

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

### **a) Quantitative and qualitative effect on the consolidated 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 consolidated statement of financial position as at December 31st 2018, the Group disclosed PLN 21,675 thousand of receivables under bonds from PBG S.A., its ultimate parent, and PLN 46,962 thousand of receivables from PBG oil and gas Sp. z o.o. These receivables include PLN 10,302 thousand under a loan advanced by PGL Dom Sp. z o.o. and PLN 36,660 thousand under advance payments for contract execution 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. Redemption of the bonds, repayment of the loan and receipt of the advance payments will depend on implementation of the arrangement and performance of the obligations under the terms of PBG S.A. bonds.

With respect to those financial assets, the parent's Management Board has applied the impairment model based on expected credit losses and has estimated the impairment of the advance payments made. In accordance with the strategy pursued by the parent's Management Board, described in the Directors' Report on the RAFAKO Group'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 parent's Management Board, the carrying amount of the receivables under the bonds, the loan and the advance payments, disclosed in these consolidated financial statements in the total amount of PLN 68,637 thousand, has been determined correctly and reflects the recoverable amount. As at the date of these consolidated financial statements, the parent's Management Board is not able to estimate the effect of this issue on profit or loss. However, the maximum effect could be as follows: pre-tax profit of PLN 68,637 thousand, net profit and equity lower by PLN 68,580 thousand.

### **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 parent's Management Board. In assessing the probability of recovering the amounts due to the parent under the bonds issued by PBG S.A., the parent'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 (advance payments made to a related entity) and the probability of repayment of the loan, the parent'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. Both the loan and the advance payments made to PBG oil and gas Sp. z o.o. were provided to finance the working capital under the individual contracts acquired by the parent 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.

When analysing the recoverability of the assets under the advanced loan, the parent's Management Board takes into account the current financial position of the borrower, as well as the borrower's credit risk estimated by independent credit rating agencies.

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 parent'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 parent's Management Board. Redemption of the bonds, recovery of the advance payment assets and repayment of the loan advanced to the related entity by a subsidiary 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.