

**RAFAKO S.A.**

**LONG-FORM AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

## 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 in arrangement bankruptcy. 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 2014.

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 2014, the Company's issued share capital amounted to 139,200 thousand zlotys. Equity as at that date amounted to 276,497 thousand zlotys.

In accordance with protocol of the General Shareholders' Meeting as at 25 June 2014, and the information from notice as of 10 March 2015, 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%
Investment funds managed by ING Towarzystwo Funduszy Inwestycyjnych S.A.	3,508,403	3,508,403	7,017	5.04%
Other	23,625,597	23,625,597	47,251	33.95%
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:

- ING Towarzystwo Funduszy Inwestycyjnych S.A (company managing portfolios of investments funds) increased its share in share capital of the Company to 5.04%.

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

As at 23 March 2015, the Company's Management Board was composed of:

Agnieszka Wasilewska-Semail	- President
Krzysztof Burek	- Vice-President
Jarosław Dusilo	- Vice-President
Edward Kasprzak	- Vice-President
Tomasz Tomczak	- Vice-President

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 6 May 2014 Mr Tomasz Tomczak was appointed as a Management Board Vice-President.
- On 25 June 2014, due to the expiration of the term, Mr Maciej Modrowski ceased from the position of Management Board Member.
- On 8 September 2014 Mr Paweł Mortas was dismissed from the position of Management Board President.
- On 8 September 2014 Mrs Agnieszka Wasilewska-Semail was appointed for the position of Management Board President.

## **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 11 April 2012 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 (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 2014.

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 23 March 2015, 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 2014 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 2014 to 31 December 2014, the statement of financial position as at 31 December 2014, the statement of cash flow and the statement of changes in equity for the period from 1 January 2014 to 31 December 2014 and additional explanatory notes ('the attached financial statements').

2. The truth and fairness<sup>1</sup> 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<sup>2</sup> 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 for the matter described 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 2013 were subject to our audit and we issued qualified opinion including emphasis of matter on these financial statements, dated 21 March 2014. 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 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 ultimate parent, 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 ultimate parent'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.

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<sup>1</sup> Translation of the following expression in Polish: '*rzetelność i jasność*'

<sup>2</sup> Translation of the following expression in Polish: '*rzetelnie i jasno*'

6. In our opinion, except for the potential effect of 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 2014 to 31 December 2014, as well as its financial position<sup>3</sup> as at 31 December 2014;
  - 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 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 external sources of financing in the form of bank loan and financial guarantees allowing realization of construction contracts, gaining new sources of external financing and realization of contracts based on the assumed positive margins. 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 2014 to 31 December 2014 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 2014.133 with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 8 December 2014 to 23 March 2015. We were present at the Company's head office from 8 December 2014 to 19 December 2014 and from 16 February 2015 to 3 March 2015.

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<sup>3</sup> 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 truth and fairness<sup>4</sup> 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. We also obtained a written representation dated 23 March 2015, from the Management Board of the Company 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 for 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 2013 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, 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 the year ended 31 December 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 Company's ability to continue as a going concern.

The Company's financial statements for the year ended 31 December 2013 were approved by the General Shareholders' Meeting on 25 June 2014, and the shareholders resolved to cover the net loss for 2013 amounting to 139,781 thousand zlotys with the reserve capital.

The financial statements for the year ended 31 December 2013, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the coverage of loss and the Directors' Report, were filed on 10 July 2014 with the National Court Register.

The closing balances as at 31 December 2013 were correctly brought forward in the accounts as the opening balances at 1 January 2014.

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<sup>4</sup> 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 2012 – 2014. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2013 and 31 December 2014.

The ratios for the years 2012 – 2014 were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2013 and 31 December 2014 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).

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Total assets</b>	1,037,898	1,008,351	1,247,699
<b>Shareholders' equity</b>	276,497	256,948	397,492
<b>Net profit / (loss)</b>	23,515	(139,781)	7,137
<b>Return on assets (%)</b>	2.3%	(13.9%)	0.6%
<hr/> Net profit x 100% <hr/> Total assets			
<b>Return on equity (%)</b>	9.2%	(35.2%)	1.8%
<hr/> Net profit x 100% <hr/> Shareholders' equity at the beginning of the period			
<b>Profit margin (%)</b>	2.1%	(18.9%)	0.7%
<hr/> Net profit x 100% <hr/> Sales			
<b>Liquidity I</b>	1.0	1.0	1.1
<hr/> Current assets <hr/> Short-term creditors			
<b>Liquidity III</b>	0.0	0.0	0.0
<hr/> Cash and cash equivalents <hr/> Short-term creditors			
<b>Debtors days</b>	85 days	70 days	96 days
<hr/> Trade debtors x 365 <hr/> Sales			

	2014	2013	2012
<b>Creditors days</b>	112 days	113 days	100 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of sales}}$			
<b>Inventory days</b>	8 days	10 days	9 days
$\frac{\text{Inventory} \times 365}{\text{Costs of sales}}$			
<b>Stability of financing (%)</b>	31.4%	29.3%	36.0%
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100\%}{\text{Total liabilities and equity}}$			
<b>Debt ratio (%)</b>	73.4%	74.5%	68.1%
$\frac{(\text{Total liabilities and provisions}) \times 100\%}{\text{Total assets}}$			
<b>Rate of inflation:</b>			
Yearly average	0.0%	0.9%	3.7%
December to December	(1.0%)	0.7%	2.4%

### 3.2 Comments

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

- return on assets increased in 2014 in comparison to 2013 and 2012,
- return on equity increased in 2014 in comparison to 2013 and 2012,
- profit margin increased in 2014 in comparison to 2013 and 2012,
- liquidity I as at 31 December 2014 did not change in comparison to the ratio value as at 31 December 2013 and decreased in comparison to the ratio value as at 31 December 2012,
- liquidity ratio III as at 31 December 2014 did not change in comparison to the ratio value as at 31 December 2013 and as at 31 December 2012,
- debtors day ratio increased in 2014 in comparison to 2013 and decreased in comparison to 2012,
- creditors day ratio decreased in 2014 in comparison to 2013 and increased in comparison to 2012,
- inventory days ratio decreased in 2014 in comparison to 2013 and 2012,
- stability of financing as at 31 December 2014 increased in comparison to ratio value as at 31 December 2013 and decreased in comparison to ratio value as at 31 December 2012,
- debt ratio as at 31 December 2014 decreased in comparison to ratio value as at 31 December 2013 and increased in comparison to ratio value as at 31 December 2012.

### **3.3 Going concern**

In Note 6 of the additional explanatory notes to the audited financial statements for the year ended 31 December 2014, 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.

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 external sources of financing in the form of bank loan and financial guarantees allowing realization of construction contracts, gaining new sources of external financing and realization of contracts based on the assumed positive margins. 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 2014 (see also section I.2.1 of this Report).

## **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 (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 2014.

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 ultimate parent, 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 ultimate parent'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 2014.

### **3. Additional Notes and Explanations to the Financial Statements**

The additional notes and explanations to the financial statements for the year ended 31 December 2014 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 2014 to 31 December 2014 ('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 2014.133 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.  
Rondo ONZ 1  
00-124 Warsaw  
Reg. No 130

Key certified auditor

Jerzy Buzek  
Certified auditor No. 10870

Warsaw, 23 March 2015