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**DIRECTORS’ REPORT ON THE OPERATIONS OF PBG SA W UPADŁOŚCI UKŁADOWEJ (IN COMPANY VOLUNTARY ARRANGEMENT)**

**for the period January 1st – December 31st 2013**

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SECTION I: CORPORATE GOVERNANCE REPORT

PBG PUBLISHED THE CONSOLIDATED TEXT OF THE STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES ON ITS WEBSITE AT:

<http://www.pbg-sa.pl/relacje-inwestorskie/lad-korporacyjny/lad-korporacyjny-na-gpw.html>

I. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

1. Corporate governance principles adopted by PBG

PBG adopted the corporate governance principles set forth in the Code of Best Practice for WSE Listed Companies published at <http://www.corp-gov.gpw.pl>, adopted by the WSE Supervisory Board on November 21st 2012, effective as of January 1st 2013.

1. Corporate governance principles which PBG did not comply with

The PBG Management Board represents that in 2013 the Company complied with the recommendations set forth in Section I, and with the applicable corporate governance principles set forth in Sections II−IV of the Code of Best Practice for WSE Listed Companies, except for:

1. Recommendation I.5: In 2013, the Company did not implement the recommendation regarding establishing the principles of remuneration policy in relation to management and supervisory bodies. The rules of remuneration of the Supervisory Board were set out in a resolution of the Extraordinary General Meeting of PBG of December 10th 2005. The amount of remuneration depends on the responsibilities and tasks assigned to individual Supervisory Board members. The amount of remuneration paid to members of the Management Board is determined by the Supervisory Board by way of a resolution. The remuneration amount depends on the scope of duties and responsibilities assigned to the individual Management Board members;
2. Recommendation I.9: The Company appoints Supervisory and Management Board members on the basis of their respective qualifications: experience, professionalism and expertise. Decisions regarding the appointment of management and supervisory personnel are left for the discretion of the Company’s relevant bodies and are made solely on the basis of criteria stated above. Although the recommendation was not implemented, the share of women in the Company’s governing bodies is rising.

In 2013, composition of the Supervisory Board was as follows:

* in the period from January 1st to June 21st 2013 − one woman, four men,
* in the period from June 21st to December 31st 2013 − one woman, six men,

and the composition of the Company’s Management Board was as follows:

* in the period from January 1st to March 18th 2013 − one woman, three men,
* in the period from January 1st to December 31st 2013 − two woman, three men;

1. Recommendation I.12: In 2013, as in the previous years, the Company did not implement the recommendation regarding on-line broadcasting of General Meetings due to inadequate IT infrastructure. However, the Company publishes the recordings on its website. The Company may begin to webcast its General Meetings in the future.
2. Best practice IV.10: The Company did not comply with this principle due to significant risk related to the quality of its IT infrastructure (similarly to item 2.c) above).

3. Key features of the company’s internal control and risk management systems used in the preparation of separate and consolidated financial statements

See Section II, Report on Risk and Control, page 36.

4. Shareholders directly or indirectly holding significant blocks of shares, with information on the number of shares and percentages of the Company’s share capital held by such shareholders, and the numbers of votes and percentages of the total vote that such shares represent at the General Meeting

See Section V, Shares and Shareholders, page 61.

5. Holders of any securities conferring special control rights, and description of those rights

See Section V, Shares and Shareholders, page 65.

6. Any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company’s cooperation, the financial rights attaching to securities are separated from the holding of securities

See Section V, Shares and Shareholders, page 65.

7. Rules governing the appointment and removal of the Company’s management personnel and such personnel’s powers, including in particular the power to make decisions to issue or buy back shares

**PBG Management Board**

The Management Board acts pursuant to the Commercial Companies Code, the Company’s Articles of Association and the Rules of Procedure for the Management Board. The scope of powers of the Management Board includes any matters which are not reserved for other governing bodies of the Company under the provisions of the Commercial Companies Code or the Company’s Articles of Association.

Pursuant to the provisions of the Articles of Association currently in effect (Par. 37), the PBG Management Board consists of the President, one to four Vice-Presidents and up to three Members, appointed and removed from office by the Supervisory Board. The Supervisory Board appoints the President of the Management Board, and subsequently at the President’s request, appoints Vice-Presidents and Members of the Management Board. Only natural persons who have full capacity to enter into legal transactions may become members of the Management Board.

Two Vice-Presidents acting jointly, a Vice-President acting jointly with a Member of the Management Board, a Vice-President acting jointly with a Proxy or a Member of the Management Board acting jointly with a Proxy are authorised to represent the Company. The President of the Management Board acting individually is authorised to represent the Company. The Management Board may grant powers of attorney (general powers of attorney, powers of attorney to perform specific types of activities, and powers of attorney to perform a specific activity) to act on behalf of the Company.

In accordance with the Articles of Association, the Management Board may grant powers of proxy upon consent of all Members of the Management Board. A power of proxy may be revoked by any Member of the Management Board acting individually. However, due to the fact that the Company filed the petition for insolvency with arrangement option, the previously granted proxies automatically expired, and since the judicature concerning granting powers of proxy by management boards of companies in insolvency with arrangement option is ambiguous, the procedure requires approval by a Court Appointed Receiver and Judge Commissioner.

Acting in the best interest of the Company, the Management Board sets forth the strategy and the main objectives of the Company’s operations, and submits them to the Supervisory Board for approval. The Management Board is responsible for implementation and performance of the same. The Management Board is responsible for transparency and effectiveness of the Company's management system and the conduct of its business in accordance with legal regulations and best practice.

Members of the Management Board are appointed, removed from office and suspended from duties by the Supervisory Board in accordance with the rules set forth in the Commercial Companies Code and the Company’s Articles of Association. Candidates are nominated by the President of the Management Board. The Supervisory Board enters into and terminates employment contracts with Members of the Management Board. The Chairperson or Deputy Chairperson of the Supervisory Board is authorised to execute such contracts on behalf of the Supervisory Board. Other actions concerning the employment relationship with Members of the Management Board are dealt with in the same manner.

The Supervisory Board determines remuneration for Members of the Management Board, taking into account the remuneration’s incentivising function in ensuring effective management of the Company.

Mandate of a Management Board Member expires:

1. upon removal of a given Member from the Management Board,
2. on the date of the General Meeting approving the financial statements for the last full financial year during the term of office,
3. upon death,
4. upon resignation.

Resignations by Members of the Management Board should be submitted to the Supervisory Board, with a copy for the Management Board.

Without the consent of the Supervisory Board, a Management Board Member may not:

1. conduct any activity competitive to the Company’s business,
2. be a partner in any partnership under civil law or another type of partnership, or a member of a governing body of an incorporated company or a member of the governing body of any other competitive legal entity,
3. participate in a competitive company in which a given Member holds at least 10% of shares or rights entitling that Member to appoint at least one member of the management board.

A Management Board Member is obliged to immediately notify the Supervisory Board of the occurrence of the circumstances specified above. The Management Board Member should remain fully loyal to the Company and refrain from taking any actions which could lead to the gaining of personal profits only. If the Member of the Management Board receives information on the possibility of investment or any other profitable transaction concerning the Company’s business, such Member should promptly present the information to the Management Board so that it can be considered in terms of its possible use by the Company. The use of such information by a Member of the Management Board or its conveying to a third party may only take place with the Management Board’s consent and only if it does not infringe upon the Company’s interest. Members of the Management Board should notify the Supervisory Board of each actual or potential conflict of interests in relation to the position they hold. A Member of the Management Board should treat its shareholding in the Company as a long-term investment.

Any activities which are beyond the scope of ordinary management require adoption of a resolution by the Management Board. In particular, the following matters require a resolution to be adopted by the Management Board:

1. decisions regarding major investment projects and the manner of their financing,
2. outlining the Company’s strategic development plans and setting the Company’s financial targets,
3. definition of the Company’s organisational structure,
4. definition of the Company’s rules of procedure and other internal regulations,
5. internal division of powers between individual Members of the Management Board,
6. outlining personnel and payroll policies, including assumptions underlying incentive schemes.

Until the closing of arrangement proceedings, resolutions of the Management Board on matters which go beyond the ordinary management activities, require approval of the Court Appointed Receiver.

With respect to all matters not listed above, Members of the Management Board should be responsible for managing the Company’s affairs individually, as per the division of powers. Board are obliged to promptly notify the Supervisory Board of any hindrance in their performance of duties. The President of the Management Board will decide which other Management Board Member will perform the duties instead.

**Supervisory Board**

The Supervisory Board acts pursuant to the Commercial Companies Code, the Company’s Articles of Association and the Rules of Procedure for the Supervisory Board

The Supervisory Board is composed of no less than five Members appointed by the General Meeting by way of a secret ballot for a one-year term of office. The Supervisory Board Members’ mandates expire on the date of the General Meeting which approves the financial statements for the previous full financial year when the Members held the office.

Members of the Supervisory Board may be re-elected. The Supervisory Board is comprised of independent members, the criteria of their independence are provided for in the relevant laws or regulations contained in documents on public companies that specify the rules of corporate governance.

A member of the Supervisory Board is deemed to be independent if:

1. they are not employed by the Company or Related Entity;
2. they are not a member of the supervisory and management bodies of a Related Entity;
3. they are not a shareholder holding at least 5% of votes at a General Meeting of the Company or Related Entity;
4. they are not a member of the supervisory and management bodies or employee of an entity holding at least 5% of votes at a General Meeting of the Company or Related Entity;
5. They are not a parent, child, spouse, sibling or parent of a spouse, and not adopted by, any of the persons referred to in above points.

The Supervisory Board exercises ongoing supervision over the Company’s business, across all areas of its operations. It submits annually a brief assessment of the Company’s standing, as established by the Supervisory Board, to the General Meeting.

The Supervisory Board’s approval is required in particular for the following:

1. acquisition of a business or of an organised part thereof,
2. opening or closing Company branches in Poland and abroad,
3. assumption of liability for third party obligations (sureties, guarantees and avals) whose value exceeds the Company’s share capital; however, assumption of liability for obligations of the Group companies does not require such approval,
4. conduct by Members of the Management Board of activities competitive to the Company’s business and participation in competing companies as a general partner or member of the governing bodies,
5. acquisition, subscription for, disposal of and resignation from pre-emptive rights to, shares, except shares in public companies whose number does not exceed 1% of their total number,
6. payment of interim dividend,
7. provision by the Company of any benefits to Members of the Management Board, other than benefits under the employment relationship,
8. execution by the Company or its subsidiary of a significant agreement with a related party (except agreements executed with the Group companies), as supervisory board member, a management board member or their related parties,
9. acquisition or disposal of real estate, perpetual usufruct, or of an interest in real estate.
10. appointment of the auditor;
11. acting on behalf of the Company in agreements and disputes between the Company and Management Board members,
12. approval of the Rules of Procedure for the Management Board,
13. appointment and removal from office of Management Board members,
14. issuing opinions on matters submitted by the Management Board.

In order to discharge its duties, the Supervisory Board may review each area of the Company’s activities, request the Management Board and employees to provide reports and clarifications, review the Company’s assets, and inspect accounts and documents. Members of the Supervisory Board should receive regular and exhaustive reports on all matters of importance and risks connected with the Company’s operations, as well as manner of managing such risks. In case of issues which need immediate attention, the Management Board informs the Members of the Supervisory Board by circulation (in writing). In such situations, the President or two Vice-Presidents acting jointly, a Vice-President acting jointly with a Management Board Member, a Vice-President acting jointly with a Proxy, or a Management Board Member acting jointly with a Proxy submit information in writing to the Chairperson of the Supervisory Board.

A Supervisory Board Member should immediately notify the Chairperson of any hindrance in his or her performance of duties, stating the reasons for such hindrance.

A Supervisory Board Member should notify other Supervisory Board Members without undue delay of:

1. an actual conflict of interests with the Company. In such a case, the Supervisory Board Member should refrain from expressing opinions or voting on adoption of resolutions concerning the matter which has given rise to the conflict of interests. Information on the conflict of interests so reported should be recorded in the minutes of the Supervisory Board meeting,
2. personal and factual relationships or organisational links between a Supervisory Board Member and a particular shareholder, especially the majority shareholder, which may affect the Company’s affairs.

A personal relationship with a shareholder is understood as a relationship by marriage or blood of the first degree. A factual relationship is understood as maintaining regular economic relations. Organisational links with a shareholder are understood as links under employment or similar contracts. The Company may request a Supervisory Board Member to furnish a statement regarding such relationships and links.

## 8. Rules governing amendments to the Company’s Articles of Association

An amendment to the Company’s Articles of Association requires:

* General Meeting’s resolution adopted by at least three-fourths (3/4) of the votes cast ([Art. 415 of the Commercial Companies Code](http://prawo.panoramainternetu.pl/acms/prawo/materialy/kodeksy/ksh/ksh_t3_d2_r3.php?catid=|2|1|1|1|#415)), in the form of a notarial deed (a material change in the Company’s business requires a resolution adopted by at least two-thirds (2/3) of the votes ([Art. 416 of the Commercial Companies Code](http://prawo.panoramainternetu.pl/acms/prawo/materialy/kodeksy/ksh/ksh_t3_d2_r3.php?catid=|2|1|1|1|#416)),
* an entry in the National Court Register ([Art. 430 of the Commercial Companies Code](http://prawo.panoramainternetu.pl/acms/prawo/materialy/kodeksy/ksh/ksh_t3_d2_r4.php?catid=|2|1|1|1|#430)).

In 2012, the Company’s Articles of Association were amended under resolution No.6 par.11 and resolution No. 7 of the Annual General Meeting dated June 28th 2012.

The amendments to the Company's Articles of Association were published in Current Reports No. 18/2012 and 22/2012 (the reports are available at [http://www.pbg-sa.pl/relacje-inwestors​kie/raporty-biezace.html#!/2012](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace.html#!/2012)) and consisted in:

* **Adding Par. 9.3 in the Company's Articles of Association:**

**Resolution No. 6**

**of the Extraordinary General Meeting of**

**PBG S.A. of Wysogotowo**

**dated April 3rd 2012**

**concerning the issue of Series A1 through A12 bonds convertible into Series H shares, issue Series H shares as a part of a conditional share capital increase; to waive pre-emptive rights of the existing shareholders with respect to Series A1 through A12 bonds convertible into Series H shares and Series H shares, and amend the Company's Articles of Association.**

**(…)**

**Par. 11.**

This General Meeting resolves to amend the Company's Articles of Association so that Par. 9.3 of the Company's Articles of Association shall be added, reading as follows:

*“The Company share capital has been conditionally increased by no more than PLN 14,295,000.00 (fourteen million two hundred ninety five thousand Polish złoty) through an issue of no more than 14,295,000 ordinary (fourteen million two hundred ninety five thousand) bearer Series H shares with a par value of PLN 1.00 per share. The conditional share capital increase has been effected to grant rights to acquire Series H shares to holders of convertible Series A1 through A12 bearer bonds, with the pre-emptive rights of the Company's existing shareholders waived.”*

* **Par. 10.1 of the Company's Articles of Association**

**Resolution No. 7**

**of the Extraordinary General Meeting of**

**PBG S.A. of Wysogotowo**

**dated April 3rd 2012**

**concerning amendments to the Company’s Articles of Association**

**Par. 1.**

Pursuant to Art. 430.1 of the Commercial Companies Code, the Extraordinary General Meeting of PBG S.A. of Wysogotowo (the “**Company**”) amends the Company's Articles of Association so that **Par. 10.1 of the Company's Articles of Association** shall read as follows:

*3,740,000 of Series A shares are registered shares, and 1,960,000 of Series A shares are bearer shares.*

**9. Manner of operation of the General Meeting and its key powers; shareholders’ rights and the manner of exercising those rights, including in particular the principles stipulated in the rules of procedure of the General Meeting**

**9. 1 Manner of operation of the General Meeting**

The manner of operation of the General Meeting is governed by the Rules of Procedure of the Company’s General Meeting. A shareholder may participate in the General Meeting if he/she has submitted to the Company a registered share certificate issued by the entity operating the shareholder’s securities account not later than one week prior to the date of the General Meeting and such certificate is not collected by the shareholder prior to the conclusion of the General Meeting. The General Meeting is valid if shareholders present at the Meeting represent at least a half of the share capital. Members of the Supervisory Board should also be present. Absence of any member of those bodies must be explained at the General Meeting.

The Company’s auditor should participate in the Annual General Meeting and in any Extraordinary General Meeting whose agenda includes discussion of the Company’s financial matters. Experts and invited guests may participate in relevant parts of the Meeting, especially if their participation is advisable, given the need to present to the General Meeting opinions on the matters discussed. The Company’s Articles of Association provide for convening general meetings at which shareholders may cast their votes using an electronic voting system. Decisions regarding the use of such systems and the use of electronic means of communication during the General Meeting shall each time be taken by the Management Board.

The Chairperson of the General Meeting presides over proceedings of the Meeting, in line with the adopted agenda and in compliance with the applicable regulations, the Company’s Articles of Association and the Rules of Procedure of the General Meeting. The Chairperson may not at his/her sole discretion remove items from the published agenda of the Meeting, rearrange items in the agenda or include in the agenda important matters which were not in the agenda originally communicated to the Shareholders. Upon presentation of each item in the agenda, the Chairperson prepares a list of persons who have registered for discussion and – upon closing the list – opens the discussion, giving the floor in the order the speakers registered for the discussion. The Chairperson closes the discussion at his/her sole discretion. The Chairperson may give the floor to members of the Supervisory Board and Management Board and invited experts who may speak out of turn. Participants of the meeting may take the floor exclusively on the matters on the agenda which are currently under discussion. For the purposes of discussing any individual matter, the Chairperson may limit each participant’s speaking time, including the time for speech in reply. The above limitation may not be applied to a member of the Supervisory Board or Management Board and invited experts. The Chairperson decides whether to lengthen the speaking time or give the floor again to the given speaker.

Each participant of the General Meeting has the right to put questions to the Management Board, Supervisory Board and the auditor on the matters in the agenda which are currently under discussion. Members of the Management Board, Supervisory Board and the Company’s auditor are obliged to answer the questions. While answering such questions, it should be noted that the Company is required to observe the disclosure requirements under the regulations governing the trade in financial instruments. Forthwith upon closing the discussion, the Chairperson puts a formal motion to vote. At a participant’s request, his/her written statement is included in the minutes of the meeting.

The General Meeting’s resolutions are adopted by way of an absolute majority of votes cast, unless absolutely binding laws or the Company’s Articles of Association require that a given resolution be adopted by a qualified majority.

Shareholders may vote at the General Meeting by postal ballot, using a form published by the Management Board on the Company's website, pursuant to the relevant provisions of law. The postal vote shall be deemed valid if it is submitted to the Company not later than during voting at the General Meeting. Postal ballot requires the voter to provide signature compliant with the specimen signature submitted to the Company, confirmed by the notary public.

### 9.2 Key powers of the General Meeting

### According to Par. 28 of the Articles of Association of PBG, the matters requiring the General Meeting’s resolution include:

1. review and approval of the annual financial statements of the Company and the Directors’ Report on the Company’s operations for the previous financial year,
2. approval of discharge of duties by members of the Supervisory Board and Management Board,
3. distribution of profit or determination of means for covering losses;
4. any decisions concerning claims for remedy of damage inflicted in the establishment of the Company or in the exercise of supervision or management;
5. sale or lease of the business or of an organised part thereof or making it available for use by a third party;
6. issue of bonds convertible into shares or bonds conferring pre-emptive rights,
7. defining the rules and amounts of remuneration of the Supervisory Board Members,
8. appointment and removal from office of Supervisory Board members,
9. setting the dividend record date,
10. creation, each instance of application, and liquidation of capital reserves.

### 9.3 Shareholders’ rights and the manner of exercising those rights

According to the Rules of Procedure of the PBG General Meeting:

1. A shareholder may participate in the General Meeting and exercise his/her voting rights personally, through a proxy or another representative. Powers of proxy to act on behalf of a Shareholder should be granted in writing under the pain of nullity and attached to the minutes of the General Meeting. Other representatives should duly document their authority to act on behalf of Shareholders.

2. The General Meeting elects its Chairperson from among the participants.

3. The Management Board convenes annual or extraordinary General Meetings. If the Management Board fails to adopt a resolution to call the Annual General Meeting before the lapse of the fifth month as from the end of the last financial year or convenes the Annual Meeting for a date later than the deadline specified in item 2, then the right to convene the Annual General Meeting shall also extend to the Supervisory Board. Shareholders representing at least a half of the share capital or at least a half of the total vote in the Company also have the right to convene the General Meeting and to appoint the Meeting's Chairperson.

A Shareholder or Shareholders representing at least one-twentieth of the share capital may request that the Extraordinary General Meeting be convened and certain items be included in the agenda of the Meeting. The request shall be submitted to the Management Board in a written or electronic form. If the Extraordinary General Meeting is not convened within two weeks after the submission of such request to the Management Board, the registry court may authorise the Shareholders submitting the request to convene the Extraordinary General Meeting.

4. Each participant of the General Meeting has the right to put questions to the Management Board, Supervisory Board and the auditor on the matters in the agenda which are currently under discussion.

5. Each participant of the General Meeting may submit a motion concerning a procedural matter. The Chairperson may allow participants to speak out of turn on procedural matters. At a participant’s request, his/her written statement is included in the minutes of the meeting.

6. Shareholders may propose amendments to the agenda of the General Meeting, and draft resolutions, pursuant to the provisions of the Commercial Companies Code.

**10. Composition and activities of the issuer’s management, supervisory and administrative bodies or of their committees; changes in their composition in the last financial year**

**10.1 Composition and activities of the Supervisory Board and its committees**

Composition of the Supervisory Board of the sixth term (beginning of the term: June 28th 2011)

in the period from **January 1st** to **June 21st 2013**:

Jerzy Wiśniewski – Chairman of the Supervisory Board;

Maciej Bednarkiewicz – Deputy Chairman of the Supervisory Board;

Małgorzata Wiśniewska – Secretary of the Supervisory Board;

Dariusz Sarnowski – Member of the Supervisory Board;

Przemysław Szkudlarczyk – Member of the Supervisory Board;

On June 21st 2013, the Annual General Meeting of PBG appointed the following persons to the Supervisory Board of the seventh term:

Jerzy Wiśniewski – Chairman of the Supervisory Board;

Maciej Bednarkiewicz – Deputy Chairman of the Supervisory Board;

Małgorzata Wiśniewska – Secretary of the Supervisory Board;

Dariusz Sarnowski – Member of the Supervisory Board;

Przemysław Szkudlarczyk – Member of the Supervisory Board;

Stefan A. Gradowski – Member of the Supervisory Board;

Norbert Słowik – Member of the Supervisory Board.

**By the date of audit of these financial statements, the composition of the Supervisory Board did not change.**

|  |  |
| --- | --- |
| **Full name** | **Jerzy Wiśniewski** |
| **Position** | ***Chair of the Supervisory Board***  ***Non-independent Member of the Board − founding shareholder; Mr Wiśniewski does not conduct any activity competitive to the business of PBG S.A.***  ***Member of the Remuneration Committee*** |
| **Qualifications** | * Poznań University of Technology – Faculty of Civil Engineering * MBA – Rotterdam School of Management * Canadian International Management Institute – management programme |
| **Experience** | * PGNiG S.A. – manager in charge of gas transmission system operation * PBG S.A. – founder, main shareholder, President of the Management Board, and Member of the Supervisory Board |

|  |  |
| --- | --- |
| **Full name** | **Maciej Bednarkiewicz** |
| **Position** | **Deputy Chair of the Supervisory Board**  ***Independent Member of the Board; Mr Bednarkiewicz does not conduct any activity competitive to the business of PBG S.A.***  ***Member of the Remuneration Committee*** |
| **Qualifications** | * University of Warsaw – Faculty of Law |
| **Experience** | * Member of the 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, Deputy Chairman of the Supervisory Board |

|  |  |
| --- | --- |
| **Full name** | **Małgorzata Wiśniewska** |
| **Position** | **Secretary of the Supervisory Board**  ***Non-independent Member of the Board; Ms Wiśniewska does not conduct any activity competitive to the business of PBG S.A.*** |
| **Qualifications** | * Poznań University of Technology – Faculty of Civil Engineering * MBA – Rotterdam School of Management * Canadian International Management Institute – management programme * Postgraduate programme on Management and Public Relations at the Faculty of Finance and Banking at the Poznań School of Banking. |
| **Experience** | * Assistant Designer at Przedsiębiorstwo Uprzemysłowione Budownictwa Rolniczego of Poznań * At PBG: Quality System Director, Public Relations Director, Member of the Management Board and Vice-President of the Management Board. * President of the Management Board of Poznańskie Stowarzyszenie Oświatowe since 1997 * 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 * President of the PBG Foundation |

|  |  |
| --- | --- |
| **Full name** | **Dariusz Sarnowski** |
| **Position** | **Since June 29th 2012, Member of the Supervisory Board; before that Secretary of the Supervisory Board**  ***Independent Member of the Board; Mr Sarnowski does not conduct any activity competitive to the business of PBG S.A.***  ***Member of the Audit Committee*** |
| **Qualifications** | * Poznań University of Economics – Accounting |
| **Experience** | * 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 PBG Supervisory Board since 2005. |

|  |  |
| --- | --- |
| **Full name** | **Przemysław Szkudlarczyk** |
| **Position** | ***Member of the Supervisory Board***  ***Non-independent Member of the Board; Mr. Szkudlarczyk does not conduct any activity competitive to the business of PBG***  ***Member of the Audit Committee*** |
| **Qualifications** | * 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** | * 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, Member of the Supervisory Board |

|  |  |
| --- | --- |
| **Full name** | **Stefan A. Gradowski** |
| **Position** | ***Member of the Supervisory Board***  ***Independent Member of the Board; Mr Gradowski does not conduct any activity competitive to the business of PBG*** |
| **Qualifications** | * Warsaw School of Economics * Completed several postgraduate programmes in organisation, management and finance at universities in Poland and abroad (e.g. University of Lyon, University of Dublin). |
| **Experience** | * BZ WBK S.A. – Adviser to the President of the Management Board * G.C. Consulting Sp. z o.o − owner of a consultancy business; * Member of the Supervisory Boards of MACOPHARMA Polska, LOOK Investment, ALTRECo S.A., and TRION S.A. |

|  |  |
| --- | --- |
| **Full name** | **Norbert Słowik** |
| **Position** | ***Member of the Supervisory Board***  ***Non-independent Member of the Board; Mr Słowik does not conduct any activity competitive to the business of PBG*** |
| **Qualifications** | * University of Łódź * Completed a Postgraduate European Programme in macroeconomics, microeconomics and EU law. * A certified consultant at the Centre for European Studies at the University of Łódź. * Graduated from the International School for Consultants run by the University of Łódź and the Lyon University in France. |
| **Experience** | * Legal counsel at the Central Planning Office * Manager and specialist at the PHARE – STRUDER programme management team at the Regional Development Agency of Łódź (Łódzka Agencja Rozwoju Regionalnego S.A.) * – Minister's legal counsel at the Office of the Committee for European Integration * – Director of the Cohesion Initiatives Department at the National Fund for Environmental Protection and Water Management * – Director for Strategy and Development at INFRA Sp. z o.o. * Co-owner and general partner at Norbert Słowik i Wspólnicy Spółka komandytowa |

Members of the Supervisory Board are elected for one-year terms, and their remuneration is determined by the General Meeting. The Supervisory Board is responsible for exercising on-going supervision over the Company’s activities in all aspects of its operations. Specific duties conferred on the Board include: assessment of the consistency of financial statements and Directors’ Reports with the accounting records and documents, as well as with facts; review of the Management Board’s proposals concerning profit distribution or coverage of loss; and presentation of written annual reports on findings of such reviews to the General Meeting.

The duties of and the rules for the Supervisory Board are contained in a formal document. The Board carries out its duties as a collective body, with some of its powers delegated to specific persons or committees, as described below.

The following committees operate within the PBG Supervisory Board:

1. Audit Committee;

2. Remuneration Committee.

In 2013, the Audit Committee consisted of:

* + Dariusz Sarnowski;
  + Małgorzata Wiśniewska,
  + Przemysław Szkudlarczyk.

The Audit Committee convenes on an ad hoc basis, at least once per quarter. In particular, the Committee is responsible for:

a) monitoring the financial reporting process;

b) monitoring the internal control, internal audit and risk management systems for their effectiveness;

c) monitoring the auditing procedures;

d) monitoring the independence of auditors and of entities qualified to review financial statements;

e) providing the Supervisory Board with a recommendation regarding an entity authorised to review financial statements and to perform auditing procedures.

In 2013, the Remuneration Committee consisted of:

* Maciej Bednarkiewicz;
* Jerzy Wiśniewski.

The Remuneration Committee convenes on an ad hoc basis, at least once per quarter. In particular, the Committee is responsible for:

* overall monitoring of the applied remuneration policies, and the levels of remuneration at the Company;
* defining terms and conditions of employment for members of the Company’s Management Board and management personnel;
* developing a bonus scheme for a given financial year.

**Remuneration of the Supervisory Board Members**

The amount of remuneration paid to members of the Supervisory Board is determined in the resolution of the Extraordinary General Meeting of PBG, dated December 10th 2005.

The amount of remuneration depends on the scope of duties and responsibilities of the individual Supervisory Board members delegated to independently perform supervisory functions.

Table 1: Remuneration of Supervisory Board members for holding office at the Parent

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration (PLN ’000)** | **Jan 1–Dec 31 2013** | | | **Jan 1–Dec 31 2012** | | |
| **Base**  **remuneration** | **Other benefits** | **Total** | **Base**  **remuneration** | **Other benefits** | **Total** |
| Jerzy Wiśniewski | 120 | 5 | 125 | 188 | 3 | 191 |
| Maciej Bednarkiewicz | 96 | - | 96 | 108 | - | 108 |
| Dariusz Sarnowski | 36 | - | 36 | 48 | - | 48 |
| Adam Strzelecki | - | - | - | 9 | - | 9 |
| Marcin Wierzbicki | - | - | - | 9 | - | 9 |
| Małgorzata Wiśniewska | 60 | 1 | 61 | 78 | 13 | 91 |
| Przemysław Szkudlarczyk | 36 | - | 36 | 18 | - | 18 |
| Andreas Madej | - | - | - | 9 | - | 9 |
| Piotr Bień | - | - | - | 9 | - | 9 |
| Andrzej Gradowski | 19 | - | 19 | - | - | - |
| Norbert Słowik | 19 | - | 19 | - | - | - |
| **TOTAL** | **386** | **6** | **392** | **476** | **16** | **492** |

Table 2: Remuneration of Supervisory Board members for holding office at subsidiaries, jointly-controlled entities or associates

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration (PLN’000)** | **Jan 1–Dec 31 2013** | | | **Jan 1–Dec 31 2012** | | |
| **Base**  **remuneration** | **Other benefits** | **Total** | **Base**  **remuneration** | **Other benefits** | **Total** |
| Jerzy Wiśniewski | 1,428 | 476\* | 1,904 | 208 | 142\* | 350 |
| Dariusz Sarnowski | 54 | - | 54 | - | - | - |
| Małgorzata Wiśniewska | 588 | - | 588 | 201 | - | 201 |
| Przemysław Szkudlarczyk | 240 | - | 240 | 116 | - | 116 |
| **TOTAL** | **2,310** | **476** | **2,786** | **525** | **142** | **667** |

***\*remuneration paid to Mr Wiśniewski in connection with his delegation to independently perform supervisory functions***

Table 3: Company shares or rights to the Company shares (options) held by PBG supervising personnel

|  |  |  |
| --- | --- | --- |
| **Supervising person** | **Number of shares** | |
| **As at Dec 31 2013** | **As at the filing date of this Report** |
| Jerzy Wiśniewski | 3,881,224 | 3,881,224 |
| Małgorzata Wiśniewska | 3,279 | 3,279 |
| Przemysław Szkudlarczyk | 2,390 | 2,390 |

### 10.2 Composition and manner of operation of the Management Board

The composition of the Management Board in the period from January 1st to December 31st 2013 was as follows:

* Paweł Mortas – President of the Management Board;
* Tomasz Tomczak – Vice-President;
* Mariusz Łożynski – Vice-President;
* Kinga Banaszak-Filipiak − Vice-President;
* Bożena Ciosk – Member of the Management Board as of March 18th 2013.

|  |  |
| --- | --- |
| **Full name** | **Paweł Mortas** |
| **Position** | **President of the Management Board since October 28th 2012** |
| **Qualifications** | * Łódź University, 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** | * 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 * PBG S.A. – Sales Organisation Director, President of the Management Board |
| **Field of expertise** | * Power construction |
| **Areas of responsibility at the PBG Group** | **Strategy and development** |

|  |  |
| --- | --- |
| **Full name** | **Tomasz Tomczak** |
| **Position** | **Vice-President of the Management Board** |
| **Qualifications** | * 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** | * 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** | * 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** | * Poznań University of Technology – Faculty of Civil Engineering |
| **Experience** | * 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; securing contracts for the PBG Group** |

|  |  |
| --- | --- |
| **Full name** | **Kinga Banaszak-Filipiak** |
| **Position** | **Vice-President of the Management Board until October 28th 2012** |
| **Qualifications** | * 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 Poznan 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** | * 1999 – at PTE Norwich Union S.A. of Warsaw as 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, holding successively the following positions: analyst, Investor Relations Manager, Research Director, Capital Market Relations Director, Investor Relations Director - Press Officer. |
| **Areas of responsibility at the PBG Group** | * **Economics and finance, investors relations, restructuring** |

|  |  |
| --- | --- |
| **Full name** | **Bożena Ciosk** |
| **Position** | **Member of the Management Board since March 18th 2013** |
| **Qualifications** | * Poznań Academy of Economics (now Poznań University of Economics), Faculty of Finance and Banking * Poznań School of Banking, Postgraduate studies in Controlling * one-year course at the Advisory and Management Training Centre – Project Management |
| **Experience** | * 2002-2003 Elektrim-Megadex S.A. of Warsaw, assistant to the Management Board; * 2003 until present, PBG, holding successively the following positions: Economic Clerk, Deputy Financial Manager, Deputy Chief Financial Officer, Chief Financial Officer. |
| **Areas of responsibility at the PBG Group** | * **Relations with financial institutions, debt restructuring** |

The current, fourth term of office of the Management Board commenced on June 29th 2012. Members of the Management Board are appointed by the Supervisory Board for a three-year term of office. If appointed during a term of office, a member of the Management Board remains in office until the expiry of this term of office. The mandates of Management Board members shall expire on the date of the General Shareholders Meeting approving the financial statements for the last full financial year of the members' service.

Until the date of issue of this report, the composition of the Management Board did not change.

All matters not reserved for the General Meeting or the Supervisory Board fall within the scope of powers and responsibilities of the Management Board. Specific duties and rules of procedure are defined in a formal document, which sets out in detail the role of the Management Board as a corporate body. Members of the Management Board manage the respective areas of the Company’s business, and their work is coordinated by the President of the Management Board.

**Remuneration of the Members of PBG Management Board**

The Management Board members are appointed by the Supervisory Board by way of a resolution. They are employed under employment or service 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 entrusted with an individual Management Board member.

Table 4: Remuneration of Management Board members for holding office at the Parent

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration**  **of Management Board members (PLN '000)** | **01.01 – 31.12.2013** | | | **Jan 1–Dec 31 2012** | | |
| **Base**  **remuneration** | **Other benefits\*** | **Total** | **Base**  **remuneration** | **Other benefits** | **Total** |
| Paweł Mortas | 390 | - | 390 | 64 | - | 64 |
| Jerzy Wiśniewski | - | - | - | 727 | 1,000\*\* | 1,727 |
| Przemysław Szkudlarczyk | - | - | - | 199 | 2,500\*\* | 2,699 |
| Tomasz Tomczak | 455 | - | 455 | 378 | - | 378 |
| Mariusz Łożyński | 387 | - | 387 | 324 | - | 324 |
| Kinga Banaszak - Filipiak | 330 | 101\* | 431 | 42 | - | 42 |
| Bożena Ciosk | 248 | 3 | 251 | - | - | - |
| **TOTAL** | **1,810** | **104** | **1,914** | **1,734** | **3,500,** | **5,234** |

***\*maternity benefit***

***\*\*discretionary bonus***

Table 5: Remuneration of Management Board members for holding office at subsidiaries, jointly-controlled entities or associates

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration of Management Board members (PLN '000)** | **Jan 1–Dec 31 2013** | | | **Jan 1–Dec 31 2012** | | |
| **Base**  **remuneration** | **Other benefits** | **Total** | **Base**  **remuneration** | **Other benefits** | **Total** |
| Paweł Mortas | 600 | 177\* | 777 | 113 | 2 | 115 |
| Przemysław Szkudlarczyk | - | - | - | 103 | - | 103 |
| Wiesław Mariusz Różacki | - | - | - | 576 | 382 | 958 |
| Tomasz Tomczak | 45 | - | 45 | 6 | - | 6 |
| Mariusz Łożyński | 46 | - | 46 | - | - | - |
| **Total** | **691** | **177** | **868** | **798** | **384** | **1,182** |

***\*discretionary bonus***

Table 6: Company shares or rights to Company shares (options) held by PBG managing personnel

|  |  |  |
| --- | --- | --- |
| **Managing person** | **Number of shares** | |
| **As at Dec 31 2013** | **As at the filing date of this Report** |
| Tomasz Tomczak  Mariusz Łożyński  Bożena Ciosk | 3,250  3,553  208 | 3,250  3,553  208 |

11. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

See Section IV of the Directors’ Report on the Company’s operations in 2012, page 55.

## 12. Internal audit

See Section II, Report on Risk and Control, page 36.

II. AGREEMENTS BETWEEN THE COMPANY AND ITS MANAGEMENT PERSONNEL PROVIDING FOR COMPENSATION IN THE EVENT OF A GIVEN PERSON RESIGNING OR BEING REMOVED FROM OFFICE

The Company has executed a contract with Paweł Mortas, President of the Management Board, which provides for a one-off severance pay equal to six months' remuneration, payable to the President in the event of his removal from office by the Supervisory Board or another body during the term of the contract. The President of the Management Board is entitled to receive the severance pay regardless of the reason of his removal unless it is due to his failure to properly discharge obligations under the contract or due to his wilful misconduct or negligence that has adversely affected the Company's interests. The President of the Management Board is also entitled to receive the severance pay upon termination or expiry of the contract. The contract includes a non-compete clause binding for a period of six months from the date of removal or the date of expiry or termination of the managerial contract. Under this provision, Paweł Mortas is entitled to a monthly compensation equal to 50% of his remuneration. The Company may unilaterally release Mr Mortas from the non-compete obligation.

The Company has also executed non-compete agreements with the Vice-Presidents of the Management Board − Tomasz Tomczak, Mariusz Łożyński, and Kinga Banaszak-Filipiak, and with Bożena Ciosk, a Member of the Management Board. After termination of their employment at the Company, members of the Management Board may not engage, personally or through third parties, in any activities competitive to the Company's business. The non-compete agreements remain in effect for a period of 12 months from the date of termination of the relevant employment contracts. Over said period, the Company is obliged to pay the Management Board members a monthly compensation equal to 100% of their remuneration from before the termination of employment.

III. AUDITOR OF THE FINANCIAL STATEMENTS

On April 30th 2013, the Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) agreed with the Company's Supervisory Board and the current auditor Grant Thornton Frąckowiak Sp. z o.o. Sp.k. (“Grant Thornton”) to terminate the auditor's appointment to audit the Company's separate and consolidated financial statements for 2013 (see Current Report No. 13/2013 of April 30th 2013). The agreement was reached by unanimous decision of the parties to the contract of appointment. There were no differences in opinion between the parties as to the interpretation and application of laws and regulations or the Company's Articles of Association, and Grant Thornton expressed the opinion it did regarding PBG's annual separate financial statements and the PBG Group's consolidated financial statements for 2012 (available at <http://www.pbg-sa.pl/relacje-inwestorskie/raporty-okresowe.html>) partly because the arrangement process was still pending as at the date of the opinion.

On April 30th 2013, the PBG Supervisory Board, on recommendation from its Audit Committee, passed a resolution to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Ernst&Young Audit Sp. z o.o., “E&Y”) as auditor to review the Company's and the Group's H1 2013 financial statements and to audit separate financial statement of PBG S.A. w upadłości układowej (in company voluntary arrangement) and the consolidated financial statements of the Company's Group for 2013.

Address details:

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly Ernst & Young Audit sp. z o.o.), Rondo ONZ 1, 00-124 Warsaw, Poland

Practising licence:

E&Y is entered in the list of qualified auditors of financial statements maintained by the National Council of Statutory Auditors under Reg. No. 130.

Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Ernst & Young Audit Sp. z o.o.) is the auditor of financial statement of RAFAKO S.A., a PBG Group company.

**1. Execution date**

PBG executed an agreement with Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Ernst & Young Audit Sp. z o.o.) on May 15th 2013.

**2. Total fees**

As at December 31st 2013, total fees payable to Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Ernst & Young Audit Sp. z o.o.), for the audit of the interim financial statements of PBG and the PBG Group as at June 30th 2013 and the audit of the financial statements of the Company and the consolidated financial statements of the PBG Group were PLN 420,500 (VAT exclusive).

**3. Other fees under the contract**

Not applicable

# SECTION II: REPORT ON RISKS AND RISK MANAGEMENT

## I. RISKS AND THREATS

### EXTERNAL RISKS AND THREATS

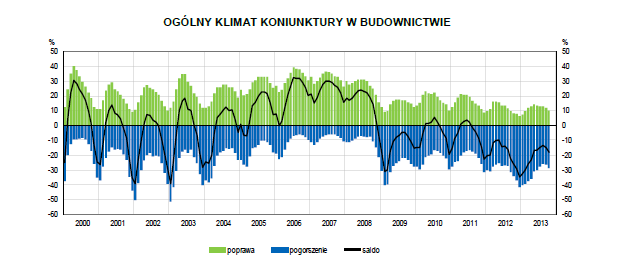
### 1. Economic environment in Poland

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 a deterioration of the Company's financial position.

Even though 2013 was the second year of substantial economic slowdown in Poland and the eurozone, it also saw a clear but relatively slow improvement on the markets.

Economic growth in Poland and the eurozone decelerated mostly on the back of flagging internal demand. The decline was caused by the necessary reduction of fiscal deficits, especially in countries which allowed their sovereign, household and corporate debt to expand excessively for a number of years, and now had to implement a tighter monetary policy.

Figure 1: General economic climate in the construction sector



### Source: [www.stat.gov.pl](http://www.stat.gov.pl).

|  |  |
| --- | --- |
| poprawa | improvement |
| pogorszenie | deterioration |
| saldo | balance |

Figure 2: Annual and quarterly forecasts of IBnGR

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 2013 | | 2014 | | | |  |  |  |
|  |  | III | IV | I | II | III | IV | 2012 | 2013 | 2014 |
|  |  |  |  |  |  |  |  |  |  |  |
| GDP | % y/y | 1.8 | 2.1 | 2.2 | 2.4 | 2.6 | 2.7 | 1.9 | 1.3 | 2.5 |
| GDP | % | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | x | X | X |
| Added value |  |  |  |  |  |  |  |  |  |  |
| in industry | % y/y | 4.5 | 3.5 | 2.8 | 3.0 | 3.2 | 3.3 | 1.8 | 3.0 | 3.1 |
| in construction | % y/y | -7.6 | -3.4 | 0.5 | 2.0 | 3.8 | 5.6 | 0.3 | -9.9 | 5.0 |
| in market services | % y/y | 2.7 | 2.7 | 2.7 | 2.8 | 3.0 | 3.1 | 3.3 | 2.5 | 2.9 |
| Domestic demand | % y/y | 1.4 | 1.5 | 1.6 | 1.9 | 2.2 | 2.6 | -0.1 | 0.4 | 2.1 |
| Total consumption | % y/y | 1.4 | 1.6 | 1.8 | 1.9 | 2.1 | 2.2 | 1.0 | 1.1 | 2.0 |
| incl. individual consumption | % y/y | 0.9 | 1.8 | 1.9 | 2.2 | 2.4 | 2.5 | 1.2 | 0.8 | 2.2 |
| Gross fixed capital formation | % y/y | -1.7 | -0.5 | 0.5 | 1.8 | 3.0 | 3.8 | -1.7 | -1.6 | 2.6 |
| Sold production of |  |  |  |  |  |  |  |  |  |  |
| industry | % y/y | 4.9 | 3.4 | 2.7 | 3.9 | 4.9 | 5.2 | 0.9 | 1.9 | 4.2 |
| construction | % y/y | -7.3 | -3.1 | 2.2 | 3.9 | 5.0 | 8.5 | -1.8 | -10.6 | 7.0 |
| Inflation (CPI; average) | % | 1.1 | 1.5 | 1.6 | 2.0 | 2.1 | 2.1 | 3.7 | 1.1 | 1.9 |
| Inflation (CPI; end of period) | % | 1.0 | 1.6 | 1.7 | 2.2 | 2.1 | 2.3 | 2.4 | 1.6 | 2.3 |
| Money supply (3M, end of period) | % | 6.1 | 6.4 | 7.8 | 8.4 | 8.4 | 8.5 | 4.5 | 6.4 | 8.5 |
| Real gross remuneration | % y/y | 2.7 | 2.1 | 2.2 | 2.5 | 2.7 | 2.9 | 0.1 | 2.2 | 2.6 |
| Average employment (national economy) | % y/y | -0.3 | 0.5 | 1.1 | 1.3 | 1.5 | 1.6 | 0.0 | -0.4 | 1.4 |
| Registered unemployment rate (end of period) | % | 13.0 | 13.9 | 14.4 | 13.2 | 12.8 | 13.1 | 13.4 | 13.9 | 13.1 |
| Exports (GUS/RN) | % | 1.8 | 3.4 | 3.1 | 4.5 | 4.9 | 4.5 | 3.9 | 2.4 | 4.3 |
| Imports (GUS/RN) | % | 0.9 | 1.0 | 1.9 | 3.4 | 4.1 | 4.3 | -0.7 | -0.4 | 3.4 |
| Current account balance (rolling) | % of GDP | -1.6 | -1.2 | -1.7 | -1.2 | -1.5 | -1.6 | -3.7 | -1.2 | -1.6 |
| Average exchange rate (NBP) | PLN/USD | 3.21 | 3.0 | 3.0 | 3.0 | 3.1 | 3.1 | 3.3 | 3.1 | 3.0 |
| Average exchange rate (NBP) | PLN/EUR | 4.25 | 4.2 | 4.2 | 4.1 | 4.1 | 4.0 | 4.2 | 4.2 | 4.1 |

**Source: Historical data – Central Statistics Office, National Bank of Poland.**

**estimates and forecasts – IBnGR**

The Polish GDP growth rate is expected to reach 2.8% in 2014, which means that it will be higher than in 2013. According to the IBnGR, next quarters of 2014 will bring stronger economic growth, but the differences between individual periods will be slight, with GDP up 2.5% and 3.0% in Q1 and Q4 2014, respectively. Further improvement is expected in 2015, with estimated growth rate at 3.5%.

According to the IBnGR forecast, GDP in Q2 and Q3 2014 will increase by 2.7% and 2.9%, respectively.

Domestic demand will grow at a rate of 2.9% in 2014, reversing the downward trend seen in the last two years. According to the IBnGR’s forecast, private consumption will increase by 2.5% over the same period, and gross fixed capital formation will go up 4.7%. The increase in investments will be attributable chiefly to higher expenditure on replacement of non-current assets in the manufacturing sector, especially with numerous projects and investments long overdue.

Investments will also be stimulated by an inflow of new European funds for infrastructural projects.

In 2015, domestic demand will go up 3.3%, driven by both private consumption and higher capital expenditure (up by 3.3% and 5.5%, respectively). Domestic demand's share of GDP will be substantially higher in 2014-2015 than in 2013.

***Source:***[*www.pb.pl*](http://www.pb.pl)

### 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 in this market, 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:

* Ensuring high quality of the rendered services;
* Developing staff qualifications in the use of new technologies by participation in largest contracts in Poland; entering into strategic alliances with reputable foreign companies operating on the Polish and foreign markets.

Table 7: Domestic and international competitors

|  |  |  |  |
| --- | --- | --- | --- |
| **MARKET** | **BUSINESS SEGMENT** | **DOMESTIC COMPETITORS** | **INTERNATIONAL COMPETITORS** |
| **NATURAL GAS AND CRUDE OIL** | UNDERGROUND GAS STORAGE FACILITIES | - Naftobudowa  - Investgas | - ABB  - Sofregas |
| LNG PLANTS | - Polimex Mostostal | - Tractebel  - Linde  - Costain  - Air Products  - DAEWOO Engeneering & Construction |
| TRANSMISSION | - Naftomontaż Krosno  - Gazobudowa Zabrze  - Gazobudowa Poznań  - Gazomontaż Wołomin  - POL-AQUA  - ZRUG Poznań  - PGNiG Technologie  - Gazoprojekt  - ZRUG Pogórska Wola  - Nafta Gaz Serwis  - Control Process | - FCC CONSTRUCCION |
| REFINERIES | - Naftomontaż Krosno  - Polimex Mostostal | - ABB |
| DELIVERY OF SPECIALIST GAS EQUIPMENT AND AUXILIARY INFRASTRUCTURE | - Control Process  - Bartimpex  - Stalbud  - Polimex Mostostal | - ABB  - KAWASAKI |
| EXTRACTION FACILITIES | - Naftomontaż Krosno | - Tractebel  - Linde  - Costain  - Air Products |
| **FUELS** | FUEL TERMINALS | - POL-AQUA  - Polimex Mostostal | - 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, PN-EN ISO 3834-2:2007, and AQAP 2110:2003,

**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. 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

The following developments were driving the exchange rates of the Polish złoty:

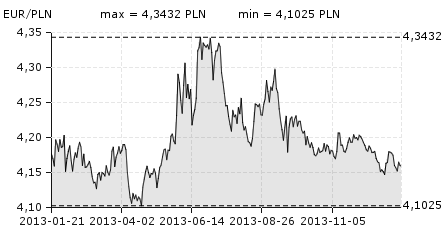
1. Interest rate cuts.

There is little doubt that the two last interest rate cuts effected in 2013 will be followed by subsequent ones. This forecast is supported by falling inflation rates (down by 0.6% month on month to 2.8% in November, compared with the expected 3.0%), which enables monetary policy easing (as there is no threat of a sudden increase in inflation rates), as well as decelerating economic growth, which is to be stimulated with the cuts. Analysts' opinions on the scope of rate cuts differ, but a decrease of 0.25%, to 4%, is expected in January or February 2014, followed by further cuts of 0.25%-0.5% in May-June 2014. A reduction exceeding 0.25% is unlikely, as the Polish Monetary Policy Council seeks to rebuild markets' confidence by becoming a reliable partner.

2. Situation in southern Europe.

Greece will most likely continue to request that the Euro Group provide it with financial aid, whereas Spain and Italy will make every effort to regain the trust of financial markets and lower yield on their treasury bonds, thus reducing the cost of debt service.

**Figure 3: PLN/EUR exchange rate in the period January 21st 2013 – January 21st 2014 (mid-rates quoted by the National Bank of Poland)**



***Source:*** [***http://www.finanse.egospodarka.pl***](http://www.finanse.egospodarka.pl)

Please note that any long-term forecasting of exchange rates is extremely difficult due to the strong market volatility seen in recent years. The risk of exchange rate volatility also affects the Company. A portion of costs related to the purchase of equipment necessary for the execution of the contracts is incurred in foreign currencies. PBG minimises the currency risk by using appropriate financial instruments and passing some of the risk onto its subcontractors and suppliers. In the case of imports of high-value plant and equipment, the risk is also hedged with financial instruments available on the market.

**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. The process may be reached only if the arrangement is approved by at least 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 majorities will not be secured, leading to changing of 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.

### 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 or limits its ability to win new contracts or participate in public tenders. Further, the ability to win new contracts is also limited by the fact that no guarantee limits are available to the Company. The Company tries to bid for contracts outside of the public procurement market, by seeking to work as a subcontractor.

### 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.

The risk related to the loss of key personnel is 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 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.

The security is generally provided on the contract execution date and settled after work under the contract is completed. The amount of the security depends on the type of contract. In most cases it is 10% of the contract 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 customers for services provided by PBG’s natural gas and crude oil and fuels segment are PGNiG and Polskie LNG (a wholly-owned subsidiary of Gaz-System). This is related to the execution of two contracts of substantial value for these customers, totalling nearly PLN 3.3bn VAT exclusive (nearly PLN 1.1bn for PGNiG and PLN 2.2bn for Polskie LNG). 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,
* Constant supervision over the equipment used,
* Continuous occupational health and safety training and supervision.

## II. FINANCIAL RISK IDENTIFICATION AND MANAGEMENT

As at the date of approval of this report, the Company was in the process of company voluntary arrangement. Going-concern assumption is based on the conviction that the Company will be able to negotiate, enter into and implement an arrangement with its creditors.

PBG is exposed to many risks related to financial instruments, including in particular:

* liquidity risk,
* market risk, comprising currency risk and interest rate risk, and
* credit risk.

The Company's financial risk management is coordinated by the Management Board. The following are the key objectives of the risk management process:

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

The Company's Management Board believes that the restructuring measures proposed below, i.e. filing the petition for insolvency with arrangement option, will best protect the interests of all stakeholders, i.e. creditors (including bondholders, lenders, contracting parties, consortium members, subcontractors and suppliers), employees and shareholders.

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

* restructuring of the companies' non-operating non-current assets, the sale of which constitutes one of the sources of payments made as part of the arrangement;
* sale of non-core companies which operate outside PBG's strategic segments, including the oil & gas segment and the power construction segment;
* divestment of the PBG Group’s property development and other investment projects;
* gaining potential access to profitable contracts in the power construction sector through the cooperation with RAFAKO S.A., PBG's subsidiary;
* winning new contracts in the oil and gas sector, which is the strategic area of operations for PBG SA (in company voluntary arrangement).

Moreover, the Company's Management Board has been implementing measures as part of cost and operational restructuring of the Company, to reduce operating expenses and improve the Company's efficiency.

1.1. Liquidity risk

The Company is exposed to liquidity risk, i.e. the loss of ability to timely meet its financial liabilities. The Company monitors the risk of losing operating cash flows by means of a periodic liquidity planning tool. The tool is used to control both the maturity dates of financial assets (mainly receivables) and the projected cash flows from operating and investing activities.

As at December 31st 2013, the Company did not use external sources of financing in the form of credit facilities. Borrowings and other debt instruments presented in the statement of financial position are subject to procedures under Bankruptcy and Restructuring Law.

As at December 31st 2013 and as at the date of approval of this Report, the Company was focusing its efforts on maintaining financial liquidity that is necessary to carry out everyday tasks relating to contract execution in the gas and oil segment.

Table 8: Maturity of the Company’s financial liabilities as at the reporting date (PLN '000)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Current:** | | **Non-current:** | | | **Total undiscounted liabilities** | **Carrying amount of liabilities** |
| **up to 6 months** | **6 to 12 months** | **1 to 3 years** | **3 to 5 years** | **over 5 years** |
| ***As at Dec 31 2013*** |  |  |  |  |  |  |  |
| Bank borrowings | 374,672 | - | - | - | - | 374,672 | 374,672 |
| Bank overdrafts | 14,037 | - | - | - | - | 14,037 | 14,037 |
| Liabilities under closed forwards | 4,179 | - | - | - | - | 4,179 | 4,179 |
| Borrowings | 1,549 | - | - | - | - | 1,549 | 1,549 |
| Debt instruments | 838,772 | - | - | - | - | 838,772 | 838,772 |
| Finance lease liabilities | 526 | 495 | 1,803 | 1,973 | 2,530 | 7,327 | 5,848 |
| Derivative financial instruments | 641 | - | - | - | - | 641 | 641 |
| Trade and other payables | 452,919 | 950 | - | - | 0 | 453,869 | 452,015 |
| ***Total exposure to liquidity risk*** | **1,687,295** | **1,445** | **1,803** | **1,973** | **2,530** | **1,695,046** | **1,691,713** |
| ***As at Dec 31 2012*** |  |  |  |  |  |  |  |
| Bank borrowings | 320,973 | - | - | - | - | 320,973 | 320,973 |
| Bank overdrafts | 82,581 | - | - | - | - | 82,581 | 82,581 |
| Liabilities under closed forwards | 4,179 | - | - | - | - | 4,179 | 4,179 |
| Borrowings | 1,549 | - | - | - | - | 1,549 | 1,549 |
| Debt instruments | 838,772 | - | - | - | - | 838,772 | 838,772 |
| Finance lease liabilities | 552 | 542 | 2,553 | 2,146 | 2,530 | 8,323 | 6,550 |
| Derivative financial instruments | 4,326 | - | - | - | - | 4,326 | 4,326 |
| Trade and other payables | 403,245 | 124 | 1,885 | 24 | 0 | 405,278 | 407,444 |
| ***Total exposure to liquidity risk*** | ***1,656,177*** | ***666*** | ***4,438*** | ***2,170*** | ***2,530*** | ***1,665,981*** | ***1,666,374*** |

As at December 31st 2013, the Company did not have any overdraft facilities.

**1.2. Market risk**

All market risk management objectives should be considered as a whole, and their achievement is determined primarily by the Group’s internal situation and market conditions.

The financial risk management strategy applied by PBG provides for the use of natural hedging as well as hedging strategies based on derivative instruments. The following types of financial instruments may be used by the Company:

* forwards,
* interest rate swaps (IRS),
* swaps.

**1.2.1. Currency risk**

The Company is exposed to risk related to fluctuations in foreign exchange rates due to the fact that raw materials for high value contracts are imported. The contract for construction of the LNG Terminal in Świnoujście exposes the Company to risk related to fluctuations in foreign exchange rates, including the EUR/PLN and USD/PLN rates.

In the reporting period, 5% of the Company’s cost of sales was expressed in foreign currencies.

Table 9: Company’s financial assets and liabilities in denominated in foreign currencies, translated into PLN at the closing rate as at the reporting date

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Amount in foreign currency (‘000):** | | | | | | | **Restated amount ('000)** | **Amount in PLN (‘000):** | **Carrying amount ('000)** |
|  | **EUR** | **USD** | **GBP** | **CAD** | **UAH** | **CHF** | **MZN** | **PLN** | **PLN** | **PLN** |
| ***As at Dec 31 2013*** |  |  |  |  |  |  |  |  |  |  |
| ***Financial assets (+)*** | *2,827* | *2,124* | *-* | *-* | *235,928* | *173* | *274* | *105,652* | *462,086* | *567,738* |
| ***Financial liabilities (-):*** | (5,207) | - | - | - | - | - | (126) | (22,333) | (1,673,559) | (1,695,892) |
| **Total exposure to currency risk** | **(2,380)** | **2,124** | **-** | **-** | **235,928** | **173** | **148** | **83,319** | **(1,211,473)** | **(1,128,154)** |
| ***As at Dec 31 2012*** |  |  |  |  |  |  |  |  |  |  |
| ***Financial assets (+)*** | *6,436* | *1,668* | *911* | *-* | *235,932* | *588* | *1,564* | *127,128* | *528,100* | *655,228* |
| ***Financial liabilities (-):*** | *(6,646)* | *(141)* | *(25)* | *(542)* | *-* | *(957)* | *-* | *(33,075)* | *(1,637,478)* | *(1,670,553)* |
| **Total exposure to currency risk** | **(210)** | **1,527** | **886** | **(542)** | **235,932** | **(369)** | **1,564** | **94,053** | **(1,109,378)** | **(1,015,325)** |

In the reporting period, the Company hedged its future currency exposures with standard forward contracts. The hedging transactions were concluded as part of the pursued hedging policy, in order to secure the volume of future cash flows underperformed contracts. The hedges covered mainly EUR- and USD-denominated contracts with suppliers. The currency forwards which the Company entered into are used to hedge future foreign-currency denominated cash flows under the contract for construction of the LNG Terminal in Świnoujście.

In 2013, the Company reported a net loss on currency risk hedging derivatives of PLN 302 thousand, recognised in other expenses.

As at December 31st 2013, the notional amount of derivative instruments at PBG was as follows:

**Table 10: Notional value of derivative instruments as at December 31st 2013**

|  |  |
| --- | --- |
| **Notional amount of hedges** | |
| Hedge for EUR purchase transactions | 12,705 |
| Hedge for USD purchase transactions | 2,970 |

As at December 31st 2013, the Company hedged 59% of EUR-denominated purchase transactions and 88% of USD-denominated purchase transactions, under which as at the reporting date there were probable future liabilities extending until 2015.

As at December 31st 2013, the fair value of open derivative positions was negative at PLN -641 thousand and comprised the fair value of held-for-trading hedges. The fair value of open derivative positions changes depending on the market conditions and the final outcome of those transactions may significantly differ from the values presented above.

**1.2.2. Interest rate risk**

Management of interest rate risk focuses on minimising the impact of fluctuations in interest cash flows on financial assets and liabilities bearing variable rate interest.

The Company stopped accruing interest on bank borrowings, bonds in issue and trade liabilities contracted prior to the court’s decision declaring the Company insolvent in voluntary arrangement. The amount of liabilities on which the Company stopped accruing interest stands at PLN 1,628,135 thousand. The above amount may be reduced and the interest terms may change once the Creditors approve the arrangement.

1.3. Credit risk

Credit risk is understood as the inability of the Company’s debtors to meet their obligations towards the Company. Credit risk arises in connection with the following:

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

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

* cash and bank deposits,
* trade receivables,
* loans advanced,

PBG’s maximum exposure to the credit risk is measured through carrying amount of the financial assets presented in the table below:

Table 11: Company’s maximum exposure to credit risk measured through carrying amount of the disclosed financial assets

|  |  |  |
| --- | --- | --- |
| **Item** | **Dec 31 2013** | **Dec 31 2012** |
| **PLN ’000** | **PLN ’000** |
| Borrowings | 359,672 | 396,017 |
| Trade and other receivables | 107,411 | 66,415 |
| Debt instruments | - | 84,570 |
| Investment fund certificates | - | 384 |
| Cash and cash equivalents | 99,806 | 95,231 |
| **Total exposure to credit risk** | **566,889** | **642,617** |

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

With respect to such financial assets as cash and cash equivalents, the Company’s exposure to credit risk arises from its counterparty’s inability to make payments as they fall due. However, considering that in this case the Company’s counterparties are banks registered in Poland, the related credit risk is immaterial. The maximum exposure to credit risk is equal to the carrying amount of these instruments, and as at December 31st 2013 amounted to PLN 99,806 thousand (December 31st 2012: PLN 95,231 thousand).

The Company is exposed to credit risk in connection with the loans it has advanced. As at December 31st 2013, the outstanding balance of loans advanced by the Company was PLN 359,672 thousand, of which PLN 332,196 thousand was advanced to related parties. To limit the risk, the Company monitors, on an ongoing basis, the assets and financial performance of its borrowers. Credit risk related to loans advanced is material to the PBG Group.

The Company has a long history of relationships with several customers, which operate in diverse sectors. Based on the 2013 turnover, the largest customers included:

Table 12: The largest customers based on the 2013 turnover

|  |  |  |
| --- | --- | --- |
| **No.** | **Customer** | **% share** |
|  | **TOTAL** | **100.00%** |
| 1. | PGNIG SA | 68.54% |
| 2. | ZIOTP | 10.19% |
| 3. | KGHM POLSKA MIEDŹ SA | 7.58% |
| 4. | SAIPEM SPA | 3.02% |
| 5. | MCA-MOZAMBIQUE | 2.02% |
| 6. | MAXER SA | 1.26% |
| 7. | GETIN LEASING SPÓŁKA AKCYJNA SKA | 1.09% |
|  | Other | 6.31% |

The Company’s credit risk exposure is closely related to its core business. The exposure results from concluded trade contracts and is related to the risk of occurrence of such credit events, as the contractor's insolvency, partial collection of receivables or material delays in repayment of receivables. Providing trade credit to trade partners is an essential part of the Company’s business. However, the Company undertakes a number of measures to mitigate the risk of entering into trade relations with potentially unreliable customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Customers who are deemed financially unreliable, based on the results of credit verification procedures performed by the Company, are required to provide appropriate financial security to limit the risk of insolvency of such customers to the Company.

As at December 31st 2013, the total amount of the Company’s net trade receivables, excluding the fair value of accepted security, up to which the Company may be exposed to credit risk, was PLN 107,411 thousand (December 31st 2012: PLN 66,415 thousand). Concentration of credit risk at the Company is related to its key contracts. As at December 31st 2013, receivables from the Company’s four largest customers represented 80% of total trade receivables (71% as at December 31st 2012). With respect to trade receivables, the Company is exposed to credit risk related to a single major partner or a group of similar partners.

## III. INTERNAL CONTROL SYSTEM

The Office of Internal Audit and Restructuring operates within the organisational support structure, and reports directly to the President of the Management Board.

The Office is responsible for:

* overseeing the operational implementation and delivery of the Restructuring Plan and reporting to the Management Board and Supervisory Board on the progress made;
* providing information on the current status of the controlled business areas, identifying areas whose internal constitutive documents need to be revised, and providing examples of adequate and effective solutions;
* checking accuracy and correctness of documents, and verifying authenticity, legal compliance, completeness and timely preparation of documentary evidence;
* assessing the adequacy of business process organisation in achieving optimum results;
* assessing adequacy and effectiveness of the supervision and internal control system in place at the organisation;
* monitoring compliance with the law and internal regulations, including the provisions of the Integrated Management System;
* ensuring compliance with the provisions of the Integrated Management System;
* ensuring discharge of obligations imposed under the Polish Labour Code, work rules, and the organisation’s internal regulations.

## IV. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE PREPARATION OF SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The PBG Management Board is responsible for the internal control system and for its effectiveness in the process of producing financial statements and periodic reports, prepared and published in accordance with the 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 (Dz. U. of 2009 No. 33, item 259, as amended).

Financial statements are prepared by the Accounting Services Centre, and the process is directly supervised by the Financial Statements Consolidation Department in cooperation with other organisational units, which are responsible for providing accurate information on items not directly sourced from the Company’s accounting records, but disclosed in the financial statements. Due to the nature of the industry in which the Company operates, the Controlling Department plays an important role in the preparation of financial statements. The key measures used to reduce the risks include correct assessment and analysis of the construction contracts. As required by IAS 11, revenues and expenses associated with the contracts are estimated on the basis of budgets of individual contracts. These budgets are expertly drawn up by contract managers with relevant training. In the course of contract preparation and execution, the budgets are continuously reviewed and updated by the responsible personnel. Results of the reviews and any adjustments to the budgets are discussed at weekly meetings. The process is based on formal rules adopted by the Company and is subject to close supervision by the Management Board.

The Company’s financial information is presented using consistent accounting policies, which are in line with the valuation and presentation policies applied in all PBG Group companies. Since January 1st 2009, the Head Accountant has been responsible for drawing up and signing financial statements, and for drawing up and signing separate and consolidated financial statements – the Group Accounting Coordination Director, and as of July 1st 2010 - the Accounting Services Centre Director. The persons responsible for controlling and coordinating the process of preparing financial statements are professionals with relevant expertise in the field; all of them are bound by non-disclosure agreements.

Members of the Management Board responsible for the preparation of financial statements are: Ms. Kinga Banaszak-Filipiak, Vice-President of the Management Board, and Ms. Eugenia Bachorz, Director of the Accounting Services Centre. In line with the internal procedures, in the course of preparation of the financial statements these members of the management team, acting on behalf of the entire Management Board, review the economic information and matters disclosed in the accounts and present their comments and remarks relevant for the preparation of the statements. Once the financial statements have been prepared, they are audited or reviewed, in accordance with applicable laws. All members of the Management Board are required to sign the financial statements before the auditor’s opinion is received.

The financial statements are reviewed or audited by an entity qualified to audit financial statements, selected by the Company’s Supervisory Board from among renowned audit firms offering high-quality audit services and satisfying the criterion of independence.

During the audit of financial statements and accounting records, the auditor holds meetings with key members of the Company’s staff, including members of the Management Board responsible for economic matters, to discuss individual aspects of the financial statements. The final version of the financial statements is then prepared, re-read and signed by the persons responsible for the preparation of the financial statements and the managing personnel, and contains any agreed-upon corrections or adjustments made by the qualified auditor, the responsible persons or the managing personnel. Every year, the Supervisory Board assesses consistency of the Company’s audited financial statements with the accounting records and documentation as well as with facts, and presents its findings to the shareholders in an annual report published by the Company.

Managing the risk related to the preparation of financial statements involves identifying and assessing risk areas and defining the relevant mitigating measures.

# SECTION III: COMPANY OVERVIEW

## **I. STRATEGY**

### 

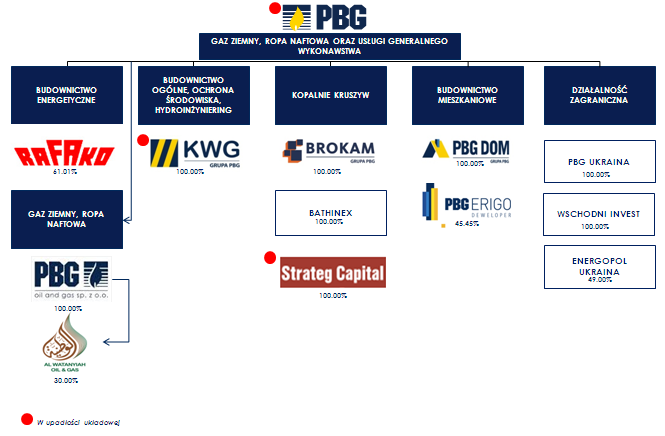
### 1. Strategy

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 Company intends to engage in contracts producing satisfactory margins, with low or negative working capital requirements.

Since June 2012, the process of approval of PBG's voluntary arrangement with creditors has been on-going. At the current stage of the process, the key objective is to ensure that agreement is reached with the creditors and the arrangement is formally approved, on feasible 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. The PBG Management Board defines the development directions of a given company and determines its role in the Group. Each company is responsible for project execution in line with its business profile and resources.

**Figure 4: Organisational structure of the PBG Group as at December 31st 2013 (percentage of voting rights held by PBG)**



**Figure 5: Current organisational structure of the PBG Group (percentage of voting rights held by PBG)**



|  |  |
| --- | --- |
| 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. In the natural gas and crude oil segment, PBG oil and gas also plays a major role within the PBG Group; the company actively bids in public tenders.

The natural gas and crude oil market is particularly important to the Group. This business line is expected to drive the Group's performance in the next several years.

**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 boilers and environmental protection equipment, since 1949. RAFAKO is one of four European companies, next to 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 boilers and environmental protection equipment for the power sector in Europe. RAFAKO is the unquestioned leader on the Polish power construction market. In accordance with the adopted strategy, the PBG Group’s operations in the energy segment will enable it to markedly increase its revenue streams. The PBG Group plans to significantly strengthen its position in the Polish power construction segment. In the current year and in the future, contracts worth between PLN 5bn and PLN 15bn are to be awarded. In the coming years, the estimated value of all projects in the sector may reach billions of złotys. The Group intends to be an active player in that sector.

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).

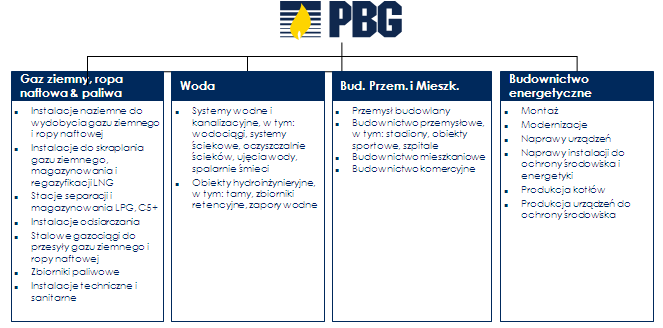
II. BUSINESS PROFILE

The business of PBG 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 for projects in the area of industrial construction, as well as residential, infrastructure and road construction. The Company’s operations mostly consist in executing projects in the gas, oil and fuels segments.

Currently, PBG divides its business into four major operating segments:

1. **gas, oil and fuels;**
2. **water;**
3. **industrial and residential construction;**
4. **power construction.**

**Figure 6: Services by segments**

****

|  |  |
| --- | --- |
| Gaz ziemny, ropa naftowa i paliwa | Natural gas, crude oil and fuels |
| * Instalacje naziemne do wydobycia ropy naftowej i gazu ziemnego * Instalacje do skraplania gazu ziemnego, magazynowania i regazyfikacji LNG * Stacje separacji i magazynowania LPG, C5+ * Instalacje odsiarczania * Stalowe gazociągi do przesyłu gazu ziemnego i ropy naftowej * Zbiorniki paliwowe * Instalacje techniczne i sanitarne | * Surface installations for crude oil and natural gas production * Installations for liquefying natural gas and for LNG storage and regasification * LPG, C5+ separation and storage facilities * Desulphurisation units * Steel pipelines for oil and gas transmission * Fuel tanks * Technical and sanitary systems |
| Woda | Water |
| * Systemy wodne i kanalizacyjne, w tym: wodociągi, systemy ściekowe, oczyszczalnie ścieków, ujęcia wody, spalarnie śmieci * Obiekty hydroinżynieryjne, w tym: tamy, zbiorniki retencyjne, zapory wodne | * Water supply and sewage systems, including: water pipelines, sewage systems, wastewater treatment plants, water intakes, waste incineration plants * Hydraulic engineering structures, including: dams, storage reservoirs |
| Bud. Przem. i Mieszk. | Industrial and residential construction |
| * Przemysł budowlany * Budownictwo przemysłowe   W tym obiekty sportowe, stadiony, szpitale   * Budownictwo mieszkaniowe * Budownictwo komercyjne | * Construction industry * Industrial construction   Including sports facilities, stadiums, hospitals   * Residential construction * Commercial construction |
| Bud. energetyczne | Power construction |
| * Montaż * Modernizacje * Naprawy urządzeń * Naprawy instalacji do ochrony środowiska i energetyki * Produkcja kotłów * Produkcja urządzeń ochrony środowiska | * Assembly * Upgrades * Repairs * Repairs of environmental protection and power generation facilities * Manufacture of boilers * 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 devoted to changes on the Company’s markets.

**III. CHANGES ON PBG’S MARKETS**

In 2013, revenue streams from the individual areas of operations of PBG were generated mainly on the domestic market and were as follows:

**Table 13**: **Industry segments**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue** | **2013**  **(PLN ‘000)** | **2012**  **(PLN ‘000)** | **Change**  **(PLN ‘000)** | **Change**  **(%)** |
| **Gas, oil and fuels**  (transmission, distribution, production) | 308,931 | 217,928 | +91,003 | +42 |
| **Water**  (hydraulic engineering and environmental protection, pipeline rehabilitation) | 10,573 | -5,018 | +15,591 | - |
| **Industrial and residential construction**  (construction, infrastructure for industrial facilities) | 684 | 6,601 | -5,917 | -90 |
| **Power construction** | 12,708 | - | 12,708 | - |
| **Other**  (sale of merchandise, materials and products, other services) | 3,232 | **4,503** | -1,271 | -28 |
| **Total revenue** | **336,128** | 224,014 | **+112,114** | **+50** |

**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 Company, however, makes 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: PGNiG SA, ZIOTP;
* suppliers: Tecnimont SpA, PGNiG SA, Control Process SA.

IV. BRANCHES

PBG S.A. has no branches.

# SECTION IV: REPORT ON THE COMPANY’S OPERATIONS IN 2013

## I. SHARES HELD IN RELATED ENTITIES

Table 14: Shares held in related entities as at December 31st 2013

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Related entity** | **Principal business activity** | **Relation** | | **Number of shares** | **Total par value of shares as at Dec 31 2013** | **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. | subsidiary | 28,700 | PLN 2,870,000.00 | 100% |
| **WSCHODNI INVEST Sp. z o.o.** | special purpose vehicle | PBG S.A. | subsidiary | 37,740 | PLN 3,774,000.00 | 100% |
| **PBG Dom**  **Sp. z o.o.** | building construction | PBG S.A. | subsidiary | 550,000 | PLN 55,000,000.00 | 100% |
| **PBG ERIGO**  **Sp. z o.o.** | building construction | PBG S.A. | subsidiary | 100,000 | PLN 5,000,000.00 | 45.45% |
| PBG DOM INVEST LIMITED | indirect subsidiary | 120,000 | PLN 6,000,000.00 | 54.55% |
| **Brokam Sp. z o.o.** | owner of undeveloped property with granodiorite reserves | PBG S.A. | subsidiary | 12,000 | PLN 12,000,000.00 | 100% |
| **PBG Avatia Sp. z o.o. (in company voluntary arrangement)** | IT services; as a company of the PBG Group, PBG Avatia provides IT support to all PGB Group companies | PBG S.A. | subsidiary | 999 | PLN 49,950.00 | 99.90% |
| **PBG Ukraina PSA** | its purpose is to conduct market research in Ukraine and establish contacts with companies operating in the construction and related services sector | PBG S.A. | subsidiary | 222,227 | UAH 888,908.00 | 100% |
| **Bathinex Sp. z o.o.** | quarrying and processing of stone used in the construction and road engineering sectors; the company owns the Brodziszów-Kłośnik Quarry where it produces granodiorite (acidic fine-crystalline intrusive igneous rock) | PBG S.A. | subsidiary | 50 | PLN 50,000.00 | 100% |
| **PBG Operator Sp. z o.o.** | special purpose vehicle | PBG S.A. | subsidiary | 50 | PLN 5,000.00 | 100% |
| **PBG Bułgaria Sp. z o.o. (in liquidation)** | its purpose is to conduct research in the Bulgarian infrastructure construction market and establish contacts with regional companies operating in the construction and related services sector | PBG S.A. | subsidiary | - | BGN 35,000.00 | 100% |
| **Multaros Trading Company Limited** | special purpose vehicle | PBG S.A. | 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 desulphurisation units and electrostatic precipitators | PBG S.A. | subsidiary | 7,665,995 | PLN 15,331,998.00 | 11.01% |
| Multaros Trading Company Limited | indirect subsidiary | 34,800,001 | PLN 69,600,002.00 | 50% |
| **PBG oil & 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. | subsidiary | 50 | PLN 5,000.00 | 25% |
| Jerzy Wiśniewski | 150 | PLN 15,000.00 | 75% |

In addition to the companies listed above, PBG holds interests in the following entities:

Table 15: Shares held in other entities

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Company** | **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. (in company voluntary arrangement) | 250 | 250,000.00 | 100.00 |
| 6. | Hydrobudowa Polska S.A. (in liquidation) | 82,302,263 | 82,302,263.00 | 39.09 |
| 7. | PBG Technologia Sp. z o.o. (in liquidation) | 46,100 | 23,050,000.00 | 100.00 |
| 8. | Aprivia SA (in liquidation) | 14,775,999 | 14,775,999.00 | 20.52 |
| 9. | Energomontaż Południe SA (in liquidation) | 46,333,520 | 46,333,520.00 | 65.28 |

After the reporting date PBG did not acquire any shares in other entities.

II. AGREEMENTS SIGNIFICANT TO THE COMPANY’S BUSINESS

Table 16: Contracts concluded and terminated in the reporting period and subsequent to the reporting date

| **Execution date** | **Parties** | **Subject matter** | **Key terms** |
| --- | --- | --- | --- |
| **Sep 10 2013**  Annex to a significant contract for the construction of LNG Terminal in Świnoujście | **Principal:**  **Polskie LNG SA**  **Contractor:**  Saipem S.p.A. as consortium leader, and Saipem S.A., SAIPEM Canada Inc. (formerly: Snamprogetti Canada Inc.), Techint Compagnia Tecnica Internazionale S.p.A., PBG S.A. (in company voluntary arrangement) and PBG Energia Sp. z o.o. (formerly: PBG Export Sp. z o.o., presently: EGBP Management Sp. z o.o.) as consortium partners | Delivery of the working design, construction and commissioning of the Liquefied Natural Gas Regasification Terminal in Świnoujście. | Presented below are material amendments made to the contract:  - at the consortium's initiative, the parties agreed to change the cooling technology;  - a change of technology led to an increase in remuneration payable to the Consortium for the Contract delivery by PLN 278,775,000, - the change of technology led to an increase in remuneration payable to the consortium from PLN 2,088,976,000 VAT-exclusive (changes to the remuneration were reported in Current Report No. 12/2011 of February 10th 2011 and Current Report No. 80/2011 of December 23rd 2011) to PLN 2,367,751,000 VAT-exclusive;  - following the change of technology, the date for signing the project handover certificate was postponed from June 30th 2014 to December 30th 2014.  Furthermore, at the employer's request, the consortium has extended the warranty against defects period and the technical assistance period by six months. |
| **For more information see PBG's Current Report No. 27/2013** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/27-2013-zawarcie-aneksu-do-umowy-znaczacej-na-budowe-terminalu-lng-w-swinoujsciu.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/27-2013-zawarcie-aneksu-do-umowy-znaczacej-na-budowe-terminalu-lng-w-swinoujsciu.html) | | | |

**The materiality criteria are set forth in the following regulations:**

Legal basis:

Par. 5.1.3 of the Minister of Finance’s 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:

The 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.

**III.**BUSINESS COMBINATIONS, INCORPORATION OF NEW SUBSIDIARIES

Table 17: Changes in organisational links in the reporting period and subsequent to the reporting date

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Parties** | | **Transaction type** | **Description** | **Objective** | |
| **Jan 8 2013** | | RAFAKO S.A.  PBG S.A. (in company voluntary arrangement)  MULTAROS Trading Company Limited  ADAPTORINVEST Ltd. | **Clearance for deletion of pledge over shares** | PBG received a notification of January 7th 2013 from Multaros Trading Company Limited ("Multaros"), in which Multaros notified the Company that it received from Adaptorinvest Limited the original copy of consent to delete the pledge over RAFAKO S.A. shares (the "Pledge") and that Adapotorinvest Limited will not enforce the Pledge as long as Multaros holds the original copy of the document. | |  | |
| **For more information, see PBG Current Report No. 1/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/1-2013-informacja-dotyczaca-zastawu-na-akcjach-rafako.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/1-2013-informacja-dotyczaca-zastawu-na-akcjach-rafako.html) | | | | | | | |
| **Feb 7 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  STRATEG CAPITAL Sp. z o.o. upadłości układowej (in company voluntary arrangement) | **Acquisition of shares** | PBG and Mr Mirosław Borowicz executed an agreement on purchase of 50 shares in STRATEG CAPITAL Sp. z o.o. (in company voluntary arrangement) for a total price of **PLN 50,000.**  Before the transaction, PBG held 200 shares in Strateg Capital, representing 80% of its share capital. Upon payment for the remaining 50 shares, PBG will hold 250 shares in STRATEG CAPITAL, i.e. **the entire share capital of the company**. | | Optimisation of PBG Group's structure | |
| **For more information, see PBG Current Report No. 3/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/3-2013-przejecie-pelnej-kontroli-nad-spolka-strateg-capital-sp-o-o.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/3-2013-przejecie-pelnej-kontroli-nad-spolka-strateg-capital-sp-o-o.html) | | | | | | | |
| **Feb 7 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  STRATEG CAPITAL Sp. z o.o. upadłości układowej (in company voluntary arrangement) | **Acquisition of shares** | PBG and Mr Mirosław Borowicz executed an agreement on purchase of 50 shares in STRATEG CAPITAL Sp. z o.o. (in company voluntary arrangement) for a total price of **PLN 50,000.**  Before the transaction, PBG held 200 shares in Strateg Capital, representing 80% of its share capital. Upon payment for the remaining 50 shares, PBG will hold 250 shares in STRATEG CAPITAL, i.e. **the entire share capital of the company**. | | | |
| **For more information, see PBG Current Report No. 3/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/4-2013-wykreslenie-zastawu-na-akcjach-rafako-s-a-nalezacych-do-spolki-zaleznej.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/4-2013-wykreslenie-zastawu-na-akcjach-rafako-s-a-nalezacych-do-spolki-zaleznej.html) | | | | | | | |
| **Feb 8 2013** | | RAFAKO S.A.  PBG S.A. (in company voluntary arrangement)  MULTAROS Trading Company Limited  ADAPTORINVEST Ltd. | **Deletion of pledge over shares** | The PBG Management Board was notified by the Administrator of subsidiary MULTAROS TRADING COMPANY Limited that the pledge over RAFAKO shares held by MULTAROS, which had existed for the benefit of Adaptorinvest Ltd., was deleted.  The relevant entry was made in the Pledge Register on February 7th 2013 on the basis of a request for deletion of the pledge, submitted on December 31st 2012, with effect from December 21st 2012, i.e. the day on which Adaptorinvest Ltd. made a statement confirming its consent to the cancellation of the pledge. | | | |
| **For more information, see PBG Current Report No. 12/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce-oraz-sprzedaz-akcji-w-spolce-grupa-duon-s-a.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce-oraz-sprzedaz-akcji-w-spolce-grupa-duon-s-a.html) | | | | | | | |
| **Apr 22 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement) | **Disposal of shares in Grupa DUON S.A.** | The Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) ("PBG") reported that a transaction involving the sale of shares in Grupa DUON S.A. ("DUON") was settled on April 22nd 2013. In block transactions executed on the trading day of April 17th 2013, PBG sold its entire holding of 15,718,841 shares in DUON, representing 15.34% of votes and shares in that company. | | | |
| **For more information, see PBG Current Report No. 12/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce-oraz-sprzedaz-akcji-w-spolce-grupa-duon-s-a.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce-oraz-sprzedaz-akcji-w-spolce-grupa-duon-s-a.html) | | | | | | | |
| **Sep 6 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  INFRA S.A.  Natural person | **Annex to the agreement on sale of 4,997,500 shares in INFRA S.A.** | On September 6th 2013, an annex to the agreement with a natural person ("the Buyer”) on sale of 4,997,500 shares in INFRA S.A., dated May 31st 2010, was signed.  The Annex changes the terms of the sale with respect to the price as a consequence of the fact that it is impossible to lift the surety provided by INFRA with respect to PBG debt.  After an analysis of the possible options of closing the transaction, including a buy-back of INFRA shares by PBG, and taking into consideration the current financial condition of INFRA, the PBG Management Board negotiated the sale price of all 4,997,500 shares at PLN 1.00. The transaction had no effect on the financial performance of PBG. The impairment loss on receivables under the sale of INFRA shares was recognised and disclosed in the financial statements for 2012.  Furthermore, the annex provides for the possibility of reverse transfer of ownership of the INFRA shares to PBG if INFRA fails to pay the contractual penalty of PLN 8,450,000, which will be imposed on it if INFRA liabilities towards PBG are not paid when due and INFRA shareholders make a decision to pay dividend. | | | |
| **For more information, see PBG Current Report No. 26/2013** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/26-2013-zawarcie-aneksu-do-umowy-sprzedazy-akcji-infra-sa.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/26-2013-zawarcie-aneksu-do-umowy-sprzedazy-akcji-infra-sa.html) | | | | | | | |
| **Dec 12 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  Strateg Capital Sp. z o.o. w upadłości układowej (in company voluntary arrangement) | **District Court's letter notifying the status of the insolvency proceedings with respect to STRATEG CAPITAL Sp. z o.o.** | Further to Current Report No. 21/2013 of July 10th 2013, on December 11th 2013, the Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) received a notification from the Company's subsidiary confirming the status of the insolvency proceedings pending with respect to that subsidiary. In an official letter, the District Court in Wałbrzych confirmed that Strateg Capital Sp. z o.o. was in insolvency proceedings with the option to enter into an arrangement, and that the former bankruptcy administrator was now acting as executive trustee. | | | |
| **For more information, see PBG Current Report No. 35/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/35-2013-informacja-z-sadu-rejonowego-o-sposobie-prowadzenia-postepowania-upadlosciowego-spolki-strateg-capital-sp-z-o-o.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/35-2013-informacja-z-sadu-rejonowego-o-sposobie-prowadzenia-postepowania-upadlosciowego-spolki-strateg-capital-sp-z-o-o.html) | | | | | | | |

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

Table 18: Events of default

| **Agreement/call/termination/declaration date** | **Parties** | | | | **Agreement/call/termination/declaration subject matter** | | | **Key terms** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Mar 7 2013**  Notice of initiation of enforcement proceedings | **Creditor:**  Banco Espirito Santo de Investimento S.A. Spółka Akcyjna Poland Branch | | | | Bartosz Guzik, Court Enforcement Officer at the District Court for Poznań-Grunwald and Jeżyce in Poznań, acting at the request of the Company's creditor, Banco Espirito Santo de Investimento S.A. Spółka Akcyjna Branch in Poland (the “Creditor”), gave the following notices:  1. Notice of enforcement proceedings for payment of a principal amount of PLN 2,443,650.31 against real estate entered in the Land and Mortgage Register under No. KW PO1P/00136241/7 (joint enforcement proceedings instigated at the request of PBP S.A.), PO1P/00275496/5, PO1P/00091909/0, and PO1P/00218712/9;  2. Notice of enforcement proceedings for payment of a principal amount of PLN 1,228,991.17 against real estate entered in the Land and Mortgage Register under No. KW PO1P/00136241/7 (joint enforcement proceedings instigated at the request of PBP S.A.), PO1P/00275496/5, PO1P/00091909/0, and PO1P/00218712/9;  3. Notice of enforcement proceedings for payment of a principal amount of PLN 5,097,877.25 against real estate entered in the Land and Mortgage Register under No. KW PO1P/00136241/7 (joint enforcement proceedings instigated at the request of PBP S.A.), PO1P/00275496/5, PO1P/00091909/0, and PO1P/00218712/9;  4. Notice of enforcement proceedings for payment of a principal amount of PLN 2,958,999.56 against real estate entered in the Land and Mortgage Register under No. KW PO1P/00136241/7 (joint enforcement proceedings instigated at the request of PBP S.A.), PO1P/00275496/5, PO1P/00091909/0, and PO1P/00218712/9;  5. Notice of enforcement proceedings for payment of a principal amount of PLN 1,636,599.68 against real estate entered in the Land and Mortgage Register under No. KW PO1P/00136241/7 (joint enforcement proceedings instigated at the request of PBP S.A.), PO1P/00275496/5, PO1P/00091909/0, and PO1P/00218712/9. | | | The total carrying amount of the real estate subject to the enforcement proceedings is PLN 77,766,621.98. The claimed principal amounts being enforced by the court enforcement officer total PLN 13,366,117.97. |
| **For more information, see PBG Current Report No. 6/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/6-2013-zawiadomienie-o-wszczeciu-postepowan-egzekucyjnych.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/6-2013-zawiadomienie-o-wszczeciu-postepowan-egzekucyjnych.html) | | | | | | | | |
| **Apr 3 2013**  Execution of a material agreement concerning voluntary repayment of due and payable debt outside arrangement, secured with tacit mortgages, and suspension of proceedings by the Bank | | | **Creditor:**  Bank DnB NORD Polska S.A. of Warsaw | | | The Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) (“PBG”) reports that on April 2nd 2013 it was notified of the execution on March 27th 2013 of an Agreement with DnB NORD Polska Spółka Akcyjna of Warsaw on voluntary repayment of due and payable debt, outside the arrangement, secured with five tacit mortgages. The mortgages were established over the Company’s real estate, including PBG’s head office. The Agreement concerns PBG’s debt (both own debt and joint and several liabilities) under Global Limit Agreement No. 07/2005 of March 8th 2005, as amended. Execution of the agreement was reported by the Company in Current Report No. 19/2005 of March 18th 2005.  The Agreement became effective as of the date of its approval by the court supervisor, that is March 29th 2013. The Company did not report on the enforcement proceedings as the mortgaged real estate did not represent significant assets. | | Key provisions of the Agreement:  a. During the term of the Agreement, the Bank will not conduct enforcement proceedings against the Company’s assets (they will be either suspended or discontinued, at Bank's discretion), will not file a motion for changing the insolvency procedure and will accede to PBG’s debt restructuring agreement provided that such agreement is concluded by at least 50% of the banks being the Company’s creditors and that the Bank’s credit committee approves such accession to the agreement by the Bank;  b. The secured debt will be repaid in instalments, in accordance with a schedule agreed upon by the parties, by December 31st 2014;  c. At the Company’s request, the Bank will release security by reducing the amounts of mortgages entered in relevant registers, on a quarterly basis;  d. If the mortgaged properties are sold, the proceeds will be applied towards repayment of PBG’s debt to the Bank, up to the value of a given mortgage. |
| **For more information, see PBG Current Report No. 11/2013: http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/11-2013-zawarcie-istotnego-porozumienia-w-sprawie-dobrowolnej-splaty-wymagalnego-zadluzenia-pozaukladowego-zabezpieczonego-hipotekami-przymusowymi-oraz-dotyczacego-wstrzymania-przez-bank-postepowania.html** | | | | | | | | |
| **Apr 22 2013**  Material agreement concluded by PBG with creditor, Banco Espirito Santo de Investimento SA Oddział w Polsce (Polish Branch) | | | **Creditor:**  Banco Espirito Santo de Investimento SA Poland Branch (Polish Branch) of Warsaw  TRIGON Dom Maklerski S.A. of Kraków | | | On March 27th 2013, an agreement on release from seizure in enforcement proceedings was executed by PBG with Banco Espirito Santo de Investimento SA Poland Branch of Warsaw ("the Bank"), and TRIGON Dom Maklerski S.A. of Kraków ("TRIGON"). In the agreement the parties confirmed that PBG had liabilities towards the Bank under guarantees executed to secure the Bank's claims against PBG's subsidiaries and liabilities under agreements to issue bank guarantees ("the Liabilities"), of which PLN 14,345,901.96 represents outstanding liabilities ("the Outstanding Liabilities"). PBG had failed to pay the Outstanding Liabilities, as a result of which the Bank initiated enforcement proceedings ("the Enforcement Proceedings") against PBG's assets. | | Under the Agreement, the Parties agreed that:  1) PBG would transfer to the Bank – pursuant to Art. 4.4 of the Agreement and Art. 102 of the Banking Law of August 29th 1997 – the ownership of the Deposit as security for repayment of the Outstanding Liabilities.  2) Until:  a. the date when the decision to approve the Arrangement becomes final; or  b. the date when the decision to discontinue the Insolvency Proceedings becomes final; or  c. the date when the decision to change the status of the Insolvency Proceedings to liquidation of the Debtor's assets becomes final  The Bank is not entitled to apply the Deposit towards repayment of the Outstanding Liabilities, subject to mandatory rules of law and subject to rulings and agreements binding on the Bank.  The Agreement, signed as part of the Divestment Programme pursued by the Company, enabled the sale of DUON shares owned by PBG, based on the Bank’s consent and after an application to discontinue the Enforcement Proceedings to the extent pertaining to the seizure of the Shares was filed by the Bank. Furthermore, the Bank agreed that during the effective term of the Agreement it will take any steps necessary to ensure that relevant applications to discontinue Enforcement Proceedings are granted, that it will not withdraw said applications, and that it will not file an application to change the status of the Enforcement Proceeding to liquidation of the Debtor's assets or an application to revoke the Debtor's self-administration. |
| **For more information, see PBG Current Report No. 12/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce-oraz-sprzedaz-akcji-w-spolce-grupa-duon-s-a.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/12-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce-oraz-sprzedaz-akcji-w-spolce-grupa-duon-s-a.html) | | | | | | | | |
| **Jul 27 2013**  Execution of a material agreement on voluntary repayment of debt secured by a contractual mortgage and remaining outside the arrangement scheme | | | **Creditor:**  FM Bank PBP S.A. | | | The Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) ("PBG", "the Company" or "the Debtor") reports that on July 26th 2013 an agreement ("the Agreement") was signed with FM Bank PBP S.A. ("the Bank"), providing for repayment by the Company of the portion of debt arising under Credit Agreement KT 5/2011 of June 29th 2011 ("the Credit Agreement") which is equal to the value of the Company's freehold property ("the Property") on which a contractual mortgage has been established to secure the Bank's claims under the Credit Agreement, that is the portion of the Bank's claims under the Credit Agreement amounting to PLN 6,005,400. | | The debt will be repaid in accordance with the repayment schedule provided for in the Agreement, which sets December 31st 2014 as the final repayment date of the debt, amounting to PLN 6,005,400 in aggregate. The parties agreed that the execution of the Agreement does not defer the repayment of the portion of debt covered by the Agreement or the remaining debt under the Credit Agreement, both of which remain due and payable in full amounts throughout the effective term of the Agreement. The Bank also agreed to refrain, throughout the duration of the Agreement and on the terms specified therein, from seeking the repayment of any portion (instalment) of the debt covered by the Agreement or any interest that may accrue thereon, on any terms other than those specified in the repayment schedule.  The Agreement stipulates that in the event of disposal of the Property the Debtor will agree to apply all proceeds from the disposal towards repayment of the outstanding debt covered by the Agreement.  Furthermore, the Bank agreed:  1) not to proceed against the Debtor to enforce its security under the mortgage created on the Property,  2) not to file an application to change the status of the ongoing Insolvency Proceedings to bankruptcy by liquidation of the Debtor's assets or an application to revoke the Debtor's self-administration,  3) to consider in good faith becoming party to the Debtor's debt restructuring agreement, to be concluded with the Debtor's other creditors if at least 50% of the creditor banks agree to become parties to the agreement and the Bank's governing bodies approve such a decision. |
| **For more information, see PBG Current Report No. 23/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/23-2013-zawarcie-istotnego-porozumienia-w-sprawie-dobrowolnej-splaty-wymagalnego-zadluzenia-pozaukladowego-zabezpieczonego-hipoteka-umowna.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/23-2013-zawarcie-istotnego-porozumienia-w-sprawie-dobrowolnej-splaty-wymagalnego-zadluzenia-pozaukladowego-zabezpieczonego-hipoteka-umowna.html) | | | | | | | | |
| **Oct 25 2013**  Execution of a trilateral Agreement between PBG, ING and PGNiG. | | | **Creditor:**  ING Bank Slaski S.A. | | | Further to Current Report No. 65/2009 of August 21st 2009, the Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) ("PBG", "the Company" or "the Party") reports that on October 25th 2013 the Company entered into a trilateral agreement with PBG, ING Bank Śląski S.A. ("the Bank", "ING" or "the Party") and Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG", "the Employer" or "the Party") ("the Agreement"), which amends the terms of security of the Bank's claims under the framework agreement of September 6th 2007, as amended, in the form of a conditional assignment of receivables ("Assignment of Receivables") under the EPC contract for the investment project "Construction of Surface Infrastructure for the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn Nm3, sub-phase: 1.2bn Nm3" of November 19th 2008" ("the Contract"). | | The Agreement stipulates that the Bank will be entitled to receive from the Employer, on behalf of PBG, or directly from PBG the following amounts due to the Bank under the Assignment of Receivables:  - PLN 8,322,947 (following Technical Acceptance in accordance with the Contract); and  - PLN 6,697,101 (following Final Acceptance in accordance with the Contract)  i.e. a total of PLN 15,020,048 ("Guaranteed Assignment Amount"), instead of PBG's all receivables under the Contract, as was the case previously.  If the Employer fails to pay the entire Guaranteed Assignment Amount by February 28th 2014, the Company will be obliged to pay the remaining part of the Guaranteed Assignment Amount by March 31st 2014. Following the receipt of the Guaranteed Assignment Amount, the Bank will return the remaining receivables under the Contract to PBG.  This satisfaction of the Bank's claims against PBG is performed outside of the arrangement.  In the executed Agreement, PBG and ING confirmed the total amount of the Bank's claim against the Company, which stood at PLN 181,477,407.91 as at the Agreement date.  The performance of the Agreement will enable the Company to receive the part of remuneration due to it under the Contract. |
| **For more information, see PBG Current Report No. 32/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2013-zawarcie-trojstronnego-porozumienia-pomiedzy-pbg-ing-oraz-pgnig.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/32-2013-zawarcie-trojstronnego-porozumienia-pomiedzy-pbg-ing-oraz-pgnig.html) | | | | | | | | |
| **Nov 21 2013**  Execution of material agreement for release of seizures in enforcement proceedings | | **Creditor:**  Banco Espirito Santo de Investimento SA Poland Branch | | Further to Current Report No. 109/2012 of November 8th 2012, Current Report No. 6/2013 of March 7th 2012, and Current Report No. 12/2013 of April 22nd 2013, the Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) (“PBG” or “the Company”) reports that on November 20th 2013 an agreement was executed with Banco Espirito Santo de Investimento SA Oddział w Polsce (Polish Branch) (“the Bank”), (“the Agreement”) on the release of seizures in enforcement proceedings.  The Agreement between the Bank and the Company (jointly “the Parties”) was executed in connection with the enforcement proceedings instituted at the request of the Bank against the assets of PBG (jointly “the Assets”) (“the Enforcement Proceedings”). In the Agreement, the Parties confirmed the amount of PBG’s liabilities towards the Bank, with PLN 25,632,531.47 representing the principal amount (“Due and Payable Amounts”). | | | Under the Agreement, the Parties agreed that:  1) Within seven days from the execution of the Agreement, the Bank will file applications for suspension of the Enforcement Proceedings;  2) PBG and the Bank will cooperate to dispose of the Assets in such a way that PBG will be able to sell the Assets subject to the Bank’s approval; On the day of the Bank’s approval for the sale of an Asset specified by the Company, the Bank will file applications for discontinuation of the Enforcement Proceedings towards that Asset;  3) PBG will place a deposit for the benefit of the Bank (“the Security Deposit”) in the amount of 35% of the proceeds from each disposal of an Asset as agreed upon with the Bank, until the total amount of the Security Deposit reaches the amount specified in the Agreement (“the Maximum Security Deposit Amount”); In accordance with the Agreement, the Maximum Security Deposit Amount will be equal to (i) 65% of the Due and Payable Amounts, or (ii) 15% of the Due and Payable Amounts, or (iii) another amount resulting from the Company’s debt restructuring agreement as may be executed between the Company and its Creditors; As at the date of the Agreement, the Maximum Security Deposit Amount is calculated at 65% of the Due and Payable Amounts;  4) Once PBG has provided a Security Deposit equal to the Maximum Security Deposit Amount, the Bank will file applications for discontinuation of the Enforcement Proceedings as a whole;  5) The Bank will be entitled to satisfy its claims from the Security Deposit provided by the Company only if (i) a decision on the Arrangement between the Company and its creditors becomes final, or (ii) a decision on discontinuation of the insolvency proceedings against the Company (the “Insolvency Proceedings”), becomes final, or (iii) a decision to convert the Insolvency Proceedings from voluntary arrangement to proceedings involving liquidation of the Company's assets becomes final;  6) The Bank will be entitled to recommence the Enforcement Proceedings if the Company fails to provide the Security Deposit in the Maximum Security Deposit Amount by the 30th day before the lapse of 12 months after suspension of the last Enforcement Proceedings;  7) The amount of PLN 5,069,504.04, provided as a security deposit for the benefit of the Bank under the Agreement on Release of Duon Shares from Seizure, on which PBG reported in Current Report No. 12/2013 of April 22nd 2013 and which expired upon the execution of the Agreement, will be applied towards the Security Deposit;  8) If the obligations imposed on the Company under the Agreement are fulfilled, the Bank will not file the application for conversion of the Insolvency Proceedings into proceedings for liquidation of PBG assets or revocation of PBG's self-administration. | |
| **For more information, see PBG Current Report No. 34/2013:** [**http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/34-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce.html**](http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/34-2013-zawarcie-istotnego-porozumienia-przez-pbg-z-wierzycielem-banco-espirito-santo-de-investimento-s-a-oddzial-w-polsce.html) | | | | | | | | |

**V. RELATED-PARTY TRANSACTIONS**

In 2013, the Company 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.

Transactions between the Company and its subsidiaries are disclosed in Note 5.29 to the 2013 separate financial statements of PBG S.A. w upadłości układowej (in company voluntary arrangement).

VI. CONTRACTED BANK BORROWINGS, LOAN AGREEMENTS

For information on bank borrowings and loan agreements executed in the reporting period, see the Company's financial statements.

VII. LOANS ADVANCED

For information on loans advanced in the reporting period, see notes to the statement of financial position in the Company's financial statements.

## VIII. NON-RECURRING FACTORS AND EVENTS

In June 2012, three PBG Group companies, including PBG S.A., HYDROBUDOWA POLSKA S.A. and Aprivia S.A., filed petitions for bankruptcy with arrangement option. The decision to file the petitions was prompted by difficult liquidity positions of the companies resulting from the execution of capital-intensive road construction projects, only partial settlement of the contract for the construction of the National Stadium in Warsaw, and the protracting negotiations with the financing banks. Two weeks later, on August 10th 2012, other eight subsidiaries (PBG Avatia Sp. z o.o., Dromost Sp. z o.o., Przedsiębiorstwo Robót Inżynieryjno-Drogowych S.A., Metorex Sp. z o.o., KWG Sp. z o.o., PBG Technologia Sp. z o.o., PBG Energia Sp. z o.o., Strateg Capital Sp. z o.o. and Energomontaż Południe S.A.) filed similar petitions to protect their interests, as well as the interests of their creditors and employees. The decision by 12 companies of the PBG Group 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. Currently, arrangement proceedings involving PBG, KWG, PBG AVATIA, DROMOST, PRID and Strateg Capital, and liquidation proceedings involving HYDROBUDOWA POLSKA, APRIVIA, PBG TECHNOLOGIA and Energomontaż Południe are under way. The petition filed by PBG Energia has been rejected for procedural reasons. Its ongoing arrangement procedure affects PBG’s operations and, consequently, the Company’s performance. The economic position and the ongoing arrangement proceedings at the PBG Group companies mentioned above may have a negative effect on the condition of PBG.

## IX. MAJOR R&D ACHIEVEMENTS

In the period covered by this Report, the Company did not have any major R&D achievements which would have a significant effect on the Group’s performance.

X. CONTROL SYSTEMS FOR EMPLOYEE PLANS

PBG does not operate any employee plans.

## XI. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

As at the filing date of this Report, the Company was involved in litigations in which it acted as the defendant or the plaintiff.

Major cases in which PBG expects to recover its receivables:

1. **PBG S.A. w upadłości układowej (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.

1. **PBG S.A. w upadłości układowej (in company voluntary arrangement) against Przedsiębiorstwo Usługowo - Produkcyjne POM Sp. z o.o., court docket No. IX Gc 815/13**

On June 19th 2013, the Regional Court in Poznań, 9th Commercial Division, in writ-of-payment proceedings, issued a decision ordering POM Przedsiębiorstwo Usługowo-Produkcyjne to pay the amount claimed by the plaintiff and to cover the costs of litigation. POM filed a valid complaint against the decision. On November 7th 2013, after the dispute had been referred to mediation, the parties held negotiations before a mediator and reached a settlement under which PBG was to receive PLN 160 thousand, POM was to withdraw its claims for a total amount of approximately PLN 400 thousand, and the parties were to formally terminate their binding agreements. The Regional Court approved the settlement and decided to discontinue the proceedings.

1. **PBG S.A. w upadłości układowej (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**

The Company has been pursuing claims against Control Process S.A. in connection with performance 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 to be released from court costs 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 release from costs. On September 26th 2013, the Plaintiff's attorney lodged a complaint against the dismissal of petition for release from court costs 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 along 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 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.

Until March 13th 2014, the law office in charge of the case had not received the objection against the payment order (such objection was received by the Court on February 18th 2014), as the Court has not yet issued a relevant order. Until the objection is physically received by the law office, the status presented herein remains unchanged.

1. **PBG S.A. w upadłości układowej (in company voluntary arrangement) against Marian Siska for payment**

Action for payment of PLN 1,200 thousand in connection with sale of shares in GasOil Engineering As. The case has been conducted in accordance with the Slovakian law by barrister 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 has been preparing a response to the appeal.

1. **PBG S.A. w upadłości układowej (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:

1. 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;
2. MWiK is not entitled to claim payment for non-performance or improper performance of the Contract by the Company and Hydrobudowa Polska;
3. 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 is 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 hearing has not yet been fixed, because the files have not yet been returned to the Regional Court in Bydgoszcz.

1. **PBG S.A. w upadłości układowej (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. (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 Court dismissed the petition for release from costs. 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. Currently, we are awaiting the court to examine the case and issue a payment order or fix a date and time of a hearing.

1. **PBG SA w upadłości układowej (in company voluntary arrangement) against Krolpol Sp. z o.o.**

The case concerns return of an advance payment in connection with Krolpol Sp. z o.o.'s failure to carry out the agreed work and a refund of temporarily incurred costs of purchase of materials and prefabrication services used or performed in accordance with the instructions given by Krolpol Sp. z o.o. to provide for performance of work for which Krolpol Sp. z o.o. has already been paid, which were supposed to be subsequently recharged to Krolpol Sp. z o.o. Value of the claim: PLN 100 thousand and interest until the date of payment. The statement of claim is being prepared.

1. **PBG S.A. w upadłości układowej (in company voluntary arrangement) against Gazomontaż S.A.**

The case concerns a claim for reimbursement of an amount paid by the Company to Gazomontaż S.A. for the performance of certain works, in respect of which Gazomontaż S.A. failed to make appropriate settlements with its subcontractor KWG and which the project owner, PGNiG, paid to KWG in accordance with Clause 14.18−21 of the EPC Contract for the LMG Project from remuneration due to PBG. The court issued a payment order. Gazomontaż S.A. filed an objection. Another hearing was scheduled for February 25th 2014. On March 11th 2014 the court ruled that the amount claimed by PBG must be paid by Gazomontaż (along with litigation costs plus interest).

Value of the claim: PLN 851 thousand plus statutory interest until the date of payment.

**Disputes pending against the Company:**

1. **Litigation concerning the 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 executed on May 4th 2009 (the "Contract"). The Consortium provided NCS with an insurance guarantee for the amount of PLN 152,479 thousand, securing the claims of NCS (as the employer) relating to the non-performance or improper performance of the Contract, which was issued by Zurich Insurance plc. Niederlassung für Deutschland (“Guarantor” or “Zurich”).

On June 1st 2012, NCS called on the Consortium to pay the penalty of PLN 308,832 thousand for a delay in the completion of the National Stadium project. On July 5th 2012, 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 for a delay in the completion of the construction project was ungrounded, because the delay occurred due to 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 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 a 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 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. By this date, 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 NCS, for which it has never received any payment. 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 NCS. Therefore, the Consortium is planning to bring one of several actions, depending on the needs, in the near future in connection with these claims it has against the NCS and the State Treasury. The detailed value of the litigation has not yet been determined. The Consortium is planning to bring the action early 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, 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, PBG S.A. 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 in this case has not yet been fixed. Value of the claim: PLN 152,479 thousand.

On September 20th 2013, Imtech Polska sp. z o.o. (one of the main subcontractors working for 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., NCS and the State Treasury – the Minister of Sport and Tourism. Imtech demands payment for the work done during the construction of the National Stadium in Warsaw and payment to cover the damage it sustained in connection with the fact that the work could not be performed at the originally scheduled time. Imtech's claim was formally lodged on December 12th 2013. PBG S.A. has three months to respond to the claim. The proceedings are pending.

1. **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 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 costs of proceedings to PBG. Dimark appealed against that decision. PBG will file a response to the appeal within the statutory time limit, i.e. by March 7th 2014. In this case, the plaintiff is pursuing a claim against the defendant on the basis of the defendant's unjust enrichment. The plaintiff, acting as a member of the general contractor consortium, entered into an assignment agreement with a third party, under which 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 in respect of a credit facility agreement to which the defendant, among other entities, is a party. When receiving an amount due in respect of the assigned debt claim, the Bank accounted for that receivable recognising it towards coverage of the defendant's liabilities. In the plaintiff's opinion, the defendant's liabilities under the credit facility agreement were paid at the plaintiff's cost and without the necessary legal basis, giving rise - in the plaintiff's opinion - to an unjust enrichment of the defendant.

1. **Gmina Zabrze, ZPWiK against PBG SA w upadłości układowej (in company voluntary arrangement), Hydrobudowa Polska SA 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. w upadłości układowej (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.

1. **Towarzystwo Ubezpieczeń Euler Hermes S.A. of Warsaw against PBG S.A. w upadłości układowej (in company voluntary arrangement), court docket No. XVI GNc 1157/13**

On October 9th 2013, TU Euler Hermes brought a claim against PBG S.A. with reference to a PLN 5,075,247.46 thousand payment order on the basis of a promissory note.

TU 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 S.A. provided its surety. In connection with the bankruptcy of Hydrobudowa Polska, the bankruptcy administrator withdrew Hydrobudowa Polska SA from a contract performed for the Municipality of Poznań as the project sponsor. 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 provided a surety with respect to the promissory note). the District Court in Warsaw issued an order for payment of PLN 5,075,247.46 (including interest) by PBG S.A. Next, on December 12th 2013, PBG S.A. 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 withdrawal from the contract, it ceased to be party to the contract. PBG S.A.'s objection has not yet been examined by the Court.

**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 extended the proceedings until March 31st 2014.

## XII. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES

In the reporting period, PBG S.A. did not make any major changes in its significant management policies.

# 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 Chairman of the PBG Supervisory Board.

Table 19: Share capital of PBG

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PBG shares** | **Number of shares** | **Type of shares** | **Number of shares** | **Number of votes** | **Number of outstanding shares** |
| **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** |

On April 19th 2012, the District Court of Poznań registered a conditional share capital increase at PBG by up to PLN 14,295,000.00, through the issue of no more than 14,295,000 Series H ordinary bearer shares with a par value of PLN 1.00 per share. The capital increase was registered based on the resolution adopted by the Extraordinary General Meeting held on April 3rd 2012 and concerning the issue of Series A1 through A12 bonds convertible into Series H shares, issue of Series H shares as a part of a conditional share capital increase, and waiver of pre-emptive rights of the existing shareholders with respect to Series A1 through A12 bonds convertible into Series H shares and Series H shares. The resolution enables PBG to issue bonds convertible into shares. The bonds may be issued in tranches (no more than twelve) and be subscribed for by trade or financial investors. The par value of the bonds is PLN 100,000.00 per bond, with the total par value of bonds to be issued of PLN 1,200,000,000.00. The Terms of the Bonds issued in the respective Series may provide for different rights and obligations of the issuer and bondholders, in particular with respect to the issue price, redemption dates, conversion price, premium or interest rate. All bondholders shall be entitled to acquire Series H ordinary bearer shares.

Table 20: Shareholders holding over 5% of shares

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at Dec 31 2013** | | | | |
| **Shareholder** | **Number of shares** | **Total par value (PLN)** | **Ownership interest (%)** | **% of total vote** |
| **Jerzy Wiśniewski** | 3,881,224 shares, including:  3,735,054 registered preferred 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 vote** |
| **Jerzy Wiśniewski** | 3,881,224 shares, including:  3,735,054 registered preferred shares and 146,170 ordinary shares | 3,881,224 | 27.15% | 42.23% |

Figure 7: 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 SHAREHOLDER STRUCTURE

In the period covered by this Report and subsequent to the reporting date, the following material changes occurred in PBG’s shareholding structure:

Table 21: Changes in PBG’s shareholding structure in 2013 and subsequent to the reporting date

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Notification date** | **Threshold** | **Number of shares** | **% of total vote at GM (%)** | **Date of change** |
| **ING Powszechne Towarzystwo Emerytalne S.A.** | | | | |
| **July 16th 2013** | **<10%** | **121,804** | **0.68%** | **July 11th 2013** |

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III. KEY DATA ON PBG SHARES

**1. Share price**

Figure 8: PBG stock price from January 1st 2013 to December 31st 2013 against the WIG and WIG-BUD indices

Figure 9: PBG stock price from the Company's IPO to February 2014 against the WIG and WIG-BUD indices

## 

## 2. Key data on PBG shares

Table 22: Per-share data

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Key per-share data** |  | **2013** | **2012** | **y-o-y change** |
| 52-week high | **PLN** | 7.61 | 83.90 | -91 |
| 52-week low | **PLN** | 1.63 | 3.36 | -51 |
| Share price at year end | **PLN** | 2.21 | 5.28 | -58 |
| Number of shares at end of period | **number of shares** | 14,295,000 | 14,295,000 | - |
| Number of outstanding shares | **number of shares** | 10,555,000 | 10,555,000 | - |
| Capitalisation at year end | **PLN ‘000** | 31,591 | 75,477 | 58 |
| Average daily trading value | **PLN ‘000** | 970 | 5,118 | -81 |
| Average daily trading volume | **number of shares** | 246,289 | 341,047 | -28 |

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 Par. 11.1 of the Company’s Articles of Association, the disposal of Series A registered shares requires the Management Board’s approval.

VII.**AGREEMENTS WHICH MAY RESULT IN CHANGE IN SHAREHOLDINGS**

As at the date of filing this Report, the Management Board is not aware of any agreements which may result in changes in the shareholdings.

IX.**EVENTS WHICH MAY RESULT IN CHANGE IN SHAREHOLDINGS**

On April 3rd 2012, the Extraordinary General Meeting was held. The main item on the agenda was voting on a resolution concerning issue of Series A1 through A12 bonds convertible into Series H shares, issue of Series H shares as a part of a conditional share capital increase and waiver of pre-emptive rights of the existing shareholders with respect to Series A1 through A12 bonds convertible into Series H shares and Series H shares. The resolution was adopted by the 96% majority.

Under the resolution PBG may issue bonds convertible into shares. The bonds may be issued in tranches (no more than twelve) and be subscribed for by trade or financial investors. The par value of the bonds is PLN 100,000.00 per bond, with the total par value of bonds to be issued of PLN 1,200,000,000.00. The Terms of the Bonds issued in the respective Series may provide for different rights and obligations of the issuer and bondholders, in particular with respect to the issue price, redemption dates, conversion price, premium or interest rate. All bondholders shall be entitled to acquire Series H ordinary bearer shares on the following terms.

In order to confer upon the bondholders the right to convert Series A1 through A12 Bonds into Series H shares, on April 19th 2012, the District Court of Poznań registered a conditional share capital increase at the PBG by up to PLN 14,295,000.00, through the issue of no more than 14,295,000 Series H ordinary bearer shares with a par value of PLN 1.00 per share.

Series H shares shall confer the right to dividend as of January 1st 2012, i.e. for the financial year 2012, with the proviso that Series H shares confer the right to dividend payable for a given financial year if credited to the securities account of the former bondholder holding the shares not later than on the dividend record date defined by the General Meeting in a resolution concerning the distribution of profit and setting the dividend record date.

## X. INVESTOR RELATIONS

Investor relations have always played an important role in PBG’s activities. Our investor relations efforts have always been highly appreciated by capital market participants. However, PBG had been able to apply the best market practices in investor relations only until the Company filed a petition for insolvency with arrangement option. At the moment, prospective investors' interest in investing in the PBG stock has been significantly reduced, and brokerage houses (in line with their relevant policies) have discontinued research coverage of the PBG stock. The Company is not included in any of the indices of the Warsaw Stock Exchange (which is also due to its formal and legal status), which further affects investors' interest in our shares. In such circumstances, investor relations are focused on maintaining relationships with the existing shareholders for whom the IR Department personnel are always available.

The IR Department reports to the Vice-President of the Management Board, Finance and Economics Director. The main goal of the investor relations function is to establish an open platform of communication with investors and PBG’s shareholders in order to guarantee the most convenient access to information. The Company communicates with the market guided by the principle of transparency.

The investor relations website is an important communication hub and provides all interested parties with ample information on the Company. It features annual, interim and current reports, recordings of video- and audio conferences, the Company's financial calendar, information on General Meetings, and brokers' recommendations, all available for download.

### 1. Brokers' recommendations

When PBG was declared insolvent in voluntary arrangement in early June 2012, the brokerage houses covering PBG shares suspended their coverage in line with the internal procedures they are expected to follow when a company they cover declares insolvency.

### 2. The Company and its shares

Table 23: IR contact data

|  |  |
| --- | --- |
| **IR Department** | Michał Maćkowiak |
| **Tel. No.** | +48 (0) 61 66 46 431 |
| **Email** | [michal.mackowiak@pbg-sa.pl](mailto:michal.mackowiak@pbg-sa.pl) |
| **Website** | [www.pbgsa.pl](http://www.pbgsa.pl) |
| **WSE** | 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 2013, PBG reported a 52% revenue growth year on year, from PLN **221,827 thousand in 2012** to PLN **336,128 thousand in 2013.** Cost of sales increased by 16%, to PLN 399,134 thousand as at the end of 2013.

Figure 10: Historical development of revenue (past five years)

Historically, sales of the PBG's services remained in an upward trend. However, the trend reversed in 2012 due to the difficult situation of the Company. 2013 was much more favourable for the Company's sales, which reached PLN 336m and were 52% higher than in the previous year.

For more than a year PBG has not won any new orders and is currently finishing work under contracts from the current order book (the order book is calculated as the total revenue remaining to be invoiced under contracts in progress). As at January 1st 2014, the Company's order book was ca. PLN 410m, including PLN 305m to be delivered in 2014, and the remaining PLN 105m to be delivered in 2015.

**2. EBITDA**

In 2013, PBG’s EBITDA (operating profit plus depreciation/amortisation) increased by PLN 2,226m relative to 2012. EBITDA increased from PLN **-1,991,450 thousand** to **PLN 234,475 thousand.** In 2012, the PBG Group's EBITDA was heavily impacted by a number of non-recurring events which followed from the significant deterioration of the financial condition of PBG and PBG Group companies. In 2013, the economic and operational position of the Company, somewhat stabilised. However, the Company's performance continued to be impacted by non-recurring events.

Figure 11: Historical development of EBITDA (past five years)

**3. EBIT**

In 2013, PBG's operating profit was PLN **222,153 thousand.** The strong operating profit was driven by the effects of non-recurring events, which included: reversal of a provision for PBG's potential liabilities under sureties and guarantees issued or under joint and several liability to subcontractors related to projects performed under consortium agreements.

Figure 12: Historical development of EBIT (past five years)

**4. Earnings per share (EPS)**

In 2013, the Company's EPS ratio was PLN 9.00.

Figure 13: Historical development of EPS (past five years)

**5. Liquidity ratios**

Table 24: Liquidity ratios

|  |  |  |  |
| --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **2013** | **2012** |
| Current ratio | (current assets/current liabilities)\*100 | 0.21 | 0.18 |
| Quick ratio | (current assets – inventories/current liabilities)\*100 | 0.21 | 0.18 |
| Cash solvency ratio | (cash balance at end of period/current liabilities)\*100 | 0.06 | 0.05 |

As at the end of 2013, the current ratio improved compared with the corresponding period of the previous year: it stood at 0.21, compared with 0.18 as at the end of 2012.

Similarly, as at the end of 2013, the quick ratio improved compared with the corresponding period of the previous year: it stood at 0.21, compared with 0.18 as at the end of 2012.

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 increased from 0.05 at the end of 2012 to 0.06 at the end of 2013. The ratio suggests that PBG is able to cover 6% of its current liabilities with the most liquid assets.

**6. Debt**

Table 25: Debt ratios

|  |  |  |  |
| --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **2013** | **2012** |
| Structure of equity and liabilities | equity / debt capital | -0.42 | -0.41 |
| Structure of assets | Non-current assets / current assets | 2.56 | 3.75 |

As in the previous year, in 2013 equity was negative.

The assets structure ratio decreased by 119pp year on year. In 2012, non-current assets represented 375% of current assets, while in 2013 non-current assets accounted for 256% of current assets, which indicates higher flexibility of assets and shortening of the period when funds remain tied-up.

## II. CHANGES IN THE INCOME STATEMENT AND COST ANALYSIS

**1. Income statement**

Table 26: Changes in the income statement

|  |  |  |  |
| --- | --- | --- | --- |
| **PBG's income statement (PLN ‘000)** | **2013** | **2012** | **2013/2012** |
| Net revenue from sales of products, merchandise and materials | 336,128 | 221,827 | 152% |
| Cost of sales | 399,739 | 345,134 | 116% |
| **Gross profit (loss)** | **-63,611** | **-123,307** | **52%** |
| Administrative expenses | 23,494 | 116,140 | 20% |
| **Profit on sales** | **-87,105** | **-116,140** | **75%** |
| Other income | 365,044 | 71,496 | 511% |
| Other expenses | 55,786 | 1,865,487 | 3% |
| Restructuring costs | - | -32,023 | - |
| **Operating profit (loss)** | **222,153** | **-2,033,438** | **-** |
| Finance costs | 93,495 | 308,452 | 30% |
| **Profit (loss) before tax** | **128,658** | **-2,373,913** | **-** |
| Income tax expense | - | 21,572 | - |
| **Net profit (loss)** | **128,658** | **-2,352,342** | **-** |

As at the end of 2013, PBG's net profit was nearly PLN 129m. The positive value of operating profit and net profit was driven by the PLN 335m reversal of the provision for potential liabilities under sureties and guarantees (discussed below). With revenue of PLN 336m, the Company's cost of sales was PLN 399.7m. The Company's gross loss amounted to PLN 63.6m in 2013, compared with a loss of more than PLN 123m reported in 2012. The 2013 results show a clear improvement at all levels of the income statement.

**Administrative expenses** were PLN 23.5m, a fourfold decrease compared with the corresponding period of the previous year.

**Other income** amounted to PLN 365m, with the largest item being a PLN 335m reversal of the provision for potential liabilities under sureties and guarantees. Provision for the Company's potential liabilities under the sureties and guarantees issued and under joint and several liability to subcontractors related to projects performed under consortium agreements is the most significant provision recognised by the Company. The value of the provision recognised in 2012 was PLN 780m. On September 30th 2013, the Company filed with the Court a revised draft of the arrangement proposals, first filed along with the petition for the Company's insolvency with an arrangement option on June 4th 2012. In accordance with IAS 8, the Company reviewed its estimates at December 31st 2013 and reversed the provision down to PLN 445m.

**Other expenses** were nearly PLN 56m. The most significant items of other expenses included PLN 84.1m impairment losses on loans advanced, PLN 12m fair value measurement of property, and PLN 74m impairment losses on receivables.

**Finance costs,** less finance income of PLN 6m, amounted to PLN 93.5m. The largest item was impairment losses on held-to-maturity investments of PLN 85m, which comprised bonds issued in 2010 by Strateg Capital and acquired by PBG, and Herodot bonds. Other significant items of finance costs included PLN 12.1m impairment losses on investments in subsidiaries, associates and jointly-controlled entities, and PLN 1.7m interest, fees and commission due to banks.

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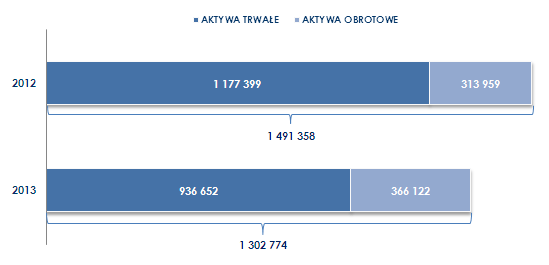
## III. ASSETS, FINANCIAL STANDING AND FUNDING OF THE ASSETS

**1. Assets**

The asset structure changed significantly during the period under review. As at the end of 2013, non-current assets represented 72% of total assets, which represented a decrease of 7% year on year. In 2013 the share of current assets in total assets increased to 28% year on year. Investments in subsidiaries was the largest item of non-current assets, accounting for 60% of total non-current assets. The second largest item of non-current assets, which accounted for 24% of total non-current assets, was non-current loans advanced, comprising primarily the loans advanced to the PBG Group companies of PLN 224m (net of impairment losses).

During the period under review, the structure of current assets also changed. Current loans advanced had the largest share in current assets in 2013, and accounted for 36% of total current assets. Current trade receivables, which accounted for 30% of the total current assets, and Cash and cash equivalents, which accounted for 27% of total current assets, were the second and the third largest item of current assets respectively.

Figure 14: Assets (PLN ’000)

****

|  |  |
| --- | --- |
| AKTYWA TRWAŁE | NON-CURRENT ASSETS |
| AKTYWA OBROTOWE | CURRENT ASSETS |

Figure 15: Largest items of assets (PLN' 000)

Table 27: Asset ratios (%)

|  |  |  |  |
| --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **2013** | **2012** |
| Basic asset structure ratio | (non-current assets / current assets )\*100 | 255.83% | 375.02% |
| Non-current assets to total assets | (non-current assets/ total assets)\*100 | 71.90% | 78.95% |
| Current assets to total assets | (current assets/ total assets)\*100 | 28.10% | 21.05% |
| Inventories to current assets | (inventories / current assets)\*100 | 0.26% | 0.34% |
| Current receivables to current assets | (Current receivables / current assets)\*100 | 35.11% | 51.31% |

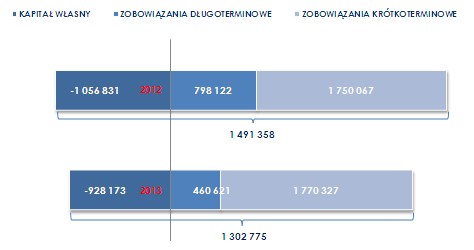
The basic asset structure ratio is discussed in detail in Section 1.6, Section VI.

There were significant changes in the value of particular items of assets and in the structure of total assets. In 2013, non-current assets fell 20% year on year. An increase was seen in current assets, which rose by 17%. As at the end of 2013, the share of non-current assets in total assets was 7% down on 2012. At the same time, current assets' share in PBG's total assets increased to 28%.

**2. Equity and liabilities**

As in the previous year, equity in 2013 was negative. The share of non-current liabilities in the balance-sheet total changed, as the value of non-current liabilities was down 42% year on year, and totalled PLN 461m. Current liabilities remained relatively flat year on year, at PLN 1,770m. The largest item of current liabilities, accounting for 70% of the total, was borrowings and other debt instruments, which comprised PLN 450m bonds issued by PBG in 2010, as well as PLN 375m bonds issued in 2009. In non-current liabilities, other provisions of PLN 454m represented the largest item.

Figure 16: Equity and liabilities (PLN ‘000)



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

Figure 17: Largest items of equity and liabilities (PLN' 000)

Table 28: Financial ratios (%)

|  |  |  |  |
| --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **2013** | **2012** |
| Basic equity and liabilities structure ratio | (equity / debt capital)\*100 | -41.60% | -41.47% |
| Long-term capital to equity and liabilities ratio | (long-term capital / total equity and liabilities)\*100 | 35.36% | 53.52% |
| Capital reserves to equity and liabilities ratio | (capital reserves / total equity and liabilities)\*100 | 37.76% | 55.68% |

The basic equity and liabilities structure ratio is discussed in detail in Section 1.9, Section VI.

Debt capital was PLN 2.231bn, down PLN 317m relative to the end of 2012. Over the same period, the share of long-term capital in total equity fell from 54% as at the end of 2012 to 35% one year later. The share of capital reserves in equity and liabilities decreased by 18 p.p., to 38% as at the end of 2013.

## IV. STATEMENT OF CASH FLOWS

Table 29: Cash flows (PLN ‘000)

|  |  |  |
| --- | --- | --- |
|  | **2013** | **2012** |
| **Net cash from operating activities** | -13,526 | -78,915 |
| **Net cash from investing activities** | +32,505 | -118,815 |
| **Net cash from financing activities** | -14,404 | +121,954 |
| **Net cash at the end of the period** | +99,806 | +95,231 |

As in the previous year, cash flows from operating activities generated by PBG in 2013 were negative at PLN -13.5m. During the period under review, net cash from investing activities was positive at PLN +32.5m. Positive cash flows from investing activities were partially attributable to sale of non-operating assets and repayment of loans advanced to subsidiaries, in particular companies from the PBG Dom Group. Net cash from financing activities in 2013 was negative at PLN -14.4m. The Company did not incur any bank borrowings in the reporting period, but repaid PLN 13m of claims not covered by the arrangement, due under credit facilities secured with Company's assets, through settlements with the creditors.

Table 30: Cash flow profile

|  |  |  |
| --- | --- | --- |
|  | **2013** | **2012** |
| **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 41: Data used by PBG to compute net debt (PLN ‘000)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2013** | **2012** | **y-o-y change** |
| **Non-current borrowings** | 0 | 0 | - |
| **Current borrowings** | 394,438 | 409,283 | -4 |
| **Finance lease liabilities (current and non-current)** | 5,848 | 6,550 | -11 |
| **Bonds** | 838,772 | 838,772 | - |
| **Net cash** | 99,806 | 95,231 | +5 |
| **Net debt** | **1,139,252** | **1,159,374** | **-1.7** |

As at December 31st 2013, net debt was PLN 1,139m, down 1.7% on the end of 2012. This amount comprises interest-bearing debt, including PLN 394.4m in current borrowings, PLN 5.8m in current and non-current finance lease liabilities, and PLN 838.8m in bonds, including 13.8m of interest (issued by the Company in two tranches: PLN 375m in 2009 and PLN 450m in 2010). Net cash of PLN 99.8m as at the end of 2013 was deducted from these amounts.

## VI. INVESTMENTS

**1. Equity investments**

In 2013, PBG did not make any equity investments.

**2. Expenditure on property, plant and equipment**

In 2013, PBG did not incur any material expenditure on property, plant and equipment, as the aggregate value of such investments was PLN 45 thousand.

3. Feasibility of the Group'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 preparation of the list of claims had been completed. Currently, in accordance with the Bankruptcy and Restructuring Law, examination of the objections raised against the list of claims, and revision of the claims are underway.

It should also be noted that on December 24th 2013, the Judge announced preparation by the Court Supervisor of the first supplementary list of claims as at November 29th 2013. The total amount of the acknowledged claims placed in the first supplementary list of claims by the court supervisor was PLN 191.25m, which was in accordance with the Management Board’s estimates. Currently, in accordance with the Bankruptcy and Restructuring Law, as in the case of the list of claims announced by the Judge on July 4th 2013, the process of examining the objections raised against the first supplementary list of claims 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

In the separate financial statements as at December 31st 2013, the Company disclosed contingent liabilities recognised as off-balance-sheet items, including guarantees and sureties issued to related and other entities, of PLN 1,299,059 thousand.

The contingent liabilities pertain to liabilities under sureties issued for credit facilities and trade payables, sureties issued to third parties by PBG, 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, and liability arising in connection with sureties and guarantees issued by the Company for 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.

In the year ended December 31st 2013, the Company became aware that a part of its off-balance-sheet liabilities had extinguished upon expiry of the corresponding financial products.

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 released the provision in the portion above the amount of PLN 444,555 thousand.

Prior to the reduction by the amount of the provision, the value of contingent liabilities recorded by PBG S.A. w upadłości układowej (in company voluntary arrangement) as at December 31st 2013 was PLN 1,743,614 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 Company's current financial condition puts in question its ability to continue as a going concern. However, the financial statements have been prepared on the assumption that the Company 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 Company'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 Company'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 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 in 2012. 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 business 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 provided with a plan of the operational restructuring of the Company, prepared by the Company and its financial adviser PwC Polska Sp. z o.o. 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 receipt of corporate approvals, 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 will be satisfied in seven groups, depending on the category of interest they represent and the type and size of their claims. The Creditors will be divided into categories of interest in accordance with the Bankruptcy and Recovery 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 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, proper performance of the arrangement agreement is guaranteed by:

## restructuring of Company’s non-operating non-current assets, the sale of which constitutes one of the sources of payments made as part of the arrangement;

## divestment of the PBG Group’s property development and other investment projects;

## gaining potential access to profitable contracts in the power construction sector through the cooperation with RAFAKO S.A., PBG's subsidiary;

## winning new contracts in the oil and gas sector, which is the strategic area of operations for PBG.

## Considering the difficult situation of the Company and the loss disclosed in its 2012 financial statements, which exceeded the sum of the Company’s statutory reserve funds, capital reserves and one-third of its share capital, the Management Board, acting under Art. 397 of the Commercial Companies Code, decided to include in the agenda for the PBG General Meeting convened for June 21st 2013 voting on a resolution on whether the Company should continue in existence. The resolution was passed by the Company’s Shareholders.

## Further stages of the voluntary arrangement proceedings held before the Bankruptcy Court have recently been completed. 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 thousand, which is in accordance with the Management Board’s estimates. On July 4th 2013, the judge announced that the preparation of the list of claims had been completed. Currently, in accordance with the Bankruptcy and Restructuring Law, the process of examining objections raised against the list of claims and complaints against the decisions of Judge-Commissioner concerning the examination of objections, and revision of the claims is under way. On September 30th 2013, the Company filed with the Court a revised draft of the arrangement proposals, first filed along with the petition for PBG S.A.’s insolvency with an arrangement option on June 4th 2012. The proposals are consistent with the proposals provided to the Creditors on September 3rd 2013, as reported by the Company in Current Report No. 29/2013. The Company will supplement the revised proposals in the course of the insolvency proceedings, depending on the results of its negotiations with the Creditors on the conclusion of the restructuring agreement and determination of the detailed terms and conditions of the restructuring, once the list of claims is finally approved.

## It should also be noted that on December 24th 2013, the Judge announced preparation by the Court Supervisor of the first supplementary list of claims as at November 29th 2013. The total amount of the acknowledged claims placed in the first supplementary list of claims by the court supervisor was PLN 191.25m, which was in accordance with the Management Board’s estimates. Currently, in accordance with the Bankruptcy and Restructuring Law, as in the case of the list of claims announced by the Judge on July 4th 2013, the process of examining the objections raised against the first supplementary list of claims and complaints against dismissed objections is underway. The next step of the procedure will be the approval of the lists of claims by Judge Commissioner, which will allow for the meeting of the Company’s creditors to be called.

## CONTACT DETAILS

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**SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS, March 21st 2014**

|  |  |
| --- | --- |
| **President of the Management Board** |  |
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| **Paweł Mortas** |
| **Vice-President of the Management Board** |  |
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| **Kinga Banaszak-Filipiak** |
| **Vice-President of the Management Board** |  |
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| **Tomasz Tomczak** |
| **Vice-President of the Management Board** |  |
| **Mariusz Łożyński** |
|  |  |
| **Member of the Management Board** | **Bożena Ciosk** |