

GRUPA KĘTY S.A.

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

I. GENERAL NOTES

1. Background

Grupa Kęty S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 3 March 1992. The Company's registered office is located in Kęty at Kościuszki Street 111.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000121845 on 9 July 2002.

The Company was issued with tax identification number ((NIP) 549-000-14-68 on 22 July 1993 and statistical number (REGON) 070614970 on 1 April 1993.

The Company is the holding company of the Grupa Kęty S.A. Capital Group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 36 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2016.

The principal activities of the Company are production, trade and services in the processing of aluminium and its alloys.

As at 31 December 2016, the Company's issued share capital amounted to 67 534 thousand zlotys. Equity as at that date amounted to 753 015 thousand zlotys.

In accordance with the information provided by the Management and information disclosed in the note number 35 of additional notes to the audited financial statements as at 31 December 2016 current at the date of this report, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Nominal value of shares	Percentage of share capital
OFE AVIVA	1 691 276	1 691 276	4 228	17,84%
ING OFE	1 610 534	1 610 534	4 026	16,99%
OFE PZU ZŁOTA JESIEŃ	921 000	921 000	2 303	9,72%
PTE Allianz Polska	499 748	499 748	1 249	5,27%
Others	4 755 818	4 755 818	11 890	50,18%
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The share capital registered	9 478 376	9 478 376	23 696	100,00%
Revaluation of share capital in accordance with IAS 29			43 900	
Total share capital*			67 596	

*Number of shares includes 24,683 shares acquired in December 2016 registered by the National Depository for Securities and the National Court in 2017.

In accordance with the information provided by the Management and information disclosed in the note number 35 of additional notes to the audited financial statements as at 31 December 2015 the ownership structure of the Company's issued share capital was as follows:

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(in thousand zlotys)

	Number of shares	Number of votes	Nominal value of shares	Percentage of share capital
OFE AVIVA	1 691 276	1 691 276	4 228	17,91%
ING OFE	1 610 534	1 610 534	4 026	17,06%
OFE PZU ZŁOTA JESIEŃ	921 000	921 000	2 303	9,75%
PTE Allianz Polska	499 748	499 748	1 249	5,29%
Others	4 719 430	4 719 430	11 799	49,98%
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The share capital registered	9 478 376	9 478 376	23 605	100,00%
Revaluation of share capital in accordance with IAS 29			43 900	

There were no changes in the ownership structure of the holding company during the reporting period as well as during the period from the balance sheet date to the date of the opinion in terms of shareholders holding at least 5% of the share capital of the Company.

In the financial year to the date of the report, there were following changes of share capital of the Company:

- On 27 June 2016, the National Court Register registered the capital increase by acquisition of 11.705 of employee shares series G;
- On 6 February 2017, the National Court Register registered the capital increase by acquisition of 24.683 of employee shares series G.

As at 16 March 2017, the holding company's Management Board was composed of:

Dariusz Mańko - President
Adam Piela - Member

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. Financial Statements

On 10 May 2005 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of 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 the Company's Supervisory Board on 14 April 2016 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor 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 31 May 2016 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2016.

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

Based on our audit, we issued an auditors' unqualified opinion dated 16 March 2017, stating the following:

'To the General Shareholders Meeting and Supervisory Board of Grupa Kęty S.A.

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements for the year ended 31 December 2016 of Grupa Kęty S.A. ('the Company') located in Kęty, Kościuszki Street 111, which comprise balance sheet as at 31 December 2016, the profit and loss account, the other comprehensive income statement, the cash flow statement, the statement of changes in equity for the period from 1 January 2016 to 31 December 2016 and the additional notes and explanations ('the accompanying financial statements').

Responsibilities of the Management Board and Members of the Supervisory Board for the 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 based on properly maintained accounting records of the 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 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 financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on accompanying 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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, paragraph the accompanying financial statements:

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

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the 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 the Directors' Report meet the requirements of the Accounting Act.

In connection with the audit of the 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') whether they are consistent with the information contained in the accompanying financial statements. Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the 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 financial statements reconciles with the Directors' Report. Based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the 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 financial statements.

Information about the fulfilment of other obligations required the law

In addition, we have concluded that the presented in note 44 balance sheet and profit and loss account, prepared separately for each type of business activity in the transmission or distribution of electricity, transmission, distribution or storage of gas, fuel gas trading, natural gas liquefaction or regasification of liquefied natural gas, comply, in all material respects, with the requirements referred to in Article 44 of the Act dated 10 April 1997 Energy Law ("Energy Law").

The scope of regulatory financial information is specified in Article 44 of the Energy Law. Our audit did not include an assessment on whether the information required to be disclosed by law are sufficient to ensure equal treatment of customers and the elimination of cross-subsidization between activities.

In addition, we have concluded that the presented in note 44 balance sheet and profit and loss account, prepared separately for each type of business activity in the field of electricity generation for generation units, comply, in all material respects, with the requirements referred to in Article 44 para 2a of the Act dated 10 April 1997 Energy Law ("Energy Law").

The scope of regulatory financial information is specified in Article 44 of the Energy Law. Our audit did not include an assessment on whether the information required to be disclosed by law are sufficient to ensure equal treatment of customers and the elimination of cross-subsidization between activities.

Other matters

The financial statements for the prior financial year ended 31 December 2015 were subject to an audit by a key certified auditor acting on behalf of another authorised audit firm, who issued an unqualified opinion on these financial statements, dated 16 March 2016.'

We conducted the audit of the consolidated financial statements during the period from 5 December 2016 to 16 March 2017. We were present at the holding company's head office from 5 December 2016 to 16 December 2016 and from 13 February 2017 to 24 February 2017.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for fair presentation¹ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 16 March 2017, confirming that:

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

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2015 were audited by Michał Mastalerz, key certified auditor no. 90074, acting on behalf PricewaterhouseCoopers sp. z o. o., located in Warsaw, al. Armii Ludowej 14, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 144. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2015.

¹ Translation of the following expression in Polish: "rzetelna prezentacja"

The Company's financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 12 May 2016, and the shareholders resolved to appropriate the 2016 net profit as follows:

Dividend for shareholders	150.313.718,70 zł
Reserve capital	507.342,05 zł

	150.821.060,75 zł
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The financial statements for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 18 May 2016 with the National Court Register

The closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

3. Analytical Review

3.1 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 years ended 31 December 2015 and 31 December 2016.

The ratios for the year ended 31 December 2014 and 31 December 2015 were calculated on the basis of financial information included in the approved financial statements audited by another auditor.

	2016	2015	2014
Total assets	980 678	944 775	974 701
Shareholders' equity	753 015	731 412	714 662
Net profit/ loss	176 333	150 821	98 009
 Return on assets (%)	 18,0%	 16,0%	 10,1%
<hr style="width: 50%; margin: 0 auto;"/> Net profit x 100% <hr style="width: 50%; margin: 0 auto;"/> Total assets			
 Return on equity (%)	 24,1%	 21,1%	 19,4%
<hr style="width: 50%; margin: 0 auto;"/> Net profit x 100% <hr style="width: 50%; margin: 0 auto;"/> Shareholders' equity at the beginning of the period			

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Profit margin (%)	20,2%	18,7%	13,9%
Net profit x 100%			
Sales of finished goods, goods for resale and raw materials			
Liquidity I	1,55	1,50	1,40
Current assets			
Short-term creditors			
Liquidity III	0,04	0,06	0,01
Cash and cash equivalents			
Short-term creditors			
Debtors days	59 days	62 days	84 days
Trade debtors x 365			
Sales of finished goods, goods for resale and raw materials			
Creditors days	25 days	16 days	23 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
Inventory days	43 days	33 days	52 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	83,5%	84,9%	80,9%
(Equity + long-term provisions and liabilities) x 100%			
Total liabilities, provisions and equity			
Debt ratio (%)	23,2%	22,6%	26,7%
(Total liabilities and provisions) x 100%			
Total assets			
Rate of inflation:			
Yearly average	-0,60%	-0,90%	0,00%
December to December	0,80%	-0,50%	-1,00%

This is a translation of a document originally issued in the Polish language.

3.2 Comments

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

- return on assets ratio amounted to 18,0% in 2016 and increased in comparison to 16,0% in 2015 and 10,1% in 2014;
- return on equity ratio amounted to 24,1% in 2016 and increased in comparison to 21,1% in 2015 and decreased in comparison to 19,4% in 2014;
- profit margin ratio amounted to 20,2% in 2016 and increased in comparison to 18,7% in 2015 and in comparison to 13,9% in 2014;
- liquidity I amounted to 1,55 as at 31 December 2016 and increased in comparison to 1,5 as at 31 December 2015 and in comparison to 1,4 as at 31 December 2014;
- liquidity III amounted to 0,04 as at 31 December 2016 and decreased in comparison to 0,06 as at 31 December 2015 and increased in comparison to 0,01 and as at 31 December 2014;
- debtors days ratio amounted to 59 days in 2016 and decreased in comparison to 62 days in 2015 and in comparison to 84 days in 2014;
- creditors days ratio amounted to 25 days in 2016 and increased in comparison to 16 days in 2015 and decreased in comparison to 23 days in 2014;
- inventory days ratio amounted to 43 days in 2016 and increased in comparison to 33 days in 2015 and in comparison to 52 days in 2014;
- stability of financing ratio amounted to 83,5% as at 31 December 2016 and decreased in comparison to 84,9% as at 31 December 2015 and increased in comparison to 80,9% as at 31 December 2014;
- debt ratio amounted to 23,2% as at 31 December 2016 and increased in comparison to 22,6% as at 31 December 2015 and in comparison to 26,7% as at 31 December 2014.

3.3 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 7 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2016, the Management Board has stated that the financial statements were prepared on the assumption that the Company 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 its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the Baan computer system at the Dekret Centrum Rachunkowe sp. z o.o.. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2016.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2016.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the 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.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2016 to 31 December 2016 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information contained in it take into account the provisions of Art. 49 para 2 of the Accounting Act and the relevant provisions of 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. 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. 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 financial statements.

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

Warsaw, 16 March 2017

Key certified auditor

Leszek Lerch
Certified auditor no. 9886

on behalf of:
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.

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