

**Report of the independent statutory auditor on the
audit of**

the annual consolidated financial statements of the Capital Group of
REDAN S.A.

for the financial year from 1 January 2018 to 31 December 2018

THE REPORT OF THE INDEPENDENT STATUTORY AUDITOR ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the Annual Meeting of Members of REDAN S.A.

Report on the audit of the annual consolidated financial statements

Refusal to express the opinion

We were engaged to audit the annual consolidated financial statements of the Capital Group of REDAN S.A. hereinafter referred to as 'the Group', in which the parent entity is REDAN S.A. with the registered office at the address: ul. Żniwna 10/14, hereinafter referred to as 'the Parent Company' for the financial period from 1 January 2018 to 31 December 2018, comprising consolidated profit and loss account and consolidated statement on comprehensive revenues drawn up for 2018, consolidated statement on the financial condition drafted as at 31 December 2018, consolidated account on changes to the equity, consolidated cash flow statement for the financial year ending on that day, additional notes and explanations containing significant principles (policies) of accounting and other explanatory information.

The report was prepared in the form of an electronic file with electronic signatures of the Management Board of the Parent Company on 22 May 2019.

The annual consolidated financial statement was prepared based on International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, hereinafter referred to as 'EU IFRS'.

Due to many significant uncertainties described in the section of our report '*Grounds for refusal to express the opinion*', their potential mutual impact and their possible cumulative impact, we were not able to obtain sufficient and appropriate audit evidence concerning and confirming the legitimacy of the going concern principle adopted by the Management Board of the Parent Company when preparing the consolidated financial statements of the Group for 2018. For this reason, we do not express our opinion on the consolidated financial statements of the Group for 2018.

Grounds for refusal to express the opinion

The Management Board of the Parent Company prepared consolidated financial statements for 2018 assuming the continuation of operations in the foreseeable future, covering a

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period of at least twelve months after the balance sheet date. In notes 50.1 and 50.2, the Management Board of the Parent Company described events and circumstances that indicated some significant uncertainty as to the ability of the Capital Group to continue as a going concern, actions taken in order to eliminate these uncertainties and the basis for the assessment of the assumption of the going concern.

The Group's loss on operating activities in 2018 amounted to PLN 53 million and was higher than the loss on operating activities incurred in 2017 by PLN 27 million. As at 31 December 2018, short-term liabilities exceeded short-term assets by PLN 11 million.

The Capital Group's situation in 2018 was worsened to great extent by the financial situation of the TXM subsidiary, hereinafter referred to as 'the Subsidiary'.

On 15 May 2019, the accelerated composition proceedings of the Subsidiary were initiated. In the application for the commencement of accelerated composition proceedings, the Subsidiary's Management Board presented proposals for an arrangement together with a preliminary restructuring plan. In accordance with the procedure as required by the act on Restructuring Law of 15 May 2015 (Journal of Laws 2015, item 978), the court supervisor is obliged to prepare a restructuring plan within two weeks from the date of the commencement of the accelerated system procedure. The Subsidiary's restructuring plan is to be based on a recovery plan prepared by an insolvency practitioner employed by the Subsidiary's Management Board. As at the date of the drafting of our audit report, the recovery plan and consequently the restructuring plan, have not yet been drawn up, and the works on this should be completed by 31 May 2019.

The restructuring plan is the basis for the preparation of the composition proposals, which should be presented to the creditors covered by the composition. In the absence of a restructuring plan, we are unable to comment on whether the composition proposals put forward in the application for the accelerated composition proceedings will be linked to the restructuring plan.

The composition proposals included in the application for commencing the accelerated composition proceedings assume that the banks financing the Subsidiary will join the arrangement despite the fact that they have collateral on the Subsidiary's assets and are not subject to composition under law. As at the day of drafting our audit report the financing banks did not confirm that they would join the composition.

On 31 May 2019, the deadline for repayment of bank loans will expire and the Subsidiary does not have any secured bank financing for the period after that date, unless an agreement is concluded with banks. The further banks' financing of the Subsidiary, conclusion and terms of the agreement with banks are subject to a recovery plan to be submitted to the banks by May 31, 2019.

The restructuring process is strictly formalised and complex. The success of the restructuring process being the basis for adopting by the Management Board of the Parent Company the assumption for the continuation of its business activities, is cumulatively dependent on whether the restructuring plan and the planned corrective actions will lead to a significant

improvement in the effectiveness of operating activities and financial standing of the Subsidiary, the financing banks will join an arrangement or extend financing on the terms and conditions allowing the Subsidiary to conduct its operating activities and to carry out the planned corrective actions, composition proposals will significantly improve its financial situation and liquidity, the composition proposals submitted on the basis of the restructuring plan will be accepted by the creditors and whether the Subsidiary will implement the current commitments on time.

On 30 April 2019, the Management Board of the Subsidiary submitted a bankruptcy petition. Consideration of this petition will take place if the accelerated composition proceedings do not lead to composition with the creditors.

Until the date of our audit report, the Subsidiary's Management Board has not convened the General Meeting of Members in order to adopt a resolution on the continuation of activities under Article 397 of the act, Commercial Companies Code of 15 September 2000 .

In addition, in Note 50.2, the Management Board of the Parent Company informs about an increase in the Group's debt in 2018 in connection with the issuance of bonds by the Parent Company in order to co-finance the Subsidiary and about maturity dates of financial liabilities of the Parent Company falling, within the scope of letters of credit, on 30 July 2019 and in the case of bonds, on August 10, 2020.

Because of the material uncertainties described above, their potential interactions and their cumulative effect on the reasonableness of the going concern assumption we have not been able to obtain sufficient and relevant evidence concerning and confirming the legitimacy of the going concern principle adopted by the Management Board of the Parent Company while preparing the consolidated financial statements for 2018.

The legitimacy of the Management Board's adoption of the going concern assumption constituted the key issue of the audit and the significant risk of material misstatement within the meaning of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements concerning statutory financial audits of public interest entities, repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and O.J. EU L 170 of 11 June 2014, p. 66), hereinafter referred to as 'Regulation 537/2014'. Regulations 537/2014.

[Liability of the Management Board and Supervisory Board of the Parent Company for annual consolidated financial statements](#)

The Management Board of the Parent Company is liable for preparing the annual consolidated financial statements that present a true and fair view in accordance with EU IFRS, its compliance with the laws binding upon the Group and the Articles of Association of the Parent Company.

The Management Board of the Parent Company is also responsible for internal control, which is recognised as necessary for the preparation of the annual consolidated financial statements free from material misstatement, whether due to fraud or error.

The Management Board of the Parent Company is responsible for assessing the Group's ability to continue the activity, for disclosing business continuity issues in the annual consolidated financial statements, if applicable. In the selection of the Group's accounting principles and policies and in the preparation of the annual consolidated financial statements, the Management Board of the Parent Company is also responsible for assuming that the Group will continue, in the foreseeable future, its activity in the scope not significantly reduced, unless the Management Board of the Parent Company intends to liquidate or discontinue operations or when there is no realistic possibility to continue it.

The Members of the Supervisory Board of the Parent Company are liable for supervising the process of the Group's financial reporting.

Under the accounting act, the Management Board and the members of the Supervisory Board of the Parent Company are required to ensure that the annual consolidated financial statements comply with the requirements provided for in the accounting act.

[Liability of the Statutory Auditor for the audit of the annual consolidated financial statements](#)

We are Liable for the audit of the consolidated financial statements in accordance with the National Auditing Standards in line with the International Auditing Standards adopted by the National Chamber of Statutory Auditors, hereinafter referred to as the 'National Standards of Audits', applicable to audits of financial statements prepared for the periods ending on 31 December 2018 or later, by the act on statutory auditors, audit firms and public supervision of 11 May 2017 (Journal of Laws of 2017, item 1089, as amended), hereinafter referred to as the 'act on statutory auditors' and Regulation 537/2014.

However, in view of the issues described in the section of our report entitled 'Grounds for refusal to express the opinion', we were unable to obtain sufficient and appropriate evidence concerning and confirming the legitimacy of the going concern principle adopted by the Parent Company's Management Board while preparing the Group's consolidated financial statements for 2018, so that they formed the basis for the audit opinion on those consolidated financial statements.

We are independent of the Group in accordance with the Code of professional ethics for accountants of the International Federation of Accountants, hereinafter referred to as the 'IFAC Code', adopted by a resolution of the National Chamber of Statutory Auditors and with the independence requirements specified in the act on statutory auditors and in Regulation 537/2014. We have also fulfilled our other ethical obligations set forth in the act on statutory auditors, Regulation 537/2014 and the IFAC Code.

Report on other legal and regulatory requirements

Report on the Group's performance

The report on the Group's performance was prepared in the form of an electronic file with electronic signatures of the Management Board of the Parent Company on 22 May 2019.

Liability of the Management Board and the Supervisory Board of the Parent Company

The Management Board of the Parent Company is liable for drafting the report on the Group's performance in accordance with law. The Management Board and the members of the Supervisory Board of the Parent Company are liable for ensuring that the report on the Group's performance complies with the requirements of the accounting act.

Liability of the statutory auditor

According to the requirements of the act on statutory auditors and the regulation on current and periodical information, we are required to formulate an opinion whether the report on the Group's performance takes into account the provisions of this regulation and the accounting act, and whether it is consistent with the information contained in the annual consolidated financial statements.

In addition, we are required to make a statement as to whether, in the light of our knowledge of the Group and its environment obtained during the audit, we found significant misstatements in the Group's Report on the Group's performance and, if so, indicate the nature of such misstatements.

At the same time, we are obliged to formulate an opinion if a statement on the application of corporate governance, constituting a separate part of the report on the Group's performance, contains specific information indicated in the regulation on current and periodic information, and with regard to certain information specified in this regulation as to whether such information complies with applicable law and with the information contained in the annual consolidated financial statements.

Refusal to express the opinion on the business report and the statement on the application of corporate governance

In view of the importance of the matters described in the section of our report entitled 'Grounds for refusal to express the opinion', we do not give any opinion on the business report and the statement on the application of corporate governance.

Information on preparation of a statement on non-financial information

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According to the requirements of the act on statutory auditors, we would like to inform that the Management Board of the Parent Company included in the report on the Group's performance information about the preparation of a separate report on non-financial information referred to in Article 49b(9) of the accounting act and that the Management Board of the Parent Company drafted such a separate report.

We have not done any validation work regarding the statement / separate report on non-financial information and we do not provide any assurance about it.

Other information and statements required by Regulation 537/2014

Consistency of the opinion on the annual consolidated financial statements with the additional report to the audit committee

Our opinion on the annual consolidated financial statements is consistent with the additional report for the Audit Committee referred to in Regulation (EU) No. 537/2014.

Selection of the audit firm and total uninterrupted duration of the engagement

We were selected to audit the Group's annual consolidated financial statements by resolution of the Supervisory Board of 16 May 2017. The annual consolidated financial statements of the Group have been audited on a continuous basis over the next two years.

Services that are not statutory audit

To the best of our knowledge and belief, we declare that we have not provided any services not being an examination, which are forbidden by the provisions of Article 5(1) of Regulation 537/2014 in the periods indicated therein.

Signed by:

Anna Stawowy

Date: 22 May 2019; 23:41

Anna Stawowy – Statutory Auditor no 12731

The key statutory auditor conducting audit on behalf of PKF Consult Spółka z ograniczoną odpowiedzialnością Sp. k. of auditing firm no 477

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Katowice, 22 May 2019