

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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

The audit report on the annual consolidated financial statements

We have audited the accompanying annual consolidated financial statements for the year ended 31 December 2017 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 33 Street, containing consolidated statement of comprehensive income for the period from 1 January 2017 to 31 December 2017, the consolidated statement of financial position as at 31 December 2017, the consolidated statement of cash flow, the consolidated statement of changes in equity, for the period from 1 January 2017 to 31 December 2017 and other explanatory notes ('the accompanying consolidated financial statements').

Responsibilities of the Company's Management and members of the Supervisory Board for the consolidated financial statements

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (‘Act on Statutory Auditors’),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (“Regulation 537/2014”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the accompanying consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

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 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 presentation of the consolidated financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Group nor effectiveness of conducting business matters now and in the future by the Group’s Management Board.

In accordance with International Auditing Standard 320 section 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 qualified opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the accompanying consolidated financial statements based on the Company’s Supervisory Board resolution dated 26 April 2017. We have been auditing the consolidated financial statements of the Group consecutively since the beginning of the financial year ended 31 December 2011; this is for 7 years.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

<i>Description of the nature of the risk of material misstatement (key audit matters)</i>	<i>Audit procedures in response to the identified risk</i>
<p>Contracts for construction services - valuation and recognition</p> <p>The Group's revenues from sale of products and services in the amount of 1 762 million PLN for the year ended 31 December 2017 constitute revenues from construction contracts (hereinafter "contracts"), including especially revenues</p>	<p>Our audit procedures, in relation to the key audit matter included, among others:</p> <ul style="list-style-type: none"> • analysis of applied accounting policies and procedures, including the internal control environment, relating to the process of contract valuation and their recognition, • inquiries of relevant project managers and the Management Board of the parent company relating to

<p>from realization of power plant 910 MW in Jaworzno amounting to 1 232 million PLN. As at the balance sheet date, the Group measures the contracts using the percentage of completion method in accordance with the principles of MSR 11 Construction Contracts. This valuation has a significant impact on the consolidated financial statements.</p> <p>The valuation of contracts that are performed requires the parent company's Management Board to apply professional judgment and make estimates based on the state of knowledge at the balance sheet date, in particular with regard to the percentage of completion of contracts and planned total contract costs, including all necessary estimates of identified risks. In connection with the above, we consider this issue a key audit matter.</p> <p>The Group's accounting policy regarding the valuation and recognition of contracts is described in more detail in note 7.28.6 of the consolidated financial statements. Additionally, in notes 5.2 and 11 The parent company's Management Board presented numerical disclosures and information on the uncertainty of estimates related to the valuation of contracts.</p>	<p>the status of selected contracts, including up-to-date key estimates, assessment of key risk areas related to the performance of contracts, including potential delays and their inclusion in the valuation,</p> <ul style="list-style-type: none"> • the following audit procedures performed on a sample of contracts including: <ul style="list-style-type: none"> - analysis of key contract terms resulting from the construction contract, - assessment of significant assumptions and estimates made by the management of the parent company with respect to planned revenues and costs of contracts, - tests of correct allocation of costs and revenues to individual contracts, including compliance with concluded contracts, - analysis of changes in margin during the execution of individual contracts, including inquiries regarding deviations from the initial contract budget and in relation to valuations made on previous balance sheet dates, - analysis of external sources of information to identify potential risk areas related to the contracts being performed, - reconciliation of the presented source documentation, including internal and external studies held by the management of the parent company relating to potential and existing risk areas, as well as disputes related to the performance of contracts, - analysis of the recognition of the valuation of contracts and the adequacy of the disclosures made regarding this valuation made in the consolidated financial statements.
<p>Financial Liquidity</p> <p>In the consolidated statement of financial position as at 31 December 2017, the Group presents loans received from PKO Bank Polski S.A. in the total amount of 99 million PLN. Due to the maturity date falling on 30 June 2018, this liability is of a short-term nature.</p> <p>This issue was identified as the key audit matter due to significant</p>	<p>Our audit procedures, in relation to the key audit matter included, among others:</p> <ul style="list-style-type: none"> • analysis of loan agreements, in particular in terms of maturity and refinancing opportunities, • analysis of provisions regarding contractual clauses, including levels of required financial indicators (covenants) and verification of the analysis of compliance with these indicators presented by the Group,

<p>value of the abovementioned indebtedness constituting 8% of the balance sheet total as well as an element of the professional judgment of the parent company's management related to the estimation of forecasted cash flows that form the basis for conclusions regarding the repayment capacity of debt at maturity dates. This estimate requires the Management Board of the parent company to adopt a number of assumptions regarding cash flow forecasts, including those regarding sales revenue and operating expenses, as well as general market conditions.</p> <p>In connection with the above, as at the balance sheet date on 31 December 2017, the Management Board prepared a cash flow forecast for 2018, including key assumptions related to the operational parameters of the Group.</p> <p>Based on the predicted cash flows prepared, including the inflow of funds from the issuance of new shares in the amount of 163 million PLN, which occurred in 2017, the Management Board of the parent company did not find any circumstances that would indicate that the repayment of the said debt to PKO Bank Polski S.A. on the maturity date or its renewal for the next 12 months would be significantly threatened.</p> <p>Group's disclosures regarding financial debt have been included in note 31 of the attached consolidated financial statements. Assumptions about financial liquidity and projected cash flows have been presented in note 6 of these financial statements.</p>	<ul style="list-style-type: none"> • analysis of forecasted cash flows presented by the Management Board of the Company, • reconciliation of the confirmation of the balance of debt received from the bank as at the balance sheet date to the presented data in the consolidated financial statements, • assessment of the correctness and completeness of disclosures in the scope of debt financial statements in the consolidated financial statements.
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Basis for qualified opinion

As further described in the note 24 to the attached consolidated financial statements, as of the balance sheet date, in the consolidated statement of financial position the Group presents bonds receivables from the ultimate parent, i.e. PBG S.A., in the amount of 30 million zlotys. During our audit, we were not able to obtain sufficient audit evidence of recoverability of these receivables, consequently, we are not able to assess the impact of this issue on the attached consolidated financial statements, including consolidated statement of financial position, consolidated statement of comprehensive income and disclosure in note 9.2 relating to implementation of IFRS 9 Financial instruments.

Qualified opinion

In our opinion, except for the potential effect of the matter described in paragraphs ‘Basis for qualified opinion’, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company’s Statute.

Emphasis of matter

Without qualifying our opinion we draw attention to notes 38.2 and 38.3 of the attached consolidated financial statements, in which the parent company’s Management Board presented circumstances relating to the dispute related to the settlement of one of the contracts completed. As at the date of preparing the attached consolidated financial statements, the final outcome of the dispute is unknown.

Report on other legal and regulatory requirements

Opinion on the Directors’ Report

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

The Company’s Management is responsible for preparation of the Directors’ Report in accordance with the Accounting Act and other applicable laws. In addition, the Company’s Management and members of the Company’s Supervisory Board are required to ensure that the Directors’ Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Group and its environment obtained during the audit of the accompanying consolidated financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying consolidated financial statements. Moreover, based on our knowledge of the Group and its environment obtained during the audit of the accompanying consolidated financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the accompanying consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company using the exemption referred to in art. 49b par. 11 of the Accounting Act disclosed in the Director's Report the name and registered office of its higher-level parent company preparing a separate report of the capital group on non-financial information, which will cover the Company and its subsidiaries at each level.

We have not performed any attestation services in respect to the separate report on non-financial information and do not express any assurance in its respect.

Warsaw, 5 April 2018

Key Certified Auditor

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on behalf of
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