

RAFAKO S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

I. GENERAL NOTES

1. Background

RAFAKO S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 12 January 1993. The Company's registered office is located in Racibórz at Łakowa 33 street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under KRS No. 0000034143 on 24 August 2001.

The Company was issued with tax identification number (NIP) 6390001788 on 20 April 2004 and statistical number (REGON) 270217865 on 1 September 2010.

The Company is a part of the PBG S.A. capital group. What is more the Company is the holding company of the RAFAKO S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 48 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2012.

The principal activities of the Company are as follows:

- production of steam generators, excluding hot water central heating boilers,
- repair and maintenance of metal finished goods,
- installation of industrial machinery, plant and equipment,
- production of metal structures and parts thereof,
- other specialized construction work, not classified elsewhere,
- production of industrial cooling and ventilation equipment,
- production of other metal reservoirs, tanks and containers,
- mechanical treatment of metal parts,
- metalworking and coating,
- production of machinery for metalworking.

As at 31 December 2012, the Company's issued share capital amounted to 139.200 thousand zlotys. Equity as at that date was negative and amounted to 397.492 thousand zlotys.

In accordance with protocol of the General Shareholders' Meeting as at 26 November 2012, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
PBG S.A. in arrangement bankruptcy and affiliated entities	42.466.000	42.466.000	84.932	61,01%
Other	27.134.000	27.134.000	54.268	38,99%
	-----	-----	-----	-----
Total	69.600.000	69.600.000	139.200	100,00%
	=====	=====	=====	=====

According to information obtained from the Company the following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- PBG S.A. decreased its share in share capital of the Company to 61.01%
- BZ WBK Assets Management S.A. decreased its share in share capital of the Company to 9.995%.

There were no movements in the share capital in the reporting period.

As at 21 March 2013, the Company's Management Board was composed of:

Paweł Mortas	- President
Krzysztof Burek	- Vice-President
Jarosław Dusiło	- Vice-President
Maciej Modrowski	- Member
Edward Kasprzak	- Member

There were the following changes in the Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion:

- On 29 October 2012 Mr Maciej Kaczorowski was appointed to the position of Member of the Board.
- On 19 November 2012 Mr Maciej Kaczorowski resigned from the position of Member of the Board.
- On 26 November 2012 Mr Wiesław Różacki was dismissed from the position of President of the Board.
- On 26 November 2012 Mr Dariusz Karwacki was dismissed from the position of Vice-President of the Board.
- On 26 November 2012 Ms Bożena Kawałko was dismissed from the position of Vice-President of the Board
- On 26 November 2012 Mr Paweł Mortas was appointed to the position of President of the Board.
- On 19 March 2013 Mr Maciej Modrowski was appointed to the position of Member of the Board.
- On 19 March 2013 Mr Edward Kasprzak was appointed to the position of Member of the Board.

2. Financial Statements

On 23 February 2005 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 11 April 2012 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 15 June 2012 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2012.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated 21 March 2013, stating the following:

“To the Supervisory Board and the General Shareholders' Meeting of RAFAKO S.A.

1. We have audited the attached financial statements for the year ended 31 December 2012 of RAFAKO S.A. ('the Company') located in Racibórz at Łąkowa 33 street, containing statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2012 to 31 December 2012 and the summary of significant accounting policies and other explanatory notes ('the attached financial statements').

2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted, except as discussed in paragraph 5 below, our audit of the attached financial statements in accordance with:
- chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,
- in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. The financial statements for the prior financial year ended 31 December 2011 were subject to our audit and we issued an opinion including an emphases of matter on these financial statements, dated 30 April 2012. The emphases of matter related to the dispute concerning receivables resulting from realization of payment under the bank guarantees and trade receivables and the going concern issue referring to the Company's affiliate Energomontaż-Południe S.A. and its impact on realization of investment in the affiliate.
5. As further described in the note 46 of the additional explanatory notes to the attached financial statements, as of balance sheet date, in the statement of financial position the Company presents long-term receivables from related party, which is in the process of bankruptcy with the possibility to sign the debt settlement, in net amount of 118 million zloty. During the audit we were not provided with the sufficient evidence supporting the correctness of these receivables' valuation, consequently, we were not able to assess the impact of the issue on the attached financial statements.

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

² Translation of the following expression in Polish: 'rzetelnie i jasno'

6. In our opinion, except as discussed in paragraph 5 above, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position³ as at 31 December 2012;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
7. Without further qualifying our opinion, we draw attention to the following issues:
- a) As further described in note 8 of the additional explanatory notes to the attached financial statements, the Company's ability to continue as a going concern depends on realization of several assumptions being basis of financial forecasts prepared by the Company's Management for 2013 and subsequent years. The assumptions relate to realization of significant contracts, realization of current assets, including those discussed in point 7 b) below, securing the external sources of financing in the form of loan and guarantees required to conclude and realize contracts. In the above mentioned note the Company's Management indicated the risks related with realization of the assumptions, which indicate existence of significant doubt on the Company's ability to continue as a going concern.
 - b) As further described in note 45 of the additional explanatory notes to the attached financial statements, with reference to realization of one construction contract, the Company is a party of a dispute concerning receivables resulting from realization of payment under the bank guarantees and trade receivables amounting in total to 185 million zloty. As of the date of the attached financial statements, the final outcome of the dispute, having impact on the realization of the above mentioned receivables, is unknown.
8. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 26 November 2012 to 21 March 2013. We were present at the Company's head office from 26 November 2012 to 7 December 2012 and from 25 February 2013 to 8 March 2013.

³ Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the fair presentation of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 21 March 2013, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time, we declare that there were no scope limitations in the course of the audit, except as discussed in qualification in paragraph 5 of auditors' opinion (see also section I.2.1 of this Report).

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2011 were audited by Jerzy Buzek, key certified auditor no. 10870, acting on behalf of Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, registered on the list of entities authorised to audit financial statements under no. 130. The key certified auditor issued an opinion including emphasis of matter on the financial statements for year ended 31 December 2011. The emphases of matter related to the dispute concerning receivables resulting from realization of payment under the bank guarantees and trade receivables and the going concern issue referring to the Company's affiliate Energomontaż-Południe S.A. and its impact on realization of investment in the affiliate

The Company's financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 14 June 2012, and the shareholders resolved to appropriate the 2011 net profit amounting to 54.844.635,03 zlotys to reserve capital. In addition, the General Shareholders' Meeting resolved to appropriate previous years profits amounted to 345.867,65 zlotys to reserve capital.

The financial statements for the year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 26 June 2012 with the National Court Register.

The statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2011 to 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the coverage of loss were published in Monitor Polski B No. 2002 on 10 September 2012.

The closing balances as at 31 December 2011 were correctly brought forward in the accounts as the opening balances at 1 January 2012.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2010 – 2012. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2011 and 31 December 2012.

The ratios for the year 2012 were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2012 and do not take into account any implications of the qualification included in the auditors' opinion.

	2012	2011	2010
Total assets	1.247.699	1.000.596	906.913
Shareholders' equity	397.492	390.453	375.076
Net profit/ loss	7.137	54.845	44.591
Return on assets (%)	0,6%	5,5%	4,9%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
Return on equity (%)	1,8%	14,6%	12,7%
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	0,7%	5,3%	4,2%
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	1,1	1,1	1,4
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0,0	0,3	0,3
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	96 days	65 days	72 days
$\frac{\text{Trade debtors} \times 365 \text{ days}}{\text{Sales of finished goods, goods for resale and raw materials}}$			

	2012	2011	2010
Creditors days	100 days	76 days	68 days
$\frac{\text{Trade creditors} \times 365 \text{ days}}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Inventory days	9 days	11 days	10 days
$\frac{\text{Inventory} \times 365 \text{ days}}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Stability of financing (%)	36,0%	42,7%	45,1%
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100}{\text{Total liabilities, provisions and equity}}$			
Debt ratio (%)	68,1%	61,0%	58,7%
$\frac{(\text{Total liabilities and provisions}) \times 100}{\text{Total assets}}$			
Rate of inflation:			
Yearly average	3,7%	4,3%	2,6%
December to December	2,4%	4,6%	3,1%

3.2 Comments

The following trends may be observed based on the above financial ratios:

- return on assets decreased to 0.6% in 2012 in comparison to 5.5% in 2011 and increased 4.9% in 2010,
- return on equity decreased to 1.8% in 2012 in comparison to 14.6% in 2011 and 12.7% in 2010,
- profit margin decreased to 0.7% in 2012, in comparison to 5.3% in 2011 and 4.2% in 2010,
- liquidity I amounted to 1.1 as at 31 December 2012 and did not change in comparison to the ratio value as 31 December 2011 and decreased in comparison to 1.4 as at 31 December 2010,
- liquidity ratio III amounted to 0.0 as at 31 December 2012 and decreased in comparison to 0.03 as at 31 December 2011 and as at 31 December 2010,
- debtors day ratio increased to 96 days in the year 2012 in comparison to 65 days in the year 2011. In the year 2010 debtors day ratio was 72 days,
- creditors day ratio increased to 100 days in the year 2012 in comparison to 76 days in 2011. In the year 2010 creditors day ratio was 68 days,

- inventory days ratio decreased to 9 days in 2012 in comparison to 11 days in 2011 and 10 days in 2010,
- stability of financing decreased to 36.0% at as 31 December 2012 in comparison to 42.7% as at 31 December 2011 and 45.1% as at 31 December 2010,
- debt ratio increased to 68.1% as at 31 December 2012 in comparison to 61.0% as at 31 December 2011 and 58.7% as at 31 December 2010.

3.3 Going concern

In Note 8 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2012, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2012.

However, in Note 8 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2012, the Management Board has stated that the Company's ability to continue as a going concern depends on realization of several assumptions being basis of financial forecasts prepared by the Company's Management for 2013 and subsequent years. The assumptions relate to realization of significant contracts, realization of current assets, securing the external sources of financing in the form of loan and guarantees required to conclude and realize contracts. In the above mentioned note the Company's Management indicated the risks related with realization of the assumptions, which indicate existence of significant doubt on the Company's ability to continue as a going concern.

We have addressed the issue of the Company's ability to continue as a going concern in the auditors' opinion on the financial statements for the year ended 31 December 2012 (see also section I.2.1 of this Report).

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the BAAN computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2012.

As described in qualification in auditors' opinion, as of balance sheet date, in the statement of financial position the Company presents long-term receivables from related party, which is in the process of bankruptcy with the possibility to sign the debt settlement, in net amount of 118 million zloty. During the audit we were not provided with the sufficient evidence supporting the correctness of these receivables' valuation, consequently, we were not able to assess the impact of the issue on the attached financial statements.

Additionally, as described in emphasis of matter in auditors' opinion, with reference to realization of one construction contract, the Company is a party of a dispute concerning receivables resulting from realization of payment under the bank guarantees and trade receivables amounting in total to 185 million zloty. As of the date of the attached financial statements, the final outcome of the dispute, having impact on the realization of the above mentioned receivables, is unknown.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2012.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2012 to 31 December 2012 ('Directors' Report') and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warsaw
Reg. No 130

Key certified auditor

Jerzy Buzek
Certified auditor no. 10870

Warsaw, 21 March 2013