

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 full-year statement of financial position as at December 31st 2018, the Company disclosed PLN 21,675 thousand of receivables under bonds from PBG S.A., its ultimate parent, and PLN 36,412 thousand of receivables from PBG oil and gas Sp. z o.o. on account of prepayments for contracts transferred by RAFAKO S.A. In accordance with the resolution of the Extraordinary General Meeting of PBG S.A. held on April 2nd 2019, PBG oil and gas Sp. z o.o. is to be merged with PBG S.A. Therefore, redemption of the bonds and receipt of the advance payments will depend on the implementation of the debt arrangement scheme by PBG S.A. and on the performance of the obligations laid down in the terms and conditions of PBG S.A. bonds.

With respect to those financial assets, the Company's Management Board has applied the impairment model based on expected credit losses and has estimated the impairment of the prepayments made.

In accordance with the strategy pursued by the Company's Management Board, described in the Directors' Report on the Company's operations, the merger of PBG oil and gas Sp. z o.o. with PBG S.A. is an initial step in the PBG Group's restructuring plan. In the next step, an organised part of business (with the competence in providing EPC and general contractor services to the oil and gas sector) is to be spun off from PBG S.A. (which will be the surviving entity in the merger with PBG oil and gas Sp. z o.o.) and then contributed to the RAFAKO Group.

In the opinion of the Company's Management Board, the carrying amount of the receivables under the bonds and the advance payments, disclosed in these financial statements in the total amount of PLN 58,087 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 58,087 thousand. Profit before tax, net profit and equity would decline accordingly.

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 the asset represented by the advance payments for contract execution, made to a related entity, 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 to PBG oil and gas Sp. z o.o. were provided to finance the working capital under the individual contracts acquired by RAFAKO S.A. and partly subcontracted to PBG oil and gas Sp. z o.o. 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.

The parent's Management Board believes that the risk of non-recoverability of those assets is minimal.

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 an 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. Redemption of the bonds and recovery of the advance payment assets will depend on the implementation of the arrangement and on the performance of the obligations laid down in the terms and conditions of PBG S.A. bonds.