

**CAPITAL GROUP RAFAKO S.A.**

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

## **I. GENERAL NOTES**

### **1. Background**

The holding company of the Group (hereinafter 'the Group' or 'the Capital Group') is RAFAKO S.A. ('the holding company', 'the Company'). In addition, the Company is a subsidiary of Capital Group PBG. S.A.

The holding company was incorporated on the basis of a Notarial Deed dated. 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 and, based on the article 55.5 of the Accounting Act dated 29 September 1994 ('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 2016, the Company's issued share capital amounted to 169,864 thousand zlotys. Equity as at that date amounted to 443,851 thousand zlotys.

In accordance with note 31 of the additional notes and explanations to the attached financial statements, the ownership structure of the holding company issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
PBG S.A. and affiliated entities	42,466,000	42,466,000	84,932	50%+ 1 share
Pension funds managed by Nationale- Nederlanden 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%
Total	84,931,998	84,931,998	169,864	100%

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

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

As at 21<sup>st</sup> March 2017, 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 2016, 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	Kancelaria Biegłych Rewidentów sp. z o.o.	31 December 2016
RAFAKO Engineering sp. z o.o.	Full consolidation	unqualified	UHY ECA Audyt sp. z o.o.	31 December 2016
RAFAKO Engineering Solution doo	Full consolidation	unqualified	Kreston MDM Revizija doo	31 December 2016
RAFAKO Hungary Kft.	Full consolidation	no audit required	no audit required	31 December 2016
Energotechnika Engineering sp. z o.o. (indirect)	Full consolidation	unqualified	Kancelaria Biegłych Rewidentów sp. z o. o.	31 December 2016
E001RK sp. z o.o.	Full consolidation	unqualified	Kancelaria Biegłych Rewidentów sp. z o. o	31 December 2016
E003B7 sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2016

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 2016.

### **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 11<sup>th</sup> July 2016 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.

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

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 an auditors' unqualified opinion dated 21<sup>st</sup> March 2017, stating the following:

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

#### **Report on the Audit of the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statement for the year ended 31 December 2016 of Capital Group RAFAKO S.A. ('the Group'), with parent's company RAFAKO S.A. ('the Company') registered office located in Racibórz, Łakowa St. 33, which comprise consolidated statement of comprehensive income for the year from 1 January 2016 to 31 December 2016, consolidated statement of financial position as at 31 December 2016, consolidated statement of cash flow and consolidated statement of changes in equity for the year from 1 January 2016 to 31 December 2016 and other explanatory notes ('the accompanying consolidated financial statements').

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

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

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

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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

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

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

*Opinion*

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of a Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of consolidated financial statements and the Company's Articles of Association.

### *Emphasis of Matter*

Without qualifying our opinion we draw attention to the Note 39 of additional notes and explanations to the attached consolidated financial statements, in which the Company presents information about receivables from related party in the total net amount of 35 million zlotys. After the balance sheet date, above mentioned receivables have been converted into bonds, which key issuance terms have been described in details by the Company's Management in the above-referenced Note.

### **Report on Other Legal and Regulatory Requirements**

#### *Report on the Directors' Report*

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

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

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to report, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

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

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

We conducted the audit of the Group's consolidated financial statements during the period from 21 November 2016 to 21 March 2017. We were present at the holding company's head office from 21 November 2016 to 2 December 2016 and from 13 February 2017 to 24 February 2017.

### 3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness<sup>1</sup> 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 21<sup>st</sup> March 2017, 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.

### 3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by Jerzy Buzek, key certified auditor no. 10870, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną 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 opinion on the consolidated financial statements for the year ended 31 December 2015. The qualification related to lack of sufficient evidence supporting the correctness of valuation of receivables from related party, which was in the process of bankruptcy with the possibility to sign the debt settlement.

The consolidated financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 21 June 2016.

The consolidated financial statements of the Group for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 28 June 2016 with the National Court Register

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<sup>1</sup> 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 Company for the years 2014 – 2016. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2016.

	2016	2015	2014
<b>Total assets</b>	1,427,069	1,251,218	1,146,562
<b>Shareholders' equity</b>	443,851	429,766	313,454
<b>Net profit/ loss</b>	10,940	33,950	23,784
<b>Return on assets (%)</b>	0.8%	2.7%	2.1%
$\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$			
<b>Return on equity (%)</b>	2.5%	10.8%	8.1%
$\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$			
<b>Profit margin (%)</b>	0.6%	2.2%	2.0%
$\frac{\text{Net profit} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$			
<b>Liquidity I</b>	1.2	1.2	1.0
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
<b>Liquidity III</b>	0.1	0.3	0.1
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
<b>Debtors days</b>	121 days	74 days	86 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Creditors days</b>	107 days	112 days	111 days
<u>Trade creditors x 365</u>			
Costs of finished goods, goods for resale and raw materials sold			
<b>Inventory days</b>	3 days	5 days	7 days
<u>Inventory x 365</u>			
Costs of finished goods, goods for resale and raw materials sold			
<b>Stability of financing (%)</b>	36.3%	39.8%	31.9%
<u>(Equity + long-term provisions and liabilities) x 100%</u>			
Total liabilities, provisions and equity			
<b>Debt ratio (%)</b>	68.9%	65.7%	72.7%
<u>(Total liabilities and provisions) x 100%</u>			
Total assets			
<b>Rate of inflation:</b>			
Yearly average	(0.6%)	(0.9%)	0.0%
December to December	0.8%	(0.5%)	(1.0%)

#### 4.2 Comments

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

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

### **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 2016 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 consolidated financial statements for the year ended 31 December 2016, 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 2016 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 7 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2016.

### **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 2016.

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 7.9 and 21 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 8.996 thousand zlotys as at 31 December 2016. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 30 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 2016 and include the financial data for the period from 1 January 2016 to 31 December 2016.

#### **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**

During the financial year the Group did not sell any shares in subordinated entities.

#### **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 2016.

#### **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 2016 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 2016 to 31 December 2016 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information contained in it take into account the provisions of 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 and they are consistent with the information contained in the accompanying financial statements. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report of the Capital Group. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

## 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.

Warsaw, 21 March 2017

Key certified auditor

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*Marcin Ficek*

Certified Auditor no. 12393

on behalf of

Ernst & Young Audyt Polska spółka  
z ograniczoną odpowiedzialnością sp. k.

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