RAFAKO S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

(in thousand zlotys)

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 Łąkowa Street 33.

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. Furthermore, 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 5 and Note 47 of the additional explanatory notes to the audited financial statements for the year ended 31 December 2013.

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 2013, the Company's issued share capital amounted to 139,200 thousand zlotys. Equity as at that date amounted to 256,948 thousand zlotys.

In accordance with protocol of the Extraordinary General Shareholders' Meeting as at 12 February 2014, 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%
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Total	69,600,000	69,600,000	139,200	100.00%
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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 reporting period and between the balance sheet date and the date of the opinion:

- BZ WBK Assets Management S.A. (the company managing portfolios of investment funds whose body is BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.) decreased its share in share capital of the Company to 4.77%.

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

As at 21 March 2014, 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 19 March 2013 Mr Maciej Modrowski was appointed as a Member of the Management Board.
- On 19 March 2013 Mr Edward Kasprzak was appointed as a Member of the Management 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 Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: 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 Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: 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 Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: 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 2013.

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 a qualified auditors' opinion including an emphasis of matter dated 21 March 2014, 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 2013 of RAFAKO S.A. ('the Company') located in Racibórz at Łąkowa Street 33, containing the statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, the statement of financial position as at 31 December 2013, the statement of cash flow and the statement of changes in equity for the period from 1 January 2013 to 31 December 2013 and additional explanatory notes ('the attached financial statements').

2. The truth and fairness[1] 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 (Journal of Laws 2013.330 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 fairly[2] 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 Company's 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 2012 were subject to our audit and we issued qualified opinion including emphasis of matter on these financial statements, dated 21 March 2013. The qualification related to lack of sufficient evidence supporting the correctness of valuation of long-term receivables from related party, which is in the process of bankruptcy with the possibility to sign the debt settlement. The emphasis of matter related to the dispute concerning receivables resulting from realization of payment under the bank guarantees and trade receivables, and Company's ability to continue as a going concern.

5. As further described in the note 46 of the additional explanatory notes to the attached financial statements, as of the balance sheet date, in the statement of financial position the Company presents receivables from related party, which is in the process of bankruptcy with the possibility to sign the debt settlement, in the total net amount of 33 million zloty, in relation to which the impairment indicators exist in respect of the related party's financial situation. During our audit, the Company's Management Board has not provided us with the sufficient evidence supporting the correctness of these receivables' valuation, consequently, we were not able to assess the impact of this issue on the attached financial statements, including statement of financial position and statement of comprehensive income.

[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 for the matter discussed in paragraph 5, 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 2013 to 31 December 2013, as well as its financial position[3] as at 31 December 2013;
   - 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 qualifying our opinion, we draw attention to the fact that as further described in note 6 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 Board. The assumptions mainly relate to securing the long-term external sources of financing in the form of loan and guarantees allowing realization of construction contracts. In the above mentioned note the Company's Management Board indicated risks related with realization of the assumptions, which indicate existence of significant uncertainty on the Company's ability to continue as a going concern.
8. We have read the 'Directors' Report for the period from 1 January 2013 to 31 December 2013 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 2009.33.259 with subsequent amendments).'

We conducted the audit of the Company's financial statements during the period from 9 December 2013 to 21 March 2014. We were present at the Company's head office from 9 December 2013 to 20 December 2013 and from 17 February 2014 to 4 March 2014.

[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 2014, 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 the 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 2012 were audited by Jerzy Buzek, key certified auditor no. 10870, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: 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 a qualified auditors' opinion including emphasis of matter on the financial statements for year ended 31 December 2012. The qualification related to lack of sufficient evidence supporting the correctness of valuation of long-term receivables from related party, which is in the process of bankruptcy with the possibility to sign the debt settlement. The emphasis of matter related to the dispute concerning receivables resulting from realization of payment under the bank guarantees and trade receivables, and Company's ability to continue as a going concern.

The Company's financial statements for the year ended 31 December 2012 were approved by the General Shareholders' Meeting on 21 June 2013 and the shareholders resolved to appropriate the 2012 net profit amounting to 7,137,011.78 zlotys to reserve capital.

The financial statements for the year ended 31 December 2012, 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 3 July 2013 with the National Court Register.

The closing balances as at 31 December 2012 were correctly brought forward in the accounts as the opening balances at 1 January 2013.

(in thousand zlotys)

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 2011 – 2013. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2012 and 31 December 2013.

The ratios for the years 2012 – 2013 were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2012 and 31 December 2013 and do not take into account any implications of the qualifications included in the auditors' opinions (see also section I.2.1 and I.2.3 of this Report).

	2013	**2012**	**2011**
Total assets	1,008,351	1,247,699	1,000,596
Shareholders' equity	256,948	397,492	390,453
Net profit/ loss	-139,781	7,137	54,845
Return on assets (%)	-13.9%	0.6%	5.5%
Net profit x 100 / Total assets			
Return on equity (%)	-35.2%	1.8%	14.6%
Net profit x 100 / Shareholders' equity at the beginning of the period			
Profit margin (%)	-18.9%	0.7%	5.3%
Net profit x 100 / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1.0	1.1	1.1
Current assets / Short-term creditors			
Liquidity III	0.0	0.0	0.3
Cash and cash equivalents / Short-term creditors			
Debtors days	70 days	96 days	65 days
Trade debtors x 365 days / Sales of finished goods, goods for resale and raw materials			

(in thousand zlotys)

	2013	2012	2011
Creditors days	113 days	100 days	76 days
Trade creditors x 365 days / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	10 days	9 days	11 days
Inventory x 365 days / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	29.3%	36.0%	42.7%
(Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity			
Debt ratio (%)	74.5%	68.1%	61.0%
(Total liabilities and provisions) x 100 / Total assets			
Rate of inflation:			
Yearly average	0.9%	3.7%	4.3%
December to December	0.7%	2.4%	4.6%

3.2 Comments

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

- return on assets decreased in 2013 in comparison to 2012 and 2011,
- return on equity decreased in 2013 in comparison to 2012 and 2011,
- profit margin decreased in 2013 in comparison to 2012 and 2011,
- liquidity I as at 31 December 2013 decreased in comparison to the ratio value as at 31 December 2012 and as at 31 December 2011,
- liquidity ratio III as at 31 December 2013 did not change in comparison to the ratio value as at 31 December 2012 and decreased in comparison to the ratio value as at 31 December 2011,
- debtors day ratio decreased in 2013 in comparison to 2012 and increased in comparison to 2011,
- creditors day ratio increased in 2013 in comparison to 2012 and 2011,
- inventory days ratio increased in 2013 in comparison to 2012 and decreased in comparison to 2011,

- stability of financing as at 31 December 2013 decreased in comparison to ratio value as at 31 December 2012 and as at 31 December 2011,
- debt ratio as at 31 December 2013 increased in comparison to ratio value as at 31 December 2012 and as at 31 December 2011.

3.3 Going concern

In Note 6 of the additional explanatory notes to the audited financial statements for the year ended 31 December 2013, 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 2013.

However, in Note 6 of the additional explanatory notes to the financial statements, 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 Board. The assumptions mainly relate to securing the long-term external sources of financing in the form of loan and guarantees allowing realization of construction contracts. In the above mentioned note the Company's Management Board indicated risks related with realization of the assumptions, which indicate existence of significant uncertainty 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 2013 (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 (Journal of Laws 2013.330 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 2013.

Included in our Auditors' opinion is qualification which relate to the fact that as of balance sheet date, in the statement of financial position the Company presents receivables from related party, which is in the process of bankruptcy with the possibility to sign the debt settlement, in the total net amount of 33 million zloty, in relation to which the impairment indicators exist in respect of the related party's financial situation. During our audit, the Company's Management Board has not provided us with the sufficient evidence supporting the correctness of these receivables' valuation, consequently, we were not able to assess the impact of this issue on the attached financial statements, including statement of financial position and statement of comprehensive income.

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 2013.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2013 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 2013 to 31 December 2013 ('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 2009.33.259 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 Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
(formerly: 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 2014