

CAPITAL GROUP RAFAKO S.A.

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

I. GENERAL NOTES

1. Background

The holding company of the Capital Group RAFAKO S.A. (hereinafter 'the Group' or 'the Capital Group') is RAFAKO S.A. ('the holding company', 'the Company'). The holding company is part of the Capital Group PBG S.A. in arrangement bankruptcy.

The holding 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 holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005 and later

The holding 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 principal activities of the holding 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.

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are similar to this of the holding company.

As at 31 December 2015, the Company's issued share capital amounted to 169.864 thousand zlotys. Equity as at that date amounted to 429.766 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 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 holding company, the following changes took place in the ownership structure of the holding company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- Nationale-Nederlanden Powszechne 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 holding 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
Closing balance	84.931.998	169.864
	=====	=====

As at 21st March 2016, the holding company's Management Board was 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 holding company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Group Structure

As at 31 December 2015, the Capital Group RAFAKO S.A. consisted of the following subsidiaries (direct or indirect):

Name of the entity	Consolidation method	Type of opinion	Auditor	Balance date
PGL-DOM sp. z o.o.	Full consolidation	unqualified	DORADCA Zespół Doradców Finansowo-Księgowych sp. z o.o.	31 December 2015
RAFAKO Engineering sp. z o.o.	Full consolidation	unqualified, with an emphasis of matter	AUDYTORZY I DORADCY Sp. z o.o.	31 December 2015
RAFAKO Engineering Solution doo	Full consolidation	no audit required	no audit required	31 December 2015
RAFAKO Hungary Kft.	Full consolidation	no audit required	no audit required	31 December 2015
Energotechnika Engineering sp. z o.o (indirect)	Full consolidation	unqualified	Kancelaria Biegłych Rewidentów sp. z o. o.	31 December 2015
E001RK sp. z o.o.	Full consolidation	unqualified	Kancelaria Biegłych Rewidentów sp. z o. o	31 December 2015
E003B7 sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 2 of the summary of significant accounting policies and other explanatory notes (“the additional notes and explanations”) to the consolidated financial statements of the Group for the year ended 31 December 2015.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated 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 6th June 2015 to audit the Group'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 22 June 2015 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2015.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued a qualified auditors' opinion dated 21st March 2016, stating the following:

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

1. We have audited the attached consolidated financial statements of the RAFAKO S.A. Capital Group ('the Group'), for which the holding company is RAFAKO S.A. ('the Company') located in Racibórz at Łąkowa Street 33, for the year ended 31 December 2015 containing the consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, the consolidated statement of financial position as at 31 December 2015, the consolidated statement of cash flow and the consolidated statement of changes in equity for the period from 1 January 2015 to 31 December 2015 and additional explanatory notes ('the attached consolidated financial statements').
2. The truth and fairness¹ of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation 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 consolidated 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 consolidated 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 and whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Group.

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

² Translation of the following expression in Polish: 'rzetelne i jasne'

3. We conducted, except for the matter described in paragraph 5 below, our audit of the attached consolidated 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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated 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 consolidated 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 Group's ability to continue as a going concern.

5. As further described in the note 44 of the additional explanatory notes to the attached consolidated financial statements, as of the balance sheet date, in the consolidated statement of financial position the Group 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 consolidated financial statements, including consolidated statement of financial position and consolidated statement of comprehensive income.

6. In our opinion, except for the potential effect of the matter discussed in paragraph 5, the attached consolidated financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2015 to 31 December 2015, as well as its financial position³ as at 31 December 2015;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

³ 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 consolidated 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 7th December 2015 to 21st March 2016. We were present at the holding company's head office from 7th to 17th December and from 15th to 26th February 2016."

We conducted the audit of the Group's consolidated financial statements during the period from 7th December 2015 to 21st March 2016. We were present at the holding company's head office from 7th to 17th December and from 15th to 26th February 2016.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness⁴ of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 21st March 2016, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated 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.3.1 of the report).

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group 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 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 auditors' opinion including emphasis of matter on the consolidated 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 Group's ability to continue as a going concern.

The consolidated financial statements for the year ended 31 December 2014 were approved by the holding company's General Shareholders' Meeting on 18 June 2015.

The consolidated financial statements of the Group for the financial year ended 31 December 2014, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 30 June 2015 with the National Court Register.

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

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2013 – 2015. The ratios were calculated on the basis of financial information included in the consolidated 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 consolidated 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).

	2015	2014	2013
Total assets	1,251.219	1,146.562	1,065.402
Shareholders' equity	429.766	313.454	294.089
Net profit/ loss	33.950	23.784	(134.648)
Return on assets (%)	2,7%	2,1%	(12,6%)
<hr/> $\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
Return on equity (%)	10,8%	8,1%	(31,3%)
<hr/> $\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	2,2%	2,0%	(16,1%)
<hr/> $\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	1,2	1,0	1,1
<hr/> $\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0,3	0,1	0,1
<hr/> $\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	74 days	86 days	65 days
<hr/> $\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			

	2015	2014	2013
Creditors days	112 days	111 days	103 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
Inventory days	5 days	7 days	13 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	39,8 %	31,9%	31,9%
(Equity + long-term liabilities) x 100			
Total liabilities, provisions and equity			
Debt ratio (%)	65,7 %	72,7%	72,4%
(Total liabilities and provisions) x 100			
Total assets			
Rate of inflation:			
Yearly average	(0,9 %)	0,0%	0,9%
December to December	(0,5 %)	(1,0%)	0,7%

4.2 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 increased in comparison to 2013,
- creditor day ratio increased in 2015 in comparison to 2014 and in comparison to 2013,
- inventory day ratio decreased in 2015 in comparison to 2014 and 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.

4.3 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 5 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2015, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2015 and that there are no circumstances that would indicate a threat to their continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 11 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2015.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2015.

Included in our Auditors' opinion qualification relates to the fact that as of balance sheet date, in the consolidated statement of financial position the Group 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 consolidated financial statements, including consolidated statement of financial position and consolidated statement of comprehensive income.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in notes 11.9, 11.12 and 26 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 4.675 thousand zlotys as at 31 December 2015. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 36 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2015 and include the financial data for the period from 1 January 2015 to 31 December 2015.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

The effects of the sale of all shares of FPM S. A. were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2015.

Included in our Auditors' opinion qualification relates to the fact that as of balance sheet date, in the consolidated statement of financial position the Group 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 consolidated financial statements, including consolidated statement of financial position and consolidated statement of comprehensive income.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated 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.

9. Directors' Report

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 consolidated 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).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' 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, 21st March 2016