



DIRECTORS' REPORT

ON THE OPERATIONS OF PBG S.A. W UPADŁOŚCI UKŁADOWEJ

for the period January 1st–June 30th 2014

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SECTION I: THE GOVERNING BODIES

I. COMPOSITION OF THE SUPERVISORY AND MANAGEMENT BOARDS AND CHANGES THEREIN IN H1 2014

1. Composition of the Supervisory Board

Composition of the Supervisory Board in the period **January 1st– June 30th 2014:**

- Mr Jerzy Wiśniewski – Chairman of the Supervisory Board until April 24th 2014;
- Mr Maciej Bednarkiewicz – Deputy Chairman of the Supervisory Board, Chairman of the Supervisory Board since April 24th 2014;
- Ms Małgorzata Wiśniewska – Secretary of the Supervisory Board;
- Mr Dariusz Sarnowski – Member of the Supervisory Board;
- Mr Przemysław Szkudlarczyk – Member of the Supervisory Board;
- Mr Stefan Gradowski – Member of the Supervisory Board;
- Mr Norbert Stowik – Member of the Supervisory Board.

The persons listed above were appointed to the Supervisory Board for an annual term of office by the Annual General Meeting on June 21st 2013. Until April 24th 2014, the Supervisory Board of the current term of office was composed of seven members. Subsequently, following the resignation of Mr Jerzy Wiśniewski, it was composed of six members.

Composition of the Supervisory Board in the reporting period and at present:

Full name	Jerzy Wiśniewski <i>Non-independent Member of the Board; Mr Wiśniewski does not conduct any activity competitive to the business of PBG.</i>
Position	Chairman of the Supervisory Board – until April 24th 2014
Qualifications	<ul style="list-style-type: none"> ➢ Poznań University of Technology – Faculty of Civil Engineering ➢ MBA – Rotterdam School of Management ➢ Canadian International Management Institute – management programme
Experience	<ul style="list-style-type: none"> ➢ PGNiG S.A. – manager in charge of gas transmission system operation ➢ PBG S.A. – founder, main shareholder, President of the Management Board ➢ PBG S.A. in company voluntary arrangement – Chairman of the Supervisory Board ➢ RAFAKO S.A. – Deputy Chairman of the Supervisory Board

Full name	Maciej Bednarkiewicz
Position	Deputy Chairman of the Supervisory Board – since April 24th 2014 Chairman of the Supervisory Board <i>Independent Member of the Board; Mr Bednarkiewicz does not conduct any activity competitive to the business of PBG S.A.</i>
Qualifications	<ul style="list-style-type: none"> ➢ University of Warsaw – Faculty of Law
Experience	<ul style="list-style-type: none"> ➢ Member of Polish Parliament, 1989–1991 ➢ Judge of the State Tribunal of the Republic of Poland ➢ President of the Central Board of Lawyers (Naczelna Rada Adwokacka) ➢ General Partner in Kancelaria Prawna Maciej Bednarkiewicz, Andrzej Wilczyński i Wspólnicy Sp. Komandytowa ➢ Member of the Supervisory Board of BIG Bank S.A. ➢ Chairman of the Supervisory Board of Millenium Bank S.A. ➢ Secretary of the Supervisory Board of PZU S.A. ➢ Member of the Supervisory Board of Techmex S.A. ➢ PBG S.A. – Chairman of the Supervisory Board from 2004; as of 2012, Deputy Chairman of the Supervisory Board

Full name	Małgorzata Wiśniewska
Position	Secretary of the Supervisory Board <i>Non-independent Member of the Board; Ms Wiśniewska does not conduct any activity competitive to the business of PBG S.A.</i>
Qualifications	<ul style="list-style-type: none"> ➤ Graduate of the Poznań University of Technology – Faculty of Civil Engineering ➤ MBA – Rotterdam School of Management ➤ Canadian International Management Institute – management programme ➤ Postgraduate programme in Management and Public Relations at the Faculty of Finance and Banking at the Poznań School of Banking.
Experience	<ul style="list-style-type: none"> ➤ Assistant Designer at Przedsiębiorstwo Uprzemysłowane Budownictwa Rolniczego of Poznań ➤ At PBG S.A.: Quality System Director, Public Relations Director, Member of the Management Board and Vice-President of the Management Board. ➤ President of the Management Board of INFRA S.A. ➤ Chair of the Supervisory Board of Hydrobudowa Polska S.A. ➤ Deputy Chair of the Supervisory Board of Hydrobudowa 9 S.A. ➤ Chair of the Supervisory Board of PBG Dom Sp. z o.o. ➤ Chair of the Supervisory Board of APRIVIA S.A. ➤ Member of the Supervisory Board of GasOil Engineering AS ➤ Member of the PBG Supervisory Board in the period November 21st 2006– August 31st 2008 and since April 21st 2010

Full name	Dariusz Sarnowski
Position	Member of the Supervisory Board <i>Independent Member of the Board; Mr Bednarkiewicz does not conduct any activity competitive to the business of PBG S.A.</i>
Qualifications	<ul style="list-style-type: none"> ➤ Poznań University of Economics – Accounting
Experience	<ul style="list-style-type: none"> ➤ Certified Chartered Auditor ➤ Consulting Department Assistant, Audit Department Assistant at W. Frąckowiak i Partnerzy Sp. z o.o. ➤ BZ WBK S.A. – inspector in the consultancy division of the Capital Markets Department ➤ Manager at Trade Institute – Reemtsma Polska S.A. ➤ Audit Department Assistant at BDO Polska Sp. z o.o. ➤ Audit Department Assistant at HLB Frąckowiak i Wspólnicy Sp. z o.o. ➤ Shareholder; President of Sarnowski & Wiśniewski Spółka Audytorska ➤ Vice-President of the Management Board of Usługi Audytorskie DGA Sp. z o.o. ➤ Member of the Supervisory Board of Mostostal Poznań S.A. ➤ Member of the Supervisory Board of Browary Polskie BROK-STRZELEC S.A. ➤ Member of the Supervisory Board of NZOZ Szpital w Puszczykowie Sp. z o.o. ➤ Member of the Supervisory Board of Swarzędz S.A. ➤ Member of the Management Board of Dmp Inwestycje Sp. z o. o. ➤ President of the Management Board of Salus-Med.Sp. z o.o. ➤ President of the Management Board of Ecdf Księgowość Sp. z o.o. ➤ Member of the PBG Supervisory Board since 2005.

Full name	Przemysław Szkudlarczyk
Position	Member of the Supervisory Board <i>Non-independent Member of the Board; Mr Szkudlarczyk does not conduct any activity competitive to the business of PBG.</i>
Qualifications	<ul style="list-style-type: none"> ➤ Poznań University of Technology – Faculty of Machines and Motor Vehicles ➤ Warsaw University of Technology – Gas Engineering ➤ MBA – Rotterdam School of Management ➤ Canadian International Management Institute – management programme
Experience	<ul style="list-style-type: none"> ➤ PGNiG S.A. – technical assistant (natural gas transmission) ➤ Technologie Gazowe Piecobiogaz – Development Manager, Member of the Management Board ➤ KRI S.A. – President of the Management Board ➤ Hydrobudowa Śląsk S.A. – Commercial Proxy ➤ PBG S.A. – Vice-President of the Management Board

Full name	Stefan Gradowski
Position	Member of the Supervisory Board <i>Independent Member of the Board; Mr Słowik does not conduct any activity competitive to the business of PBG S.A.</i>
Qualifications	<ul style="list-style-type: none"> ➤ Warsaw School of Economics ➤ Various postgraduate programmes in organisation, management and finance at universities in Poland and abroad (University of London, University of Dublin).
Experience	<ul style="list-style-type: none"> ➤ Adviser to the President of the Management Board of Bank BZ WBK ➤ MACOPHARMA Polska – Member of the Management Board and Supervisory Board ➤ LOOK Investment – Member of the Management Board and Supervisory Board ➤ G.C. Consulting Sp. z o.o. – co-owner ➤ Alterco S.A. – Member of the Supervisory Board ➤ Trigon S.A. – Member of the Supervisory Board

Full name	Norbert Słowik
Position	Member of the Supervisory Board <i>Independent Member of the Board; Mr Słowik does not conduct any activity competitive to the business of PBG S.A.</i>
Qualifications	<ul style="list-style-type: none"> ➤ University of Łódź ➤ Centre for European Studies at the University of Łódź ➤ International School for Consultants run by the University of Łódź and the Lyon University (France)
Experience	<ul style="list-style-type: none"> ➤ Co-owner and general partner at Norbert Słowik i Wspólnicy Spółka komandytowa ➤ INFRA Sp. z o.o. – Director for Strategy and Development ➤ National Fund for Environmental Protection and Water Management – Director of the Cohesion Initiatives Department ➤ Office of the Committee for European Integration – Minister's legal counsel ➤ Regional Development Agency of Łódź (Łódzka Agencja Rozwoju Regionalnego S.A.) – manager and specialist at the PHARE – STRUDER programme management team ➤ Central Planning Office – legal counsel ➤ Wiertmar Sp. z o.o. – Member of the Supervisory Board ➤ Geotermia Podhalańska S.A. – Member of the Supervisory Board ➤ Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji w Krakowie S.A. – Member of the Supervisory Board ➤ Grupowa Oczyszczalnia Ścieków of Łódź – Member of the Supervisory Board

As at June 30th 2014 and as at the date of approval of these financial statements for issue, the Supervisory Board consisted of:

- Mr Maciej Bednarkiewicz – Chairman of the Supervisory Board since April 24th 2014;
- Ms Małgorzata Wiśniewska – Secretary of the Supervisory Board;
- Mr Dariusz Sarnowski – Member of the Supervisory Board;
- Mr Przemysław Szkudlarczyk – Member of the Supervisory Board;
- Mr Stefan Gradowski – Member of the Supervisory Board;
- Mr Norbert Słowik – Member of the Supervisory Board.

2. Composition of the Management Board

Composition of the Management Board in the period January 1st – June 30th 2014:

- Mr Jerzy Wiśniewski – CEO and President of the Management Board since April 24th 2014;
- Mr Paweł Mortas – CEO and President of the Management Board; Vice-President of the Management Board since April 24th 2014;
- Mr Tomasz Tomczak – Vice-President of the Management Board until resignation on May 6th 2014;
- Mr Mariusz Łożyński – Vice-President of the Management Board;

- Ms Kinga Banaszak-Filipiak – Vice-President of the Management Board;
- Ms Bożena Ciosk – Member of the Management Board.

Full name	Jerzy Wiśniewski
Position	CEO and President of the Management Board since April 24th 2014
Qualifications	<ul style="list-style-type: none"> ➤ Poznań University of Technology – Faculty of Civil Engineering ➤ MBA – Rotterdam School of Management ➤ Canadian International Management Institute – management programme
Experience	<ul style="list-style-type: none"> ➤ PGNiG S.A. – manager in charge of gas transmission system operation ➤ PBG S.A. – founder, main shareholder, President of the Management Board ➤ PBG S.A. in company voluntary arrangement – Chairman of the Supervisory Board ➤ RAFAKO S.A. – Deputy Chairman and Chairman of the Supervisory Board
Field of expertise	➤ Gas industry
Areas of responsibility at the PBG Group	Strategy and development, restructuring

Full name	Paweł Mortas
Position	CEO and President of the Management Board; since April 24th 2014 Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> ➤ University of Łódź, Faculty of Economics, specialising in industrial economics ➤ Executive MBA programme of the Institute of Economics of the Polish Academy of Sciences in Warsaw (Instytut Nauk Ekonomicznych Polskiej Akademii Nauk w Warszawie) ➤ Executive DBA programme of the Institute of Economics of the Polish Academy of Sciences in Warsaw (Instytut Nauk Ekonomicznych Polskiej Akademii Nauk w Warszawie) ➤ Accounting course for candidate chief accountants, at the Foundation for Development of Accounting in Poland (Fundacja Rozwoju Rachunkowości w Polsce) ➤ Preparatory course for investment advisers, at the Post-Graduate School for Investment Advisers and Securities Analysts (Studium dla Doradców Inwestycyjnych i Analityków Papierów Wartościowych) ➤ Qualified to sit on supervisory boards of state-owned companies
Experience	<ul style="list-style-type: none"> ➤ 1997 – one-month internship at Bankowe Towarzystwo Ubezpieczeniowe HEROS S.A. of Bełchatów ➤ 1997–1999 – Tongheung-ZTS Polska Sp. z o.o. of Grójec, positions held: financial specialist, head of economics division ➤ 2001 – Medim Sp. z o.o. of Warsaw, positions held: financial inspector, finance and organisation director ➤ 2003–2005 – TBS-Bemowo Sp. z o.o. of Warsaw, vice-president of the management board (finance) ➤ 2003–2005 – TBS-Wola Sp. z o.o. of Warsaw, vice-president of the management board ➤ 2005 - TBS-WOLA Sp. z o.o., liquidator ➤ 2006 – TBS-Bemowo Sp. z o.o. of Warsaw, president of the management board ➤ 2007 – Kaskada Sp. z o.o. of Warsaw, president of the management board ➤ 2007 – BDM Grupa Inwestycyjna S.A. of Warsaw, president of the management board ➤ 2007–2009 – ENEA S.A. of Poznań, positions held: acting president of the management board, president of the management board ➤ 2009–2010 – ALSTOM Sp. z o.o. of Warsaw, adviser ➤ 2010–present – sales director at PBG
Field of expertise	➤ Power construction
Areas of responsibility at the PBG Group	Consolidation and development of the power sector

Full name	Tomasz Tomczak – until May 6th 2014
Position	Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> ➤ Poznań University of Technology – Faculty of Machines and Motor Vehicles ➤ University of Science and Technology in Kraków – Faculty of Oil and Gas Drilling ➤ MBA – Business School of the Poznań University of Economics (MBA programme run in cooperation with Nottingham Trent University) ➤ Canadian International Management Institute – management programme
Experience	<ul style="list-style-type: none"> ➤ VOLVO SERVICE – assistant service manager ➤ Piecobiogaz – technical assistant to the management board ➤ Technologie Gazowe Piecobiogaz – technical assistant to the management board; site manager; project manager; technical manager ➤ PBG – technical manager; Member of the Management Board; Vice-President of the Management Board
Field of expertise	<ul style="list-style-type: none"> ➤ Natural gas and crude oil ➤ Fuels
Areas of responsibility at the PBG Group	Contract execution in the natural gas, crude oil and fuels sectors

Full name	Mariusz Łożyński
Position	Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> ➤ Poznań University of Technology – Faculty of Civil Engineering
Experience	<ul style="list-style-type: none"> ➤ BORM Biuro Projektów – senior assistant ➤ GEOBUD Poznań – senior assistant designer ➤ Concret – Service Poznań – office manager ➤ Kulczyk TRADEX – project specialist ➤ PTC Poznań – specialist in charge of project planning/designing ➤ PBG S.A. – head of technical unit; head of contract execution support department; manager in charge of contract preparation; commercial proxy; Member of the Management Board; Vice-President of the Management Board
Areas of responsibility at the PBG Group	Bidding processes, acquisition of contracts for the PBG Group, support of Group legacy contracts, organisational support

Full name	Kinga Banaszak-Filipiak
Position	Vice-President of the Management Board
Qualifications	<ul style="list-style-type: none"> ➤ Poznań School of Banking (Wyższa Szkoła Bankowa w Poznaniu), Finance and Banking, International Finance ➤ Poznań University of Economics (Uniwersytet Ekonomiczny w Poznaniu), Faculty of Management, International Relations ➤ Poznań School of Banking, postgraduate studies in Controlling ➤ Executive MBA programme of the Poznań School of Banking and the Helsinki School of Economics (currently Aalto University School of Economics). ➤ Poznań School of Banking, postgraduate studies in Equity Investments ➤ licensed insurance agent ➤ Certificate of LCCI (London Chamber of Commerce and Industry)
Experience	<ul style="list-style-type: none"> ➤ 1999 – PTE Norwich Union S.A. of Warsaw, as junior sales representative ➤ 1999 – PTE Norwich Union S.A. of Warsaw, sales representative ➤ 2000 – Office of the Committee for European Integration (UKIE), Warsaw, internship at the Law Harmonisation Department ➤ 2004 – Group 4 Sp. z o.o. of Warsaw, Poznań Branch, assistant to the Western Region Director ➤ 2004–2005 – Rybhand Trzcielińscy spółka jawna of Jarocin, assistant ➤ Since 2005 – PBG S.A. (in company voluntary arrangement) of Wysogotowo; held the following positions: analyst, Investor Relations Manager, Research Director, Capital Market Relations Director, Investor Relations Director - Press Officer. ➤ 2013–2014 – PBG Oil and Gas Sp. z o.o. of Wysogotowo, Vice-President of the Management Board ➤ PBG Oil and Gas Sp. z o.o. – Member of the Supervisory Board
Areas of responsibility at the PBG Group	<ul style="list-style-type: none"> ➤ Economics and finance, investors relations, restructuring

Full name	Bożena Ciosk
Position	Member of the Management Board
Qualifications	<ul style="list-style-type: none"> ➤ Poznań Academy of Economics (now Poznań University of Economics), Finance and Banking ➤ Poznań School of Banking, postgraduate studies in Controlling ➤ Advisory and Management Training Centre – Project Management
Experience	<ul style="list-style-type: none"> ➤ Elektrim-Megadex S.A. of Warsaw, assistant to the Management Board ➤ PBG S.A., holding successively the following positions: Clerk, Deputy Financial Manager, Deputy Chief Financial Officer, Chief Financial Officer ➤ Remaxbud Sp. z o.o. – Member of the Supervisory Board ➤ TEGAS S.A. – Member of the Supervisory Board ➤ KWG S.A. (in company voluntary arrangement) – Member of the Supervisory Board
Areas of responsibility at the PBG Group	<ul style="list-style-type: none"> ➤ Relations with financial institutions, debt restructuring

The term of office of the Management Board, which commenced on June 29th 2012, will expire on June 29th 2015.

Changes in the composition of the Management Board during the reporting period:

- On April 24th 2014, the PBG Supervisory Board accepted the resignation of Mr Jerzy Wiśniewski from his position on the Supervisory Board and appointed Mr Jerzy Wiśniewski as President of the Management Board, having appointed Mr Paweł Mortas as Vice-President of the Management Board (Mr Mortas previously held the position of President of the Management Board).
- On May 6th 2014, Mr Tomasz Tomczak, Vice-President of the Management Board, resigned from the PBG Management Board.

As at June 30th 2014 and as at the date of approval of these financial statements for issue, the PBG Management Board consisted of:

- Mr Jerzy Wiśniewski – President of the Management Board;
- Mr Paweł Mortas – Vice-President of the Management Board;
- Mr Mariusz Łożyński – Vice-President of the Management Board;
- Ms Kinga Banaszak-Filipiak – Vice-President of the Management Board;
- Ms Bożena Ciosk – Member of the Management Board.

II. COMPANY SHARES OR RIGHTS TO THE COMPANY SHARES (OPTIONS) HELD BY PBG SUPERVISING OR MANAGING PERSONNEL

Table 1: Company shares or rights to the Company shares (options) held by PBG supervising personnel as at June 30th 2014

Supervising person	Number of shares	
	As at Jun 30 2013	As at the filing date of this Report
Małgorzata Wiśniewska	3,279	3,279
Jerzy Wiśniewski	3,881,224	not a member of the Supervisory Board
Przemysław Szkudlarczyk	2,390	2,390

Table 2: Company shares or rights to the Company shares (options) held by PBG managing personnel as at June 30th 2014

Managing person	Number of shares	
	As at Jun 30 2013	As at the filing date of this Report
Jerzy Wiśniewski	not a member of the Management Board	3,881,224
Tomasz Tomczak	3,250	not a member of the Management Board
Mariusz Łożyński	3,553	3,553
Bożena Ciosk	208	208

III. REMUNERATION, BONUSES AND BENEFITS PAID TO THE SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS

1. Remuneration of Supervisory Board Members

The amount of remuneration paid to members of the Supervisory Board was determined in the resolution of the Extraordinary General Meeting of PBG S.A. passed on December 10th 2005.

The amount of remuneration depends on the respective scope of duties and responsibilities of particular Supervisory Board members.

Table 3: Remuneration of Supervisory Board members for holding office at the Parent (PLN '000)

Remuneration (PLN '000)	Jan 1 – Jun 30 2014			Jan 1 – Jun 30 2013		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Maciej Bednarkiewicz	52	-	52	48	-	48
Małgorzata Wiśniewska	37	-	37	30	1	31
Dariusz Sarnowski	18	-	18	18	-	18
Jerzy Wiśniewski	38	-	38	60	5	65
Przemysław Szkudlarczyk	18	-	18	18	-	18
Stefan Gradowski	22	-	22	3	-	3
Norbert Słowik	18	-	18	3	-	3
TOTAL	203	-	203	180	6	186

Table 4: Remuneration of Supervisory Board members for holding office at subsidiaries, jointly-controlled entities or associates (PLN '000)

Remuneration (PLN'000)	Jan 1 – Jun 30 2014			Jan 1 – Jun 30 2013		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Maciej Bednarkiewicz	-	-	-	-	-	-
Małgorzata Wiśniewska	294	-	294	54	-	54
Dariusz Sarnowski	54	-	54	3	-	3
Jerzy Wiśniewski	473	189	662	114	-	114
Przemysław Szkudlarczyk	200	-	200	31	-	31
TOTAL	1,021	189	1,210	202	-	202

2. Remuneration of Management Board Members

The Management Board members are appointed by the Supervisory Board by way of a resolution. They are employed under employment contracts. The Supervisory Board's resolution stipulates that members of the Management Board are entitled to base pay, bonuses and additional remuneration provided for in applicable rules and regulations concerning wages and salaries. The amount of remuneration depends on the respective scope of duties and responsibilities of individual Management Board members.

Table 5: Remuneration of Management Board members for holding office at the Parent (PLN '000)

Remuneration of Management Board members (PLN '000)	Jan 1 – Jun 30 2014			Jan 1 – Jun 30 2013		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits*	Total
Jerzy Wiśniewski	140	-	140	-	-	-
Tomasz Tomczak	158	-	158	210	-	210
Mariusz Łożyński	180	-	180	177	-	177
Paweł Mortas	180	-	180	180	-	180
Kinga Banaszak-Filipiak	192	-	192	82	73	155
Bożena Ciosk	150	-	150	111	-	111
TOTAL	1,000	-	1,000	760	73	833

*Other benefits: Social Security Institution (ZUS)

Table 6: Remuneration of Management Board members for holding office at subsidiaries, jointly-controlled entities or associates (PLN '000)

Remuneration of Management Board members (PLN '000)	Jan 1 – Jun 30 2014			Jan 1 – Jun 30 2013		
	Base remuneration	Other benefits	Total	Base remuneration	Other benefits	Total
Jerzy Wiśniewski	193	-	193	-	-	-
Tomasz Tomczak	80	6	86	18	-	18
Mariusz Łożyński	24	-	24	-	-	-
Paweł Mortas	302	387	689	334	-	334
Kinga Banaszak-Filipiak	-	-	-	-	-	-
Bożena Ciosk	-	-	-	-	-	-
TOTAL	599	393	992	352	-	352

SECTION II: REPORT ON RISKS AND FINANCIAL RISK MANAGEMENT

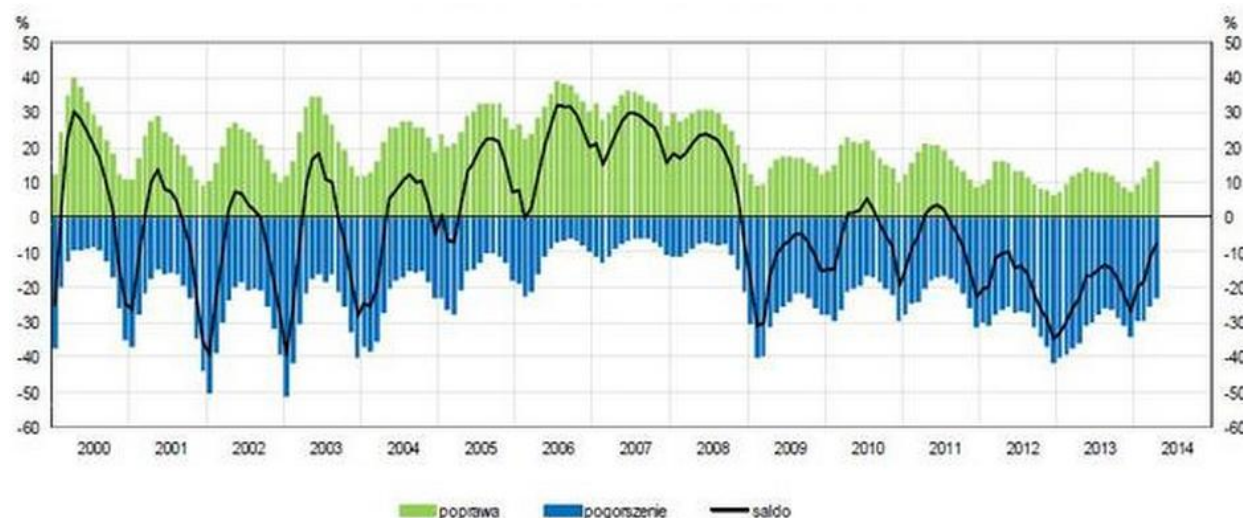
I. RISKS AND THREATS

EXTERNAL RISKS AND THREATS

1. Economic environment in Poland

The implementation of the strategic goals of the Company and the PBG Group and the actual financial performance are affected by the macroeconomic factors discussed below, which include: GDP growth changes, structural investments, general situation of the Polish economy, and legislation changes. Favourable changes in the macroeconomic environment may result in higher revenues, while adverse macroeconomic developments may result in a failure to achieve forecast revenue and deterioration of the Company's financial position.

Figure 1: General economic climate in the construction sector



Source: http://www.muratorplus.pl/biznes/raporty-i-prognozy/koniunktura-w-budownictwie-blizej-zera_82066.html

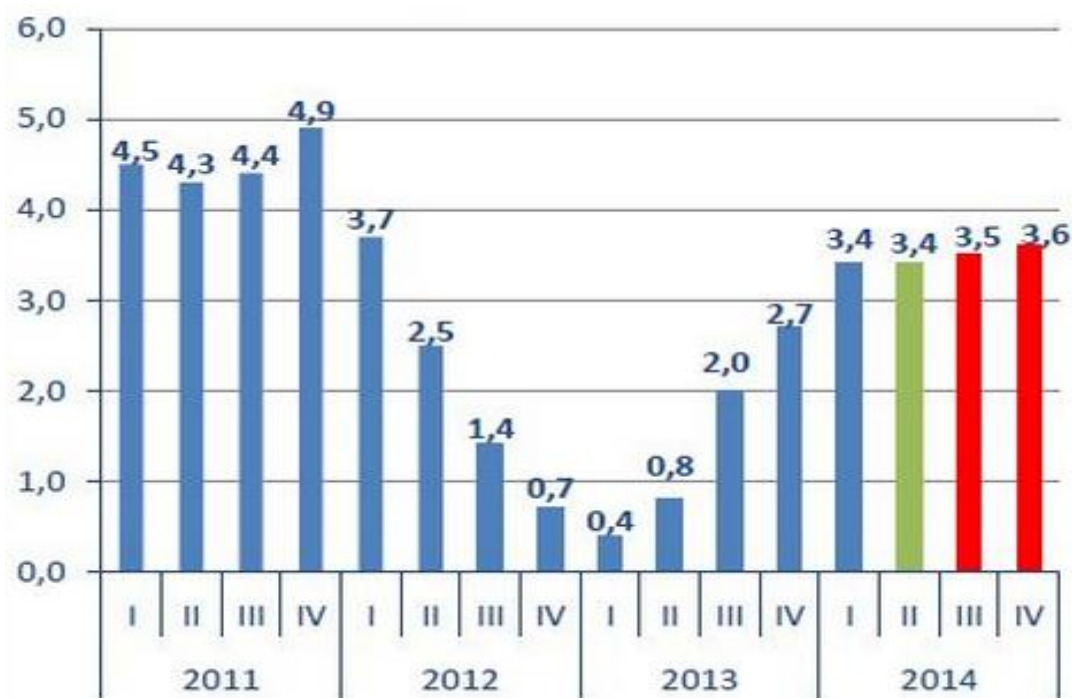
poprawa	improvement
pogorszenie	deterioration
saldo	net improvement/deterioration

According to estimates by the Institute for Market Economics (IBnGR), in Q2 2014 Poland's **GDP** grew by 3.4% on Q2 2013, which means that Q2 2014 was the fifth consecutive quarter in which the GDP growth rate accelerated or remained unchanged on the previous quarter. Thus, the GDP growth rate was the highest since Q2 2012, when it stood at 3.7%. Taking into account seasonality, in April–June 2014 the GDP grew 0.8% on the previous quarter.

The key driver behind the increase was **internal demand**. The IBnGR estimates that domestic demand increased by 3.8%; it was the fourth consecutive when the demand increased. Among the key components of domestic demand **gross capital investment** demonstrated the strongest growth in Q2 2014 and grew 9.3% in April–June 2014. It was slightly less than in the prior quarter. However, the stronger

performance in Q1 2014 was largely attributable to favourable weather conditions (mild winter and early spring), which allowed a much broader scope of construction works to be performed, as opposed to Q1 2013. The relatively high growth rate of capital expenditure seen in the first half of 2014 clearly marks an improvement in the macroeconomic environment and sets a positive outlook for economic growth in the coming quarters. **Total consumption**, and private consumption as its largest component, increased in Q2 2014 by 2.7% and 3.0%, respectively. The construction industry was the fastest growing sector of Polish economy in Q2 2014 and in the prior quarter. The added value in the construction and the sector's output were up 8.3% and 10.1%, respectively. Such strong growth, reported for the second consecutive quarter, signals that the negative trend seen in the previous seven quarters, when the added value was declining, reversed. The added value in the manufacturing also increased, though at a slower rate than in the construction industry. The IBnGR estimates its growth in Q2 2014 at 3.9%, with the increase of the manufacturing output estimated at 3.7%. Similarly, the added value in services rose by 3.9%. The Polish **GDP** growth rate is expected to come in at 3.5% in 2014, i.e. significantly more than in 2013. According to the IBnGR forecast, in Q3–Q4 2014, the economic growth will accelerate, but there will be little difference between the quarters, with the GDP up by 3.5% and 3.6% in Q3 and Q4 2014, respectively. In 2015, the economic growth may be even stronger, at 3.8%.

Figure 2: Quarterly GDP growth rate



Source: Central Statistics Office, IBnGR

In 2014, the **added value** in the manufacturing will rise 4.1% (IBnGR). In H2 2014, the growth rate is expected to be relatively stable, at approximately 4.3%. According to the IBnGR, the economic conditions in the construction sector are expected to improve markedly, with the added value expanding by 6.1%, compared with a 9.0% decline a year before. A clear improvement is also to be expected in the market services sector, with the added value forecast to increase by 3.7% in 2014. In 2015, the general situation in the manufacturing will continue to improve, driving added value up by 5.6% according to the IBnGR

forecast. In the construction sector the added value will grow by 8.5% reflecting continued improvement in market conditions. In 2015, the upward momentum in the sector will be driven by infrastructural investments financed under the new EU's budget framework.

The **domestic demand** in 2014 will grow at a rate of 3.8%, which marks a significant improvement after two years of zero growth. According to the Institutes's forecast, in 2014 **private consumption** will increase by 2.7%, while **gross capital expenditure** will be up by 8.8%. The growth in investments will be mostly driven by higher capital expenditure on replacement of tangible assets in the corporate sector. Investments will also be driven by the inflow of new EU funds earmarked for financing of infrastructural projects. In 2015, national demand will grow by 4.4% on the back of higher private consumption (up 3.5%) and capital expenditure (up 9.0%). It is expected that in 2014-2015 domestic demand will make a stronger contribution to GDP than in 2013.

Figure 3: Annual and quarterly macroeconomic forecasts of IBnGR

		2014				2013	2014	2015
		I	II	III	IV			
GDP	% y/y	3.4	3.4	3.5	3.6	1.6	3.5	3.8
GDP	% q/q	1.1	0.8	0.8	0.9	x	x	x
Added value								
in industry	% y/y	4.0	3.9	4.2	4.4	3.0	4.1	5.6
in construction	% y/y	8.0	8.3	5.1	4.6	-9.0	6.1	8.5
in market services	% y/y	4.0	3.9	3.7	3.3	2.3	3.7	3.4
Domestic demand	% y/y	3.0	3.8	3.9	4.4	0.0	3.8	4.4
Total consumption	% y/y	2.2	2.7	2.9	3.1	1.2	2.7	3.3
incl. individual consumption	% y/y	2.6	3.0	3.2	3.3	0.8	3.0	3.5
Gross fixed capital formation	% y/y	10.7	9.3	8.4	7.9	-0.2	8.8	9.0
Sold production of								
industry	% y/y	4.9	3.7	5.9	6.3	2.2	5.2	5.7
construction	% y/y	8.9	10.1	7.4	6.1	-12.0	7.8	8.4
Inflation (CPI; average)	%	0.6	0.3	0.8	1.0	0.9	0.7	1.8
Inflation (CPI; end of period)	%	0.7	0.3	0.9	1.0	0.7	1.0	2.0
Money supply (3M, end of period)	%	5.2	5.2	6.3	7.3	6.2	7.3	7.9
Real gross remuneration	% y/y	3.7	4.0	3.9	3.7	2.5	3.8	4.0
Average employment (national economy)	% y/y	-0.3	0.4	1.4	1.3	-1.1	0.7	2.2
Registered unemployment rate (end of period)	%	13.5	12.0	11.8	12.2	13.4	12.2	11.5
Exports (GUS/RN)	%	7.6	5.2	5.0	5.3	4.6	5.8	5.1
Imports (GUS/RN)	%	6.9	6.0	5.9	7.1	1.2	6.5	6.5
Current account balance (rolling)	% of GDP	-0.9	-1.2	-1.4	-1.6	-1.4	-1.6	-2.7
USD average FX rate (NBP)	PLN/USD	3.05	3.04	3.0	3.1	3.2	3.0	3.0
EUR average FX rate (NBP)	PLN/EUR	4.18	4.17	4.2	4.2	4.2	4.2	4.2

Source: Historical data – Central Statistics Office, National Bank of Poland; estimates and forecasts – IBnGR

2. Competition risk

The PBG Group operates on the competitive market of specialist construction services in the gas and oil industry. Apart from pricing, there are also other important factors which determine the competitive advantage of a business, including: experience in execution of complex and specialist projects, relevant credentials, high quality of offered services and efficient organisation enabling timely and efficient contract execution.

PBG mitigates competition risk through:

- Assuring high quality of the services rendered;
- Consistent enhancement of staff qualifications in new technologies, helping the Group create and offer competitive service mix.

The table below presents domestic and international competitors present on PBG's current markets:

Table 7: Domestic and international competitors

MARKET	BUSINESS SEGMENT	DOMESTIC COMPETITORS	INTERNATIONAL COMPETITORS
NATURAL GAS AND CRUDE OIL	UNDERGROUND GAS STORAGE FACILITIES	- Polimex Mostostal - Investgas	- ABB - Sofregas
		- Control Process - PGNiG Technologie S.A.	- Maire Tecnimont
	LNG PLANTS	- Polimex Mostostal	- Tractebel - Linde - Costain - Air Products - DAEWOO Engeneering&Construction
	TRANSMISSION	- Gazobudowa Poznań - POL-AQUA - ZRUG Poznań - PGNiG Technologie - Gazoprojekt - Nafta Gaz Serwis - Control Process	- FCC CONSTRUCCION
	REFINERIES	- Naftomontaż Krosno - Polimex Mostostal	- ABB - KT Kinetics Technology - Maire Tecnimont - APS Engineering Company Roma S.p.A. - ABB - KAWASAKI
	DELIVERY OF SPECIALIST GAS EQUIPMENT AND AUXILIARY INFRASTRUCTURE	- Control Process - Bartimpex - Stalbud - Polimex Mostostal	- Tractebel - Linde - Costain - Air Products
	EXTRACTION FACILITIES	- Naftomontaż Krosno - Control Process - Dimark - IDS Bud - PGNiG Technologie S.A. - ZRUG Poznań - POL-AQUA - Polimex Mostostal	- ABB - APS Engineering Company Roma S.p.A.
FUELS	FUEL TERMINALS	- Naftoserwis Sp. z o.o. - PetroEnergoRem Sp. z o.o. - KB Pomorze Sp. z o.o. - Przedsiębiorstwo AGAT S.A. - Mostostal Płock S.A. - Mostostal Kraków S.A. - Naftomech Sp. z o.o. - Izotechnik Sp z o.o.	- Bilfinger Berger

3. Poland's membership in the European Union

Following Poland's accession to the European Union, international companies which provide services similar to PBG's services have become keener on entering the Polish market. This may result in fiercer competition and squeezed profit margins. However, international operators usually seek to acquire orders jointly with Polish companies to secure local execution capabilities.

By acquiring a number of substantial value contracts, the Company has demonstrated it is well positioned to compete also against foreign companies.

In addition, opening of the European markets may create an opportunity for PBG to expand into new geographical markets.

To use the opportunities arising from Poland's accession to the EU in a most efficient manner, PBG:

- Implements projects by forming strategic alliances with foreign companies operating in Poland,
- Has implemented and works on improving an effective management culture,

- Offers the required quality of services, confirmed by implemented standards: PN-EN ISO 9001:2009, PN-EN ISO 14001:2005; PN-N-18001:2004, and PN-EN ISO 3834-2:2007.

4. Seasonality risk

PBG earns most of its revenue from the construction and assembly business, which, like the entire sector, experiences sales seasonality. Seasonality is mostly driven by the following factors which are beyond the Company's control:

- Weather conditions in winter, significantly hindering construction works; The weather may be more severe than the average weather conditions and thus reduce the Company's revenues;
- Customers schedule most of their projects in such a way as to ensure they are completed in the final months of the year.

5. Adverse changes in tax legislation

In Poland, the laws regarding taxation of business activity change frequently. There is a risk that the tax legislation currently in effect may change and the new regulations may be less favourable to the Company or its customers, which may directly or indirectly affect the financial performance of the Company.

PBG monitors developments in the tax legislation, and makes necessary modifications in its organisation to mitigate the risk.

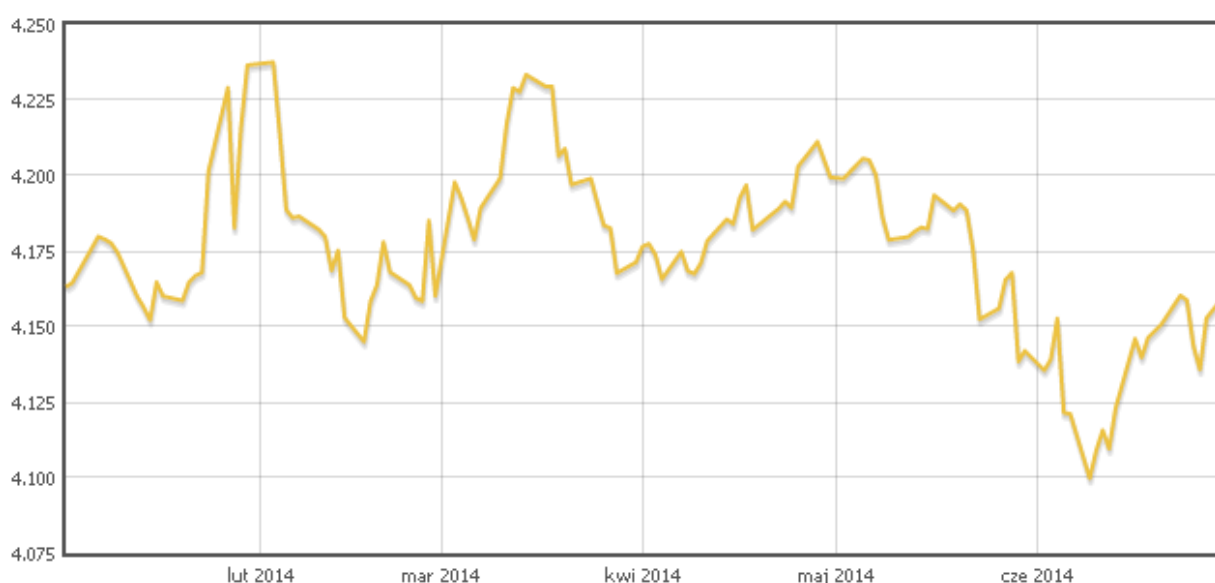
6. Exchange rate

According to financial analysts, in 2014 the PLN/USD and PLN/EUR exchange rates should stabilise, and at the end of the year the Polish złoty may reach the psychological threshold of PLN 4 per one euro.

It is expected that in 2015 the Polish złoty will be supported by strong performance of Polish economy with moderate inflation pressure.

Source: <http://pulsinwestora.pb.pl>

Figure 4: EUR/PLN exchange rate in January 1st–June 30th 2014 (mid exchange rates quoted by the NBP)



Source: <http://www.finance.egospodarka.pl>

lut	Feb
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<i>mar</i>	<i>Mar</i>
<i>kwi</i>	<i>Apr</i>
<i>maj</i>	<i>May</i>
<i>cze</i>	<i>Jun</i>

7. Risk of failure to reach an agreement with creditors in the process of company voluntary arrangement

Currently, PBG is in the process of company voluntary arrangement. Company voluntary arrangement may be reached only if it is accepted by a majority of the 50% of creditors representing two thirds of the liabilities submitted for arrangement. There is a risk that the Company will not be able to reach agreement with all creditors and the statutory majority will not be secured, which will lead to converting the process of company voluntary arrangement into company liquidation. Liquidation proceedings would necessitate a change of the Company's going concern assumption and thus affect the valuation of its assets and liabilities disclosed in its financial statements.

8. Risk of significant limitation in ability to win new contracts

PBG wins most of its contracts in public procurement procedures. The present legal status of the Company prevents it from winning new contracts or participating in public tenders. Further, the ability to win new contracts is limited by the fact that no guarantee limits are available to the Company. However, contracts may still be won outside of the public procurement market or through performance of subcontracts.

INTERNAL RISKS AND THREATS

1. Risk related to loss of key personnel

PBG's business is chiefly based on the knowledge and experience of highly qualified personnel, in particular the engineers.

There is a potential risk that the employees of key importance for PBG's development might leave, which could affect the quality of the services provided.

In the past, the risk related to the loss of key personnel was limited by:

- High internal organisational culture, which helps employees identify themselves with the Company,
- Opportunities for personal and career development within the PBG Group.

At present, PBG is additionally facing the risk of loss of key personnel due to the Company's difficult financial condition and the ongoing arrangement proceedings. However, in recent months there were no significant changes in the Company's higher and lower management staff. In the future, PBG will continue to create appropriate incentive and training schemes for its key personnel.

2. Risk of default on contracts

Construction contracts include numerous clauses related to their proper and timely performance and proper removal of defects, which involves payment by PBG of performance bond or provision of security in the form of a bank guarantee or insurance policy.

Security is usually provided on the contract execution date and settled after contract completion. The amount of security depends on the type of the contract, and usually amounts to 10% of its value. If PBG fails to perform or improperly performs the concluded contracts, there exists a risk that a trading partner might claim payment of contractual penalties or terminate the contract.

To mitigate the risk, PBG takes the following measures:

- Insurance of contracts and subcontractors,
- Extensive use of IT tools in design and project management processes.

3. Risk of dependence on key customers

At present, the main customer for services provided by PBG's natural gas and crude oil and fuels segment is Polskie LNG (a wholly-owned subsidiary of Gaz-System). This is related to the execution of a contract of substantial value for this customer, worth PLN 2.37bn (VAT-exclusive). However, PBG's strategy provides for delivery of high-value contracts, which may increase the share of sales to a single customer in total revenues in the future.

4. Operating risk

The Company's operations, in particular on-site operations, involve certain risks of human and material loss.

PBG mitigates these risks by:

- Holding third-party insurance policies,
- Supplying the employees with protective equipment on a regular basis,
- Ongoing monitoring of equipment,
- Regular training and ongoing health and safety oversight.

II. FINANCIAL RISK IDENTIFICATION AND MANAGEMENT

The methods for identifying and managing financial risk have not changed relative to those published in the most recent consolidated annual financial statements for 2013.

SECTION III: COMPANY OVERVIEW

I. STRATEGY

1. Strategy

At the beginning of 2012, PBG decided to update the PBG Group's strategy and to focus its efforts on the strategic segments: power construction and gas, oil and fuels. A decision was also made to withdraw from the following areas of operations: roads, infrastructure and residential construction, as well as water and sewage. By focusing on its core business, the Group intends to engage in contracts producing satisfactory margins and positive cash flows, with low or negative working capital requirements.

Since June 2012, the process of approval of PBG's voluntary arrangement with creditors has been ongoing. At the current stage of the process, PBG's key objective is to ensure that agreement is reached with the creditors on reasonable terms and conditions. Once approved, the arrangement will allow the Company to continue business activities and rebuild its value in the future. The PBG restructuring process is complex. In parallel to the debt restructuring, the Company is also engaged in reorganisation of its operations and assets. All these efforts are being taken to prepare the organisation for effective performance of the arrangement and to enable the Group to operate as a regular business.

One of the factors contributing to the achievement of the PBG Group's strategic objectives is the way in which the Group is organised in the individual areas of its operations. Each company is responsible for project execution in line with its business profile and resources.

Figure 5: Current organisational structure of the PBG Group (percentage of voting rights held by PBG; without specifying the PBG Dom Group companies)



GAZ ZIEMNY, ROPA NAFTOWA ORAZ USŁUGI GENERALNEGO WYKONAWSTWA	NATURAL GAS, CRUDE OIL, AND GENERAL CONTRACTOR SERVICES
BUDOWNICTWO ENERGETYCZNE	POWER CONSTRUCTION

BUDOWNICTWO OGÓLNE, OCHRONA ŚRODOWISKA I HYDROINŻYNIERING	GENERAL CONSTRUCTION, ENVIRONMENTAL PROTECTION AND HYDRAULIC ENGINEERING
KOPALNIE KRUSZYW	AGGREGATE QUARRIES
BUDOWNICTWO MIESZKANIOWE	RESIDENTIAL CONSTRUCTION
DZIAŁALNOŚĆ ZAGRANICZNA	FOREIGN OPERATIONS
GAZ ZIEMNY, ROPA NAFTOWA	NATURAL GAS AND CRUDE OIL
w upadłości układowej	in company voluntary arrangement

Within the Group, the natural gas, crude oil, and fuels markets are the responsibility of PBG, which has traded in these segments since its inception. PBG is the leader on these markets in Poland. It has gained its current position through strategic co-operation with international companies, which has enabled PBG to introduce technologically advanced solutions on the Polish market. PBG was able to use the resulting credentials and necessary experience to win contracts for execution of the largest projects on the Polish gas, oil, and fuels market. Actively bidding for new contracts under the public procurement law, the subsidiary PBG Oil and Gas is also an important part of the Group's oil and gas business. The natural gas and crude oil market is PBG's main area of focus. The Group expects that over the next few years it will be a major contributor to its financial performance.

The **power construction** business is the domain of RAFAKO. RAFAKO has been present in the power construction sector, where it has designed, manufactured and delivered steam generators and environmental protection equipment, since 1949. RAFAKO is one of Europe's four companies (the other being Alstom, Hitachi Power Europe and Doosan Babcock) with access to comprehensive technology solutions for the construction of traditional power generating units and is one of the largest producers of steam generators and environmental protection equipment for the power sector in Europe. RAFAKO is the undisputed leader of the Polish market for power generation equipment. In line with the Group's strategy, the power construction business is expected to drive a significant increase in consolidated revenue, and the Group plans to significantly strengthen its domestic position in the segment. In the current and the next years, contracts worth several billion zloty are to be awarded. In the coming years, the estimated value of all projects in the sector may amount to hundreds of billions of zloty. Therefore, the Group intends to be an active player in the market.

The other areas of operations of the PBG Group are currently viewed as non-strategic and the Group plans to exit, discontinue or divest those operations (real property, PBG Dom's and PBG Erigo's projects).

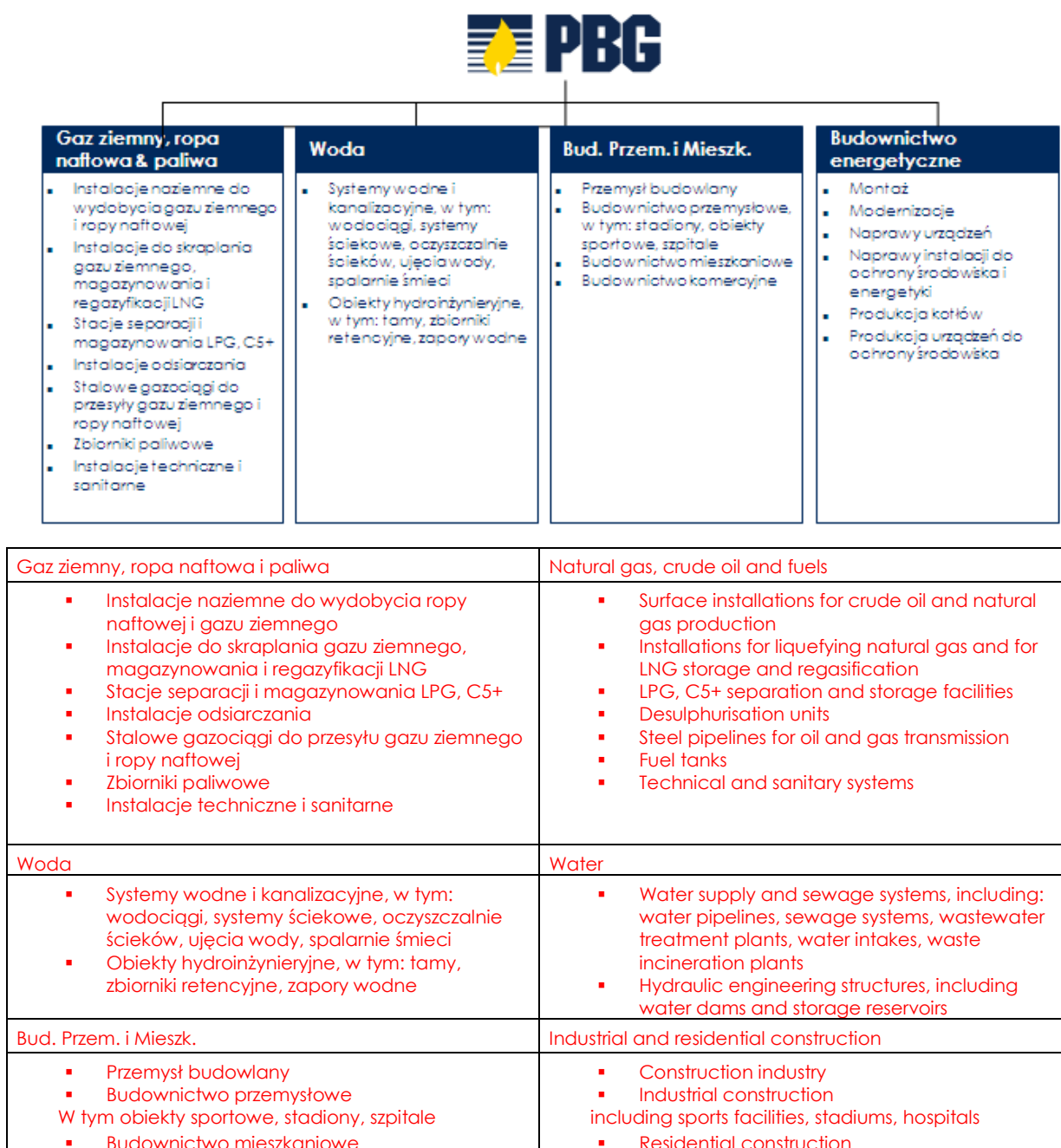
II. BUSINESS PROFILE

PBG's business comprises general contractor services related to natural gas, crude oil, water and fuels facilities, provided on a "turn key" basis, as well as general contractor services in the industrial, infrastructure and residential construction sectors. The Company's business is mainly focused on contracts executed in the natural gas, crude oil and fuels segments.

At present, PBG divides its business into the following operating segments:

1. **Gas, oil and fuels**
2. **Water**
3. **Industrial and residential construction**
4. **Power construction.**

Figure 6: Services by segments



▪ Budownictwo komercyjne	▪ Commercial construction
Bud. energetyczne	Power construction
<ul style="list-style-type: none"> ▪ Montaż ▪ Modernizacje ▪ Naprawy urządzeń ▪ Naprawy instalacji do ochrony środowiska i energetyki ▪ Produkcja kotłów ▪ Produkcja urządzeń ochrony środowiska 	<ul style="list-style-type: none"> ▪ Assembly ▪ Upgrades ▪ Repairs ▪ Repairs of environmental protection and power generation facilities ▪ Manufacture of steam generators ▪ Manufacture of environmental protection equipment

The scope of construction services provided as part of the above segments comprises comprehensive contracting services, engineering design work, upgrading, modernisation, repairs, and maintenance of facilities and systems.

Detailed financial data on the share of individual segments in revenue is presented in the section below, which describes changes on PBG's markets.

III. CHANGES ON PBG'S MARKETS

In H1 2014, revenue streams from the individual areas of operations of PBG were generated on the domestic market and were as follows:

Table 8: PBG's operating segments

Revenue	H1 2014 (PLN '000)	H1 2013 (PLN '000)	Change (PLN '000)	Change (%)
Gas, oil and fuels (transmission, distribution, production, fuel storage)	121,770	201,241	-79,471	- 39
Power construction (construction of power generating units)	-	8,197	-	-
Industrial and residential construction (construction, infrastructure for industrial facilities)	81	61	+20	+33
Water (hydraulic engineering and environmental protection, pipeline rehabilitation)	69	4,676	-4,607	-985
Other (sale of merchandise, materials and products, other services)	965	843	+122	+14
Total revenue	122,885	215,018	-92,133	-43

Geographical presence

PBG's operations focus primarily on the domestic market, which the Company perceives as its key market because of the expected projects in the power construction sector and gas infrastructure related projects. The Group is also making efforts to enter foreign markets, primarily in the gas and oil sector. Historically, PBG performed contracts for customers in Latvia, Pakistan and Norway.

Customers and suppliers with at least 10% share in the Company's total revenue:

In the period covered by this Report, customers and suppliers with at least 10% share in the Group's total revenue included:

- customers: Polskie LNG, ZIOTP;
- suppliers: none

IV. BRANCHES

The Company has no branches.

SECTION IV: REPORT ON THE COMPANY'S OPERATIONS IN H1 2014
I. SHARES HELD IN RELATED ENTITIES
Table 9: Shares held in related entities

Related entity	Principal business activity	Type of relation		Number of shares	Total par value of shares as at Jun 30 2014	Ownership interest (%)
		Parent	Type of relation			
KWG S.A. w upadłości układowej (in company voluntary arrangement)	infrastructure projects in the environmental protection sector	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	28,700	PLN 2,870,000.00	100%
WSCHODNI INVEST Sp. z o.o.	special purpose vehicle	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	37,740	PLN 3,774,000.00	100%
PBG Dom Sp. z o.o.	building construction	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	550,000	PLN 55,000,000.00	100%
Brokam Sp. z o.o.	owner of undeveloped property with granodiorite reserves	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	12,000	PLN 12,000,000.00	100%
PBG Avatia Sp. z o.o.	IT services; as a company of the PBG Group, PBG Avatia provides IT support to all PGB Group companies	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	999	PLN 49,950.00	99.90%
PBG Ukraina PSA	special purpose vehicle	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	222,227	UAH 888,908.00	100%
Bathinex Sp. z o.o.	owner of undeveloped property with granodiorite reserves	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	50	PLN 50,000.00	100%

PBG Operator Sp. z o.o.	special purpose vehicle	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	50	PLN 5,000.00	100%
PBG Oil and Gas Sp. z o.o.	engineering, design and execution company; project management, turn-key deliveries and supervision of natural gas and crude oil projects	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	50	PLN 5,000.00	25%
Multaros Trading Company Limited	special purpose vehicle	PBG S.A. w upadłości układowej (in company voluntary arrangement)	subsidiary	526,000	EUR 526,000.00	100%
RAFAKO S.A.	The company designs and constructs a wide array of boilers, including supercritical and fluidised bed boilers, as well as environmental protection equipment, including flue gas desulfurization units and electrostatic precipitators	PBG S.A. w upadłości układowej (in company voluntary arrangement) Multaros Trading Company Limited	subsidiary	7,665,999	15,331,998.00	11.01%
			indirect subsidiary	34,800,001	PLN 69,600,002.00	50%

Table 10: Shares held in other entities as at the date of approval of this Report

No.	Company name	Number of shares held by PBG	Par value of shares (PLN)	% of shares and votes held
1.	Poner Sp. z o.o.	399	399,000.00	19.00
2.	Energia Wiatrowa PL Sp. z o.o.	230	11,500.00	18.70
3.	Lubickie Wodociągi Sp. z o.o.	60	30,000.00	15.00
4.	Towarzystwo Ubezpieczeń Wzajemnych TUZ	60	600.00	0.01
5.	Strateg Capital Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)	250	250,000.00	100.00
6.	Hydrobudowa Polska S.A. w likwidacji (in liquidation)	82,302,263	82,302,263.00	39.09
7.	PBG Technologia Sp. z o.o. w likwidacji (in liquidation)	46,100	23,050,000.00	100.00
8.	Aprivia S.A. w likwidacji (in liquidation)	14,775,999	14,775,999.00	20.52
9.	Energomontaż Południe S.A. w likwidacji (in liquidation)	46,333,520	46,333,520.00	65.28
10.	GasOil Engineering AS w upadłości układowej (in company voluntary arrangement) of Slovakia	998.100	EUR 414,647.48	49.90

II. AGREEMENTS SIGNIFICANT TO THE COMPANY'S BUSINESS

Execution date	Parties	Subject matter	Key terms
<p>Mar 12 2014</p>	<p>Galeria Kujawska Nova Sp. z o.o. spółka komandytowa</p> <p>ECE Projekt Management Polska Sp. z o.o. of Warsaw</p>	<p>Conditional Sale Agreement with respect to undeveloped property comprising four plots of land in Bydgoszcz, designated for construction of shopping centre (the "Property").</p> <p>The agreement was executed with ECE Projekt management Polska sp. z o.o. of Warsaw ("ECE") on February 21st 2014. Subsequently, the buyer's rights under the agreement were transferred, pursuant to an agreement signed between Galeria, ECE and Centrum Handlowe Polska 6 Sp. z o.o. Sigma Spółka komandytowa ("Buyer") on March 3rd 2014, to the Buyer.</p>	<p>The sale price of the Property is PLN 130,503,000.00 (including value added tax of PLN 24,403,000.00). The Agreement may be terminated by either Party on or before August 14th 2014 in the event of improper performance of contractual obligations by the other Party.</p> <p>Transfer of the Property to the Buyer will be made under a separate final agreement (the "Final Agreement"), executed upon fulfilment of the condition stating that the Municipality of Bydgoszcz does not exercise its statutory right of first refusal over any of the plots comprising the Property.</p> <p>The Agreement provides for the following contractual penalties:</p> <p>1) Galeria has the right to demand from the Buyer a contractual penalty of PLN 20,000,000 if the Buyer fails to execute the Final Agreement for reasons attributable to the Buyer;</p> <p>2) The Buyer has the right to demand from Galeria a contractual penalty of PLN 20,000,000 if any representation on the condition of the Property made by the Gallery proves incorrect or untrue, or if Galeria breaches the terms of the Agreement, including the obligation to prevent any events which may have an adverse effect on the Property.</p> <p>In the Agreement, the parties agreed to secure Galeria's liability towards the Buyer, related to claims which may arise under the Agreement, by voluntary submission to enforcement for up to PLN 80,421,969. The Buyer will have the right to request the court to append an enforcement clause until May 24th 2016. In addition, an entry will be made for the benefit of the Buyer in the land and mortgage register for the plots making up the Property, up to PLN 80,421,696, as security for the Buyer's claim under the Agreement, as referred to above.</p>
<p>For more information, see PBG Current Report No. 3/2014: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/3-2014-zawarcie-przez-spolke--grupy-kapitalowej-spolki-zaleznej-pbg-dom-warunkowej-umowy-sprzedazy-nieruchomosci.html</p>			

Execution date	Parties	Subject matter	Key terms
<p>Mar 19 2014</p>	<p>Galeria Kujawska Nova Sp. z o.o. spółka komandytowa</p> <p>Centrum Handlowe Polska 6 Sp. z o.o. Sigma spółka komandytowa of Warsaw.</p>	<p>Agreement for the transfer of ownership of undeveloped property comprising four plots of land in Bydgoszcz, designated for construction of shopping centre (the "Property" or the "Agreement").</p> <p>The Agreement was executed in performance of the conditional agreement of February 21st 2014.</p>	<p>The sale price of the Property as specified in the Agreement is PLN 130,503,000.00 (including value added tax of PLN 24,403,000.00), and is to be paid within seven days of the date of execution of the Agreement. With the advance payment of PLN 41,820,000 made under the preliminary sale agreement, the Buyer will be paying Galeria a total of PLN 88,683,000.00, including PLN 53,883,000 to be paid to Galeria's bank account and PLN 34,800,000 to Galeria's creditor.</p> <p>Under the Agreement, the Buyer declared that it will submit to enforcement under Art. 777.1.5 of the Polish Code of Civil Procedure, for up to PLN 113,598,000, with respect to the obligation to pay the Total Final Sale Price less the Advance Payment.</p> <p>The PBG Management Board also notes that on March 13th 2014 it was notified that Erigo I Sp. z o.o. ("Erigo I"), a PBG Dom Group company, Galeria and the Buyer entered into an agreement on accession to Galeria's debt. The beneficiary under the agreement is the Buyer. Under this agreement, Erigo I acceded to Galeria's debt as a joint and several debtor next to Galeria under any and all claims arising under the Conditional Agreement announced in Current Report No. 3/2014, for all of Galeria's existing and future financial liabilities towards the Buyer. These may include any and all claims for damages payable by Galeria to the Buyer as well as reimbursement claims for any amounts or costs paid or incurred by the Buyer.</p>
<p>For more information, see PBG Current Report No. 4/2014: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/4-2014-zawarcie-przez-spolke-z-grupy-kapitalowej-spolki-zaleznej-pbg-dom-umowy-przeniesienia-wlasnosci-nieruchomosci.html</p>			

Execution date	Parties	Subject matter	Key terms
Apr 2 2014	<p>Employer:</p> <p>PGNiG SA,</p> <p>Contractor:</p> <p>Consortium of PBG S.A. (Consortium Leader), Technimont SpA, Société Française d'Etudes et de Réalisations d'Equipements Gaziers "SOFREGAZ" and Plynostav Pardubice Holding A.S. - Plynostav Regulace Plynu A.S. (Consortium Partners).</p>	<p>Notice of rescission by PGNiG of material contract and call for payment of contractual penalties of PLN 133.4m (10% of the contractor's VAT-inclusive remuneration).</p> <p>Contract dated November 19th 2008, providing for execution of the "Construction of the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn m3, sub-phase: 1.2bn m3" project</p>	<p>The Company's Management Board has taken the stance the Wierzchowice Underground Storage Facility project had been fully executed except for a 72-hour test of one of the installed devices, which however does not affect the functionality of the entire system. Technical acceptance of the project by the Employer took place on November 18th 2013. The Parties also made a full settlement of the Consortium's remuneration for the work performed until the date of technical acceptance. It is worth to note that PGNiG's Current Report No. 42/2014, dated April 2nd 2014, concerning PGNiG's notice of termination, reads that "progress of work on expanding the Wierzchowice Underground Gas Storage Facility to 1.2bn m3 is 97%" and that "the facility has reached and maintains a storage capacity of 1.2bn m2"</p>
<p>For more details, see PBG Current Report No. 7/2014: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/7-2014-oswiadczenie-pgnig-o-odstapieniu-od-znaczonej-umowy.html</p>			
May 6 2014	<p>PBG S.A. w upadłości układowej (in company voluntary arrangement)</p> <p>Obrascon Huarte Lain S.A. ("OHL")</p>	<p>Additional agreement under which OHL took over from PBG the execution of, and has assumed all liability related to, the "Construction of a football stadium with training facilities in the north-eastern part of Poland" project executed by a consortium of OHL and PBG for Stadion Miejski Sp. z o.o. of Białystok as the Employer.</p>	<p>OHL has provided a performance bond for the contract with the Employer, replacing the existing security in the form of a guarantee issued by Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA S.A., thus relieving PBG of the obligation. It was agreed that OHL (acting as the Consortium Leader) will be responsible for 99.99% of the contracted works.</p> <p>Under the Agreement OHL also indemnified PBG against any claims related to the Project, and agreed that, should any claims be brought against PBG by third parties in relation to the Białystok Project, it would release PBG from liability towards such third parties.</p>
<p>For further information, see PBG Current Report No. 12/2014: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2014-zawarcie-z-ohl-umowy-dodatkowej-w-sprawie-realizacji-stadionu-w-bialymstoku.html</p>			

The criterion upon which the agreement is considered a reportable significant agreement:

Legal basis:

Par. 5.1.3 of the Regulation on current and periodic information to be published by issuers of securities, dated October 19th 2005.

Art. 56.5 of the Public Offering Act – Information update

Legal basis:

Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009.

On March 21st 2013, the Company's Management Board resolved to change the materiality criterion for assets and agreements from 10% of the Company's equity to 10% of the PBG Group's total revenue generated over four most recent financial quarters.

III. BUSINESS COMBINATIONS, INCORPORATION OF NEW SUBSIDIARIES

Table 11: Changes in organisational links in the reporting period and subsequent to the reporting date

Date	Parties	Type of transaction	Transaction overview
Apr 2 2014	PBG AVATIA	Decision of the District Court of Poznań – Stare Miasto in Poznań, approving the Arrangement entered into during the Meeting of Creditors of PBG AVATIA held on February 24th 2014.	
For more information, see PBG's Current Report No. 9/2014: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/9-2014-postanowienie-sadu-w-przedmiocie-zatwierdzenia-ukladu-zawartego-na-zgromadzeniu-wierzycieli-spolki-zaleznej-pbg-			
May 26 2014	Strateg Capital	Decision of the Judge Commissioner of the District Court of Wałbrzych to convert Strateg Capital's company voluntary arrangement proceedings into liquidation of the debtor's assets;	
For more information, see PBG's Current Report No. 15/2014: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/15-2014-wydanie-przez-sad-postanowienia-w-przedmiocie-zmiany-sposobu-postepowania-upadlosciowego-dla-strateg-capital.html			

IV. EVENTS OF DEFAULT ON CREDIT FACILITIES, GUARANTEES AND BONDS

No such events occurred.

V. RELATED-PARTY TRANSACTIONS

In H1 2014, PBG executed transactions with related parties on an arm's-length basis, and the nature and terms of those transactions were determined by day-to-day operations.

The most frequent types of related-party transactions include:

- construction contracts,
- contracts for provision of maintenance services.

In H1 2014, PBG did not provide sureties or guarantees to related parties.

VI. CONTRACTED BANK BORROWINGS, LOAN AGREEMENTS

For information on bank borrowings and loans, see Note 19 to the Company's financial statements. In H1 2014, the Company did not contract or advance loans.

VII. NON-RECURRING FACTORS AND EVENTS

1. Termination of the contract dated November 19th 2008, providing for execution of the project "Construction of the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn m³, sub-phase: 1.2bn m³"

On April 2nd 2014, the Company received a letter from PGNiG S.A. containing PGNiG's notice of termination of the contract of November 19th 2008 for the "Construction of the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn m³, sub-phase: 1.2bn m³" project, under which the Company had been engaged as the general contractor. In the notice, the Employer also called for payment by the Consortium of contractual penalties of PLN 133.4m, or 10% of the gross remuneration payable to the Contractor, which may be demanded by the Employer in accordance with the contract terms if the contract is terminated for causes attributable to the Contractor.

The Consortium, including the Company as its leader, considers the Employer's representation on contract termination to be ineffective, and thus considers the contractual penalties of PLN 133.4m assessed by PGNiG S.A. to be ineffective, too. The Employer was notified accordingly in the letter of April 7th 2014 and also on April 18th, when the Employer's note specifying the contractual penalties assessed on the Consortium, was sent back to the Employer as ungrounded. In the Company's opinion, until April 2nd 2014 the Project had been nearly 100% completed, as the Employer itself admitted in its current report and as was demonstrated in the project status report prepared as at the end of March 2014. Moreover, by April 2nd 2014 the Employer had confirmed full operational availability of the Wierzchowice Underground Storage Facility's installations, as well as conformity of the USF's functionality with the requirements. The required occupancy permits for the Wierzchowice USF facilities had been obtained by December 2013, while the applicable permits for operation of the individual installations – by March 2014. The Consortium is of the opinion that the Contractor retains the right to continue to perform the Contract and deliver the Project to the Employer as specified in the Contract.

If the Company accepted the contractual penalties and included them in these condensed financial statements, the Company's net profit for H1 2014 would have been lower by PLN 56.5m. The effect on the balance sheet would include a PLN 13.2m reduction in amounts due from customers for construction contract work, and a PLN 43.3m increase in amounts due to customers for construction contract work.

For more information, see

PBG's Current Report No. 7/2014:

<http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/7-2014-oswiadczenie-pgnig-o-odstapieniu-od-znaczonej-umowy.html>

PBG's Current Report No. 8/2014:

<http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/8-2014- stanowisko-konsorcjum-odnosnie-skuteczności-oswiadczenia-pgnig-o-odstapieniu-od-znaczonej-umowy.html>

2. Sale of a 2% interest in Energopol Ukraina S.A.

In July 2013, the Parent entered into a conditional agreement with its subsidiary Wschodni Invest Sp. z o.o. and Imidż Finans Grup, incorporated under Ukrainian law (the "Buyer"). The Buyer committed to purchase the shares of Energopol Ukraina S.A. of Kiev from Wschodni Invest Sp. z o.o. and to buy the claims under the loans advanced by Wschodni Invest to Energopol Ukraina S.A. Pursuant to the agreement, the portion of the price corresponding to the loans granted to Energopol Ukraina S.A. by the Company in the form of investment certificates will be transferred to the Company's bank account. Following the payment, the Buyer will become the owner of the investment certificates.

Currently, the Company holds indirectly a 49% interest in Energopol Ukraina S.A. after its subsidiary Wschodni Invest Sp. z o.o. sold 2% of Energopol Ukraina shares. Following the sale transaction, the Group controls 49% of Energopol Ukraina shares, recognising this investment as a joint venture (equity-accounted for in the consolidated financial statements). In April 2014, the Company signed an agreement under which the Buyer of the 2% interest in Energopol Ukraina committed to take steps aimed at securing complete fulfilment of the conditions agreed in the conditional sale agreement, which was to ensure that the Company received a cash payment of PLN 109m. The Management Board of the Parent resolved to change the method of accounting for the investment certificates held by the Parent in the interim consolidated financial statements for H1 2014, and the assets are presented as a PLN 60m increase in investment in Energopol Ukraina. In these financial statements, they are presented as long-term loans. No indication of impairment has been identified by the Management Board with respect to the investment.

VIII. MAJOR R&D ACHIEVEMENTS

In the period covered by this Report, the Company did not have any major R&D achievements which would have an effect on its performance.

IX. CONTROL SYSTEMS FOR EMPLOYEE PLANS

PBG does not operate any employee plans.

X. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

As at the reporting date, the Company was involved in litigations in which it acted as the defendant or the plaintiff.

Material litigations involving PBG as the Plaintiff include:

1. PBG S.A. in company voluntary arrangement against the State Treasury – General Director for National Roads and Motorways (GDDKiA), court docket No. IC 1022/12

The case concerns a Court amendment to Contract No. 2811/30/2010 (construction of the A4 motorway). The party requested a PLN 270,100 thousand rise in the VAT-exclusive remuneration payable to the Consortium due to a sharp increase in the prices of construction materials and services (the prices of steel, aggregate, concrete, bitumen, and fuels, including transport costs). The key and most significant element of evidentiary hearing will be the opinion of experts in the economics of road building. The court will consider evidence motions, including the key motion to admit the expert witness evidence based on which it will be possible to determine whether the loss incurred by the Consortium was substantial and whether the Consortium is entitled to claim the increased remuneration. Because not all witnesses appeared at the four hearings which have already been held, the Court has not yet made a decision concerning other evidence motions, including motions to admit as evidence expert witness opinions which are of key importance for resolving the case as to its merits.

As at the date of this Report, the Court has not yet made a decision admitting expert witness opinions as evidence.

2. PBG S.A. in company voluntary arrangement against Control Process S.A. – a case for payment including petition for exemption from court fees and a petition for a temporary injunction order

PBG has been pursuing claims against Control Process S.A. in connection with execution of the LMG Project – Central Facility, Well Areas, Pipelines and Other Infrastructure, including claims under Defendant's default to pay VAT invoices under an agreement for lease of containers with auxiliary facilities, an agreement for the provision of IT network access service, an agreement for lease of space at the construction site facilities, as well as recharged environmental analyses, recharged testing of guaranteed parameters, recharged factory testing, recharged emergency medical assistance, and recharged geodesic services. In the statement of claim, the Plaintiff also petitioned for exemption from court fees in full and for the court to issue a temporary injunction. By virtue of its decision of September 16th 2013, the Regional Court dismissed the petition for exemption from court fees. On September 26th 2013, the Plaintiff's attorney lodged a complaint against the dismissal of the petition for exemption from court fees to the Court of Appeals. By a decision of October 30th 2013, the Court of Appeals dismissed the complaint. In a payment order issued on January 10th 2014, the Regional Court of Poznań ordered the Defendant to pay the Plaintiff an amount of PLN 996 thousand with interest and cost of proceedings within 14 days, or to lodge an objection. At the request by the attorney for the Plaintiff, by virtue of a decision of January 28th 2014, the Regional Court corrected an obvious spelling error concerning the deadline for payment of interest on one of the claimed amounts. Further, in a letter of April 18th 2014, the Plaintiff's attorney responded to the objection to payment order, and addressed all arguments raised by the Defendant in their objection to payment order. On June 17th 2014, some of the witnesses were heard during a session at the Regional Court of Poznań; the next hearing, set for October 7th 2014, will continue to focus on evidence examination.

3. PBG S.A. in company voluntary arrangement against Marian Siska for payment

Action for payment of PLN 1,200 thousand in connection with disposal of shares in GasOil Engineering As. The case is conducted under Slovakian law by barrister Ireneusz Piotr Giebel. By virtue of a payment order, the Regional Court of Poprad ordered the defendant to make the payment as demanded in the statement of claim. In pleadings of February 18th 2014, Marian Siska appealed against the payment order. The Company's attorney is preparing a response to the appeal.

4. PBG S.A. in company voluntary arrangement against Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. ("MWiK"), court docket No. VIII KC 282/12/K

Proceedings brought before the Regional Court in Bydgoszcz by the Company against Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. ("MWiK") for determining that:

- a) the termination notice served by MWiK on June 5th 2012, dissolving contract No. 2004PL16CPE003-12/3 "Rainwater discharge from the water intake protection zone areas of Las Gdański and Czyżkówko and extension of the rainwater system in Bydgoszcz. Part 3", concluded on April 3rd 2008 ("the Contract") with PBG and Hydrobudowa Polska S.A. (currently in bankruptcy by liquidation) as a Consortium member, is ineffective;
- b) MWiK is not entitled to claim payment for non-performance or improper performance of the Contract by the Company and Hydrobudowa Polska;
- c) MWiK is not entitled to claim any contractual penalty for dissolution of the Contract for reasons attributable to the Company and Hydrobudowa Polska

together with a request to secure the said claims by imposing an injunction on MWiK prohibiting the use of advance payment guarantee No. GZo/329/08-081 granted on May 27th 2008 by Powszechny Zakład Ubezpieczeń S.A. of Warsaw ("PZU"), in particular by demanding any payments under the advance payment guarantee, until the final conclusion of the proceedings; and if any amounts have already been paid by PZU to MWiK under the said guarantee, also by ordering that MWiK returns to the Guarantor any such amounts without delay. The first hearing was scheduled for October 8th 2013.

Value of the claim: PLN 30,849 thousand.

Otherwise, the Court dismissed the petition to provide temporary injunctive relief. A complaint against the decision was lodged by MWiK, but on March 26th 2013 the Court dismissed MWiK's complaint against the Court's decision granting temporary injunctive relief, and the decision became final. Notwithstanding the foregoing, on April 26th 2013 the Company filed a petition requesting a change (an extension) of the injunctive relief to include seizure of claimed amounts in MWiK's bank accounts up to the equivalent of EUR 3,758 thousand. In its decision of June 27th 2013, the Regional Court of Bydgoszcz dismissed the Plaintiff's petition to change the manner of providing injunctive relief; the Company appealed against that decision on July 17th 2013. By a decision of October 25th 2013, the Court of Appeals dismissed the Plaintiff's complaint. At the same time, as the case files were transferred to the court of appeals, the hearing set for October 2nd 2013 was cancelled. A new date of the hearing has not been determined, as the files have not yet been returned to the Regional Court in Bydgoszcz. On January 23rd 2014, MWiK filed for reversal of the decision on injunctive relief; in a letter of March 23rd 2014, PBG filed for dismissal of MWiK's petition; on April 3rd 2014 a hearing was held to examine MWiK's petition. On April 14th 2014, the Court dismissed MWiK's petition for reversal of the decision granting injunctive relief, and maintained the previously granted injunction; on June 10th 2014, MWiK filed for a change of the injunction into a ban on withdrawal of the

injunction amount from the account in which the amount was deposited by MWiK, opened especially for the purpose with PeKaO S.A. II Branch in Bydgoszcz; on June 30th 2014, the Plaintiff filed a petition requesting creation of security; by virtue of its decision of July 7th 2014 the Court issued a decision on change of the injunctive relief in which it upheld the injunctive relief but in compliance with MWiK's request in the form of security over the monies in the bank account held with PeKaO; the date of the hearing was set for September 17th 2014.

5. PBG S.A. in company voluntary arrangement against the Bankruptcy Administrator of Maxer S.A. w upadłości (in bankruptcy) – court docket No. IX GNc 1254/13/7

On September 2nd 2013, PBG S.A. w upadłości układowej (in company voluntary arrangement) filed a claim with the Regional Court of Poznań, 9th Commercial Division, against the Bankruptcy Administrator of Maxer S.A. w upadłości (in bankruptcy) for payment, along with a petition for exemption from court fees. Value of the claim: PLN 820 thousand.

By virtue of its decision of September 25th 2013, the Regional Court dismissed the petition for exemption from court fees. A complaint against that decision was filed on October 7th 2013. The Poznań Court of Appeals dismissed the appeal, and the Company paid the required court fee. The court is yet to examine the case and issue a payment order or set the date of hearing. The date of hearing was originally set for June 3rd 2014, but that date was cancelled and a new hearing date was set for September 9th 2014.

Disputes pending against the Company:

1. Litigation concerning construction of the National Stadium in Warsaw

The Company was a member of the consortium ("the Consortium") selected in a tender as the general contractor for the National Stadium project in Warsaw. The contract between the Consortium and Narodowe Centrum Sportu Sp. z o.o. ("NCS") was signed on May 4th 2009 (the "Contract"). The Consortium provided the NCS with an insurance guarantee for the amount of PLN 152,479 thousand, securing claims the NCS might have as the employer relating to non-performance or improper performance of the Contract. The guarantee was issued by Zurich Insurance plc. Niederlassung für Deutschland ("Guarantor" or "Zurich").

On June 1st 2012, the NCS called on the Consortium to pay a penalty of PLN 308,832 thousand for delay in completion of the National Stadium project. On July 5th 2012, the NCS demanded payment of PLN 152,479 thousand from the Guarantor under the insurance guarantee. According to the Consortium (including the Company), the claim for payment of the penalty was unfounded as the delay was caused by reasons for which the Consortium could not be held liable.

As a result, on March 1st 2013 the Consortium (including the Company) brought an action before the Regional Court in Warsaw against the NCS and the State Treasury – the Minister of Sport and Tourism (i) for determining that the defendants are not entitled to claim payment of penalty for delay in the completion of the National Stadium construction project, and (ii) for ordering the defendants to cease the unlawful use of the guarantee issued by Zurich. In addition, the Consortium filed a request for an injunctive relief with respect to the above claims by prohibiting the defendants from accepting any payments under the guarantee provided by the NCS until the final conclusion of the proceedings. By decision of March 22nd

2013, the Regional Court in Warsaw dismissed the request for security. On April 9th 2013, the Consortium filed a complaint against the decision to the Court of Appeals in Warsaw.

On April 22nd 2013 Zurich received NCS' demand for payment from the performance bond. Next, the Court of Appeals dismissed the appeal. By its decision of September 25th 2013, the District Court of Warsaw suspended the proceedings ex-officio following declaration of bankruptcy of two other plaintiffs, i.e. Alpine Bau Deutschland AG and Alpine Bau GmbH. Pursuant to a representation of December 4th 2013, the administrator of Alpine Bau Deutschland AG and the administrator of Alpine Bau GmbH acceded to the proceedings and moved for resumption of the proceedings. So far, the District Court has not yet issued a decision to resume the proceedings.

Notwithstanding the foregoing, it needs to be emphasised that during performance of the Contract, the Consortium completed many auxiliary works ordered by the NCS, for which it has never received any consideration. Currently, the Consortium (including PBG) is demanding payment for the auxiliary works it has performed. Moreover, the Consortium also suffered financial losses in connection with the non-performance or improper performance of the Contract by the NCS. Therefore, the Consortium is planning to bring one or several actions, as the need may be, concerning the claims it has against the NCS and the State Treasury. The exact value of the litigation has not yet been determined. The Consortium is planning to bring the action in 2014.

In the meantime, on June 18th 2013, PBG and Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation) (another Consortium member) filed a call for a conciliation hearing at the District Court of Warsaw against the State Treasury – the Minister of Sport and Tourism, concerning an amount of PLN 162,984 thousand in payment for the auxiliary work specified above plus damages. The conciliation hearing was held on October 10th 2013, but the parties failed to reach an agreement (court docket No. VIII GCo 552/13).

On April 22nd 2013, the NCS lodged a claim demanding payment by Zurich of a relevant amount under the insurance policy provided as a performance bond (court docket No. XX GC 211/13). On December 16th 2013, the Company filed a defendant-side intervention. On December 18th 2013, a defendant-side intervention was also filed by the bankruptcy administrator of Hydrobudowa. The date of hearing has not yet been determined. Value of the claim: PLN 152,479 thousand.

The case is pending.

On September 20th 2013, Imtech Polska sp. z o.o. (one of the main subcontractors hired by the Warsaw National Stadium Construction Consortium) filed a claim for payment of PLN 115,037 thousand against PBG S.A., Alpine Construction Polska sp. z o.o., the NCS and the State Treasury – the Minister of Sport and Tourism. Imtech demands payment for the work performed during the construction of the National Stadium in Warsaw and compensation for damages it sustained as a result of its inability to perform the work within the original schedule. On December 12th 2013, the Company received the claim, and filed its response on March 28th 2014 (court docket No. XXVI GC 762/13). By virtue of the court's decision of July 8th 2014, the dispute was referred to mediation (the mediation hearing date was set for September 3rd 2014).

Notwithstanding the foregoing, on July 25th 2014 PBG filed with the District Court for the Capital City of Warsaw a petition requesting a call for a conciliation hearing (the court docket number has not yet been assigned).

2. SAN-BUD Sp. z o.o. against PBG S.A. w upadłości układowej (in company voluntary arrangement), court docket No. IX GC 206/13/

Action for payment of PLN 1,572 thousand before the Regional Court of Wrocław, 10th Commercial Division; date of filing the statement of claim: March 28th 2013. The response to the statement of claim was submitted on June 27th 2013. A hearing was held on September 6th 2013. The date of another hearing will be set by the Court ex officio. As at the date of this Report, no hearing date had been set for the defendant company SIAC. The proceedings have been suspended as SIAC was declared bankrupt.

3. Dimark Sp. z o.o. against PBG S.A. w upadłości układowej (in company voluntary arrangement), court docket No. IX GC 533/13/4

Action for payment of PLN 100 thousand before the Regional Court of Poznań – date of filing of the statement of claim: June 13th 2013.

On October 30th 2013, the Regional Court issued a decision dismissing the action brought by Dimark Sp. z o.o. in whole and awarding a refund of the litigation costs to the Company. Dimark appealed against the decision. The Company filed a response to the appeal within the statutory time limit, i.e. by March 7th 2014. In this case, Dimark Sp. z o.o. is pursuing a claim against PBG on the basis of its unjust enrichment. The plaintiff, acting as a member of the general contractor consortium, entered into an assignment agreement with a third party, whereby the plaintiff and the other consortium members assigned their amounts receivable as payment of their remuneration by the project sponsor to a bank, to create security under a credit facility agreement signed by PBG and other entities. When receiving an amount due in respect of the assigned debt claim, the Bank applied the receivable towards coverage of the defendant's liabilities. In Dimark Sp. z o.o.'s opinion, payment of the receivables under the credit facility agreement results in PBG's unjust enrichment. The case is pending. By virtue of its ruling of May 27th 2014, the Court of Appeals changed the ruling issued by the Court of first instance, awarded PLN 100,000.00 to DIMARK, and charged PBG with the cost of proceedings; PBG is considering lodging a cassation complaint; the deadline for lodging the cassation complaint is September 3rd 2014.

4. The Zabrze Municipality, municipal water and sewage company Zabrzeńskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. (ZPWik) against PBG S.A. in company voluntary arrangement, Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation), court docket No. X GCo 543/13/7

On October 21st 2013, the petitioner submitted with the District Court for Poznań–Stare Miasto, 10th Commercial Division, a call for a conciliation hearing against PBG S.A. in company voluntary arrangement and Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation) as part of its pursuit of a claim of EUR 810 thousand in contractual penalties under the contract "Improving water and wastewater management in the Zabrze Municipality – districts of Grzybowice and Rokitnica. Project No. 1". As the petitioner failed to present any conciliation proposal, the hearing held on February 25th 2014 did not

end in any settlement. As at the date of this Report, the Zabrze Municipality has not taken any act of legal procedure, therefore it is impossible to determine the final value and merit of the claims.

5. Towarzystwo Ubezpieczeń Euler Hermes S.A. of Warsaw against PBG S.A. in company voluntary arrangement, court docket No. XVI GNC 1157/13

On October 9th 2013, Towarzystwo Ubezpieczeń Euler Hermes brought a claim against PBG S.A. with reference to a PLN 5,075 thousand payment order on the basis of a promissory note.

Towarzystwo Ubezpieczeń Euler Hermes provided to Hydrobudowa Polska S.A. general insurance in connection with various construction contracts. By way of providing security in respect of potential recourse claims against TU Euler Hermes, Hydrobudowa issued a blank promissory note, for which PBG provided its surety. Following the bankruptcy of Hydrobudowa Polska S.A., the bankruptcy administrator withdrew Hydrobudowa Polska S.A. from a contract performed for the Municipality of Poznań. The Municipality of Poznań demanded satisfaction of its claims from TU Euler Hermes (as the insurer). TU Euler Hermes satisfied the Municipality of Poznań's claim, and then filled in the promissory note and brought an action for payment against the Company (as the entity that backed the promissory note with surety). On November 15th 2013, the District Court of Warsaw issued a payment order of PLN 5,075 thousand (including interest) against the Company. Next, on December 12th 2013, the Company lodged an objection against the payment order because it took the stance that the promissory note was invalid and was incorrectly (defectively) issued, due to the fact that as a result of Hydrobudowa Polska S.A.'s withdrawing from the contract, it ceased to be party to the contract. The Company's objection has not yet been examined by the Court. Along with the objection, the Company petitioned to stay the enforcement of the payment order. In its decision of February 13th 2014, the Regional Court dismissed the petition. A complaint against that ruling was lodged on March 5th 2014, but it was dismissed by the Warsaw Court of Appeals by virtue of its decision of May 16th 2014. On the basis of the information obtained at the Regional Court of Warsaw on July 23rd 2014 it was determined that Nakano Sp. z o.o. acceded to the proceedings as a purchaser of the debt claim to which TU Euler Hermes was entitled. In an order issued by the Regional Court of Warsaw on July 3rd 2014, Nakano Sp. z o.o. was requested to demonstrate by means of an official document that the disputed debt claim was transferred to it, which is why PBG had not been officially notified of the changes in the parties to the proceedings.

ADMINISTRATIVE PROCEEDINGS

Administrative proceedings instigated ex officio by the Polish Financial Supervision Authority are currently pending against the Company. The proceedings seek the imposition of an administrative sanction on the Company under Art. 96.1c of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, of July 29th 2005.

The Polish Financial Supervision Authority is planning to close the case in September 2014.

XI. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES

In the reporting period, PBG S.A. did not make any major changes in its significant management policies. In view of the company voluntary arrangement proceedings currently in progress involving the Company,

any activities falling outside the scope of ordinary management require approvals set forth in the Bankruptcy and Restructuring Law.

SECTION V: SHARES AND SHAREHOLDERS**I. SHARE CAPITAL STRUCTURE AND LARGE HOLDINGS OF SHARES**

Currently, the Company's share capital amounts to PLN 14,295 thousand and is divided into 3,740,000 registered shares with voting preference and 10,555,000 ordinary bearer shares. The par value of the preferred and ordinary shares is PLN 1 per share. Each preferred share confers the right to two votes at the General Meeting. Nearly 99.9% of the preferred shares are held by Mr Jerzy Wiśniewski, the founder and main shareholder of PBG, who also serves as President of the PBG Management Board.

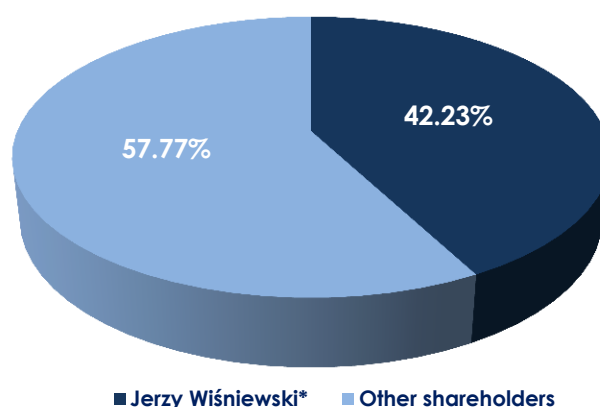
Table 12: Share capital of PBG

PBG shares	Number of shares	Type of shares	Number of shares	Number of votes	Free float
Series A	5,700,000	conferring voting preference	3,740,000	7,480,000	0
		ordinary	1,960,000	1,960,000	1,960,000
Series B	1,500,000	ordinary	1,500,000	1,500,000	1,500,000
Series C	3,000,000	ordinary	3,000,000	3,000,000	3,000,000
Series D	330,000	ordinary	330,000	330,000	330,000
Series E	1,500,000	ordinary	1,500,000	1,500,000	1,500,000
Series F	1,400,000	ordinary	1,400,000	1,400,000	1,400,000
Series G	865,000	ordinary	865,000	865,000	865,000
		Total	14,295,000	18,035,000	10,555,000

Table 13: Shareholders holding over 5% of shares

As at June 30th 2014				
Shareholder	Number of shares	Total par value (PLN)	Ownership interest (%)	% of total voting rights
Jerzy Wiśniewski	3,881,224 shares, including: 3,735,054 registered preference shares, and 146,170 ordinary shares	3,881,224	27.15%	42.23%
As at the filing date of this Report				
Shareholder	Number of shares	Total par value (PLN)	Ownership interest (%)	% of total voting rights
Jerzy Wiśniewski	3,881,224 shares, including: 3,735,054 registered preference shares, and 146,170 ordinary shares	3,881,224	27.15%	42.23%

Figure 1: PBG Shareholders holding over 5% of shares



The Company is not aware of any other shareholders holding 5% or more of the total vote at the General Meeting. By the date of the Report, the Company has not been notified of any such shareholders.

II. CHANGES IN THE COMPANY'S SHAREHOLDING STRUCTURE

In H1 2014 and before the date of approval of this Report for issue, no notifications of exceeding a shareholding threshold reportable to the Polish Financial Supervision Authority were received by the Company from any of its shareholders. Accordingly, the shareholder structure remained unchanged, with Mr Jerzy Wiśniewski being the only shareholder holding over 5% of the Company shares.

III. KEY DATA ON PBG SHARES

1. Share price

Figure 2: Price of PBG shares from January 1st 2014 to June 30th 2014

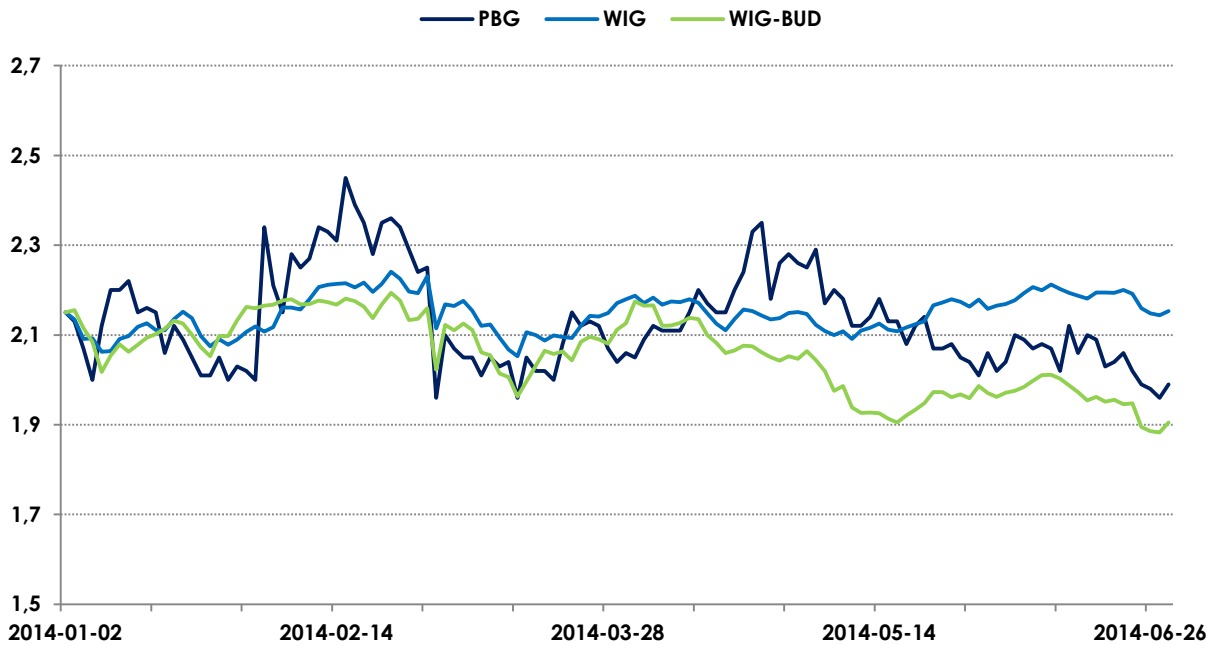
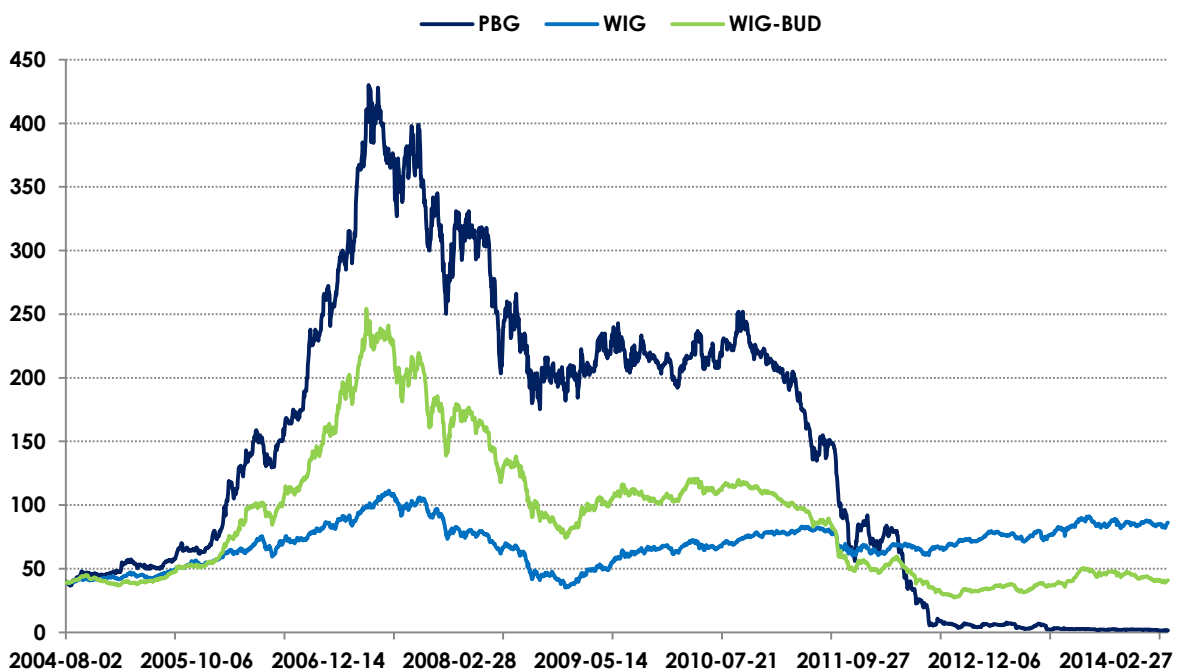


Figure 3: Price of PBG shares from first listing to August 20th 2014



As PBG was declared insolvent in voluntary arrangement, its shares were excluded from all WSE indices.

Given PBG's current situation, brokerage houses no longer cover the Company's stock.

2. Key data on PBG shares

Table 14: Per-share data

Key per-share data		H1 2014	H1 2013	Y-o-y change (%)
Period high	PLN	2.45	7.61	-68
Period low	PLN	1.96	2.07	-5
Share price at half-year end	PLN	1.99	5.68	-65
Number of shares at end of period	Number of shares	14,295,000	14,295,000	-
Free float	Number of shares	10,555,000	10,555,000	-
Capitalisation at half-year end	PLNm	28.5	81.2	-65
Average daily trading value	PLN '000	146	1,241	-89
Average daily trading volume	Number of shares	66,228	232,706	-72

IV. SHARE BUY-BACKS

In the period covered by this Report, the Company did not buy back any of its shares.

V. HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL RIGHTS

There are no securities conferring special control rights with respect to the Company. There are no restrictions with respect to the transfer of the Company shares or limitations on the voting rights attached to them.

VI. RESTRICTIONS ON VOTING RIGHTS

PBG's Articles of Association do not provide for any limitations on the voting rights of holders of a given percentage or number of votes.

VII. RESTRICTIONS ON TRANSFER OF PBG SECURITIES AND LIMITATIONS ON THE VOTING RIGHTS

In accordance with Art. 11.1 of the Company's Articles of Association, the disposal of Series A registered shares requires the Management Board's approval.

VIII. EVENTS WHICH MAY RESULT IN CHANGE IN SHAREHOLDINGS

On September 3rd 2013, the Company published a draft restructuring agreement and arrangement proposals.

If an arrangement is made on the proposed terms, after all shares have been issued in accordance with the arrangement proposals in performance of the arrangement, and pursuant to the terms of the restructuring agreement, the Company's shareholding structure will be as follows:

- a) creditors participating in the arrangement will hold ordinary bearer shares representing approximately 75% of the Company's share capital;
- b) Jerzy Wiśniewski will hold ordinary bearer shares representing approximately 23.45% of the Company's share capital;
- c) other shareholders will hold ordinary bearer shares representing approximately 1.46% of the Company's share capital.

IX. THE COMPANY AND ITS SHARES

Table 15: IR contact data

Investor Relations	Wiktoria Wiśniewska
Phone	+48 (0) 61 66 88 242
Email	wiktoria.wisniewska@pbg-sa.pl
Website	www.pbgsa.pl
Warsaw Stock Exchange	PBG
Reuters	PBGG.WA

SECTION VI: FINANCIAL OVERVIEW

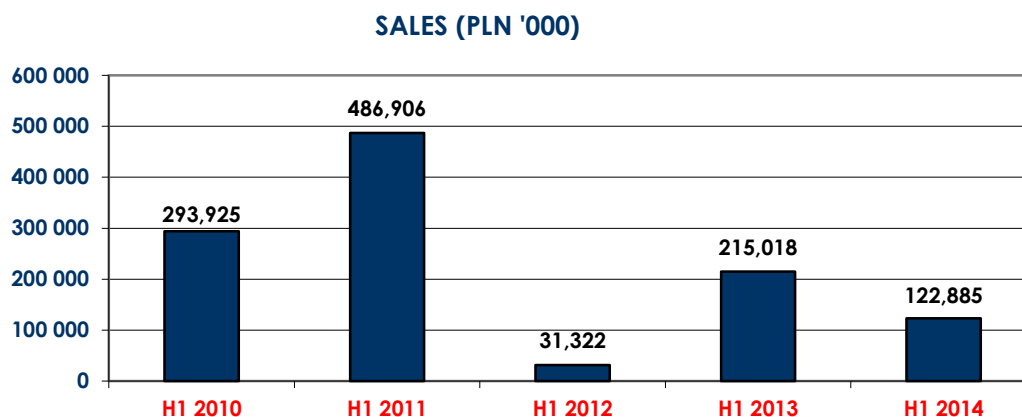
I. ANALYSIS OF PBG'S FINANCIAL POSITION

All financial data and indicators are sourced from the IFRS-compliant financial statements.

1. Revenue

At the end of H1 2014, the Company reported an almost 43% year-on-year decline in revenue, from **PLN 215,018 thousand in H1 2013 to PLN 122,885 thousand in H1 2014**. In 2013, PBG executed contracts awarded to it in previous years. Work on these contracts was either completed or at an advanced stage in 2013. The Company's largest ongoing project is the contract for construction of a liquefied natural gas (LNG) terminal. Revenue generated from this contract totalled PLN 96m in H1 2014.

Figure 4: Historical development of revenue (past five years)

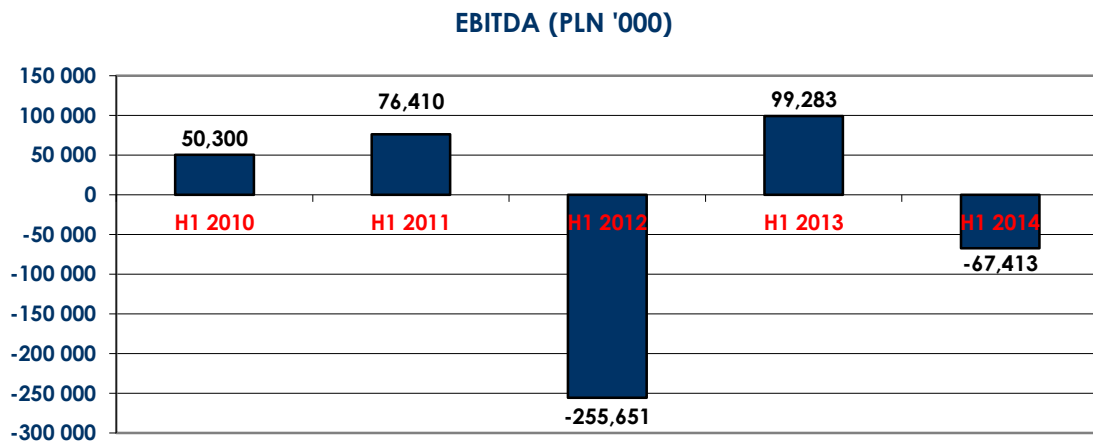


PBG is currently finishing work under contracts from the current order book. Securing new contracts is difficult due to the Company's formal and legal situation (entities in corporate voluntary arrangement are not allowed to tender for public sector contracts). As at July 1st 2014, the value of the Company's order book (calculated as the total revenue remaining to be invoiced under contracts in progress) was approximately PLN 305m, with ca. PLN 115m of that amount allocated for completion in H2 2014 and the remaining ca. PLN 190m in subsequent years.

2. EBITDA

In H1 2014, PBG's EBITDA (operating profit plus depreciation/amortisation) declined by PLN 167m relative to H1 2013. EBITDA decreased from PLN **99,283 thousand to PLN -67,413 thousand**.

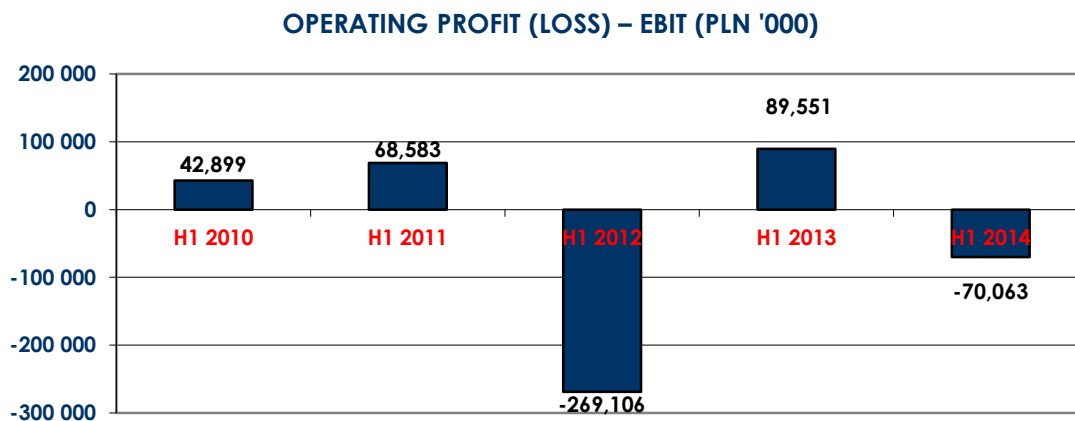
Figure 5: Historical development of EBITDA (past five years)



3. EBIT

Operating loss of PBG in H1 2014 was **PLN -70,063 thousand**, in contrast to operating profit of **PLN 89,551 thousand** in H1 2013. The operating loss was mainly due to an impairment loss on a loan advanced to Infra S.A., of almost PLN 23m, and exchange differences recognised following the balance-sheet-date valuation of investment certificates in Dialog Plus, of PLN 25.5m.

Figure 6: Historical development of EBIT (past five years)



4. Liquidity ratios

Table 16: Liquidity ratios

NAME	FORMULA	H1 2014	H1 2013
Current ratio	$(\text{current assets} / \text{current liabilities}) * 100$	0.17	0.21
Quick ratio	$(\text{current assets} - \text{inventories}) / \text{current liabilities} * 100$	0.17	0.21
Cash ratio	$(\text{cash balance at end of period} / \text{current liabilities}) * 100$	0.02	0.03

The current ratio was down year on year, from 0.21 at the end of H1 2013 to 0.17 at the end of H1 2014, which means that in H1 2014, as in H1 2013, the Company would not have been able to meet its short-term obligations if they had become immediately due and payable.

The quick ratio also suffered a decline, from 0.21 at the end of H1 2013 to 0.17 at the end of H1 2014.

In the periods under review, the ratios were at levels considered unsafe, pointing to the Company's inability to meet liabilities promptly as they come due.

The cash ratio fell from 0.03 at the end of H1 2013 to 0.02 at the end of H1 2014. The ratio suggests that PBG is able to cover 2% of its current liabilities with the most liquid assets.

5. Debt

Table 17: Debt ratios

NAME	FORMULA	H1 2014	H1 2013
Capital structure	$\text{equity} / \text{debt capital}$	-0.46	-0.44
Asset structure	$\text{non-current assets} / \text{current assets}$	3.02	2.86

In H1 2014 and in H1 2013, the Company had a negative equity.

The assets structure ratio increased by 0.16pp year on year. In H1 2013, non-current assets represented 286% of the current assets value, while in H1 2014 non-current assets represented 302% of the current assets value.

II. CHANGES IN THE INCOME STATEMENT AND COST ANALYSIS

1. Income statement

Table 18: Changes in the income statement

PBG's income statement (PLN '000)	H1 2014	H1 2013	H1 2014/H1 2013
Revenue	122,885	215,018	57%
Cost of sales	136,908	200,361	68%
Gross profit (loss)	-14,023	14,657	-
Distribution costs	-	-	-
Administrative expenses	10,616	15,939	67%
Gross profit	-24,639	-1,282	-
Other income	7,690	115,843	7%
Other expenses	53,114	25,011	212%
Operating profit (loss)	-70,063	89,551	-
Finance costs	566	90,119	1%
Impairment loss on investments in subsidiaries	-	-	-
Profit (loss) before tax	-69,664	2,258	-
Income tax expense	-	-	-
Net profit (loss)	-69,664	2,258	-

As at the end of H1 2014, the Company posted a gross loss of more than PLN 14m, compared with a profit of PLN 14.7m the year before. The gross loss is mainly attributable to losses on executed contracts, totalling PLN 10m, of which PLN 8.5m was loss recognised on the contract for construction of the Wierzchowice Underground Gas Storage Facility. The balance of PLN 4m includes loss on other activities (PLN 2m) and the effect of idle (unused) production capacity charged to expenses (PLN 2m).

The H1 2014 results clearly point to a downtrend on all levels of the income statement.

Administrative expenses were in excess of PLN 10m, which represents a 33% drop year on year.

Other expenses amounted to PLN 53.1m. The largest item of other expenses were negative exchange differences arising on revaluation of transactions in foreign currencies (including PLN 25.5m under revaluation of investment certificates in Dialog Plus), amounting to PLN 26.1m. The second largest item was impairment loss on a loan advanced to Infra S.A., of close to PLN 23m.

Finance costs totalled PLN 566 thousand. This item comprised interest, fees and commissions due to banks.

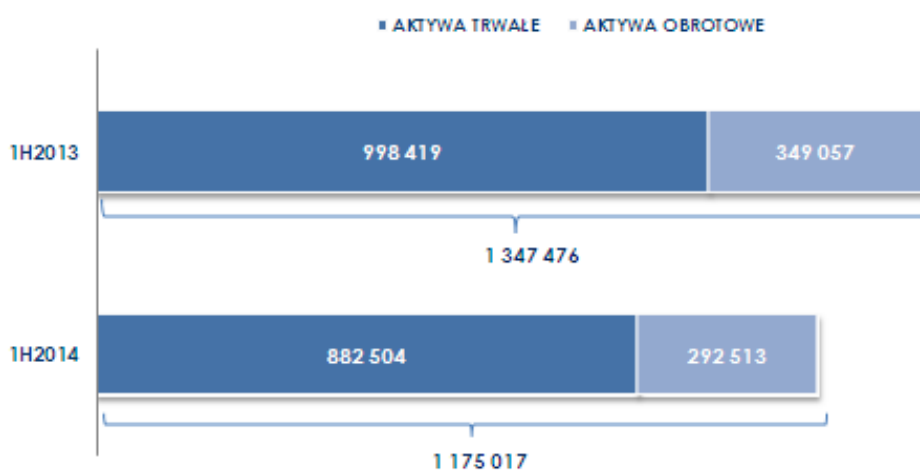
III. ASSETS, FINANCIAL STANDING AND FUNDING OF THE ASSETS

1. Assets

The asset structure changed during the period under review. As at the end of H1 2014, non-current assets accounted for 75% of total assets, which represented a 1% increase year on year. In H1 2014, the share of current assets in total assets decreased to 25% year on year. Investments in subsidiaries (notably the equity interest in RAFAKO S.A.) was the largest item of non-current assets, accounting for 71% of total non-current assets. The second largest item of non-current assets, representing 13% of their value, were non-current loans advanced, mainly loans advanced to PBG Dom and registered investment certificates issued by the closed-end investment fund Dialog Plus.

During the period under review, the structure of current assets also changed. Current loans advanced had the largest share in current assets in H1 2014, and accounted for 43% of total current assets. Trade and other receivables, with a 25% share in total current assets, were the second largest item.

Figure 7: Assets (PLN '000)



AKTYWA TRWAŁE	NON-CURRENT ASSETS
AKTYWA OBROTOWE	CURRENT ASSETS

Figure 8: Largest items of assets (PLN '000)

Table 19: Asset ratios (%)

NAME	FORMULA	H1 2014	H1 2013
Basic asset structure ratio	$(\text{non-current assets} / \text{current assets}) * 100$	302%	286%
Non-current assets to total assets	$(\text{non-current assets} / \text{total assets}) * 100$	75%	74%
Current assets to total assets	$(\text{current assets} / \text{total assets}) * 100$	25%	26%
Inventories to current assets	$(\text{inventories} / \text{current assets}) * 100$	0.39%	0.41%
Current receivables to current assets	$(\text{current receivables} / \text{current assets}) * 100$	42%	42%

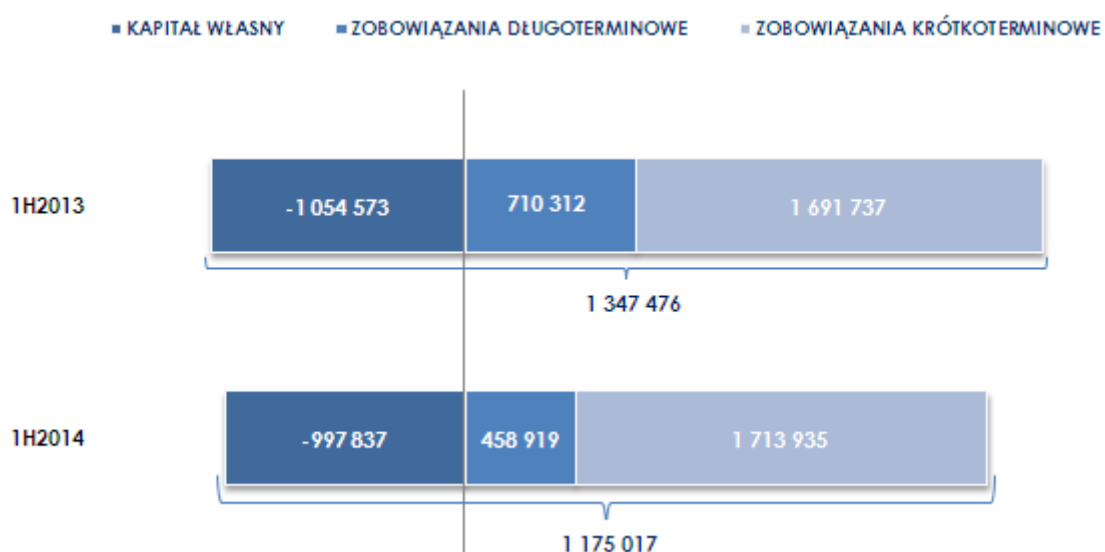
The basic asset structure ratio is discussed in detail in Section 1.5, Section VI.

There were significant changes in the value of particular items of assets and in the structure of total assets. In H1 2014, non-current assets were down 12% year on year. A decrease was also seen in current assets, which fell 16%. As at the end of H1 2014, the share of non-current assets in total assets increased by 1% year on year. At the same time, the share of current assets in the Company's total assets dropped to 25%.

2. Equity and liabilities

In the reporting period, as in the corresponding period of the previous year, equity was negative. The share of non-current liabilities in the balance-sheet total changed, as the value of non-current liabilities was down PLN 251m year on year, and totalled PLN 459m. The share of current liabilities in the balance-sheet total rose. As at the end of H1 2014, current liabilities amounted to PLN 1.714bn, up 1.3pp on PLN 1.692bn reported in the corresponding period of the previous year. In non-current liabilities, other non-current provisions of PLN 453m represented the largest item. The largest item of current liabilities were borrowings and other debt instruments, which amounted to PLN 1.212bn.

Figure 9: Equity and liabilities (PLN '000)



Kapitał własny	Equity
Zobowiązania długoterminowe	Non-current liabilities
Zobowiązania krótkoterminowe	Current liabilities

Figure 10: Largest items of equity and liabilities (PLN '000)



Zobowiązania z tytułu dostaw i usług oraz pozostałe zobowiązania	Trade and other payables
Zyski zatrzymane	Retained earnings
Pozostałe rezerwy krótkoterminowe	Other current provisions
Krótkoterminowe kredyty, pożyczki i inne instrumenty dłużne	Current borrowings and other debt instruments
Pozostałe rezerwy długoterminowe	Other non-current provisions
Pozostałe kapitały	Other components of equity
Kapitał zapasowy ze sprzedaży akcji powyżej ich wartości nominalnej	Share premium

IV. STATEMENT OF CASH FLOWS

Table 20: Cash flows (PLN '000)

	H1 2014	H1 2013
Net cash from operating activities	-47,311	-50,507
Net cash from investing activities	+9,249	+7,849
Net cash from financing activities	-22,391	-796
Net cash at the end of the period	+39,352	+51,777

In H1 2014, cash flows from operating activities generated by PBG were negative at PLN -47.3m. In the period under review, net cash from investing activities was positive at PLN 9.2m. In the reporting period, the Company did not advance any loans and received loan repayments of PLN 7.51m. Net cash from financing activities in 2013 was negative at PLN -22.4m. The Company did not incur any bank borrowings in the reporting period, but repaid a total of PLN 21.5m to its creditors whose claims were secured on tangible property, in line with arrangements made (see Current Report No. 11/2013, No. 23/2013 and No. 32/2013).

Table 21: Cash flow profile

	H1 2014	H1 2013
Net cash from operating activities	-	-
Net cash from investing activities	+	+
Net cash from financing activities	-	-
Net cash at the end of the period	+	+

V. NET DEBT

Table 30: Data used by PBG to compute net debt (PLN '000)

	H1 2014	H1 2013	Y-o-y change
Non-current bank and other borrowings	0	0	-
Current bank and other borrowings	1,211,611	1,245,176	-2,204
Non-current finance lease liabilities	4,850	5,505	-689
Current finance lease liabilities	655	686	-15
Bonds	838,772	838,772	0
Net cash	39,352	51,777	-11,276
Net debt	2,016,536	2,038,362	+8,368

As at June 30th 2014, net debt was PLN 2.017bn, having decreased slightly year on year. This amount comprises interest-bearing debt, including PLN 1,212m in current borrowings, PLN 4.9m in non-current finance lease liabilities, PLN 0.7m in current finance lease liabilities, and PLN 839m in bonds. Net cash of PLN 39m as at the end of H1 2014 was deducted from these amounts.

Given that the Company was declared insolvent in voluntary arrangement, its liabilities incurred prior to the Court's decision declaring it insolvent (June 13th 2012) are not measured at amortised cost but at nominal value, increased by interest accrued to the date of the Court declaration (in accordance with the Bankruptcy and Restructuring Law), save for interest on liabilities secured on tangible property, which continue to accrue after the date of insolvency declaration (June 13th 2012), in accordance with the Bankruptcy and Restructuring Law. Other liabilities incurred after the court's decision declaring the Company insolvent in voluntary arrangement are measured at amortised cost.

VI. INVESTMENTS

1. Equity investments

In H1 2014, PBG did not make any equity investments.

2. Expenditure on property, plant and equipment

In H1 2014, PBG did not incur any capital expenditure on property, plant and equipment.

3. Feasibility of the Company's investment plans in 2014

Given the current difficult financial position of the Company, no major equity investments or expenditure on property, plant and equipment are planned. It may, however, prove necessary to incur expenditure on property, plant and equipment required for the execution of contracts. With a view to raising additional funds, the Company intends to sell non-core assets.

VII. FINANCIAL OUTLOOK

Currently, PBG is in the process of company voluntary arrangement. Its expected financial condition and further operations to a large extent depend on the outcome of negotiations with financial institutions and other creditors. On June 12th 2013, the Company was notified that a list of claims had been delivered by the Court Supervisor to the Judge Commissioner. The total amount of the acknowledged claims placed in the list of claims by the court supervisor was PLN 2,776,254,806.77, which is in accordance with the Management Board's estimates. On July 4th 2013, the Judge announced that the drafting of the list of claims had been completed. On December 24th 2013, the Judge announced completion by the Court Supervisor of the first supplementary list of claims as at November 29th 2013. The total amount of the acknowledged claims included in the first supplementary list of claims by the Court Supervisor was PLN 191.25m. On May 28th 2014, the Judge announced completion by the Court Supervisor of the second supplementary list of claims as at April 22nd 2014. The total amount of the acknowledged claims included in the second supplementary list of claims by the Court Supervisor was PLN 89.7m. Subsequently, on August 13th 2014, the Judge announced completion of the third supplementary list of claims as at July 29th 2014. The total amount of the acknowledged claims included in the third supplementary list of claims by the

Court Supervisor was PLN 70.7m. The deadline for filing objections against the third list of claims was August 27th 2014. Currently, in accordance with the Bankruptcy and Restructuring Law of February 28th 2013, the process of examining objections against the first and second list of claims published on July 4th 2013, and revision of the claims included in the list, is underway.

VIII. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

The main objective of capital management at PBG is to maintain good credit ratings and safe equity ratios that can support the operations of the Company and increase its value for shareholders. To maintain or adjust their capital structure, the Company may usually contract bank borrowings, issue bonds, decide to pay dividend to shareholders, return capital to shareholders, or issue shares or bonds. Due to the Company's ongoing insolvency in voluntary arrangement proceedings, at the date of approval of this Report capital management cannot be performed unless the Company enters into an arrangement with the creditors. Currently, the Company's key objective is to enter into and execute arrangement with its creditors, which would enable the Company to continue its operations and rebuild its shareholder value in the future.

IX. SURETIES AND GUARANTEES GRANTED AND RECEIVED

As at June 30th 2014, the Company disclosed contingent liabilities recognised as off-balance-sheet items, including guarantees and sureties issued to related entities and other entities, of PLN 1,294,552 thousand.

The contingent liabilities pertain to liabilities under sureties issued for credit facilities and trade payables, guarantees and sureties issued for third parties by the Company, as well as liabilities under guarantees issued at the request of the Company to third parties.

In compliance with IAS 37, as at December 31st 2012 the Company estimated and recognised a global provision for potential liabilities which may result in a future outflow of cash. The provision related to the Company's liabilities under joint and several liability for third parties, arising in connection with sureties and guarantees issued by the Company for the benefit of other parties. The value of the provision was estimated based on the amount of contingent liabilities recorded by the Company prior to the Court's decision declaring the Company insolvent with an arrangement option, i.e. as at June 13th 2012. The provision, established in accordance with the relevant assumptions, amounted to PLN 780,000 thousand.

Following the Company's submission of revised arrangement proposals to the Court on September 30th 2013 and the Company becoming aware that a part of its off-balance-sheet liabilities had extinguished due to the expiry of corresponding financial products, as at December 31st 2013 the Company, acting in accordance with IAS 8, revised the underlying estimates and reversed the provision in the portion above the amount of PLN 444,555 thousand. Prior to the reduction by the amount of provision, the value of contingent liabilities carried by PBG S.A. w upadłości układowej (in company voluntary arrangement) as at June 30th 2014 was PLN 1,739,107 thousand.

The final review of liabilities, including contingent liabilities, will be carried out by the Court during the final assessment of claims submitted by trading partners.

X. GOING CONCERN ASSUMPTION

The Parent's current financial position puts in question its ability to continue as a going concern. However, the financial statements were prepared on the assumption that the Parent would continue as a going

concern in the foreseeable future, i.e. for at least 12 consecutive months from the date of preparation of these financial statements. This assumption was made due to the Parent's ongoing bankruptcy proceedings with an arrangement option, and the Management Board's efforts to arrange with the creditors and ensure that the Company may continue its business activities.

The Management Board wishes to indicate that, should the going concern assumption prove incorrect, the financial statements would have to reflect certain adjustments to the carrying amounts and classification of the Company's assets and liabilities which could be required if the Company were unable to continue its operations in the foreseeable future.

Below, the Company's Management Board presents the circumstances suggesting that the Company's and its Group's ability to continue as going concerns may be at risk, as well as the steps taken in order to mitigate the risk.

On June 4th 2012, the Parent's Management Board made a decision to file for insolvency with an arrangement option (grounds for the decision were presented in the Company's financial statements for 2012). On June 13th 2012, the District Court for Poznań–Stare Miasto in Poznań, 11th Commercial Insolvency and Arrangement Division, declared the Company insolvent, in a voluntary arrangement. The Court's decision became final on June 22nd 2012. Overall, twelve companies of the PBG Group filed petitions for insolvency with an arrangement option. The decision to make their filings almost simultaneously was prompted by the fact that the companies had provided cross guarantees to secure the repayment of bank loans and trade creditors, and (in some cases) assumed joint and several liability under consortium-delivered contracts. The formal and legal circumstances and the financial condition of the companies undergoing insolvency proceedings are very difficult, which affects both their operating activities (for instance, their ability to secure new contracts) and the highly complex restructuring processes.

The voluntary arrangement procedure ensures proper satisfaction of the Creditors' claims following approval and implementation of the arrangement. Since 2012, the Company's Management Board has been actively involved in negotiations with the Creditors. The negotiations concern terms of debt repayment, including repayment periods, amounts and forms. During this time, the Creditors involved in financing the Company's or other Group companies' operations and representing the largest group of Creditors have been presented with a plan of the operational and asset restructuring of the Company. The plan has been prepared by the Company and its financial adviser PwC Polska Sp. z o.o. Moreover, on September 3rd 2013, the Management Board and its legal adviser Weil, Gotshal & Manges, Paweł Rymarz Sp. k. completed work on preparation of the restructuring documents, including a draft of the Restructuring Agreement and Arrangement Proposals, which, upon approval by competent corporate bodies, were presented to the Creditors, as announced by the Company in Current Report No. 24/2013. Pursuant to the currently tabled Arrangement Proposals, the Company's Creditors are to be satisfied in seven groups, depending on the category of interest they represent and the type and amount of their claims. The Creditors will be divided into categories of interest in accordance with the Bankruptcy and Restructuring Law. The full text of the draft restructuring documents is available on the Company's website at www.pbg-sa.pl in the 'Restructuring' section.

In parallel to the debt restructuring, operational and asset restructuring efforts have also been undertaken.

The PBG Management Board believes that the arrangement would enable the Company to continue its day-to-day operations, which in turn would protect interests of the Creditors (in particular those with smaller claims), and would also help protect important social interests: jobs, interests of subcontractors, interests of project sponsors (awaiting performance of strategic contracts), and interests of local communities.

In the opinion of the Company's Management Board, the proper performance of the arrangement agreement is guaranteed by:

- restructuring of Company's non-operating non-current assets, the sale of which will constitute one of the sources of payments to be made under the arrangement;
- divestment of the PBG Group's property development and other investment projects;
- ability to bid for profitable contracts in the power construction sector, based on cooperation with RAFAKO S.A., PBG's subsidiary;
- winning new contracts in the oil and gas sector, which is the strategic segment of PBG's operations.

CONTACT DETAILS

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SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

President of the Management Board	Jerzy Wiśniewski
Vice-President of the Management Board	Kinga Banaszak – Filipiak
Vice-President of the Management Board	Paweł Mortas
Vice-President of the Management Board	Mariusz Łożyński
Member of the Management Board	Bożena Ciosk