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

To the Shareholders of RAFAKO Spółka Akcyjna

## Report on the audit of the full-year consolidated financial statements

### *Qualified opinion*

We have audited the full-year consolidated financial statements of the RAFAKO Group (the Group), in which the parent is RAFAKO Spółka Akcyjna (the Parent), with its registered office at ul. Łąkowa 33, Racibórz, Poland, which comprise the consolidated statement of financial position as at December 31st 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements:

- give a true and fair view of the Group'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,
- comply in form and content with the laws and regulations applicable to the Group and with the Parent's Articles of Association.

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

*Basis for qualified opinion*

In the full-year consolidated statement of financial position as at December 31st 2018, the Group disclosed PLN 21,675 thousand of receivables under bonds from PBG S.A., its ultimate parent, and PLN 46,962 thousand of receivables from PBG oil and gas Sp. z o.o. These receivables include PLN 10,302 thousand under a loan granted and PLN 36,660 thousand under advance payments made by the RAFAKO Group for construction contracts. 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, repayment of the loan, 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 Parent's Management Board has applied the impairment model based on expected credit losses and has estimated the impairment of the prepayments 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 consolidated 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 Parent's Management Board, described in the Directors' Report on the RAFAKO Group'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 the 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 consolidated 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 consolidated financial statements* section.

We are independent of the Group's companies 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 Group's companies, in accordance with the independence requirements set out in the Act on Statutory Auditors and in Regulation 537/2014. We have 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 consolidated 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 consolidated 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
<p>In accordance with the statement of comprehensive income for the financial year ended December 31st 2018, the Group's revenue from sale of products and services amounted to PLN 1,266m in 2018 and comprised revenue from construction contracts.</p> <p>In accordance with the requirements of International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS 15), the Management Board of the Parent assesses, based on an analysis of individual contracts, whether revenue from a given contract should be recognised when or as performance obligations are satisfied.</p> <p>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 Group's financial statements.</p> <p>To measure contracts, the Parent'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.</p> <p>Quantitative disclosures concerning this matter are presented in Note 10 to the consolidated financial statements.</p>	<p>The audit procedures carried out in this area included:</p> <ul style="list-style-type: none"> <li>• analysis and assessment of the accounting policies and procedures, including internal controls, applied in contract measurement and recognition,</li> <li>• compliance testing of selected control mechanisms,</li> <li>• analysis of construction contracts to understand the nature of the transactions and their key parameters and assessment of classifying contracts as construction contracts,</li> <li>• assessment of assumptions and estimates made by the Parent's Management Board,</li> <li>• based on a sample of contracts: <ul style="list-style-type: none"> <li>○ analysis of contractual terms and conditions,</li> <li>○ examining the correctness of allocating revenue and expenses to individual contracts,</li> <li>○ analysis of changes in margins.</li> </ul> </li> </ul>

Financial liquidity	How our audit addressed the matter
<p>In the statement of financial position, the Group discloses as at the reporting date its</p>	<p>The audit procedures relating to liquidity risk included:</p>



liabilities under borrowings of PLN 103.6m, including PLN 100.8m of loans of the Parent, maturing on June 30th 2019. As at the reporting date, the Parent's own cash was PLN 5.4m.

The Parent's Management Board prepared a forecast of cash flows for 2019, taking into account the key assumptions regarding the Parent'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 Parent 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 Parent's ability to pay its debt towards the bank, as the debt represents 8% of the Group's total equity and liabilities.

Disclosures concerning debt levels are presented in Note 31, while the assumptions regarding financial liquidity and the estimates adopted for the cash flow forecast— in Note 6 to the consolidated financial statements.

- analysis of credit facility agreements,
- analysis of the cash flow forecast presented by the Company's Management Board,
- we considered the reasonableness of the forecast prepared by the Management Board,
- obtaining independent confirmation from the bank, confirming the amount of debt as at December 31st 2018.

### *Emphasis of matter*

We draw attention to Note 10.1.1 of the full-year consolidated 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.

### *Responsibilities of the Management Board and Supervisory Board of the Parent for the full-year consolidated financial statements*

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

When preparing the full-year consolidated financial statements, the Parent's Management Board is responsible for assessing the Group's ability to continue as a going concern, for disclosing, if applicable, any issues relating to the Group continuing as a going concern, and for adopting the going concern basis, unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Pursuant to the Accounting Act of September 29th 1994 (consolidated text: Dz.U. of 2019, item 351) (the Accounting Act), the Parent's Management Board and Members of its Supervisory Board are obliged to ensure that the full-year consolidated financial statements comply with the requirements stipulated in the Accounting Act. Members of the Parent's Supervisory Board are responsible for monitoring the Group's financial reporting process.

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

Our objective is to obtain reasonable assurance about whether the full-year consolidated 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 consolidated financial statements.

The scope of the audit does not include an assurance as to the future viability of the Group or the effectiveness or efficiency with which the Parent'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 consolidated 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 Group'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 Parent;
- conclude on the appropriateness of the use by the Parent's Management Board 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 Group'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 consolidated 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 Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the full-year consolidated financial statements, including the disclosures, and whether the full-year consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain audit evidence regarding the financial information of the entities or business activities within the Group that is sufficient and appropriate to provide a basis for the opinion on the full-year consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's 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 Parent's 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 Parent's Supervisory Board, we identified those which were of most significance in the audit of the consolidated 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 Group'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 on the Group's operations, and the consolidated full-year report for the financial year ended December 31st 2018 (excluding the full-year consolidated financial statements and our auditor's report).

### *Responsibilities of the Parent's Management Board and Supervisory Board*

The Management Board of the Parent 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 Parent's Supervisory Board are responsible for ensuring that the Directors' Report on the Group's operations meets the requirements stipulated in the Polish Accounting Act.

### *Auditor's responsibilities*

Our opinion on the full-year consolidated 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 consolidated financial statements, our responsibility is to read the other information and identify whether it is materially inconsistent with the full-year consolidated 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 on the Group's operations has been prepared in accordance with applicable laws and regulations and whether it is consistent with the information contained in the full-year consolidated financial statements. Moreover, we are required to report whether the Parent has prepared a non-financial statement and to issue an opinion on whether the Parent has included the required information in its corporate governance statement.

We were provided the Directors' Report on the Group's operations, the Letter from the President of the Management Board, selected financial data, the Management Board's representation concerning the consolidated financial statements and the Directors' Report on the Group's operations, and the Management Board's information on selection of an audit firm to audit the full-year consolidated financial statements in compliance with applicable laws, before the date of this report. The other components of the full-year consolidated report will be made available to us after the date of this report. If we identify a material misstatement in the full-year consolidated report, we are obliged to report this to the Parent's Supervisory Board.



## *Opinion on the Directors' Report*

In our opinion, the Directors' Report on the Group's operations has been prepared in accordance with the applicable laws and regulations, that is Art. 49 and Art. 55.2a 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 consolidated financial statements.

We further state that based on our knowledge of the Group and its environment obtained in the course of the audit of the full-year consolidated 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 Parent 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 consolidated 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. 55.2e of the Polish Accounting Act, in the Directors' Report on the Group's operations the Parent disclosed the name and registered office of its ultimate parent which prepares a separate non-financial statement for its group, covering the Parent 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 of the Group's entities with 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 Group's full-year consolidated financial statements pursuant to a resolution passed by the Parent's Supervisory Board on May 25th 2018. We have been auditing the Group's consolidated financial statements starting from the consolidated 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