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**DIRECTORS’ REPORT ON THE OPERATIONS OF THE PBG GROUP**

**for the period January 1st – June 30th 2013**

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# SECTION I: THE GOVERNING BODIES

I. COMPOSITION OF THE SUPERVISORY AND MANAGEMENT BOARDS AND CHANGES THEREIN IN H1 2012

**1. Composition of the Supervisory Board**

Composition of the Supervisory Board in the period **January 1st** -**June 30th 2013**:

* Jerzy Wiśniewski – Chairman of the Supervisory Board as of June 29th 2012;
* Maciej Bednarkiewicz – Chairman of the Supervisory Board until June 28th 2012, Deputy Chair as of June 29th 2012;
* Małgorzata Wiśniewska – Deputy Chair of the Supervisory Board until June 28th 2012, Secretary of the Supervisory Board as of June 29th 2012;
* Dariusz Sarnowski – Secretary of the Supervisory Board until June 28th 2012, Member of the Supervisory Board as of June 29th 2012;
* Przemysław Szkudlarczyk – Member of the Supervisory Board as of June 28th 2012;
* Stefan Gradowski – Member of the Supervisory Board as of June 21st 2013;
* Norbert Słowik – Member of the Supervisory Board as of June 21st 2013;

The persons listed above were appointed to the Supervisory Board for an annual term of office by the Annual General Meeting on June 21st 2013. The Supervisory Board of the current term of office is composed of seven members.

Composition of the Supervisory Board in the period under review and at present:

|  |  |
| --- | --- |
| **Full name** | **Jerzy Wiśniewski**  *Non-independent Member of the Board; Mr. Wiśniewski does not conduct any activity competitive to the business of PBG* |
| **Position** | **Chair of the Supervisory Board** |
| **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 and President of the Management Board * PBG S.A. in company voluntary arrangement – Chairman of the Supervisory Board * RAFAKO S.A. – Deputy Chairman of the Supervisory Board |

|  |  |
| --- | --- |
| **Full name** | **Maciej Bednarkiewicz** |
| **Position** | **Deputy Chairman of the Supervisory Board**  *Independent Member of the Board; Mr Bednarkiewicz does not conduct any activity competitive to the business of PBG S.A.* |
| **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 of the Supervisory Board from 2004; as of 2012, Deputy Chairman of the Supervisory Board |

|  |  |
| --- | --- |
| **Full name** | **Małgorzata Wiśniewska** |
| **Position** | **Secretary of the Supervisory Board**  *Non-independent Member of the Board; Ms. Wiśniewska does not conduct any activity competitive to the business of PBG S.A.* |
| **Qualifications** | * Graduate of 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 S.A.: Quality System Director, Public Relations Director, Member of the Management Board and Vice-President of the Management Board. * President of the Management Board of INFRA S.A. * Chair of the Supervisory Board of Hydrobudowa Polska S.A. * Deputy Chair of the Supervisory Board of Hydrobudowa 9 S.A. * Chair of the Supervisory Board of PBG Dom Sp. z o.o. * Chair of the Supervisory Board of APRIVIA S.A. * Member of the Supervisory Board of GasOil Engineering AS * Member of the PBG Supervisory Board in the period November 21st 2006–August 31st 2008 and since April 21st 2010 |

|  |  |
| --- | --- |
| **Full name** | **Dariusz Sarnowski** |
| **Position** | **Member of the Supervisory Board**  *Independent Member of the Board; Mr Sarnowski does not conduct any activity competitive to the business of PBG* |
| **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 Management Board of DMP Inwestycje Sp. z o. o. * President of the Management Board of Salus-Med.Sp. z o.o. * President of the Management Board of ECDF Ksiegowość Sp. z o.o. * 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* |
| **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 SA – Vice-President of the Management Board |

|  |  |
| --- | --- |
| **Full name** | **Stefan 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 S.A.* |
| **Qualifications** | * Warsaw School of Economics * Completed several postgraduate programmes in organisation, management and finance at universities in Poland and abroad (e.g. University of London, University of Dublin). |
| **Experience** | * Adviser to the President of the Management Board of Bank BZ WBK * Member of the Supervisory Board of MACOPHARMA Polska * Member of the Supervisory Board of LOOK Investment * Co-owner of G.C. Conslulting Sp. z o.o. * Member of the Supervisory Board of Alterco S.A. * Member of the Supervisory Board of Trigon S.A. |

|  |  |
| --- | --- |
| **Full name** | **Norbert Słowik** |
| **Position** | **Member of the Supervisory Board**  *Independent Member of the Board; Mr Słowik does not conduct any activity competitive to the business of PBG S.A.* |
| **Qualifications** | * University of Łódź * Completed a Postgraduate European Programme in macroeconomics, microeconomics and EU law. * Became 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** | * Co-owner and general partner at Norbert Słowik i Wspólnicy Spółka komandytowa * Director for Strategy and Development at INFRA Sp. z o.o. * Director of the Cohesion Initiatives Department at the National Fund for Environmental Protection and Water Management * Minister's legal counsel at the Office of the Committee for European Integration * Manager and specialist at the PHARE – STRUDER programme management team at the Regional Development Agency of Łódź (Łódzka Agencja Rozwoju Regionalnego S.A.) * Legal counsel at the Central Planning Office * Member of the Supervisory Board of Wiertmar Sp. z o.o. * Member of the Supervisory Board of Geotermia Podhalańska S.A. * Member of the Supervisory Board of Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji w Krakowie S.A. * Member of the Supervisory Board of Grupowa Oczyszczalnia Ścieków of Łódź |

As at June 30th 2013 and the report filing date, the composition of the Supervisory Board was as follows:

* Jerzy Wiśniewski – Chairman of the Supervisory Board as of June 29th 2012;
* Maciej Bednarkiewicz – Chairman of the Supervisory Board until June 28th 2012, Deputy Chairman as of June 29th 2012;
* Małgorzata Wiśniewska – Deputy Chair of the Supervisory Board until June 28th 2012, Secretary of the Supervisory Board as of June 29th 2012;
* Dariusz Sarnowski – Secretary of the Supervisory Board until June 28th 2012, Member of the Supervisory Board as of June 29th 2012;
* Przemysław Szkudlarczyk – Member of the Supervisory Board as of June 28th 2012;
* Stefan Gradowski – Member of the Supervisory Board as of June 21st 2013;
* Norbert Słowik – Member of the Supervisory Board as of June 21st 2013;

**2. Composition of the Management Board**

Composition of the Management Board in the period January 1st – June 30th 2013:

• Paweł Mortas – President since October 28th 2012;

• Tomasz Tomczak – Vice-President;

• Mariusz Łożynski – Vice-President;

• Kinga Banaszak-Filipiak – Vice-President since October 28th 2012;

• Bożena Ciosk – Member of the Management Boards as of March 18th 2013;

|  |  |
| --- | --- |
| **Full name** | **Paweł Mortas** |
| **Position** | **President of the Management Board as of 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 – one-month internship at Bankowe Towarzystwo Ubezpieczeniowe HEROS S.A. of Bełchatów, * 1997-1999 – Tongheung-ZTS Polska Sp. z o.o of Grójec, positions held: financial specialist, head of economics division, * 2001 – Medim Sp. z o.o. of Warsaw, positions held: financial inspector, finance and organisation director, * 2003-2005 – TBS - Bemowo Sp. z o.o. of Warsaw, vice-president of the management board (finance), * 2003-2005 – TBS - Wola Sp. z o.o. of Warsaw, vice-president of the management board, * 2005 - TBS – WOLA Sp. z o.o., liquidator, * 2006 – TBS - Bemowo Sp. z o.o. of Warsaw, president of the management board, * 2007 – Kaskada Sp. z o.o. of Warsaw, president of the management board, * 2007 – BDM Grupa Inwestycyjna S.A. of Warsaw, president of the management board, * 2007-2009 – ENEA S.A. of Poznań, positions held: acting president of the management board, president of the management board, * 2009-2010 – ALSTOM Sp. z o.o. of Warsaw, adviser * 2010-present – sales organisation director at PBG. |
| **Field of expertise** | * Power construction |
| **Areas of responsibility at the PBG Group** | **Strategy and development** |

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| --- | --- |
| **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** | * Oil and gas * 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; contract execution in the hydraulic engineering sector** |

|  |  |
| --- | --- |
| **Full name** | **Kinga Banaszak-Filipiak** |
| **Position** | **Vice-President of the Management Board since October 28th 2012** |
| **Qualifications** | * Poznań School of Banking (Wyższa Szkoła Bankowa w Poznaniu), major in Finance and Banking, specialising in 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 junior sales representative * 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** |

|  |  |
| --- | --- |
| **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 * Advisory and Management Training Centre – Project Management |
| **Experience** | * Assistant to the Management Board of Elektrim-Megadex S.A. of Warsaw * PBG, holding successively the following positions: Economic Clerk, Deputy Financial Manager, Deputy Chief Financial Officer, Chief Financial Officer. * Member of the Supervisory Board of Remaxbud Sp. z o.o. * Member of the Supervisory Board of TESGAS S.A. * Member of the Supervisory Board at KWG S.A. (in company voluntary arrangement) |
| **Areas of responsibility at the PBG Group** | * **Debt restructuring** |

On June 29th 2012, the Company's Supervisory Board appointed the Management Board composed of:

* Wiesław Mariusz Różacki – President of the Management Board
* Tomasz Tomczak – Vice-President;
* Mariusz Łożyński – Vice-President of the Management Board.

The duration of the Management Board’s term of office is three years. 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.

On October 28th 2012, the Company’s Supervisory Board resolved to:

* remove Mr Wiesław Mariusz Różacki from the position of President of the Management Board as of October 28th 2012;
* appoint Mr Paweł Mortas to the position of President of the Management Board as of October 28th 2012;
* appoint Ms Kinga Banaszak-Filipiak to the position of Vice-President of the Management Board as of October 28th 2012.

On March 18th 2013, the Supervisory Board resolved to:

• appoint Ms Bożena Ciosk to the position of Member of the Management Board as of March 18th 2013.

The term of office of the newly appointed Management Board will expire on June 29th 2015.

II. COMPANY SHARES OR RIGHTS TO THE COMPANY SHARES (OPTIONS) HELD BY MEMBERS OF THE PBG SUPERVISORY AND MANAGEMENT BOARDS

Table 1: Company shares or rights to the Company shares (options) held by PBG supervisory personnel as at June 30th 2013

|  |  |  |
| --- | --- | --- |
| **Supervisory personnel** | **Number of shares** | |
| **As at Jun 30 2013** | **As at the filing date of this Report** |
| Małgorzata Wiśniewska  Jerzy Wiśniewski  Przemysław Szkudlarczyk | 3,279  3,881,224  2,390 | 3,279  3,881,224  2,390 |

Table 2: Company shares or rights to the Company shares (options) held by PBG management personnel as at June 30th 2013

|  |  |  |
| --- | --- | --- |
| **Management personnel** | **Number of shares** | |
| **As at Jun 30 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 |

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

**1. Remuneration of Supervisory Board Members**

The amount of remuneration paid to members of the Supervisory Board 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.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration (PLN ’000)** | **Jan 1 – Jun 30 2013** | | | **Jan 1 – Jun 30 2012** | | |
| **Remuneration**  **Base remuneration** | **Other benefits** | **Total** | **Remuneration**  **Base remuneration** | **Other benefits** | **Total** |
| Maciej Bednarkiewicz | 48 | - | 48 | 50 | - | 50 |
| Małgorzata Wiśniewska | 30 | 1 | 31 | 40 | 5 | 45 |
| Dariusz Sarnowski | 18 | - | 18 | 25 | - | 25 |
| Adam Strzelecki | - | - | - | 9 | - | 9 |
| Marcin Wierzbicki | - | - | - | 9 | - | 9 |
| Andreas Madej | - | - | - | 6 | - | 6 |
| Piotr Bień | - | - | - | 6 | - | 6 |
| Jerzy Wiśniewski | 60 | 5 | 65 | - | - | - |
| Przemysław Szkudlarczyk | 18 | - | 18 | - | - | - |
| Andrzej Gradowski | 3 | - | - | - | - | - |
| Norbert Słowik | 3 | - | - | - | - | - |
| **TOTAL** | **180** | **6** | **186** | **145** | **5** | **150** |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration (PLN ’000)** | **Jan 1 – Jun 30 2013** | | | **Jan 1 – Jun 30 2012** | | |
| **Remuneration**  **Base remuneration** | **Other benefits** | **Total** | **Remuneration**  **Base remuneration** | **Other benefits** | **Total** |
| Maciej Bednarkiewicz | - | - | - | - | - | - |
| Małgorzata Wiśniewska | - | - | - | 132 | - | 132 |
| Dariusz Sarnowski | - | - | - | - | - | - |
| Adam Strzelecki | - | - | - | - | - | - |
| Marcin Wierzbicki | - | - | - | - | - | - |
| Andreas Madej | - | - | - | - | - | - |
| Piotr Bień | - | - | - | - | - | - |
| Jerzy Wiśniewski | - | - | - | 89 | - | 89 |
| Przemysław Szkudlarczyk | - | - | - | 72 |  | 72 |
| **TOTAL** | **-** | **-** | **-** | **293** | **-** | **293** |

**2. Remuneration of Management Board members**

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

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration**  **of Management Board members (PLN '000)** | **Jan 1 – Jun 30 2013** | | | **Jan 1 – Jun 30 2012** | | |
| **Remuneration**  **Base remuneration** | **Other benefits\*** | **Total** | **Remuneration**  **Base remuneration** | **Other benefits\*\*** | **Total** |
| Jerzy Wiśniewski | - | - | - | 727 | 1,000 | 1,727 |
| Przemysław Szkudlarczyk | - | - | - | 199 | 2,500 | 2,699 |
| Tomasz Tomczak | 210 | - | 210 | 199 | - | 199 |
| Mariusz Łożyński | 177 | - | 177 | 171 | - | 171 |
| Wiesław Mariusz Różacki | - | - | - | 25 | - | 25 |
| Paweł Mortas | 180 | - | 180 | - | - | - |
| Kinga Banaszak - Filipiak | 82 | 73 | 155 | - | - | - |
| Bożena Ciosk | 111 | - | 111 | - | - | - |
| **TOTAL** | **760** | **73** | **833** | **1,321** | **3,500** | **4,821** |

*\*other benefits: Social Security Institution (ZUS)*

*\*\*bonus awarded by the Company’s Supervisory Board*

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Remuneration of Management Board members (PLN '000)** | **Jan 1 – Jun 30 2013** | | | **Jan 1 – Jun 30 2012** | | |
| **Remuneration**  **Base remuneration** | **Other benefits** | **Total** | **Remuneration**  **Base remuneration** | **Other benefits** | **Total** |
| Jerzy Wiśniewski | - | - | - | - | - | - |
| Przemysław Szkudlarczyk | - | - | - | 29 | - | 29 |
| Tomasz Tomczak | - | - | - | 5 | - | 5 |
| Mariusz Łożyński | - | - | - | - | - | - |
| Paweł Mortas | 334 | - | 334 | - | - | - |
| Kinga Banaszak - Filipiak | - | - | - | - | - | - |
| Bożena Ciosk | - | - | - | - | - | - |
| Wiesław Mariusz Różacki | - | - | - | 333 | - | 333 |
| **TOTAL** | **334** | **-** | **334** | **367** | **-** | **367** |

# SECTION II: REPORT ON RISKS AND FINANCIAL RISK MANAGEMENT

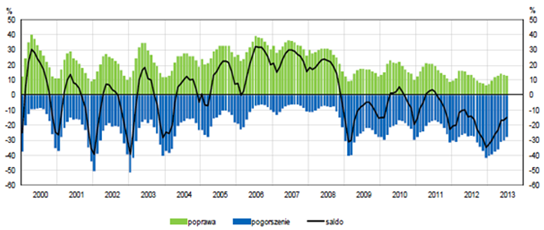
## I. RISKS AND THREATS

**EXTERNAL RISKS AND THREATS**

**1. Economic environment in Poland**

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

**Figure 1: General economic climate in the construction sector**



***Source:***[*http://www.macronext.pl/pl/aktualnosci/koniunktura-gospodarcza-w-polsce-w-miesiacu-lipcu-2013-wykresy*](http://www.macronext.pl/pl/aktualnosci/koniunktura-gospodarcza-w-polsce-w-miesiacu-lipcu-2013-wykresy)

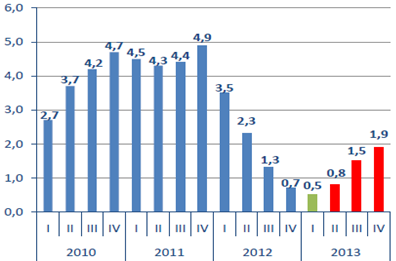
|  |  |
| --- | --- |
| poprawa | improvement |
| pogorszenie | deterioration |
| saldo | balance |

According to estimates by the Institute for Market Economics (IBnGR), in Q1 2013 Polish **GDP** grew by 0.5% on Q1 2012, which means that the economic growth rate decelerated once again and Q1 2013 was the fifth consecutive quarter in which the GDP growth rate was lower than in the previous three months. Consequently, the GDP growth rate was the lowest since Q1 2009, when it stood at 0.4%. Taking into account seasonality, the GDP in Q1 2013 rose by 0.1% on Q4 2012.

The main driver behind the increase in Q1 2013 was **foreign demand**, while **domestic demand** had a negative impact on creation of added value. The IBnGR estimates that domestic demand was down 0.6%, indicating the fourth consecutive quarter in which this figure had declined. As regards the components of domestic demand, the most dynamic change in Q1 2013 was recorded in **private consumption**, which was up 0.5% according to the IBnGR. Over the same period, **general consumption** increased by 0.2% and **gross fixed capital formation**, or capital expenditure, declined for the third consecutive quarter. In the period from January to March 2013, the expenditure was down 3.9%, partially on the back of a long winter and delayed launch of construction work. To note, the first quarter is typically the least important period for annual capital expenditure as capex in this period is the lowest. However, the absolute decrease in capital expenditure, paired with the already low rate of capital expenditure in the economy, makes the prospect of future dynamic and stable economic growth somewhat doubtful.

The Polish **GDP growth rate** in 2013 is expected to reach 1.2%, which means that it will be lower than in 2012. The economic recovery may be expected to begin in the second half of the year. In Q3 and Q4 2013, the economic growth rate will be 1.5% and 1.9%, respectively, with the accelerated growth driven by a more noticeable increase in consumption and improved export figures. In 2014, the economic environment in Poland will continue to improve gradually. According to the IBnGR, the 2014 GDP growth rate will amount to 2.5%.

**Figure 2: Quarterly GDP growth rate**

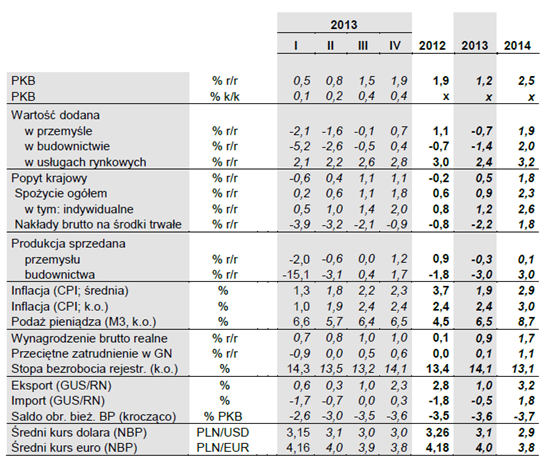


***Source: Central Statistics Office, IBnGR***

Unfavourable market conditions will affect all major segments of the Polish economy. According to the IBnGR, the **added value** in manufacturing will decrease by 0.7% in 2013, but the downward trend will reverse in Q4 2013, marking the beginning of added value growth. 2013 will be a difficult year for construction companies – according to the IBnGR’s forecast, the added value in the sector will be down 1.4%, and construction and assembly production will fall by 3.0%. As in manufacturing, the sector can expect that the trend will be bucked not earlier than in Q4 2013. The general situation will be markedly better in the market services sector, with added value forecast to increase by 2.4% in 2013. Nevertheless, in 2014 the economic climate will improve in all of these sectors. The added value in services, manufacturing and construction will go up 3.2%, 1.9% and 2.0%, respectively.

In 2013, the growth rate of **domestic demand** will reach 0.5%, and the downward trend prevalent in 2012 will be reversed. According to the IBnGR’s forecast, **private consumption** will increase by 1.2% over the same period, but **gross fixed capital formation** will go down 2.2%. This decrease will be attributable to a continually unfavourable sentiment in the enterprise sector and a limited scale of publicly-financed infrastructural investments. Throughout 2013, the decline will remain a substantial obstacle to the growth of the Polish economy.

**Figure 3: Annual and quarterly forecasts of IBnGR**



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

|  |  |
| --- | --- |
| PKB | GDP |
| PKB | GDP |
| Wartość dodana | Added value |
| w przemyśle | in industry |
| w budownictwie | in construction |
| w usługach rynkowych | in market services |
| Popyt krajowy | Domestic demand |
| Spożycie ogółem | Total consumption |
| w tym: indywidualnie | incl. individual consumption |
| Nakłady brutto na środki trwałe | Gross fixed capital formation |
| Produkcja sprzedana | Sold production of |
| przemysłu | industry |
| budownictwa | construction |
| Inflacja (CPI; średnia) | Inflation (CPI; average) |
| Inflacja (CPI; k.o.) | Inflation (CPI; end of period) |
| Podaż pieniądza (M3, k.o) | Money supply (3M, end of period) |
| Wynagrodzenie brutto realne | Real gross remuneration |
| Przeciętne zatrudnienie w GN | Average employment (national economy) |
| Stopa bezrobocia rejestr. (k.o.) | Registered unemployment rate (end of period) |
| Eksport (GUS/RN) | Exports (GUS/RN) |
| Import (GUS/RN) | Imports (GUS/RN) |
| Saldo obr. bież. BP (krocząco) | Current account balance (rolling) |
| Średni kurs dolara (NBP) | Average exchange rate (NBP) |
| Średni kurs euro (NBP) | Average exchange rate (NBP) |
| r-r | y/y |
| k-k | q/q |

**2. Competition risk**

The PBG Group operates on the competitive market of specialist construction services in the gas and oil upstream and downstream sectors and power construction. In the past, the Group secured and performed infrastructural construction contracts (the water and road construction segment). Apart from pricing, there are also other important factors which determine the competitive advantage of a business, including: experience in execution of complex and specialist projects, relevant credentials, high quality of offered services and efficient organisation enabling timely and efficient contract execution.

The PBG Group mitigates competition risk through:

* Seeking niche products and services;
* Assuring high quality of rendered services;
* Consistent enhancement of staff qualifications in new technologies, helping the Group create and offer competitive service mix;
* Entering into strategic alliances with reputable foreign companies operating on the Polish and foreign markets; and

The table below presents domestic and international competitors present on the PBG Group’s current markets:

**Table 7: Domestic and international competitors**

|  |  |  |  |
| --- | --- | --- | --- |
| **MARKET** | **BUSINESS SEGMENT** | **DOMESTIC COMPETITORS** | **INTERNATIONAL COMPETITORS** |
| **NATURAL GAS AND CRUDE OIL** | UNDERGROUND GAS STORAGE FACILITIES | - Polimex Mostostal  - Investgas | - ABB  - Sofregas |
| LNG PLANTS | - Polimex Mostostal | - Tractebel  - Linde  - Costain  - Air Products  - DAEWOO Engeneering & Construction |
| TRANSMISSION | - Gazobudowa Poznań  - POL-AQUA  - ZRUG Poznań  - PGNiG Technologie  - Gazoprojekt  - Nafta Gaz Serwis  - Control Process | - FCC CONSTRUCCION |
| REFINERIES | - Naftomontaż Krosno  - Polimex Mostostal | - ABB |
| 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 |
| **CONSTRUCTION** | INDUSTRIAL CONSTRUCTION  SPECIALIST CONSTRUCTION  RESIDENTIAL CONSTRUCTION | - WARBUD  - POL-AQUA  - Budimex  - Dom Development  - Hochtief Polska  - Echo Investment  - Instal Kraków | - SKANSKA  - STRABAG |
| **POWER CONSTRUCTION** | POWER GENERATING UNIT CONSTRUCTION | - Polimex Mostostal  - Mostostal Warszawa | - Alstom  - Hitachi  - Siemens  - Samsung  - Doosan Babcock |

The Company’s position on the **natural gas, crude oil and fuel** market in Poland is strong thanks to the high quality of its services, experienced personnel and extensive credentials. The market is divided into two segments: the segment of specialist construction services which require appropriate know-how and credentials, where PBG essentially faces only foreign competitors; and the segment of less complex construction projects, such as pipelines construction, where PBG competes primarily against Polish businesses. Historically, the contract win rate in the oil and gas segment was at the very high level of 34% *(tender wins as a percentage of total tenders with the PBG Group as a bidder in 2008–2011)*. Because PBG is currently in company voluntary arrangement, winning new contracts is impossible until the arrangement with the Company’s Creditors is finalised. Consequently, PBG oil and gas Sp. z o.o., a subsidiary of PBG, handles the process of securing new contracts in the natural gas and crude oil segment.

**The power construction market** is another key area of Group’s operations. Preparations for entering the market started in 2010 with the acquisition of a 25% equity interest in Energomontaż Południe S.A. (currently in liquidation bankruptcy; PBG has lost control of the company). The same year saw the commencement of a process aimed at acquiring RAFAKO S.A. The process was closed at the beginning of 2012, with the Group having acquired, directly and indirectly, a 66% controlling interest in the company. At present, PBG’s interest is 61.01%. RAFAKO is the largest producer of boilers and environmental protection equipment for the power sector in Europe. It also offers a range of services for the power sector. The acquisition of RAFAKO enabled the PBG Group to secure a major position on the Polish power construction market.

**3. Poland’s membership in the European Union**

Following Poland’s accession to the European Union, international companies providing services similar to the Group’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.

Moreover, RAFAKO, one of the subsidiaries, generates a significant portion of its revenue on foreign markets.

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

* Implement projects by forming strategic alliances with foreign companies operating in Poland,
* Have implemented and work 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,
* Regularly improve staff qualifications, with particular focus on unique technologies, which helps to create and position on the market a competitive service offering.

**4. Seasonality risk**

The PBG Group earns a majority 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 companies' control:

* weather conditions in winter, hindering works performance. The weather may be more severe than the average weather conditions and thus reduce the Group’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.

Therefore, assuming normal operation of the Group Companies, the PBG Group’s revenue is the lowest in the first quarter and grows significantly in the second half of the year.

### 

**5. Adverse changes in tax legislation**

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

**6. Exchange rate**

In H1 2013, there were significant developments on the Polish currency market, which was under continuous pressure of global sentiment that, rather than the fundamental factors, had the strongest impact on the exchange rates of Polish złoty. The Eurozone was one of the most significant drivers of złoty's exchange rate fluctuations in H1 2013: continued reports of economic downturn and further developments in the Eurozone fiscal crisis had an adverse effect on the Polish currency. In effect, the EUR/PLN exchange rate remained above the PLN 4.00 threshold for the first six months of 2013. In Q1 2013, złoty depreciated against the euro – the EUR/PLN exchange rate rose from PLN 4.05 in the first week of the year to nearly PLN 4.20 in the last week of March. Złoty strengthened in Q2 2013 – in early April the EUR/PLN exchange rate was below PLN 4.10, but by the end of June it rose once again, reaching PLN 4.30. However, the złoty has been growing stronger since then and as at the date of this Report the EUR/PLN exchange rate is around PLN 4.25.

The currency risk has a direct effect also on the PBG Group because a portion of costs related to execution of contracts (mainly purchases of equipment) is incurred in foreign currencies, including the euro and the US dollar. The PBG Group minimises the FX risk using appropriate financial instruments and passing some of the risk onto its subcontractors and suppliers. Furthermore, the Parent of the Group, PBG, is no longer able to use financial instruments under treasury limits given their limited availability and termination of relevant agreements by financial institutions.

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

At present, several PBG Group companies have filed for bankruptcy with an arrangement option. As of today, arrangement proceedings involving PBG, KWG, PBG AVATIA, DROMOST and PRID, and liquidation proceedings involving HYDROBUDOWA POLSKA, APRIVIA, PBG TECHNOLOGIA, ENERGOMONTAŻ POŁUDNIE and STRATEG CAPITAL have been opened. Company voluntary arrangement may be reached only if it is accepted by a majority of the 50% of creditors representing two thirds of the liabilities submitted for arrangement. There is a risk that the companies will not be able to reach agreement with all creditors and the statutory majorities will not be secured, which will lead to changing of the process of company voluntary arrangement into company liquidation. Liquidation proceedings would necessitate a change of the companies' going concern assumption and thus affect the valuation of assets and liabilities.

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

The PBG Group companies win most of their contracts in public procurement procedures. The present legal status of the companies in the process of company voluntary arrangement or those filing for such protection prevents or limits their 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 these companies. However, contracts may still be won outside of the public procurement market or through performance of subcontracts.

**INTERNAL RISKS AND THREATS**

### 

**1. Risk related to loss of key personnel**

PBG’s and other Group companies’ business operations are 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 the Group’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 and the PBG Group,
* Proper implementation of the incentive and loyalty systems for employees,
* Knowledge management and an extensive training programme,
* Opportunities for personal and career development.

At present, the PBG Group companies are facing the risk of loss of key personnel due to their poor financial standing and the current arrangement and liquidation proceedings.

### 

**2. Risk of default on contracts**

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 (nearly PLN 1.1bn for PGNiG and over PLN 2.2bn for Polskie LNG). The main customers for power construction services are PGE Group companies. However, PBG’s and RAFAKO’s strategies provide for delivery of high-value contracts, which in the future may increase the share of sales to a single customer in total revenues. To mitigate the risk related to dependence on key customers, the PBG Group companies intend to:

* Win new customers.

**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 (nearly PLN 1.1bn for PGNiG and over PLN 2.2bn for Polskie LNG). However, PBG’s and RAFAKO’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, once PBG finalises the arrangement with its Creditors. In order to mitigate the risk of dependence on its key customers, the PBG Group gradually attracts new customers for its services, such as Polskie LNG, KGHM, DALKIA or PGE.

The Group companies seek to mitigate the risk further by:

* Winning new customers.

**4. Operating risk**

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

The Group mitigates these risks by:

* Holding third-party insurance policies,
* Supplying the employees with state-of-the-art protective equipment on a regular basis,
* Organising trainings for employees and enhancing their qualifications,
* Constant supervision over the equipment used,
* Continuous occupational health and safety training and supervision.

## II. FINANCIAL RISK IDENTIFICATION AND MANAGEMENT

## 

## 1. RISK RELATED TO FINANCIAL INSTRUMENTS

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

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

The following are the key objectives of the risk management process:

* hedging short-term and medium-term cash flows,
* stabilising the fluctuations in the Group’s financial result,
* achieving financial forecasts by meeting budget targets,
* restructuring.

Given the Parent’s current situation, the PBG Management Board is taking steps to restructure the Company’s debt, operations and assets.

**1.1. 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 key methods used to manage market risk involve hedging strategies based on derivative instruments and natural hedging. The following types of financial instruments may be used by the Group:

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

**1.1.1. Currency risk**

The PBG Group companies are exposed to risk of fluctuations in exchange rates due to the following reasons:

* raw materials for high unit-value contracts are imported (there is a risk related to fluctuations in other exchange rates, such as USD/PLN or EUR/PLN);
* the Group companies use advanced technologies requiring specialist equipment, which it often purchases outside of Poland.

For a more detailed description of currency risk, see the consolidated financial statements as at December 31st 2012. Prior to the date of approval of these interim financial statements for H1 2013, there were no material changes in currency risk management.

**1.1.2. 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 exposure of the PBG Group to the interest rate risk arises primarily in connection with liabilities under contracted bank borrowings and advanced loans.

The Group companies which received the court's decision declaring them insolvent in voluntary arrangement

stopped accruing interest on liabilities incurred by the date of

the court’s decision. The amounts of liabilities incurred by the date of the decision and the accrued interest may change once the creditors approve the arrangement.

For a more detailed description of interest rate risk, see the consolidated financial statements as at December 31st 2012. Prior to the date of approval of these interim financial statements for H1 2013, there were no material changes in interest rate risk management.

1.2. Credit risk

Credit risk is understood as the inability of the PBG Group’s debtors to meet their obligations towards the Group. Credit risk is primarily connected with creditworthiness of customers with whom the Group enters into transactions for physical delivery of products;

The Group continuously monitors clients’ and debtors’ outstanding payments. Further, as part of the risk management activities, the Group enters into transactions with partners whose creditworthiness is confirmed. With respect to trade receivables, the Group is exposed to credit risk related to a single major partner or a group of similar partners.

For a more detailed description of credit risk, see the consolidated financial statements as at December 31st 2012. Prior to the date of approval of these interim financial statements for H1 2013, there were no material changes in credit risk management.

1.3. Liquidity risk

The Group is exposed to liquidity risk, that is the loss of ability to timely meet financial liabilities. The Group manages liquidity risk by monitoring payment dates and demand for cash with respect to the servicing of current payables (current transactions are monitored on a weekly basis) and long-term demand for cash based on cash flow projections that are updated monthly. The demand for cash is assessed against available sources of funding (in particular by evaluating the ability to source funds under available credit facilities).

Since last year, the Parent’s Management Board has been actively involved in negotiations with the Company’s creditors. The negotiations concern terms of debt repayment, including repayment periods, amounts and forms.

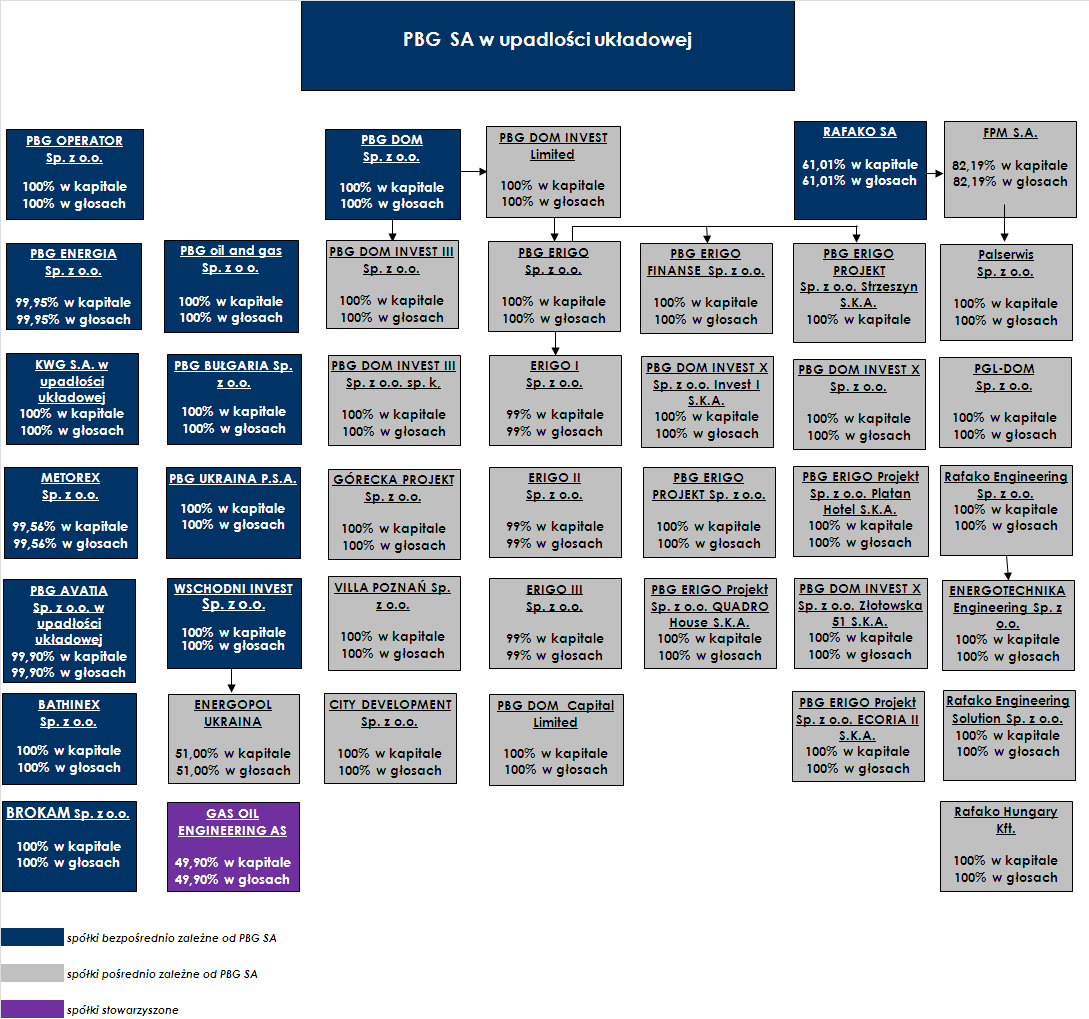
For a more detailed description of liquidity risk, see the consolidated financial statements as at December 31st 2012. Prior to the date of approval of these interim financial statements for H1 2013, there were no material changes in liquidity risk management.

# SECTION III: THE PBG GROUP

I. STRUCTURE OF THE PBG GROUP

As at the date of filing this Report, the PBG Group was composed of 43 companies, including its Parent (PBG), 13 direct subsidiaries, 28 indirect subsidiaries and one associate.

**Chart 1: Structure of the PBG Group as at the date of filing this Report**

****

|  |  |
| --- | --- |
| w upadłości układowej | in company voluntary arrangement |
| W kapitale | of share capital |
| W głosach | of votes |
| Spółki bezpośrednio zależne od PBG S.A. | PBG S.A.’s direct subsidiaries |
| Spółki pośrednio zależne od PBG S.A. | PBG S.A.’s indirect subsidiaries |
| Spółki stowarzyszone | Associates |

## **II. STRATEGY**

**1. Strategy**

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

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

Figure 4: Current organisational structure of the PBG Group (percentage of voting rights held by PBG; without specifying the PBG Dom Group companies)

****

|  |  |
| --- | --- |
| GAZ ZIEMNY, ROPA NAFTOWA ORAZ USŁUGI GENERALNEGO WYKONAWSTWA | NATURAL GAS, CRUDE OIL, AND GENERAL CONTRACTOR SERVICES |
| BUDOWNICTWO ENERGETYCZNE | POWER CONSTRUCTION |
| BUDOWNICTWO OGÓLNE, OCHRONA ŚRODOWISKA I HYDROINŻYNIERING | GENERAL CONSTRUCTION, ENVIRONMENTAL PROTECTION AND HYDRAULIC ENGINEERING |
| KOPALNIE KRUSZYW | AGGREGATE QUARRIES |
| BUDOWNICTWO MIESZKANIOWE | RESIDENTIAL CONSTRUCTION |
| DZIAŁALNOŚĆ ZAGRANICZNA | FOREIGN OPERATIONS |
| w upadłości układowej | In company voluntary arrangement |

***\*On July 9th 2013, the District Court in Wałbrzych declared Strateg Capital Sp. z o.o. bankrupt and opened the liquidation process. As of that moment, PBG lost control over the company and its assets.***

***\*\*On August 28th 2013, the District Court for Katowice-Wschód of Katowice declared Energomontaż Południe S.A. bankrupt and opened the liquidation process. As of that moment, PBG lost control over the company and its assets.***

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. The gas and oil market is particularly important for the Group. The Group expects that over the next few years it will be a major contributor to its financial performance, assuming that the Group finalises the arrangement with its Creditors.

**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 undisputed leader of the Polish market for power generation equipment (around 80% of all power boilers operated in Poland have been supplied by RAFAKO). The PBG Group plans to significantly strengthen its position in the Polish power construction segment. In the current and the next years, contracts worth several billion złoty are to be awarded. In the coming years, the estimated value of all projects in the sector may amount to hundreds of billions of złoty. The Group intends to actively operate 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 (property, PBG Dom's and PBG Erigo's projects).

III. BUSINESS PROFILE

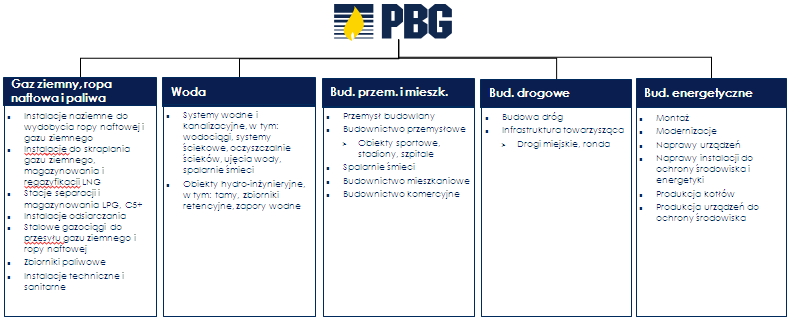
The business of PBG and its Group comprises general contractor services related to natural gas, crude oil, water and fuels facilities, provided on a "turn key" basis, as well as general contractor services in the power sector.

Currently, the PBG Group divides its business into following, current or past, operating segments:

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

The list of the services performed as part of each individual segment is presented below.

**Figure 5: 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 hydro-inżynieryjne, 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   - Obiekty sportowe, stadiony, szpitale   * Spalarnie śmieci * Budownictwo mieszkaniowe * Budownictwo komercyjne | * Construction industry * Industrial construction   - Sports facilities, stadiums, hospitals   * Waste incineration plants * Residential construction * Commercial construction |
| Bud. drogowe | Roads |
| * Budowa dróg * Infrastruktura towarzysząca   - Drogi miejskie, ronda | * Road construction * Auxiliary infrastructure   - Municipal roads, roundabouts |
| 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.

## IV. CHANGES ON PBG’S MARKETS

In H1 2013, revenue streams from the individual segments were generated mainly on the domestic market (expect for Rafako, which also sells to international markets) and were as follows:

Table 8: Operating segments

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue** | **H1 2013**  **(PLN ‘000)** | **H1 2012**  **(PLN ‘000)** | **Change**  **(PLN ‘000)** | **Change**  **(%)** |
| **Gas, oil and fuels**  (transmission, distribution, production) | 215,679 | 33,958 | +181,721 | +535 |
| **Water**  (hydraulic engineering and environmental protection, pipeline rehabilitation) | 11,844 | -4,544 | +16,388 | - |
| **Industrial and residential construction**  (construction, infrastructure for industrial facilities) | 53,499 | 42,391 | +11,108 | +26 |
| **Road construction** | 8,299 | 178,363 | -170,064 | -95 |
| **Power construction**  (power generating unit construction) | 400,675 | 760,423 | -359,748 | -47 |
| **Other**  (sale of merchandise, materials and products, other services) | 18,620 | 27,981 | -9,361 | -33 |
| **Total revenue** | **708,616** | **1,038,572** | **-329,956** | **-32** |

Geographical presence

The PBG Group's operations focus primarily on the domestic market, which the Group perceives as its key market because of the projects in the power construction sector, planned projects in the oil and gas sector, as well as hydro-engineering projects relating to flood protection systems. Historically, PBG performed contracts for customers in Latvia, Pakistan and Norway. Efforts are presently being made to expand the PBG Group's operations into the Middle East. The international expansion efforts are currently limited due to the lack of access to financing and the difficult situation of the PBG Group. However, it should be noted that RAFAKO derives a substantial share of its revenue from export contracts.

## V. SEGMENT OPERATIONS

### 1. Natural gas, crude oil and fuels segment

PBG has introduced to the Polish market a method of working on live gas pipelines in air-tight conditions, invented by T.D. Williamson. In 1999, PBG was the first company in Poland to design and perform, under a general contractor formula, an unmanned gas production facility. The Company was also the first in Poland to design and construct a liquefied natural gas (LNG) regasification unit. The unit is used in supplying gas and heat to towns and municipalities, as well as by industrial customers. PBG designs and builds co-generation systems, as well as CNG and LCNG units.

The technologies it has developed and the experience acquired while developing the natural gas field are now being used in the development of an oil field. In 2003, PBG built its first unmanned crude oil production facilities. In 2005, in connection with more stringent requirements in the area of environmental protection, PBG was the first in Poland to construct a formation water purification system. A year later, the Company designed and implemented a system of underground crude oil heating to facilitate its extraction.

Moreover, the PBG Group provides general contracting services relating to projects involving construction of new facilities and modernisation of existing fuel terminals, together with auxiliary infrastructure. In the area of construction and repair of storage tanks, the Group also conducts work on active facilities. The Group is engaged in projects, commissioned by NATO, involving modernisation and extension of existing storage facilities for propellants and lubricants and delivery and execution of underground storage tanks for F-16 jet fighters at the military bases throughout Poland. The execution of military construction projects requires access to classified information marked as "CONFIDENTIAL". We are one of few contractors in Poland that meet the Investor’s requirements in that respect.

**PBG GROUP COMPANIES OPERATING IN THE NATURAL GAS, CRUDE OIL AND FUELS SEGMENT**

**PBG S.A. (in company voluntary arrangement)**

The Company provides comprehensive specialist contracting services for natural gas, crude oil, and fuel facilities. It acts as a general contractor or sub-contractor with respect to: engineering design work, construction, repairs, operation, and maintenance in the field of: production of natural gas and crude oil, transmission of natural gas and crude oil, storage of natural gas, fuels, LNG, LPG, C5+, and CNG. In the fuels segment, the PBG Group provides general contracting services relating to projects involving construction of new facilities and modernisation of existing fuel terminals, together with auxiliary infrastructure.

**PBG oil & gas Sp. z o. o.**

The Company provides comprehensive specialist contracting services for natural gas, crude oil, and fuels facilities.

**SALES**

The Group renders its services in the natural gas and crude oil segment primarily in Poland. The largest customers in this segment are PGNiG and Gaz-System, as well as Polskie LNG, their subsidiary.

Table 9: Sales of services in the natural gas and crude oil segment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue** | **H1 2013 (PLN ‘000)** | **H1 2012 (PLN ‘000)** | **Change (PLN ‘000)** | **Change (%)** |
| **Gas, oil and fuels**  (transmission, distribution, production) | 215,679 | 33,958 | 181,721 | +535 |

In H1 2013, the segment of natural gas, oil and fuels accounted for 30% of the Group's sales revenue. The segment's total revenue for the period under review amounted to PLN 215m, up by PLN 180m on the corresponding period of the previous year. The segment's considerable share in the Group's revenue follows from the performance of the contract for the construction of the LNG terminal in Świnoujście for Polskie LNG and the completion of the contract for the construction of LMG oil production facility for PGNiG.

### 2. Power construction segment

Within this segment, the PBG Group offers general contractor services for the construction of power generating units.

**PBG GROUP COMPANIES OPERATING IN THE POWER CONSTRUCTION SEGMENT**

**RAFAKO S.A.**

The company offers general contractor services for the construction of fossil fuel-fired power generating units, specialising in boiler islands comprising a boiler, flue gas treatment plant, and waste incineration and biomass combustion plant. The company also offers design and construction of a wide array of boilers powered with lignite, hard coal, oil, gas, or a combination of these fuels, including conventional, supercritical parameters, fluidised bed, and stoker fired boilers. Additionally, the company has for a number of years manufactured boilers for thermal utilisation of waste and biomass combustion, as well as heat recovery boilers. A variety of maintenance services – from diagnostics to repairs, overhauls, supply of replacement parts, and comprehensive upgrades of boilers and accompanying equipment – complement the company's offering. The company designs, manufactures and assembles turnkey environmental protection solutions including flue gas desulphurisation, nitrogen oxide removal systems and fly-ash removal equipment.

**FPM S.A.**

The company's business profile includes primarily the production of plant and equipment for domestic and foreign power, CHP and heating plants, as well as industrial power plants, supplying steelworks, mines, sugar factories, breweries, cement plants and chemical plants. FPM also manufactures machinery and mechanical equipment, as well as steel structures based on working documentation prepared in line with a customer's project method statement or based on working documentation provided by a customer.

**RAFAKO ENGINEERING Sp. z o.o.**

Construction and process design, urban planning

**RAFAKO ENGINEERING SOLUTION doo**

Process design, construction, industry, and environmental protection consultancy and supervision.

**RAFAKO Hungary Kft.**

Equipment assembly in the power and chemical industry.

**ENERGOTECHNIKA ENGINEERING Sp. z o.o.**

Engineering activities and related technical consultancy.

**PBG Energia Sp. z o.o.**

The company's purpose is to acquire small-scale orders in the power construction segment and supervise their execution, acquire contracts in power construction market niches, not attractive for the other Group companies; to provide project management services, and to conclude and perform long term service contracts in the power sector.

**SALES**

The Group renders the services in the power construction segment primarily in Poland. However, the foreign order book has been growing, for both services and delivery of power installations and environmental protection equipment. RAFAKO is responsible for sales in foreign markets. The Group's main customers are private entities, as well as businesses co-owned by the State Treasury and responsible for the implementation of Poland's energy security strategy (KGHM, PGE, TAURON, Dalkia, and GdF).

Table 10: Sales of services in the power construction segment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue** | **H1 2013 (PLN ‘000)** | **H1 2012 (PLN ‘000)** | **Change (PLN ‘000)** | **Change (%)** |
| **Power** | 400,675 | 760,423 | -359,748 | -47 |

In H1 2013, power construction services contributed 57% to the Group's total revenue. Compared to the corresponding period of the previous year, the revenue was down by 47% and stood at PLN 400.7m at the end of H1 2013. Over the next several years, the power construction segment will be a strategic focus of the Group's operations.

### 3. Water segment

Projects executed by the PBG Group in the water segment are aimed to reduce the pollution of water, soil and air. Thus, the Group's activities in the area help significantly improve the condition of the natural environment. The PBG Group offers comprehensive execution capabilities for water engineering, environmental protection, and water and sewage projects.

In the updated strategy, the Group plans to reduce its activity in the water segment (to be eventually discontinued).

**PBG GROUP COMPANIES OPERATING IN THE WATER SEGMENT**

**KWG S.A. (in company voluntary arrangement)**

KWG S.A. specialises in the execution of infrastructure projects in the environmental protection sector, such as water supply and sewage systems, intermediate pumping stations and sewage treatment plants, as well as high-, medium- and low- pressure gas systems, pressure reduction and metering stations, and gas boiler houses.

**Przedsiębiorstwo Inżynieryjne Metorex Sp. z o.o.**

The company provides building contractor services for water supply, sewage, heating, and gas systems; land reclamation for water construction, sewage-treatment plants; construction of roads and yards.

**SALES**

The market for water segment services covers the territory of the entire country, which follows from the fact that the Group has signed contracts with different entities whereby it has been engaged to execute projects in specifically designated locations. The Group’s main customers include local government units and companies operating in the area of water and sewage management, including companies owned by local government units.

Table 11: Sales of services in the water segment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue** | **H1 2013 (PLN ‘000)** | **H1 2012 (PLN ‘000)** | **Change (PLN ‘000)** | **Change (%)** |
| **Water**  (hydraulic engineering and environmental protection, pipeline rehabilitation) | 11,844 | -4,544 | +16,388 | - |

In H1 2013, the share of the water segment in the Group's revenue was less than 2%. Over the next several years, the water segment will be a strategic focus of the Group's operations. The PBG plans a gradual discontinuation of its activity in this segment.

### 4. Industrial and residential construction segment

Projects executed by the PBG Group in this segment relate to the infrastructure for construction of residential buildings and industrial facilities, as well as provision of property development services in the commercial property sector. In the updated strategy, the Group decided to make divestments in the segment.

**PBG GROUP COMPANIES OPERATING IN THE RESIDENTIAL CONSTRUCTION SEGMENT**

**PBG Dom Sp. z o.o.**

PBG Dom Sp. z o.o. operates in the property development sector. Currently, it is involved in the construction of a residential estate in Lusówko, near Poznań. The company's purpose is also to manage and optimise the property resources (buildings and land) owned by the Group companies; its responsibilities also include comprehensive execution of projects undertaken by special purpose vehicles and lease of office space.

**PBG DOM INVEST III Sp. z o.o.**

The company operates in the construction and property development sectors.

**PBG DOM Invest III Sp. z o.o. sp. k.**

A special purpose vehicle established to execute a property development project.

**PBG DOM INVEST X Sp. z o.o.**

The company operates in the construction and property development sectors.

**PBG DOM INVEST X Sp. z o.o. Złotowska 51 S.K.A.**

The company’s purpose is to execute a property development project.

**PBG DOM INVEST X Sp. z o.o. Invest I S.K.A.**

The company operates in the construction and property development sectors.

**Górecka Projekt Sp. z o.o.**

The company operates in the construction and property development sectors.

The company owns the office building Skalar Office Center in Poznań.

**Villa Poznań Sp. z o.o.**

The company’s purpose is to execute a property development project.

The company owns a land plot in Poznań Radojewo.

**PBG DOM Invest Limited**

A transfer company established for tax optimisation purposes.

**PBG DOM Capital Limited**

The company’s purpose is to execute a property development project.

**PBG ERIGO FINANSE Sp. z o.o.**

The company’s purpose is to execute a property development project.

**PBG ERIGO PROJEKT Sp. z o.o.**

The company’s purpose is to execute a property development project.

**PBG ERIGO PROJEKT Sp. z o.o. Platan Hotel S.K.A.**

The company’s purpose is to execute a property development project.

**ERIGO I Sp. z o.o.**

The company’s purpose is to execute a property development project.

**ERIGO II Sp. z o.o.**

The company’s purpose is to execute a property development project.

**ERIGO III Sp. z o.o.**

The company’s purpose is to execute a property development project.

**PBG ERIGO Sp. z o.o.**

The company’s purpose is to execute a property development project.

**PBG ERIGO PROJEKT Sp. z o.o. Strzeszyn S.K.A.**

The company’s purpose is to execute a property development project.

**PBG ERIGO PROJEKT Sp. z o.o. ECORIA II SKA**

The company’s purpose is to execute a property development project.

**PBG ERIGO PROJEKT Sp. z o.o. QUADRO House SKA**

The company’s purpose is to execute a property development project.

**PGL-DOM Sp. z o.o.**

The company's business is the management of real estate.

**City Development Sp. z o.o.**

The company's business is the management of real estate.

**SALES**

The industrial and residential construction services are provided to customers throughout Poland.

Table 12: Sales of services in the industrial and residential construction segment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue** | **H1 2013 (PLN ‘000)** | **H1 2012 (PLN ‘000)** | **Change (PLN ‘000)** | **Change (%)** |
| **Industrial and residential construction**  (construction, infrastructure for industrial facilities) | 53,499 | 42,391 | +11,108 | +26 |

In H1 2013, the share of the industrial and residential construction segment in the Group’s total revenue was 8%, up by 4 p.p. relative to H1 2012.

### 5. Road construction segment

In the road construction segment, the PBG Group carries out projects relating to road and bridge construction works.

In the updated strategy, the Group plans to reduce its activity in the road construction segment (to be eventually discontinued).

**PBG GROUP COMPANIES OPERATING IN THE ROAD CONSTRUCTION SEGMENT**

**Brokam Sp. z o.o.**

BROKAM Sp. z o.o. owns the land and holds the licence enabling it to launch the production of aggregate.

**BATHINEX Sp. z o.o.**

The company owns land and licences to launch aggregate production; the Brodziszów-Kłośnik Mine with reserves of granodiorite, an acidic fine-crystalline intrusive igneous rock.

**SALES**

**Table 13: Sales of services in the road construction segment**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue** | **H1 2013 (PLN ‘000)** | **H1 2012 (PLN ‘000)** | **Change (PLN ‘000)** | **Change (%)** |
| **Road construction** | 8,299 | 178,363 | -170,064 | -95 |

In H1 2013, the share of the road construction segment in the total revenue was just above 1%. Given the special nature of such contracts and their capital intensity, the PBG Group has resolved to withdraw from that segment.

**6. Other operating areas**

In addition to the companies mentioned above, there are also nine other companies in the PBG Group which operate in separate areas, omitted from the above description.

**PBG Operator Sp. z o.o.**

Special purpose vehicle

**PALSERWIS Sp. z o.o.**

Manufacture of metal-forming extrusion machinery. Treatment and coating of metal.

**FOREIGN OPERATIONS**

**PBG UKRAINA Publiczna Spółka Akcyjna (the company is likely to discontinue operations)**

PBG Ukraina was set up with a view to conducting business activities primarily involving research of the Ukrainian market and establishing contacts with companies providing construction and associated services.

**Wschodni Invest Sp. z o.o.**

Wschodni Invest Sp. z o.o. holds in its portfolio and manages the property development business of Energopol-Ukraina.

**Energopol-Ukraina**

The company holds a legal title to a land property with an area of 63,000 m2 located in Kiev, which is planned to be developed and the development area is to be around 250,000 m2. The company provides a wide range of services in the investment process, including: general construction, production and design works. It is experienced in trading and works related to upgrading/modernising industrial facilities.

On July 24th 2013, the Parent entered into a "Contract of Obligation to Sell" ("the Contract"), whose other parties were WSCHODNI INVEST Sp. z o.o. and a limited-liability company IMIDŻ FINANS GRUP of Kiev, incorporated under Ukrainian law ("the Buyer"). The Buyer committed to purchase the shares of Energopol Ukraina of Kiev from WSCHODNI INVEST Sp. z o.o. and to buy the claims on the loans advanced by WSCHODNI INVEST to Energopol Ukraina. The Buyer is ready to purchase from PBG 234,103 registered investment certificates in Dialog Plus – "Direct Investment Fund – High-Potential Property," a closed-end non-diversified venture-type investment fund set up under Ukrainian law, with a par value of UAH 1,000 per investment certificate, and to buy the claims on the loan advanced by Energopol Ukraina to PBG.

The shares of Energopol Ukraina and the investment certificates will be transferred to the Buyer by December 31st 2015, after all the amounts due have been paid and separate disposal agreements have been executed. Pursuant to the provisions of the Contract, the certificates shall be purchased at a price above the book value recorded by the Company.

**PBG Bułgaria Sp. z o.o.**

The company was formed to conduct research in the Bulgarian market and establish contacts with regional companies operating in the construction and related services sector. In view of the current situation of the Parent, activities of this type had to be discontinued.

**SUPPORT FOR THE PBG GROUP COMPANIES**

**PBG AVATIA Sp. z o.o. (in company voluntary arrangement)**

The company provides IT services, including IT consultancy, implementation of IT systems, data processing and services relating to IT and computer-based technologies. As a company of the PBG Group, PBG Avatia provides IT support to all PGB Group companies.

Customers and suppliers with at least 10% share in the Group’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: none

- suppliers: none

**SEGMENTS' SHARES IN THE PBG GROUP’S BUSINESS**

Chart 2: Share of the PBG Group's segments in revenue in H1 2013 and H1 2012

|  |  |
| --- | --- |
| gaz ziemny, ropa naftowa i paliwa | natural gas, crude oil and fuels |
| woda | water |
| budownictwo przemysłowe i mieszkaniowe | industrial and residential construction |
| budownictwo drogowe | roads |
| budownictwo energetyczne | power construction |
| inne | other |

VI. COMPANIES OF THE PBG GROUP

As at the date of filing this Report, the PBG Group consisted of the companies listed below.

**Table 14: Parent**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Address** | **Tel. No./Fax** | **WWW** | **E-mail** |
| **PBG S.A. (in company voluntary arrangement)** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 700 (061) 66 51 701 | [www.pbg-sa.pl](http://www.pbg-sa.pl) | [polska@pbg-sa.pl](mailto:polska@pbg-sa.pl) |

**Table 15: Direct subsidiaries**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Address** | **Tel./Fax** | **WWW** | **E-mail** |
| **KWG S.A. (in company voluntary arrangement)** | ul. Wojska Polskiego 129, 70-490 Szczecin, Poland | (091) 43 21 130 (091) 46 92 424 | [www.kwg.com.pl](http://www.kwg.com.pl) | [biuro@kwg.com.pl](mailto:biuro@kwg.com.pl) |
| **Metorex Sp. z o.o.** | ul. Żwirki i Wigury, 17A, 87-100 Toruń, Poland | (056) 66 96 647 (056) 65 96 647 | [www.grupapbg.pl](http://www.grupapbg.pl) | [metorex@post.pl](mailto:metorex@post.pl) |
| **PBG Operator Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 700 (061) 66 51 701 | [www.grupapbg.pl](http://www.grupapbg.pl) | none |
| **Bathinex Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (0) 663 750 374  (061) 66 46 387 | none | [bathinex.kopalnia@op.pl](mailto:bathinex.kopalnia@op.pl) |
| **Brokam Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (0) 691 470 133 (061) 66 41 981 | [www.grupapbg.pl](http://www.grupapbg.pl) | [polska@pbg-sa.pl](mailto:polska@pbg-sa.pl) |
| **PBG Dom Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 22 531  (0) 502 746 085 | [www.pbgdom.pl](http://www.pbgdom.pl) | [info@pbgdom.pl](mailto:info@pbgdom.pl) |
| **PBG Energia Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 701  (061) 66 51 700 | [www.pbg-sa.pl](http://www.pbg-sa.pl) | [polska@pbgenergia.pl](mailto:polska@pbgenergia.pl) |
| **RAFAKO S.A.** | ul. Łąkowa 33, 47-400 Racibórz, Poland | (032) 41 01 000 (032) 41 53 427 | [www.rafako.com.pl](http://www.rafako.com.pl) | [info@rafako.com.pl](mailto:info@rafako.com.pl) |
| **PBG Ukraina PSA** | Kondratiuka 1, 04-201 Kiev, Ukraine | (061) 66 51 700 (061) 66 51 701 | [www.grupapbg.pl](http://www.grupapbg.pl) | none |
| **Wschodni Invest Sp. z o.o.** | ul. Mazowiecka 42, 60-623 Poznań, Poland | (061) 66 51 700 (061) 66 51 701 | [www.grupapbg.pl](http://www.grupapbg.pl) | none |
| **PBG Bułgaria Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 700 (061) 66 51 701 | [www.grupapbg.pl](http://www.grupapbg.pl) | none |
| **PBG Avatia Sp. z o.o. (in company voluntary arrangement)** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (+48 61) 66 46 440 (+48 61) 66 46 441 | [www.avatia.pl](http://www.avatia.pl) | [biuro@avatia.pl](mailto:biuro@avatia.pl) |
| **Multaros Trading Company Limited of Nicosia** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 700 (061) 66 51 701 | [www.pbg-sa.pl](http://www.pbg-sa.pl) | none |

**Table 16: Indirect subsidiaries**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Address** | **Tel./Fax** | **WWW** | **E-mail** |
| **PBG ERIGO Projekt Sp. z o.o. QUADRO House SKA** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.pbg-erigo.pl](http://www.pbg-erigo.pl) | [polska@pbg-erigo.pl](mailto:polska@pbg-erigo.pl) |
| **PBG Dom Invest III Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 351  (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **PBG ERIGO Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.pbg-erigo.pl](http://www.pbg-erigo.pl) | [polsk@pbg-erigo.pl](mailto:polsk@pbg-erigo.pl) |
| **PBG DOM Invest III Sp. z o.o. sp. k.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 351  (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **Górecka Projekt Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 351  (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **Villa Poznań Sp. z o.o.** | Ul. Mazowiecka 42, 60-623 Wysogotowo near Poznań | (061) 66 51 351  (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **City Development Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.pbg-erigo.pl](http://www.pbg-erigo.pl) | [polska@pbg-erigo.pl](mailto:polska@pbg-erigo.pl) |
| **PBGDOM INVEST LIMITED Sp. z o.o.** | Afentrikas 4, Larnaka 6018, Cyprus | (061) 66 51 351  (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **PBGDOM CAPITAL LIMITED Sp. z o.o.** | Afentrikas 4, Larnaka 6018, Cyprus | (061) 66 41 986  (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **ERIGO I Sp .z.o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 41 986  (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **ERIGO II Sp. z.o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 41 986 (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **ERIGO III Sp. z.o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 41 986 (061) 66 41 960 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **ENERGOPOL UKRAINA** | Kondratiuka 1, 04-201 Kiev, Ukraine | +380 (44)4304720 +380 (44)4322967 | [21509.ua.all.biz](http://21509.ua.all.biz) | none |
| **PBG Dom Invest X Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 351 (061) 66 22 590 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **FPM S.A.** | Ul. Towarowa 11, 43-190 Mikołów, Poland | (032) 73 79 000 (32)/ 73 79 111 | [www.fpmsa.com](http://www.fpmsa.com) | [sekretariat@fpmsa.com](mailto:sekretariat@fpmsa.com) |
| **PALSERWIS Sp. z o.o.** | Ul. Towarowa 11, 43-190 Mikołów, Poland | (032) 73 79 440 (032) 73 79 441 | [www.palserwis.pl](http://www.palserwis.pl) | [palserwis@palserwis.pl](mailto:palserwis@palserwis.pl) |
| **PGL-DOM Sp. z o.o.** | ul. Bukowa 1, 47-400 Racibórz, Poland | (032) 41 55 529 (032) 41 55 502 | none | [domrac@poczta.onet.pl](mailto:domrac@poczta.onet.pl) |
| **RAFAKO ENGINEERING Sp. z o.o.** | ul. Łąkowa 33, 47-400 Racibórz, Poland | (032) 41 01 107 (032) 41 53 427 | [www.rafako.com.pl](http://www.rafako.com.pl) | [info@rafako.com.pl](mailto:info@rafako.com.pl) |
| **RAFAKO ENGINEERING SOLUTION doo** | ul. Łąkowa 33, 47-400 Racibórz, Poland | (032) 41 01 107 (032) 41 53 427 | [www.rafako.com.pl](http://www.rafako.com.pl) | [info@rafako.com.pl](mailto:info@rafako.com.pl) |
| **RAFAKO Hungary Kft.** | ul. Łąkowa 33, 47-400 Racibórz, Poland | (032) 41 01 107 (032) 41 53 427 | [www.rafako.com.pl](http://www.rafako.com.pl) | [info@rafako.com.pl](mailto:info@rafako.com.pl) |
| **ENERGOTECHNIKA ENGINEERING Sp. z o.o.** | ul. Bojkowska 43C  44-100 Gliwice | (032) 46 12 560 (032) 46 12 561 | [www.ete.com.pl](http://www.ete.com.pl) | [office@ete.com.pl](mailto:office@ete.com.pl) |
| **PBG Dom Invest X Sp. z o.o. Invest I S.K.A.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 351 (061) 66 22 590 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **PBG Dom Invest X Sp. z o.o. Złotowska 51 S.K.A.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 51 351 (061) 66 22 590 | [www.grupapbg.pl](http://www.grupapbg.pl) | [biuro@pbgdom.pl](mailto:biuro@pbgdom.pl) |
| **PBG ERIGO Projekt Sp. z o.o. ECORIA II SKA** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.ecoria.pl](http://www.ecoria.pl) | [polska@pbg-erigo.pl](mailto:polska@pbg-erigo.pl) |
| **PBG ERIGO Projekt Sp. z o.o. Strzeszyn SKA** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.pbg-erigo.pl](http://www.pbg-erigo.pl) | [polska@pbg-erigo.pl](mailto:polska@pbg-erigo.pl) |
| **PBG ERIGO PROJEKT Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.pbg-erigo.pl](http://www.pbg-erigo.pl) | [polska@pbg-erigo.pl](mailto:polska@pbg-erigo.pl) |
| **PBG ERIGO FINANSE Sp. z o.o.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.pbg-erigo.pl](http://www.pbg-erigo.pl) | [polska@pbg-erigo.pl](mailto:polska@pbg-erigo.pl) |
| **PBG Erigo Projekt Sp. z o.o. Platan Hotel S.K.A.** | ul. Skórzewska 35, 62-081 Wysogotowo near Poznań | (061) 66 72 022 (061) 66 30 369 | [www.pbg-erigo.pl](http://www.pbg-erigo.pl) | [polska@pbg-erigo.pl](mailto:polska@pbg-erigo.pl) |

Table 17: Associates

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Address** | **Tel./Fax** | **WWW** | **E-mail** |
| **GasOil Engineering AS (in company voluntary arrangement)** | Karpatská 3256/15, Poprad 058 01, Slovakia | +421 52 7144 111 +421 52 7144 140 | [www.gasoil.sk](http://www.gasoil.sk) | [gasoil@gasoil.sk](mailto:gasoil@gasoil.sk) |

VII. BRANCHES

**Branches of the Parent (PBG S.A. in company voluntary arrangement):**

none

**Subsidiaries’ branches:**

none

# SECTION IV: REPORT ON THE PBG GROUP’S OPERATIONS IN H1 2013

## I. SHARES HELD IN RELATED ENTITIES

**Table 18: Shares held in related entities**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Related entity** | **Relation** | | **As at Jun 30 2013** | | **As at the filing date of this Report** | |
| **Parent** | **Type of relation** | **Number of shares** | **Par value of shares** | **Number of shares** | **Par value of shares** |
| Metorex Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 682 | PLN 51,150.00 | 682 | PLN 51,150.00 |
| KWG S.A. w upadłości układowej (in company voluntary arrangement) | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 28,700 | PLN 2,870,000.00 | 28,700 | PLN 2,870,000.00 |
| PBG ERIGO FINANSE Sp. z o.o. | PBG ERIGO FIZ | indirect subsidiary | 99 | PLN 4,950.00 | 99 | PLN 4,950.00 |
| PBG ERIGO Sp. z o.o. | 1 | PLN 50.00 | 1 | PLN 50.00 |
| PBG Dom Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 100,000 | PLN 55,000,000.00 | 100,000 | PLN 55,000,000.00 |
| Brokam Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 12,000 | PLN 12,000,000.00 | 12,000 | PLN 12,000,000.00 |
| PBG AVATIA Sp. z o.o. (in company voluntary arrangement) | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 999 | PLN 49,950.00 | 999 | PLN 49,950.00 |
| PBG Energia Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 19,990 | PLN 999,500.00 | 19,990 | PLN 999,500.00 |
| Wschodni Invest Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 37,740 | PLN 3,774,000.00 | 37,740 | PLN 3,774,000.00 |
| PBG Ukraina Publiczna Spółka Akcyjna | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 222,227 | UAH 888,908,00 | 222,227 | UAH 888,908.00 |
| BATHINEX Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 50 | PLN 50,000.00 | 50 | PLN 50,000.00 |
| PBG Operator  Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 50 | PLN 5,000.00 | 50 | PLN 5,000.00 |
| PBG oil & gas Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 50 | PLN 5,000.00 | 50 | PLN 5,000.00 |
| PBG Bułgaria Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | - | BGN 35,000.00 | - | BGN 35,000.00 |
| GasOil Engineering AS (in company voluntary arrangement)  Slovakia | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 998,100 | EUR 414,647.48 | 998,100 | EUR 414,647.48 |
| PBG Dom Invest X Sp. z o.o. Invest I S.K.A. | PBG ERIGO SP. Z O.O. | indirect subsidiary | 496 | PLN 49,600.00 | 496 | PLN 49,600.00 |
| RAFAKO S.A. | PBG S.A. w upadłości układowej (in company voluntary arrangement)  Multaros Trading Company Limited of Nicosia | subsidiary  indirect subsidiary | 7 665 999  34,800,001 | 15 331 998,00  PLN 69,600,002.00 | 7.665.999  34,800,001 | PLN 15,331,998.00  PLN 69,600,002.00 |
| Multaros Trading Company Limited of Nicosia | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 526,000 | EUR 526,000.00 | 526,000 | EUR 526,000.00 |
| FPM S.A. | RAFAKO S.A. | indirect subsidiary | 1,376,508 | PLN 4,363,530.36 | 1,376,508 | PLN 4,363,530.36 |
| PALSERWIS Sp. z o.o | FPM S.A. | indirect subsidiary | - | - | - | - |
| PGL-DOM Sp. z o.o. | RAFAKO S.A. | indirect subsidiary | 607 | PLN 6,070,000.00 | 607 | PLN 6,070,000.00 |
| RAFAKO ENGINEERING Sp. z o.o. | RAFAKO S.A. | indirect subsidiary | 1,000 | PLN 500,000.00 | 1,000 | PLN 500,000.00 |
| RAFAKO ENGINEERING SOLUTION doo | RAFAKO S.A. | indirect subsidiary | 1 | EUR 38,500.00 | 1 | EUR 38,500.00 |
| ENERGOTECHNIKA ENGINEERING Sp. z o.o. | RAFAKO ENGINEERING Sp. z o.o. | indirect subsidiary | 10 | PLN 5,000.00 | 10 | PLN 5,000.00 |
| RAFAKO Hungary Kft**.** | RAFAKO S.A. | indirect subsidiary | 1 | HUF 40,000.00 | 1 | HUF 40,000.00 |
| PBG ERIGO PROJEKT Sp. z o.o. | PBG ERIGO Sp. z o.o. | indirect subsidiary | 1 | PLN 50.00 | 1 | PLN 50.00 |
| City Development Sp. z o.o. | PBG ERIGO SP. Z O.O. | indirect subsidiary | 70 993 | PLN 3,549,650.00 | 70,993 | PLN 3,549,650.00 |
| PBG ERIGO PROJEKT | 8 | PLN 400.00 | 8 | PLN 400.00 |
| Górecka Projekt Sp. z o.o. | PBG Dom Sp. z o.o. | indirect subsidiary | 2000 | PLN 100,000.00 | 2000 | PLN 100,000.00 |
| Villa Poznań Sp. z o.o. | PBG Dom Sp. z o.o. | indirect subsidiary | 21,100 | PLN 2,110,000.00 | 21,100 | PLN 2,110,000.00 |
| PBG Dom Invest III Sp. z o.o. | PBG Dom Sp. z o.o. | indirect subsidiary | 100 | PLN 5,000.00 | 100 | PLN 5,000.00 |
| PBG DOM Invest III Sp. z o.o. sp. k. | PBG Dom Sp. z o.o. | indirect subsidiary | 1,000 | PLN 1,000.00 | 1,000 | PLN 1,000.00 |
| PBG Dom Invest III Sp. z o.o. | 1,000 | PLN 1,000.00 | 1,000 | PLN 1,000.00 |
| PBG ERIGO Sp. z o.o. | PBG S.A. w upadłości układowej (in company voluntary arrangement) | subsidiary | 100,000 | PLN 5,000,000.00 | 100,000 | PLN 5,000,000.00 |
| PBG Dom Invest Limited | indirect subsidiary | 120,000 | PLN 6,000,000.00 | 120,000 | PLN 6,000,000.00 |
| PBG DOM Invest Limited | PBG Dom Sp. z o.o. | indirect subsidiary | 4,000 | EUR 4,000.00 | 4,000 | EUR 4,000.00 |
| PBGDOM Capital Limited | PBG ERIGO Sp. z o.o. | indirect subsidiary | 11,000 | EUR 11,000.00 | 11,000 | EUR 11,000.00 |
| ERIGO I Sp. z o.o. | PBG ERIGO Sp. z o.o. | indirect subsidiary | 100 | PLN 5,000.00 | 100 | PLN 5,000.00 |
| ERIGO II Sp. z o.o. | PBG ERIGO Sp. z o.o. | indirect subsidiary | 100 | PLN 5,000.00 | 100 | PLN 5,000.00 |
| ERIGO III Sp. z o.o. | PBG ERIGO Sp. z o.o. | indirect subsidiary | 100 | PLN 5,000.00 | 100 | PLN 5,000.00 |
| PBG ERIGO Projekt Sp. z o.o. Strzeszyn SKA | PBG ERIGO SP. Z O.O. | indirect subsidiary | 992 | PLN 49,600.00 | 992 | PLN 49,600.00 |
| PBG ERIGO PROJEKT | 8 | PLN 400.00 | 8 | PLN 400.00 |
| PBG Dom Invest X Sp. z o.o. | PBG ERIGO FIZ | indirect subsidiary | 0 | - | 0 | - |
| PBG ERIGO Sp. z o.o. | 100 | PLN 5,000.00 | 100 | PLN 5,000.00 |
| PBG ERIGO Projekt Sp. z o.o. PLATAN HOTEL SKA | PBG ERIGO SP. Z O.O. | indirect subsidiary | 8 896 000 | PLN 889,600.00 | 8,896,000 | PLN 889,600.00 |
| PBG ERIGO PROJEKT | 4,000 | PLN 400.00 | 4,000 | PLN 400.00 |
| Energopol-Ukraina | Wschodni Invest Sp. z o.o. | indirect subsidiary | 51 | UAH 123,981.00 | 51 | UAH 123,981.00 |
| PBG Dom Invest X Sp. z o.o. Złotowska 51 S.K.A. | PBG ERIGO SP. Z O.O. | indirect subsidiary | 1,225,000 | PLN 122,500.00 | 1,225,000 | PLN 122,500.00 |
| PBG ERIGO Projekt Sp. z o.o. ECORIA II SKA | PBG ERIGO SP. Z O.O. | indirect subsidiary | 992 | PLN 49,600.00 | 992 | PLN 49,600.00 |
| PBG ERIGO PROJEKT | 8 | PLN 400.00 | 8 | PLN 400.00 |
| PBG ERIGO Projekt Sp. z o.o. QUADRO House SKA | PBG ERIGO Sp. z o.o. | indirect subsidiary | 992 | PLN 49,600.00 | 992 | PLN 49,600.00 |
| PBG ERIGO PROJEKT | 8 | PLN 400.00 | 8 | PLN 400.00 |

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

Table 19: Shares held in other entities as at the date of approval of this Report

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Company** | **Number of shares held by PBG** | **Par value of shares (PLN)** | **% of shares and votes held** |
| 1. | Poner Sp. z o.o. | 475 | 475,000.00 | 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 |

II. AGREEMENTS SIGNIFICANT TO THE GROUP’S OPERATIONS

Table 20: Agreements material to the PBG Group’s operations and concluded within the period covered by this Report and subsequent to the balance-sheet date

| **Execution date** | **Parties** | **Subject matter** | **Key terms** |
| --- | --- | --- | --- |
| **Feb 28 2013**  **Conditional agreement** | **Principal:**  Mostostal Warszawa S.A.  **Contractor:**  RAFAKO S.A. | Conditional agreement providing for engineering, procurement and construction of the process part of two lines for the Waste Thermal Treatment Plant for the Szczecin Metropolitan Area, comprising a grate, boiler and flue gas treatment unit. | Contract value:  **PLN 227.4m (VAT exclusive)** |
| **For more information, see RAFAKO Current Report No. 7/2013:** <http://www.rafako.com.pl/pub/File/raporty_biezace/2013/RB_7_2013_Mostostal_opozniona.pdf> | | | |
| **May 16 2013**  Annex to Agreement | **Principal:**  PGE Górnictwo i Energetyka Konwencjonalna SA (formerly PGE Elektrownia Opole SA)  **Contractor:**  Consortium: Rafako SA, Polimex-Mostostal SA, Mostostal Warszawa SA | Annex to the contract for construction of power generating units No. 5 and 6 in at Elektrownia Opole, dated February 15th 2012 | Under the Annex:  1. In the context of the decision made by w Principal to close the Opole II Project, the Parties agreed on the terms of settlement and reimbursement of the costs incurred by the General Contractor in connection with preparatory work related to the performance of the contract,  2. The Parties agreed on the way to proceed if the General Contractor fails to return the advance payment received from the Principal in the event that the whole or any part of the advance payment remains to be returned by the General Contractor after the settlement of the costs referred to in item 1 above,  3. The Parties extended the deadline by which the Principal will be able to give notice of its intention to order commencement of work on the project to three months from the Annex date. |
| **For more information, see RAFAKO Current Report No. 17/2013:** <http://www.rafako.com.pl/pub/File/raporty_biezace/2013/RB%2017_%20aneks%20opole(1).pdf> | | | |
| **May 22 2013**  Agreement executed in the ordinary course of business | **Principal:**  PGE Górnictwo i Energetyka Konwencjonalna SA  **Contractor:**  RAFAKO S.A. | The contract concerns modernisation of the FGD installation at Units No. 5 and 6 at PGE GiEK S.A., Elektrownia Bełchatów Branch | Contract value:  **PLN 116m (VAT exclusive)** |
| **For more information, see RAFAKO Current Report No. 18/2013:** <http://www.rafako.com.pl/pub/File/raporty_biezace/2013/RB%2018_PGEx(1).pdf> | | | |
| **May 27 2013** | North China Power Engineering Co., Ltd. of China Power Engineering Consulting Group  RAFAKO S.A. | Consortium agreement concerning the scope of work to be performed by Rafako SA under the contract for "Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. - Construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant - Power Plant II: steam boiler, turbine generator set, main building, electrical and I&C systems", which is to be executed by Rafako SA and Mostostal Warszawa SA (acting as a consortium), and Tauron Wytwarzanie S.A. (the “Principal”) |  |
| **For more information, see RAFAKO Current Report No. 20/2012:** <http://www.rafako.com.pl/pub/File/raporty_biezace/2013/RB%2020_Chiny.pdf> | | | |
| **Jun 13 2013**  Agreement executed in the ordinary course of business | **Principal:**  Polskie Górnictwo Naftowe i Gazownictwo SA  **Contractor:**  PBG oil and gas Sp. z o.o. acting as a consortium with ControlTec Sp. z o.o. | The contract provides for proper and comprehensive execution, by July 11th 2014, of construction and assembly work on the Investment Project "Installation of an additional compressor at the Husów Underground Gas Storage Facility as part of the Husów Underground Gas Storage Facility Expansion Project". | Contract value:  **PLN 16.4m (VAT exclusive)** |
| **For more information, see PBG Current Report No. 17/2013:** <http://www.pbg-sa.pl/relacje-inwestorskie/raporty-biezace/17-2013-zawarcie-istotnej-umowy-przez-spolke-zalezna.html> | | | |
| **Jul 26 2013**  Cooperation agreement | RAFAKO SA  China Power Engineering Consulting Group Corporation (CPECC)  NCPE | The agreement concerns joint execution of the contract for "Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. - Construction of supercritical 910 MW generation unit at the Jaworzno III Power Plant - II Power Plant: steam boiler, turbine generator set, main building, electrical and I&C systems.” |  |
| **For more information, see RAFAKO Current Report No. 29/2013:** <http://www.rafako.com.pl/pub/File/raporty_biezace/2013/RB%2029_Chiny_4.pdf> | | | |
| **Jul 29 2013**  Bond payments to the Alstom Group | Energomontaż-Południe SA  Alstom Group | Following the receipt of a relevant notification from Generali Towarzystwo Ubezpieczeniowe SA on July 29th 2013, the Company became aware that the sum of payments made to Alstom under bonds exceeded the materiality criterion applied by the Company, having reached about EUR 3.9m (equivalent to about PLN 16.5m, translated at the mid-exchange rate quoted by the National Bank of Poland for the current report publication date).  The largest of the bonds paid was the performance bond paid by Towarzystwo Ubezpieczeniowe Euler Hermes SA on April 5th 2013. With a value of EUR 0.8m, the bond constituted security in respect of Alstom's order concerning installation of ducts in unit E of the Westfalen power plant in Germany, of which the Company reported in Current Report No. 12/2009 of March 16th 2009.  The Company has been pursuing its claims against Alstom before a German court, but currently the proceedings are suspended due to the declaration of the Company's bankruptcy with arrangement option. | The amount paid under the bonds is **approximately PLN 16.5m.** |
| **For more information, see EPD Current Report No. 27/2013:** <http://www.energomontaz.pl/artykuly/2623,955/d,raporty_bezace_podstrona,suma-gwarancji-wyplaconych-na-rzecz-grupy-alstom> | | | |
| **Aug 1 2013**  Letter of Acceptance to the Contract for Performance of Works | **Principal:**  Energomontaż-Południe S.A.  **Contractor:**  Consortium: Saipem, Techint, PBG | A Letter of Acceptance to the Contract for Performance of Works at the LNG terminal in Świnoujście, approving performance of work in the following manner:  a) Energomontaż-Południe S.A. w upadłości układowej (in company voluntary arrangement) will perform works with a value of PLN 17.9m,  b) Energomontaż-Południe Katowice sp. z o.o. (a subsidiary of the Company) will perform works with a value of PLN 0.9m,  c) SICIM (a Subcontractor, a consortium of Italian companies SICIMONTAGGI s.r.l. (consortium leader), SICILSALDO s.r.l. and MMP s.r.l.) will perform works with a value of PLN 15.8m. | Contract value:  **PLN 34.6m.** |
| **For more information, see EPD Current Report No. 28/2013:** <http://www.energomontaz.pl/artykuly/2624,955/d,raporty_bezace_podstrona,podpisanie-listu-akceptujacego-do-umowy-o-wykonanie-robot> | | | |
| **August 5th 2013**  Consortium agreement | RAFAKO S.A.  MOSTOSTAL WARSZAWA S.A. | A consortium to implement the project "Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. - Construction of supercritical 910 MW generation unit at the Jaworzno III Power Plant - II Power Plant: steam boiler, turbine generator set, main building, electrical and I&C systems” ("the Jaworzno Project") | The main changes relative to the original consortium agreement, introduced by the Amended Consortium Agreement, envisage:  a) performance by RAFAKO and Mostostal Warszawa of 99.99% and 0.01%, respectively, of the works on the Jaworzno Project;  b) division of the remuneration due to each of the consortium partners working on the Jaworzno Project in a manner corresponding to the partners' new scopes of work;  c) RAFAKO, as the consortium leader, will be authorised to make independent  decisions and represent the consortium before the employer in connection with the  Jaworzno Project, save for a closed list of issues which are reserved under the Amended  Consortium Agreement for joint decision by the consortium partners. |
| **For more information, see RAFAKO Current Report No. 31/2013:** <http://www.rafako.com.pl/pub/File/raporty_biezace/2013/RB_31_Umowa%20z%20Mostostal_Jaworzno.pdf> | | | |
| **Aug 5 2013**  Additional Agreement | RAFAKO S.A.  MOSTOSTAL WARSZAWA S.A. | The Additional Agreement defines the commercial terms for the new framework of cooperation between the Parties on the Jaworzno Project, including the compensation due to Mostostal Warszawa in view of the reduction of its share in the remuneration and scope of work under the Jaworzno Project |  |
| **For more information, see RAFAKO Current Report No. 31/2013:** <http://www.rafako.com.pl/pub/File/raporty_biezace/2013/RB_31_Umowa%20z%20Mostostal_Jaworzno.pdf> | | | |

**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.

On March 21st 2013, the Management Board of PBG S.A. w upadłości układowej (in company voluntary arrangement) resolved to change the materiality criterion for assets and agreements from 10% of the Company's equity to 10% of the PBG Group's total revenue generated over four most recent financial quarters.

The same criterion, i.e. 10% of revenue generated over four most recent financial quarters, is applied by RAFAKO and its Group.

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

**Table 21: Changes in organisational links in the reporting period and subsequent to the balance-sheet date**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Parties** | | **Transaction type** | | **Description** | | **Objective** | |
| **Jan 8 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  MULTAROS Trading Company Limited  ADAPTORINVEST Ltd. | | **Creation of pledge over RAFAKO SA 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> | | | | | | | | | |
| **Feb 7 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  Natural person – Mr Mirosław Borowicz | | **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**. | | Acquisition of a 100% interest in the company | |
| **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> | | | | | | | | | |
| **Feb 8 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  MULTAROS Trading Company Limited  ADAPTORINVEST Ltd. | | **Deletion of pledge over RAFAKO SA 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. 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> | | | | | | | | | |
| **Apr 22 2013** | | PBG S.A. w upadłości układowej (in company voluntary arrangement)  Investors | | **Disposal of shares** | | 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.  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. | | Divestments | |
| **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> | | | | | | | | | |

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

Table 22: 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:  Notice of enforcement proceedings for payment of a principal amount of:  a) PLN 2,443,650.31  b) PLN 1,228,991.17  c) PLN 5,097,877.25  d) PLN 2,958,999.56  e) PLN 1,636,599.68  against properties entered in the Land and Mortgage Register under No. KW PO1P/00136241/7 (joint enforcement proceedings instigated at the request of Polski Bank Przedsiębiorczości S.A.), PO1P/00275496/5, PO1P/00091909/0, and PO1P/00218712/9 | | | The total carrying value of the properties 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> | | | | | |
| **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 Spółka Akcyjna | | On March 27th 2013, an agreement was executed with DnB NORD Polska S.A. 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. | 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**  Execution of material agreement | **Creditor:**  Banco Espirito Santo de Investimento SA Poland Branch | | 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. | |
| **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> | | | | | |
| **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 SA | | 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> | | | | | |

**V.** **RELATED-PARTY TRANSACTIONS**

In H1 2013, companies of the PBG Group executed transactions with related parties on an arm’s-length basis, and the nature and terms of those transactions were determined by day-to-day operations.

The most frequent types of related-party transactions concluded within the PBG Group are:

* construction contracts,
* agreements on provision of maintenance services
* loan agreements.

In H1 2013, the PBG Group companies did not issue any sureties or guarantees for the benefit of related parties.

## VI. CONTRACTED BANK BORROWINGS, LOAN AGREEMENTS

For information on contracted bank borrowings and loans, see the consolidated financial statements of the PBG Group.

## VII. 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. As of today, arrangement proceedings involving PBG, KWG, PBG AVATIA, DROMOST and PRID, and liquidation proceedings involving HYDROBUDOWA POLSKA, APRIVIA, PBG TECHNOLOGIA, ENERGOMONTAŻ POŁUDNIE and STRATEG CAPITAL are under way. The petition filed by PBG Energia has been rejected for procedural reasons. The ongoing arrangement procedure affects PBG’s operations and, consequently, the Company’s performance. The same applies to other Group companies with respect to which arrangement proceedings are being conducted.

The economic position and the arrangement proceedings at the PBG Group companies may have a negative effect on the financial standing of PBG.

## VIII. MAJOR R&D ACHIEVEMENTS

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

IX. CONTROL SYSTEMS FOR EMPLOYEE PLANS

The PBG Group does not operate any employee plans.

## X. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

As at **June 30th 2013,** the Group companies were parties to the following court proceedings:

**PROCEEDINGS INSTIGATED BY THE GROUP:**

**RAFAKO Group**

Update of information concerning material litigation and court proceedings instigated by the RAFAKO Group, published in the financial statements for the year ended December 31st 2012:

In the proceedings pending against the Alstom Group, the parties are exchanging process letters in line with relevant procedures. No other material events have occurred.

No material events have occurred in other litigation and court proceedings described in the 2012 financial statements. No new cases with a potentially material bearing on the RAFAKO Group have been brought.

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

Material litigations involving PBG S.A. w upadłości układowej (in company voluntary arrangement) as the Plaintiff include:

1. **PBG S.A. w upadłości układowej (in company voluntary arrangement) against the Wrocław Municipality, court docket No. V CSK 45/13**

On April 20th 2011, the Court of Arbitration at the Polish Chamber of Commerce issued a decision awarding PLN 36,994 thousand to the Consortium of PBG S.A. and Hydrobudowa Polska S.A. from the Wrocław Municipality. On May 9th 2011, the Wrocław Municipality filed a complaint to a court of general jurisdiction requesting reversal of the award issued by the Polish Chamber of Commerce. By virtue of the decision of January 12th 2012, the District Court reversed the arbitration court's award, as a result of which on February 27th 2012 the Consortium of PBG S.A. and Hydrobudowa Polska S.A. filed an appeal. The case files were remanded to a higher instance court, which dismissed the appeal on May 9th 2012. A cassation complaint was filed on August 6th 2012. Given that HBP S.A. was declared bankrupt by liquidation, the proceedings were suspended until the bankruptcy administrator joins the case. The proceedings were resumed following a statement submitted by HBP's bankruptcy administrator. The cassation complaint was filed with the Supreme Court on January 30th 2013 (court docket No. V CSK 45/13).

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 Agreement 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 has scheduled the hearings for September 30th 2013 and October 1st 2013. 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.

**PROCEEDINGS PENDING AGAINST THE GROUP:**

**RAFAKO Group**

Update of information concerning material litigation and court proceedings pending against the Group, published in the financial statements for the year ended December 31st 2012:

The court proceedings instigated by ING Bank Śląski were concluded, with a final ruling issued. RAFAKO S.A. paid the entire disputed amount as awarded by the court.

In the proceedings pending against the Alstom Group, the parties are exchanging process letters in line with relevant procedures. No other material events have occurred.

No material events have occurred in other litigation and court proceedings described in the 2012 financial statements. No new cases with a potentially material bearing on the RAFAKO Group have been brought.

For more information, see the consolidated financial statements of the PBG Group.

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

1. **PBG S.A. w upadłości układowej (in company voluntary arrangement) against Wałbrzyski Związek Wodociągów i Kanalizacji, court docket No. VI GC 210/13.**

On December 28th 2012, PBG applied to the Regional Court in Świdnica requesting a security for the non-monetary claim for declaring as non-existent the liability secured with a Performance Bond under the Contract of September 13th 2006, established at the request of Hydrobudowa 9 Przedsiębiorstwo Inżynieryjno – Budowlane Sp. z o.o. – (currently Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)) ("HBP") by Polskie Towarzystwo Ubezpieczeń S.A. (currently Gothaer TU S.A.) ("Gothaer") to the benefit of Wałbrzyski Związek Wodociągów i Kanalizacji with its registered office in Wałbrzych ("WZWiK"). Recourse claims arising in connection with the exercise of the Performance Bond are secured with blank promissory notes issued by HBP, with PBG acting as the surety.

By decision of January 14th 2013 (court docket No. I Co 257/12), the court granted the security as requested by PBG, i.e. ordered WZWiK to file a written statement with Gothear to the effect that the claim for payment under the Performance Bond is cancelled, prohibited WZWiK from using the Performance Bond and transferring any rights under the Performance Bond until the final conclusion of the proceedings, and set the time limit of two weeks for PBG to bring an action to court against WZWiK for determining that WZWiK is not entitled to any claim under the Performance Bond. In exercise of the decision, on February 11th 2013 WZWiK filed a written statement with Gothaer to the effect that the demand for payment under the Performance Bond had been cancelled. On January 28th 2013, WZWiK filed a complaint against the court decision to grant the security. By decision of February 28th 2013 (court docket No. I ACz 418/13), the Court of Appeals in Wrocław dismissed the complaint filed by WZWiK and determined that the challenged decision was defective as it had not been signed by the judge, which made it non-existent for the purposes of legal proceedings. By decision of March 12th 2013, the Regional Court in Świdnica discontinued the proceedings initiated with the request for security. On April 9th 2013, WZWiK filed a statement with Gothear on the avoidance of the legal consequences of the declaration of will dated February 11th 2013, which had been made due to an error.

Within the prescribed time limit, i.e. on February 19th 2013, PBG brought an action to court against WZWiK for determining that WZWiK is not entitled to any claim under the Performance Bond or to the use of the Performance Bond. The case was referred to the Regional Court in Legnica (court docket No. VI GC 210/13) and is currently awaiting the scheduling of the hearing.

1. **Litigation concerning the construction of the National Stadium in Warsaw**

PBG was a member of the consortium ("the Consortium") which was selected in a tender as the general contractor for the National Stadium project in Warsaw. The contract between the Consortium and Narodowe Centrum Sportu sp. z o.o. ("**NCS**”) was signed on May 4th 2009 ("**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 the payment of PLN 152,479 thousand from the Guarantor under the insurance guarantee. According to the Consortium (including PBG), the claim for payment of a 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 PBG) 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 to secure 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. The proceedings are pending. In addition, the Consortium completed many auxiliary works ordered by NCS during the performance of the Contract, but has never received any payment for the works. The Consortium (including PBG) is now claiming payment for those auxiliary works. The Consortium also suffered financial losses in connection with the non-performance or improper performance of the Contract by NCS. In the near future, the Consortium will bring an action or actions, as the case may be, against NCS and the State Treasury in connection with those claims. The exact value of the claim has not been determined yet. The time limit for filing the suit was set at the end of August 2013.

In the meantime, on June 18th 2013 PBG and Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation) (another Consortium member) filed an application with the District Court in Warsaw to call for a conciliation hearing, seeking settlement regarding the payment of PLN 162,983 thousand by NCS as remuneration for the above-mentioned auxiliary works and as a remedy for damage suffered. The hearing has not been scheduled, yet it is expected to be scheduled by the end of August 2013.

1. **PBG S.A. w upadłości układowej (in company voluntary arrangement) against the Zabrze Municipality and against Zabrzańskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o.,**

On June 3rd 2013, PBG filed an application with the Regional Court in Gliwice, X Commercial Division, for determining that the Zabrze Municipality and Zabrzańskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. are not entitled to claim the payment of EUR 2,024 thousand as a contractual penalty under the project: "Improving water and wastewater management in the Zabrze Municipality – districts of Grzybowice and Rokitnica", allegedly due to delayed commencement of works aimed at removing defects and delayed removal of defects in the project covered by the Contract;

and for determining that the Obliged Parties are not entitled to claim the payment of EUR 1,214 thousand from an insurance guarantee under the Contract performance bond granted by HDI – Gerling Polska Towarzystwo Ubezpieczeń S.A. of Warsaw, currently operating as Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. of Warsaw ("**Guarantor**”), by:

1. imposing an obligation on the Obliged Parties to submit to the Guarantor, without delay, a written statement on withdrawal of the demand for payment of the guaranteed amount of EUR 1,214,813.62 (one million two hundred and fourteen thousand eight hundred and thirteen euro, 62/100) under the Performance Bond;
2. imposing an injunction on the Obliged Parties prohibiting the use of the Contract Performance Bond, in particular by demanding any payments under the Performance Bond, until the final conclusion of the proceedings,
3. if any amounts under the Contract Performance Bond have already been paid by the Guarantor to the Obliged Persons - by granting security in the form of seizure of amounts due from the Obliged Parties' bank accounts, up to the amount paid to the Obliged Parties, until the final conclusion of the proceedings.

By decision of June 12th 2013 of the Regional Court in Gliwice, 10th Commercial Division, the application for security was dismissed (court docket No. X GCo 49/13). In the complaint dated June 27th 2013, the Entitled Party challenged the decision to dismiss the application for security with the Court of Appeals in Katowice.

The amount to be secured is EUR 1,214 thousand.

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 PBG S.A. w upadłości układowej (in company voluntary arrangement) 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 ("**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 PBG and Hydrobudowa Polska;
3. MWiK is not entitled to claim any contractual penalty for dissolution of the Contract for reasons attributable to PBG and Hydrobudowa Polska

together with a request to secure the said claims by imposing an injunction on MWiK prohibiting the use of the 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.

1. **A request filed by PBG S.A. w upadłości układowej (in company voluntary arrangement) to secure claims related to the demand for payment under a performance bond, submitted to Banco Espirito Santo de Investimento SA by the Gdańsk Municipality, court docket No. I Co 214/13**

The performance bond was issued under the framework agreement signed, among other parties, by PBG S.A. on August 20th 2010. The Company believes that the demand for payment under the performance bond, made by the Gdańsk Municipality, violates the rights arising from the performance bond. If the security is granted by the Regional Court in Gdańsk, the Company intends to bring an action to court against the Gdańsk Municipality for determining that the Gdańsk Municipality has no right to demand any payment under the performance bond; or the Company may demand that the Gdańsk Municipality discontinues the unlawful use of the performance bond. The case involves a request for a security for claims in the amount of PLN 7,891 thousand.

## XI. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES

In the period covered by this Report, the PBG Group companies did not make any major changes in its significant management policies. In view of the bankruptcy proceedings currently in progress in some of the PBG Group companies, any activities falling outside the scope of ordinary management require approvals set forth in the Bankruptcy and Restructuring Law.

# SECTION V: SHARES AND SHAREHOLDERS

## I. 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 23: PBG's share capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **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** |

**Table 24: Shareholders holding over 5% of shares**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at June 30th 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 preference shares, and  146,170 ordinary shares | 3,881,224 | 27.15% | 42.23% |
| **ING Otwarty Fundusz Emerytalny** | 1,847,169 ordinary shares | 1,847,169 | 12.92% | 10.24% |
| **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, of which:  3,735,054 registered preference shares, and  146,170 ordinary shares | 3,881,224 | 27.15% | 42.23% |

Figure 3: PBG Shareholders holding over 5% of shares

|  |  |
| --- | --- |
| pozostali Akcjonariusze | other Shareholders |

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

Table 25: Changes in PBG’s shareholder structure in H1 2013 and after the balance-sheet date

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Notification date** | **Threshold** | **Number of shares** | **% of total vote at GM (%)** | **Date of change** |
| **ING Otwarty Fundusz Emerytalny** | | | | |
| July 16th 2013 | < 5% | 121,804 | 0.68 | July 11th 2013 |

III. KEY DATA ON PBG SHARES

**1. Share price**

**Figure 4: Price of PBG shares from January 1st to June 30th 2013**

**Figure 5: PBG share price from first listing to August 26th 2013**

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

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

## 2. 2. Key data on PBG shares

Table 26: Per-share data

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Key per-share data** |  | **H1 2013** | **H1 2012** | **y-o-y change** |
| 52-week high | **PLN** | 7,61 | 83,90 | -91 |
| 52-week low | **PLN** | 2,07 | 5,30 | -61 |
| Share price at half-year end | **PLN** | 5,68 | 6,14 | -7 |
| P/E ratio (max.) |  | - | - | - |
| P/E ratio (min.) |  | - | - | - |
| P/E ratio at half-year end |  | - | - | - |
| 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 half-year end | **PLNm** | 81,2 | 87,8 | -8 |
| Average daily trading value | **PLN ‘000** | 1,241 | 7,836 | -85 |
| Average daily trading volume | **number of shares** | 232,706 | 310,265 | -25 |

IV. V. 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

The Articles of Association of PBG (in company voluntary arrangement) do not provide for any restrictions on the voting rights.

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.

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

On April 3rd 2012, an 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 maximum number of tranches is 12 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.

IX. THE COMPANY AND ITS SHARES

**Table 27: IR contact data**

|  |  |
| --- | --- |
| **Investor Relations** | Michał Maćkowiak |
| **Tel. No.** | +48 (0) 61 66 46 431 |
| **E-mail** | [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 THE GROUP'S FINANCIAL POSITION

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

**1. Revenue**

At the end of H1 2013, the PBG Group reported a 32% revenue decline year on year. The Group's revenue fell from PLN **1,038,572 thousand in H1 2012** to **PLN 708,616 thousand in H1 2013.** Cost of sales decreased by 62%, to PLN 661,664 thousand as at the end of H1 2013.

**Chart 6: Historical development of revenue** (past five years)

|  |  |
| --- | --- |
| SPRZEDAŻ | SALES |
| w tys. zł | (PLN ‘000) |
| 1H20\*\* | H1 20\*\* |

Historically, sales of the PBG Group's services remained in an upward trend. However, the trend reversed in H1 2012 due to the difficult situation of the individual PBG Group companies, with a downward trend continuing in H1 2013. Lower revenue reported in the period under review was also due to a smaller number of companies comprising the PBG Group compared with the corresponding period of the previous year.

**2. Order book**

**As at July 1st 2013**, the value of the PBG Group's order book was approximately **PLN 5.85bn**, of which about PLN 840m represents orders to be executed in 2013, with the balance of approximately PLN 5bn scheduled for execution in the coming years. Power construction projects account for the largest proportion of the order book value (90%), with the balance (10%) attributable to the oil, gas and fuels segment.

**Chart 7: Historical development of the Group's order book (past five years)**

|  |  |
| --- | --- |
| PORTFEL ZAMÓWIEŃ | ORDER BOOK |
| w mln zł | PLNm |

**Table 28: Order book structure as at July 1st 2013**

|  |  |  |
| --- | --- | --- |
| **ORDER BOOK AS AT JULY 1ST 2013 (% and PLNm)** | | |
| **Gas, oil and fuels** | **10** | **600** |
| **Power** | **90** | **5,250** |
| **Water** | **0** | **10** |
| **TOTAL** | **100.0%** | **5,860** |

**3. EBITDA**

As at the end of H1 2013, consolidated EBITDA totalled **PLN 254,903 thousand**, representing an increase of **PLN 1,819,810 thousand compared with PLN -1,564,907 thousand reported at the end of H1 2012.**

**Chart 9: Historical development of EBITDA** (past five years)

|  |  |
| --- | --- |
| w tys. zł | PLN ‘000 |
| 1H20\*\* | H1 20\*\* |

**4. EBIT**

Operating profit booked by the PBG Group in H1 2013 was **PLN 235,109 thousand** in contrast to operating loss of **PLN -1,625,752 thousand** posted in the same period of the previous year.

**Chart 10: Historical development of EBIT** (past five years)

|  |  |
| --- | --- |
| ZYSK (STRATA) OPERACYJNA | OPERATING PROFIT (LOSS) |
| w tys. zł | PLN ‘000 |
| 1H20\*\* | H1 20\*\* |

**5. Liquidity ratios**

**Table 29: Liquidity ratios**

|  |  |  |  |
| --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **H1 2013** | **H1 2012** |
| Current ratio | (current assets/current liabilities)\*100 | 0.63 | 0.74 |
| Quick ratio | (current assets – inventories/current liabilities)\*100 | 0.45 | 0.63 |
| Cash solvency ratio | (cash balance at end of period/current liabilities)\*100 | 0.04 | 0.05 |

As at the end of H1 2013, current ratio deteriorated compared with the corresponding period of the previous year: it stood at 0.63, compared with 0.74 as at the end of H1 2012. It means that in H1 2013, like in H1 2012, the Group would not be able to repay its current liabilities if they became immediately due and payable.

The quick ratio suffered a similar decline. It fell from 0.63 at the end of H1 2012 to 0.45 at the end of H1 2013.

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

The cash ratio fell from 0.05 at the end of H1 2012 to 0.04 at the end of H1 2013. The ratio suggests that the Group is able to cover 4% of its current liabilities with the most liquid assets.

**6. Debt**

**Table 30: Debt ratios**

|  |  |  |  |
| --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **H1 2013** | **H1 2012** |
| Equity and liabilities structure | Equity attributable to owners of the parent / debt capital | -0.30 | 0.01 |
| Asset structure | Non-current assets / current assets | 0.66 | 0.51 |
| Interest coverage ratio | Gross profit + interest / interest | 3.88 | 7.00 |

The structure of equity and liabilities changed in the analysed period. In H1 2012, the Group’s equity covered 1% of its debt, while in H1 2013 the value of equity was negative.

The assets structure ratio increased by 0.15pp year on year. In H1 2012, non-current assets represented 51% of the current assets value, and in H1 2013 non-current assets represented 66% of the current assets value.

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

**1. Income statement**

**Table 31: Changes in the income statement**

|  |  |  |  |
| --- | --- | --- | --- |
| **PBG Group's income statement (PLN ‘000)** | **H1 2013** | **H1 2012** | **H1 2013/H1 2012** |
| Revenue | 708,616 | 1,038,572 | 68% |
| Cost of sales | 661,664 | 1,745,471 | 38% |
| **Gross profit (loss)** | **46,952** | **-706,899** | **-** |
| Distribution costs | 31,658 | 27,656 | 114% |
| Administrative expenses | 51,689 | 157,768 | 33% |
| **Profit on sales** | **-36,396** | **-892,324** | **-** |
| Other income | 366,204 | 79,014 | 463% |
| Other expenses | 94,675 | 812,442 | 12% |
| Restructuring costs | 24 | 0 | - |
| **Operating profit (loss)** | **235,109** | **-1,625,752** | **-** |
| Finance costs | 107,853 | 304,443 | 35% |
| Share of profit (loss) of equity-accounted entities | 0 | 10 | - |
| **Profit (loss) before tax** | **127,256** | **-1,930,185** | - |
| Actual tax expense | 3,630 | 37,961 | 10% |
| **Net profit (loss)** | **123,626** | **-1,968,146** | **-** |
| **- attributable to owners of the Parent** | **138,305** | **-1,685,563** | **-** |
| - attributable to non-controlling interests | -14,679 | -282,583 | - |

As at the end of H1 2013, the Group's gross profit was almost PLN 50m. The 2013 semi-annual results show a clear upward trend at all levels of the income statement, which was driven by the one-off events presented below.

**Administrative expenses** amounted to nearly PLN 52m and were down by 67% compared with the corresponding period of the previous year.

**Other income** of PLN 366m, comprising gain on investments in related entities of PLN 222m.

**Other expenses** of the PBG Group totalled PLN 94.7m. The most significant item of other expenses was impairment losses on receivables of PLN 13.1m. Fair value measurement of investment property stood out as another major item. The amount arising from measurement of investment property, recognised in other expenses, was PLN 4.6m.

**Finance costs** totalled PLN 108m. The largest item in finance costs was impairment losses on held-to-maturity investments of PLN 76m, which comprised bonds issued in 2010 by Strateg Capital and acquired by PBG.

As Strateg Capital is currently in liquidation bankruptcy, PBG has lost control of that subsidiary's assets. However, PBG remains an active participant of the negotiations held between the Strateg Capital Management Board and the principal creditors, and is supporting the company's restructuring as far as possible.

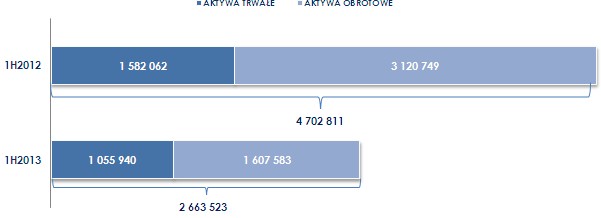
## III. ASSETS, FINANCIAL STANDING AND FUNDING OF THE ASSETS

**1. Assets**

The asset structure changed significantly during the period under review. As at the end of H1 2013, non-current assets represented 40% of total assets, which represented an increase of 3pp year on year. On the other hand, over H1 2013 the share of current assets in total assets declined year on year, to 60%. The largest item of non-current assets, accounting for 37% of total non-current assets, was goodwill acquired through business combinations. The second largest item of non-current assets was property, plant and equipment, which accounted for 31% of total non-current assets.

During the period under review, the structure of current assets also changed. In H1 2013, the largest item of current assets was trade receivables, representing 44% of total current assets. Inventory, which accounted for 29% of the current assets value, was the second largest item.

**Figure 11: Assets (PLN '000)**



|  |  |
| --- | --- |
| Aktywa trwałe | Non-current assets |
| Aktywa obrotowe | Current assets |

**Figure 12: Largest items of assets (PLN '000)**

|  |  |
| --- | --- |
| Środki pieniężne i ich ekwiwalenty | Cash and cash equivalents |
| Pożyczki udzielone | Loans advanced |
| Należności z tytułu dostaw i usług oraz pozostałe należności | Trade and other receivables |
| Należności z tytułu umów o usługę budowlaną | Amounts due from customers under construction contracts |
| Zapasy | Inventories |
| Pożyczki udzielone | Loans advanced |
| Nieruchomości inwestycyjne | Investment property |
| Rzeczowe aktywa trwałe | Property, plant and equipment |
| Wartość firmy | Goodwill |

**Table 32: Asset ratios (%)**

|  |  |  |  |
| --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **H1 2013** | **H1 2012** |
| Basic asset structure ratio | (non-current assets / current assets )\*100 | 66 | 51 |
| Non-current assets to total assets | (non-current assets/ total assets)\*100 | 40 | 34 |
| Current assets to total assets | (current assets/ total assets)\*100 | 60 | 66 |
| Inventories to current assets | (inventories / current assets)\*100 | 29 | 16 |
| Current receivables to current assets | (Current receivables / current assets)\*100 | 57 | 65 |

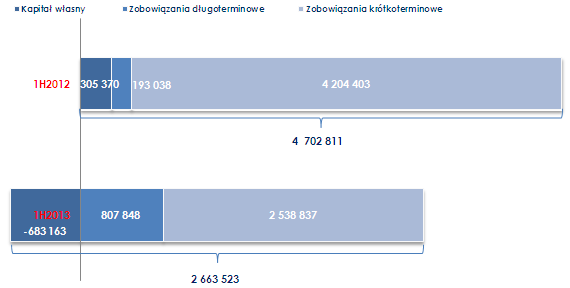
The basic asset structure ratio is discussed in detail in Section 1.6, Section VI.

There were significant changes in the value of particular items of assets and in the structure of total assets. In H1 2013, non-current assets fell 33pp year on year. A decline was seen in current assets, which shrank by 49pp. As at the end of H1 2013, the share of non-current assets in total assets was 6% up on H1 2012. At the same time, current assets' share in total assets decreased to 60% of the PBG Group's total assets.

**2. Equity and liabilities**

In the period under review, the structure of asset financing changed. The Group's equity was negative. The value of non-current liabilities under equity and liabilities grew by PLN 615m, to PLN 808m. The value of current liabilities fell to PLN 2.539bn as at the end of H1 2013, from PLN 4.204bn as at the end of H1 2012. In non-current liabilities, the most significant item was other provisions of PLN 706m. The largest item of current liabilities was borrowings and other debt instruments, which amounted to PLN 1.621bn.

**Figure 13: Equity and liabilities (PLN '000)**

****

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

**Figure 14: Largest items of equity and liabilities (PLN '000)**

|  |  |
| --- | --- |
| Pozostałe rezerwy krótkoterminowe | Other short-term provisions |
| Zobowiązania i rezerwy z tytułu świadczeń pracowniczych | Employee benefits liabilities and provisions |
| Zobowiązania z tytułu umowy o usługę budowlaną | Amounts due to customers under construction contracts |
| Zobowiązania z tytułu dostaw i usług oraz pozostałe zobowiązania | Trade payables and other liabilities |
| Kredyty, pożyczki i inne instrumenty dłużne | Borrowings and other debt instruments |
| Pozostałe rezerwy długoterminowe | Other long-term provisions |
| Pozostałe zobowiązania | Other liabilities |
| Kredyty, pożyczki i inne instrumenty dłużne | Borrowings and other debt instruments |
| Udziały niesprawujące kontroli | Non-controlling interests |
| Pozostałe kapitały | Other components of equity |
| Kapitał zapasowy ze sprzedaży akcji powyżej ich wartości nominalnej | Share premium |
| Kapitał podstawowy | Share capital |

## IV. STATEMENT OF CASH FLOWS

**Table 33: Cash flows (PLN '000)**

|  |  |  |
| --- | --- | --- |
| **9** | **H1 2013** | **H1 2012** |
| **Net cash from operating activities** | -87,734 | -527,151 |
| **Net cash from investing activities** | +6,658 | -195,139 |
| **Net cash from financing activities** | -249 | +373,387 |
| **Net cash at end of period** | +92,126 | +207,810 |

In H1 2013, the PBG Group generated negative net cash from operating activities, amounting to PLN -87.7m. During the period, net cash from investing activities was positive at PLN 6.7m. Loans advanced by the Group totalled PLN 570 thousand, with loan repayments made to the Group amounting to PLN 3.1m. In H1 2013, net cash from financing activities was PLN -0.25m. In the period under review, the Group received bank loans totalling PLN 28m, and repaid bank loans of PLN 17.7m.

**Table 34: Cash flow profile**

|  |  |  |
| --- | --- | --- |
|  | **H1 2013** | **H1 2012** |
| **Cash flow from operating activities** | - | - |
| **Cash flow from investing activities** | + | - |
| **Cash flow from financing activities** | - | + |
| **Cash flow at end of period** | + | + |

## V. NET DEBT

**Table 35: Data used by PBG to compute net debt (PLN ‘000)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **H1 2013** | **H1 2012** | **y-o-y change** |
| **Non-current borrowings** | 41,109 | 41,186 | -0,2 |
| **Current borrowings** | 782,387 | 1,445,320 | -46 |
| **Non-current finance lease liabilities** | 6,779 | 30,326 | -78 |
| **Current finance lease liabilities** | 1,403 | 24,584 | -94 |
| **Bonds** | 838,771 | 838,771 | - |
| **Net cash** | 92,126 | 207,810 | -56 |
| **Net debt** | **1,578,323** | **2,172,377** | -27 |

As at June 30th 2013, net debt was PLN 1.578bn, having decreased on the end of H1 2012. This amount comprises interest-bearing debt, including PLN 41m in non-current borrowings, PLN 782m in current borrowings, PLN 7m in non-current finance lease liabilities, PLN 1m in current finance lease liabilities, and PLN 838m in bonds (issued by PBG in two tranches: PLN 375m in 2009 and PLN 450m in 2010). Net cash of PLN 92m as at the end of H1 2013 was deducted from these amounts.

Given that the individual Group companies were declared insolvent in voluntary arrangement, their liabilities incurred prior to the court's decision on the insolvency are not measured at amortised cost but at nominal value plus interest accrued to the day preceding the date of the insolvency declaration (as provided for under the Bankruptcy and Restructuring Law), save for interest on liabilities secured on tangible property, which continue to accrue after the insolvency declaration, in accordance with the Bankruptcy and Restructuring Law. Other liabilities incurred after the court's decision declaring the Company insolvent in voluntary arrangement are measured at amortised cost.

## VI. INVESTMENTS

**1. Equity investments**

In H1 2013, the PBG Group made equity investments worth PLN 577 thousand.

2. Expenditure on property, plant and equipment

In H1 2013, the Group invested mainly in the enhancement of its plant, workshops and warehouses. A part of the funds was invested in the modernisation and extension of the existing office buildings. The investments totalled approximately PLN 10m.

3. Feasibility of the Company’s investment plans

Given the current difficult financial position of the PBG Group and its parent, no 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 Parent intends to sell non-core assets.

**VII. FINANCIAL OUTLOOK**

Currently, a number of the PBG Group companies are in the process of company voluntary arrangement. Their expected financial standing to a large extent depends on the outcome of negotiations with financial institutions and other creditors. Notwithstanding the arrangement procedures, the Group has also been taking steps designed to stabilise the PBG Group companies' operations.

VIII. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

Twelve companies of the PBG Group filed petitions for insolvency with arrangement option in 2012.

After individual companies of the PBG Group filed petitions for declaring them insolvent in voluntary arrangement or for liquidation bankruptcy, the creditors terminated a majority of the Group's credit and guarantee facilities, as reported in detail by the Parent in the consolidated financial statements prepared as at December 31st 2012.

Consequently, as at June 30th 2013 the value of credit facilities which were terminated or expired (including derivatives instruments) was PLN 470,906 thousand.

Also, pursuant to the Terms and Conditions of the Bonds, the Parent received calls for immediate redemption from bondholders who had acquired Series C and Series D bonds. As at the redemption call date, the value of the bonds including interest accrued, in line with the Bankruptcy and Restructuring Law, to the day preceding the date on which the court declared the Company insolvent in voluntary arrangement, was PLN 838,772 thousand.

The companies did not repay the claims under the bond redemption calls or under the credit and guarantee facilities which were terminated or expired. These claims are covered by the arrangement, and their satisfaction is governed by the Bankruptcy and Restructuring Law. Any disclosed decreases resulted from enforcement of security by the creditors.

As at June 30th 2013, liabilities under the existing or new credit facilities totalled PLN 352,590 thousand. These liabilities were incurred by Rafako and property development subsidiaries.

The voluntary arrangement procedure is to ensure proper satisfaction of the creditors' claims following approval and implementation of the arrangement. Since last year, the Parent's Management Board has been actively involved in negotiations with the Parent's creditors. The negotiations concern terms of debt repayment, including repayment periods, amounts and forms.

## IX. SURETIES AND GUARANTEES GRANTED AND RECEIVED

As at June 30th 2013, the PBG Group companies disclosed PLN 1,465,549 thousand in contingent liabilities, recognised as off-balance-sheet items, which included guarantees and sureties issued to non-consolidated related parties, associates and other entities.

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

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

In the six months ended June 30th 2013, the Parent became aware that a part of the Group's off-balance liabilities had expired upon expiry of guarantees and sureties for guarantees issued by PBG Group companies.

Hence, in order to reflect its most reliable current estimates, the Parent partially reversed the provision for future liabilities under guarantees and sureties, recognised as at December 31st 2012, with the reversal amount standing at PLN 90,000 thousand. Post-reversal, the provision amounts to PLN 690,000 thousand.

Prior to the partial reversal, the value of contingent liabilities recorded by the PBG Group companies as at June 30th 2013 was PLN 2,155,549 thousand.

The court will carry out the final review of the liabilities, including contingent liabilities, during the final assessment of claims submitted by trading partners.

## X. GOING CONCERN ASSUMPTION

PBG’s current financial standing puts in question its ability to continue as a going concern. However, the financial statements have been prepared on the assumption that PBG would continue as a going concern in the foreseeable future, i.e. for at least 12 consecutive months from the end date of the reporting period. This assumption is related to the proceedings regarding the Company's insolvency with arrangement option, as well as the Management Board's efforts to arrange with the creditors and ensure that the Company may continue its operations.

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 indicating that there is a threat to the Company's and its Group's continuing as going concerns, as well as steps taken in order to mitigate the risk.

On June 4th 2012, the Company made a decision to file for insolvency with arrangement option (reasons for the decision were provided in the Company's financial statements for 2012). On June 13th 2012, the District Court for Poznań–Stare Miasto of 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 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 last year, the Company's Management Board has been actively involved in negotiations with the Company's 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 forming the largest group of creditors have received the plan of the operational restructuring of the Company, together with the term sheet of restructuring agreement and the business terms of debt restructuring. The plan was prepared by the Company and its financial and legal advisers: PwC Polska Sp. z o.o., and Weil, Gotshal & Manges, Paweł Rymarz Sp.k. Currently, restructuring documents, including a draft of the restructuring agreement, are being prepared by the Management Board and its advisers, which, upon receipt of corporate approvals, will be provided to Creditors. The document drafting is expected to be completed soon. The Management Board believes that the restructuring plan it proposes will be the best possible solution to all parties concerned, and a feasible one from the Company's perspective.

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

* restructuring of Company's non-operating non-current assets, the sale of which would constitute one of the sources of payments made as part of the arrangement;
* sale of shares in companies which are unrelated to PBG's strategic segments, that is the oil & gas segment or 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 S.A.

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 on the list of claims by the court supervisor is 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. As required by the Bankruptcy and Restructuring Law, the process of handling complaints and making updates to the list is currently under way.

## CONTACT DETAILS

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**SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS**

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| **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** |