

**RAFAKO S.A.**

**LONG-FORM AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

## **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 in arrangement bankruptcy. 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 48 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2015.

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 2015, the Company's issued share capital amounted to 169.864 thousand zlotys. Equity as at that date amounted to 391.823 thousand zlotys.

In accordance with protocol of the General Shareholders' Meeting as at 21 December 2015 and notices dated 31 July 2015 and 10 September 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	50%+ 1 share
Pension funds managed by Nationale-Nederlanden Powszechno 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%
<b>Total</b>	<b>84.931.998</b>	<b>84.931.998</b>	<b>169.864</b>	<b>100%</b>
	=====	=====	=====	=====

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

- Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A. (the company managing portfolios of pension funds) achieved share in the share capital in the amount 9,48%,
- Share of NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. (the company managing portfolios of investment funds), previously ING Towarzystwo Funduszy Inwestycyjnych S.A., decreased to 4,14%,
- Share of PBG S. A. in arrangement bankruptcy and affiliated entities decreased to 50,000001% (direct and indirect),
- Quercus Towarzystwo Funduszy Inwestycyjnych S.A. (the company managing portfolios of investment funds) achieved share in the share capital in the amount 9,02%.

Movements in the issued share capital of the Company in the financial year were as follows:

	Number of shares	Par value of shares
Opening balance	69.600.000	139.200
Increase in share capital	15.331.998	30.664
<b>Closing balance</b>	<b>84.931.998</b>	<b>169.864</b>
	=====	=====

As at 21<sup>st</sup> March 2016, the Company's Management Board composed of:

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

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 6 July 2015 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. 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 22 June 2015 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2015.

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 dated 21<sup>st</sup> March 2016, stating the following:

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

1. We have audited the attached financial statements for the year ended 31 December 2015 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 2015 to 31 December 2015, the statement of financial position as at 31 December 2015, the statement of cash flow and the statement of changes in equity for the period from 1 January 2015 to 31 December 2015 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.

---

<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'

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 2014 were subject to our audit and we issued qualified opinion including emphasis of matter on these financial statements, dated 23 March 2015. The qualification related to lack of sufficient evidence supporting the correctness of valuation of 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 47 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 in arrangement bankruptcy in the total net amount of 36 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 realization probability of these receivables', 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.
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 2015 to 31 December 2015, as well as its financial position<sup>3</sup> as at 31 December 2015;
  - 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.

---

<sup>3</sup> Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

7. We have read the 'Directors' Report for the period from 1 January 2015 to 31 December 2015 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 art. 49 para 2 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 (Journal of Laws 2014.133 with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 7<sup>th</sup> December 2015 to 21<sup>st</sup> March 2016. We were present at the Company's head office from 7<sup>th</sup> to 17<sup>th</sup> December and from 15<sup>th</sup> to 26<sup>th</sup> February 2016.

## 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. The Management Board also provided a letter of representations dated 21<sup>st</sup> March 2016, 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 except the matter described in qualification included in the point 5 of the auditors' opinion (see also point I.2.1 of the report).

## 2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2014 were audited by Jerzy Buzek, key certified auditor no. 10870, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialności 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 auditors' opinion including emphasis of matter on the financial statements for the year ended 31 December 2014. The qualification related to lack of sufficient evidence supporting the correctness of valuation of 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 2014 were approved by the General Shareholders' Meeting on 18 June 2015, and the shareholders resolved that the profit for the financial year 2014 amounting 23.515 thousand zlotys will be entirely intended for the Company's supplementary capital.

The financial statements for the financial year ended 31 December 2014, 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 30<sup>th</sup> June 2015 with the National Court Register.

The closing balances as at 31 December 2014 were correctly brought forward in the accounts as the opening balances at 1 January 2015.

---

<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 2013 – 2015. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2014 and 31 December 2015.

The ratios for the years 2013 – 2015 were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2014 and 31 December 2015 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>2015</b>	<b>2014</b>	<b>2013</b>
<b>Total assets</b>	986.971	1.037.898	1.008.351
<b>Shareholders' equity</b>	391.823	276.497	256.948
<b>Net profit/ loss</b>	26.587	23.515	(139.781)
<b>Return on assets (%)</b>	2,7%	2,3%	(13,9%)
<hr/> Net profit x 100 Total assets			
<b>Return on equity (%)</b>	9,6%	9,2%	(35,2%)
<hr/> Net profit x 100 Shareholders' equity at the beginning of the period			
<b>Profit margin (%)</b>	2,7%	2,1%	(18,9%)
<hr/> Net profit x 100 Sales of finished goods, goods for resale and raw materials			
<b>Liquidity I</b>	1,3	1,0	1,0
<hr/> Current assets Short-term creditors			
<b>Liquidity III</b>	0,2	0,0	0,0
<hr/> Cash and cash equivalents Short-term creditors			
<b>Debtors days</b>	54 days	85 days	70 days
<hr/> Trade debtors x 365 Sales of finished goods, goods for resale and raw materials			

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Creditors days</b>	112 days	112 days	113 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Inventory days</b>	8 days	8 days	10 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Stability of financing (%)</b>	45,0%	31,4%	29,3%
(Equity + long-term liabilities) x 100			
Total liabilities, provisions and equity			
<b>Debt ratio (%)</b>	60,3 %	73,4%	74,5%
(Total liabilities and provisions) x 100			
Total assets			
<b>Rate of inflation:</b>			
Yearly average	(0,9%)	0,0%	0,9%
December to December	(0,5%)	(1,0%)	0,7%

### 3.2 Comments

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

- return on assets increased in 2015 in comparison to 2014 and 2013;
- return on equity increased in 2015 in comparison to 2014 and 2013;
- profit margin increased in 2015 in comparison to 2014 and 2013;
- liquidity I as at 31 December 2015 increased in comparison to the ratio value as at 31 December 2014 and to the ratio value as at 31 December 2013,
- liquidity III as at 31 December 2015 increased in comparison to the ratio value as at 31 December 2014 and to the ratio value as at 31 December 2013,
- debtor day ratio decreased in 2015 in comparison to 2014 and 2013,
- creditor day ratio remained at the same level in 2015 in comparison to 2014 and decreased in comparison to 2013,
- inventory day ratio remained at the same level in 2015 in comparison to 2014 and decreased in comparison to 2013,
- stability of financing ratio as at 31 December 2015 increased in comparison to ratio value as at 31 December 2014 and to ratio value as at 31 December 2013,
- debt ratio as at 31 December 2015 decreased in comparison to ratio value as at 31 December 2014 and to ratio value as at 31 December 2013.

### **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 2015 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 6 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2015, 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 2015.

## **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 2015.

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 2015.

Included in our Auditors' opinion qualification relates to the fact that as of balance sheet date, in the statement of financial position the Company presents receivables from related party in arrangement bankruptcy in the total net amount of 36 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 realization probability of these receivables', 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.

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

The additional notes and explanations to the financial statements for the year ended 31 December 2015 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 2015 to 31 December 2015 and the basis for preparation of 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 art. 49 para 2 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 (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, 21<sup>st</sup> March 2016