Wysogotowo, October 1st 2018

Position of the Management Board and Supervisory Board of PBG SA on the qualifications expressed by the auditor in its report on the review of the PBG Group's interim condensed consolidated financial statements for the six months ended June 30th 2018

The review report prepared by the independent auditor Grant Thornton Polska sp. z o.o. sp.k. ("Qualified Auditor") on the PBG Group's interim condensed consolidated financial statements as at June 30th 2018 ("Financial Statements") contains the following qualifications:

1. In Note 2.3 of the interim condensed consolidated financial statements as at June 30th 2018, the parent's Management Board presented the circumstances with a bearing on the going concern assumption for the Group companies, including: the legal situation concerning the arrangement approved by the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Restructuring Division and concluded by the parent with its creditors, the parent's current financial standing, strategy for raising financing for the performance of arrangement obligations, and risks and uncertainties which could have an effect on the performance under the arrangement. Given the steps taken and the adopted strategy, the parent's Management Board has assessed that the parent is able to obtain sufficient funds to meet the arrangement obligations, as well as funds enabling the parent to continue its operations; accordingly, the Board has resolved to prepare a consolidated financial statements on the assumption that the parent would continue as a going concern in the foreseeable future, i.e. for at least 12 consecutive months after the reporting date. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and do not contain any effects of applying such other principles of measurement and presentation of assets and liabilities which might be necessary if the interim condensed consolidated financial statements were not prepared on the going concern basis.
   In our opinion, during the review, we did not obtain sufficient evidence which would make probable the assumptions adopted by the Parent's Management Board in the cash flow plan, which serves the basis for the identification of sources of financing the parent's liabilities during the arrangement implementation. Therefore, we were not able to assess the soundness of the going concern assumption made by the parent's Management Board in preparing the consolidated financial statements. If the consolidated financial statements were prepared on the assumption that the Company would not continue as a going concern, recognition and measurement of individual items of assets, liabilities and financial performance could be different and we are not able to assess the effect of change in measurement and recognition methods on the presented consolidated financial statements.
2. In Note 13 of the interim condensed consolidated financial statements as at June 30th 2018, the parent's Management Board disclosed information on the equity interests in Energopol Ukraina, accounted for using the equity method, with a carrying amount of PLN 26.4m. We were presented no documents which would confirm the measurement of the investment. Due to the lack of access to the relevant documentation and the uncertain local economic situation, we are not able to express an opinion on the correctness of measurement and presentation of these assets in the consolidated financial statements as at June 30th 2018.
3. In the consolidated financial statements as at June 30th 2018, the Group recognised disputable receivables of PLN 39.2m. No impairment loss was recognised for those receivables. In Note 15 "Long-term contract receivables and amounts due from customers for construction contract work" and Note 24 "Long-term contract obligations and provisions" to the interim condensed consolidated financial statements as at June 30th 2018, the parent's Management Board presented the circumstances of the dispute and grounds for the method of presentation of the

disputable amounts. In our opinion, we did not obtain sufficient evidence which would confirm that the amounts disclosed in these consolidated financial statements are correctly disclosed and measured. Given the uncertainty surrounding the outcome of the dispute, we are not able to assess the effect of this matter on the Group's financial statements.

4. In the consolidated financial statements, the goodwill arising on the acquisition of the subsidiary RAFAKO S.A. was determined based on provisional data. The parent's Management Board has not made any final accounting for the acquisition. Therefore, we are not able to confirm the accuracy of the goodwill carrying amount. In Note 7 to the interim condensed consolidated financial statements as at June 30th 2018, the parent's Management Board presented the results of impairment test based on which the impairment loss on the goodwill was recognised. We draw attention to the fact that the assumptions underlying the tests depend on future events, primarily on the acquisition of contracts by the subsidiary.

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 review of the interim condensed consolidated 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 parent have been closed, the parent'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 Parent'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 Parent'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 Parent 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 Parent. The process was also supported by professional advisers approved by the creditors.
In view of the Parent'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 Parent has established additional procedures and controls to monitor the proper fulfilment of those obligations.
Internal regulations introduced at the Parent and Obligor Companies pursuant to the restructuring documents have identified the areas where obligations imposed on the Parent 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 parent takes due care to secure and monitor the sources of their financing. One of the key sources of financing such

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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 Parent 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 mainly the volatile market environment and potential risks related to rescheduling of the Divestment Plan, the parent'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 Parent'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 Auditor's Report on review of the interim condensed consolidated financial statements as at June 30th 2018 and certain reservations concerning the actual generation of cash flows projected by the Management Board, the parent's Management Board states that by the date of issue of these financial statements, the parent had redeemed all Series E and E1 bonds, paid the due arrangement liabilities (except for the liabilities covered by the agreed payment deadline extension), and plans to pay further liabilities primarily based on:
- sale of the SKALAR office building; the 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 parent concluded negotiations concerning the sale of its claim. As at the completion of negotiations (i.e. April 25th), the planned dates and amounts of cash inflows are as follows: PLN 20m in the first half of 2018 and PLN 60m in the first half of 2019. As at the date of issue of the financial statements, the Company awaits the confirmation of execution of the agreement and the transfer of the first tranche of remuneration.
In addition, PBG has secured cash flows necessary to cover operating activities and liabilities under the bonds and arrangement 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 Parent's 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 Parent's 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:

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Quantitative and qualitative effect of the item with respect to which qualification was made in the independent auditor's report on the review of the interim condensed consolidated 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 PBG Group holds an interest in an equity-accounted joint venture – Energopol Ukraina S.A. Energopol Ukraina S.A. is a company incorporated under Ukrainian law, with registered office in Kiev. Its principal business activity is construction and assembly work. At present, the company is executing a property development project in Kiev, partly financed with loans from the parent. The company shares are not listed on an active market. The Group currently holds a 49% interest in the share capital and voting rights at the company. The investment in Energopol Ukraina is the only joint venture of which the Group has joint control and is not of strategic importance to the Group. The asset's carrying amount in the financial statements as at June 30th 2018 was PLN 26.4m.

In July 2013, the Parent signed a conditional agreement obliging it to sell this 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 Parent resolved to sell the claim in exchange for accelerating the cash inflow and significant reduction of the risk involved. The Parent expects to receive PLN 80m (net of the agreed rebate). Expected timing and amounts of cash receipts: PLN 20m in the second half of 2018 and PLN 60m in the first half of 2019.

As at the date of the consolidated financial statements, the Parent's Management Board was not able to estimate the effect of the above issue on the profit or loss. However, the maximum negative effect could be PLN 26.4m, while the maximum potential positive effect could amount to PLN 53.6m. 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:
The Parent's Management Board delegated its member as responsible for the divestment process; the member monitors the Ukrainian investment on an ongoing basis. Recently, the Board has completed negotiations of an agreement to assign its claim arising under the sale agreement with IMIDŻ FINANS GRUP Sp. z o.o. of July 24th 2013. As at the date of issue of these interim condensed consolidated financial statements, the parent awaits the confirmation of execution of the agreement and the transfer of the first tranche of remuneration.

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 review of the interim condensed consolidated 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 Group recognised receivables of PLN 39.2m, including PLN 31.6m from PGNiG, and comprising:

- ✓ 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.

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and other receivables from consortium partners under the Wierzchowice UGSF contract, in an amount of PLN 7.5m.

On April 2nd 2014, the Parent 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 put at PLN 288m, being the sum of PBG's claim under the LMG security (PLN 20m 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 Parent as its leader, considers PGNiG's contract termination notice and demand 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 Parent'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 Group is not able to estimate the amount of the provision that would reliably reflect the 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 Parent, groundless. However, the maximum negative effect of non-payment of the amounts due could be PLN 39.2m. 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:
<u>Reasons for the auditor's qualification in the reporting period may be eliminated depending on the resolution of the dispute. The Parent's Management Board is undertaking legal steps to successfully resolve the dispute.</u>

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 review of the interim condensed consolidated financial statements

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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 June 30th 2018, the Parent held, directly and indirectly, 33.32% of shares in RAFAKO S.A., upon the acquisition of which the Group recognised, as at the asset acquisition date (2011), goodwill of PLN 381m. In line with applicable regulations, as prescribed by IFRS 3 *Business Combinations*, the Group recognised in its consolidated financial statements for 2011 provisional amounts of the acquired company's identified assets and liabilities, planning to finally account for them over the next 12 months. Due to the Parent's then ongoing insolvency proceedings and costs, the valuation was not performed in 2012. The Parent's Management Board plans to take steps that would allow it to make adjustments to the provisional accounting for the subsidiary's acquisition. However, the Management Board believes that the book value of the subsidiary as at the acquisition date was not materially different from its fair value.
Under Par. 10 of IAS 36, the Group is required to perform annual impairment tests. Given the identified indications of impairment of the recoverable amount of goodwill in connection with an impairment loss on RAFAKO S.A. shares recognised in the financial statements of the Parent, the Group decided to recognise an impairment loss on the goodwill of PLN 90.9m as at December 31st 2015 and, subsequently, impairment losses of PLN 104.2m in 2016, PLN 83.8m in 2017 and PLN 45.4m as at June 30th 2018. The tests were performed based on the discounted cash flow model using a five-year projection horizon. The financial performance forecast was prepared by the Management Board of RAFAKO S.A.
As at the date of the interim condensed consolidated financial statements, the parent's Management Board was not able to estimate the effect of the above issue on the profit or loss (profit before tax, net profit). As the acquisition cost was not finally accounted for, the Management Board is unable to estimate the effect of the issue on equity as at December 31st 2017 and on comparative data.

Measures taken and planned to be taken by the issuer in view of the situation described above:
While the Parent's Management Board exercised due care when estimating the recoverable amount of goodwill, given the Parent's financial constraints and high valuation costs to be incurred, it was not able to perform the fair value measurement of Rafako S.A.'s assets and liabilities.

The parent's Management Board reaffirms its opinion that, given the situation the Company and the Group had been in from 2012, the use of RAFAKO's carrying amounts in the consolidated financial statements was the best possible solution.

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 auditor in its report on the review of PBG's interim condensed consolidated financial statements as at June 30th 2018.

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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

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