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Independent auditor's report on the full-year financial statements

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To the Shareholders of RAFAKO Spółka Akcyjna

Auditor's report on the full-year financial statements

Qualified opinion

We have audited the full-year financial statements of RAFAKO Spółka Akcyjna (the Company), with its registered office at ul. Łąkowa 33, Racibórz, Poland, which comprise the statement of financial position as at December 31st 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year January 1st – December 31st 2018, additional information on the adopted accounting policies and other explanatory information

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section, the accompanying full-year financial statements:

- give a true and fair view of the Company's assets and financial position as at December 31st 2018 and of its financial performance and cash flows for the financial year January 1st – December 31st 2018 in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations issued in the form of European Commission's regulations, as well as with the adopted accounting policies,
- were prepared on the basis of accounting records properly maintained in accordance with Chapter 2 of the Accounting Act of September 29th 1994 (consolidated text: Dz.U. of 2019, item 351) (the Accounting Act),
- comply in form and content with the laws and regulations applicable to the Company and with the Company's Articles of Association.

This opinion is consistent with the additional report for the Audit Committee issued on April 26th 2019.

Audit – Taxes – Outsourcing – Advisory
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Basis for qualified opinion

In the full-year statement of financial position as at December 31st 2018, the Company disclosed PLN 21,675 thousand of receivables under bonds from PBG S.A., its ultimate parent, and PLN 36,412 thousand of receivables from PBG oil and gas Sp. z o.o. on account of advance payments for construction contracts transferred by RAFAKO S.A.

Pursuant to a resolution of the Extraordinary General Meeting of PBG S.A. of April 2nd 2019, PBG oil and gas Sp. z o.o. will be acquired by PBG S.A. Therefore, redemption of the bonds and receipt of the advance payments will depend on the implementation of the debt arrangement scheme by PBG S.A. With respect to these financial assets, the Company's Management Board has applied the impairment model based on expected credit losses and has estimated the impairment of the advance payments made. However, we are unable to examine the reasonableness of the assumptions adopted for these models. As a result, we are unable to assess the effect of this matter on the full-year financial statements prepared as at December 31st 2018 and on the recognition of receivables under the bonds at the moment of implementation of IFRS 9, i.e. January 1st 2018.

In accordance with the strategy pursued by the Company's Management Board, described in the Directors' Report on the Company's operations, the merger of PBG oil and gas Sp. z o.o. with PBG S.A. is an initial step in the PBG Group's restructuring plan. In the next step, an organised part of business (with competence in providing EPC and general contractor services to the oil and gas sector) is to be spun off from PBG S.A. (which will be the surviving entity in the merger with PBG oil and gas Sp. z o.o.) and then contributed to the RAFAKO Group.

The absence of sufficient proof of recoverability of the receivables due from PBG S.A. under the bonds was the reason for the qualification of audit opinion on the financial statements for the financial year ended December 31st 2017, issued on April 5th 2018 by an auditor acting on behalf of another audit firm.

We have conducted our audit in accordance with

- the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017 (Dz.U. of 2017, item 1089, as amended) (the Act on Statutory Auditors),
- Polish Standards on Auditing compliant with International Standards on Auditing, adopted by the National Council of Statutory Auditors by Resolution No. 3430/52a/2019 of March 21st 2019 and
- Regulation 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 (OJ EU L 158 of May 27th 2014, p. 77 and OJ EU L 170 of June 11th 2014, p. 66) (Regulation 537/2014).

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the full-year financial statements* section.

We are independent of the Company within the meaning of the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (the IFAC Code), adopted by the National Council of Statutory Auditors by Resolution No. 2042/38/2018 of March 13th 2018 as professional ethics standards for auditors and other ethical requirements applicable to audits of financial statements in Poland. In particular, in the course of the audit, the lead auditor and the audit firm remained independent of the Company, in accordance with the independence requirements set out in the Act on Statutory Auditors and in Regulation 537/2014. We have also fulfilled our other responsibilities under those ethical requirements and the IFAC Code.

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the full-year financial statements for the reporting period under analysis. These are the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud. We addressed these matters in the context of our audit of the full-year financial statements as a whole and we took these matters into account in forming our opinion on the financial statements. In addition to the matter discussed in the *Basis for qualified opinion* section, we have considered the matters described below as key audit matters which should be presented in our report. Below, we have also summarised our responses to the assessed risks and, where we considered it appropriate, we have presented the key observations relating to those risks. We do not issue a separate opinion on these matters.

Revenue

How our audit addressed the matter

In accordance with the statement of comprehensive income for the financial year ended December 31st 2018, the Company's revenue from sale of products and services amounted to PLN 641m in 2018 and comprised revenue from construction contracts.

In accordance with the requirements of International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (IFRS 15), the Management Board of the Company assesses, based on an analysis of individual contracts, whether revenue from a given contract should be recognised when or as performance obligations are satisfied.

Revenue recognised as performance obligations are satisfied is measured in accordance with the input method under IFRS 15. Progress towards satisfaction of the obligation is determined as the ratio of costs incurred to estimated costs necessary to complete the contract. This measurement method has a material effect on the Company's financial statements.

To measure contracts, the Company's Management Board makes estimates using its professional judgement and knowledge as at the reporting date. This applies in particular to determining the stage of contract completion and the planned total contract costs.

Quantitative disclosures concerning this matter are presented in Note 11 to the financial statements.

The audit procedures carried out in this area included:

- analysis and assessment of the accounting policies and procedures, including internal controls, applied in contract measurement and recognition,
- compliance testing of selected control mechanisms,
- analysis of construction contracts to understand the nature of the transactions and their key parameters and assessment of classifying contracts as construction contracts,
- assessment of assumptions and estimates made by the Management Board,
- based on a sample of contracts:
 - analysis of contractual terms and conditions,
 - examining the correctness of allocating revenue and expenses to individual contracts,
 - analysis of changes in margins.



Financial liquidity

How our audit addressed the matter

In the statement of financial position, the Company discloses as at the reporting date its liabilities under borrowings of PLN 100.8m, maturing on June 30th 2019, while the cash held as at that reporting date was PLN 5.4m.

The Company's Management Board prepared a forecast of cash flows for 2019, taking into account the key assumptions regarding the Company's operating parameters. Based on the cash flow forecast, the Management Board did not identify any facts or circumstances indicating that there was a material risk of the Company failing to repay its debt towards the bank on the due date or a material risk to renewing the credit facility agreements for the next 12 months.

The issue is material as it requires the Management Board to make material estimates and judgements concerning the Company's ability to pay its debt towards the bank, as the debt represents 11% of the Company's total equity and liabilities.

Disclosures concerning debt levels are presented in Note 34, while the assumptions regarding financial liquidity and the estimates adopted for the cash flow forecast– in Note 7 to the financial statements.

We draw attention to Note 11.1.1 of the full-year financial statements, in which the Parent's Management Board described the risks associated with the completion of construction of the 910MW unit for the Jaworzno III Power Plant. The Parent and its subsidiary E00B7 Sp. z o.o. are constructing a 910 MW unit for the Jaworzno III Power Plant. A project's milestone, consisting in the unit start-up, is due in November 2019. Given the Group's significant engagement in delivery of this project, namely the working capital employed, the guarantees provided and the potential contractual penalties for any delays in project execution, the timely start-up of the unit will have a material effect on the Parent's and the Group's future financial position and liquidity management.

Our opinion is not modified with respect to this matter.

Management Board's and Supervisory Board's responsibility for the full-year financial statements

The Company's Management Board is responsible for the preparation, based on correctly maintained accounting records, of the full-year financial statements which give a true and fair view of the Company's assets, financial position, financial performance and cash flows in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations issued in the form of European Commission's regulations, the applied accounting policies, the applicable laws and regulations, and the Company's Articles of Association. The Company's Management Board is also responsible for maintaining such internal controls as it considers necessary to enable the preparation of the full-year financial statements that are free from any material misstatement, whether due to fraud or error.

When preparing the full-year financial statements, the Company's Management Board is responsible for assessing the Company's ability to continue as a going concern, for disclosing, if applicable, any issues relating to the Company continuing as a going concern, and for adopting the going concern basis, unless the



Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Pursuant to the Accounting Act, the Company's Management Board and Members of its Supervisory Board are obliged to ensure that the full-year financial statements comply with the requirements stipulated in the Accounting Act. Members of the Supervisory Board are responsible for monitoring the Company's financial reporting process.

Auditor's responsibilities for the audit of the full-year financial statements

Our objective is to obtain reasonable assurance about whether the full-year financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Polish Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of those full-year financial statements.

The scope of the audit does not include an assurance as to the future viability of the Company or the effectiveness or efficiency with which the Company's Management Board has conducted its affairs or will conduct its affairs in the future.

As part of an audit in accordance with Polish Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the full-year financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Company;
- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the full-year financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the full-year financial statements, including the disclosures, and whether the full-year financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any material weakness in internal control that we identify during our audit.



We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Among the matters communicated with the Supervisory Board, we identified those which were of most significance in the audit of the financial statements for the current financial year and which, therefore, we deemed the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

Other information comprises the Directors' Report on the Company's operations in the financial year ended December 31st 2018 together with the corporate governance statement, which is a separate part of the Directors' Report, and the annual report for the financial year ended December 31st 2018 (excluding the full-year financial statements and our auditor's report).

Responsibilities of the Management Board and Supervisory Board

The Management Board of the Company is responsible for preparing other information in accordance with the Polish Accounting Act and other applicable laws. Moreover, the Management Board and members of the Company's Supervisory Board are responsible for ensuring that the Directors' Report meets the requirements stipulated in the Polish Accounting Act.

Auditor's responsibilities

Our opinion on the full-year financial statements does not cover the other information and we do not express any form of assurance regarding the other information under Polish Standards on Auditing. In connection with the audit of the full-year financial statements, our responsibility is to read the other information and identify whether it is materially inconsistent with the full-year financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on our audit work, we conclude that there is a material misstatement in the other information, we are required to report this in our report.

Under the Act on Statutory Auditors, our responsibility is also to issue an opinion on whether the Directors' Report has been prepared in accordance with applicable laws and regulations and whether it is consistent with the information contained in the full-year financial statements.

Moreover, we are required to report whether the Company has prepared a non-financial statement and to issue an opinion on whether the Company has included the required information in its corporate governance statement. We were provided the Directors' Report on the Company's operations, the Letter from the President of the Management Board, selected financial data, the Management Board's representation concerning the financial statements and the Directors' Report, and the Management Board's information on selection of an audit firm to audit the full-year financial statements in compliance with applicable laws, before the date of this report. The other components of the full-year report will be made available to us after the date of this report. If we identify a material misstatement in the full-year report, we are obliged to report this to the Company's Supervisory Board.

Opinion on the Directors' Report

In our opinion, the Directors' Report has been prepared in accordance with the applicable laws and regulations, that is Art. 49 of the Polish Accounting Act and the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information



whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2018, item 757; Regulation on Current and Periodic Information) and is consistent with the information disclosed in the accompanying full-year financial statements. We further state that based on our knowledge of the Company and its environment obtained in the course of the audit of the full-year financial statements, we did not identify any material misstatements in the Directors' Report.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Company included the information specified in Par. 70.6.5 of the Regulation on Current and Periodic Information. The information specified in Par. 70.6.5.c–f, 70.6.5.h and 70.6.5.i of the Regulation on Current and Periodic Information, contained in the corporate governance statement, complies with the applicable laws and regulations and is consistent with the information disclosed in the full-year financial statements.

Information on the non-financial statement

In accordance with the requirements of the Act on Statutory Auditors, we report that pursuant to the exemption afforded by Art. 49b.11 of the Polish Accounting Act, in the Directors' Report the Company disclosed the name and registered office of its ultimate parent which prepares a separate non-financial statement for its group, covering the Company and its direct and indirect subsidiaries.

Report on other legal and regulatory requirements

Representation on the provision of non-audit services

We hereby represent that, to the best of our knowledge and belief, we have not provided any non-audit services prohibited under Art. 136 of the Act on Statutory Auditors and Article 5(1) of Regulation 537/2014.

Selection of audit firm

We have been selected to audit the Company's full-year financial statements by Supervisory Board's resolution of May 25th 2018. We have been auditing the Company's financial statements starting from the financial statements for the financial year ended December 31st 2018.

Jan Letkiewicz

Qualified Auditor Reg. No. 9530

Lead auditor performing the audit on behalf of

Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88 E, audit firm Reg. No. 4055

Poznań, April 29th 2019