

FABRYKA KOTŁÓW RAFAKO S.A.

**LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITOR'S OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

I. GENERAL NOTES

1. Background

FABRYKA KOTŁÓW RAFAKO S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 12 January 1993. The address of the Company's registered office is Racibórz, ul. Łąkowa 33.

The Company was entered into the entrepreneur's register of the National Court Register entry No. KRS 34143 on 24 August 2001.

The Company was issued with tax identification number (NIP) 639-000-17-88 on 5 June 1993 and statistical number (REGON) 270217865 on 18 February 1996.

The Company is the dominant entity of the 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 Notes 22, 23 and 28 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2005.

The principal activities of the Company are:

- mechanical processing of metal elements;
- manufacturing of steam production machinery, especially all kinds of production and assembly, for trade on its own, in cooperation or as an intermediary, with domestic and foreign partners, regarding energy and environmental machinery and equipment;
- warranty services for its manufacturing products of domestic and foreign producers;
- manufacturing and assembly of metal constructions;
- manufacturing of refrigerating and ventilation equipment, except for home appliances;
- assembly, repair, and maintenance of refrigerating and ventilation equipment, except for home appliances, not categorized elsewhere;
- manufacturing of metal containers;
- metalwork and overlaying of metals;
- manufacturing of mechanical tools;
- assembly, repair and maintenance of mechanical tools;
- technological design combined with consulting and advisory as well as supervision services for construction, environmental and heavy industry.

As at 31 December 2005, the Company's issued share capital amounted to 34,800 thousand zlotys. Equity as at that date amounted to 187,146 thousand zlotys.

In accordance with confirmations received by the Company from shareholders owning at least 5% voting rights on Shareholders Meeting, as at 31 December 2005 and 30 March 2006 the ownership structure of the Company's issued share capital was as follows:

| <i>(in PLN thousand)</i> | <i>Number of shares</i> | <i>Number of votes</i> | <i>Par value of shares</i> | <i>% of issued share capital</i> |
|---|-----------------------------|----------------------------|--------------------------------|--------------------------------------|
| Elektrim S.A. | 8,682,189 | 8,682,189 | 17,364.4 | 49.9% |
| Arka Zrównoważony Fundusz Inwestycyjny Otwarty, Arka Akcji Fundusz Inwestycyjny Otwarty zarządzane przez BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A | 909,684 | 909,684 | 1,819.4 | 5.2% |
| Other | 7,808,127 | 7,808,127 | 15,616.2 | 44.9% |
| Razem | 17,400,000 | 17,400,000 | 34,800.0 | 100.0% |

There were no movements in the Company's share capital in the reporting period.

As at 30 March 2006, the Company's Management Board was composed of:

| | |
|------------------|-------------|
| Wiesław Różacki | - President |
| Roman Jarosiński | - Member |
| Eugeniusz Myszka | - Member |
| Jerzy Thamm | - Member |

As at 7 March 2005 Supervisory Board of RAFAKO S.A. decided to dismiss Mr. Ryszard Kapluk from the position of President – General Director and appointed Mr. Wiesław Różacki for the above position as from 8 March 2005.

As at 7 April 2005 Supervisory Board of RAFAKO S.A. appointed Mr. Eugeniusz Myszka for the position of Management Board Member as from 8 April 2005.

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 Supervisory Board of RAFAKO S.A. on 20 July 2005 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the 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. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – ‘the Accounting Act’).

Under the contract executed on 5 July 2005 with the Company’s Management Board, we have audited the financial statements for the year ended 31 December 2005.

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 qualified auditors’ opinion dated 30 March 2006, stating the following:

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

1. We have audited the attached financial statements for the year ended 31 December 2005 of Fabryka Kotłów RAFAKO S.A. (‘the Company’) located in Racibórz, at Łąkowa 33 St., containing:
 - the balance sheet as at 31 December 2005 with total assets amounting to 391,605 thousand zlotys,
 - the profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 2,940 thousand zlotys,
 - the statement of changes in shareholders’ equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders’ equity amounting to 2,940 thousand zlotys,
 - the cash flow statement for the period from 1 January 2005 to 31 December with a net cash inflow amounting to 2,066 thousand zlotys, and
 - the additional notes and explanations,(‘the attached financial statements’).
2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Company’s Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair² and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached financial statements, except for the effect of the matter described in paragraph 5 below, in accordance with the following regulations being in force in Poland:
 - chapter 7 of the Accounting Act, dated 29 September 1994 (‘the Accounting Act’),

¹ Translation of the following expression in Polish: “*prawidłowość, rzetelność i jasność*”

² Translation of the following expression in Polish: “*prawidłowe, rzetelne i jasne*”

- the auditing standards issued by the National Chamber of 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 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 2004, prepared under Polish Accounting Act dated 29 September 1994 (Journal of Law No. 76 dated 17 June 2002 with subsequent amendments), were subject to our audit and as at 24 March 2005 we issued a qualified opinion with emphases of matter on these financial statements. Qualification related to inability in assessing significant contract parameters after the restart date as well as inability in determining recoverability of assets presented in the Company's financial statements for the year ended 31 December 2004 related to the above contracts and inability in determining the impact of the above issues on the financial statements for the year ended 31 December 2004. Additional qualification related to inability in determining recoverability of significant balance of receivables due from the entity belonging to the capital group of the significant investor of the Company related to the contracts.
 5. As described in additional note 38 to the attached financial statements, the Company presents significant balance of overdue receivables due from the entity belonging to the capital group of the significant investor of the Company. As at 31 December 2005 net balance of these receivables amounted to approximately 15.8 million zlotys. As at 31 December 2004 the Company did not provide for the above receivables, however taking into account financial standing of the entity belonging to the capital group of the significant investor of the Company, there is a risk that the above receivables will not be recovered. At present stage, we were unable to determine the impact of the above issues on the financial statements for the year ended 31 December 2005.
 6. In our opinion, except for the effect of the matter described 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 2005 to 31 December 2005, as well as its financial position³ as at 31 December 2005;
 - have been prepared correctly, i.e. 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. We have read the 'Directors' Report for the period from 1 January 2005 to 31 December 2005 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 of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744)."

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

We conducted the audit of the Company's financial statements during the period from 6 February 2006 to 30 March 2006. We were present at the Company's head office from 6 February 2006 to 24 February 2006.

2.2. Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements 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 30 March 2006, 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.

2.3. Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2004 were audited by Artur Żwak, Certified Auditor No. 9894/7366, acting on behalf of Ernst & Young Audit sp. z o.o., ul. Emilii Plater 53, 00-113 Warszawa. The certified auditor issued a qualified opinion on the financial statements for the year ended 31 December 2004. Qualification related to inability in assessing significant contract parameters after the restart date as well as inability in determining recoverability of assets presented in the Company's financial statements for the year ended 31 December 2004 related to the above contracts and inability in determining the impact of the above issues on the financial statements for the year ended 31 December 2004. Additional qualification related to inability in determining recoverability of significant balance of receivables due from the entity belonging to the capital group of the significant investor of the Company related to the contracts.

The Company's financial statements for the year ended 31 December 2004 were approved by the General Shareholders' Meeting on 16 June 2005, and the shareholders resolved to distribute the 2004 net profit in the whole amount, i.e. 847 thousand zlotys, to reserve capital. Additionally, at this Meeting the shareholders resolved to distribute the retained earnings from prior years in the whole amount, i.e. 1,579 thousand zlotys, to reserve capital.

The financial statements for the financial year ended 31 December 2004, 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 2005 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2004, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2004, together with the auditors' opinion, a copy of the resolution

⁴ Translation of the following expression in Polish: "*prawidłowość, rzetelność, i jasność*"

approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1677 on 26 October 2005.

The closing balances as at 31 December 2004 were correctly brought forward in the accounts as the opening balances at 1 January 2005.

As described in additional note No 6.2 to the attached financial statements, the Company prepared financial statements for the year ended 31 December 2005 according to the International Financial Reporting Standards. IFRS 1 requires that all assets and liabilities, which fulfil the criteria of recognition stated in IFRS, are recognized and valued in compliance with each IFRS. The date of transition to IFRS is 1 January 2004. The Company prepared these financial statements applying all IFRS (considering the alternative approaches as allowed by IFRS) that it expects will be in force as at 31 December 2005.

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 2004 - 2005. The ratios were calculated on the basis of financial information included in the financial statements for the _ month period year ended 31 December 2005. The selected financial information and data for 2003 were not presented as the Company has changed in 2005 the accounting policies to International Financial Reporting Standards as adopted by the EU and the comparable data for earlier periods are not available.

| | 2005 | 2004 |
|--|---------|---------|
| Total assets | 391,605 | 346,740 |
| Shareholders' equity | 187,146 | 184,206 |
| Net profit/ loss | 2,940 | 251 |
| Return on assets (%) | 0.8% | 0.1% |
| $\frac{\text{Net profit} \times 100}{\text{Total assets}}$ | | |
| Return on equity (%) | 1.6% | 0.1% |
| $\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$ | | |
| Profit margin (%) | 0.8% | 0.1% |
| $\frac{\text{Net profit} \times 100}{\text{Sales of finished goods and goods for resale}}$ | | |
| Liquidity I | 1.4 | 1.5 |
| $\frac{\text{Current assets}}{\text{Short-term creditors}}$ | | |
| Liquidity III | 0.04 | 0.04 |
| $\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$ | | |
| Debtors days | 119 | 145 |
| $\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$ | | |

Fabryka Kotłów RAFAKO S.A.
*Long-form report supplementing the independent auditor's opinion
on the financial statements for the year ended 31 December 2005
(in thousand zlotys)*

| | 2005 | 2004 |
|--|------|------|
| Creditors days | 46 | 71 |
| Trade creditors x 365 | | |
| Costs of finished goods, goods for resale and raw materials sold | | |
| Inventory days | 16 | 27 |
| Inventory x 365 | | |
| Costs of finished goods, goods for resale and raw materials sold | | |
| Stability of financing (%) | 52% | 59% |
| (Equity + long-term provisions and liabilities) x 100 | | |
| Total liabilities, provisions and equity | | |
| Debt ratio (%) | 52% | 47% |
| (Total liabilities and provisions) x 100 | | |
| Total assets | | |
| Rate of inflation: | | |
| Yearly average | 0.7% | 3.5% |
| December to December | 2.1% | 4.4% |

3.2. Comments

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

- Ratios regarding return on assets, equity and sales margin increased in the reviewed period comparison with the year 2004, and in 2005 were as follows: 0.8% (return on assets), 1.6% (return on equity) and 0.8% (return on sales margin).
- Liquidity I ratio in 2005 was on the lower level than in the year 2004 and amounted to 1.4, while liquidity III ratio in 2005 and 2004 was equal 0.04.
- In the reviewed period debtor's day ratio decreased from 145 days in year 2004 up to 119 days in year 2005, similar like creditor's day ratio that decreased from 71 days in year 2004 up to 46 days in year 2005.
- Stock turnover ratio decreased from 27 days in year 2004 up to 16 days in year 2004.
- Stability of financing ratio decreased from 59% in 2004 up to 52% in 2005, while debt ratio in 2005 was higher by 5% in comparison to the year 2004 and amounted 52%.

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 2005 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 6.1 of additional notes to the audited financial statements for the year ended 31 December 2005 the Management Board indicated that the financial statements were prepared on a going concern basis, being for a period of at least twelve months subsequent to 31 December 2005 and that there are no circumstances indicating a threat to its continuation as a going concern.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the computer system BAAN IV in the Company's office. The Company has up-to-date documentation, as required under Article 10 of 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 2005.

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 2005.

Included in our Auditors' opinion are qualifications related to the uncertainty of recoverability of significant balance of receivables due from the entity belonging to the capital group of the significant investor of the Company (point 6 of the auditors' opinion).

3. Notes to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2005 (jointly 'notes to the financial statements') 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 2005 to 31 December 2005 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 of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

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.

6. Work of Experts

During our audit we have taken into account the results of the work of the following independent experts:

- Certum Biuro Aktuarialne sp. z o.o., regarding actuarial valuation of jubilee and retirement provision;
- Pracownia Usług Inżynierskich i Specjalistycznych AKANT s.c., regarding valuation of land, buildings and constructions owned by the Company as at 1 January 2004.

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Register number 130

Artur Żwak
Certified Auditor No. 9894/7366

Jacek Hryniuk
Certified Auditor No. 9262/6958

Warsaw, 30 March 2006