

RAFAKO S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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 Street 33.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 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. The Company is a parent company for Capital Group RAFAKO S.A. 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 43 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 2016.

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 2016, the Company's issued share capital amounted to 169,864 thousand zlotys. Equity as at that date amounted to 328,760 thousand zlotys.

In accordance with note 31 of the additional notes and explanations to the attached financial statements, 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. and affiliated entities	42,466,000	42,466,000	84,932	50%+ 1 share
Pension funds managed by Nationale- Nederlanden Powszechne Towarzystwo Emerytalne S.A.	8,048,507	8,048,507	16,097	9.48%
Investment funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.	7,662,062	7,662,062	15,324	9.02%
Other	26,755,429	26,755,429	53,511	31.50%
Total	84,931,998	84,931,998	169,864	100%

According to information received from the Company, between the balance sheet date and the date of the opinion the following changes took place in the ownership structure of the Company's issued share capital: QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A. (the company managing portfolios of investment funds) decreased its' share in the Company's share capital to 4.90%.

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

As at 21st March 2017, the Company's Management Board composed of:

Agnieszka Wasilewska- Semail	- Prezes Zarządu
Krzysztof Burek	- Wiceprezes Zarządu
Jarosław Dusło	- Wiceprezes Zarządu
Edward Kasprzak	- Wiceprezes Zarządu
Tomasz Tomczak	- Wiceprezes Zarządu

There were no 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.

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. 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. was appointed by Supervisory Board on 11th July 2016 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit 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.

Under the contract executed on 14 July 2016 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2016.

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 unqualified auditors' opinion dated 21st March 2017, stating the following:

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

Report on the Audit of the Financial Statements

We have audited the accompanying financial statement for the year ended 31 December 2016 of RAFAKO S.A. ('the Company') located in Racibórz, Łąkowa St. 33 which comprise statement of comprehensive income for the year from 1 January 2016 to 31 December 2016, statement of financial position as at 31 December 2016, statement of cash flow and statement of changes in equity for the year from 1 January 2016 to 31 December 2016 and the additional notes and explanations ('the accompanying financial statements').

Responsibilities of the Management Board and members of the supervisory board for the financial statements

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act, for the preparation based on properly maintained accounting records of the financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and members of the supervisory board are required to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on accompanying financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- have been prepared 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.

Emphasis of Matter

Without qualifying our opinion we draw attention to the Note 42 of additional notes and explanations to the attached financial statements, in which the Company presents information about receivables from related party in the total net amount of 35 million zlotys. After the balance sheet date, above mentioned receivables have been converted into bonds, which key issuance terms have been described in details by the Company's Management in the above-referenced Note.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the financial statements does not include the Directors' Report.

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and members of the supervisory board are obliged to state that Directors' Report meets the requirements of the Accounting Act.

In connection with the audit of the financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and 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 ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying financial statements. Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying financial statements reconciles with the Directors' Report. Based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying financial statements."

We conducted the audit of the Company's financial statements during the period from 21st November 2016 to 21st March 2017. We were present at the Company's head office from 21st November 2016 to 2nd December 2016 and from 13th February 2017 to 24th February 2017.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness¹ 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 21st March 2017, 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 declare that during the audit of the financial statements, there were no limitations of scope.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2015 were audited by Jerzy Buzek, key certified auditor no. 10870, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued a qualified opinion on the financial statements for the year ended 31 December 2015. The qualification related to lack of sufficient evidence supporting the correctness of valuation of receivables from related party, which was in the process of bankruptcy with the possibility to sign the debt settlement.

The Company's financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 21 June 2016, and the shareholders resolved that the profit for the financial year 2015 amounting to 26,585 thousand zlotys will be entirely intended for the Company's supplementary capital.

The financial statements for the financial year ended 31 December 2015, 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 28 June 2016 with the National Court Register.

The closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

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

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 2014 – 2016. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2016.

	2016	2015	2014
Total assets	829,103	986,971	1,037,898
Shareholders' equity	328,760	391,823	276,497
Net profit/ loss	(62,241)	26,587	23,515
 Return on assets (%)	 -7.5%	 2.7%	 2.3%
<hr/> $\frac{\text{Net profit/loss} \times 100\%}{\text{Total assets}}$ <hr/>			
Return on equity (%)	-15.9%	9.6 %	9.2%
<hr/> $\frac{\text{Net profit/loss} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$ <hr/>			
Profit margin (%)	-8.4%	2.7 %	2.1%
<hr/> $\frac{\text{Net profit/loss} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$ <hr/>			
Liquidity I	1.2	1.3	1.0
<hr/> $\frac{\text{Current assets}}{\text{Short-term creditors}}$ <hr/>			
Liquidity III	0.1	0.2	0.0
<hr/> $\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$ <hr/>			
Debtors days	93 days	54 days	85 days
<hr/> $\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$ <hr/>			
Creditors days	67 days	112 days	112 days
<hr/> $\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$ <hr/>			

	2016	2015	2014
Inventory days	7 days	8 days	8 days
<hr/>			
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	45.0%	45.0%	31.4%
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(Equity + long-term provisions and liabilities) x 100%			
Total liabilities, provisions and equity			
Debt ratio (%)	60.3 %	60.3 %	73.4%
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(Total liabilities and provisions) x 100%			
Total assets			
Rate of inflation:			
Yearly average	(0.6%)	(0.9%)	0.0%
December to December	0.8%	(0.5%)	(1.0%)

3.2 Comments

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

- return on assets decreased in 2016 in comparison to 2015 and 2014;
- return on equity decreased in 2016 in comparison to 2015 and 2014;
- profit margin decreased in 2016 in comparison to 2015 and 2014;
- liquidity I as at 31 December 2016 decreased in comparison to the ratio value as at 31 December 2015 and increased in comparison to the ratio value as at 31 December 2014,
- liquidity III as at 31 December 2016 decreased in comparison to the ratio value as at 31 December 2015 and increased in comparison to the ratio value as at 31 December 2014,
- debtor day ratio increased in 2016 in comparison to 2015 and 2014,
- creditor day ratio decreased in 2016 in comparison to 2015 and 2014,
- inventory day ratio decreased in 2016 in comparison to 2015 and 2014,
- stability of financing ratio as at 31 December 2016 remained on similar level in comparison to ratio value as at 31 December 2015 and increased in comparison to ratio value as at 31 December 2014,
- debt ratio as at 31 December 2016 remained at the same level in comparison to ratio value as at 31 December 2015 and decreased in comparison to ratio value as at 31 December 2014.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2016, 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 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the Infor ERP LN 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 ('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 2016.

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 2016.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2016 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 2016 to 31 December 2016 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information contained in it take into account the provisions of Art. 49 para. 2 of the Accounting Act and 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. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies or regulations issued under art. 61 of the above mentioned act. This information is, in all material respects, in accordance with applicable regulations and with the information included in the financial statements.

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.

Warsaw, 21 March 2017

Key certified auditor

Marcin Ficek

Certified Auditor no. 12393

on behalf of

Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
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