DIRECTORS' REPORT ON THE OPERATIONS OF THE RAFAKO GROUP

for the six months ended

June 30th 2017

Racibórz, September 7th 2017

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I. GENERAL INFORMATION

About us

RAFAKO S.A. (the "parent") is one of the largest Polish companies acting as general contractor for complete power generating units, engaged in designing, manufacturing, constructing and servicing of power equipment and facilities. Since November 2011, the RAFAKO Group has been included in the PBG Group.

The RAFAKO Group's key products and services include:

Complete power generating units	Steam generators and heat generators	Air pollution control systems	Power equipment, machinery and components	Other
• consisting of a boiler (fired with fossil fuels or biomass) together with a turbine coupled with a generator and complete assembly necessary for proper operation of the unit	• fired with fossil fuels, biomass and waste • with stoker-fired, fluidised bed- and pulverised fuel furnaces • sub- and supercritical • manufacture and delivery of heat recovery steam generators	• manufacture and delivery of wet and semi-dry flue gas desulfurisation units • manufacture and delivery of flue gas NOx reduction units, including SCR systems • manufacture and delivery of dust extraction equipment (electrostatic precipitators, bag filters)	• manufacture of components for steam generators and precipitators • diagnostics, repairs, and upgrades of boiler equipment • design, advisory and maintenance services • manufacture of steel structures and other parts for the power generation industry	• construction and process design, urban planning • engineering and technical advisory services • supervision services for the construction, industrial and environment protection sectors • equipment assembly in the power and chemical industries • property management

The Group delivers these products and services in the EPC model (end-to-end project management including design, procurement, manufacture, assembly/construction, and commissioning) or on a non-EPC basis (design, procurement, manufacture, assembly/construction in various combinations, with procurement and manufacture as mandatory elements).

The parent operates its own production plants. The main plant, manufacturing mainly pressure equipment, is located in Racibórz, along with the plant management office, design and technology offices, as well as five production floors. Electrostatic precipitators and their components are manufactured in Wyry. RAFAKO S.A.'s total production capacity for 2017 was in excess of 1.0 million man-hours per year, with the potential to be increased to over 1.25 million man-hours per year. The Group is currently Poland's and EU's leader in terms of the production capacity for pressure equipment.

RAFAKO S.A. has operated in the power sector since 1949. The parent's product offering, initially comprising mainly steam generators and their components, was gradually expanded to include complete flue gas desulfurisation units, dust extraction units, NOx control systems, etc. From a typical manufacturer, the parent was transformed into a general contractor for power construction projects. In 2014, the parent became one of the few companies offering and delivering power generation units under EPC contracts, when it launched, practically on a stand-alone basis, the construction of a 910 MW unit for the Jaworzno Power Plant (the "Jaworzno 910 MW Project").

Since its inception, the parent has been a leading supplier of steam generators for the country's power and industrial sectors. The combined capacity of RAFAKO-delivered steam generators accounts for a significant part of the total capacity installed in Polish commercial and industrial power plants. The parent's reference projects include delivery of steam generators to the power plants in Bełchatów, Opole, Turów, Dolna Odra (all owned by PGE), Rybnik (EDF), Pątnów-Adamów-Konin, Kozienice (Enea), and power plants owned by Tauron Wytwarzanie, as well as Warsaw CHP Plants – Elektrociepłownie Warszawskie (PGNiG Termika), Wrocław CHP Plants – Zespół Elektrociepłowni Wrocławskich Kogeneracja, Łódź CHP Plants – Zespół Elektrociepłowni Łódź (Veolia), and Zielona Góra CHP Plant – Elektrociepłownia Zielona Góra (EDF). The parent has also delivered circulating fluidised bed (CFB) steam generators to the Żerań CHP Plant (PGNiG Termika), Bielsko-Biała II CHP Plant (Tauron

Wytwarzanie), Siersza Power Plant (Tauron Wytwarzanie), and Zakłady Farmaceutyczne Polpharma Starogard Gdański. In late 2016, an OFz-140 fluidised bed boiler was placed in service at Synthos Dwory 7 in Oświęcim.

In 2008, a 464 MW unit was commissioned at the Pątnów II Power Plant for which RAFAKO S.A., in cooperation with SNC Lavalin, had supplied the steam generator and flue gas delsulfurisation (FGD) unit. The supercritical power generating unit at the Pątnów II Power Plant was the first such project in Poland, both in terms of the capital expenditure incurred and generating capacity delivered. It is a high-efficiency unit, which helps significantly reduce harmful gas emissions.

In 2011, an 858 MW unit was commissioned at the Bełchatów Power Plant for which RAFAKO S.A. had been the supplier of the boiler island comprising a steam generator, electrostatic precipitator, and flue gas desulfurisation unit. The newly built unit in Bełchatów is the most powerful lignite-fired generating unit in Poland.

Foreign sales account for a significant part of RAFAKO S.A.'s total sales. The largest steam generators manufactured by RAFAKO S.A. operate in former Yugoslavia's power plants; a number of large units have also been delivered to the Czech Republic, China, Turkey, and India. RAFAKO S.A. is also an important player on the European market for steam-generator components. In the six months ended June 30th 2017, RAFAKO delivered products to customers in France, Finland, Serbia, Lithuania, and Germany.

The parent is solidifying its position on the European market of waste incineration solutions. In 2011, RAFAKO S.A. supplied three heat recovery steam generators to a waste incineration facility in Turin, Italy, and further two heat recovery steam generators to Baku, Azerbaijan. In December 2013, a steam generator was placed in service at a municipal waste incineration plant in Roskilde, Denmark. In 2013, the Company began to perform a contract for delivery of the process section for two lines of the Thermal Waste Treatment Plant for the Szczecin Metropolitan Area. In 2014, we delivered a waste incineration boiler to Billingham, Cleveland County, UK. At the beginning of 2016, a contract for delivery of a boiler for a municipal waste incineration facility in Calvert, Buckinghamshire, UK, was completed. In the first quarter of 2017, the Company completed a project involving supply, assembly and start-up of a municipal waste incineration boiler for Hereford & Worcestershire in the United Kingdom.

In 2012, a fluidised bed boiler was commissioned at the Jaworzno Power Plant (the Tauron Group). The boiler is fired with biomass only, as opposed to coal-fired and biomass co-fired units already operated at the plant. In 2014, the contract at the Stalowa Wola Power Plant for conversion of an existing PCC boiler into a biomass-fired unit was completed. These innovative projects highlight RAFAKO S.A.'s established position as a supplier of renewable power generation technologies. They are also aligned with Poland's strategy to increase the share of renewables in power generation, as well as with the Company's own pro-environmental strategy.

RAFAKO S.A. is also a leading manufacturer of large environmental protection facilities in Poland. Such facilities have been delivered by the parent to the Jaworzno III Power Plant, Bełchatów Power Plant, Pątnów Power Plant, Ostrołęka B Power Plant, Dolna Odra Power Plant, Siekierki CHP Plant, Łódź CHP Plant, Siersza Power Plant, Skawina Power Plant, Trzebowice Power Plant (for Veolia, the Czech Republic), Kozienice Power Plant, and Połaniec Power Plant.

In 2012, RAFAKO S.A. delivered one of its largest projects, a wet flue gas desulfurisation unit for the Siekierki CHP Plant owned by PGNiG Termika S.A. The unit is among the largest environmental projects in Poland, and is also one of the largest stand-alone structures ever built by RAFAKO S.A. In 2014, RAFAKO S.A. completed an upgrade of the FGD systems on units 5 and 6 at the Bełchatów Power Plant. In 2015 and 2016, wet FGD units were placed in service in Gdańsk, Gdynia, Kraków and Wrocław, as part of the EDF Group's comprehensive plan of bringing its generation assets in line with new environmental requirements.

In 2007−2008, RAFAKO S.A. commissioned high-efficiency semi-dry flue gas desulfurisation units at the Łódź CHP Plant and Skawina Power Plant. The same technology was also used for the construction of a new CHP Plant for Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., completed in March 2017. The semi-dry system, which is a more cost-effective solution than the wet method, was engineered exclusively by RAFAKO S.A.

In 2011, the parent entered a new area of pro-environmental projects in the power sector, i.e. reduction of nitrogen oxides, as it commenced the manufacture of state-of-the-art SCR units on an EPC basis. Following construction of the first such unit for the K8 boiler at PKN Orlen, construction of a second SCR system has been under way since June 2011 at the Kozienice Power Plant. In 2012, a contract for delivery of catalytic flue gas NOx reduction systems for six power generating units at Elektrownia Połaniec S.A. was signed with GDF SUEZ Energia

Polska S.A. (currently Enea Połaniec S.A.). In 2014, a consortium formed by RAFAKO S.A. and OMIS S.A. signed a contract with ENERGA Elektrownie Ostrołęka S.A. for the construction of flue gas NOx reduction systems on units 1, 2 and 3 at Elektrownia Ostrołęka S.A. In September 2016, RAFAKO S.A. and ENEA Wytwarzanie Sp. z o.o. signed a contract for delivery and installation of a catalytic flue gas NOx reduction system for AP-1650 boilers No. 9 and 10 and for upgrade of the electrostatic precipitators at the Kozienice Power Plant.

In 2009, dust extraction equipment, including electrostatic precipitators and bag filters, was added to the parent's product offering. In 2010–2013, a number of electrostatic precipitators were put in operation, including on units 10, 4, 3 and 8 at the Kozienice Power Plant; on BB-1150 steam generator of unit 4 (in 2010) and units K5 and K6 (in 2011) at the Bełchatów Power Plant, as well as an electrostatic precipitator with a modernised slag and ash transport system on unit 6-215 MW at the Tuzla CHP Plant (in 2012). In 2014, two electrostatic precipitators were installed by RAFAKO S.A. at the Westfalen Power Plant in Germany and two at the Eemshaven Power Plant in the Netherlands. In December 2016, RAFAKO completed upgrade of electrostatic precipitators at the Morava Power Plant in Serbia.

2014 was a breakthrough year for RAFAKO S.A. A contract was signed for the construction of a 910 MW power generation unit at the Jaworzno III Power Plant, where RAFAKO will execute this turn-key project on a practically stand-alone basis and, in terms of technologies, will supply the entire boiler island.

In February 2014, the long-awaited contract for extension of the Opole Power Plant came into effect. Under the contract, two new supercritical 900 MW power generation units are being built, in what is the largest project in the Polish power sector since 1989. RAFAKO S.A.'s entire scope of work and services under the contract was subcontracted to Alstom Power Sp. z o.o.

The projects are based on the state-of-the-art technology of electricity generation in supercritical steam generators and turbines, which increases the efficiency of generating units to 45% or more. The parent has long cooperated with Polish scientists to develop generating units with efficiencies in excess of 50% (ultra-supercritical units). The implementation of the concept will mark another milestone in the history of both the Company and the Polish power sector, which cannot afford to discontinue the use of domestically produced coal as the key fuel.

In early 2017, RAFAKO delivered, on an EPC basis, a new CHP plant for Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., comprising a coal-fired generating unit with a high-efficiency steam generator, state-of-the-art flue gas treatment technology and a steam turbine.

The parent provides after-sale support and servicing for all products and equipment supplied. The parent also offers upgrades of existing equipment to enhance its operating parameters and mitigate negative environmental impacts.

Certificates held by RAFAKO S.A. (EMAS, AD 2000-Merkblatt HP0, ASME CODE, SVTI / ASIT, EN 1090 and EN 3834-2) confirm its compliance with the ISO 9001:2008, ISO 14001:2004, PN-N 18001 standards, Directive 2014/68/EC and Regulation (EC) 1221/2009 of the European Parliament and of the Council. They also provide assurance to the parent's customers that RAFAKO-manufactured equipment complies with the technical safety requirements applicable in Poland, the EU, and the US.

In 2011, the RAFAKO Group became a part of the PBG Group, with PBG S.A. as the parent. The PBG Group operates on the market for specialist construction services. The key segments of the Group's business currently include the construction of facilities and structures for the power, natural gas, crude oil and fuel sectors. From June 2012, PBG was in company voluntary arrangement. In August 2015, the meeting of PBG's creditors voted on and approved the arrangement. In October 2015, the arrangement was approved by the court. The arrangement became final on June 13th 2016.

The current shareholder structure is set out in section III.6.

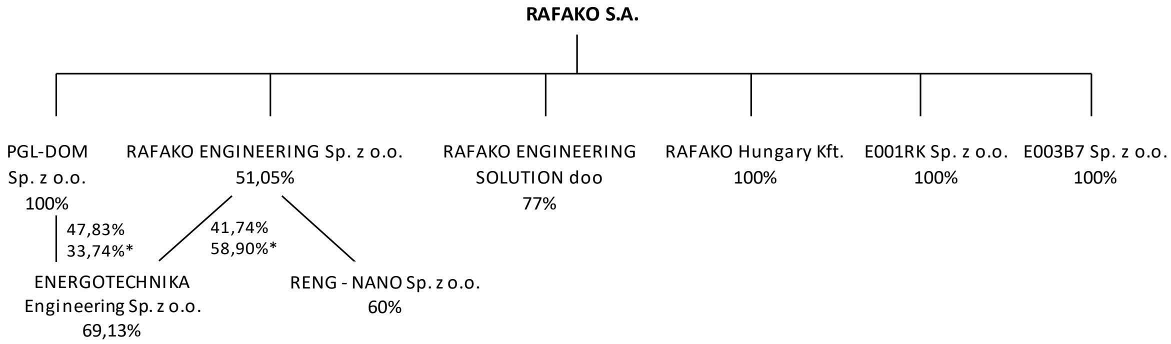
II. Organisation of the RAFAKO Group

1. Structure of the Group, and its consolidated subsidiaries

As at June 30th 2017, the RAFAKO Group comprised the parent and eight subsidiaries operating in the power construction, services and trade sectors. As at June 30th 2017, in addition to the parent, the RAFAKO Group comprised:

- Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o., registered office at ul. Bukowa 1, Racibórz, Poland. The parent holds a 100% interest in the company's share capital and the same percentage of the voting rights. Principal business activity: housing community management.
- RAFAKO ENGINEERING Sp. z o.o., registered office at ul. Łąkowa 33, Racibórz, Poland. The parent holds a 51.05% interest in the share capital of the company and the same percentage of the voting rights. The company's business includes engineering activities and related technical consultancy.
- ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice, a subsidiary of RAFAKO ENGINEERING Sp. z o.o. (58.90% of the voting rights) and of PGL DOM Sp. z o.o. (33.74% of the voting rights). Principal business activity: construction and process design, urban planning and engineering consultancy.
- RAFAKO ENGINEERING SOLUTION, registered office at 46, Uciteljska street, Belgrade; The parent holds a 77% interest in the share capital of the company and the same percentage of the voting rights. Principal business activity: process design, including process consultancy and supervision related to construction industry, manufacturing and environmental protection.
- RAFAKO Hungary Kft. of Budapest, Hungary. The parent holds the entire share capital of the company and all voting rights. Principal business activity: equipment assembly services for the power sector and the chemical industry.
- E001RK Sp. z o.o. of Racibórz, entered in the National Court Register on October 9th 2013. The parent holds 100% of the company shares. Principal business activity: development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.
- E003B7 Sp. z o.o. of Racibórz, entered in the National Court Register on November 22nd 2013. The parent holds 100% of the company shares. Principal business activity: execution of construction projects; construction, engineering and process consultancy and design.
- RENG-NANO Sp. z o.o. of Racibórz, entered in the National Court Register on February 27th 2017. A subsidiary of RAFAKO ENGINEERING Sp. z o.o., which holds a 60% interest in the share capital of the company and the same percentage of voting rights. Principal business activity: manufacture of metal structures and compponents, repair and maintenance of finished metal goods

As at June 30th 2017, the following subsidiaries were consolidated in the Group's consolidated financial statements:



* % share of voting rights.

As at June 30th 2017, the Group's share in total voting rights in the subsidiaries was equal to the parent's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 41.74% of preference shares (58.90% of total voting rights); 47.83% of the shares (33.74% of total voting rights) are held by PGL-DOM Sp. z o.o.

The parent holds 1,956 shares in SANBEI-RAFAKO Sp. z o.o. of Zhangjiakou, Hebei Province, China, representing 26.23% of the company's capital. SANBEI-RAFAKO Sp. z o.o.'s principal business activity is manufacture of small steam and water boilers and other power generation equipment. As at June 30th 2017, the parent's interest in the company's capital was not material for the assessment of the Group's assets, liabilities, profits or losses.

The RAFAKO Group's parent is PBG S.A., with its registered office at ul. Skórzewska 35, Wysogotowo, Poland.

2. Structure of the RAFAKO Group

In the six months ended June 30th 2017, there were a number of changes in the Group's structure.

On February 27th 2017, the District Court in Gliwice, 10th Commercial Division of the National Court Register, registered RENG-NANO Sp. z o.o. in the National Court Register under entry No. 0000663393.

3. Parent's governing bodies

The governing bodies of RAFAKO S.A.:

General Meeting

Supervisory Board

Management Board

General Meeting

The Annual General Meeting of RAFAKO S.A. held on June 26th 2017 passed the following resolutions:

1. it reviewed and approved the Directors' Report on the parent's operations and the parent's financial statements for the financial year 2016,
2. it reviewed and approved the Directors' Report on the RAFAKO Group's operations and the RAFAKO Group's consolidated financial statements for the financial year 2016,
3. it approved the report on the activities of the parent's Supervisory Board in 2016,
4. it granted discharge to members of the parent's Management Board for performance of their duties in 2016,
5. it granted discharge to members of the parent's Supervisory Board for performance of their duties in 2016,
6. it resolved that the entire loss incurred by the parent in the financial year from January 1st to December 31st 2016 would be offset by from the parent's statutory reserve funds.

Supervisory Board

The Supervisory Board exercises ongoing supervision over the parent's business.

There were no changes in the composition of the parent's Supervisory Board in the six months ended June 30th 2017 and until the date of this report.

As their mandates expired on June 26th 2017, on the same day the Supervisory Board members were reappointed for another joint two-year term of office by the Annual General Meeting of RAFAKO S.A.

As at the date of this report, the composition of the Supervisory Board was as follows:

Jerzy Wiśniewski	Chairman of the Supervisory Board,
Dariusz Sarnowski	Deputy Chairman of the Supervisory Board,
Przemysław Schmidt	Secretary of the Supervisory Board,
Krzysztof Gerula	Member of the Supervisory Board
Dariusz Szymański	Member of the Supervisory Board
Adam Szyszka	Member of the Supervisory Board
Małgorzata Wiśniewska	Member of the Supervisory Board

Management Board

The Management Board manages the parent’s business and its day-to-day operations and represents the parent in dealings with third parties.

There were no changes in the composition of the parent’s Management Board in the six months ended June 30th 2017 or as at the date of this Directors’ Report.

As their mandates and terms of office expired on June 26th 2017, the Management Board members were reappointed for another joint three-year term of office by the Supervisory Board on June 27th 2017.

As at the date of this report, the composition of the RAFAKO Management Board was as follows:

Agnieszka Wasilewska-Semail	President of the Management Board
Krzysztof Burek	Vice President of the Management Board
Jarosław Dusiło	Vice President of the Management Board
Edward Kasprzak	Vice President of the Management Board
Tomasz Tomczak	Vice President of the Management Board

III. Economic and financial condition

1. External and internal factors materially affecting the RAFAKO Group's financial performance and development prospects

A. External factors:

- domestic and global economic situation;
- situation in the domestic and global power industry;
- competition on the market on which the Group operates;
- financial condition and market position of the Group's customers, consortium partners, subcontractors and suppliers;
- timeliness of payments by the employers;
- market prices of materials used by the Group in manufacturing, market prices of services, and employee benefits expense;
- foreign exchange rates;
- banks' willingness to provide financing and guarantees for contracts performed by the Company;
- financial condition of the Group's main shareholder;
- limited ability of the Group to obtain guarantee facilities in view of PBG's arrangement proceedings;
- technological progress;
- changes in tax regulations.

B. Internal factors:

- execution and performance of material contracts by the Group;
- maintaining financial liquidity of the Group;
- ability to capitalise on the effects of completed and planned projects, including the parent's reorganisation, designed to improve the Group's productivity, particularly in manufacturing and management, and to enhance its ability to win and execute orders;
- improvement of the Group's internal management processes, including management of long-term contracts and operating expenses (fixed costs);
- formation of large, multi-industry teams for coordination of work on comprehensive power sector facilities;
- maintaining and acquiring new highly-qualified staff for designing and production.

2. Key risks and threats

The RAFAKO Group has identified the following risks and threats to the Group's operations in the near future:

Risks relating to macroeconomic conditions and the sector in which the RAFAKO Group operates:

1. Risk factors relating to the macroeconomic situation, including the GDP growth rate, inflation, unemployment rate, salaries and wages, growth of the industrial and construction output, and capital investments;
2. Risk relating to political environment, as well as energy policy and uncertainty over its future directions;
3. Interest rate risk;
4. Interest rate risk;
5. Commodity price risk;
6. Credit risk;
7. Competition risk;
8. Risk of the EU reducing subsidies in areas of the Group's principal business activity.

Risks specific to the Group:

1. Risk of non-performance or improper performance of contracts;
2. Risk of non-payment or delayed payment of amounts due under contracts performed by the Group companies;
3. Risk associated with performance of high-value contracts and with the limited number of potential customers for the Group's products and services;
4. Risk of increase in operating expenses resulting from higher prices of supplies and services and growing employee benefits expense;
5. Risk inherent in reorganisation the parent's business;
6. Risk of failure to correctly estimate project costs;
7. Risk inherent in the contract acquisition process;
8. Risk inherent in execution of certain projects as part of consortia;
9. Risk inherent in acquisition and execution of projects in cooperation with suppliers and subcontractors;
10. Risk of failure to obtain financial guarantees required to win and perform contracts;
11. Risk of failure to secure sufficient external financing on terms originally expected by the Group;
12. Risks of PBG's failure to pay its financial liabilities to the Group;
13. Risk of failure to maintain sufficient by the Group;
14. Risk of failure to implement the Group's strategy;
15. Reputational risk;
16. Risk inherent in the use by the Group of complex and innovative manufacturing technologies;
17. The Group's IT systems may suffer a failure or security breach;
18. The Group's day-to-day operations and growth depend on its senior management and ability to hire and retain highly-qualified personnel, particularly specialist production staff and engineers;
19. Risk of insufficient insurance cover;
20. Risk of consequences of accidents at work and occupational diseases;
21. Risk related to plant failure or to destruction or loss of the Group's assets.

Regulatory risks:

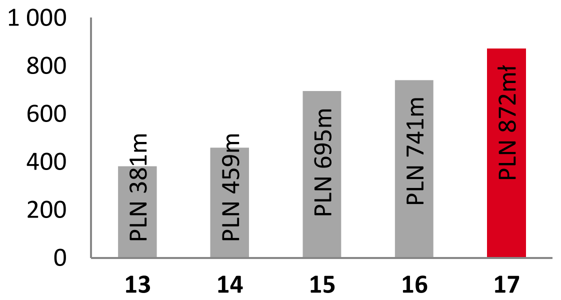
1. Risk of changes in regulations in the power sector;
2. Risk related to environmental protection;
3. Risk of changes in tax laws or their interpretation and changes of private letter rulings;
4. Risk inherent in related-party transactions.

The objectives and policies of financial risk management have not changed relative to those published in the most recent full-year financial statements.

3. Analysis of key financial and economic data

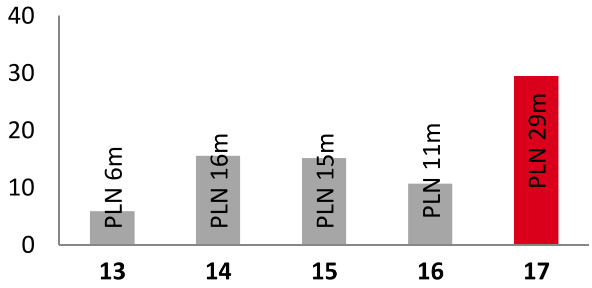
3.1. Overview of 2017 half-year results (relative to prior years' half-year results)

Revenue
PLN 872m



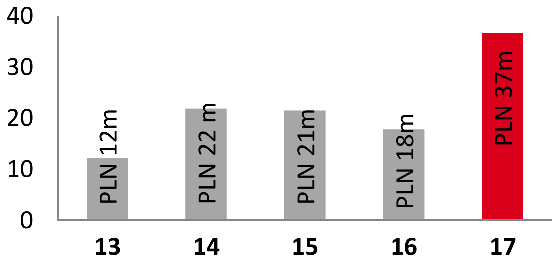
Definition: Total revenue from sales of products, merchandise and materials, net of VAT.
Relative to the six months ended June 30th 2016: Revenue grew by 17.7%, mainly on increased sales under the Jaworzno 910 MW project.

EBIT
PLN 29m



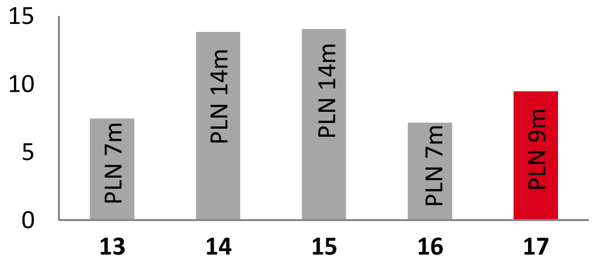
Definition: Profit (loss) from continuing operations
Relative to the six months ended June 30th 2016: EBIT was over PLN 29m, up PLN 18.8m year on year, with the growth driven by increased sales revenue and a higher gross margin.

EBITDA
PLN 37m

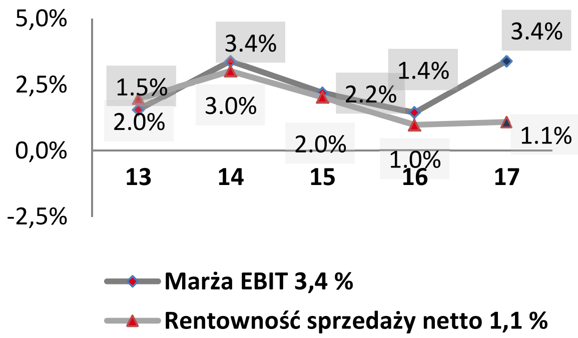


Definition: Total of profit/(loss) from continuing operations, depreciation and amortisation
Relative to the six months ended June 30th 2016: EBITDA increased from PLN 18m to PLN 37m.

Net profit
PLN 9m

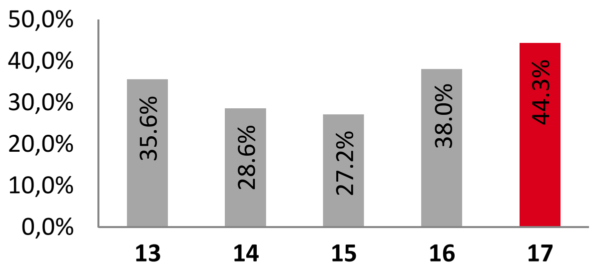


Definition: Excess that remains after deducting all costs. Difference between revenue and total costs.
Relative to the six months ended June 30th 2016: The Group earned a net profit of PLN 9m, an increase of PLN 2m on the first half of 2016.



Definition: EBIT margin: operating profit (loss) / net revenue from sales of products and merchandise Net margin: net profit/(loss)/net revenue from sales of products and merchandise
Relative to the six months ended June 30th 2016: The EBIT margin increased by 2.0pp, and the net margin – by 0.1pp.

Share of equity in financing 44.3%



Definition: Equity / total assets.

Relative to the six months ended June 30th 2016: The share of equity in the total financing of assets increased by 6.3pp.

3.2. Revenue: amount and structure

In the six months ended June 30th 2017, revenue from sales of products, merchandise and materials was PLN 871,869 thousand, having increased year on year by PLN 131,305 thousand (or 17.7%). Revenue from sales of products and services amounted to PLN 869,814 thousand, while revenue from sales of materials was PLN 2,055 thousand.

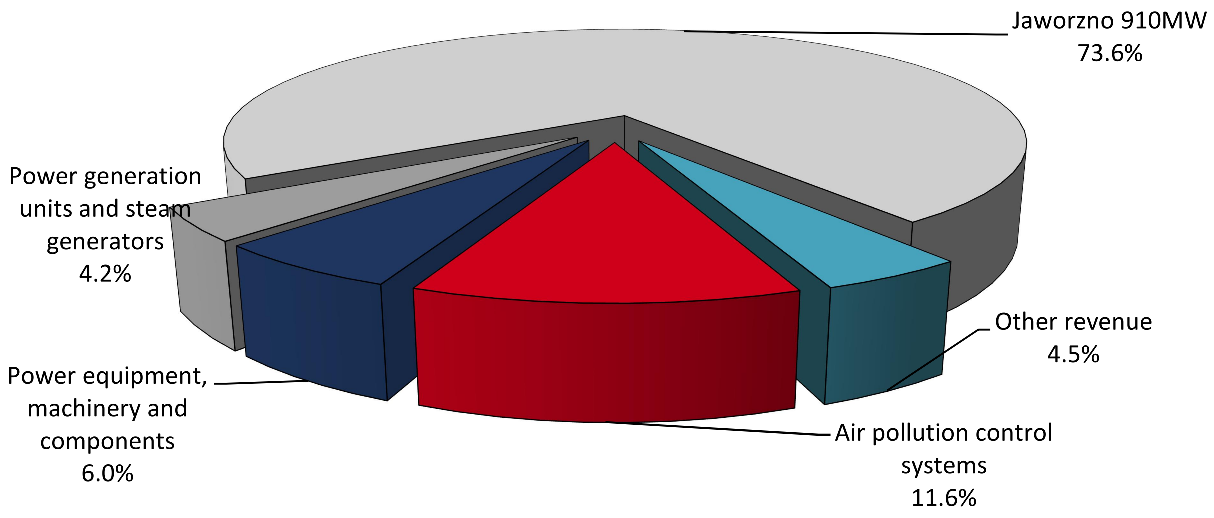
The revenue increase recorded in the six months to June 30th 2017 was mainly attributable to further progress in the performance of the Jaworzno contract (construction of a 910 MW power generating unit at the Jaworzno III Power Plant). The Group's revenue recognised under the contract was PLN 641,687 thousand, having increased by PLN 247,430 thousand on the six months ended June 30th 2016, when it amounted to PLN 394,257 thousand. Revenue from sales of power generating units and equipment in Poland (excluding the Jaworzno project) amounted to PLN 34,861 thousand, down by PLN 100,640 thousand year on year (PLN 135,501 thousand in the six months ended June 30th 2016). The decrease was mainly attributable to the completion by the parent of the contract for construction of a new CHP plant at Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (value of approximately PLN 320m; revenue in the six months ended June 30th 2017: PLN 17,698 thousand, in H1 2016: PLN 97,542 thousand).

On the domestic market sales of air pollution control systems declined. The revenue was PLN 100,954 thousand, i.e. 14.1% less than in the six months ended June 30th 2016, when the revenue was PLN 117,545 thousand.

Revenue from sales of power equipment, machinery and components on the domestic market was PLN 20,939 thousand, having increased by 233.3% relative to the six months ended June 30th 2016, when it amounted to PLN 6,282 thousand.

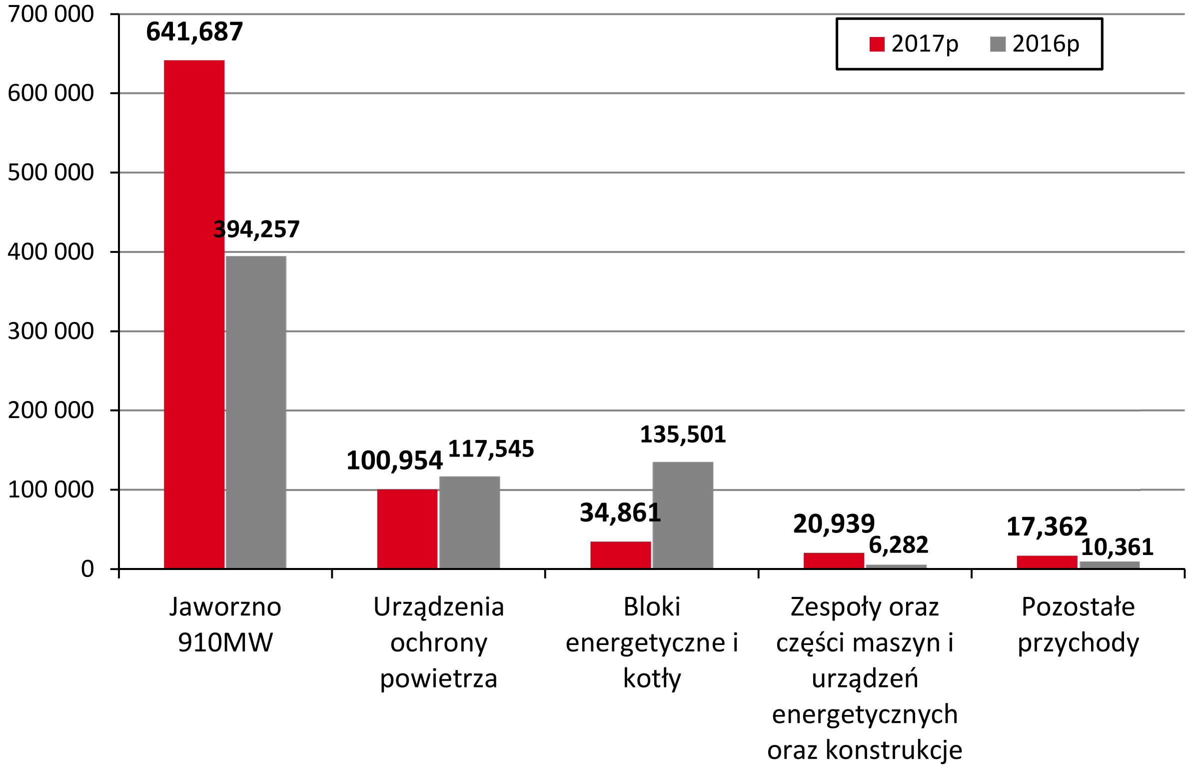
The share of export sales in total revenue as 6.4%, having decreased by 3.9pp year on year. In the six months ended June 30th 2017, revenue from export sales was PLN 56,066 thousand, a decrease of 26.8%, from PLN 76,618 thousand in the six months ended June 30th 2016. Export revenue declined across all product groups, with the main causes including early stage of execution of a new contract in Vilnius, Lithuania (product group: power and steam generating units) and absence of new orders of significant value in the other product groups. Revenue from sales of power equipment, machinery and components totalled PLN 31,415 thousand, down by 1.8% on the six months ended June 30th 2016. In the other product groups revenue was PLN 22,097 thousand (six months ended June 30th 2016: PLN 26,571 thousand), having decreased by PLN 4,474 thousand (or 16.8%). Decline in sales was also seen in exports of the air pollution control systems(six months ended June 30th 2017: PLN 413 thousand; six months ended June 30th 2016: PLN 10,812 thousand). Export sales of power and steam generating units were PLN 2,141 thousand, having decreased by 70.5% relative to the six months ended June 30th 2016, when they amounted to PLN 7,259 thousand.

Structure of the Group's sales in the six months ended June 30th 2017:



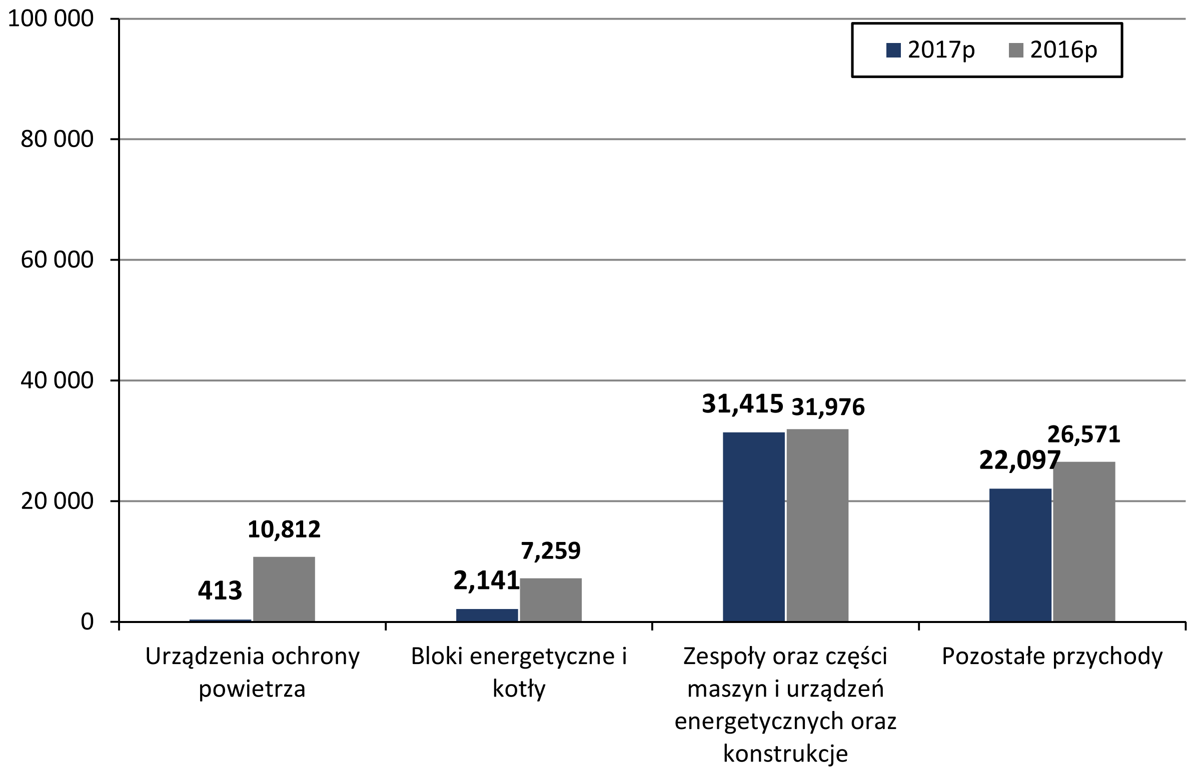
Sales by market:

Domestic market (six months ended June 30th 2017: PLN 815,803 thousand; H1 2016: PLN 663,946 thousand):



Jaworzno 910 MW	Jaworzno 910 MW
Air pollution control systems	Urządzenia ochrony powietrza
Power generation units and steam generators	Bloki energetyczne i kotły
Power equipment, machinery and components, and structures	Zespoły oraz części maszyn i urządzeń energetycznych oraz konstrukcje
Other revenue	Pozostałe przychody

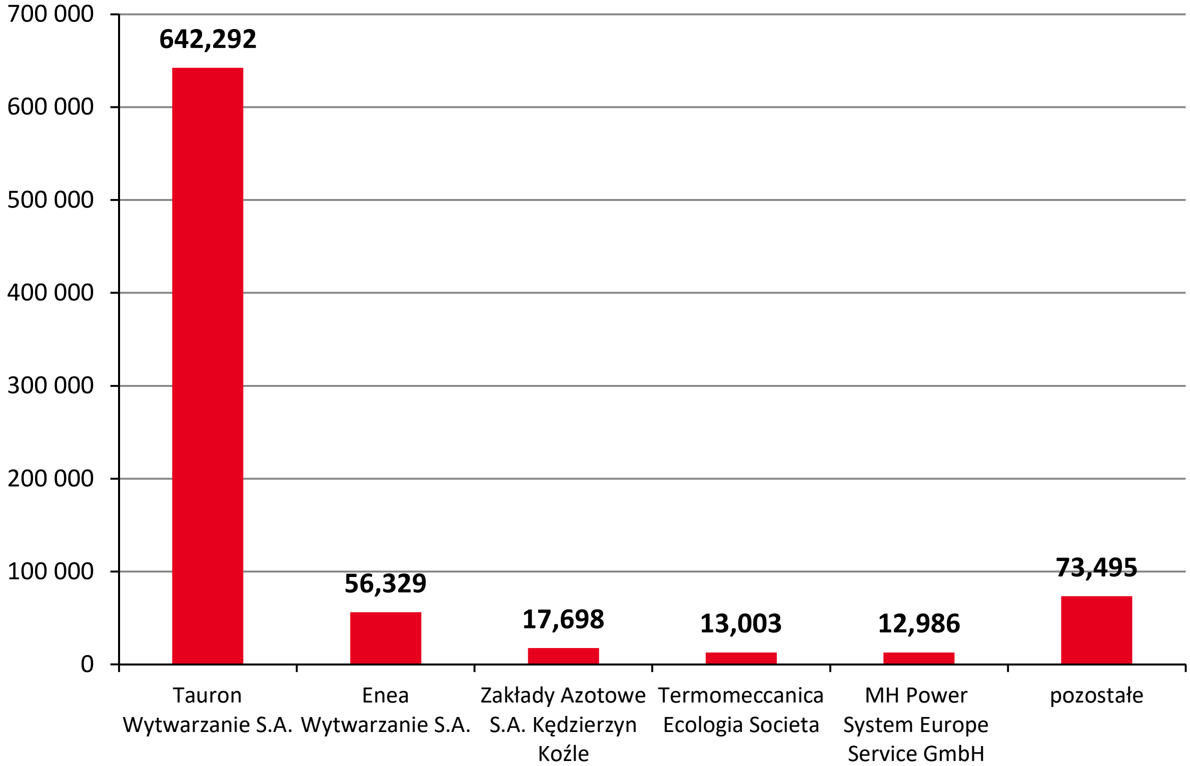
Foreign market (six months ended June 30th 2017: PLN 56,066 thousand; H1 2016: PLN 76,618 thousand):



Air pollution control systems	Urządzenia ochrony powietrza
Power generation units and steam generators	Bloki energetyczne i kotły
Power equipment, machinery and components, and structures	Zespoły oraz części maszyn i urządzeń energetycznych oraz konstrukcje
Other revenue	Pozostałe przychody

In the six months ended June 30th 2017, the RAFAKO Group's major customers included:

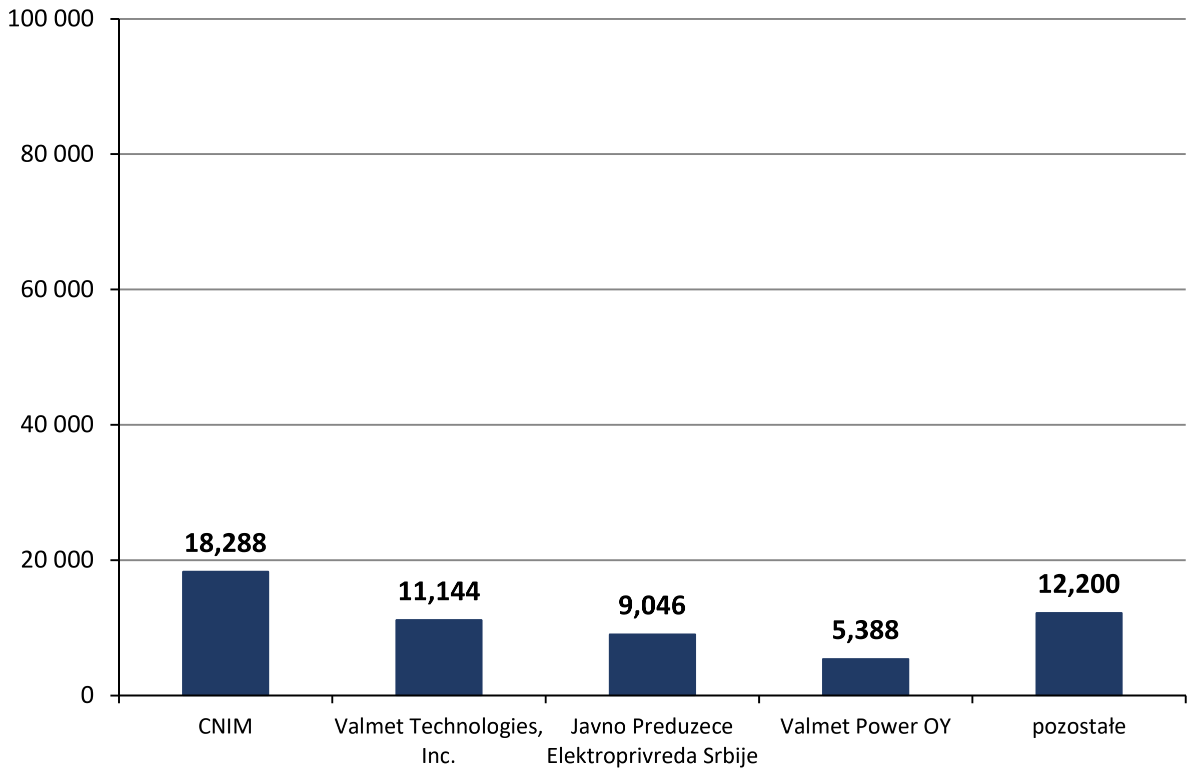
on the domestic market (PLN 815,803 thousand in total):



Tauron Wytwarzanie S.A.	Tauron Wytwarzanie S.A.
Enea Wytwarzanie S.A.	Enea Wytwarzanie S.A.
Zakłady Azotowe S.A. Kędzierzyn Koźle	Zakłady Azotowe S.A. Kędzierzyn Koźle
Termomeccanica Ecology Societa	Termomeccanica Ecologia Societa
MH Power System Europe Service GmbH	MH Power System Europe ervice GmbH
Other	Pozostałe

In the six months ended June 30th 2017, Tauron Wytwarzanie S.A. was the Group's main customer with a 73.7% share in total revenue (53.2% in the six months ended June 30th 2016). The revenue attributable to this customer was generated mostly in connection with the construction of a 910 MW supercritical power generating unit at the Jaworzno Power Plant.

on foreign markets (PLN 56,066 thousand in total):



CN IM	CN IM
Valmet Technologies, Inc.	Valmet technologies, Inc.
Javno Preduzece Elektroprivreda Srbije	Javno Preduzece Elektropriveda Srbije
Valmet Power OY	Valmet Power OY
Other	Pozostałe

RAFAKO S.A.'s main customer on foreign markets was the French company CNIM (Constructions Industrielles De La Mediterranee), whose share in total sales was 2.1%. Revenue from that customer was generated on the sale of high-pressure part of a steam generator for waste incineration plant.

Due to the nature of the products and services offered by the parent, the shares of major customers in total sales exceed 10% at times of execution of large projects.

The presented revenue data includes construction contract revenue accounted for using the percentage of completion method.

3.3. Deliveries, procurement and purchase of production materials

In the six months ended June 30th 2017, the value of purchases increased by 10.0% year on year. The Group procured supplies mainly from domestic sources.

Source	PLN '000			
	Six months ended June 30th 2017		*Six months ended June 30th 2016*	
	Value	*Share in total purchases*	*Value*	*Share in total purchases*
Domestic suppliers	588,790	76.8%	472,479	73.2%
Foreign suppliers	178,177	23.2%	172,986	26.8%
TOTAL	**766,967**	**100.0%**	**645,465**	**100.0%**

In the six months ended June 30th 2017, the share of two of the suppliers − Siemens AG and Stal-Systems S.A. − exceeded 10% of the Group's total procurement costs. Purchases from Siemens AG, representing 16.9% of total procurement (PLN 129,702 thousand), comprised mainly the manufacture, delivery and assembly of a turbine island for the Jaworzno 910 MW Project. Purchases from Stal-Systems S.A. accounted for 12.7% of total procurement (PLN 97,183 thousand), and comprised mainly delivery and assembly of the steel structure for the engine building and boiler house, also for the Jaworzno 910 MW project. Neither Siemens AG nor Stal-Systems S.A. is related to the Group The structure of the RAFAKO Group's other suppliers was highly fragmented.

The Group relies on external suppliers for various services – delivery and assembly of machinery and equipment, construction and installation services and transport, as well as pipes, metal sheets, shaped materials, welding materials and specialist equipment. The range of purchases depends on the nature and requirements of individual projects (customised production). The availability of production materials, supplies or procurement services is not a limiting factor for the Group's business. Suppliers are chosen based on their ability to provide materials and equipment that meet the relevant technical and quality standards within specified deadlines and in the most cost-effective manner. The procurement process is based on market analysis, with the pool of suppliers including only manufacturers recognised for the quality of their products and compliance with the safety, environmental and other relevant standards.

With some contracts, the list of potential manufacturers and service providers must be approved by the Group's employers.

3.4. Operating expenses: amount and structure. Gross profit/(loss)

In the six months ended June 30th 2017, the cost of sales of products, services and materials was PLN 791,145 thousand; with revenue of PLN 871,869 thousand, the Group's gross profit was PLN 80,724 thousand, 47.3% more year on year. The change is mainly attributable to the increase in revenue from sales and a higher weighted average margin accounted for on contracts in the six months ended June 30th 2017 compared with the margin reported in the six months ended June 30th 2016.

Administrative expenses were PLN 29,854 thousand, having increased by PLN 1,742 thousand year on year.

Distribution costs were PLN 19,853 thousand in the six months ended June 30th 2017, having increased by PLN 4,972 thousand year on year. The increase in distribution costs was mainly attributable to impairment losses on trade receivables, which amounted to PLN 3,111 thousand in the six months ended June 30th 2017. Net of the impairment losses, distribution costs were PLN 16,583 thousand, i.e. PLN 1,668 thousand more than in the six months ended June 30th 2016 (PLN 14,915 thousand). The increase was mainly due to higher costs of promotion and advertising.

After distribution costs and administrative expenses, the Group earned profit on sales of PLN 31,017 thousand in the six months ended June 30th 2017, compared with PLN 11,793 thousand in the six months ended June 30th 2016.

3.5. Other income and expenses and net finance income/costs

3.5.1. Net other income/(expenses)

In the six months ended June 30th 2017, the Group recorded net other expenses of PLN 1,544 thousand (six months ended June 30th 2016: PLN 1,141 thousand), attributable to:

		PLN '000
1.	donations and grants	(1,284)
2.	scrapping of materials	(372)
3.	recognition of impairment loss on other receivables	(332)
4.	disposal of property, plant and equipment	845
5.	income from liquidated damages and compensation received	224
6.	negative net balance of other income and expenses	(625)

3.5.2. Net finance income/costs

In the six months ended June 30th 2017, the Group recorded net finance costs of PLN 7,130 thousand (six months ended June 30th 2016: PLN 716 thousand), attributable to:

		PLN '000
1.	net foreign exchange losses	(3,835)
2.	discount (long-term accounts receivable and payable)	(1,910)
3.	interest expense on financial instruments	(1,656)
4.	interest on employee benefit obligations	(378)
5.	commission fees on bank borrowings and guarantees	(370)
6.	interest received on financial instruments	1,088
7.	negative net balance of other finance income and costs	(69)

3.6. Income: amount and structure

The main source of the Group's pre-tax profit, which amounted to PLN 22,343 thousand in the six months ended June 30th 2017 (PLN 9,936 thousand in the six months ended June 30th 2016), was gross profit earned by the Group on its principal activities, of PLN 31,017 thousand, up PLN 19,224 thousand on the six months ended June 30th 2016. The amount of pre-tax profit was adversely affected by administrative expenses of PLN 1,742 thousand and distribution costs of PLN 4,972 thousand.

After net other expenses of PLN 1,544 thousand (PLN 1,141 thousand in the six months ended June 30th 2016), net finance costs of PLN 7,130 thousand (PLN 716 thousand in the six months ended June 30th 2016) and income tax (an expense of PLN 12,898 thousand), the Group earned net profit of PLN 9,445 thousand, compared with a profit of PLN 7,159 thousand reported for the six months ended June 30th 2016.

The Group did not publish any financial forecasts or profit guidance for the six months ended June 30th 2017.

For data on the structure and change of pre-tax profit/(loss) in the six months ended June 30th 2017 and the six months ended June 30th 2016, see Appendix 4.

3.7. Margins, return on equity and return on assets

In the six months ended June 30th 2017, the Group reported a year-on-year improvement in its operating profit margin. Gross profit margin increased to 9.3% and was 1.9pp higher than in the six months ended June 30th 2016, while operating profit margin was 3.4% (compared with 1.4% in the six months ended June 30th 2016).

With net profit at PLN 9,445 thousand, the Group's return on equity (ROE) was 2.1%. In the six months ended June 30th 2016, ROE was 1.6%. The change was mainly due to a 31.9% increase in net profit.

Return on assets (ROA) increased by 0.3 pp year on year, to 0.9% (with an 11.7% decrease in total assets and a 31.9% increase in net profit).

The profitability ratios for the six months ended June 30th 2016 and 2017 are presented in Appendix 1.

3.8. Financial liquidity

As at the end of June 2017, the RAFAKO Group's liquidity ratios changed relative to the end of 2016. The current ratio (current assets to current liabilities) increased by 0.21, to 1.44.

Relative to the six months ended June 30th 2016, in the six months ended June 30th 2017 the average collection period shortened by 69 days (to 44 days), while the average collection period for amounts due from customers for construction contract work shortened by 15 days (to 30 days). Inventory turnover did not change and was 3 days. The average payment period shortened by 41 days (to 56 days), while the average payment period for amounts payable for construction contract work shortened by 14 days (to 18 days).

The Group is able to meet its obligations when due. In the six months ended June 30th 2017, liabilities to the Social Security Institution (ZUS), State Treasury and employees were settled in a timely manner, although there were delays in payments to suppliers. The Group was able to maintain its financial liquidity chiefly due to the rigorous and consistent application of its rules of payment to subcontractors and efficient collection of receivables from customers.

The parent continued its multi-purpose credit facility agreement with PKO BP S.A. Under the agreement, the Bank granted to the parent a multi-purpose credit facility for financing the parent's day-to-day operations. In the six months ended June 30th 2017, an annex to the agreement was signed, extending the facility's availability period until June 30th 2018 and amending certain provisions of the agreement. For detailed information on the amendments, see section IV.4.a 'Other material events'.

Changes in the facility's interest rate affected the parent's finance costs. Further, the use of the credit facility bearing interest at a variable rate of 1M WIBOR plus margin exposed the parent to the risk of higher interest expenses typical of such financing instruments.

In terms of financial liquidity, the need to engage substantial cash to secure contract bonds (performance bonds and advance payment guarantees), provided mainly by banks, is a significant burden on the parent.

Access to new bank/insurance guarantees will be of paramount importance for the Group to be able to maintain liquidity. Unavailability of sufficient guarantee limits may restrict the Group's ability to win new revenue-generating contracts. Since the beginning of 2017, the parent has secured new guarantee limits totalling PLN 102.7m.

The Management Board decided to review its financing options, including a share issue. The Board is of the opinion that additional capital would enable the Company to continue on a path of sustainable growth and to maintain it competitiveness. An Extraordinary General Meeting of RAFAKO S.A. was convened for August 29th 2017, with the agenda including consideration of and voting on resolutions to issue new shares. On August 29th 2017, the Extraordinary General Meeting was adjourned until September 12th 2017.

The Group is also exposed to currency risk. Changes in PLN exchange rates, especially if frequent and significant, may materially affect both the profitability of contracts and the amount of currency translation differences on assets and liabilities denominated in foreign currencies and translated into PLN.

The Group's currency risk management strategy is based on using natural hedging to the largest extent possible. The Group seeks to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. The Group may also hedge from 30% to 70% of its net exposure to foreign exchange risk by using approved derivative instruments (e.g. FX forwards) available on the market.

As at June 30th 2017, the Group did not have any open FX hedging transactions.

The objectives and policies of financial risk management have not changed relative to those published in the most recent consolidated full-year financial statements for 2016.

3.9. Debt

In the six months ended June 30th 2017, the RAFAKO Group's liabilities towards its creditors decreased by PLN 413,264 thousand. As at June 30th 2017, total non-current and current liabilities were PLN 569,954 thousand, compared with PLN 983,218 thousand as at December 31st 2016.

The change was caused by decrease in short-term liabilities by PLN 414,694 thousand to PLN 494,675 thousand, mainly attributable to a PLN 228,158 thousand decrease in trade payables (to PLN 245,318 thousand as at June 30th, 2017), a PLN 97,985 thousand decrease in current portion of interest-bearing bank and other borrowings (to PLN 49,122 thousand as at June 30th 2017), and a PLN 88,180 thousand decrease in liabilities and provisions relating to accounting for construction contracts and deferred income, to PLN 93,002 thousand.

Non-current liabilities increased by PLN 1,430 thousand, to PLN 75,279 thousand.

As at June 30th 2017, the Group's assets not encumbered with on-balance-sheet (non-current and current) liabilities were: PLN 453,671 thousand. As at December 31st 2016, the amount of unencumbered assets was 2.2% less, at PLN 443,851 thousand).

The debt (non-current and current liabilities) to assets ratio declined to 55.7%, from 68.9% as at the end of 2016.

The ratio does not take into account the Group's contingent liabilities under bank and insurance guarantees (mainly performance bonds and advance payment guarantees provided on the Group's instructions; such guarantees are typically in contracts on the market for power generation equipment), letters of credit and promissory notes issued as security.

The liquidity and debt ratios in the six months ended June 30th 2016 and 2017 are presented in Appendix 1.

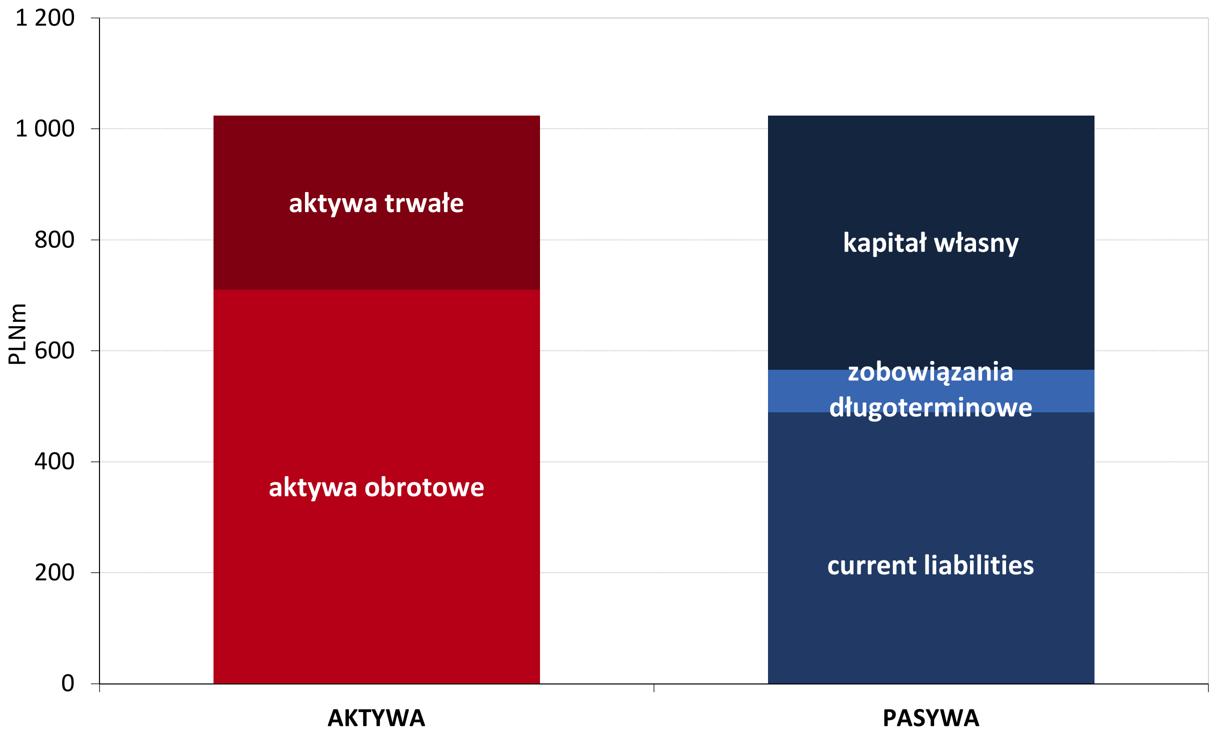
3.10. Off-balance-sheet items

As at June 30th 2017, the Group's contingent liabilities under bank and insurance guarantees, letters of credit and promissory notes issued as security were PLN 1,675,225 thousand. The main item was a PLN 1,394,668 thousand surety issued for the benefit of financial institutions which provided financing for the Jaworzno Project; the surety was used to secure proper discharge of obligations by the Jaworzno project SPV under guarantee agreements. In the six months ended June 30th 2017, banks and insurance companies acting on the parent's instruction provided guarantees (mainly performance bonds of PLN 92,813 thousand and advance payment guarantees of PLN 20,140 thousand) to the Group's trading partners.

In connection with its current contracts, the Group also had contingent receivables, which as at June 30th 2017 amounted to PLN 698,270 thousand (PLN 692,181 thousand as at December 31st 2016). The main item among these receivables was bank and insurance guarantees totalling PLN 686,451 thousand.

For details of changes in contingent receivables and liabilities, see Note 21 to the interim condensed consolidated financial statements for the six months ended June 30th 2017.

3.11. Assets financing: amounts and structure



non-current assets	aktywa trwałe
current assets	aktywa obrotowe
equity	kapitał własny
non-current liabilities	zobowiązania długoterminowe

As at June 30th 2017, total assets were PLN 1,023,625 thousand, PLN 403,444 thousand (28.3%) less than as at December 31st 2016. The share of equity in the financing of assets increased by 13.2pp relative to December 31st 2016, to 44.3%.

Long-term capital (equity plus non-current liabilities) covered the full amount of non-current assets and 30.6% of current assets.

As at June 30th 2017, the structure of assets financing was as follows:

1. non-current assets of PLN 311,243 thousand were fully financed with long-term capital,
2. current assets and non-current assets held for sale of PLN 712,382 thousand were financed with:

long-term capital	30.6%,
short-term bank borrowings	6.9%,
amounts due to customers for construction contract work	13.1%,
trade payables	34.4%,
other current liabilities	15.0%.

3.12. Non-current assets

3.12.1. Structure of non-current assets

The structure of non-current assets changed as a result of execution of investment projects, sale of assets, retirement or disposal of redundant property, plant and equipment, remeasurement of assets, and changes in the deferred tax asset. As at June 30th 2017 and December 31st 2016, it was as follows:

	June 30th 2017		*December 31st 2016*	
	Amount	*Percentage*	*Amount*	*Percentage*
1. Property, plant and equipment, including:	175,834	56.5%	178,585	58.1%
- land	23,809	7.6%	23,754	7.7%
- buildings	89,229	28.7%	89,344	29.1%
- plant and equipment	52,195	16.8%	54,122	17.6%
- vehicles	8,654	2.8%	9,161	3.0%
- property, plant and equipment under construction	855	0.3%	1,409	0.5%
- other	1,092	0.3%	795	0.2%
2. Intangible assets	18,400	5.9%	18,782	6.1%
3. Long-term trade receivables, other receivables and prepayments	45,196	14.5%	34,007	11.0%
4. Non-current financial assets	25,550	8.2%	24,911	8.1%
5. Deferred tax assets	46,263	14.9%	51,387	16.7%

The largest item of non-current assets was land and buildings, which accounted for 36.3% of non-current assets. Other significant items included plant and equipment and deferred tax assets. At the end of June 2017, these accounted for 16.8% and 14.9%, respectively, of non-current assets. Plant and equipment include mostly machinery, equipment and apparatuses used in manufacturing processes, as well as computer hardware.

In the six months ended June 30th 2017, non-current assets increased by PLN 3,571 thousand (1.2%) compared with the end of 2016. Long-term trade receivables, other receivables and prepayments increased by PLN 11,189 thousand or 32.9%. Non-current financial assets consisted mainly of bonds worth PLN 25,269 thousand which the Group acquired in 2017 as part of the conversion of receivables from PBG S.A. For details, see section IV.4.b.

3.12.2. Key investments in property, plant and equipment

In the six months ended June 30th 2017, the Group incurred capital expenditure on non-financial non-current assets of PLN 3,323 thousand, including:

- PLN 3,022 thousand on property, plant and equipment,
- PLN 301 thousand on intangible assets.

Capital expenditure on property, plant and equipment primarily involved purchase of or upgrade to plant and equipment, including IT hardware, purchase of vehicles, and upgrades to buildings and structures.

The expenditure was financed with internally generated funds and finance leases.

3.13. Current assets

In the six months ended June 30th 2017, current assets decreased by PLN 406,137 thousand, to PLN 712,325 thousand. The change resulted chiefly from a PLN 375,858 thousand decrease in trade receivables and a PLN 92,095 thousand decrease in gross amount due from customers for construction contract work and prepayments related to the accounting for the contracts. Other receivables and prepayments decreased by PLN 15,496 thousand and PLN 14,473 thousand, respectively. The change in current assets was attributable to a

PLN 96,327 thousand increase in cash and cash equivalents, which as at June 30th 2017 amounted to PLN 203,851 thousand.

Material receivables included deposits provided as security for contract guarantees (issued mainly by banks on the Group's instruction). At the end of June 2017, the amount of deposits provided as security for guarantees was PLN 48.4m (PLN 68.3m at the end of December 2016). The lower amount of security deposits was primarily attributable to release of a PLN 14,024 thousand cash security deposit originally provided in connection with a contract for construction of a power generation unit.

3.14. Equity: amount and structure

As at June 30th 2017, the RAFAKO Group's equity was PLN 453,671 thousand, including:

1. share capital of PLN 169,864 thousand, comprising 84,931, 998 Series A, B, C, D, E, F, G, H, I and J ordinary shares. In the six months ended June 30th 2017, there were no changes in the Group's share capital;
2. share premium of PLN 95,340 thousand. In the six months ended June 30th 2017, there were no changes in the amount of the share premium;
3. statutory reserve funds of PLN 182,242 thousand (a PLN 6,877 thousand increase relative to December 31st 2016);
4. Retained earnings / accumulated losses of PLN -3,072 thousand;
5. exchange differences on translating foreign operations, negative at PLN -286 thousand;
6. equity attributable to non-controlling interests of PLN 9,583 thousand.

In the six months ended June 30th 2017, the Group companies did not acquire their own shares.

4. Human resources and workforce at the RAFAKO Group

In the six months ended June 30th 2017, the average headcount at the Group was 2,255 employees, 158 fewer than in 2016.

	Jun 30 2017
Employment structure at end of period	**2,197**
production	925
engineering design offices	312
technology offices	69
quality control	105
maintenance	84
other (financial and accounting, sales, procurement)	702

As at June 30th 2017, the Group's employees with university degree or secondary school diplomas accounted for 73.6% of the personnel (as at December 31st 2016: 70.9%). The parent's Management Board recognises the importance of recruiting new, well-educated employees. As more than 90% of job positions at the Company require specialist knowledge, persons with specialist university degrees are given priority in the recruitment process. As at June 30th 2017, university graduates accounted for 48.5% of the personnel (up by 3.1% on December 31st 2016). The Group also attaches importance to continuous professional advancement, and many employees decide to enrol in part-time university courses.

Employment structure at the Group at end of period	**2,197**
RAFAKO S.A.	1,776
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	106
E003B7 Sp. z o.o.	130
Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o.	24
RAFAKO ENGINEERING SOLUTION doo.	11
RAFAKO ENGINEERING Sp. z o. o.	138
RAFAKO Hungary Kft.	7
E001RK Sp. z o.o.	2
RENG – NANO Sp. z o.o.	3

The age distribution in the workforce changed: the share of employees aged 30 or below was 13.5%, against 16.2% as at December 31st 2016. There was a slight increase in the share of employees aged between 31 and 40, from 24.6% on December 31st 2016 to 25.7% on June 30th 2017, And in the share of employees aged between 41 and 50, who accounted for 25.8% of the total workforce (up from 23.8% as at December 31st 2016). The number of employees above 50 years of age (35.0%) remained unchanged.

Over the last 12 months, the structure of the workforce has changed in terms of the length of service. Employees with up to 10 years of service represented 28.2% of the Group's total workforce as at June 30th 2017 (compared with 30.5% as at December 31st 2016). The share of employees with 11–20 years of service increased by 2.1% to 20.6%. The share of employees with over 20 years of service increased only slightly, to 51.3% as at June 30th 2017. The Group's workforce has a long-standing and unique professional experience.

As part of the restructuring process, the parent launched a voluntary redundancy programme, implemented between December 1st 2016 and January 31 2017, with 128 employees leaving the Group voluntarily. On June 21st 2017, the parent's Management Board resolved to commence the next stage of the reorganisation process. The parent intends to simplify the structure of employment in certain areas. For more information, see section IV.4.c.

5. Number of RAFAKO shares or rights to RAFAKO shares held by the management and supervisory staff as at the date of issue of the half-year report

According to the information available to the Company, as at the date of this report, the holdings of RAFAKO shares by the management and supervisory staff of the consolidated Group companies did not change in the period from the issue of the previous consolidated quarterly report and were as follows:

	As at May 15 2017	*Increase*	*Decrease*	As at Sep 7 2017
Supervisory personnel of RAFAKO S.A.	–	–	–	–
Managing personnel of RAFAKO S.A.	**2,000**	**–**	**–**	**2,000**
Edward Kasprzak – Vice President of the Management Board	2,000	–	–	2,000

6. Shareholders holding 5% or more of total voting rights at the parent as at the date of issue of the half-year report

Shareholder	*Number of*	*Number of*	*Ownership*	*% of total voting*

	shares	voting rights	interest	rights at GM
PBG S.A.[2]	42,466,000	42,466,000	**50% + 1 share**	**50% + 1 share**
including:				
held directly:	7,665,999	7,665,999	9.026%	9.026%
held indirectly through Multaros Trading Company Limited[1] (a subsidiary of PBG S.A.)	34,800,001	34,800,001	40.974%	40.974%
Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.[2]	8,048,507	8,048,507	9.48%	9.48%

1. *Based on a notification of September 9th 2015*
2. Based on notification of July 30th 2015

Changes in major holdings of shares from the date of issue of the previous quarterly report:

Multaros Trading Company Limited[1]

	As at May 15 2017	*Increase*	*Decrease*	As at Sep 7 2017
number of shares and voting rights	34,800,001	–	–	34,800,001
% of share capital and total voting rights	40.974%	–	–	40.974%

1. *Based on a notification of September 9th 2015*

PBG S.A.[2]

	As at May 15 2017	*Increase*	*Decrease*	As at Sep 7 2017
number of shares and voting rights	42,466,000	–	–	42,466,000
% of share capital and total voting rights	50% + 1 share	–	–	50% + 1 share
including:				
- held directly:	7,665,999	–	–	7,665,999
	9.026%	–	–	9.026%
- held indirectly through Multaros Trading Company Limited[2] (a subsidiary of PBG S.A.):	34,800,001	–	–	34,800,001
	40.974%	–	–	40.974%

2. *Based on a notification of September 9th 2015*

Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.[3]

	As at May 15 2017	*Increase*	*Decrease*	As at Sep 7 2017
number of shares and voting rights	8,048,507	–	–	8,048,507
% of share capital and total voting rights	9.48%	–	–	9.48%

3. Based on a notification of July 30th 2015

In 2011, RAFAKO S.A. joined the PBG Group, whose parent is PBG S.A.

The PBG Group operates on the market for specialist construction services. The key segments of the Group’s business currently include the construction of facilities and structures for the power, natural gas, crude oil and fuel sectors.

From June 2012, PBG was in company voluntary arrangement. In August 2015, the meeting of PBG’s creditors voted on and approved the arrangement. In October 2015, the arrangement was approved by the court. PBG’s arrangement with its creditors became final on June 13th 2016.

IV. Key events and developments in the six months ended June 30th 2017 and after the reporting date

The key events and developments related to the activities of RAFAKO S.A. are presented below.

1. Contract with TAURON (Jaworzno Power Plant)

On April 17th 2014, RAFAKO S.A., acting as the leader of a consortium with Mostostal Warszawa S.A., executed a contract with Tauron Wytwarzanie S.A. for the construction of a power generation unit at the Jaworzno III Power Plant - Power Plant II. The value of the contract is PLN 4.5bn. The subject matter of the contract is design and delivery, on a turn-key basis, of a supercritical 910 MW power generation unit consisting of a steam generator, turbine generator set, main building, and electrical and I&C systems.

The coal-fired unit will be one of the most advanced facilities of this kind.

Key parameters	Unit's components
Supercritical pulverised-fuel, tower-type, once-through steam generator, Unit's nominal output (gross) – 910 MW, Generator's rated thermal input – 1,832 MWt, Rated capacity – 2,390 t/h, Temperature of steam at outlet (live/superheated) – 603/621°C, Pressure of live steam at outlet – 28.5 MPa, Pressure of superheated steam at outlet – 6.2 MPa, Efficiency in standard conditions >95%, Availability > 95%, Net generation efficiency > 45.91 %.	Superheated steam generator, Steam turbine powering the electricity generator, Feed water pump system, Systems designed to meet the sulfur dioxide, nitric oxide and dust emission standards specified in the Industrial Emissions Directive (IED), Systems for disposal of combustion waste, as well as for delivery and preparation of various auxiliary media.

The Jaworzno unit will be a high-efficiency base-load electricity generation facility operating within the power system. The operating life of the unit will be at least 200 thousand hours or 30 years,

Environmental implications:

According to the project owner's estimates, once the project is complete, sulfur dioxide emissions will be sixteen times lower than from the 120 MW units which are to be decommissioned, nitric oxide emissions will be more than five times lower, and dust emissions will be reduced eleven times. Carbon dioxide emissions will be cut by nearly two million tonnes a year.

Key developments in 2017

2017	
January	Delivery of the turbine island
March	On March 1st, the parent and Mostostal Warszawa signed Annex 5 to the contract for the Jaworzno 910 MW Project with Tauron Wytwarzanie. Under the annex, the contract price was increased by PLN 71.05m due to the need to change the design and place the structure accommodating the power generating unit on deep foundations; and also to account for the additional work commissioned from the contractor (i.e. the parent and Mostostal Warszawa S.A.) which involves laying the foundations in the fifth zone (the electrostatic precipitator zone) and extension of the electrostatic precipitator switchgear building. The additional works will enable the employer to bring the unit partly in line with future requirements of the BAT Conclusions. The employer did not acknowledge the claims arising from changes in the design standards (Eurocodes) as valid. Under the annex, the contract completion deadline was extended by eight months and five days, and therefore the unit commissioning report will be signed by November 2019. Execution of the annex will result in amendments to the project financing documentation, contract performance timetable, project budget and the subcontractor agreement between SPV Jaworzno and the parent.
April	Construction of the load-bearing structure of the building accommodating the control room and electric devices.
July	Construction of the reinforced concrete structure of the cooling tower bowl.

In its separate financial statements, RAFAKO S.A. recognises only revenue and expenses related to its own scope of work, i.e. 11.3% of the total scope of work on the Jaworzno Project. In its separate financial statements, the Company does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. – they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group. By June 30th 2017, 55.2% of the contract's total value had been invoiced.

For rules of accounting for the contract, see Note 10.1 to the interim condensed consolidated financial statements for the six months ended June 30th 2017.

2. Contract with PGE Elektrownia Opole

In February 2012, the parent, acting as the leader of a consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A., executed a PLN 9.4bn contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. – the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at Elektrownia Opole, together with equipment and devices as well as all related buildings and structures. The units, each with a capacity of 900 MW, will be fired with hard coal.

The subsidiary E001RK Sp. z o.o. ("SPV-Rafako") was appointed by RAFAKO S.A. as its subcontractor in charge of the entire scope of work and services related to the construction of the power generating units at Elektrownia Opole. SPV-RAFAKO's consideration for the performance of the works and services is PLN 3.96bn.

Presentation of revenue and expenses under the contract has no effect on the amounts disclosed in the Group's statement of comprehensive income.

For rules of accounting for the contract, see Note 10.1 to the interim condensed consolidated financial statements for the six months ended June 30th 2017.

On January 31st 2014, the consortium received from the employer a notice to proceed with the project execution.

The project is on schedule, with invoices issued and payments made without disruptions. By June 30th 2017, 75.4% of the contract's total value had been invoiced.

3. Other significant contracts

a. On May 31st 2017, the parent received a notice to proceed from JSC Vilniaus Kogeneracinė Jėgainė with respect to the contract of September 29th 2016 for construction of a biomass-fired co-generation unit consisting of fluidised bed boilers, biomass storage and feeder systems, and a flue gas treatment system. The notice set June 1st 2017 as the date to commence work under the contract. Thus, all formal conditions for the commencement of work were satisfied.

b. On August 16th 2016, RAFAKO S.A. was notified that PT. PLN (PERSERO), JALAN TRUNOJOYO BLOK M I/135, KEBAYORAN BARU, JAKARTA 12160, INDONESIA (the "employer") had selected the bid submitted by a consortium comprising the RAFAKO and PT. Rekayasa Industri as the consortium leader as the best bid in tender construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia.

The net amount of the parent's bid is EUR 70,290 thousand (i.e. approximately PLN 295m), representing about 35% of the total price quoted in the consortium's bid. The project is to be completed within 39 months from its start. The bid included a financing package arranged by the Employer with members of the Polski Fundusz Rozwoju Group (Korporacja Ubezpieczeń Kredytów Eksportowych and Bank Gospodarstwa Krajowego).

4. Other material events

a. On June 30th 2017, the parent executed an annex to the Credit Facility Agreement with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw. Under the annex, the multi-purpose credit facility limit was granted for up to PLN 200m, including: in the period from July 1st 2017 to July 30th 2017 – an overdraft facility of up to PLN 100m and a working capital facility of up to PLN 50m; from July 31st 2017 to August 30th 2017 – an overdraft facility of up to PLN 90m and a working capital facility of up to PLN 60m; from August 31st 2017 to September 29th 2017 – an overdraft facility of up to PLN 80m and a working capital facility of up to PLN 70m; and from September 30th 2017 to June 30th 2018 – an overdraft facility of up to PLN 70m and a working capital facility of up to PLN 80m.

The annex extended the facility's term and maturity date until June 30th 2018.

The annex includes a condition that if in 2017 RAFAKO does not add PLN 700m net in new contracts to its order book, to be reviewed as at January 31st 2017, PKO BP will be entitled to reduce the amount of the overdraft facility by the percentage by which the new order book falls short of the assumed value, rounded to the nearest million.

The other terms and conditions of the Credit Facility Agreement were not materially amended under the annex.

For more details on the credit facility agreement, see Note 14 to the interim condensed consolidated financial statements for the six months ended June 30th 2017.

b. On June 13th 2016, the Regional Court of Poznań dismissed creditors' complaints against the decision to approve PBG's arrangement with its creditors, whereupon the arrangement became final. From June 2012, PBG was in company voluntary arrangement. In August 2015, the meeting of PBG's creditors voted on and approved the arrangement. In October 2015, the arrangement was approved by the court. The arrangement became final on June 13th 2016.

On February 10th 2017, the RAFAKO Management Board accepted the invitation to acquire secured ordinary bonds in book-entry form, issued in series from B1 to I1 by PBG S.A., with a nominal amount of PLN 100 per bond, that is a total of 388,492 non-interest bearing bonds with a total nominal amount of PLN 38,849.2 thousand.

The total issue price will be covered through set-off of the debts owed to the parent under the arrangement.

On February 10th 2017, the bonds were allotted to the parent.

They will be redeemed in individual series, as presented in Note 12 to the interim condensed consolidated financial statements for the six months ended June 30th 2017.

The last series is to be redeemed on June 30th 2020.

c. In March 2016, the RAFAKO Management Board passed a resolution to reorganise the Company. The purpose of the reorganisation is to adapt the Company’s business model as well as its resources and key processes to the increasingly more demanding market in which it operates, and also to the new markets where the Company intends to purposefully and effectively operate in the near future.

As at June 30th 2016, changes were made to the organisational structure, while work continued on the remodelling of business and financial processes.

On November 15th 2016, the Management Board resolved to launch a voluntary redundancy programme for RAFAKO employees. The programme aims to adjust the level and costs of employment to the conditions prevailing RAFAKO’s markets. The number of the employees who decided to voluntarily leave the Company is 128, and the final amount of obligations under the programme (a relevant provision was recognised and charged against 2016 profits) will be approximately PLN 7.7m.

On June 21st 2017, the RAFAKO Management Board resolved to commence the next stage of the reorganisation. The parent intends to simplify the structure of employment in certain areas. Some of the Company’s current operations will be outsourced. Expected benefits of the next stage of the reorganisation will be identified during the analytical process in September 2017.

The parent plans to have the current stage of the reorganisation process completed by January 31st 2018 at the latest.

d. On August 2nd 2016, the parent received a debit note from ENERGA Elektrownia Ostrołęka S.A. (the “employer”) for PLN 13,491 thousand, issued in connection with the contract for NOx emissions reduction on OP 650 boilers No. 1, 2, and 3 at the Ostrołęka B Power Plant, concluded on October 10th 2014 and performed in partnership with OMIS S.A. (with RAFAKO S.A. as the consortium leader (57.76% interest) and OMIS S.A. as the consortium member (42.24% interest)). ENERGA Elektrownia Ostrołęka S.A. charged liquidated damages for: i) delay in the completion of installation work, and ii) delay in the commissioning of the unit.

On May 24th 2017, a settlement before a court mediator was reached between the consortium and ENERGA Elektrownie Ostrołęka S.A. Under the settlement, the consortium undertook to pay PLN 2,698.2 thousand in liquidated damages, with RAFAKO’s share in the damages of PLN 1,958.5 thousand. The employer agreed to issue revised debit notes and return the unduly withheld amounts of PLN 10,124.1 thousand to the consortium, including PLN 8,587.6 thousand to RAFAKO S.A.

On June 1st 2017, the Regional Court of Białystok approved the settlement and discontinued the proceedings.

For more details, see Note 22 to the interim condensed consolidated financial statements for the six months ended June 30th 2017.

e. On July 26th 2017, the parent executed a letter of intent with Fundusz Inwestycji Polskich Przedsiębiorstw, Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (“FIPP FIZ AN”) and Polski Fundusz Rozwoju S.A. (“PFR”). In the letter, PFR expressed its willingness to cooperate with RAFAKO S.A. in implementing joint strategic projects and FIPP FIZ AN expressed its willingness to discuss the terms of its equity investment in RAFAKO S.A. The parent’s Management Board further indicates that, at the date of the Letter of Intent, the consummation of the Investment, as well as its scope, purpose and level of FIPP FIZ AN’s involvement had not yet been determined, and all existing related agreements are general and non-binding.

f. The RAFAKO Management Board convened an Extraordinary General Meeting for August 29th 2017 to consider and vote on resolutions to:

- increase in the parent’s share capital through an issue of new shares with a total par value of no more than PLN 85,000,000; and an issue of no fewer than 1 (one) and no more than 42,500,000 (forty two million, five hundred thousand) Series K ordinary bearer shares with a par value of PLN 2 (two złoty) per share,

- amend the parent's Articles of Association,
- extend the scope of the Company's principal business activity.

On August 29th 2017, the Extraordinary General Meeting resolved to adjourn the Meeting until September 12th 2017.

5. Pending litigation, arbitration or administrative proceedings

For information on material disputes and litigation, see Note 22 to the interim condensed consolidated financial statements of the Group.

6. Related-party transactions concluded by the issuer or any of its subsidiaries

In the six months ended June 30th 2017 and 2016, the parent and its subsidiaries did not enter into any material related-party transactions on non-arm's length terms.

For a detailed list of related-party transactions executed in the six months ended June 30th 2017, see Note 26 to the interim condensed consolidated financial statements of the Group for the six months ended June 30th 2017.

7. Loan sureties or guarantees provided by the parent or its subsidiaries

In the first half of 2017, neither the parent nor its subsidiaries granted or provided any loan sureties or guarantees to a single entity or its subsidiaries where the aggregate amount of such sureties or guarantees would represent 10% or more of the parent's or its subsidiaries' equity.

For a description of changes in contingent assets and liabilities, see Note 21 to the interim condensed consolidated financial statements of the Group for the six months ended June 30th 2017.

V. Growth prospects for 2017

1. Energy policy

Power market and environmental protection regulations

The power market and its commercial segment in particular are heavily regulated in terms of their current organisation, future development and structure in the context of the increasingly stringent environmental protection standards. The regulated nature of the industry follows from the power market's strategic importance to the energy security of every country, with environmental protection and reduced CO_2 emissions becoming a global priority in international relations. Such regulations include both the legislative framework and general objectives of the national and EU-level energy policies in terms of environmental protection.

Because of the introduction of more stringent environmental protection standards, businesses generating flue gases, such as CHP plants and power plants, are required to upgrade their existing units and install new equipment to reduce air emissions. As a result, the number of new projects in the power segment is growing, including construction of low-emission, high-efficiency power plants and upgrades to the existing energy sources to ensure their compliance with the strict environmental requirements imposed under EU laws, which stimulates demand for the products and services offered by the Group.

Environmental protection regulations in the EU

The EU's energy policy is formulated by Member States as well as EU institutions. The legal basis for the energy policy is the Treaty on the Functioning of the European Union. Under the Treaty of Lisbon, key objectives of the EU's energy policy are:

a. to ensure the functioning of the energy market;

b. to ensure security of energy supply in the Union;

c. to promote energy efficiency and energy saving and the development of new and renewable forms of energy;

d. to promote the interconnection of energy networks.

The current energy policy provides for a comprehensive and integrated approach to energy and climate policy. In 2014, the heads of EU Member States and governments set the following goals:

- greenhouse gas reduction by 2030 by at least 40% compared with 1990,
- increasing the share of renewable energy to at least 27% of the EU's energy consumption,
- increasing energy efficiency by at least 27% (indicative) in 2030.

On November 30th 2016, the European Commission presented a package of measures (Winter Package) to keep the European Union competitive as the clean energy transition is changing the energy markets.

The main goal of enacted regulations should be to put the European Union closer to fulfilling its commitments under the Paris Agreement, i.e. to cut CO2 emissions, increase the share of renewables in energy consumption, improve energy efficiency and provide a fair deal for consumers. The package is still a proposal, which over the next year will be addressed by the European Parliament, the respective energy ministers of individual Member States, and other entities.
On July 31st 2017, the European Commission issued an announcement concerning Best Available Techniques for large combustion plants (BAT LCP), i.e. those whose capacity is above or equal to 50 MW. BAT conclusions will be binding for a number of power plants and CHP plants in Europe, and thus in Poland.

BAT Conclusions are the main instrument aiming to protect the environment from pollutant emissions from industrial installations, introduced by the Industrial Emissions Directive (theIED Directive). In line with the Directive, BAT conclusions are the reference for setting emission and monitoring standards in integrated permits under which combustion plants operate. The deadline for ensuring compliance with the BAT conclusions is four years from the date of their publication in the Official Journal of the European Union, i.e. mid-2021.

Regulatory environment in Poland

The key legal act regulating the operation of the Polish energy sector is the Energy Law. It lays down the rules governing development of the energy policy, rules and conditions for supply and use of fuels and energy, including heat, and operation of energy companies.

Poland's Energy Policy until 2030, prepared by the Ministry of Economy, plays a major role in setting the development directions for the energy sector. Its objectives include:

- improving electricity generation efficiency through the construction of high-efficiency generating units and a two-fold increase in the quantity of electricity from high-efficiency co-generation (by 2020);
- increasing the share of renewable energy sources in total energy consumption in Poland to 15% in 2020 and 20% in 2030.

The Policy also highlights the need to reduce the environmental impact of the energy sector (including the reduction of CO_2 , SO_2 and NO_x emissions), which would enable Poland to meet its international obligations. Among the objectives relating to electricity and heat supplies, the Policy lists the construction of new generating capacities to balance the domestic electricity demand and maintain an operationally available capacity surplus of at least 15% of the maximum domestic demand during the peak use of total capacity of the domestic generation sources. The Policy defines the key priorities and directions in which Poland's energy policy, and thus the Polish energy market, will develop.

The work on Poland's Energy Policy until 2050 has begun. The draft of August 2014 sets the following three operational objectives designed to support the main objective:

- to ensure national energy security;
- to increase the competitiveness and energy efficiency of Polish economy;
- to reduce the environmental impact of the heat and power sector.

The Polish energy strategy until 2050 should reflect the assumptions of EU's climate policy and the respective policies of individual Member States.

At the beginning of January 2016, a Transitional National Plan (TNP) was introduced in Poland in line with the Regulation of the Minister of Environment of July 2015. The plan is designed to implement into the Polish legal system the provisions of the directive of the European Parliament and of the Council of November 2010 on industrial emissions (IED). The directive introduces mechanisms that make it possible to postpone compliance with the obligation to apply new emission limits for sulfur dioxide, nitrogen oxides and dust (derogations). Derogations provide the operators of energy installations with time to complete investment projects designed to technically adapt them to the more stringent emission requirements. One of the mechanisms introduced under IED is the Transitional National Plan, which will be applicable in the period from January 1st 2016 to June 30th 2020. During that period, the installations covered by the Plan will have to meet the relevant emission ceilings set for each year.

In 2016, the Polish President signed the Energy Efficiency Act, which implements EU regulations into Polish law to further improve the energy efficiency of Polish economy. The Act came into force on October 1st 2016. Under the Act, certain entities are required to conduct an energy efficiency auditevery four years. The energy efficiency audit is a procedure whose purpose is to carry out detailed and validated calculations with regard to proposed implementation of projects contributing to an improvement in energy efficiency and to provide information on potential energy savings.

On June 30th 2017, the Council of Ministers adopted a capacity market bill, proposed by the Minister of Energy. The bill has already been submitted to the Sejm.

The key objective of the proposed legislation is to ensure continuous and stable supply of electricity for industry and households. The capacity market is expected to be conducive to making decisions with respect to investments and upgrade work in the power sector. The legislation is to significantly help prepare the power sector for challenges it will face in the near future, including the need to meet environmental regulations. The new regulations also aim to improve Poland's energy security.

2. Asset development plans of the power sector

According to the conclusions from forecast analyses performed for the purposes of Poland's Energy Policy until 2050, demand for electricity in Poland is expected to grow. According to Polskie Sieci Elektroenergetyczne, in H1 2017 electricity consumption totalled 83.5 TWh, compared with 81.6 TWh the year before (up 2.32% year on year). The rising demand for electricity will translate into more investment projects in new generating capacities and upgrade of existing power generating units.

In Poland, recent years have seen some slowdown in the execution of power generation projects (due, among other things, to the economic downturn in late 2012/early 2013). As a result, a number of ongoing investment projects have been delayed by about 2 years, and some projects have been suspended. It is estimated that the cost of both replacement and development projects in the power segment until 2030 will exceed PLN 200bn.

In 2017, work on the construction of three largest coal-fired units will be continued. First to be completed is the unit in Kozienice (1,075 MW), which is to be placed in operation in December 2017. The second most advanced project involves the construction of new generating units at the Opole Power Plant (2x900 MW), with unit No. 5 to be placed in service in July 2018 and unit No. 6 − in March 2019. The third project in terms of progress is the construction by the RAFAKO Group of a 910 MW unit at the Jaworzno Power Plant, which is scheduled to go online in November 2019.

the smaller coal-fired power units currently being built include: (1) a 450 MW lignite-fired unit at the Turów Power Plant, scheduled to be completed in Q2 2020, (2) a 75 MW coal-fired unit at the Zofiówka plant, constructed for Jastrzębska Spółka Węglowa by Energoinstal; the project was planned to come on stream commercially in July 2017, (3) a 220 MW new CHP plant in Zabrze to be fired with hard coal, biomass and alternative fuel (RDF), constructed for Fortum by ILF Consulting Engineers Polska under an EPCM (Engineering, Procurement, Construction Management) contract.

the following gas-fired power units are also being built: (1) a 449 MW CCGT unit at the Stalowa Wola CHP Plant for Tauron/PGNiG; the unit is expected to come online in 2019, (2) a 400−500 MW CCGT unit at the Żerań CHP Plant, constructed for PGNiG Termika by the consortium of Mitsubishi Hitachi and Polimex-Mostostal, (3) a 596 MW CCGT unit at the Płock plant, constructed for PKN Orlen by the consortium of Siemens AG and Siemens Spółka z o.o.; the unit is scheduled to come online in the fourth quarter of 2017.

Projects to be commenced in the near future include: construction of an approximately 120 MW CCGT unit at the Konin Power Plant for ZE PAK, and construction of a 90–100 MW coal-fired unit for Grupa Azoty Puławy.

In addition, in December 2016, Energa Elektrownie Ostrołęka opened a contract award procedure for the construction of the Ostrołęka Power Plant. The contract will provide for a comprehensive construction of a power plant with one 1,000 MW condensing power generation unit.

Apart from that, talks are under way to launch a contract award procedure for another 1,000 MW supercritical coal-fired unit at PGG. The project, which had been put on hold, is to be subject to further economic analyses. Another major coal-fired power plant construction project is Elektrownia Północ (target capacity of 2x800 MW). The project is to be executed by Polenergia.

The programme for construction of municipal waste incineration facilities, launched in 2007 and included in the Indicative List of the Ministry of Regional Development under the Operational Programme Infrastructure and Environment, initially comprised 11 items. 12 municipal waste incineration facilities were to be built: in Szczecin, Koszalin, Poznań, Gdańsk, Olsztyn, Białystok, Bydgoszcz, Łódź, Warsaw, Kraków and two facilities in Silesia. At present (at the end of 2016), six new waste incineration facilities are operated in Poland, and several more are under construction or specific plans have been made for their construction.

In 2001, the Municipal Solid Waste Disposal Plant in Warsaw was opened. 2015 saw the completion of projects in Białystok, Bydgoszcz, Konin and Kraków. In 2016, the operation of a municipal waste incineration facility in Poznań commenced. The waste incineration plant in Szczecin should be commissioned by the end of November 2017.

In 2017, Miejskie Przedsiębiorstwo Oczyszczania of Warsaw announced a procedure for the selection of a general contractor for the extension of a municipal waste incineration plant in the Warsaw district of Targówek. The project's value is estimated at around PLN 1bn VAT-exclusive. More local governments (e.g. from Gdańsk, Olsztyn, and Wrocław) are contemplating the construction of waste incineration plants. Gdańsk, Olsztyn, Wrocław.

Competitive environment

The Group operates on a market dominated by large, mainly international players. On this market, contracts are typically awarded through tenders announced by clients, and projects can take as much as several years to complete.

Given the significance of factors such as experience, credentials, technological capabilities and financial resources in bidding for new contracts, the Group faces a limited number of competitors, which are typically companies specialising in EPC projects. In line with market requirements, the majority of the Group's projects are also implemented under EPC contracts.

The Group operates on the Polish market (93.6% of revenue in H1 2017 came from domestic sales) and on foreign markets (6.4% of revenue in H1 2017). Given the limited number of projects and customers on each market, as well as specific contract requirements, contractors competing with the Group for projects in Poland (major foreign companies often have branches in Poland) usually also bid for foreign contracts.

There is considerable competition in terms of the products and services which are part of EPC projects. Each company which the Group believes to be a significant competitor has proprietary energy generation technologies, extensive credentials and many years of experience in delivering EPC contracts. While some of them specialise in specific types of steam generators, others offer a comparable range of products and have access to technologies allowing them to bid for contracts within the same product scope as the Group. Complete generating units are constructed by GE Power, Mitsubishi Hitachi Power Systems Europe, Doosan Power Systems, COVEC, CNEEC, SEC, Bilfinger Berger Power Systems, Amec Foster Wheeler, and CNIM, all of which have proprietary energy generation technologies, as well as organisational capacities necessary to pursue EPC contracts. These companies, as well as the Group, offer products necessary to construct complete generating units that can run on any kind of fuel.

On the Polish market, there are several companies, such as WARBUD, BUDIMEX and POLIMEX, which plan to enter the power construction industry by including EPC contracts into their offering or, at the very least, by offering assembly and construction services. Developing capabilities necessary to design and manufacture equipment for the power sector is complicated and requires considerable expenditures over long periods of time. In their competition with the Group, these companies rely solely on the technologies and products supplied by the Group's direct competitors, including GE Power, Mitsubishi Hitachi Power Systems Europe, Doosan Power Systems, Bilfinger Berger Power Systems, and CNIM.

With respect to specific products, such as steam generators, desulfurisation units, NOx reduction units and waste incineration facilities, the Group's major competitors again include GE Power, Mitsubishi Hitachi Power Systems Europe, Doosan Power Systems, Bilfinger Berger Power Systems, Amec Foster Wheeler, SES Tlmace, HZI, and CNIM, as well as Andritz, Valmet and Strabag.

The market is also seeing a number of Chinese companies, whose competitive edge consists primarily in lower prices and different − uncertain in the Group's opinion − technical specifications. The Group believes that customers on the Polish and European markets, including Turkey, perceive the offering of Chinese companies as unreliable, but the situation may well change if the Chinese competitors are able to maintain low prices while improving the technological quality of their products. Then those companies may become important players on the market of electricity generation technologies.

Furthermore, given the nature of large EPC contracts, it cannot be ruled out that the Group will partner with the above-mentioned companies for certain projects, especially those consisting in the supply of steam generators, their pressurised components or flue gas desulfurisation units.

3. Operational plans

The RAFAKO Group is prepared to face the challenges of the power market. The parent currently offers a wide selection of power technologies. In addition to all environmental protection facilities, which are constantly developed and upgraded, RAFAKO S.A. has capabilities necessary to construct power units for all parameters and fuel types. RAFAKO S.A. is one of Europe's four companies (the other being GE Power, Mitsubishi Hitachi Power Systems Europe and Doosan Power Systems) offering the complete technology for the construction of supercritical power units.

The most important strategic challenges for the parent in the near future will include:

- Development of the **Group's solutions**, especially proprietary technologies,
- **Expansion and enhancement of the current mix of products** and **services**; in addition to the products and services already on offer, the Group intends to launch new products, such as polygeneration islands and gasification of waste and biomass, which will allow the Group to diversify its product offering in areas which are not related to conventional power generation and to further stabilise the Group's revenue in the future,
- Development of **export** sales; the Group plans to increase its activity on foreign markets across its product and service portfolio, including on: markets where the Group has maintained a continuous presence, markets where the Group was present in the past and where it intends to return (i.e. Asia), new markets where the Group is not active and did not supply its products and services in the past, including in particular Central Asia, Vietnam, Mongolia, South Africa, and Indonesia,
- **Further optimisation** of process management within the Group; completion of process optimisation currently under way and further improvement of efficiency of the Group's operational processes. The Group intends to introduce further changes to the implementation procedures for operational processes in order to improve their efficiency,
- **Optimisation of contract financing and contract performance security.**

In response to the shortage of new capacities, environmental requirements and insufficient energy resources, the Company's strategy meets the expectations of power sector clients by offering them high-efficiency power facilities and environmental protection systems.

In 2017, RAFAKO S.A. will continue to offer on the domestic and foreign markets:

- Complete thermal power stations, including:
  - supercritical power units,
  - municipal waste incineration facilities,
  - units with coal-fired and biomass-fired steam generators,
  - CCGT units;
- Deliveries of complete conventional 'technology islands', including:
  - subcritical steam generators and water boilers fired with various types of fuels: coal/gas/oil/biomass; stationary and circulating fluidised bed combustors, supercritical steam generators,
  - environmental solutions, including flue gas desulfurisation units (wet/semi-dry/dry technology), flue gas NOx reduction units and dust extraction equipment (electrostatic precipitators, bag filters), etc.;
- Comprehensive rehabilitation projects designed to improve efficiency and reduce emissions into the environment; complete power installations provided under EPC contracts;
- Manufacture of steam generator parts;
- Engineering and maintenance services, including diagnostics, modernisation and repair of steam generators and auxiliaries.

Given the need to comply with more exacting EU environmental standards, the RAFAKO Group should continue to increase its presence on the domestic market of environmental protection systems, where it currently offers technologies for the construction of complete flue gas desulfurisation units, industrial and municipal waste incineration systems and biomass-fired units, upgrading of boilers to reduce NOx emissions, as well as dust extraction equipment.

In 2017, the following factors and developments will have the greatest bearing on the Group's development and prospects:

- carrying out the issue of Series K bearer shares,
- securing financial liquidity and obtaining access to new bank/insurance guarantees that will enable the Group to perform new contracts,
- making good progress on the construction of a 910 MW supercritical power generating unit at the Jaworzno Power Plant,
- making good progress on theconstruction of a biomass-fired co-generation unit in Vilnius (Lithuania),
- performance of a large number of significant contracts in the Polish and European markets, including construction of modern steam generators, flue gas desulfurisation and NOx reduction units, municipal waste treatment and incineration systems, as well as pressurised parts of supercritical boilers,
- acquisition of new material contracts,
- adjusting the level and costs of employment at the parent to the conditions prevailing in the market where it operates.

Capital expenditure planned for H2 2017 on property, plant and equipment will mainly be incurred on purchase or upgrade of plant and equipment, purchase of computer hardware, and modernisation of production buildings. Expenditure on intangible assets will involve the purchase of software and licences. The investment projects will be financed primarily with the Group's own funds, but also using external sources (e.g. leases).

The parent's Management Board continues its efforts to win new contracts and believes that the key assumptions underlying its financial projections will materialise, ensuring the Group's liquidity in 2017.

4. Order book

As at June 30th 2017, the value of the Group's order book was in excess of PLN 3.3bn. The order book's largest item is the Jaworzno Project – the amount outstanding under the contract is PLN 2.0bn, of which PLN 0.2bn is attributable to the parent and PLN 1.8bn to SPV Jaworzno. The order book does not include the Opole contract (RAFAKO's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 0.8bn is still outstanding). At present, the order book comprises only power construction projects.

ORDER BOOK	
30 June 2017	**30 June 2016**
~ PLN 3.3bn	**~ PLN 4.1bn**

	ORDER BOOK as at June 30th 2017	Due for execution in		
		Jul-Dec 2017	2018	after 2018
TOTAL	**~3.3bn**	**~0.8bn**	**~1.3bn**	**~1.2bn**
RAFAKO Group	**~1.5bn**	**~0.36bn**	**~0.6bn**	**~0.5bn**
SPV Jaworzno	**~1.8bn**	**~0.46bn**	**~0.7bn**	**~0.7bn**

As regards the value of the RAFAKO Group's order book, data presented in this document is based on the following assumptions:

a. the order book value is equal to the aggregate amount of the Group's remuneration under individual contracts executed by Group in the period to June 30th 2017; the figure does not take into account any planned contracts that have not yet been signed;
b. the order book value is disclosed as at June 30th 2017; actual revenue from contracts and performance periods depend on a number of factors, which may be outside the Group's control.

Key contracts for power generating units, boilers, power equipment, machinery and components

1) Construction of a 910 MW supercritical power generating unit at the Jaworzno Power Plant

On April 17th 2014, RAFAKO S.A., acting as the leader of a consortium with Mostostal Warszawa S.A., executed a contract with Tauron Wytwarzanie S.A. for the construction of a 910 MW supercritical power generation unit at the Jaworzno III Power Plant - Power Plant II. The value of the contract is PLN 4.5bn.

The consortium will construct the unit together with a complete set of key facilities, installations and external equipment required for its safe and proper operation. The unit will be fitted with a coal-fired supercritical pulverised-fuel once-through steam generator and a condensing steam turbine coupled with the power generator. The unit will be connected to a new 400 kV substation supplying electricity to the National Power Grid. The unit's gross capacity will be 910 MWe, with a net efficiency of 45.91% and design coal consumption of ca. 345 t/h at nominal capacity.

The unit will be a high-efficiency base-load electricity generation facility operating within the power system. It will be fitted with systems enabling compliance with the NOx, SO2 and dust emission standards, i.e. an SCR unit, a desulfurisation unit and an electrostatic precipitator. The operating life of the unit will be at least 200 thousand hours or 30 years, and its output will increase the total capacities of the Polish electric utility sector by approximately 2.5%.

2) Construction of a biomass-fired co-generation unit in Vilnius

The contract provides for the construction of a biomass-fired co-generation unit consisting of boilers with fluidised beds, biomass storage and feeder systems, and a flue gas treatment system. The project will be executed as part of the process to construct a new CHP plant in Vilnius, Lithuania.

On September 29th 2016, a contract worth EUR 149,650 thousand was signed with JSC Vilniaus Kogeneracinė Jėgainė.

The Employer has issued a notice to proceed ("NTP") as of June 1st 2017; the contract delivery period is 32 months from that date.

The award of this project is an important step towards one of the RAFAKO Group's strategic objectives, which is to increase Group-wide export revenues.

Key contracts for air pollution control systems

1) Installation of a catalytic flue gas NOx reduction unit at ENEA Wytwarzanie Sp. z o.o.

On September 30th 2016, the parent and ENEA Wytwarzanie Sp. z o.o. signed a contract for delivery and installation of a catalytic flue gas NOx reduction system for AP-1650 boilers No. 9 and 10 and for upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. for PLN 289,182.1 thousand.

The Contract, to be executed on a turn-key basis, is divided into two tasks subject to separate acceptance procedures:

The contract completion deadline is:

a) for Task 1 – May 18th 2018 (placing the SCR unit, DRiM II Station and EP 9 in service),

b) for Task 2 – August 25th 2018 (placing the SCR unit and upgraded EP 10 in service).

2) Construction of catalytic flue gas NOx reduction system at the Kozienice Power Plant

Since June 28th 2012, RAFAKO S.A. has carried out work at the Kozienice Power Plant under a contract executed with Enea Wytwarzanie S.A. for the turn-key delivery of complete, advanced catalytic (SCR) flue gas NOx reduction units. The total value of the contract is PLN 191m.

Thanks to the unit for OP-650 boilers, which is to be fitted on five biomass- and coal-fired 200 MW units (No. 4-8), the boilers will be able to operate in line with the environmental requirements.

3) SCR systems in Połaniec

On June 14th 2012, RAFAKO S.A. signed a contract for delivery of SCR Catalytic Flue Gas NOx Reduction Systems to the Połaniec Power Plant. The contract, providing for delivery of the systems for six units (No. 2−7), will be carried out in stages until 2017. The total value of the contract is PLN 242m. The contract also includes optional delivery of equipment with a value of PLN 26m.

4) Construction of a flue gas desulfurisation unit for boilers K7 and K8 at the Białystok CHP Plant

On October 23rd 2015, RAFAKO S.A. signed a PLN 78,500 thousand contract with ENEA Wytwarzanie Sp. z o.o. The contract provides for the construction of a flue gas desulfurisation unit for boilers K7 and K8 at the Białystok CHP Plant.

Management Board's statement

The Management Board of RAFAKO S.A., the parent of the RAFAKO Group, hereby represent that:

1) to the best of its knowledge, the interim condensed consolidated financial statements for the six months ended June 30th 2017, as well as comparative data for the six months ended June 30th 2016 and for the year ended December 31st 2016, were drawn up in compliance with the applicable accounting standards and give a true, fair and clear view of the Group's assets, its financial condition and performance, and that the Directors' Report on the operations of the RAFAKO Group gives a true view of the Group's development, achievements and standing, including a description of key risks and threats;

2) the auditor of the full-year financial statements, being an entity qualified to audit financial statements, was appointed in compliance with the applicable laws, and the auditing firm and the auditors who conducted the audit satisfied the auditor independence criteria to deliver an unbiased and independent auditor's opinion on the audited half-year condensed consolidated financial statements, in compliance with the applicable laws and professional standards.

Signatures of Management Board members

September 7th 2017	Agnieszka Wasilewska-Sema	President of the Management Board	....
September 7th 2017	Krzysztof Burek	Vice President of the Management Board	....
September 7th 2017	Jarosław Dusiło	Vice President of the Management Board	....
September 7th 2017	Edward Kasprzak	Vice President of the Management Board	....
September 7th 2017	Tomasz Tomczak	Vice President of the Management Board	....