

Position of the Management Board and opinion of the Supervisory Board of the entity regarding the qualifications expressed by the auditor in the audit report

a) Quantitative and qualitative effect on the financial statements, including on profit or loss and other financial data, of the issue referred to in the qualification, in each case with a presentation of materiality assessment

In the interim condensed consolidated statement of financial position as at June 30th 2019, the Company disclosed PLN 23,673 thousand of receivables under bonds from PBG S.A., its ultimate parent, PLN 3,531 thousand of trade receivables and PLN 38,841 thousand of receivables under advance payments made by RAFAKO S.A. in respect of construction contracts.

With respect to the trade receivables and bonds, the Company's Management Board applied the impairment model based on expected credit losses. An analysis of indications of possible impairment of assets, including the Group's operating performance and declining margins on construction contracts, revealed the need to perform the tests required under IAS 36 Impairment of Assets.

In the opinion of the Company's Management Board, the carrying amount of receivables under the bonds, trade receivables and the advance payments receivable, disclosed in these financial statements in a total amount of PLN 66,045 thousand, has been determined correctly and reflects the recoverable amount. As at the date of these financial statements, the Company's Management Board is not able to estimate the effect of this matter on profit or loss. However, the maximum effect could be PLN 66,045 thousand. Profit before tax, net profit and equity would decline accordingly.

In the opinion of the Company's Management Board, there are indications that assets may be impaired. The Management Board monitors forecasts on an ongoing basis and, in line with the Company's practice, will test assets for impairment at the end of the year.

b) Measures taken and planned to be taken by the Company in view of the situation described above

Reasons for the auditor's qualification in the reporting period may be removed if the PBG Group parent presents security and documents confirming cash flows that will guarantee payment of its liabilities under the bonds throughout the life of the asset.

This is clearly beyond the control of the Company's Management Board. In assessing the probability of recovering the amounts due to the Company under the bonds issued by PBG S.A., the Company's Management Board takes into account not only the present value of the security created for the issuer's bonds, but also the market prospects for the entire PBG Group.

When analysing the recoverability of trade receivables and of the contract execution prepayment asset (advance payments made to the parent), the Company's Management Board assesses the current status of contract performance and constantly supervises the progress of works and settlements with further subcontractors of the related entity. The advance payments made to PBG S.A. were provided to finance the working capital under the individual contracts acquired by RAFAKO S.A. and partly subcontracted to PBG S.A. Financing of the working capital is necessary given the need to make prepayments or further advance payments in connection with the performance of contracts, both in the oil and gas segment and under some power construction contracts where the employer has not envisaged any advance payments or such advance payments have been made conditional on the achievement of specific milestones.

Based on the status of the contracts, including the dispute regarding payments claimed by a customer as described in Note 30 to these financial statements, and the expected positive outcome of negotiations held with the Company's key customers, the Company's Management Board believes that the risk of non-recoverability of the assets referred to above and impairment of the Company's assets is at a level allowing us to assume that there is no need to recognise impairment losses on assets.

c) Opinion of the supervisory body

Referring to the qualification made by the auditor, the Supervisory Board is of the opinion that the Company's Management Board measured the financial assets relying on its own assessment of the risk of non-recoverability of the receivables identified in the qualification and taking into account the various considerations specified in the Management Board's position. In particular, providing sufficient evidence of recoverability of amounts due under the bonds issued by PBG S.A. is beyond the control of the Company's Management Board.