minimum lease payments	888	2,463	-	3,351
Finance costs (-)	(112)	(134)	-	(246)
Present value of future minimum lease payments	**776**	**2,329**	**-**	**3,105**
As at Dec 31 2016				
Future minimum lease payments	873	3,352	-	4,225
Finance costs (-)	(143)	(247)	-	(390)
Present value of future minimum lease payments	**730**	**3,105**	**-**	**3,835**

The Company uses a drilling rig under a finance lease contract worth PLN 3,105 thousand as at December 31st 2017. PLN (December 31st 2016: PLN 3.835 thousand). The agreement was executed in September 2011 for 10 years, after which time the Company will have the right to purchase the leased asset. Interest charged on lease payments is based on 1M WIBOR, and the lease liabilities are secured with a blank promissory note.

4.5. ASSETS CLASSIFIED AS HELD FOR SALE

Item	as at Dec 31 2017	as at Dec 31 2016
Assets held for sale, including:		
- land	4,725	14,701
- buildings and structures	17,081	860
- plant and equipment	61	-
- shares in subsidiaries	-	6,000
Total	**21,867**	**21,561**

The carrying amount of non-current assets classified as held for sale as at December 31st 2017 was PLN 21,867 thousand (December 31st 2016: PLN 21,561 thousand). The item comprises:

- ✓ developed property, located in Modzerowo, with a carrying amount of PLN 895 thousand, determined based on an appraisal report prepared in 2016. In the Management Board's opinion, there are no circumstances that would require revision of the value determined by the expert appraiser,
- ✓ office buildings located in Wysogotowo near Poznań (buildings H and J) with a total carrying amount of PLN 13,000 thousand, as specified in the preliminary sale agreement,
- ✓ building A located, with a fair value of PLN 5,000 thousand, estimated based on a purchase offer received by the Company,
- ✓ developed properties in Wysogotowo near Poznań, with a total fair value of PLN 2,907 thousand,
- ✓ other property, with a total value of PLN 65 thousand.

In the 12 months ended December 31st 2017, the Company sold:

- ✓ a restaurant property located in Wysogotowo near Poznań, with a carrying amount of PLN 666 thousand; net gain on the sale was PLN 554 thousand,
- ✓ financial assets (shares) in subsidiaries Brokam Sp. z o.o. and Bathinex Sp. z o.o. for PLN 6,000 thousand; net gain on the sale was PLN 0 thousand,
- ✓ land property in Łeba, Gdańsk Province, for PLN 12,500 thousand; net loss on the sale was PLN 1,500 thousand and
- ✓ office building located in Wysogotowo near Poznań (Building K) with a carrying amount of PLN 4,720 thousand; net gain on the sale was PLN 1,878 thousand..

In all of these transactions, the net gain/(loss) on sale was calculated taking into account impairment losses recognised in previous reporting periods.

As at the date of these financial statements, non-current assets held for sale were pledged as security for the Company's liabilities (see Note 4.12).

4.6. INVESTMENT PROPERTY

Changes in carrying amounts during the period were as follows:

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Carrying amount at beginning of period	**28,107**	**43,331**
Additions from subsequent expenditures	-	3
Reclassifications:	**322**	**777**
- from property, plant and equipment (land)	322	-
- from current assets (merchandise)	-	777
Disposal of property (-)	-	(2,208)
Decrease on reclassification to assets held for sale	**(23,230)**	**(15,341)**
Net gain (loss) from fair value adjustments	-	(90)
Other changes	-	1,635
Carrying amount at end of period	**5,199**	**28,107**

The Company's item 'Investment property' comprises buildings as well as undeveloped property acquired to derive economic benefits from capital appreciation or from other sources, such as rental payments.

In the 12 months ended December 31st 2017, the carrying amount of investment property decreased, following transfer of investment property of PLN 23,230 thousand to Assets classified as held for sale (see Note 4.5).

The fair value of all investment properties in the Company's portfolio was determined based on estimate surveys prepared in 2016. In the Management Board's opinion, there are no circumstances that would require revision of the value determined by the expert appraiser. The appraiser engaged to prepare the surveys has a long-standing experience in the property market and applies professional standards endorsed by:

- The Polish Federation of Valuers' Associations,
- The European Group of Valuers' Associations (TEGoVA), and
- The Royal Institution of Chartered Surveyors (RICS).

Below are presented valuation methods and the appraiser's assumptions for the measurement of fair value of the Company's key investment property.

- **Building Z, Z1 – PLN 3,880 thousand** – an expert appraiser valued the building using the income approach, the investment method, direct capitalisation, current lease contracts, and the prevailing market conditions,

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

During the reviewed period, the Company earned rentals and recognised the following direct operating expenses:

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Amounts recognised in the statement of comprehensive income:		
- rental income from investment property	3,638	3,706
- direct operating expenses (including cost of repair and maintenance) attributable to the investment property that earned rentals in the period	(1,478)	(1,515)
Total	**2,160**	**2,191**

The Company has no capital commitments with respect to investment property. In the 12 months ended December 31st 2017, the Company reclassified investment property of PLN 23,230 thousand to assets classified as held for sale (see Note 4.5).

The Company's investment properties are pledged as security for liabilities (see Note 4.12).

4.7. LONG-TERM INVESTMENTS

In the 12 months ended December 31st 2017, the Company sold some of the works of art classified as long-term investments with a carrying amount of PLN 2,787 thousand; net gain on the sale was PLN 650 thousand. The net gain was calculated taking into account the impairment losses recognised in previous periods. In 2016, the Company did not sell any long-term investments.

4.8. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries were measured at historical cost, net of impairment losses.

The following table presents the Company's investments in subsidiaries:

Item	Acquisition cost of investments in subsidiaries	Cumulative impairment as at Jan 1 2017	Impairment loss recognised in the period Jan 1–Dec 31 2017	Increases due to new acquisitions in the period Jan 1–Dec 31 2017	Carrying amount of investments in subsidiaries as at December 31st 2017
PBG Avatia Sp. z o.o.	54	-	-	-	54
PBG Dom Sp. z o.o.	55,023	55,023	-	-	-
Wschodni Invest Sp. z o.o.	41,616	41,616	-	-	-
PBG Ukraina	759	759	-	-	-
PBG oil and gas Sp. z o.o.	10,611	-	-	-	10,611
PBG Operator Sp. z o. o.	5	5	-	-	-
PBG ERIGO Sp. z o.o.	5,001	5,001	-	-	-
RAFAKO S.A.	551,223	301,351	-	-	249,872
Prepayments	21,000	21,000	-	-	-
Total	**685,292**	**424,755**	**-**	**-**	**260,537**

In its financial statements as at December 31st 2017 the Company disclosed investments in subsidiaries of PLN 260,537 thousand, of which the largest item was the investment in RAFAKO shares, of PLN 249,872 thousand and PBG oil and gas Sp. z o.o. shares, worth PLN 10,611 thousand.
As at December 31st 2017, the Company tested RAFAKO shares for impairment. The assumptions adopted for the test were as follows:

- The DCF model was prepared for a 5-year projection horizon.
- The projection period was 2018−2022. The projections were prepared by the RAFAKO management board for the statement of profit or loss, the statement of financial position, and the statement of cash flows prepared on their basis.
- The results achievable after the period of detailed projections detailed projections were estimated based on the average operating profit expected to be earned in 2018-2021. It was considered that the profits earned in this period best reflected the long-term ability of the company to generate free cash flow and on this basis the residual value of RAFAKO was estimated. A growth rate of 1% was assumed for years beyond the projection period.
- For each period free cash flow (FCF) projections were estimated and discounted at an inflation-adjusted rate.
- The discount rate was estimated based on the weighted average cost of capital determined with the use of the WACC model.
- The cost of equity was calculated based on the expected rate of return on the portfolio, in line with the CAPM model, using the following formula:

$$\mathbf{k_w} = ((1 + r_w) / (1 + CPI) - 1) + \beta * r + r_s$$, where:

kw – cost of equity
r_w – rate of return on risk-free assets (10-year Treasury bonds)
CPI – inflation rate (NBP inflation target)
r – country-specific risk premium
β – measure of the volatility of a security in comparison with changes in the securities market, levered with the entity's debt,
r_s – specific risk rate

based on the following assumptions:

- The risk-free rate of return was assumed as the yield on ten-year Treasury bonds, which as at the date of the test was 3.35% per annum (based on the average price at the bond auction on January 4th 2018).
- The return on ten-year Treasury bonds was adjusted for the NBP inflation target, which was assumed at 2.5% for the entire projection period.
- Upon the adjustment, the risk-free rate was assumed at 0.83% in real terms.

- The risk premium for the entire projection period was assumed at 6.06% [1]. The level of the risk premium was based on the risk premium calculated for Poland in a research report published by Aswath Damodaran in January 2018 (Total Equity Risk Premium).
- Unlevered Beta was assumed at 1.07, based on current tables published by Aswath Damodaran for companies in the European machinery sector[2].
- The cost of equity has been adjusted for the specific risk rate (which reflects the risk of failure to deliver the estimated financial result) of 3%.

- The cost of external capital was assumed at the level of the risk-free rate, i.e. the yield on 10-year bonds plus a 2% margin.
- It was assumed that in the long term, the structure of financing for the Group's operations will be based on nearly 81% of equity and 19% of external capital.
- Based on the above assumptions, WACC is 9.15%.
- Following the assessment of the fair value of 100% of the RAFAKO shares, it was possible to estimate the fair value of 33.32% of the RAFAKO shares held by PBG S.A. Based on the data obtained, a sensitivity analysis was performed. The results are presented in the table below:

Table: Sensitivity analysis of the fair value of 33.32% RAFAKO shares (PLN '000).

Change in WACC	Change of FCF growth rate beyond the forecast period				
	-1.00%	-0.50%	0.00%	0.50%	1.00%
-1.00%	257,736	268,560	280,897	295,088	311,586
-0.50%	244,363	253,761	264,387	276,498	290,430
0.00%	232,426	240,645	249,872	260,305	272,196
0.50%	221,703	228,937	237,007	246,067	256,310
1.00%	212,015	218,419	225,522	233,447	242,343

The Company estimated that the value of the investment in 33.33% of the RAFAKO shares was PLN 249,872 thousand as at December 31st 2017. and therefore an impairment loss was recognised for the investment.

As at December 31st 2017, the Company carried out a test for impairment of the investment in PBG oil and gas Sp. z o.o. The test was performed based on a valuation of the subsidiary prepared by an independent professional entity, where the following assumptions were adopted:

- The DCF model was prepared for a 4-year projection horizon.
- The forecast period was Q4 2017−2021. The projections were prepared based on the assumptions presented by the management board of PBG oil and gas Sp. z o.o. for the statement of profit or loss, the statement of financial position, and the statement of cash flows prepared on their basis.

[1] source: http://people.stern.nyu.edu/adamodar/ [January 2018]
[2] source: http://people.stern.nyu.edu/adamodar/ [January 2018]

- The residual value of PBG oil and gas Sp. z o.o. was estimated as the median of full-year cash flows projected for 2018-2021. A growth rate of 1% was assumed for years beyond the forecast period.
- For each period free cash flow (FCF) projections were estimated and discounted at an inflation-adjusted rate.
- The discount rate was estimated based on the weighted average cost of capital determined with the use of the WACC model and is 8% throughout the forecast period.

The fair value of PBG oil and gas shares held by PBG S.A. was estimated at PLN 67,368 thousand and therefore no need to recognise impairment losses was identified.

4.9. FINANCIAL ASSETS AND LIABILITIES

4.9.1. CATEGORIES OF ASSETS AND LIABILITIES

In these financial statements, financial assets are presented in the following IAS 39 measurement categories:

1 – loans and receivables

2 – financial assets at fair value through profit or loss – held for trading

3 – financial assets at fair value through profit or loss – designated as such upon initial recognition

4 – held-to-maturity investments

5 – available-for-sale financial assets

6 – derivatives designated as cash flow hedging instruments

7 – assets not covered by IAS 39.

In these financial statements, financial liabilities are presented in the following IAS 39 measurement categories:

1 – financial liabilities at fair value through profit or loss – held for trading

2 – financial liabilities at fair value through profit or loss – designated as such upon initial recognition

3 – financial liabilities measured at amortised cost

4 – derivatives designated as cash flow hedging instruments

5 - liabilities not included in IAS 39.

Company name:	PBG S.A.		
Reporting period:	Jan 1–Dec 31 2017	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 unless indicated otherwise		

CARRYING AMOUNTS OF EACH CATEGORY OF FINANCIAL ASSETS DEFINED IN IAS 39

Item	*Categories of financial instruments defined in IAS 39							Total
	Receivables and loans	Financial assets at fair value through profit or loss – held for trading	Financial assets at fair value through profit or loss – designated as such upon initial recognition	Held-to-maturity investments	Available-for-sale financial assets	Derivatives designated as cash flow hedging instruments	Non-IAS 39	
As at Dec 31 2017								
Non-current assets:								
Receivables	1,248	-	-	-	-	-	-	**1,248**
Contract receivables and amounts due from customers for construction contract work	39,150	-	-	-	-	-	-	**39,150**
Loans advanced	39,175	-	-	-	-	-	-	**39,175**
Other non-current financial assets	-				1			**1**
Current assets:								
Trade and other receivables	10,751	-	-	-	-	-	-	**10,751**
Loans advanced	96,089	-	-	-	-	-	-	**96,089**
Cash and cash equivalents	1,921	-	-	-	-	-	-	**1,921**
Total financial assets	**188,334**	**-**	**-**	**-**	**1**	**-**	**-**	**188,335**
As at Dec 31 2016								
Non-current assets:								
Receivables	980	-	-	-	-	-	-	**980**
Contract receivables and amounts due from customers for construction contract work	39,150							**39,150**
Loans advanced	125,387	-	-	-	-	-	-	**125,387**
Other non-current financial assets	-	-	-	-	1	-	-	**1**
Current assets:								
Trade and other receivables	3,505	-	-	-	-	-	-	**3,505**
Loans advanced	59,741	-	-	-	-	-	-	**59,741**
Cash and cash equivalents	3,589	-	-	-	-	-	-	**3,589**

Company name:	*PBG S.A.*		
Reporting period:	*Jan 1–Dec 31 2017*	Reporting currency:	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 unless indicated otherwise*		

Total financial assets	**232,352**	**-**	**-**	**-**	**1**	**-**	**-**	**232,353**

Company name:	PBG S.A.		
Reporting period:	Jan 1–Dec 31 2017	Reporting currency:	Polish złoty (PLN)
Rounding:	All amounts in PLN '000 unless indicated otherwise		

CARRYING AMOUNTS OF EACH CATEGORY OF FINANCIAL LIABILITIES DEFINED IN IAS 39

Item	*Categories of financial instruments defined in IAS 39					Total
	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	Financial liabilities measured at amortised cost	Derivatives designated as cash flow hedging instruments	Non-IAS 39	
As at Dec 31 2017						
Non-current liabilities:						
Borrowings and other debt instruments	-	-	316,497	-	-	**316,497**
Finance lease liabilities	-	-	-	-	2,329	**2,329**
Other liabilities	-	-	66,788	-	-	**66,788**
Contract liabilities	-	-	38,426	-	-	**38,426**
Current liabilities:						
Trade and other payables	-	-	39,806	-	-	**39,806**
Borrowings and other debt instruments	-	-	86,009	-	-	**86,009**
Finance lease liabilities	-	-	-	-	776	**776**
Total financial liabilities	**-**	**-**	**547,526**	**-**	**3,105**	**550,631**
As at Dec 31 2016						
Non-current liabilities:						
Borrowings and other debt instruments	-	-	307,744	-	-	**307,744**
Finance lease liabilities	-	-	-	-	3,105	**3,105**
Other liabilities	-	-	153,018	-	-	**153,018**
Contract liabilities	-	-	38,686	-	-	**38,686**
Current liabilities:						**-**
Trade and other payables	-	-	35,797	-	-	**35,797**
Borrowings and other debt instruments	-	-	60,697	-	-	**60,697**
Finance lease liabilities	-	-	-	-	730	**730**
Total financial liabilities	**-**	**-**	**595,942**	**-**	**3,835**	**599,777**

4.10. LOANS ADVANCED

In the statement of financial position as at December 31st 2017, the Company disclosed loans of PLN 135,264 thousand (December 31st 2016: PLN 185,128 thousand).

Net loans of PLN 98,690 thousand (loans advanced to PBG Dom Sp. z o.o.) presented in these financial statements reflect the Company's divestment strategy. The amount of expected inflows from loan repayments has been estimated using net cash flow projections of the property development subsidiaries of the PBG Dom Group, prepared on the basis of historical sales data (time required to complete sale transactions, prices), valuations by qualified appraisers, and the current trends on the property market. The deadlines for closing the projects fall in the period until Q4 2019.

Change in carrying amount of loans.

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Gross carrying amount		
Balance at beginning of period	**584,293**	**594,608**
Loans advanced in the period	15	-
Interest accrued at the effective interest rate	18,679	21,413
Repayment of loans with interest (-)	(54,017)	(35,358)
Discount	2,312	5,518
Exchange differences	(7,222)	(1,888)
Sale/cancellation of debt	(58,629)*	-
Gross carrying amount at end of period	**485,431**	**584,293**
Accumulated impairment		
Balance at beginning of period	**399,165**	**373,201**
Impairment loss recognised as expense in period	18,710	26,968
Impairment loss reversed as income in the reporting period (-)	(11,114)	(1,004)
Sale/cancellation of debt	(56,594)*	-
Accumulated impairment at end of period	**350,168**	**399,165**
Carrying amount at end of period	**135,264**	**185,128**

* Almost entire amounts are related to the disposal of receivables from Brokam Sp. z o.o. and Bathinex Sp. z o.o. (see Note 2.2).

In 2017, the Company recorded a drop in gross loans advanced. The change was attributable to:

- repayments of the principal and interest in an amount of PLN 54,017 thousand (2016: PLN 35,358 thousand),
- depreciation of the Ukrainian hryvnia, which reduced the amount of the asset and resulted in exchange differences of PLN 7,222 thousand (2016: PLN 1,888 thousand).

Over the same period, loans advanced increased by interest accrued (PLN 18,679 thousand) and on account of discount unwinding (PLN 2,312 thousand).

As at December 31st 2017, the Company recognised an impairment loss on loans of PLN 18,710 thousand. The portion of the impairment loss relating to interest accrued in the 12 months to December 31st 2017 was recognised as reduction of other income, with the balance recognised in other expenses (see Note 5.4).

Loans advanced not covered by impairment losses.

Item	Non-bank borrowings	
	Current	non-current
Loans as at Dec 31 2017		
PBG Dom Sp. z o.o.	96,083	10,007
Fundusz Inwestycyjny Dialog Plus	-	29,168
M&W Bartosz Jankowski	6	-
Total	**96,089**	**39,175**
Loans as at Dec 31 2016		
PBG Dom Sp. z o.o.	59,719	88,999
Multaros	16	-
Fundusz Inwestycyjny Dialog Plus	-	36,388
M&W Bartosz Jankowski	6	-
Total	**59,741**	**125,387**

Other assets presented under loans include registered investment certificates in Dialog Plus – "Direct Investment Fund – High-Potential Property," a closed-end non-diversified venture-type investment fund. The Company acquired a total of 234,250 certificates with a par value of UAH 1,000 each. The carrying amount of the securities disclosed in these financial statements as at December 31st 2017 was PLN 29,167 thousand (December 31st 2016: PLN 36,388 thousand). Due to their economic substance, the certificates are presented as loans.

4.11. BORROWINGS AND OTHER DEBT INSTRUMENTS

The table below presents the amounts of borrowings and other debt instruments recognised in the financial statements.

Item	as at Dec 31 2017	as at Dec 31 2016
Non-bank borrowings	31,835	26,237
Debt instruments	370,671	342,204
Total borrowings, other debt instruments	**402,506**	**368,541**
- long-term	316,497	307,744
- short-term	86,009	60,697

In the 12 months ended December 31st 2017:

- liabilities under debt securities increased (see Note 2.4.4);
- non-bank borrowings increased, mainly due to repayment of a PLN 7,773 thousand loan, including interest, received from a subsidiary, receipt of a new loan of PLN 12,390 thousand, and a PLN 981 thousand increase in accrued interest.

As announced in PBG Current Report No. 34/2016 of November 9th 2016, the Company and certain Group 5 and Group 6 arrangement creditors executed documents amending the agreements of July 31st 2015 and setting out the terms of restructuring of the Company's debt in the arrangement, including in particular: (i) the issue, agency and co-financing agreement of July 31st 2015 as well as the model terms and conditions of the bonds. Moreover, in accordance with the terms of the arrangement finally approved on June 13th 2016, the Company 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. On November 29th 2016, the Company'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 was held 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 388,795,000. The Company's Management Board was also notified that bonds had been allotted by the issue agent as part of the Second Issue of Bonds; see 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 85,291,000.

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 collateral used in the bond programme, see Section III 1) of PBG Current Report No. 26/2015 issued by the Company 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. Until the date of issue of these financial statements for 2017, the Company redeemed Series A–D and Series B1–D1 Bonds. The redemption date for Series E and Series E1 Bonds falls on June 30th 2018.

Execution of the divestment plan in the fourth quarter of 2017

Pursuant to the terms of the bonds issued by the Company (Art. 11.5.4 of the terms and conditions applicable to Series A–Series I bonds, and to Series B1–Series I1 bonds, respectively), presented below is the information on the progress of implementation of the divestment plan in the fourth calendar quarter of 2017.

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	Ecoria Sp. z o.o.	Poznań	ul. Karpia 25a/78	PLN 400,000.00	PLN 398,550.00	NO

2	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E52	PLN 18,000.00	PLN 5,000.00	NO
3	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E63	PLN 20,000.00	PLN 5,000.00	NO
4	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E41	PLN 15,000.00	PLN 5,000.00	NO
5	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space F21	PLN 15,000.00	PLN 5,000.00	NO
6	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space F30	PLN 20,000.00	PLN 5,000.00	NO
7	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E38	PLN 25,000.00	PLN 5,000.00	NO
8	PBG Erigo Projekt Sp. z o.o. Quadro House S.K.A.	Świnoujście	ul. Wojska Polskiego 8D/1	PLN 436,590.00	PLN 152,003.45	NO
9	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E03	PLN 25,000.00	PLN 5,000.00	NO
10	PBG DOM INVEST X sp. z o.o. Złotowska 51 S.K.A.	Świnoujście	ul. Wojska Polskiego 8E/4	PLN 525,000.00	PLN 134,844.40	NO
11	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E04	PLN 19,000.00	PLN 5,000.00	NO
12	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E06	PLN 19,000.00	PLN 5,000.00	NO
13	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E85	PLN 19,000.00	PLN 5,000.00	NO
14	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E86	PLN 19,000.00	PLN 5,000.00	NO
15	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E58	PLN 25,000.00	PLN 5,000.00	NO
16	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E78	PLN 15,000.00	PLN 5,000.00	NO
17	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space F35	PLN 15,000.00	PLN 5,000.00	NO
18	PBG DOM INVEST X sp. z o.o. Złotowska 51 S.K.A.	Świnoujście	ul. Wojska Polskiego 8B/10	PLN 431,200.00	PLN 107,262.59	NO
19	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E37	PLN 15,000.00	PLN 5,000.00	NO
20	PBG DOM INVEST X sp. z o.o. Złotowska 51 S.K.A.	Świnoujście	ul. Wojska Polskiego 8E/9	PLN 515,040.00	PLN 133,312.07	NO
21	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	ul. Chełmońskiego 4D/2	PLN 340,000.00	PLN 260,100.00	NO
22	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space H33	PLN 15,000.00	PLN 5,000.00	NO
23	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E32	PLN 15,000.00	PLN 5,000.00	NO
24	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E45	PLN 12,007.00	PLN 5,000.00	NO
25	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E46	PLN 12,007.00	PLN 5,000.00	NO
26	PBG Erigo Projekt Sp. z o.o. Quadro House S.K.A.	Świnoujście	ul. Wojska Polskiego 12B/8	PLN 336,050.00	PLN 138,599.26	NO
27	PBG Dom Invest X Sp. z o.o. Invest I S.K.A.	Świnoujście	Parking space E56	PLN 13,000.00	PLN 5,000.00	NO
28	PBG S.A.	Wysogotowo	ul. Skórzewska 35,	PLN 15,990,000.00*	PLN 13,000,000.00**	NO
29	PBG S.A.	Wysogotowo	ul. Skórzewska 35,			NO
30	PBG S.A.	Wysogotowo	ul. Skórzewska 35,	PLN 9,163,500.00	PLN 4,856,610.00	NO
31	PBG DOM INVEST X sp. z o.o. Złotowska 51 S.K.A.	Poznań	ul. Piękna 44	PLN 2,236,500.00	PLN 2,100,000.00**	NO

*The sale agreement transferring the ownership of the property was concluded after December 31st 2017.

**As per the Bondholders' Common Position obtained by the Company.

Information on the progress of execution of the Disinvestment Plan in the previous quarters was presented in the financial statements issued by the Company, 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 Company. It is the minimum amount that is expected to be received by the Company or its selected subsidiaries from disposal of the asset covered by the divestment plan.

Disclosure of updates to or revisions of the Valuation Report by the Divestment Adviser upon request by the Issuer

Pursuant to the terms of the bonds issued by the Company (Art. 11.5.1 of the terms and conditions applicable to Series A–I bonds, and to Series B1–I1 bonds), below the Company presents information on the updates to and revisions of the Valuation Report made by the Divestment Adviser (within the meaning of the Terms and Conditions of the Bonds) upon the Company's request in the period from January 1st to December 31st 2017.

No.	Identification of property in accordance with the Divestment Plan*	Location	Address	Updated valuation	Date of the appraisal report
1	Building H	Wysogotowo	ul. Skórzewska 35,	PLN 6,860,000	14.12.2017
2	Building J – union (land)	Wysogotowo	ul. Skórzewska 35,	PLN 5,780,000	28.11.2017
3	Building K	Wysogotowo	ul. Skórzewska 35,	PLN 4,654,000	05.12.2017
4	Large unpaved car park	Wysogotowo	ul. Skórzewska 35,	PLN 3,410,000	01.08.2017
5	Developed land property	Poznań	ul. Piękna 44	PLN 2,100,000	05.12.2017
6	Land property for hotel, sports and tourism development	Poznań	ul. Termalna	PLN 21,640,000	19.12.2017

* Marked as specified in Schedule 1 to the Divestment Plan attached to the Terms and Conditions of the Bonds.

4.12. SECURITY FOR BONDS

In accordance with the issue and agency agreement, referred to in Note 4.11, the bonds issued by the Company are secured non-interest bearing instruments. The bonds are secured up to an amount of PLN 1,065,000 thousand (i.e. 150% of the maximum value of the bond programme). The security interests encumber assets owned by the Company and selected obligor companies. The security comprises primarily:

• sureties under the civil law provided by selected subsidiaries up to a total amount of PLN 1,065,000 thousand (i.e. 150% of the maximum value of the bond programme); as at December 31st 2017, PLN 403,635 thousand was outstanding under the bonds issued by PBG (after accounting for the redemption of Series C and Series D1 bonds by the parent on December 29th 2017 for a total amount of PLN 23,997 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 December 31st 2017, the amount of the divestment account funds used by the parent as "new financing" was PLN 0.

4.13. OTHER INFORMATION ON FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities do not differ materially from their respective carrying amounts. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments for which there is an active market is determined on the basis of quoted market prices (bid price and asking price). If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Inputs to the valuation technique make maximum use of active market variables (foreign exchange rates, interest rates, etc.).
Loans advanced to PBG Dom Sp. z o.o. were measured based on the fair value of properties held by the subsidiary and the portfolio companies of the PBG Dom Group covered by the divestment plan for the property development business (see Note 4.10).
The fair value of these assets and non-financial assets was estimated based on unobservable inputs (level 3 of the fair value hierarchy according to IFRS 13 *Fair Value Measurement*).

4.14. DISCLOSURES CONCERNING FAIR VALUE MEASUREMENT METHODS FOR FINANCIAL INSTRUMENTS

In 2017 and 2016, the Company did not carry any financial instruments measured at fair value.

4.15. INVENTORIES

Item	as at Dec 31 2017	as at Dec 31 2016
Raw materials	56	135
Total carrying amount of inventories	**56**	**135**

In the reporting period, the Company made no changes to previous inventory write-downs.

4.16. NON-CURRENT CONTRACT RECEIVABLES, LIABILITIES AND PROVISIONS

In the 12 months ended December 31st 2017, the Company did not report any material changes in Long-term contract receivables and amounts due from customers for construction contract work and Non-current contract liabilities and provisions compared with the amounts disclosed in the most recent full-year financial statements.
In these financial statements, the Company discloses as a separate item of the statement of financial position its assets, equity and liabilities related to settlements under the contract for construction of the Wierzchowice Underground Gas Storage Facility ("Wierzchowice UGSF"), and the contract for delivery and construction of the LMG Project – Central Facility, Well Areas, Pipelines and Other Infrastructure ("LMG").

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

• receivables of PLN 11,637 thousand resulting from work performed but not yet settled under the Wierzchowice UGSF project (accordingly, amounts due from customers for construction contract work, under which the amount was presented earlier, decreased);

• PLN 20,051 thousand security deposit payable, which secured warranty claims under the LMG contract;

• other receivables from other consortium members under the Wierzchowice UGSF contract, in an amount of PLN 7,461 thousand.

In accordance with an agreement between the Company and other consortium members, liabilities towards other consortium members of PLN 21,458 thousand, provisions related to the Wierzchowice UGSF project of PLN 16,968 thousand (PLN 38,426 thousand in total, disclosed as 'long-term contract liabilities and provisions'), and receivables from the other consortium members of PLN 7,461 thousand will not be accounted for before the dispute with PGNiG is closed.

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

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

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

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

Since receipt of the notice, the consortium has made several attempts to negotiate contract settlement with the employer. However, until the date of these financial statements the negotiations have not been successful. For example, the court proceedings instigated at the employer's request for a conciliation hearing ended without the parties reaching amicable settlement. On May 9th 2016, the Company petitioned for a conciliation hearing to settle the dispute with PGNiG concerning completion and settlement of the LMG and Wierzchowice UGSF contracts. In the petition, the disputed amount was determined at 288,235 thousand

(the parties did not reach a settlement). Further to PBG Current Report No. 32/2016, as at the date of authorisation of these financial statements for issue, the Company had not formally received the statement of claim.

The Company reiterates its position with regard to the liquidated damages and settlement of the Wierzchowice UGSF contract, as presented in PBG Current Reports No. 7/2014 of April 2nd 2014, No. 8/2014 of April 8th 2014 and No. 6/2016 of May 10th 2016, and upholds this position during the settlement negotiations with the employer.

4.17. TRADE AND OTHER RECEIVABLES

The table below presents trade and other receivables disclosed by the Company under receivables:

LONG-TERM RECEIVABLES

Item	as at Dec 31 2017	as at Dec 31 2016
Financial assets		
Financial receivables	**1,248**	**980**
Retentions under construction contracts	1,231	959
Other financial receivables	17	21
Other financial receivables, net	**1,248**	**980**
Non-financial assets		
Non-financial receivables	**3,431**	**-**
Further non-financial receivables	3,431	-
Total long-term receivables	**4,679**	**980**

SHORT-TERM RECEIVABLES

Item	as at Dec 31 2017	as at Dec 31 2016
Financial assets		
Financial receivables	**10,751**	**3,505**
Trade receivables	62,905	79,406
Allowance for credit losses on trade receivables (-)	(61,799)	(78,110)
Trade receivables (net)	**1,106**	**1,296**
Receivables from sale of property, plant and equipment*	8,290	547
Retentions under construction contracts	4,518	4,917
Disposals of equity instruments	1,557	1,557
Other financial receivables	3,691	3,653
Impairment loss on other financial receivables (-)	(8,411)	(8,465)
Other net financial receivables	**9,645**	**2,209**
Non-financial receivables	**1,480**	**8,206**
VAT receivables	52	1,861
Prepayments received for construction contract work	2,526	2,672
Settlements with employees	45	98
Other non-financial receivables	23,516	28,973
Impairment loss on other financial receivables (-)	(24,659)	(25,398)
Total trade and other receivables	**12,231**	**11,711**

*Receivables from the State Treasury of PLN 7,764 thousand related to the sale of Office Building K (see Note 4.5).

IMPAIRMENT LOSSES ON SHORT-TERM RECEIVABLES

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
At beginning of period	**111,973**	**105,298**
Impairment loss recognised as expense during period	294	11,467
Impairment loss reversed as income in the reporting period (-)	(1,656)	(4,297)
Amounts written off (uncollectable) (-)	(15,742)	(495)
At end of period	**94,869**	**111,973**

In the 12 months ended December 31st 2017, the Company recognised impairment losses on receivables of PLN 294 thousand (2016: PLN 11,467 thousand. In the 12 months ended December 31st 2017, impairment losses on receivables decreased by PLN 17,104 thousand (2016: PLN 6,929 thousand), primarily on conclusion of the liquidation bankruptcy proceedings of Strateg Capital (PLN 11,835 thousand) (see Note 2.2). Under other income, the Company also recognised income of PLN 1,656 thousand, mainly due to reversal of impairment losses on receivables which in the 12 months ended December 31st 2017 were offset against the Company's liabilities of PLN 780 thousand; and, following conclusion of bankruptcy proceedings of the Company's trading partners, of PLN 169 thousand.

The table below presents current and past due financial receivables and the corresponding impairment losses.

Item	Dec 31 2017		Dec 31 2016	
	Not past due	Past due	Not past due	Past due
Short-term receivables:				
Trade receivables	620	62,285	451	78,955
Allowance for credit losses on trade receivables (-)	-	(61,799)	-	(78,110)
Trade receivables (net)	**620**	**486**	**451**	**845**
Other financial receivables	9,679	8,377	1,434	9,240
Impairment loss on other financial receivables (-)	(34)	(8,377)	-	(8,465)
Other net financial receivables	**9,645**	**-**	**1,434**	**775**
Financial receivables	**10,265**	**486**	**1,885**	**1,620**

AGE OF PAST DUE CURRENT FINANCIAL RECEIVABLES NOT WRITTEN OFF

Item	Dec 31 2017		Dec 31 2016	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Short-term receivables past due:				
Up to 1 month	463	-	808	-
From 1 to 6 months	14	-	37	334
From 6 to 12 months	9	-	-	361
Over 1 year	-	-	-	-
Past due financial receivables	**486**	**-**	**845**	**695**

4.18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and cash in hand, as well as current financial assets with maturities up to three months. The carrying amounts of these assets correspond to their fair values.

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

Item	as at Dec 31 2017	as at Dec 31 2016
Cash at bank (accounts in PLN)	1,853	3,285
Cash at bank (foreign currency accounts)	7	86
Cash in hand (PLN)	48	197
Cash in hand (foreign currencies)	13	21
Total	**1,921**	**3,589**

As at December 31st 2017, the Company had no restricted cash.

4.19. EQUITY

4.19.1. SHARE CAPITAL

As at December 31st 2017, the structure of the share capital was as follows:

Series / Issue	Preference	Limitation of rights	Number of shares	Par value of series / issue	Form of payment
Series A	n/a	n/a	3,740,000	75	contribution in kind
Series A	n/a	n/a	1,960,000	39	cash
Series B	n/a	n/a	1,500,000	30	cash
Series C	n/a	n/a	3,000,000	60	cash
Series D	n/a	n/a	330,000	7	cash
Series E	n/a	n/a	1,500,000	30	cash
Series F	n/a	n/a	1,400,000	28	cash
Series G	n/a	n/a	865,000	17	cash
Series H	n/a	n/a	776,948,780	15,539	conversion of liabilities
Series I	n/a	n/a	12,806,811	256	conversion of liabilities
				16,081	

As at December 31st 2016, the structure of the share capital was as follows:

Series / Issue	Preference	Limitation of rights	Number of shares	Par value of series / issue	Form of payment
Series A	n/a	n/a	3,740,000	75	contribution in kind
Series A	n/a	n/a	1,960,000	39	cash
Series B	n/a	n/a	1,500,000	30	cash
Series C	n/a	n/a	3,000,000	60	cash
Series D	n/a	n/a	330,000	7	cash
Series E	n/a	n/a	1,500,000	30	cash
Series F	n/a	n/a	1,400,000	28	cash
Series G	n/a	n/a	865,000	17	cash
Series H	n/a	n/a	756,410,820	15,128	conversion of liabilities
				15,414	

SHAREHOLDERS HOLDING AT LEAST 5% OF TOTAL VOTING RIGHTS AT THE GENERAL MEETING AS AT DECEMBER 31ST 2017

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%

SHAREHOLDERS HOLDING AT LEAST 5% OF TOTAL VOTING RIGHTS AT THE COMPANY'S GENERAL MEETING AS AT THE DATE OF AUTHORISATION OF THESE FINANCIAL STATEMENTS FOR ISSUE

Shareholder	Number of shares	Share in share capital and total voting rights
Jerzy Wiśniewski	189,902,366	23.6100%
Powszechna Kasa Oszczędności Bank Polski S.A.	53,060,500	6.5969%
Bank Polska Kasa Opieki S.A.	62,848,380	7.8138%

CHANGES IN THE SHAREHOLDING STRUCTURE IN THE REPORTING PERIOD

On January 25th 2017, in the performance of Resolution No. 2 of the Extraordinary General Meeting of July 31st 2015, Mr Jerzy Wiśniewski, the parent's main shareholder, acquired 45,000,000 subscription warrants and, in line with Resolution No. 2 and the Amending Resolution (i.e. Resolution No. 2 of the Extraordinary General Meeting of January 16th 2017 amending Resolution No. 2 of the Extraordinary General Meeting of July 31st 2015) exercised his rights under 6,459,105 subscription warrants, thus acquiring, on January 25th 2017, 6,459,105 Series I shares (see PBG Current Report No. 3/2017). As a result, the share capital increased to PLN 15,954,057.70 and was divided into 777,164,925 shares, each with a par value of PLN 0.02. Given the increase in the Company's share capital through the issue of Series I shares under Art. 452.1 of the Commercial Companies Code (i.e. with the delivery of share certificates, in connection with the conditional registration

of the share capital increase to include Series I shares in the National Court Register, made in November 2016), the effect of the issue was presented under share capital and share premium.

On February 13th 2017, the Company's Management Board gave notice that, following conversion of the Company's debt into Series H shares under the arrangement, another 20,537,960 Series H ordinary registered shares with a par value of PLN 0.02 per share were acquired. Thus the amount of the subscribed and duly paid up share capital was PLN 410,759.20. The shares were acquired following satisfaction of a condition applicable to the contingent claim satisfied on the terms specified for Group 6 claims under the arrangement (i.e. through conversion into Series H shares) (see PBG Current Report No. 8/2017). The share capital was increased upon its registration with the National Court Register on June 13th 2017. Accordingly, the share capital increased to PLN 15,954,057.70 and comprised 797,702,885 shares, each with a par value of PLN 0.02 (see PBG Current Report No. 23/2017).

Additionally, on June 13th 2017, Jerzy Wiśniewski, the main shareholder, in line with Resolution No. 2 and the Amending Resolution, exercised his rights under 6,347,706 subscription warrants, thus acquiring, on January 25th 2017, 6,347,706 Series I shares (see PBG Current Report No. 3/2017). As a result, the Company's share capital increased to PLN 16,081,011.82 and was divided into 804,050,591 shares, each with a par value of PLN 0.02.

Given the increase in the Company's share capital through the issue of Series I shares under Art. 452.1 of the Commercial Companies Code (i.e. with the delivery of share certificates, in connection with the conditional registration of the share capital increase to include Series I shares in the National Court Register, made in November 2016), the effect of the issue was presented under share capital and share premium.

On June 19th 2017, the Company's Management Board gave notice that, following conversion of the Company's debt into Series H shares under the arrangement, another 213,610 Series H ordinary registered shares with a par value of PLN 0.02 per share were acquired. Thus the amount of the subscribed and duly paid up share capital was PLN 4,272.20. The shares were acquired following satisfaction of a condition applicable to the contingent claim satisfied on the terms specified for Group 6 claims under the arrangement (i.e. through conversion into Series H shares) (see PBG Current Report No. 27/2017). Accordingly, after the registration with the National Court Register, the Company's share capital will be PLN 16,085,284.02.

As Series H shares have not been registered with the National Court Register by the end of 2017, the effect of their issue is presented under other components of equity, which also includes the effect of the delivery by the Company of Series I shares, which will follow the registration in the National Court Register of the increase in the Company's share capital to include Series H shares, in line with a statement of the Company's Management Board of June 19th 2017, based on the commitment of Jerzy Wiśniewski, the main shareholder, to maintain a 23.61% interest in the Company's share capital.

CHANGES IN THE SHAREHOLDING STRUCTURE AFTER DECEMBER 31ST 2017

On January 19th 2018, the Company's Management Board was notified of the registration of the share capital increase up to 804,264,201 shares, i.e. by 213,610 Series H ordinary registered shares with a par value

of PLN 0.02 per share. Thus the Company's share capital increased to PLN 16,085,284.02 (see PBG Current Report No. 3/2018).

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

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

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

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

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

4.19.2. SHARE PREMIUM

Share premium, i.e. the amount in excess of the issue price of shares over their par value, includes premiums received from the issue of series B, C, D, E, F, G, H and I shares, net of issue costs recognised as a reduction of reserve funds. As at December 31st 2017, the share premium was PLN 1,021,844 thousand (2016: PLN 1,009,665 thousand).

4.20. DIVIDENDS

The Company will not pay dividends for 2017.

4.21. PROVISIONS

4.21.1. EMPLOYEE BENEFITS

Item	Provision for retirement severance payments	Accrued holiday entitlements	Total
for the period Jan 1–Dec 31 2017			
Balance as at Jan 1 2017	**83**	**141**	**224**
Reversal of provisions recognised as income in period (-)	-	(47)	(47)
Actuarial gains (losses)	14	-	14
Cost of benefits paid	(14)	-	(14)
Balance as at Dec 31 2017, including:	**83**	**94**	**177**
- long-term provisions	83	-	83
- short-term provisions	-	94	94
for the period Jan 1–Dec 31 2016			
Balance as at Jan 1 2016	**91**	**344**	**435**
Reversal of provisions recognised as income in period (-)	-	(203)	(203)
Cost of benefits paid	(8)	-	(8)
Balance as at Dec 31 2016, including:	**83**	**141**	**224**
- long-term provisions	83	-	83
- short-term provisions	-	141	141

Provisions for employee benefits – retirement gratuity and accrued holiday entitlements – are assessed using the projected unit credit method. The amount of provisions depends on the assumptions concerning the discount rate and the expected salary growth index.

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Salaries and wages	6,592	6,661
Social security	730	724
Future benefits, including:	(47)	(203)
- accrued holiday entitlements	(47)	(203)
Other costs related to employee benefits	104	137
Total employee benefits expense, including:	**7,379**	**7,319**
- recognised as cost of sales	3,073	4,949
- recognised as administrative expenses	4,306	2,370

4.21.2. OTHER PROVISIONS

The table below shows provisions disclosed in these financial statements, including the provision for warranties, provision for construction contract losses, and provision for restructuring costs, as well as changes in those provisions in the respective periods:

Item	Provisions for warranties	Provision for construction contract losses	Restructuring provision	Other provisions	Provision for guarantees and sureties	Total
for the period Jan 1–Dec 31 2017						
Balance as at Jan 1 2017	**14,641**	**-**	**13,468**	**5,562**	**34,913**	**68,584**
Revision of estimates	-	-	-	3,347	-	3,347
Use of provisions (-)	(6,293)	-	(9,245)	(4,979)	-	(20,517)
Revision of estimates (-)	(1,732)	-	(2)	-	(6,231)	(7,965)
Balance as at Dec 31 2017, including:	**6,616**	**-**	**4,221**	**3,930**	**28,682**	**43,449**
- long-term provisions	53	-	1,605	3,930	28,682	34,270
- short-term provisions	6,563	-	2,616	-	-	9,179
for the period Jan 1–Dec 31 2016						
Balance as at Jan 1 2016	**24,040**	**1,569**	**17,300**	**3,806**	**346,824**	**393,539**
Revision of estimates	11,966	-	3,852	6,362	-	22,180
Reversal of provisions recognised as income in period (-)	(188)	-	-	-	(30,202)	(30,390)
Use of provisions (-)	(5,890)	-	(7,684)	(1,302)	(290,040)	(304,916)
Revision of estimates (-)	-	(425)	-	-	-	(425)
Other changes in provisions	(15,287)	(1,144)	-	(3,304)	8,331	(11,404)
Balance as at Dec 31 2016, including:	**14,641**	**-**	**13,468**	**5,562**	**34,913**	**68,584**
- long-term provisions	6,820	-	6,155	5,080	34,915	52,970
- short-term provisions	7,821	-	7,313	482	(2)	15,614

The Company recognises provisions in accordance with the policies outlined specified in Note 3.20. For more information on provisions, see Note 2.5.2.1 and Note 5.4.

4.22. TRADE AND OTHER PAYABLES

NON-CURRENT LIABILITIES

Item	as at Dec 31 2017	as at Dec 31 2016
Financial liabilities	**66,788**	**191,704**
Retentions under construction contracts	77	-
Other financial liabilities*	66,711	153,018
Non-financial liabilities	**82**	**-**
Other non-financial liabilities	82	-
Total liabilities	**66,870**	**153,018**

* The Company's non-current liabilities include almost exclusively arrangement liabilities, which were discounted at the of 4.81% (see Note 2.5.1). For more information on repayment of the arrangement liabilities, see Note 2.4.4.

CURRENT LIABILITIES

Item	as at Dec 31 2017	as at Dec 31 2016
Financial liabilities	**39,806**	**35,979**
Trade payables	12,158	3,846
Purchase of property, plant and equipment	121	2
Other financial liabilities*	27,527	31,949
Non-financial liabilities	**14,150**	**438**
VAT payable	575	-
Tax, duties and grants payable	192	192
Interim dividends received	3,376	-
Prepayments received for deliveries	1,717	35
Prepayments received for delivery of property	8,165	-
Other non-financial liabilities	125	211
Total liabilities	**53,956**	**36,235**

* Other financial liabilities comprise exclusively the arrangement liabilities. For more information on repayment of the arrangement liabilities, see Note 2.4.4.

In its current liabilities, the Company presents a PLN 3,376 thousand interim dividend received from a subsidiary.

Item	Dec 31 2017		Dec 31 2016	
	Not past due	Past due	Not past due	Past due
Current liabilities:				
Trade payables	9,270	2,888	2,332	1,514
Other financial liabilities	27,634	14	31,927	24
Financial liabilities	**36,904**	**2,902**	**34,259**	**1,538**

Item	Dec 31 2017		Dec 31 2016	
	Trade payables	Other financial liabilities	Trade payables	Other financial liabilities
Current financial liabilities past due:				
Up to 1 month	1,536	-	880	-
From 1 to 6 months	1,323	-	578	24
From 6 to 12 months	28	14	56	-
Over 1 year	1	-	-	-
Financial liabilities past due	**2,888**	**14**	**1,514**	**24**

4.23. ACCRUALS AND DEFERRALS

Item	Non-current		Current	
	as at Dec 31 2017	as at Dec 31 2016	as at Dec 31 2017	as at Dec 31 2016
Assets – prepaid expenses				
- Insurance contracts	-	-	89	107
- Guarantees	55	70	16	18
- Subscriptions, training	-	-	3	21
- New projects expenses – joint ventures	-	-	-	5
- Other	2	-	318	161
Assets – prepaid expenses, total	**57**	**70**	**426**	**312**
Liabilities – deferred income:				
- audit provision	-	-	53	66
- deferred income*	90	1,161	40	42
Liabilities – deferred income:	**90**	**1,161**	**93**	**108**

* Under deferred income, the Company recognises grants received in 2004–2006 under the EU programme "Sectoral Operational Programme Improvement of the Competitiveness of Enterprises" to fund new fixed assets to enhance the Company's competitive position. Benefits from the grant are recognised throughout the asset's depreciation period. In 2017, the Company recognised PLN 1,073 thousand as other income on grants (2016: PLN 48 thousand). As at the reporting date, there are no terms and conditions not yet met that could contribute to the grant becoming repayable.

4.24. CONSTRUCTION CONTRACTS

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

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

Item	as at Dec 31 2017	as at Dec 31 2016
Initial amount of revenue agreed in contract	586,401	554,460
Variations	(68,899)	(61,049)
Aggregate contract revenue	**517,502**	**493,411**
Costs incurred to the reporting date	398,241	390,828
Costs expected to be incurred to complete contract work	99,904	93,917
Aggregate estimated contract costs	**498,145**	**484,745**
Aggregate estimated profits	**19,357**	**8,666**
Stage of completion as at the reporting date	**79.94%**	**80.63%**
Prepayments received as at the reporting date	1,717	-
Retentions total	25,398	25,476
Aggregate costs incurred to the reporting date	398,241	390,828
Aggregate profits/(losses) recognised to the reporting date	14,526	2,811
Revenue estimated as at the reporting date	**412,767**	**393,639**
Progress billings	401,017	381,902
Amounts due from customers for construction contract work as at the reporting date	**11,941**	**11,737**
Amounts due from customers for construction contract work, including amounts payable to consortium partners as at the reporting date, less prepayments that can be set off	**11,941**	**11,737**
Amounts due to customers for construction contract work as at the reporting date	**191**	**-**

Amounts due from customers for construction contract work disclosed in the financial statements totalled PLN 11,941 thousand as at the reporting date, of which PLN 11,637 thousand was recognised under Long-term amounts due from customers for construction contract work (see Note 4.16). The amount of the Company's liabilities under construction contracts was PLN 191 thousand.

In the corresponding period of the previous year, amounts due from customers for construction contract work were PLN 11,737 thousand, while amounts due to customers for construction contract work were null.

Revenue from construction contract work reflects the Company's best estimates of costs planned to be incurred, the expected results, and the stage of completion of particular construction contracts determined in line with the Company's accounting policies. As at the reporting date, there were no contracts under which the Company would expect to incur losses.

In view of the binding confidentiality agreements, the PBG Management Board disclosed the information required under IAS 11 Construction Contracts as aggregate amounts, without itemising the individual contracts.

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

5.1. DEPRECIATION, AMORTISATION, IMPAIRMENT LOSSES, EXCHANGE DIFFERENCES AND INVENTORIES RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS FOR THE PERIOD FROM JANUARY 1ST–DECEMBER 31ST 2017

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Items recognised as cost of sales:	*61*	*12,340*
Depreciation of property, plant and equipment	61	374
Amortisation of intangible assets		-
Cost of warranty provisions	-	11,966
Items recognised as administrative expenses:	**583**	**1,025**
Depreciation of property, plant and equipment	442	404
Amortisation of intangible assets	141	621

5.2. EXPENSES BY NATURE

Item	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Depreciation and amortisation	644	1,399
Raw materials and consumables used	1,237	968
Services	14,332	33,714
- lease	460	453
- advisory services	3,718	10,112
- IT services	531	874
- bank services and commissions	-	538
- construction services	1,582	-
- design services	192	16
- other	7,849	21,721
Taxes and duties	1,259	1,208
Employee benefits	7,426	7,530
Other operating expenses	897	1,242
Total expenses by nature of expense	**25,795**	**46,061**
Cost of merchandise and materials sold	62	53
Changes in inventories of finished goods and work in progress (-)	(7,608)	898
Cost of sales, distribution costs and administrative expenses	**18,249**	**47,012**

In the 12 months ended December 31st 2017, the Company recorded a material year-on-year decrease in costs, in particular costs of services. The decrease was primarily attributable to the fact that the Company ceased to recognise costs incurred under the contract of July 15th 2010 for 'Delivery of the working design, construction and commissioning of the Liquefied Natural Gas Regasification Terminal in Świnoujście'.

5.3. OTHER INCOME

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Gain on disposal of non-financial non-current assets	1,707	-
Reversals of impairment losses and write-downs on assets, including:		
- receivables	1,725	6,928
- loans advanced	9,073	-
Interest related to operating activities, including interest on:		
- loans advanced	6	455
- other interest	243	1,141
Reversal of unused provisions	1	188
Compensation and penalties received	13	66
Grants received	1,073	48
Discount on long-term receivables and payables	2,111	5,628
Other income, including:		
- court fees refunded	109	236
- other income	3,118*	1,359
Total other income	**19,179**	**16,049**

The largest items of other income include:

- Gain on the sale of property, plant and equipment, non-current assets classified as held for sale and long-term investments of PLN 1707 thousand (see Notes 4.3, 4.5 and 4.7),
- Reversal of an impairment loss on loans on their repayment of PLN 9,073 thousand,
- Unwind of discount on loans advanced to the subsidiary PBG Dom Sp. z o.o. of PLN 2,312 thousand (see Note 4.10),
- *income from VAT accounting adjustments related to bad debt of PLN 2,433 thousand.

5.4. OTHER EXPENSES

Item	for the period Jan 1−Dec 31 2017	for the period Jan 1−Dec 31 2016
Loss on disposal of non-financial non-current assets	-	439
Measurement of investment property to fair value	1,870	90
Impairment loss on assets, including:		
- receivables	296	1,630
- loans advanced	31	5,005
- other assets	-	3,000
Interest related to operating activities, including interest on:		
- trade and other payables	33	164
Compensation and penalties paid	-	9,497
Running costs of investments	58	192
Exchange differences on operating activities	7,202	1,788
Other expenses, including:		
- provision for cost of court proceedings	3,347	1,359
- cost of court proceedings	232	423
- other expenses	350	349
Total other expenses	**13,419**	**28,143**

The largest items of other expenses include:

- provision for costs of litigation related to the construction of the National Stadium − PLN 3,347 thousand;
- net foreign exchange losses related to operating activities of PLN 7,202 thousand, including PLN 7,221 thousand related to the valuation of the Dialog Plus investment certificates held by the Company.

5.5. FINANCE INCOME

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Interest income on financial assets other than at fair value through profit or loss:		
Cash and cash equivalents (bank deposits)	47	310
Total interest income on financial assets other than at fair value through profit or loss	**47**	**310**
Gain/(loss) (+/-) from exchange differences on:		
Cash and cash equivalents	-	190
Gain/(loss) (+/-) from exchange differences	**-**	**190**
Other finance income	768	2,807
Total finance income	**815**	**3,307**

The most significant item of finance income was PLN 765 thousand obtained from sale of pre-emptive rights to shares in RAFAKO S.A.

5.6. FINANCE COSTS

Item	for the period	for the period

	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016
Interest expense on financial instrument other than at fair value through profit or loss:		
Finance lease liabilities	130	-
Non-bank borrowings	982	562
Trade and other payables	-	120
Total interest expense on financial instruments other than at fair value through profit or loss	**1,112**	**682**
Listed equity instruments	65,207	98,965
Total fair value and disposal losses on financial instruments at fair value through profit or loss	**65,207**	**98,965**
Gain/(loss) (-/+) from exchange differences on:		
Cash and cash equivalents	10	-
Gain/(loss) (-/+) from exchange differences	**10**	**-**
Other finance costs	8	44
Total finance costs	**66,337**	**99,691**

The most important item under finance costs were impairment losses on investments in RAFAKO S.A. shares, of PLN 65m.

6. INCOME TAX EXPENSE

6.1. CURRENT INCOME TAX

The table below presents reconciliation of corporate income tax on profit/(loss) before tax computed at the statutory tax rate with corporate income tax computed at the effective tax rate for the years ended December 31st 2017 and December 31st 2016:

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Profit/(loss) before tax	**(83,723)**	**957,387**
Tax rate applied by the parent	19%	19%
Tax calculated at the parent's domestic tax rate	**(15,907)**	**181,904**
Reconciliation of income tax due to:		
- non-taxable income (-)	(16,920)	(341,322)
- expenses which are permanently non-tax-deductible (+)	18,406	139,557
- unrecognised deferred tax asset on negative temporary differences (+)	-	10,252
- unrecognised deferred tax asset on tax losses (+)	15,572	8,740
- adjustment to tax expense for previous periods (+/-)		
- other	(1,151)	869
Income tax	**-**	**-**
Average tax rate applied	0%	0%

6.2. DEFERRED INCOME TAX

DEFERRED CORPORATE INCOME TAX

Item	as at Dec 31 2017	as at Dec 31 2016
Balance at beginning of period:		
Deferred tax assets	33,571	31,390
Deferred tax liabilities	33,571	31,390
Net deferred tax at beginning of period	**-**	**-**
Changes in the period recognised in:		
Profit and loss (+/-)	-	-
Other comprehensive income (+/-)	-	-
Accounting for business combination and net exchange differences on translation into reporting currency	-	-
Other	-	-
Net deferred tax at end of period, including:	**-**	**-**
Deferred tax assets	31,790	33,571
Deferred tax liabilities	31,790	33,571

DEFERRED TAX ASSETS

Temporary differences	Balance at beginning of period	Change in: Statement of profit or loss	Balance at end of period
As at Dec 31 2017			
Deferred tax assets			
- retirement benefits	16	-	16
- accrued holiday entitlements	27	(10)	17
- warranty repairs	5,377	(1,525)	3,852
- salaries and wages not paid during period	4	(3)	1
- unpaid social security contributions	26	(2)	24
- interest accrued on loans	-	255	255
- interest accrued on liabilities	31	(26)	5
- costs related to accrued but uninvoiced revenue	1,938	19	1,957
- over-invoicing	-	-	
- impairment loss on receivables	16,949	(13,700)	3,249
- inventory write-down	5,897	(5,707)	190
- impairment loss on loans advanced	-	13,898	13,898
- audit provision	13	(3)	10
- discount	-	118	118
- restructuring provision	2,559	(1,757)	802
- interest accrued on borrowings	104	(104)	
- impairment loss on ST and WN	-	4,825	4,825
- other	630	-	630
- impairment loss on non-current asset held for sale	-	1,941	1,941
Total	**33,571**	**(1,781)**	**31,790**
As at Dec 31 2016			
Deferred tax assets			
- retirement benefits	17	(1)	16
- accrued holiday entitlements	66	(39)	27
- warranty repairs	4,258	1,119	5,377
- salaries and wages not paid during period	5	(1)	4
- unpaid social security contributions	31	(5)	26
- interest accrued on loans	259	(259)	-
- interest accrued on liabilities	1,197	(1,166)	31
- interest accrued on bonds and other securities	2,617	(2,617)	-
- liabilities on borrowings measured at adjusted acquisition cost (using effective interest rate method)	6	(6)	-
- costs related to accrued but uninvoiced revenue	2,182	(244)	1,938
- over-invoicing			-
- impairment loss on receivables	13,534	3,415	16,949
- inventory write-down	2,956	2,941	5,897
- impairment loss on other assets	1,110	(1,110)	-
- audit provision	7	6	13
- restructuring provision	3,135	(576)	2,559
- interest accrued on borrowings	10	94	104
- other		630	630
Total	**31,390**	**2,181**	**33,571**

DEFERRED TAX LIABILITIES

Temporary differences		Change in:	

	Balance at beginning of period	Statement of profit or loss	Balance at end of period
As at Dec 31 2017			
Deferred tax liability			
- unrealised interest accrued on borrowings	29,519	(2,046)	27,473
- unrealised interest accrued on bonds and other securities	-	518	518
- revenue recognised during the current period – subsequent period for tax purposes	2,225	8	2,233
- difference between net carrying amount of own tangible assets and tax base of assets	1,118	32	1,150
- difference between net carrying amount of leased tangible assets and tax base of assets	293	115	408
- fair value measurement of investment property	-	8	8
- discount	416	(416)	-
Total	**33,571**	**(1,781)**	**31,790**
As at Dec 31 2016			
Deferred tax liability			
- unrealised interest accrued on borrowings	25,779	3,740	29,519
- revenue recognised during the current period – subsequent period for tax purposes	2,393	(168)	2,225
- difference between net carrying amount of own tangible assets and tax base of assets	1,169	(51)	1,118
- difference between net carrying amount of leased tangible assets and tax base of assets	210	83	293
- discount	1,839	(1,423)	416
- transfer to discontinued operations			
Total	**31,390**	**2,181**	**33,571**

7. EARNINGS/ (LOSS) PER SHARE

Earnings/(loss) per share are computed as the quotient of net profit (net loss) attributable to owners of the parent to the weighted average number of shares outstanding during the period. In the 12 months ended December 31st 2017, the weighted average number of shares was determined taking into consideration the effect of issue of Series H and Series I shares to be used for partial conversion of debt under the arrangement into the Company's equity (see Notes 4.19).

8. CASH FLOWS

The PLN 3,544 thousand decrease in receivables disclosed in the statement of cash flows for the 12 months ended December 31st 2017 was mainly due to changes in the following items:

Item	Change in	Effect on cash flows
Trade receivables	decrease	190
Retentions under construction contracts	increase	(39)
Other financial receivables	decrease	98
VAT receivables	decrease	1,830
Prepayments received for construction contract work	decrease	114
Other non-financial receivables	decrease	1,352
		3,544

The PLN (76,935) thousand decrease in liabilities disclosed in the statement of cash flows for the 12 months ended December 31st 2017 was mainly due to changes in the following items:

Item	Change in	Effect on cash flows
Trade payables	increase	8,313
Retentions under construction contracts	increase	77
Non-current contract liabilities and provisions	decrease	(261)
Other financial liabilities	decrease	(90,729)
Prepayments received for deliveries	increase	5,093
Other non-financial liabilities	decrease	(3)
VAT payable	increase	575
		(76,935)

The main causes of the PLN (26,247) thousand change in provisions, accruals and prepaid expenses disclosed in the statement of cash flows for the 12 months ended December 31st 2017 are presented below:

Item	Change in	Effect on cash flows
Provisions for retirement severance payments	increase	1
Provisions for warranties	decrease	(8,024)
Other provisions for liabilities	decrease	(17,036)
Deferred income	decrease	(1,087)
Accruals and deferrals	increase	(101)
		(26,247)

The main causes of the PLN 225 thousand change in construction contracts disclosed in the statement of cash flows for the 12 months ended December 31st 2017 are presented below:

Item	Change in	Effect on cash flows
Amounts due from customers for construction contract work	decrease	34

Amounts due to customers for construction contract work	decrease	191
		225

The ‘Other adjustments’ item included, among other things, the effect of unwind of discount on loans advanced to PBG Dom Sp. z o.o. of PLN 2,312 thousand.

9. CONTINGENT RECEIVABLES AND LIABILITIES

OFF-BALANCE-SHEET RECEIVABLES	Dec 31 2017	Dec 31 2016
Receivables under bank and insurance guarantees received mainly as security for performance of contracts, including:	244	435
- from related entities	-	-
Promissory notes received as security, including:	8	7,751
- from related entities	-	-
Total off-balance-sheet receivables, including:	**252**	**8,186**
- from related entities	**-**	**-**

Off-balance-sheet liabilities	Dec 31 2017	Dec 31 2016
Commitments under bank and insurance guarantees issued mainly as security for performance of contracts, including:	2,181	11,900
- to related entities	-	-
Liabilities under sureties, including:	4,269	5,925
- to related entities	-	-
Promissory notes issued as security, including:	340	340
- to related entities	-	-
Total off-balance-sheet liabilities, including:	**6,790**	**18,165**
- to related entities	**-**	**-**

In these separate financial statements, the Company disclosed contingent off-balance-sheet receivables of PLN **252 thousand**. The contingent receivables included mainly performance bonds of PLN 244 thousand and promissory notes received as security for proper contract performance, of PLN 8 thousand.

In 2017, the Company recorded a decrease in contingent receivables, carried mainly as security for proper contract performance, of PLN 7,934 thousand, including a PLN 191 thousand decrease in receivables under guarantees received, and PLN 7,743 thousand decrease in receivables under promissory notes.

As at December 31st 2017, the Company disclosed contingent off-balance-sheet liabilities of PLN **6,790 thousand**. They included mainly liabilities under sureties provided by the Company to third parties, liabilities under guarantees provided to third parties at the Company’s request and liabilities under promissory notes.

On June 13th 2016, the Company was notified that the bankruptcy court's decision to sanction the arrangement between PBG and its creditors became final, and on July 29th 2016 the Company received a decision on closing of the insolvency proceedings. Therefore, the Company's contingent liabilities as at December 31st 2017 are presented in accordance with the terms of the arrangement.

The contingent liabilities included liabilities under guarantees provided at the Company's request for third parties as security for contract performance (PLN 2,181 thousand), sureties provided by the Company for third parties (PLN 4,269 thousand), as well as promissory notes issued as security for contract performance (PLN 340 thousand).

In 2017, the Company recorded a PLN 11,375 thousand decrease in contingent liabilities, including mainly a PLN 9,719 thousand decrease in liabilities under provided guarantees, and a PLN 1,656 thousand decrease in provided sureties. The main cause of the decrease was expiry of the sureties and guarantees provided or endorsed by the Company.

10. LITIGATIONS AND DISPUTES

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

Other than described below, in the 12 months ended December 31st 2017 there were no other material changes which could affect the Company's financial condition.

- **SRB CE Ltd, John Sisk & Son Ltd., PBG, Aprivia S.A. w upadłości likwidacyjnej (in liquidation bankruptcy), Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) vs the State Treasury – Director General for National Roads and Motorways (GDDKiA), court docket No. XXV C 782/13**

The Company joined the proceedings for payment of liquidated damages in April 2015. The value of the claim was PLN 466,155 thousand. The plaintiffs sought payment of liquidated damages for termination of the contract for the construction of Motorway A1 Toruń-Stryków (Section I Czerniewice-Odolion from 151+900 km to 163+300 km, and Section II Odolion-Brzezie from 163+300 km to 186+366 km) due to the employer's fault. The defendant filed a counterclaim for payment of liquidated damages for the employer's termination of the contract due to the plaintiffs' fault. The Company is not a defendant under the counterclaim. All witnesses called by the parties have been heard; the court is yet to decide whether to admit expert witness evidence. On December 15th 2017 the Parties reached a settlement covering claims under settlements with subcontractors, suppliers and service providers, which enabled the Parties to conclude all court disputes between them, and the case was closed.

- **SRB CE Ltd, John Sisk & Son Ltd., PBG, Aprivia S.A. w upadłości likwidacyjnej (in liquidation bankruptcy), Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) vs the State Treasury – Director General for National Roads and Motorways (GDDKiA), court docket No. XXV C 911/13**

The Company joined the proceedings for payment of liquidated damages on June 9th 2015. The value of the claim was PLN 409,635 thousand. The plaintiffs sought payment of liquidated damages for termination of the contract for the construction of Motorway A1 Toruń-Stryków (Section III Brzezie-Kowal, from 186+348 km to 215+850 km) due to the employer's fault. The defendant filed a counterclaim for payment of liquidated damages for the employer's termination of the contract due to the plaintiffs' fault. The Company is not a defendant under the counterclaim. On December 15th 2017 the parties reached a settlement covering claims under settlements with subcontractors, suppliers and service providers, which enabled the Parties to conclude all court disputes between them, and the case was closed.

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

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

- **Dispute between PBG SA and the Gas Transmission Operator Gaz-System SA, court docket No. XVI GNC 178/17**

On February 20th 2017 the Company filed a claim for payment of PLN 3,241 thousand. On May 29th 2017, the court issued a payment order, upholding the plaintiff's claim in its entirety. On June 29th 2017, the defendant lodged an objection against the payment order. Currently, the exchange of pleadings continues. The court set the date of the first hearing for February 22nd 2018, though the hearing was later lifted. The date of a new hearing has not yet been set. The case is pending. The Company has recognised a provision for the entire amount of the claim.

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

On March 3rd 2017, PBG together with SIAC Construction Ltd and the bankruptcy administrator of APRIVIA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) ("Plaintiffs") filed an action with the Regional Court in Warsaw, 25th Civil Division, against the State Treasury – General Directorate for National Roads and Motorways ("GDDKiA"). The Plaintiffs sought an award of PLN 508,041,844.73 due for the performance of the 'Construction of Motorway A4 Tarnów-Rzeszów (from the Krzyż junction to the Dębica Pustynia junction, from 502+796.97 km to ca. 537+550 km)' contract ("Contract"), executed by a consortium including the Plaintiffs. PBG's share in the claim under the Lawsuit is PLN 101,608,369. The Company is currently awaiting the Defendant's response.

- **The State Treasury – Director General for National Roads and Motorways (GDDKiA) vs PBG, Bankruptcy Administrator of APRIVIA S.A. w upadłości likwidacyjnej and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości likwidacyjnej, court docket No. XXV C 1714/17**

In the District Court in Warsaw, 25th Civil Division, proceedings are being brought by the State Treasury - Director General of National Roads and Motorways („GDDKiA") against PBG, Bankruptcy Administrator of APRIVIA SA w upadłości układowej and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości układowej (the „Defendants") for the payment of PLN 54,994 thousand as refund of the payments made by GDDKiA to certain businesses pursuant to the Act of June 28th 201 on the payment of certain outstanding claims of entrepreneurs who concluded contracts with members of the consortium performing the 'Construction of Motorway A-4 Tarnów-Rzeszów (from the Krzyż junction to the Dębica Pustynia junction, from 502+796.97 km to ca. 537+550 km)' contract. The position of the Company's Management Board is that the claim is groundless. The Company has responded to the lawsuit.

- **The State Treasury – Director General for National Roads and Motorways (GDDKiA) vs PBG, Bankruptcy Administrator of APRIVIA S.A. w upadłości likwidacyjnej and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości likwidacyjnej, court docket No. XXV C 2107/17**

In the District Court in Warsaw, XXV Civil Division, proceedings are being brought by the State Treasury - Director General of National Roads and Motorways („GDDKiA") against PBG, Bankruptcy Administrator APRIVIA S.A. w upadłości likwidacyjnej and Bankruptcy Administrator of HYDROBUDOWA Polska S.A. w upadłości likwidacyjnej („Defendants") for the payment of liquidated damages with interest for withdrawal from the contract 'Construction of Motorway A4 Tarnów-Rzeszów from the Krzyż junction to the Dębica

Pustynia junction (from 502+796.97 km to ca. 537+550 km) ("Contract"), performed by a consortium including the Defendants. The total amount of the claim is PLN 264,875 thousand, including the plaintiff's claim for payment of PLN 176,361 thousand from PBG and jointly and severally from all the Defendants of compounded default interest of PLN 88,514 thousand, all amounts together with statutory default interest accrued from the date of the action was filed until the payment date. The position of the Company's Management Board is that the claim is groundless. The Company has responded to the lawsuit.

- **SAN-BUD Sp. z o.o. vs PBG, court docket No. IX GC 206/13/**

On April 27th 2016, a judgment was issued under which the Company was obligated to pay to the plaintiff PLN 1,445 thousand plus statutory interest, court fees and litigation costs. The Company appealed against the judgment, and filed a petition for exemption from fees and costs. The petition was dismissed by the court. The date of the appeal hearing was set for December 6th 2016. At the appeal hearing, the court set the date for delivering judgment on December 20th 2016. On December 20th 2016, the court issued a judgment in favour of PBG by reversing the ruling of the court of first instance. At the end of March, the court served the law firm with a statement of reasons for the ruling reversing the first instance judgment and remanding the case for reconsideration. At a hearing on July 28th 2017, the court suspended the proceedings until conclusion of the dispute between the Company and the General Directorate for National Roads and Motorways concerning rescission of contract No. 2811/30/2010 (for the construction of a section of Motorway A4) brought before the Regional Court in Rzeszów, court docket No. IC 1022/12. At the same time, the Court obligated the Company's attorney to inform the Court about the end of the dispute, if and when the Company's attorney becomes aware of such conclusion. The case is pending. The Company considers the claim unfounded. No provision was recognised for the outcome of the dispute.

- **SAN-BUD Sp. z o.o. vs PBG, court docket No. IX GC 616/13/**

The suit was brought on May 22nd 2013. The Company filed its reply to the statement of claim. On July 23rd 2014, the first hearing was held, at which PBG's attorney verbally requested that the suit be dismissed. The date of the next hearing has been set for May 9th 2017. In a judgment of May 23rd 2017, the court dismissed the claim in its entirety.

- **Zurich Insurance plc Niederlassung fur Deutschland of Frankfurt ("Zurich") vs PBG S.A., court docket No. 2-32 o 40/18**

On March 21st 2016, the Company received documents from the National Court of Frankfurt am Main, containing information on preliminary written court proceedings conducted under German law for payment of PLN 152,479 thousand. The proceedings are pending, and the parties are filing their pleadings. The claim and the Company's position are generally the same as those presented in the previous financial statements (the Company published the relevant information in PBG Current Report No. 4/2016 of March 22nd 2016). The Company upholds its position, presented in PBG Current Report No. 47/2015, that the claim in respect of which Zurich requested resolution through settlement is a claim in the arrangement and, as such, should be satisfied in accordance with the arrangement proposals of April 28th 2015. Zurich withdrew

its claim on November 24th 2016, and PBG consented to the withdrawal in a letter of December 23rd 2016. On January 18th 2017, the Company received the court's letter regarding distribution of litigation cost reimbursement. At Zurich's request, on February 24th 2017, the court declared the case devoid of purpose due to withdrawal of the claim. The case was closed by a final ruling.

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

On August 5th 2016, the Company received a payment notice for PLN 184,842 thousand submitted by Obrascon Huarte Lain S.A. related to the performance of the contract for the 'Connection between the Gdańsk Airport and the Sea Port of Gdańsk – Słowacki Route – Task 4, Marynarki Polskiej Junction Section – Ku Ujściu Junction' project, executed on October 14th 2011 between the Municipality of Gdańsk and a consortium comprising Obrascon Huarte Lain S.A., the Company, Hydrobudowa Polska S.A., PRG Sp. z o.o. and APRIVIA S.A. On August 30th 2016, Obrascon Huarte Lain S.A. filed an action with the Regional Court in Poznań, 9th Commercial Division, for payment of PLN 191,518 thousand in connection with the contract's performance. The Company's position is that the claim brought by the plaintiff is completely groundless. On December 21st 2016, it filed its reply. Obrascon Huarte Lain SA did not agree for the dispute to be resolved through mediation. The case is pending. The date of the hearing has not been set yet. The Company considers the claim unfounded. No provision was recognised for the outcome of the dispute.

- **Case concerning the National Stadium**

The Company was a member of the consortium selected as general contractor for the National Stadium project in Warsaw. Having been selected as the best bidder, on May 4th 2009 the consortium entered into a contract for construction of the National Stadium with Narodowe Centrum Sportu Sp. z o.o. ("NCS"). On June 1st 2012, NCS called on the consortium to pay liquidated damages of PLN 308,832 thousand for delay in the completion of the National Stadium project. In November 2016, a settlement was reached between the Company, the NCS and the State Treasury, under which the parties made relevant settlements and waived mutual claims under the contract for the construction of the National Stadium in Warsaw. Based on the settlement, all related court proceedings will be terminated due to withdrawal of actions and waiver of claims. The court proceedings related to the National Stadium litigation were closed and the parties received the relevant court rulings. The case was closed by a final ruling. The agreement has the effect of obliging the Company to pay potential claims to specific subcontractors if a final judgment is issued ordering the State Treasury or the NCSR to pay such subcontractors. The Company has recognised provisions for the costs of the above court proceedings.

- **Motion for arbitration against Polskie LNG S.A.**

On July 15th 2016, the consortium comprising Saipem S.p.A., Saipem S.A., SAIPEM Canada Inc. (formerly Snamprogetti Canada Inc.), Techint Compagnia Tecnica Internazionale S.p.A., PBG and EGBP Sp. z o.o. w upadłości układowej (formerly PBG Export Sp. z o.o.) moved for arbitration against Polskie LNG S.A. The motion pertains to the contract of July 15th 2010 for 'Delivery of the working design, construction and commissioning of the Liquefied Natural Gas Regasification Terminal in Świnoujście'. In the arbitration proceedings, the consortium will pursue claims for additional payment under the contract, in an amount up

to PLN 195,000 thousand (exclusive of VAT). Since the Company reduced its share in the project, the outcome of the proceedings will not affect its financial condition. At present, a procedure to designate the arbitration panel chair is under way. The case is pending.

- **Przemysław Rzodkiewicz Agencja MINT of Warsaw vs PBG w upadłości układowej, SIAC Construction Ltd., Regional Court, 20th Commercial Division in Warsaw, court docket No. XX GC 619/13**

On September 17th 2012, an action for payment was brought. A response to the statement of claim was prepared on October 1st 2013. The proceedings were suspended due to declaration of SIAC's bankruptcy. In August 2015, the law firm received a decision on resumption of the suspended proceedings. The first hearing was held on January 26th 2016, but was adjourned until June 7th 2016 due to improper service of process. The next hearing was held on June 7th 2016. However, as receipt of the service of process was not confirmed and SIAC's attorney did not appear in court, the hearing was adjourned until December 20th 2016(the court in Bielsko-Biała). At the hearing on December 20th 2016, a witness testified indicating that the mobile concrete plant was inoperative as it had not been adapted to the weather conditions. The most recent hearings took place on March 14th 2017 and April 27th 2017. The date of the next hearing was set for March 8th 2018. The Company considers the claim to be unfounded. No provision was recognised for the outcome of the dispute.

- **Martifer Polska Sp. z o.o. against PBG, SRB Civil Engineering Ltd., John Sisk & Son Ltd., the State Treasury – General Directorate for National Roads and Motorways (GDDKiA), Regional Court in Warsaw, 25th Civil Division, court docket No. XXV C 1206/13**

Action for payment of PLN 1,607 thousand. On June 12th 2015, the defendant filed its reply to the statement of claim. Hearing of evidence commenced. during which the plaintiff's witnesses were heard. The date of the next hearing was set for May 5th 2016. The judge was changed, and the hearing set for May 5th 2016 was lifted. Another hearing was held on June 14th 2016, when further witnesses were heard. Then subsequent hearings were held on April 3rd 2017, September 22nd 2017 and December 6th 2017. Hearing of witnesses continued during the sessions. The case is pending. The date of the next hearing will be determined ex officio. The Company considers the claim unfounded. No provision was recognised for the outcome of the dispute.

- **ADMINISTRATIVE PROCEEDINGS**

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

11. OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

As at the date of authorisation of this Report, the Company held a final court decision sanctioning the arrangement with its creditors. The going concern assumption is based on the conviction that the Company will be able to perform the arrangement with its creditors.

The objectives of the financial risk management at PBG are the following:

- Hedging short- and medium-term cash flows and limiting cash flow volatility,
- preventing volatility of the Company's financial result,
- implementing debt and asset restructuring measures.

The key financial instruments used by the Company in 2017 included:

- cash,
- short-term deposits,
- borrowings,
- debt instruments,
- lease contracts.

The main purpose of these instruments is to support and secure financially the day-to-day operations of the Company by stabilising and neutralising liquidity risk, and to ensure safe and effective management of free cash.

The Company's other financial instruments, such as trade receivables and payables, arise in the course of the Company's day-to-day operations and are an inherent part thereof.

The policy that the Company presently applies and applied during the entire reporting period is not to trade in financial instruments. The role of all financial instruments discussed in this section is to support the Group's core business processes. The Company does not permit the use of financial instruments for speculative or other purposes not directly related to its core operations.

The key financial risk to which the Company is exposed is liquidity risk.

Liquidity risk

The Company is exposed to liquidity risk, i.e. the loss of ability to timely meet its financial liabilities. The Company monitors the risk of with a liquidity planning tool. The tool is used to monitor the maturities of financial assets (mainly receivables) and projected cash flows from operating and investing activities.

As at December 31st 2017, the Company did not use external sources of funding in the form of credit facilities. However, in 2017 and 2016 the Company issued bonds.

As at December 31st 2017 and as at the date of approval of this report, the Company focused on maintaining financial liquidity necessary both to meet current liabilities and make repayments under the arrangement.

In the 12 months ended December 31st 2017, there were significant changes in the amount of the Group's financial liabilities exposed to liquidity risk, primarily as a result of accounting recognition of the effects of the arrangement with the Company's creditors (see Note 2.4.4).

The table below presents the Company's financial liabilities by maturity as at December 31st 2017 and December 31st 2016, based on contractual undiscounted payments.

Item	Current:		Non-current:			Total undiscounted liabilities	Carrying amount
	up to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
As at Dec 31 2017							
Non-bank borrowings	10,002	10,728	-	11,104	-	31,834	31,835
Debt instruments	50,329	14,950	338,356	-	-	403,635	370,671
Finance lease liabilities	442	446	1,825	638	-	3,351	3,105
Trade and other payables	30,092	9,714	112,217	4	21	152,048	145,020
Total exposure to liquidity risk	**90,865**	**35,838**	**452,398**	**11,746**	**21**	**590,868**	**550,631**
As at Dec 31 2016							
Non-bank borrowings	4,308	-	-	21,929	-	26,237	26,237
Debt instruments	36,725	19,665	285,815	-	-	342,205	342,204
Finance lease liabilities	435	438	1,792	1,560	-	4,225	3,835
Trade and other payables	26,661	9,136	173,394	-	-	209,191	188,815
Total exposure to liquidity risk	**68,129**	**29,239**	**461,001**	**23,489**	**-**	**581,858**	**561,091**

As at December 31st 2017, the Company did not have any overdraft facilities.

The table below presents the maturities of financial assets used by the Company as a source of funding. The maturities are based on contractual undiscounted payments. The excess of financial liabilities over the disclosed amount of financial assets implies negative net working capital. For a detailed description of the Management Board's strategy to cover the deficit in working capital, see Note 2.4.3.

Item	current		non-current			Total financial assets; net of discount	**Carrying amount of financial assets**
	up to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	over 5 years		
As at Dec 31 2017							
Non-current assets:							
Receivables	-	-	397	892	72	1,361	**1,248**
Contract receivables and amounts due from customers for construction contract work	-	-	39,150	-	-	39,150	**39,150**
Loans advanced	39,175	-	-	-	-	39,175	**39,175**
Current assets:							

Trade and other receivables	10,089	491	-	-	-	10,580	**10,751**
Loans advanced				96,089		96,089	**96,089**
Cash and cash equivalents	1,921	-	-	-	-	1,921	**1,921**
Total financial assets	**51,185**	**491**	**39,547**	**96,981**	**72**	**188,276**	**188,335**
As at Dec 31 2016							
Non-current assets:							
Receivables	-	-	455	72	488	1,015	**980**
Contract receivables and amounts due from customers for construction contract work	-	-	39,159	-	-	39,150	**39,150**
Loans advanced	-		36,388	97,410	-	133,798	**125,387**
Current assets:							
Trade and other receivables	3,482	23	-	-	-	3,505	**3,505**
Loans advanced	26,291	33,450	-	-	-	59,741	**59,741**
Cash and cash equivalents	3,589	-	-	-	-	3,589	**3,589**
Total financial assets	**33,362**	**33,473**	**70,993**	**97,482**	**488**	**240,799**	**232,353**

Interest rate risk

The management of interest rate risk focuses on minimising the fluctuations in interest cash flows on financial assets and liabilities bearing variable rates of interest. The Company is exposed to interest rate risk in connection with the following categories of financial assets and liabilities:

- loans advanced,
- deposits,
- borrowings,
- debt securities issued,
- finance leases.

The Company's exposure to the risk of changes in market interest rates relates primarily to its non-current financial liabilities and receivables.

Analysis of sensitivity to interest rate risk

Below is presented an analysis of sensitivity of the net profit or loss to a potential change of interest rate up or down by 0.1 pp. The calculation was performed based on a change of the average interest rate effective in the period by (+/-) 0.1pp, with respect to financial assets and liabilities sensitive to interest rate changes, i.e. bearing interest at variable rates.

Sensitivity analysis at Dec 31 2017	Value at risk	Rate increase (pp)	Rate decrease (pp)
		0.1%	-0.1%
	PLN '000	Effect on profit/(loss) for the year	Effect on profit/(loss) for the year
Financial assets	137,185	137	(137)
Financial liabilities	(405,611)	(406)	406
Effect on profit/(loss) for the year	-	(269)	269
Sensitivity analysis at Dec 31 2016	**Value at risk**	**Rate increase (pp)**	**Rate decrease (pp)**
		0.1%	-0.1%
	PLN '000	Effect on profit/(loss) for the year	Effect on profit/(loss) for the year
Financial assets	152,417	152	(152)
Financial liabilities	(372,276)	(372)	372
Effect on profit/(loss) for the year	-	(220)	220

The sensitivity of financial instruments to interest rate risk has been calculated as the product of the balance of items of the statement of financial position which are sensitive to interest rate risk and the interest rate deviation.

1.1. Currency risk

Exposure to currency risk arises in connection with transactions entered into by the Company. It arises when the Company executes sale or purchase transactions in currencies other than its functional currency.

The Company is exposed to risk related to fluctuations in exchange rates (including UAH/PLN, EUR/PLN and USD/PLN) in connection with loans advanced, trade receivables, cash and trade payables denominated in currencies other than PLN, including UAH/PLN, EUR/PLN and USD/PLN.

The financial risk management strategy followed by the Company provides for the use of natural hedging to the largest possible extent.

As at December 31st 2017, the Company had no open positions hedging currency risk.

The sensitivity analysis assumes a 10% increase or decrease in the UAH/PLN, EUR/PLN and USD/PLN exchange rates vs the mid-rates quoted by the National Bank of Poland for the reporting dates.

Mid-rates of the National Bank of Poland	Dec 31 2017	Dec 31 2016
UAH/PLN	0.1236	0.1542
EUR/PLN	4.1709	4.4240
USD/PLN	3.4813	4.1793

The table below presents sensitivity of the Company's pre-tax profit/loss (due to changes in the fair value of cash assets and liabilities) and the Company's total comprehensive income to reasonable fluctuations primarily in the UAH, EUR and USD exchange rates, on a ceteris paribus assumption.

Company name:	PBG S.A.		
Reporting period:	*Jan 1–Dec 31 2017*	**Reporting currency:**	*Polish złoty (PLN)*
Rounding:	*All amounts in PLN '000 unless indicated otherwise*		

Sensitivity analysis at Dec 31 2017	Increase in exchange rate								Decrease in exchange rate							
	10%								-10%							
	Effect on pre-tax profit/(loss) for the year (PLN '000)				Effect on other comprehensive income for the year (PLN '000)				Effect on pre-tax profit/(loss) for the year (PLN '000)				Effect on other comprehensive income for the year (PLN '000)			
	EUR	USD	UAH	TOTAL	EUR	USD	UAH	TOTAL	EUR	USD	UAH	TOTAL	EUR	USD	UAH	TOTAL
	4.59	**3.83**	**0.14**		**4.59**	**3.83**	**0.14**		**3.75**	**3.13**	**0.11**		**3.75**	**3.13**	**0.11**	
Financial assets	143	1	4,556	4,700	-	-	-	-	-143	-1	-4,556	-4,700	-	-	-	-
Financial liabilities	-14	-	-	-14	-	-	-	-	14	-	-	14	-	-	-	-
Effect on profit/(loss) for the year	**130**	**1**	**4,556**	**4,686**	**-**	**-**	**-**	**-**	**-130**	**-1**	**-4,556**	**-4,686**	**-**	**-**	**-**	**-**
Effect on other comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Sensitivity analysis at Dec 31 2016	Increase in exchange rate								Decrease in exchange rate							
	10%								-10%							
	Effect on pre-tax profit/(loss) for the year (PLN '000)				Effect on other comprehensive income for the year (PLN '000)				Effect on pre-tax profit/(loss) for the year (PLN '000)				Effect on other comprehensive income for the year (PLN '000)			
	EUR	USD	UAH	TOTAL	EUR	USD	UAH	TOTAL	EUR	USD	UAH	TOTAL	EUR	USD	UAH	TOTAL
	4.87	**4.60**	**0.17**		**4.87**	**4.60**	**0.17**		**3.98**	**3.76**	**0.14**		**3.98**	**3.76**	**0.14**	
Financial assets	147	10	5,683	5,840	-	-	-	-	-147	-10	-5,683	-5,840	-	-	-	-
Financial liabilities	-4	-	-	-4	-	-	-	-	4	-	-	4	-	-	-	-
Effect on profit/(loss) for the year	**143**	**10**	**5,683**	**5,836**	**-**	**-**	**-**	**-**	**-143**	**-10**	**-5,683**	**-5,836**	**-**	**-**	**-**	**-**
Effect on other comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Exposure to the currency risk varies over the year, depending on the volume of transactions executed in foreign currencies. Nevertheless, the sensitivity analysis can be regarded as a representative measure to quantify the Company's exposure to the foreign currency risk.

Credit risk

Credit risk is understood as the inability of the Company's debtors to meet their obligations towards the Company. The following are the key aspects of credit risk:

- creditworthiness of customers with whom the Group enters into transactions for physical delivery of products;
- creditworthiness of entities in which the Company invests or whose securities it acquires.

The following are the areas of credit risk exposures with different credit risk profiles:

- cash and bank deposits,
- trade receivables,
- loans advanced.

The Company's maximum exposure to credit risk is measured through the carrying amounts of the following financial assets:

FINANCIAL ASSETS EXPOSED TO CREDIT RISK

Item	as at Dec 31 2017	as at Dec 31 2016
Non-bank borrowings	135,264	185,128
Trade receivables, contract receivables, amounts due from customers for construction contract work and other financial receivables	51,149	43,636
Cash and cash equivalents	1,921	3,589
Total exposure to credit risk	**188,334**	**232,353**

The Company monitors its clients' and debtors' outstanding payments by analysing credit risk individually, or for individual asset classes identified according to credit risk (e.g. by industry, region or structure of customers).

Credit risk related to cash and cash equivalents

With respect to such financial assets as cash and cash equivalents, the Company's exposure to credit risk arises from its counterparty's inability to make payments as they fall due. However, considering that in this case the Company's counterparties are banks registered in Poland, the related credit risk is immaterial. The

maximum exposure to credit risk is equal to the carrying amount of these instruments, and as at December 31st 2017 amounted to PLN 1,921 thousand (2016: PLN 3,589 thousand).

Credit risk of loans advanced

As at December 31st 2017, the outstanding balance of loans advanced by the Company was PLN 135,264 thousand, of which PLN 135,264 thousand was advanced to related parties. To limit the risk, the Company monitors the assets and financial results of its borrowers on an ongoing basis.

Credit risk related to loans advanced is material to the Company.

Credit risk inherent in trade receivables, contract receivables, amounts due from customers for construction contract work, and other financial receivables

The Company's credit risk exposure is closely related to its core business. It results from outstanding trade contracts and is related to the risk of occurrence of such credit events as the trading partner's insolvency, only partial collection of receivables or material delays in their payment. Trade credit is now an essential part of business activity. However, the Company undertakes a number of measures to mitigate the risk of entering into trade relations with potentially unreliable customers. It is the Company's policy that all customers who wish to trade on credit are subject to prior credit verification.

Customers who are found financially unreliable, based on the results of credit verification procedures performed by the Company, are required to provide appropriate financial security to limit the risk of their defaulting on payments due to the Company.

As at December 31st 2017, the total amount of the Company's net trade receivables, excluding the fair value of accepted security, up to which the Company may be exposed to credit risk, was PLN 51,029 thousand (December 31st 2016: PLN 24,536 thousand). Concentration of credit risk at the Company is related to its key completed contracts.

In consequence, as at December 31st 2017, receivables under cash deposited as performance bonds and uninvoiced amounts due from customers for construction contract work with three customers represented 79% of total trade receivables, contract receivables, amounts due from customers for construction contract work and other financial receivables as at the end of the reporting period.

With respect to trade receivables, the Company is exposed to credit risk related to a single major partner or a group of similar partners.

12. CAPITAL MANAGEMENT

At present, the Company is not able to manage capital in a manner that would otherwise by expected by the market and the Company's shareholders. Currently, the key objective of capital management is to ensure liquidity sufficient for effective performance of the arrangement and redemption of the bonds, to enable the Company to continue its operations and rebuild its shareholder value in the future.

13. DISCONTINUED OPERATIONS

Not applicable.

14. RELATED-PARTY TRANSACTIONS

The Company's related parties include key management personnel, subsidiaries and other related parties (entities controlled by the owners of the Company, as well as by members of the Management or Supervisory Board).

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.

14.1. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Company's key management personnel includes members of the Company's Management Board. Remuneration paid to members of the key management personnel during the reporting period is presented below:

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Remuneration of key management personnel		
Short-term employee benefits	2,142	2,312
Total	**2,142**	**2,312**

The Company advanced no loans to the key management personnel in the reporting period or in comparative periods.

As at December 31st 2017, the balance of the Company's long-term receivables from its key management personnel was PLN 0 (December 31st 2016: PLN 0). 0 PLN).

RELATED-PARTY TRANSACTIONS – SALES AND RECEIVABLES

Item	Operating income		Receivables	
	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016	Dec 31 2017	Dec 31 2016
Sales to:				
the parent		-		-
Consolidated PBG Group companies	10,237	10,630	872	2,625
Other related parties	2,195	107	1,749	2,041
Total	**12,432**	**10,737**	**2,621**	**4,666**

RELATED-PARTY TRANSACTIONS – PURCHASES AND LIABILITIES

Item	Purchases	Liabilities

	Jan 1–Dec 31 2017	Jan 1–Dec 31 2016	Dec 31 2017	Dec 31 2016
Purchases from:				
Consolidated PBG Group companies	2,062	2,704	8,522	39,941
Other related parties	1,922	2,470	6	-
Total	**3,984**	**5,174**	**8,528**	**39,941**

RELATED-PARTY TRANSACTIONS – LOANS ADVANCED

Item	Dec 31 2017 Outstanding balance	Dec 31 2016 Outstanding balance
Loans advanced to:		
Consolidated PBG Group companies	98,691	151,650
Other related parties	11,104	-
Total	**109,795**	**151,650**

RELATED-PARTY TRANSACTIONS – BORROWINGS

Item	Dec 31 2017 Outstanding balance	Dec 31 2016 Outstanding balance
Borrowings from:		
Consolidated PBG Group companies	20,730	15,519
Key management personnel	195	10,684
Total	**20,925**	**26,203**

15. EVENTS SUBSEQUENT TO THE REPORTING DATE REQUIRING DISCLOSURE

Except for the events presented below and the events described in Notes 2.4.3, 2.4.4, 4.11 and 4.19, no other events occurred that would require disclosure in these financial statements.

Merger of PBG S.A. with PBG AVATIA Sp. z o.o.

On January 9th 2018, the PBG Extraordinary General Meeting passed resolutions to merge PBG S.A. with PBG AVATIA Sp. z o.o. (PBG Current Report No. 1/2018). On March 22th 2018, the Management Board was notified that on March 21th 2018 the merger of PBG (as the Acquirer) with PBG AVATIA Sp. z o.o. was registered by the District Court for Poznań-Nowe Miasto and Wilda of Poznań. (PBG Current Report No. 10/2018).

Share capital increase

On January 19th 2018, the Company's Management Board was notified of registration by the court of a PLN 4,272.20 increase in the Company's share capital, through the issue of 213,610 Series H ordinary registered shares. The share capital was increased pursuant to the terms of the arrangement (PBG Current Report No. 3/2018).

Successful issue of Series I shares and share capital increase

On January 23th 2018, the Company's Management Board announced successful conclusion of the Series I issue of PBG shares, whereupon the share capital of PBG S.A. was increased to 16,087 thousand (PBG Current Report No. 4/2018).

Update of the PBG Strategy

On April 5th 2018, the PBG Management Board approved the updated Strategy for the PBG Group for 2018-2020. The Strategy seeks to deliver long-term growth in the Group's value by building the largest engineering and construction group in Poland around the RAFAKO Group, which enjoys a strong position in international markets, offering specialist construction services for the power sector and for the oil and gas upstream and downstream sectors.

One of the key factors in the delivery of the strategy will be the structure of the Group, with EPC and general contractor capabilities in the oil, gas and fuels segment transferred to the RAFAKO Group (RB PBG 11/2018).

Completion of negotiations on transfer of significant claim

The Company's Management Board completed negotiations of an agreement to assign its claim arising under the conditional sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. of July 24th 2013. The negotiated agreement will be signed after all legal documents required by the buyer are obtained. Considering the risk to cash flows from the development project located in Ukraine, arising from the country's unstable political situation, the Company resolved to sell the claim. In exchange for accelerating the cash inflow and significant reduction of the risk involved, the Company expects to receive PLN 80m (net of the agreed rebate) out of PLN 109m under the conditional sale agreement. Expected dates and amounts of cash receipts: PLN 20m in the first half of 2018 and PLN 60 in the first half of 2019.

16. REMUNERATION OF THE MANAGEMENT BOARD MEMBERS

REMUNERATION OF MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS IN JANUARY 1ST DECEMBER 31ST 2017

Item	Base pay	Other benefits	Total
Remuneration of the Management Board members			
Total	2,142	-	2,142
Remuneration of the Supervisory Board members			
Total	429	-	429

REMUNERATION OF MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS IN JANUARY 1ST TO DECEMBER 31ST 2016

Item	Base pay	Other benefits	Total
Remuneration of the Management Board members			
Total	2,307	5	2,312
Remuneration of the Supervisory Board members			
Total	350	3	353

EMPLOYMENT STRUCTURE IN JANUARY 1ST– DECEMBER 31ST 2017

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
White-collar employees	53	68
Blue-collar employees	-	-
Total	**53**	**68**

17. AUDITOR'S FEES

Consideration paid to the auditor for the provision of its services is presented below.

Item	for the period Jan 1–Dec 31 2017	for the period Jan 1–Dec 31 2016
Audit of full-year financial statements	350	400
Other services	16*	32
Total	**366**	**432**

*Service allowed under Art. 136.2.9 of the Act on Certified Auditors.

MATERIAL EVENTS RELATING TO PREVIOUS YEARS AND DISCLOSED IN THE FINANCIAL STATEMENTS FOR THE CURRENT REPORTING PERIOD

No events relating to previous years are disclosed in the full-year financial statements of the Company.

OTHER INFORMATION – KEY ITEMS TRANSLATED INTO THE EURO

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 2017 were translated at the average EUR exchange rate based on the arithmetic mean of mid-rates quoted by the National Bank of Poland for the last day of each month during the period, i.e. PLN 4.2447;

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 2016 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 4.3757;

c) 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;

d) total assets, liabilities and provisions for liabilities, current liabilities, non-current liabilities, equity and share capital as at December 31st 2016 were translated at the EUR mid-rate effective for that date, i.e. 4.4240 PLN.

Item	as at Dec 31 2017	as at Dec 31 2016
Exchange rate effective for the last day of the period	4.1709	4.4240
Average exchange rate for the period, calculated based on the arithmetic mean of exchange rates effective for the last day of each individual month during the period	4.2447	4.3757
Highest exchange rate in the period	4.4157 – Jan 2 2017	4.5035 – Dec 6 2016
Lowest exchange rate in the period	4.1709 – Dec 29 2017	4.2355 – Apr 4 2016

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

Item	for the period Jan 1–Dec 31 2017 PLN	for the period Jan 1–Dec 31 2016 PLN	for the period Jan 1–Dec 31 2017 EUR	for the period Jan 1–Dec 31 2016 EUR
Statement of profit or loss				
Revenue	13,448	31,995	3,168	7,312
Operating profit (loss)	(18,201)	1,053,771	(4,288)	240,823
Profit (loss) before tax	(83,723)	957,387	(19,724)	218,796
Net profit (loss) from continuing operations	(83,723)	957,387	(19,724)	218,796
Net profit (loss)	(83,723)	957,387	(19,724)	218,796
Basic earnings (loss) per share (PLN/EUR)	(0.10)	2.18	(0.02)	0.50
Diluted earnings (loss) per share (PLN/EUR)	(0.10)	2.18	(0.02)	0.50
Average PLN/EUR exchange rate	x	x	4.2447	4.3757
Net cash from operating activities	(93,817)	(171,820)	(22,102)	(39,267)
Net cash used in investing activities	88,408	36,562	20,828	8,356
Net cash from financing activities	3,741	12,176	881	2,783
Net increase/(decrease) in cash and cash equivalents	(1,668)	(123,082)	(393)	(28,129)
Average PLN/EUR exchange rate	x	x	4.2447	4.3757

Item	as at Dec 31 2017 PLN	as at Dec 31 2016 PLN	as at Dec 31 2017 EUR	as at Dec 31 2016 EUR
Statement of financial position				
Assets	487,538	632,500	116,890	142,970
Non-current liabilities	458,565	556,767	109,944	125,851
Current liabilities	151,017	114,122	36,207	25,796
Equity attributable to owners of the parent	(122,044)	(38,389)	(29,261)	(8,677)
Share capital	16,081	15,414	3,856	3,484
Number of shares	804,050,591	804,050,591	804,050,591	804,050,591
Weighted average number of ordinary shares	804,281,191	438,785,030	804,281,191	438,785,030
Diluted weighted average number of ordinary shares	804,281,191	438,785,030	804,281,191	438,785,030
Book value per share (PLN/EUR)	(0.15)	(0.05)	(0.04)	(0.01)
PLN/EUR exchange rate at end of period	x	x	4.1709	4.4240

AUTHORISATION FOR ISSUE

These separate financial statements for the 12 months ended December 31st 2017 (including the comparative information) were authorised for issue by the Company's Management Board on April 26th 2018.

Signatures of all Management Board members

Date	Full name	Position	Signature
2018-04-26	Jerzy Wiśniewski	President of the Management Board	
2018-04-26	Kinga Banaszak-Filipiak	Member of the Management Board	
2018-04-26	Mariusz Łożyński	Vice President of the Management Board	
2018-04-26	Dariusz Szymański	Vice President of the Management Board	

Signature of the person responsible for the preparation of the separate financial statements

Date	Full name	Position	Signature
2018-04-26	Bartosz Kuźmin	Deputy Director for Consolidation and Accounting	