

Wysogotowo, April 26th 2018

Position of the Management Board and Supervisory Board of PBG S.A. on the qualifications expressed by the independent auditor in its report on the audit of PBG S.A.'s full-year financial statements as at December 31st 2017.

The report prepared by an independent auditor, Ernst & Young Audyt Polska sp. z o.o. sp.k. ("**Qualified Auditor**"), on the audit of the full-year financial statements of PBG S.A. as at December 31st 2017 ("**Financial Statements**") contains the following qualifications, which were the basis for the auditor's disclaimer of opinion:

1. On June 13th 2016, the decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Restructuring Division, to approve the Company's voluntary arrangement with creditors (the "Arrangement") became final. On that date, the Company began to perform its obligations under the Arrangement, which provides that liabilities covered by the Arrangement are to be repaid in instalments by June 30th 2020. Pursuant to the Restructuring Agreement made by the Company and its related entities with the creditors, after the Arrangement became final, most of the liabilities covered by the Arrangement were refinanced through the issue of bonds redeemable by the Company in series until June 30th 2020, based on a revised schedule. The total amount of the Company's liabilities under the Arrangement and bonds in issue was PLN 525m as at December 31st 2017, including PLN 68m payable by June 30th 2018 and PLN 25m payable by December 31st 2018. In Note 2.7.3 to the attached financial statements, the Company's Management Board disclosed certain going concern risks posed by the Company's current financial condition; however, given the steps taken by the Management Board to generate sufficient proceeds from the sources of funds with which the Management Board plans to meet the Company's liabilities, and to enable the Company to continue as a going concern, a decision was made to prepare the financial statements assuming that the Company would continue as a going concern for the foreseeable future, i.e. for at least 12 consecutive months subsequent to the reporting date. Accordingly, the attached financial statements were prepared on the assumption that the Company would continue as a going concern and do not include any adjustments in respect of different policies for the recognition and measurement of assets and liabilities that would be necessary if the Company were unable to continue as a going concern for 12 months after the reporting date.

However, in the course of the audit we did not obtain, to our satisfaction, sufficient audit evidence concerning the going concern assumption and supporting the feasibility of the cash flow plan prepared by the Company's Management Board, including planned proceeds from divestment of assets of the Company and some of its subsidiaries, sufficient to service the Company's liabilities for the 12 months after the reporting date and for the foreseeable future. Therefore, we were not able to assess the validity of the going concern assumption made by the Company's Management Board in preparing the attached financial statements.

2. As at December 31st 2017, the Company held investment certificates of the Dialog Plus Closed-End Investment Fund organised under the laws of Ukraine, disclosed in the attached statement of financial position under long-term loans, valued at approximately PLN 29.1m. The certificates were acquired to finance the operations of Energopol Ukraina, a related entity. We are not satisfied that the documents provided to us by the Company sufficiently confirm the accuracy of the asset's valuation as at the reporting date. In view of the foregoing, as well as the uncertain political and economic situation in Ukraine, we are not able to provide an opinion on the accuracy of the valuation and presentation of that loan in the attached financial statements.
3. In the statement of financial position, under 'Long-term contract receivables and amounts due from customers for construction contract work', the Company presented outstanding receivables in a total amount of approximately PLN 32m from a customer with which the Company is in a dispute over the performance of a construction contract. For details of the dispute, see Note 17.1 to the financial statements. Considering the significant uncertainty as to the outcome of the dispute and insufficient documentation that would allow us to determine the date and likelihood of payment of these receivables as well as the consequences of the Company potentially being charged with liquidated damages, we are unable to assess the effect of this issue on the attached financial statements, including the recoverability of receivables disclosed in the statement of financial position.
4. As at December 31st 2017, the Company held, directly or indirectly, 33% of shares in RAFAKO S.A. In the comparative period, the value of the interest in RAFAKO S.A. was reduced by approximately PLN 99m through an impairment loss recognised in 2016. Given the qualification expressed in the auditor's opinion on the financial statements for the year ended December 31st 2016, we are not able to provide an opinion on whether or not the 2016 financial result, presented as comparative period data in the attached financial statements, was correct. However, the above issue had no bearing on equity as at December 31st 2017.

Below is presented the position of the Management Board of PBG S.A. on the qualification described in item 1 above:

Quantitative and qualitative effect of the item with respect to which qualification was made in the independent auditor's report on the full-year financial statements containing a disclaimer of opinion, including effect on the profit or loss and other financial data, in each case with a materiality assessment:

In the current situation, i.e. after the court's decision sanctioning the Arrangement has become final and the insolvency proceedings with respect to the Company have been closed, the Company's ability to continue as a going concern depends on whether it would effectively fulfil its obligations resulting from the terms and conditions of the Arrangement approved by the creditors. Considering the foregoing, the Company's Management Board is identifying and monitoring risks to the Company's ability to continue as a going concern due to its failure to

make repayments and meet other liabilities under the Arrangement, as a result of which the Arrangement could be repealed and liquidation proceedings could be re-instigated with respect to the Company.

Pursuant to the terms of the Arrangement prepared by the Company's Management Board and approved by the creditors, and in accordance with the restructuring documents executed with the financial creditors, the Company is exercising due care in monitoring and fulfilling its obligations thereunder.

As it was obliged to do under the Arrangement, the Company issued bonds as part of partial conversion of its debt covered by the Arrangement. The bond issues, as well as their admission to trading, were carried out with due care on the Company's part, in compliance with the applicable procedures and with the participation of professional advisers approved by the creditors.

Another obligation under the Arrangement was fulfilled by the issue of Series H shares, offered to eligible creditors of the Company. The process was also supported by professional advisers approved by the creditors.

In view of the Company's current situation and its ability to continue as a going concern, which is determined by the effective fulfilment of its obligations under the Arrangement as well as the Terms and Conditions of the Bonds, the Company has established additional procedures and controls to monitor the proper fulfilment of those obligations.

Internal regulations introduced at the Company and Obligor Companies pursuant to the restructuring documents have identified the areas where obligations imposed on the Company under the terms of the Arrangement and the Terms and Conditions of the Bonds must be monitored particularly closely. These regulations also specify the rules of communicating with creditors and other entities identified in the restructuring documents, i.e. Agents and Advisers.

Considering that the key element in the fulfilment of liabilities under the Arrangement and the bonds are timely repayments under the Arrangement and timely redemptions of the bonds, the Company takes due care to secure and monitor the sources of their financing. One of the key sources of financing such repayments and redemptions are funds raised through the Divestment Plan, i.e. plan to sell non-core properties. The plan, developed and approved by the Management Boards of the PBG DOM Group companies, was adopted by the Company by way of a resolution of its Management Board, as an appendix to the restructuring documents. Subsequently, the Vice President of the Management Board was appointed by the Company to directly monitor the plan, as a special area of management and supervision, and be responsible for its implementation.

A team composed of members of the Management Boards of the PBG DOM Group companies and the Vice President of the PBG Management Board, who supervises the area and is responsible for divestments, prepares regular reports for the Company's Management Board on the implementation of the plan as well as any adjustments and revisions thereof.

Taking into account the volatile market environment, potential risks related to rescheduling of the Divestment Plan, and other risks related to the availability of other sources of financing, the Company's Management Board is preparing various scenarios to secure funds for servicing the debt under the Arrangement and the bonds. Each of the scenarios, including obviously the base case, is being monitored and reviewed on an ongoing basis.

If the Company's Management Board identifies an increased risk of inability to repay a part or all of the debt under the Arrangement and the bonds, the Management Board may: i). in the case of creditors covered by the Arrangement – extend the deadline for a repayment in

agreement with the relevant creditor and ii). in the case of bondholders – request that the Bondholders Meeting pass a resolution approving a change of the bonds redemption date. Referring to the independent auditor's report on the full-year financial statements for 2017 and the qualifications expressed therein with respect to the feasibility of the cash flow plan assumed by the Management Board, and in particular the assumed timing of proceeds from the divestment of assets of the Company and some of its subsidiaries, the Management Board reports that two agency agreements for sale of Malta properties have been executed, following previous discussions and negotiations. To the best of its knowledge, the Company expects the transaction to be completed in June 2018. Proceeds from the transaction, as currently expected, will be between PLN 23m and PLN 25m. Talks regarding the terms of sale or possible refinancing of the SKALAR office building are still under way, and the transaction is expected to be completed in the fourth quarter of 2018. Considering the sale of assets of the Ministersky project in Kiev as one of the key sources of proceeds in the current divestment process, the Company concluded negotiations concerning the sale of its claim. Pursuant to the terms of the agreement to sell the claim, the Transferee, being a joint-stock company established under the laws of Luxembourg, will pay to the Company an amount of PLN 80m, including a non-refundable advance payment of PLN 20m payable by June 25th 2018, with the balance of PLN 60m payable by June 25th 2019. In addition, PBG has secured cash flows necessary to cover operating activities and liabilities under the Arrangement (including those arising from the bonds) by way of a loan from its subsidiary, i.e. PBG oil and gas sp. z o.o.

Measures taken and planned to be taken by the issuer in view of the situation described above:

Reasons for the auditor's qualification may be eliminated depending to a large extent on the situation on the property market. The Management Board is monitoring any changes and deviations from the adopted Divestment Plan, in collaboration with the Divestment Adviser appointed pursuant to the Restructuring Documents, as well as with other entities through whose support it may attract further prospective buyers of the assets offered for sale. In order to minimise the risk of failure to repay liabilities under the Arrangement and the bonds, the Management Board is preparing various scenarios to secure funds for servicing that debt.

Below is presented the position of the Management Board of PBG S.A. on the qualification described in item 2 above:

Quantitative and qualitative effect of the item with respect to which qualification was made in the independent auditor's report on the full-year financial statements containing a disclaimer of opinion, including effect on the profit or loss and other financial data, in each case with a materiality assessment:

The assets described above are disclosed in the financial statements as loans. The Company acquired a total of 234,250 certificates with a par value of UAH 1,000 each. The carrying amount of these securities disclosed in the full-year statement of financial position as at December 31st 2017 was PLN 29.1m.

As at each reporting date, the value of the asset as presented by the Company is the product of the amount of the currency transferred and its exchange rate applicable as at the reporting

date. In compliance with the prudence principle, the Company decided to value the investment at its nominal amount, without any accrued interest, taking into account only the change in the UAH/PLN exchange rate.

In July 2013, the Company signed a conditional agreement obliging it to sell the asset for PLN 109m. Considering the risk to cash flows from the development project located in Ukraine, arising from the country's unstable political situation, the Company resolved to sell the claim in exchange for accelerating the cash inflow and significant reduction of the risk involved. The Company expects to receive PLN 80m (net of the agreed rebate). Expected timing and amounts of cash receipts: PLN 20m in the first half of 2018 and PLN 60 in the first half of 2019.

As at the date of the financial statements, the Company's Management Board was not able to estimate the effect of the above matter on the profit or loss. However, the maximum negative effect could be PLN 29.1m, while the maximum potential positive effect could amount to PLN 50.9m. Profit before tax, net profit and equity would change accordingly.

Measures taken and planned to be taken by the issuer in view of the situation described above:

The Company's Management Board is monitoring the Ukrainian investment on an ongoing basis. Recently, it has completed negotiations of an agreement to assign its claim arising under the sale agreement with IMIDŹ FINANS GRUP Sp. z o.o. of July 24th 2013. The relevant agreement will be signed after all legal documents required by the buyer are obtained.

Below is presented the position of the Management Board of PBG S.A. on the qualification described in item 3 above:

Quantitative and qualitative effect of the item with respect to which qualification was made in the independent auditor's report on the full-year financial statements containing a disclaimer of opinion, including effect on the profit or loss and other financial data, in each case with a materiality assessment:

Under long-term contract receivables and amounts due from customers for construction contract work, the Company recognised receivables of PLN 32m from PGNiG, including:

- ✓ receivables of PLN 11.6m resulting from work performed but not yet settled under the Wierzchowice UGSF project;
- ✓ a security deposit of PLN 20m securing warranty claims under the LMG contract.

On April 2nd 2014, the Company received from Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw ("PGNiG" or the "employer") a notice of termination of the Wierzchowice UGSF contract. From receipt of the notice, the consortium made several attempts to negotiate contract settlement with the employer. However, the negotiations were not successful. On May 9th 2016, the parent petitioned for a conciliation hearing to settle the dispute with PGNiG concerning completion and settlement of the LMG and Wierzchowice UGSF contracts. In the petition, the value of the dispute was set at PLN 288,235 thousand, being the sum of PBG's claim under the LMG security (PLN 20,051 thousand plus interest) and consideration due to the

consortium for the performance of the Wierzchowice UGSF contract (no settlement was reached).

On the date of receipt of PGNiG's notice of termination of the Wierzchowice UGSF contract by the employer, PGNiG also charged the consortium with liquidated damages of PLN 133.4m, i.e. 10% of the gross contract price, as PGNiG assumed that causes of the termination were attributable to the contractor. Moreover, on April 2nd 2014 the consortium received a debit note from the employer for the amount of PLN 10.3m under interest accrued (of which PLN 3.3m was attributable to the Company). The note was returned to the employer as groundless.

The consortium, including the Company as its leader, considers PGNiG's contract termination notice and claim for payment of liquidated damages to be ineffective. The consortium's position was presented to the employer in a letter of April 7th 2014 and also on April 18th 2014. In the consortium's – and the Company's – opinion, as at April 2nd 2014 the project had been completed in almost 100%, as admitted by the employer itself in its current report and as demonstrated by the project status report as at the end of March 2014. Moreover, by April 2nd 2014 the employer had confirmed full operational availability of the Wierzchowice UGSF's units, as well as conformity of the UGSF's functionality with the contract specifications. The required operation permits for the Wierzchowice UGSF facilities were obtained by December 2013, and the applicable permits for operation of the individual units were received by March 2014.

At present, the Company is not able to estimate the amount of the provision that would reliably reflect the Company's risk related to the above issue because, as indicated above, both the liquidated damages and interest charged at such levels are, in the opinion of the consortium and the Company, groundless. However, the maximum negative effect of non-payment of the amounts due could be PLN 31.6m. Profit before tax, net profit and equity would change accordingly.

Measures taken and planned to be taken by the issuer in view of the situation described above:

Reasons for the auditor's qualification in the reporting period may be eliminated depending on the resolution of the dispute. The Management Board is continuing legal steps to successfully resolve the dispute.

Below is presented the position of the Management Board of PBG S.A. on the qualification described in item 4 above:

Quantitative and qualitative effect of the item with respect to which qualification was made in the independent auditor's report on the full-year financial statements containing a disclaimer of opinion, including effect on the profit or loss and other financial data, in each case with a materiality assessment:

As at December 31st 2017, the Company held, directly and indirectly, 33.32% of shares in RAFAKO S.A. In the comparative period, the value of the interest in RAFAKO S.A. was reduced by PLN 98,965 thousand through an impairment loss recognised in 2016.

The Company remeasured the value of the shares by performing impairment tests based on its best estimates, in accordance with the prudent valuation principle. Under Par. 10 of IAS 36, the Company is required to perform annual impairment tests if there is any indication of impairment. Considering the market price of RAFAKO S.A. shares, the Company concluded there were indications of impairment and decided to carry out a test to measure the impairment of its shareholding in RAFAKO as at the end of 2016. The value of RAFAKO shares was estimated with the use of the discounted cash flow method for the period of the revised financial forecast, from April 1st 2015 to December 31st 2019, and calculation of residual value by extrapolating the results projected for 2019. Based on the obtained results, the Company estimated that the value of the investment in 50% + 1 share in RAFAKO was PLN 315m as at December 31st 2016 (in the 2015 financial statements, the value of RAFAKO shares was PLN 414m, including an impairment loss of PLN 137m). Therefore, the Company recognised an additional impairment loss of PLN 99m.

As at the date of the financial statements, the Company's Management Board was not able to estimate the effect of the above matter on the profit or loss (profit before tax, net profit) in 2015–2016. However, it had no bearing on equity as at December 31st 2017.

Measures taken and planned to be taken by the issuer in view of the situation described above:
Given that the auditor made no qualification as to the carrying amount of RAFAKO shares as at December 31st 2017, in the Management Board's opinion the matter has been resolved.

The Supervisory Board and the Audit Committee, selected from among the Supervisory Board members, maintain ongoing contact with both the Company's Management Board and the auditor's representatives. Representatives of the Audit Committee actively participate in meetings between the auditor and the Company's Management Board; on the other hand, representatives of the Company's Management Board and of the auditor attend the Supervisory Board's meetings devoted to financial reporting.

Given that, as indicated above, the work of the Audit Committee and of the Supervisory Board is carried out on an ongoing basis, the Supervisory Board accepts the aforementioned position of the Management Board on the qualifications expressed by the independent auditor in its report on the audit of the Company's full-year financial statements for the financial year ended December 31st 2017.

Jerzy Wiśniewski-
President of the Management Board

Kinga Banaszak-Filipiak-
Member of the Management Board

Mariusz Łożyński –
Vice President of the Management Board

Dariusz Szymański –
Vice President of the Management Board