DIRECTORS' REPORT ON THE OPERATIONS OF RAFAKO S.A.

IN 2014

Racibórz, March 23rd 2015

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I. General information

About us

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

The Company's key products and services include:

Complete power generating units	Steam generators and heat generators	Air protection systems	Power equipment, machinery and components
• consisting of a boiler (fired with fossil fuels or biomass) together with a turbine coupled with a generator and complete assembly necessary for the 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 denitration units, including SCR units; • 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

RAFAKO S.A. has operated in the power sector since 1949. The Company's product offering, initially comprising mainly steam generators and their components, has gradually been expanded to include flue gas desulfurisation and denitration units, dust removal units, etc. From a typical manufacturer, the Company has been transformed into a general contractor for power facilities. In 2014, the Company joined the group of companies offering and delivering power generating units under EPC contracts, when it launched, practically on a standalone basis, the construction of a 910 MW power generating unit for the Jaworzno Power Plant.

Since its inception, the Company has been a leading supplier of steam generators for the country's power sector and industry. The combined capacity of RAFAKO-delivered steam generators accounts for a significant part of the capacity installed in the Polish commercial and industrial power sector. The most important facilities which use RAFAKO steam generators include Opole, Bełchatów, Kozienice, Dolna Odra, Rybnik, Pątnów – Adamów – Konin and Turów power plants, and the power plants of Tauron Wytwarzanie, as well as Warsaw, Wrocław, Łódź and Zielona Góra CHP Plants. The Company has delivered circulating fluidised bed (CFB) steam generators to the Żerań CHP Plant, Bielsko-Biała II CHP Plant, Siersza Power Plant, and Zakłady Farmaceutyczne Polpharma Starogard Gdański.

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

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

In 2014, a project was completed to increase the generation capacity of green electricity and heat at PGE Elektrociepłownia Kielce (a CHP Plant) through the addition of a pass-out and condensing turbine generator (with a capacity of ca. 6.5 MW) and heat exchanger (with a capacity of ca. 14 MW), coupled with the existing biomass-fired OS-20 steam generator.

Foreign sales account for a significant part of RAFAKO S.A.'s total sales. The largest steam generators manufactured by RAFAKO S.A. are used in power plants in former Yugoslavia. A number of large units has 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 2014, RAFAKO products were sold to customers in the United Kingdom, Germany, India and Finland.

The Company is building 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 were delivered 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 execute a contract for delivery of the process part for two units at the waste thermal treatment plant of the Szczecin Metropolitan Area. In 2014, we delivered a waste combustion boiler to Billingham, Cleveland County, England.

In December 2012, a fluidised bed boiler was commissioned at the Jaworzno Power Plant (Tauron Group). The boiler will only burn biomass, as opposed to coal-fired and biomass co-fired units already operated at the plant. In September 2014, the contract at the Stalowa Wola Power Plant for conversion of the existing coal-fired boiler into a biomass-fired unit was completed. A contract for delivery of a biomass-fired boiler to a customer in Wiesbaden, Germany, is nearing completion. These innovative projects highlight the Company's established position as a supplier of renewable power generation technologies. They are also aligned with Poland's strategy for the power sector, where the share of renewables in power generation should be increased, as well as with the Company's own pro-environmental strategy.

RAFAKO S.A. is also a leading manufacturer of large FGD units in Poland. The Company has delivered such units to the following power plants: Jaworzno III, Bełchatów, Pątnów, Ostrołęka B, and Dolna Odra.

In 2012, RAFAKO S.A. delivered one of its largest projects, the wet flue gas desulfurisation unit at the Siekierki CHP Plant owned by PGNiG Termika S.A. The unit is also one of the largest pro-environmental projects completed in Poland, and one of the largest standalone structures ever built by RAFAKO S.A. In 2013, the construction was also launched of four wet FGD units at CHP plants owned by the EDF Group. The units are being built in Wrocław, Kraków, Gdańsk and Gdynia 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 wet and semi-dry flue gas desulfurisation units at the Łódź CHP Plant and the Skawina Power Plant. The semi-dry system was engineered exclusively by RAFAKO S.A. and is a more cost-efficient solution than the wet method.

In 2011, the Company gained foothold in a new area of pro-environmental projects in the power sector, i.e. the catalytic reduction of nitrogen oxides, and commenced manufacture of state-of-the-art SCR units on a turn-key basis. Following construction of the first unit delivered for the K8 boiler at PKN Orlen, construction of a second SCR unit has been under way since June 2011 at the Kozienice Power Plant. In June 2012, a contract for delivery of Catalytic Flue Gas Denitration Systems for six power generating units at Elektrownia Połaniec S.A. was signed with GDF SUEZ Energia Polska S.A.

In 2009, RAFAKO S.A. added to its offering dust extraction equipment, such as electrostatic precipitators and bag filters. In 2010−2013, a number of electrostatic precipitators were put in operation, including for units 10, 4, 3 and 8 in the Kozienice Power Plant; for BB-1150 steam generator of unit 4 (in 2010) and units K5 and K6 (in 2011) in the Bełchatów Power Plant, as well as an electrostatic precipitator with a slag and ash transport system for unit 6-215 MW in the Tuzla CHP Plant (in 2012). In 2014, RAFAKO S.A. installed two electrostatic precipitators at the Westfalen Power Plant in Germany and two at the Eemshaven Power Plant in the Netherlands. In December 2014, the Company completed an upgrade of the flue gas desulfurisation system for units 5 at 6 of the Bełchatów Power Plant.

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 standalone basis and, in terms of technologies, will supply the entire boiler island.

In addition, 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. It is the largest investment 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 project designs are based on the state-of-the-art technology of electricity generation by means of supercritical steam generators and turbines, which pushes the efficiency of a generating unit up to 45% or more. The Company has long cooperated with Polish scientists on the concept of generating units with efficiencies in excess of 50%, that is ultra-supercritical units. Its implementation will mark another milestone in the history of both the Company and Polish power sector, which cannot afford to discontinue the use of domestically produced coal as the key fuel. In May 2014, RAFAKO signed a contract for the execution of another ECP project involving the construction of a new CHP plant in Kędzierzyn for Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. The project provides for the construction of a coal-fired generating unit with a high-efficiency steam generator, state-of-the-art flue gas treatment technology and steam turbine.

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

Certificates held by RAFAKO S.A. confirm its compliance with the ISO 9001, ISO 14001, PN-N 18001 standards and Directive 97/23/EC. They also provide assurance to the Company's customers that RAFAKO-manufactured equipment complies with the technical safety requirements in Poland, the EU, and the US.

In 2011, the RAFAKO Group was included in the PBG Group, whose Parent is PBG S.A. PBG S.A. w upadłości układowej (in company voluntary arrangement) is the Parent of a group of companies operating on the specialist construction market. 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. In June 2012, the Court declared PBG S.A. insolvent in voluntary arrangement. Work on arrangement proposals is currently under way.

For the shareholding structure of the Company as at December 31st 2014, see Appendix 9.

Strategy

In November 2014, the Management Board of RAFAKO S.A. approved the RAFAKO Group's Stable Growth Strategy for 2015−2018.

RAFAKO's strategic objectives are to:

1. strengthen its development efforts in the three key areas of boiler, power generation and environmental protection technologies;
2. consolidate its position as a leader on the Polish market of technologically advanced and environmentally-friendly solutions for the power and industrial sectors;
3. expand foreign sales;
4. optimise working capital and borrowing cost management, and improve cost discipline.

The most important strategic challenges for the Company in the near future will include revision in the areas of: contract financing and securing (including an increase in the share of self-financing contracts in the order book, as well as diversification of project amounts and types); cost optimisation (including revision of the rules of cooperation with intermediaries and external expense budgeting for projects, and deployment of appropriate IT solutions); as well as risk and supply chain management (including by developing counterparty risk assessment methods and implementing supply chain management for EPC projects).

The strategy was developed taking into account material changes in the business environment as well as trends in the energy and industrial markets.

The initiatives described in the strategy are designed to increase the EBIT and EBITDA margins in the years to come.

II. Economic and financial standing

1. External and internal factors material to the Company's financial performance and development prospects

A. External factors:

- asset development and fuel diversification policies in the energy sector;
- existing regulations on the electricity market;
- activities of the Company's direct competitors;
- financial standing and market position of the Company's customers and consortium partners;
- financial standing of the Company's main shareholder;
- timeliness of payments by the employers;
- volatility of prices of materials (chiefly metallurgical products), products and procurement services;
- changes in market remuneration rates for jobs relevant to the Company's operations;

B. Internal factors:

- ability to capitalise on the effects of completed and planned investment projects designed to boost efficiency at the Company, particularly in manufacturing and management, and to increase the Company's capacity to acquire and execute orders;
- improvement of management processes at the Company, including management of long-term contracts and operating costs (fixed costs);
- maintaining financial liquidity of the Company;
- 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

RAFAKO S.A. has identified the following risks and threats to its operations in the near future:

1. risk that cost estimates for the current contracts will change (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period ended December 31st 2014;
2. technological risks following from the implementation of complex and innovative technological processes and quality procedures, as well as manufacturing of elements from difficult, high-grade materials, and the related threat of contractual penalties payable in the event of process errors;
3. risk related to the lack of experience in the construction of complete power generating units of significant value on a turn-key basis;
4. risk of poor quality or delayed supplies;
5. risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
6. risk of decreased revenues resulting from the final weight-based settlement for the contracted projects;
7. risk that provisions may need to be recognised for contractual penalties for time overruns or failure to meet guaranteed technical specifications;
8. risk of claims and penalties resulting from possible contract suspensions/terminations by a party;
9. risk that the provisions and impairment losses recognised for the current and completed contracts may prove insufficient;
10. risk that receivables, both impaired and non-impaired, will not be paid,

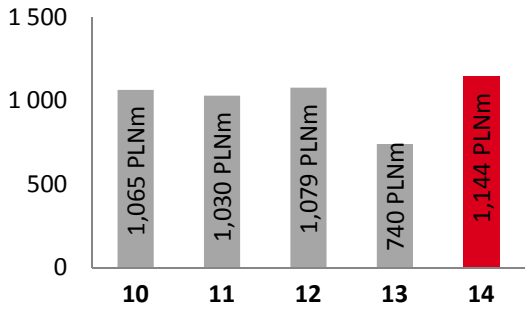
11. risk related to the recovery of receivables under proceedings for insolvency with an arrangement option;
12. risk of necessity to pay disputed claims which are not covered by provisions;
13. risk that the scope of projects may be limited or projects may be postponed by the Company's customers in connection with the energy policy;
14. risk related to extension of financing by financial institutions and provision of bank and insurance guarantees necessary for the performance of key contracts and acquiring new orders;
15. risk of increase in interest rates on credit and guarantee products;
16. macroeconomic risks, including risk of volatile złoty exchange rate (which hinders correct estimation of profitability for long-term contracts) and changes in the tax system;
17. loss of data stored in the IT systems resulting from criminal practices or acts of God;
18. risk of protracting the PBG Group's arrangement proceedings, with a negative effect on the Company's creditworthiness.

For information on the objectives and rules of financial risk management, including the specification of the most material risks, see Note 50 to the Company's financial statements.

3. Analysis of key financial and economic data

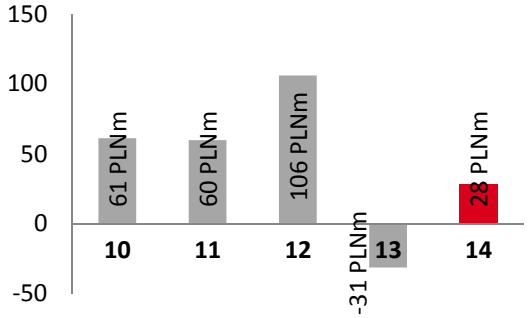
3.1. 2014 highlights

Revenue 1,144 PLNm



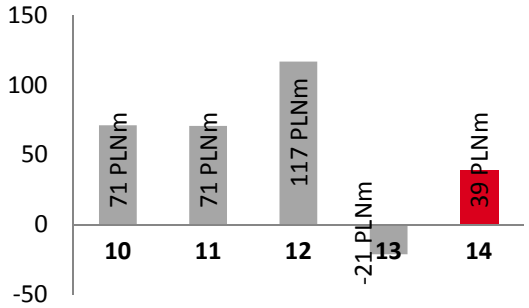
Definition: Total sales of products, merchandise and materials, net of VAT.
Relative to 2013: Revenue rose by 54.6%, driven mainly by higher sales of air protection systems, power generating units and steam generators.

EBIT 28 PLNm



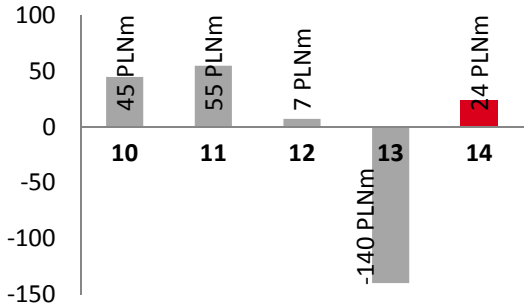
Definition: Profit (loss) from continuing operations
Relative to 2013: Profit from continuing operations amounted to more than PLN 28m, up by PLN 59m year on year.

EBITDA 39 PLNm

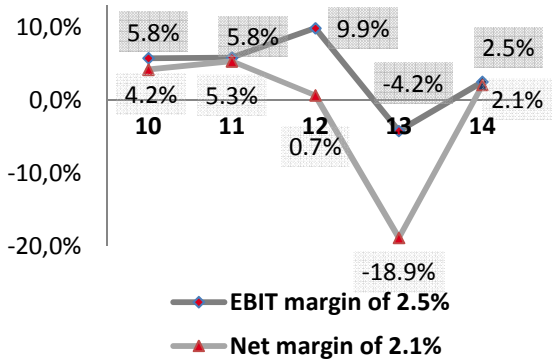


Definition: Sum of profit (loss) from continuing operations, depreciation and amortisation
Relative to 2013: EBITDA improved from PLN -21m to PLN 39m, i.e. by PLN 60m.

Net profit 24 PLNm

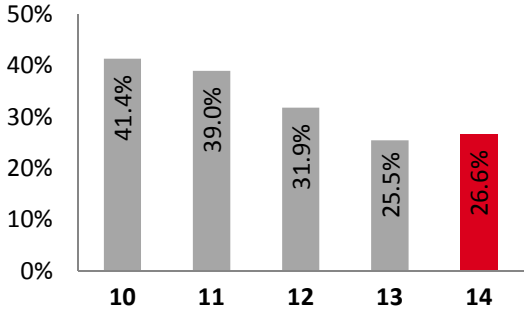


Definition: Excess that remains after deducting all costs. Difference between revenue and total costs.
Relative to 2013: The Company generated a net profit of PLN 24m, against a loss of PLN 140m a year earlier.



Definition: EBIT margin: operating profit (loss) / net revenue from sale of products and merchandise; Net margin: net profit (loss) / net revenue from sale of products and merchandise.
Relative to 2013: The Company's operating margin improved relative to 2013.

Share of equity in financing 26.6 %



Definition: Equity / total assets.
Relative to 2013: The share of equity in the financing of assets increased by 1.1 pp, and was 26.6%.

3.2. Revenue and its structure

In 2014, revenue from sales of products, merchandise and materials was PLN 1,143,740 thousand, having increased year on year by PLN 404,152 thousand (or 54.6%). Sales of products and services amounted to PLN 1,141,720 thousand, while revenue from sales of materials was PLN 2,020 thousand.

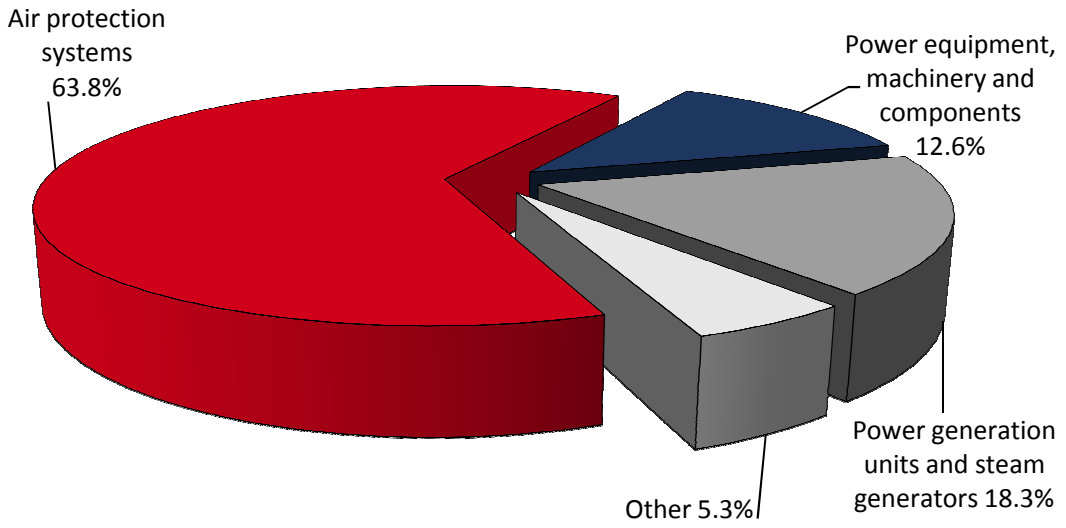
The sales growth reported in 2014 was driven mainly by higher revenue from sales of air protection systems, including flue gas desulfurisation units. Strong sales of these systems are owed to contracts signed in 2012 and 2013, which included, among others, contracts for delivery of flue gas desulfurisation units for the EDF Polska Group (with a value of approximately PLN 770m) and flue gas denitration units for the Połaniec Power Plant (PLN 215m). Sales of air protection systems in the domestic market amounted to PLN 705,405 thousand, and were 94.0% higher than in the corresponding period of the previous year (2013: PLN 363,653 thousand).

2014 saw sales growing across all product groups. In the domestic market, revenue from sales of power generating units and steam generators totalled PLN 155,958 thousand, having increased by 194.1% year on year (2013: PLN 53,025 thousand). The increase was attributable to a greater number of contracts in this product category having been secured in 2013. Sales of subassemblies and parts of power machinery and equipment rose by PLN 180 thousand, to PLN 90,048 thousand.

The share of export sales in total sales was 15.3%, having decreased year on year by 14.1 percentage points. In 2014, export sales were PLN 174,556 thousand, down by 19.7% from PLN 217,308 thousand reported in 2013. The decline in export sales was primarily due to lower sales of air protection systems (2014: PLN 24,610 thousand, 2013: PLN 111,523 thousand): the change was attributable mainly to considerably lower revenue generated under two major contracts for designing, manufacturing, delivery, assembly and start-up of two electrostatic precipitators for the Westfalen Power Plant in Germany and two electrostatic precipitators for the Eemshaven Power Plant in the Netherlands. In 2014, these projects were in the final stages of implementation. Lower sales in the category of air protection systems were partly offset by higher sales in other product categories, mostly in the category of power generating units and steam generators, where sales amounted to PLN 53,071 thousand and were 161.0% higher than in 2013.

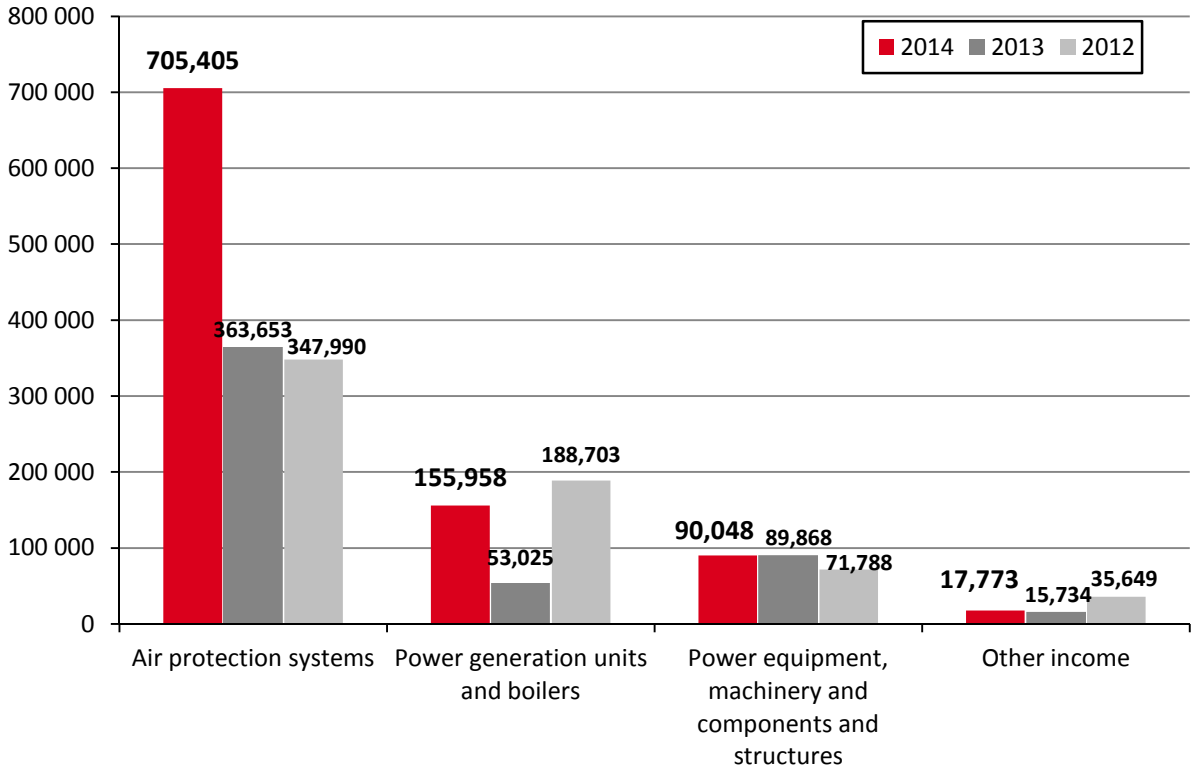
The Company's activity focused mostly on winning contracts for power generating units and increasing sales in foreign markets.

In 2014, the Company's sales structure was as follows:

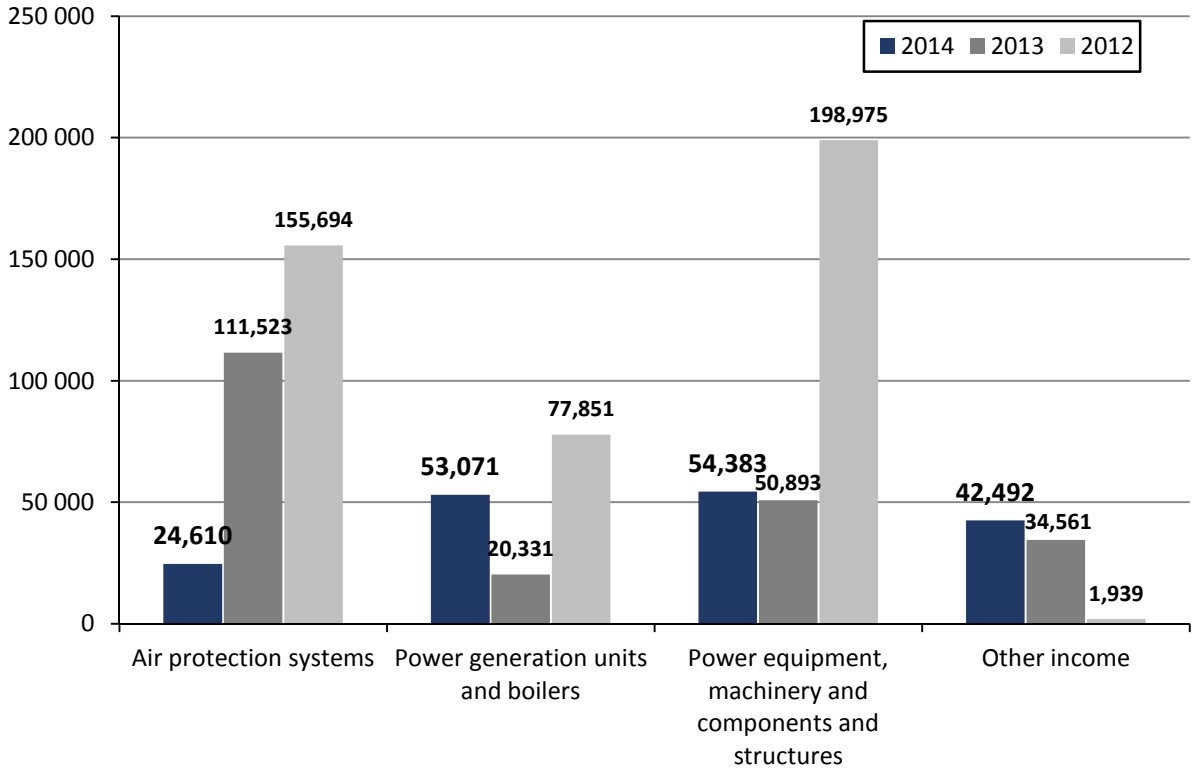


Sales by market:

Domestic market (2014: PLN 969,184 thousand; 2013: PLN 522,280 thousand; 2012: PLN 644,130 thousand):

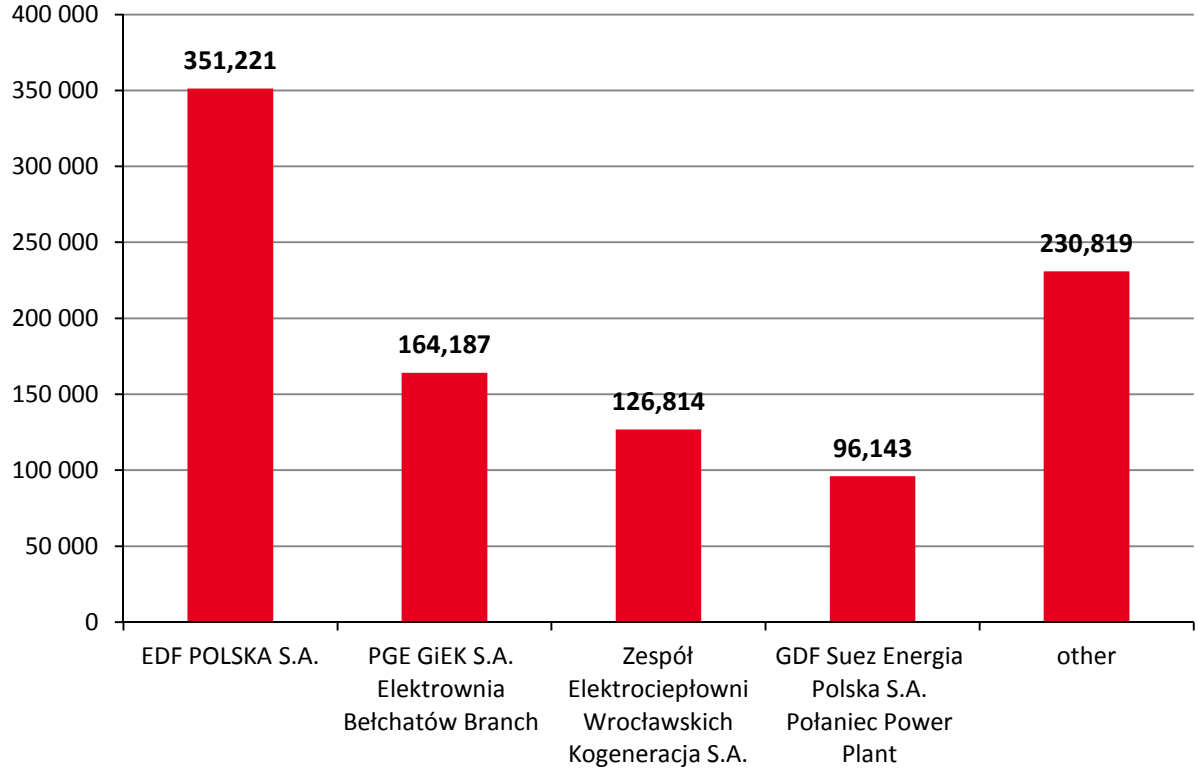


Foreign markets (2014: PLN 174,556 thousand; 2013: PLN 217,308 thousand; 2012: PLN 434,459 thousand):



RAFAKO S.A.'s major customers in 2014 included:

in the domestic market (PLN 969,184 thousand in total):



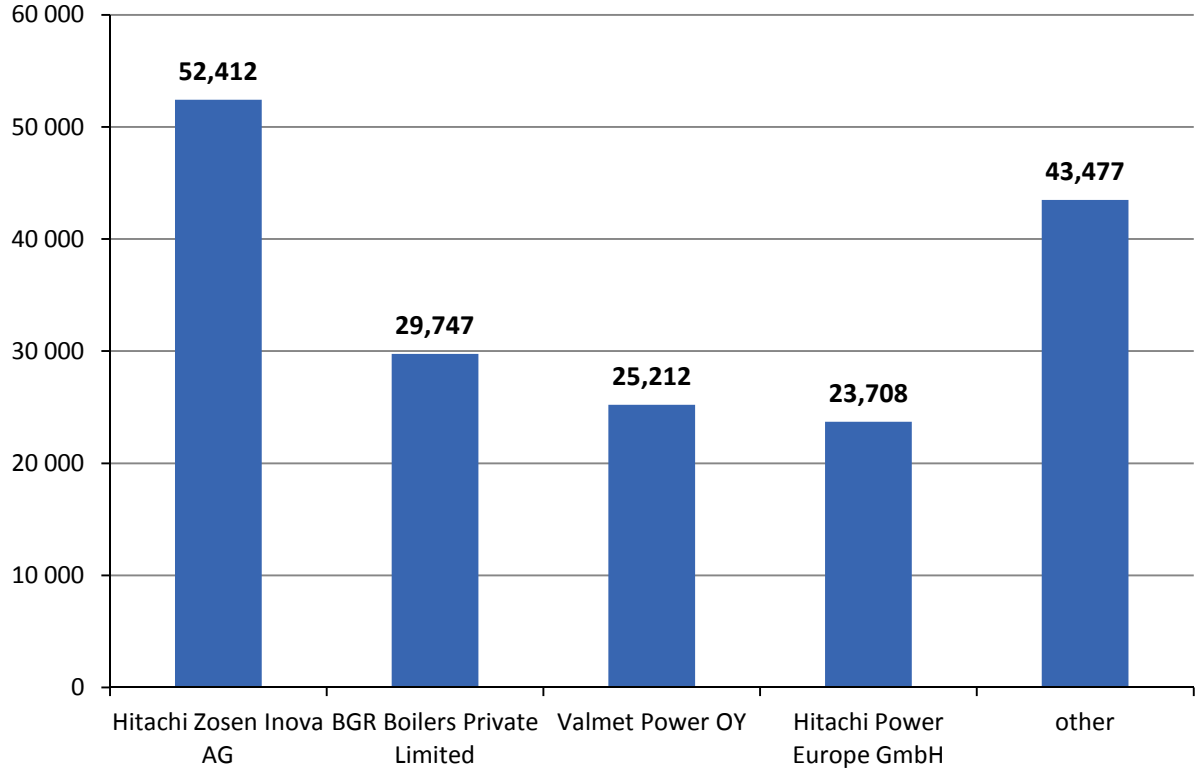
In 2014, the Company's main customer was EDF Polska S.A., which accounted for 30.7% of the Company's total sales (7.1% in 2013); revenue from sales to this customer was generated mostly on construction of flue gas desulfurisation units for CHP plants in Gdańsk, Gdynia and Kraków.

Also PGE Górnictwo i Energetyka Konwencjonalna S.A. – the Bełchatów Power Plant Branch accounted for a considerable share of the Company's total sales (14.4% of total sales in 2014, 14.3% in 2013); revenue from sales to this customer was generated mostly on a project involving the overhaul and upgrade of the power generating units' flue gas heating system. Total sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. in 2014 amounted to PLN 167,702 thousand.

The Company's major customers also included Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. (a company of the EDF Group), which accounted for 11.1% of RAFAKO S.A.'s total sales (1.7% a year earlier). Sales to this company were related chiefly to the construction of flue gas desulfurisation units.

In 2014, GDF Suez Energia Polska S.A. – Połaniec Power Plant, was another large customer of the Company, with an 8.4% share in its total sales (2013: 18.0%). Sales to that customer were related mainly to the construction of flue gas denitration units and upgrade of a steam generator's high-pressure section.

in foreign markets (PLN 174,556 thousand in total):



In foreign markets, RAFAKO S.A.'s main customer was Hitachi Zosen Inova AG of Switzerland, accounting for 4.6% of the Company's total sales (2013: 1.1%). Sales to this customer included the delivery of a boiler for a municipal waste incineration facility located in Calvert, Buckinghamshire, UK.

Given the nature of the Company's sales, individual shares of major customers in total sales exceed 10% during execution of the largest 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 2014, RAFAKO S.A.'s main supply sources included:

	PLN '000			
	2014		*2013*	
Source	*value*	*share in total purchases*	*value*	*share in total purchases*
Domestic suppliers	798,278	84.4%	409,140	82.0%
Foreign suppliers	148,020	15.6%	89,786	18.0%
TOTAL	**946,298**	**100.0%**	**498,926**	**100.0%**

In 2014, the Company's supplier structure was highly distributed, as none of the suppliers represented more than 10% of the total value of purchases.

RAFAKO S.A. relies on external suppliers for pipes, metal sheets, shaped materials, welding materials and specialist equipment, as well as various services, including design work, delivery and assembly of machines and equipment, construction and installation services and transport.

The range of purchases depends heavily on the nature and requirements of individual orders (customised production). The Company is not limited by availability of production materials, supplies or procurement services. Suppliers are chosen based on their ability to provide materials and equipment that meet 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 safety, environmental and other relevant standards.

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

Some products made for sale on foreign markets are manufactured from employers' own materials (customer-provided materials), which on the one hand reduces the risk of cost increases caused by changing prices of supplies, but on the other hand results in lower value of sales.

3.4. Related-party transactions

In 2014, the Company did not enter into any material related-party transactions on non-arm's length terms.

For a detailed list of related-party transactions in 2014, see Note 47 to the full-year financial statements of the Company for 2014.

3.5. Operating expenses, structure of operating expenses and gross profit (loss)

In 2014, the cost of sales of products, services and materials was PLN 1,040,394 thousand, with revenue at PLN 1,143,740 thousand. Thus, the Company posted gross profit of PLN 103,346 thousand (264.8% of the gross profit recorded in 2013).

The increase was attributable chiefly to:

1. higher sales in 2014 (up 54.6% year on year);
2. higher weighted average margin on contracts in 2014 compared with the margin in 2013.

Gross profit margin improved year on year, to 9.0% (2013: 5.3%).

Administrative expenses totalled PLN 38,414 thousand, up PLN 6,010 thousand year on year, mainly due to higher personnel costs.

In 2014, distribution costs were PLN 30,399 thousand, having decreased by PLN 7,803 thousand year on year. Distribution costs net of impairment losses on trade receivables and write-down of previously impaired trade receivables stood at PLN 27,178 thousand in 2014, and were lower than the previous year's figure by PLN 2,455 thousand. Impairment losses on trade receivables and write-down of previously impaired trade receivables went up by PLN 3,221 thousand in 2014 (compared with an increase of PLN 8,569 thousand in 2013).

After accounting for distribution costs and administrative expenses, the Company generated a profit on sales of PLN 34,533 thousand in 2014, compared with a loss of PLN 31,582 thousand in 2013.

3.6. Other income and expenses and net finance income/cost

3.6.1. Net other income/expenses

In 2014, the Company recorded net other expenses of PLN 6,148 thousand (compared with net other income of PLN 311 thousand in 2013), attributable to:

		PLN '000
1.	recognition of provision for the cost of disputes	(5,014)
3.	cost of compensations paid	(1,790)
4.	recognition of impairment loss on receivables	(1,768)
5.	donations	(430)
6.	income from contractual penalties and compensations received	2,046
7.	reversal of provision for amounts due to the state budget	990
8.	contributions to (co-financing) of education expenses	553
9.	negative net balance of other items of other income and expenses	(735)

3.6.2. Net finance income/cost

In 2014, the Company recorded net finance cost of PLN 1,084 thousand (2013: net finance cost of PLN 16,555 thousand), attributable to:

		PLN '000
1.	interest on financial instruments	(6,234)
2.	commission fees paid to banks in connection with credit facilities and bank/insurance guarantees	(1,246)
3.	discount (long-term settlements)	(1,246)
4.	interest on security deposits provided	5,294
5.	dividends received	2,808
6.	net foreign exchange gains	447
7.	negative net balance of other finance income and cost	(907)

3.7. Income and its structure

The main source of the Company's pre-tax profit, which amounted to PLN 27,301 thousand in 2014 (in 2013 the Company posted a pre-tax loss of PLN 142,031 thousand), was the gross profit generated by the Company from its principal operations, of PLN 34,533 thousand.

After accounting for net other expense (PLN 6,148 thousand), net finance cost (PLN 1,084 thousand), and income tax (PLN 3,786 thousand), the Company achieved a net profit of PLN 23,515 thousand, against a loss of PLN 139,781 thousand reported in 2013.

The Company did not publish any financial forecasts or profit guidance for 2014.

The structure and change of pre-tax profit (loss) in 2014, 2013 and 2012 are presented in Appendix 4.

3.8. Margins and ROE

In 2014, the Company reported an improvement in its operating profit margin compared with a year earlier. Gross profit margin rose to 9.0% and was 3.7pp higher than in 2013, while operating profit margin amounted to 2.5% (compared with -4.2% in 2013).

Thanks to generating a net profit of PLN 23,515 thousand, the Company recorded a return on equity of 8.5% (in 2013, in view of the generated net loss, the Company reported a negative ROE of -54.4%).

The improvement in net earnings, coupled with a 2.9% increase in the Company's total assets (up by PLN 29,547 thousand), lifted its return on assets to 2.3% (ROA in 2013: -13.9%).

The 2014, 2013 and 2012 profitability ratios are presented in Appendix 1.

3.9. Financial liquidity

As at the end of 2014, RAFAKO S.A.'s liquidity ratios did not change significantly. Both the current ratio (current assets to current liabilities) and the quick ratio (current assets net of inventories to current liabilities) stood at 1.0.

In 2014, the average collection period lengthened by 12 days (to 74 days), while the inventory cycle shortened by 36 days (to 92 days) and the average payment period contracted by 32 days (to 114 days). The working capital cycle (average collection period + inventory cycle - average payment period) lengthened by 8 days year on year, to 52 days.

In 2014, liabilities to the Social Security Institution (ZUS), State Treasury and employees were settled in a timely manner, though delays occurred in the payment of liabilities towards suppliers.

In 2012, the Company entered into a credit facility agreement with Bank PKO BP S.A., under which the Bank granted to the Company a PLN 300m overdraft facility for the financing of its day-to-day operations. This was a revolving facility, granted for 12 months.

On April 29th 2014, the Company signed an annex to the credit facility agreement, under which the multi-purpose credit facility limit was set at PLN 200,000 thousand, including an overdraft facility limit of PLN 150,000 thousand. The facility repayment date was postponed to April 30th 2015. Under the annex of December 18th 2014, the term of the guarantees issued by the bank was prolonged until December 27th 2017.

Changes in the facility's interest rate affected the Company's finance cost. Further, using a credit facility bearing interest at a variable rate of 1M WIBOR plus margin also exposed the Company 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 bond and advance payment guarantee), provided mainly by banks, is a significant burden on the Company.

A factor of key importance from the point of view of financial liquidity will be the Company's access to new bank/insurance guarantees that would enable the Company to free some of the cash serving as performance bonds provided in respect of contracts which are already being performed – the Company is currently holding negotiations with a view to obtaining new guarantee lines. In 2015, the Company has secured new guarantee limits with a total value of PLN 50m. Moreover, negotiations with financial institutions to establish new guarantee limits are moving into the final stage. Another key issue will be to obtain an extension of credit facility financing beyond April 30th 2015.

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

The currency risk management strategy provides for the use of natural hedging to the largest possible extent. The Company strives to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. Net exposure to currency risk which is not covered by natural hedging is hedged exclusively with accepted types of derivative instruments, up to from 30% to 70% of the estimated net exposure.

As at December 31st 2014, the Company did not carry any unsettled FX hedging transactions.

Given the change of its exporter position (the Company became a net importer in terms of its currency exposure), RAFAKO S.A. did not enter into new hedging FX transactions for sale of foreign currencies within the limits set under the applied currency risk hedging policy.

For the objectives and rules of financial risk management, see Note 50 to the financial statements for 2014.

3.10. Debt

In 2014, RAFAKO S.A.'s liabilities towards its creditors increased by PLN 9,998 thousand. As at December 31st 2014, total non-current and current liabilities were PLN 761,401 thousand, compared with PLN 751,403 thousand as at December 31st 2013.

The increase in liabilities was seen mainly in current trade payables (up by PLN 96,473 thousand to PLN 299,227 thousand), which rose primarily on the back of higher purchases, but also in amounts due to customers for construction contract work (up by PLN 4,770 thousand). The strongest drop was reported in the case of interest-bearing borrowings, which fell by PLN 128,640 thousand to PLN 130,229 thousand), as a result of partial repayment of a bank borrowing in the first half or 2014.

As at December 31st 2014, the Company's assets not encumbered with on-balance-sheet (non-current and current) liabilities were PLN 276,497 thousand (as at December 31st 2013 they were 7.6% lower, at PLN 256,948 thousand).

Debt (including non-current and current liabilities) to assets ratio, measuring the Company's ability to secure repayment of debt with assets, dropped by 1.1 pp year on year, to 73.4%.

Debt to assets ratio does not take into consideration the Company's contingent liabilities under bank and insurance guarantees granted on the Company's instruction (including mainly performance bonds and advance payment guarantees which are typical for RAFAKO S.A.'s business and the market of power generation equipment), letters of credit and promissory notes issued as security. As at December 31st 2014, the Company's contingent liabilities under these instruments totalled PLN 1,317,879 thousand (PLN 293,906 thousand at December 31st 2013). The main item of these liabilities (PLN 1,046m) was represented by a surety issued for the benefit of financial institutions which provided financial security in respect of the Jaworzno Project, the surety was provided to secure proper discharge of obligations by the Jaworzno project SPV in connection with financial guarantee agreements.

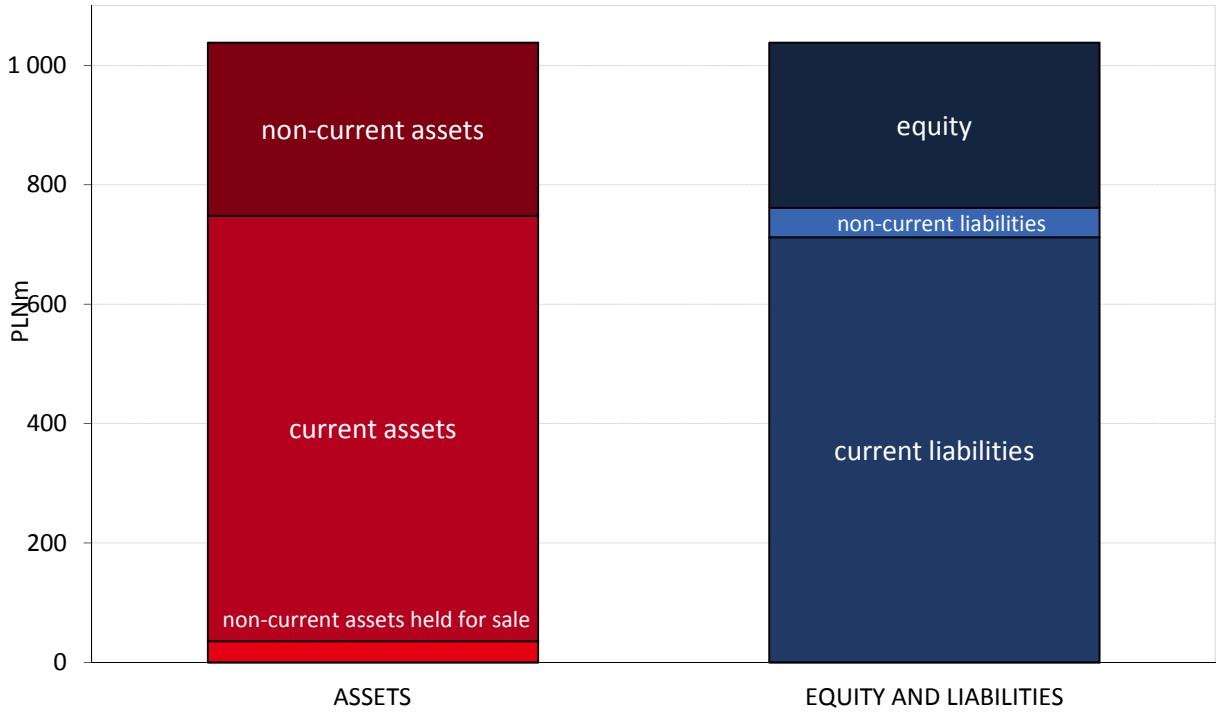
Guarantees (mainly advance payment guarantees and performance bonds) issued in 2014 to the Company's trading partners upon the Company's instruction by banks and insurance companies totalled PLN 89,337 thousand. In this category of liabilities, the largest item was a performance bond of PLN 15,165 thousand, issued in October 2014 in connection with the contract for construction of a fluidised bed boiler.

In connection with its ongoing contracts, besides contingent (off-balance-sheet) liabilities, the Company also carried contingent receivables, which amounted to PLN 243,938 thousand as at December 31st 2014 (PLN 333,200 thousand as at December 31st 2013). The main item of these receivables was represented by bank and insurance guarantees totalling PLN 189,601 thousand. In 2014, the value of received guarantees was PLN 53,758 thousand.

For details of changes in contingent receivables and liabilities, see Note 43 to the financial statements for 2014.

The 2014, 2013 and 2012 liquidity and debt ratios are presented in Appendix 1.

3.11. Assets financing structure



As at December 31st 2014, total assets amounted to PLN 1,037,898 thousand, and were higher by PLN 29,547 thousand (2.9%) compared with December 31st 2013, mainly driven by higher trade receivables (up by PLN 125,395 thousand).

As at December 31st 2014, the Company classified non-current assets worth PLN 35,450 thousand (December 31st 2013: PLN 44 thousand) as assets held for sale. The assets included mainly shares in FPM S.A. sold to TDJ S.A. for PLN 48m on February 23rd 2015.

The share of equity in the financing of assets increased by 1.1 pp relative to December 31st 2013, and was 26.6%.

The long-term capital (equity plus non-current liabilities) covered the full amount of non-current assets (excluding non-current assets held for sale) and 4.9% of current assets.

As at December 31st 2014, the assets financing structure was as follows:

1. non-current assets of PLN 289,332 thousand were fully financed with equity,
2. current assets (and non-current assets held for sale) of PLN 748,566 thousand, were financed with:

long-term capital	4.9%,
current borrowings	17.4%,
trade payables	40.0%,
amounts due to customers for construction contract work	26.8%,
other current liabilities	10.9%.

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, liquidation or sale of redundant property, plant and equipment, remeasurement of assets, and changes in the deferred tax asset. As at December 31st 2014 and December 31st 2013, it was as follows:

	Dec 31 2014	*Dec 31 2013*
1. Property, plant and equipment, including:	49.3%	49.3%
- land and buildings	31.2%	31.8%
- plant and equipment	15.2%	15.9%
- vehicles	1.9%	1.2%
- property, plant and equipment under construction	1.0%	0.4%
2. Intangible assets	3.2%	2.5%
3. Shares	8.8%	20.8%
4. Other financial assets	11.5%	10.8%
5. Deferred tax asset	17.1%	15.3%
6. Other non-current assets	10.1%	1.3%

The most important item of non-current assets was represented by land and buildings, which accounted for 31.2% of non-current assets and about 8.7% of total assets. Other significant items included the deferred tax asset as well as plant and equipment: at the end of 2014, these accounted respectively for 17.1% and 15.2% of total assets. Plant and equipment includes mostly machinery, equipment and apparatuses used in the production process, as well as computer sets.

In 2014, non-current assets dropped by PLN 1,144 thousand (0.4%) compared with the previous year. The change resulted mainly from a decrease in shares in subsidiaries of PLN 35,184 thousand, chiefly due to reclassification of FPM S.A. shares to assets held for sale.

Other non-current assets grew by PLN 25,243 thousand, which was mainly attributable to higher non-current trade receivables.

3.12.2. Key investments in property, plant and equipment

In 2014, the Company incurred capital expenditure on non-financial non-current assets of PLN 12,339 thousand, including:
including:

- PLN 8,560 thousand on property, plant and equipment,
- PLN 3,779 thousand on intangible assets.

Capital expenditure on property, plant and equipment involved chiefly purchases of production plant and equipment, as well as expenditure on construction infrastructure and IT equipment. Capital expenditure on intangible assets was primarily incurred to purchase software and a licence for BENSON supercritical once-through steam generators. The expenditure was financed with internally generated funds and through lease agreements.

3.13. Current assets

In 2014, current assets fell by PLN 4,451 thousand, to PLN 713,116 thousand.

The change in this group was a result of:

1. other receivables and prepayments being lower by PLN 173,954 thousand, chiefly due to a decrease in security deposits receivable (by PLN 78,984 thousand) and settlement and payment of disputed receivables from the Alstom Group, disclosed under other receivables as at December 31st 2013 (PLN 76,386 thousand).

2. trade receivables having risen by PLN 99,282 thousand, chiefly on account of higher sales. An increase was also recorded in gross amount due from customers for contract work (up PLN 78,977 thousand).

Material receivables included deposits provided as security for contract guarantees (mainly issued by banks on the Company's instruction). At the end of December 2014, the amount of deposits provided as security for guarantees was PLN 162.3m (PLN 241.3m at the end of December 2013). The change in security deposits receivable was primarily due to repayment of a cash deposit related to the contract with PGE Elektrownia Opole S.A. for turn-key construction of power unit No. 5 and power unit No. 6 for PGE Elektrownia Opole S.A. The value of security deposits repaid in the 12 months ended December 31st 2014 was PLN 127,361 thousand.

List of loans advanced in 2014 is presented in Appendix 7.

3.14. Equity amount and structure

As at December 31st 2014, RAFAKO S.A.'s equity was PLN 276,497 thousand, of which:

1. Share capital was PLN 139,200 thousand and comprised 69,600,000 Series A, B, C, D, E, F, G, H and I ordinary shares. In 2014, there were no changes in the Company's share capital;
2. Share premium was PLN 36,778 thousand. In 2014, there were no changes in the Company's share premium account;
3. Statutory reserve funds were PLN 81,201 thousand (a PLN 139,781 thousand drop was attributable to coverage of net loss for 2013);
4. Retained earnings were PLN 23,515 thousand;
5. Exchange differences on translating foreign operations were PLN (+)293 thousand;
6. Other capital reserves were PLN (-)4,490 thousand.

In 2014, the Company did not acquire its own shares.

3.15. Changes in RAFAKO S.A.'s equity interests

The following changes in RAFAKO S.A.'s equity interests occurred in 2014:

On January 15th 2014, under a resolution of the General Meeting of ENERGOTECHNIKA ENGINEERING Sp. z o.o. the company increased its share capital by a total of PLN 190 thousand (from PLN 755 thousand to PLN 945 thousand). The increase was effected through the issue of 380 new shares with a par value of PLN 500.00 per share and with an aggregate value of PLN 190 thousand. The new shares were taken up for cash contributions by natural persons related to ENERGOTECHNIKA ENGINEERING Sp. z o.o.

The share capital was registered by the National Court Register on April 2nd 2014.

Following the increase, the share capital of ENERGOTECHNIKA ENGINEERING Sp. z o.o. was divided into 1,890 shares with a total value of PLN 945 thousand. As a result of taking up of the issued shares by related parties, the Parent's share in the share capital of ENERGOTECHNIKA ENGINEERING Sp. z o.o. was reduced.

On June 24th 2014, the Extraordinary General Meeting of ENERGOTECHNIKA Sp. z o. o. passed a resolution to increase the company's share capital by issuing 410 new shares with a par value of PLN 500.00 per share; as a result, the company's share capital was increased by PLN 205 thousand, i.e. to PLN 1,150 thousand. All the new shares were acquired by RAFAKO ENGINEERING Sp. z o.o. The current shareholder structure of the subsidiary is as follows:

Entity	Number of shares	Ownership interest	Share of voting rights at the General Meeting
PGL – DOM Sp. z o.o.*	1,000	43.48%	31.06%
RAFAKO ENGINEERING Sp. z o.o.*	510	40.00%	57.14%
Related parties	380	16.52%	11.80%

- **subsidiaries of RAFAKO S.A.*

On December 30th 2014, RAFAKO S.A. executed a preliminary conditional agreement for sale of shares in FPM S.A., a subsidiary, to TDJ S.A. for PLN 48m. The transaction was conditional on:

- TDJ S.A. obtaining clearance for the business concentration from the President of the Office of Competition and Consumer Protection (President of UOKiK); or TDJ S.A.'s request for clearance being returned following President of UOKiK's declaration that there was no obligation to request such clearance; or the expiry of the deadline for the clearance without any decision on business concentration issued by the President of UOKiK;
- Approval of the sale of FPM S.A. shares granted by the Supervisory Board of RAFAKO S.A.

On January 12th 2015, the Supervisory Board of RAFAKO S.A. approved the sale of FPM S.A. shares. On February 19th 2015, RAFAKO S.A. was notified by TDJ that the President of UOKiK cleared the business concentration involving takeover of control of FPM S.A. by TDJ. On February 23rd 2015, a share sale agreement was executed for an aggregate amount of PLN 48m. The Sold Assets represent 82.19% of FPM S.A.'s share capital and confer 82.19% of total voting rights at the FPM S.A. General Meeting, i.e. 1,376,508 votes. The carrying amount of the shares in the Company's accounting books was PLN 35.2m. Following the transaction, RAFAKO S.A. holds no FPM S.A. shares.

There are no links between RAFAKO S.A. or the management or supervisory personnel of RAFAKO S.A. and TDJ or its management personnel.

4. Human resources and workforce at the Company

In 2014, the average workforce at the Company was 2,110 employees, 86 more than in 2013.

	Dec 31 2014	*Dec 31 2013*
Workforce structure at end of period	**2,155**	**2,092**
production	1,004	993
engineering design office	313	296
technology office	96	74
quality control	101	96
maintenance	45	46
other employees (financial and accounting, sales and procurement staff)	596	587

As at December 31st 2014, the Company's employees with university degree or secondary school diploma accounted for 65.2% of the personnel (against 64.0% as at December 31st 2013). The Company's Management Board recognises the importance of acquiring new, well-educated employees. As more than 90% of posts at the Company require specialist knowledge, persons with specialist university degrees are given priority in the recruitment process. As at December 31st 2014, university graduates accounted for 38.6% of the personnel (against 36.8% as at the end of December 2013). The Company also attaches importance to continuous professional advancement, and many employees decide to enrol on part time university courses.

The age distribution of employees remained stable: the share of employees of aged up to 40 increased from 39.7% as at December 31st 2013 to 40.5% as at December 31st 2014, while the percentage of employees aged between 41 and 50 declined from 24.6% to 24.3% and the share of employees aged over 50 also fell from 35.7% to 35.2%.

Some slight changes were seen in the workforce structure in terms of length of service. The share of employees working for the Company for up to 10 years was 30.3%, up by 2.0% year on year, while the percentage of employees with 11-20 years of service grew by 0.3% to 14.0%, and the share of employees with over 20 years of service fell to 55.7%, from 58.0% as at the end of 2013. The Company has personnel with many years' unique professional experience.

5. Other information

For the statement of compliance with corporate governance rules by RAFAKO S.A. in 2014, see Appendix 9.

For information on the amount of remuneration, awards and benefits for members of the Management and Supervisory Boards, see Note 47.7 to the Company's financial statements.

The Company has entered into a management contract with each member of the Management Board, which includes provisions on compensation in the event of dismissal or resignation.

A member of the Company's Management Board who is dismissed or not appointed for another term (except where such dismissal was caused by the member's failure to properly discharge their duties under the contract, or by wilful or negligent conduct adversely affecting the Company's business), or whose contract has been terminated or expired, is entitled to a one-off termination payment, equal to six months' remuneration.

Additionally, the Company is required to pay non-compete compensation to members of the Management Board, equal to 50% of their monthly remuneration and payable for six months following the date of dismissal, expiry of mandate or end of the termination period.

For information on the number of shares in RAFAKO S.A. and its related entities held by members of the Management and Supervisory Boards, see Note 47.5 to the Company's financial statements.

The Company is not aware of any agreements which may result in a change to the current shareholder structure.

III. Key events and developments in 2014 and in the period from the end of the financial year to the date of the report

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 4.4bn. 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, electrical and I&C systems.

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

Key parameters
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 generating efficiency > 45.91 %.

Unit's components
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 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. In addition, carbon dioxide emissions will be cut by nearly two million tonnes a year.

History of the project

2010	
May	Contract notice was published.
2013	
January	On January 24th 2013, the Company was notified by TAURON Wytwarzanie S.A. that the bid put forward by the consortium comprising RAFAKO S.A. (Consortium Leader) and MOSTOSTAL WARSZAWA S.A. was selected as the most advantageous.
2014	
April	On April 15th 2014, E003B7 Sp. z o.o. (SPV-Jaworzno, a subsidiary of RAFAKO) and a consortium of Siemens Aktiengesellschaft of Munich and Siemens Sp. z o.o. of Warsaw, entered into a conditional agreement to manufacture, deliver, and install a turbine island. The value of the contract was EUR 208,350 thousand. On April 16th 2014, SPV-Jaworzno and Energopol – Szczecin S.A. of Szczecin entered into a PLN 380m conditional agreement for performance of construction works. On April 16th 2014, SPV-Jaworzno entered into an agreement for bank and insurance guarantees required by the Employer, with Powszechna Kasa Oszczędności Bank Polski S.A., Powszechny Zakład Ubezpieczeń S.A. and Bank Gospodarstwa Krajowego. In order to secure the Guarantors' recourse claims arising from the guarantees, RAFAKO and SPV-Jaworzno established, for the Guarantors' benefit, a number of security instruments customarily established with respect to such transactions. On April 17th 2014, the Company and E003B7 Sp. z o.o., its subsidiary, entered into a subcontractor agreement. SPV-Jaworzno will perform, as a subcontractor, approximately 90% of the work and services for which the Company is responsible in the project. ..... *The contracts and agreements listed above were necessary for the main contract to be executed.* 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 power generation unit.
September	On September 18th 2014, an official ceremony took place to inaugurate the construction of the 910 MW Unit in Jaworzno.
October	In October 2014, a detailed Work Schedule for the Unit and a Detailed Contract Performance Schedule were submitted to the Employer. On October 29th 2014, the Company and PKO BP S.A. executed an agreement establishing a registered pledge over a set of the Company's movables and rights. The agreement provided for the creation of a pledge over a set of the Company's movables and rights, with the maximum security amount of PLN 1,046m. The agreement was executed to secure the existing and future claims of PKO BP, Bank Gospodarstwa Krajowego and Powszechny Zakład Ubezpieczeń S.A. against RAFAKO, arising out of or in connection with the Surety Agreement of April 16th 2014 concluded between PKO BP, PZU and BGK as creditors and the Company as the surety for proper discharge by E003B7 Sp. z o.o. of Racibórz (a wholly-owned subsidiary of RAFAKO) of its liabilities towards PKO BP, PZU and BGK under or in connection with the Agreement for the Provision of Guarantees, reported by the Company in Current Report No. 18/2014. As at October 29th 2014, the estimated value of the set of movables and rights was PLN 822,159,800.

November	On November 14th 2014, the Construction Site was handed over to the Contractor. In November 2014, the Employer received the Basic Engineering Design, the documents necessary to update the Construction Plans, as well as assumptions and guidelines for preparing further designs and implementing balance-of-plant projects (which are now being revised based on the Employer's comments). All the conditions precedent provided for in the Energopol Subcontract Agreement had been fulfilled, as a result of which the agreement entered into force on November 19th 2014.
December	In December 2014, the Quality Assurance and Control Programme was provided to the Employer. On December 11th 2014, SPV Jaworzno and Emerson Process Management Power And Water Solutions Sp. z o.o. of Warsaw executed a PLN 252m contract for the design, delivery, installation, and start-up of electrical and C&I equipment along with a DCS control system.
2015	
January	On January 20th 2014, SPV Jaworzno and UNISERV-PIECBUD S.A. of Katowice executed a PLN 164,800 thousand contract for the design, delivery and assembly of a cooling tower along with related equipment.

In its separate financial statements, RAFAKO S.A. recognises only income and expenses related to its scope of work, i.e. 10% of the total scope of work to be performed on the Jaworzno Project. In its separate financial statements, the Company does not recognise income 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.

For rules of accounting for the contract, see Note 14 to the financial statements.

2. Contract with PGE Elektrownia Opole

On February 15th 2012, the Company, acting as the Leader of a Consortium comprising RAFAKO S.A., Polimex – Mostostal S.A. of Warsaw and Mostostal Warszawa S.A. of Warsaw, executed a PLN 9,397m contract with PGE Elektrownia Opole S.A. of Bełchatów (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.) 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 the Opole Power Plant, 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 project will be completed within 54 months from the notice to proceed for unit No. 5, and within 62 months of the notice to proceed for unit No. 6.

In the second half of 2011, mutual claims were raised between the RAFAKO Group and the Alstom Group companies in connection with disputes relating to jointly executed projects, as reported by the Company in previous reports.

On October 15th 2013, the Company signed an out-of-court settlement with ALSTOM Power Systems GmbH, ALSTOM Boiler Deutschland GmbH and ALSTOM Power Sp. z o.o. (jointly the 'Alstom Group'), regulating in a comprehensive manner the terms of financial settlements, providing for a mutual waiver of claims by the Company and the Alstom Group, and defining the scope of collaboration between the Company and the Alstom Group on the Company's projects.

The settlement became effective on November 7th 2013, following execution of a subcontractor agreement for the Opole Project between the RAFAKO Group and the Alstom Group. The key provisions of the final settlement are as follows:

- the Alstom Group companies paid EUR 43.5m to the Company,
- the Company and the Alstom Group waived their mutual claims relating to the Karlsruhe, Westfallen and Bełchatów projects and withdrew the court actions and calls for arbitration submitted in connection with the disputes.

On October 26th 2013, E001RK Sp. z o.o. (a company dedicated to the Opole Project, wholly-owned of RAFAKO S.A.) entered into a subcontractor agreement with Alstom. Under the agreement, E001RK Sp. z o.o. appointed Alstom as its subcontractor responsible for 100% of the work and services making up the Company's scope of work under the Opole Project.

Presentation of income and expenses under the contract has no effect on the values disclosed in the Company's statement of comprehensive income.

The Opole Project may affect RAFAKO S.A.'s performance if the Company becomes Alstom's subcontractor, which is possible under the agreement between RAFAKO and Alstom.

For rules of accounting for the contract, see Note 14 to the financial statements.

On January 31st 2014, the Consortium received a Notice to Proceed for the Opole Project from the Employer.

The project is being implemented in line with the schedule.

3. Events related to other significant contracts

a. May 23rd 2014 – execution of a contract for approximately PLN 320m with Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. The contract provides for implementation of the first phase of the 'New CHP Plant at Grupa Azoty ZAK S.A.' project;

b. October 10th 2014 – execution of a PLN 149,900 thousand-worth contract with ENERGA Elektrownie Ostrołęka S.A. by a consortium comprising RAFAKO S.A. and OMIS S.A. The contract provides for reduction of NOx emissions from the OP-650 units at the Ostrołęka B Power Plant. In accordance with the contract, RAFAKO is responsible for performance of 58% of the scope of work, and is entitled to receive remuneration reflecting this share;

c. January 28th 2015 – execution of a PLN 85,395 thousand-worth contract with ENERGA Elektrownie Ostrołęka S.A. providing for upgrade of electrostatic precipitators in units 1, 2 and 3 at Elektrownie Ostrołęka S.A.;

d. July 18th 2014 – execution of a EUR 11,200 thousand-worth contract with Hitachi Zosen Inova AG of Zurich providing for delivery, assembly and start-up of a boiler for a municipal waste incineration system in Hereford & Worcestershire in the United Kingdom;

e. February 16th 2015 – execution of a EUR 4,383 thousand-worth contract with the Delegation of the European Union to Serbia for upgrade of an electrostatic precipitator at the Morava Power Plant.

4. Other material events

a. On March 24th 2014, the Extraordinary General Meeting of RAFAKO S.A. passed a resolution authorising the Management Board of the Company to increase the share capital by issuing new shares with a total par value of up to PLN 30,663,996, in a single or several share capital increases within the aforementioned limit (authorised capital). In 2014, no shares were issued.

b. On April 29th 2014, an annex to the Credit Facility Agreement was executed with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw. Under the credit facility agreement, in February 2012 the Bank granted to the Company a PLN 300m overdraft facility for the financing of its day-to-day operations. The annex introduced the restated text of the agreement, now renamed as 'Multi-purpose credit facility agreement'. Under the annex, the Bank made available to RAFAKO S.A. a multi-purpose credit facility of PLN 200m,

including:

- an overdraft credit facility of up to 75% of the limit (i.e. PLN 150m) to finance obligations under day-to-day operations,
- bank guarantees, to be provided on such terms as defined in the facility agreement, and a working capital revolving facility to finance payments under realised bank guarantees granted by the Bank, of up to 25% of the limit (PLN 50m).

The term of the facility agreement was set until April 30th 2015. Under an annex of December 18th 2014, the term of the facility agreement with respect to the guarantees provided by the Bank was set until December 27th 2017. The other terms and conditions of the credit facility agreement were not materially amended under the annex. The facility bears interest at 1M WIBOR + bank margin. The agreement also provides for customary bank fees and commissions. Interest is payable on a monthly basis.

On July 1st 2014, the Company and PKO BP executed an annex to the agreement establishing a registered pledge over a set of the Company's movables and rights ("Pledge Agreement") of April 16th 2014. Under the annex, the amount of claims pledged under the Pledge Agreement was amended. From the date of the annex, the pledge secures PKO BP's claims against the Company for a total amount of PLN 200m arising under the amended overdraft facility agreement.

c. Amendments to the Company's Articles of Association (consolidated text of the Articles of Association was published in Current Report No. 27/2014) of May 9th 2014.

d. On November 3rd 2014, PBG S.A. w upadłości układowej (in company voluntary arrangement) put forward updated arrangement proposals with respect to the first group of creditors (which includes RAFAKO S.A.) providing for repayment of PLN 500 thousand and an 80% reduction of receivables in excess of PLN 500 thousand. The receivables will be repaid in semi-annual instalments over a period of five years beginning on June 30th 2016. The Company's Management Board estimates that the first instalment will be paid by June 30th 2016. The total amount of receivables from the related entity (PBG S.A.) subject to bankruptcy proceedings with an arrangement option, recognised in the statement of financial position, is PLN 33.3m.

For a detailed description of the receivables, see Note 49 to the Company's financial statements.

e. On November 17th 2014, the Company's Management Board approved the "RAFAKO Group's Stable Growth Strategy for 2015-2018", the strategic objectives of which were described in Section I.

f. On February 20th 2015 in Racibórz, the articles of association of JV Sanbei-RAFAKO Ltd of Zhangjiakou (the Company's subsidiary established in 1994) were signed providing for the company's continued operation for the next 20 years. The company's business consists in the manufacture of wind turbine towers, lifting equipment, as well as coal-fired and oil/gas-fired boilers marketed mostly in China.

g. On February 23rd 2015, the Company executed a final agreement for the sale of FPM S.A. of Mikołów. RAFAKO S.A. sold the company to TDJ S.A. of Katowice – the main shareholder of Famur, Polska Grupa Odlewnicza and Zamet Industry. Under the agreement, 82.19% of FPM shares were sold for PLN 48m. The preliminary conditional sale agreement was signed in late December 2014. The transaction was cleared by the Polish Office of Competition and Consumer Protection on February 19th 2015.

The sale of FPM was effected as part of the plan to raise funds otherwise than through issue of shares, in line with the Company's strategy for 2014–2018. The sale of the subsidiary will not materially affect the supply chain for RAFAKO S.A.'s contracts, as the use of FPM's products in the Company's contracts has been marginal. FPM's results do not have a material effect on the RAFAKO Group's revenue and profit. In the last few years, its EBITDA was in the range of PLN 6-8m per year.

In addition to the agreements specified in Section 6, partnership and cooperation agreements significant to the Company's business and executed in 2014 also include insurance agreements.

A list of insurance agreements in effect as at December 31st 2014 is presented in Appendix 5.

For information on the agreement with the qualified auditor of financials statements, see Note 49 to the Company's financial statements.

5. Research & development and quality improvement projects

The Company's research & development activity over the last twelve months was aimed at taking advantage of new applications of technologically advanced materials, and developing new forms of organisation for investment projects based on state-of-the-art solutions. The key initiatives in this area rely on cooperation with a number of entities as part of projects commissioned by the National Centre for Research and Development, EIT through Knowledge & Innovation Community, or by the European Commission.

RAFAKO S.A. cooperates with science institutions, especially with the Wrocław University of Technology, Silesian University of Technology, Cracow University of Technology, AGH University of Science and Technology, Jagiellonian University, Stanislaw Staszic Institute for Ferrous Metallurgy, and the Polish Institute of Welding.

Patent applications for five inventions are being prepared for submission to the Polish Patent Office, and eight applications are already being reviewed by the Office.

The most significant research & development and quality improvement projects completed in 2014 include:

a. development of new systems of dust removal from electrodes by rapping method using a bevel gear;
b. determination of the best shape of collecting electrodes for optimum distribution of flue gas stream around the electrodes;
c. determination of optimum insulation distance between selected internal elements of an electrostatic precipitator;
d. development of 'Guidelines for design of boiler pressure equipment' (classification work);
e. numerical simulation of boiler furnaces operation using FLUENT software;
f. testing various doses of formic acid in the process of flue gas desulfurisation;
g. in situ gradation test of selected media at wet and semi-dry flue gas desulfurisation units;
h. innovative system of flue gas treatment for marine diesel engines (DeeCon).

6. Projects related to management and deployment of computer-based processes

RAFAKO S.A. uses ERP Infor LN10 systems, communication software (Lotus Notes) as well as CAD/CAM/CAE tools for computer aided design, integrated at the level of basic elements of business (client, project, supplier). With this software package, the Company is able to perform a broad range of cross-sectional analyses and build reliable decision-support databases.

In 2014, the Company deployed a modern ERP Infor LN10 system, which considerably simplified the processing of logistics and financial data. Also, the Production Plant Servicing module was launched, which will significantly improve information quality and integrity in this area. As a result, maintenance costs are expected to decline.

In 2014, there were no changes to the basic management rules at RAFAKO S.A.

The Company did not launch any employee share option schemes.

The Company has a self-reporting branch in Turkey which prepares its financial statements in accordance with Turkish law. The functional currency of the branch is EUR. The branch was established for the purpose of executing a turn-key contract for an upgrade of two steam generators at Yenikoy Power Plant, signed in November 2007 with Elektrik Uretim A.S. of Turkey, and any future contracts on that market.

7. Disputes, pending litigation, arbitration or administrative proceedings

For information on material disputes and litigations, see Note 45 to the Company's financial statements.

IV. Growth prospects for 2015

1. Energy policy

The EU's energy policy is formulated by Member States as well as EU institutions. The formal allocation of responsibilities in this area results from Title XXI 'Energy' introduced to the Treaty on the Functioning of the European Union. In accordance with the Treaty, the EU's actions in the area of energy policy are driven by four objectives to be achieved in a spirit of solidarity between Member States: '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; and d. promote the interconnection of energy networks.'

The energy policy is currently based on the third energy package adopted in 2009. The targets of the package, also stated in the 'Europe 2020' strategy (named the '20-20-20 targets'), include: a 20% reduction in greenhouse gas emissions, raising the share of energy consumption produced from renewable resources to 20% and a 20% improvement in the energy efficiency by 2020 (the reference year for the three targets is 1990).

Plans for the future under the EU's energy policy were initially proposed in the energy roadmap 2050, specifying the direction of long-term actions in the area of energy, and subsequently in the European Commission's communication of January 2014 setting out the 2020-2030 framework. Two main focus areas specified in the communication were to further reduce greenhouse gas emissions and increase the share of renewable energy sources. Other important areas mentioned in the communication included: improving of energy efficiency, completion of the internal energy market, ensuring competitive prices and increasing security of supplies. The communication was published together with a legislative proposal to reform the emissions trading scheme. These priority objectives were upheld in the European Council's conclusions of March 2014.

On May 28th 2014, the European Commission put forward the EU's energy security strategy, which is to be closely linked with the EU's energy policy until 2030. The strategy is aimed at improving the EU's resilience to energy crises and increasing energy production in Europe.

At its meeting held on June 26th-27th 2014, the European Council approved the strategy: it also undertook to set new objectives of the climate and energy policy in October 2014.

At its meeting held on October 23rd-24th 2014, the European Council adopted a framework of the energy policy until 2030 based on the principles set out in the conclusions of March 2014. In the conclusions from October the following binding targets were set:

- 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.

Member States are required to meet these targets, but may also set their own higher national targets. The need to create an internal energy market was reiterated and tasks were assigned for the European Commission and Member States in the area of interconnections between Europe's gas and electricity networks. An action plan was also developed to reduce the EU's energy dependence and improve its energy security.

The targets under the EU's energy policy, particularly the reduction of CO2 emissions by at least 40% compared with 1990, will be a great challenge for Poland's coal-reliant energy sector (90% of electricity generated in Poland comes from coal). That is why the summit's decision allowing less prosperous Member States to allocate free emission allowances to power plants is so important.

The Poland's Energy Policy until 2050 is also being developed. The document specifies that the 'key objective of the energy policy is to create conditions for continuous and sustainable growth of the national economy, ensure national energy security and satisfy the demand for electricity from businesses and households.'

The draft indicates three operating objectives leading to the achievement of the main goal: 1. ensuring national energy security; 2. increasing competitiveness and energy efficiency of the national economy; 3. reducing environmental impact of the energy industry.

Moreover, Poland's energy policy provides for three scenarios of the national power sector's development: the primary scenario assuming continuation of the current trends, with coal having a predominant share in the energy mix, and two additional scenarios. First of the two assumes the dominance of nuclear energy (45%-60% of the energy mix), while the second is based on gas and renewable energy (50%-55% of the energy mix).

At the beginning of 2015, the long-anticipated acts on shale gas and renewable energy came into force. The Act on Renewable Energy Sources and the so called shale gas law were among the most anticipated pieces of legislation in recent years. The regulations on hydrocarbon exploration became effective as of 2015, while the Act on Renewable Energy Sources was passed by the Sejm (lower chamber of the Polish Parliament) on February 20th 2015.

2. Asset development plans for the power sector

2014 saw increased consumption of electricity in Poland − up 0.49%, to 158.7 TWh, while electricity production fell by 3.65%, to 156.67 TWh. Therefore, the power sector needs to increase its generation capacities to meet the ever-growing demand. Development and upgrade of existing power generation facilities, combined with maximum utilisation of domestic energy sources, are key for the achievement of Poland' energy security. In addition, new projects are needed to ensure effectiveness and efficiency of the power system.

In exchange for freely allocated CO2 emission allowances, power plants will be required to implement investment projects designed to protect the environment. The availability of a pool of freely allocated CO2 emission allowances will ease the pressure on electricity prices for households and the industrial sector, and on the other hand will provide a stimulus to modernise the power sector. With the availability of the power sector modernisation fund, the state-owned electricity producers will be able to gradually implement a vast investment programme, ensuring secure and stable operation of the Polish power system. Investments will include construction of low-emission, high-efficiency power plants and upgrade of old power plants to make them comply with the stringent environmental requirements imposed under EU law.

Ongoing projects include the construction of two power generating units at the Opole Power Plant, and one power generating unit at each of the Jaworzno III Power Plant and the Kozienice Power Plant. In aggregate, these projects will deliver nearly 4 thousand MW of new capacity.

By 2020, power companies intend to invest in Poland more than PLN 129bn. Some investment projects are already in progress, others are still uncertain. A lion's part of the planned expenditure will go on the construction of power generating sources, based on various technologies.

PGE is planning to spend about PLN 50bn by 2020, mostly on new conventional capacities as well as on development and upgrade of power distribution networks. In the same period, the Enea Group is expecting to spend about PLN 20bn, of which about PLN 6bn will be assigned to investments in distribution assets, and about PLN 14bn − in power generation. The Tauron Group assumes that the value of its investment projects in 2014−2023 will reach PLN 37bn. As part of these projects, the Group plans, among other things, to increase its installed capacity. In 2013, French corporation EDF commenced to modernise its Polish assets. The value of EdF's entire investment programme is estimated at about PLN 3.3bn. The largest project will involve comprehensive modernisation of the Rybnik Power Plant, at an estimated cost of about PLN 1.4bn.

According to expectations, investments in the EU's power sector will run to about a trillion dollars by the end of 2023, because power installations built in Europe in the 1950s and 1960s are approaching the end of their technical lives.

Among large power units currently being built, in addition to the contracts executed by RAFAKO S.A., three most advanced projects to construct power generating units should be specifically mentioned, all implemented under contracts signed in 2012: construction of a 449 MW CCGT unit at the Stalowa Wola CHP Plant (Elektrociepłownia Stalowa Wola) for Tauron/PGNiG by Abener Energia, valued at PLN 1.5bn (VAT exclusive) − the unit will be placed in service in 2015; construction of a 1,075 MW hard coal-fired unit at the Kozienice power plant for Enea by Polimex-Mostostal in cooperation with Hitachi Power Europe, valued at more than PLN 4.8bn, and construction

of a 463 MWe gas-fired unit at the Włocławek power plant for PKN Orlen by the General Electric International SA and SNC-Lavalin Polska consortium, with the value estimated at about PLN 1.1bn – the unit is expected to come online in the fourth quarter of 2015.

In H2 2013, other projects were also launched, which were smaller in scale and less cost-intensive. Those include a 50 MW coal-fired unit at the Tychy plant and a 75 MW coal-fired unit at the Zofiówka plant, built for Tauron and Jastrzębska Spółka Węglowa, respectively, by Energoinstal and Elektrobudowa, with the total value of approx. PLN 1.1bn, as well as a 138 MW CCGT unit at the Gorzów plant, constructed for PGE by Siemens and valued at approximately PLN 0.5bn. Other projects under way in 2014 included construction of a 200-270 MW CCGT unit in Szczecin (PGE) and a 596 MW CCGT unit in Płock, constructed for PKN Orlen by a consortium of Siemens AG and Siemens Spółka z o.o. The estimated VAT-exclusive value of the contract is PLN 1.3bn. The unit is scheduled to come online by the end of 2017.

Construction of the first phase of the 800 MW Elektrownia Północ project, implemented by Alstom for Kulczyk Investments, is soon to be launched.

Another planned project involves construction of a 1,000 MW coal-fired power-generating unit in Wola for Kompania Węglowa. PGNiG is planning to build a 400-500 MW CCGT unit at the Żerań CHP plant, while Tauron is contemplating construction of a 412-490 MW gas-fired unit at the Power Plant in Łagisza.

3. Operational plans

RAFAKO S.A. is prepared to meet the challenges of the power market. The Company currently offers the widest selection of power technologies in Europe. 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 types of fuels. RAFAKO S.A. is one of Europe's four companies (alongside Alstom, Hitachi Power Europe and Doosan Babcock) offering the complete technology for supercritical power units.

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 2015, 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 fuel: 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 denitration 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 Company 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 desulphurisation 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 2015, the following factors and developments will have the greatest effect on the Company's development and prospects:

- securing financial liquidity and obtaining access to new bank/insurance guarantees that will enable the Company to perform new contracts,
- making good progress in construction of the 910 MW supercritical power generating unit at the Jaworzno Power Plant,
- outcome of the arrangement proceedings at PBG,
- implementation of a large number of significant contracts in the Polish and European markets, including construction of modern steam generators, flue gas desulfurisation and denitration units, biomass-fired units, municipal waste treatment and incineration systems, as well as pressurised parts of supercritical boilers.

Capital expenditure planned for 2015 will be made mainly on the upgrade of existing buildings and structures, purchase of production plant and machinery, as well as computer software and hardware. Investment projects will be financed using external sources (e.g. leases), as well as the Company's own funds.

According to forecasts of RAFAKO S.A.'s performance in 2015, the Company is expected to report a net profit. These plans assume the implementation of existing contracts, which will account for a significant part of the projected sales figures, as well as new contracts which the Company needs to win in 2015 to achieve the planned performance targets.

In accordance with the Stable Growth Strategy for 2015–2018, the Company intends to focus on the following strategic initiatives:

1. Contract financing and security

- Increasing the share of self-financing contracts in the order book and diversification of projects in terms of their values and types.
- Revision of the group of financial institutions with which the Company maintains relations (ultimately the Company plans to work with 2-5 core banks and with insurance institutions (with respect to guarantee facilities)). The Company is also planning to obtain guarantees based on its business partners and project structures.
- Freeing some of the cash currently serving as performance bonds.

2. Cost optimisation

- Implementation of appropriate IT solutions in the area of management accounting and project controlling (including with respect to data warehouses) to facilitate better control of budgets under EPC projects.
- Revision of organisational/staffing solutions and purpose of fixed cost and workforce structure optimisation, with a particular focus on strengthening the competence in EPC project management.
- Review of the sales planning process with a view to increasing return on fixed costs employed.

3. Risk and supply chain management

- Revision of the methods of counterparty risk assessment and implementation of new risk management matrices.
- Implementation of strategic supply chain management under EPC projects with a view to minimising risks, ensuring the availability of key resources and enhancing competitive advantage.

4. Order book

As at December 31st 2014, the value of RAFAKO S.A.'s order book was nearly PLN 5.8bn. The largest item was the Jaworzno project, worth PLN 4.4bn, of which PLN 0.45bn is being executed directly by RAFAKO S.A. and PLN 3.95bn – by 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). At present, the order book comprises only power construction projects.

ORDER BOOK	
Dec 31 2014	**Dec 31 2013**
~ PLN 1.9bn	**~ PLN 1.8bn**

	ORDER BOOK as at December 31st 2014	Due for execution in		
		2015	2016	after 2016
TOTAL	**~5.8bn**	**~1.4bn**	**~1.8bn**	**~2.6bn**
RAFAKO	**~1.9bn**	**~0.7bn**	**~0.6bn**	**~0.6bn**
SPV Jaworzno	**~3.9bn**	**~0.7bn**	**~1.2bn**	**~2.0bn**

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

a. the order book value is equal to the aggregate amount of the RAFAKO Group's remuneration under individual contracts executed by the Company in the period to December 31st 2014; 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 December 31st 2014; 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 4.4bn.

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 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 denitration 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) Execution of the first phase of the 'New CHP Plant at Grupa Azoty ZAK S.A.' project

On May 23rd 2014, RAFAKO S.A. and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A executed a contract for approximately PLN 320m.

The contract provides for:

- construction and supply of equipment and services, as well as start-up of a boiler house with a coal-fired pulverised-fuel boiler, with a capacity of 140 Mg/h of steam with temperature of 495ºC and pressure of 7.5 MPa;
- construction and supply of equipment and services, as well as start-up of a 25 MWe pass-out and condensing turbine in the existing turbine house, to be fed inlet steam with temperature of 490ºC and pressure of 7.0 MPa;
- construction of a building (housing the central control room, DCS control system and social amenities), including equipment supply and start-up.

3) Design, delivery and erection of a grid, boiler and flue gas treatment unit for the Thermal Waste Treatment Plant in Szczecin

On June 7th 2013, RAFAKO S.A. and Mostostal Warszawa executed a contract with a value of over PLN 227m for construction of a boiler island for the Thermal Waste Treatment Plant in Szczecin.

Under the contract, RAFAKO S.A. is responsible for the entire process part, including the burner grid, boiler and flue gas desulfurisation, denitration and dust removal units. The contract is part of a project to build a waste incineration facility for the Thermal Waste Treatment Plant in Szczecin, carried out by Mostostal Warszawa. The facility, located on the Puck Island, will meet the most stringent environmental standards. It is to have an annual capacity of 150 thousand tonnes of waste. The total value of the project is over PLN 711m. At present, the only waste incineration facility operating in Poland is located in Warsaw.

4) Construction of fluidised bed boiler at Synthos Dwory 7

The contract, with a VAT-exclusive value of PLN 151.6m, is for the turnkey delivery of a OFz-140 fluidised bed boiler at Synthos Dwory 7 in Oświęcim.

The boiler will be designed and manufactured by RAFAKO S.A. The Company undertook to complete the manufacture, delivery and assembly of the fluidised bed boiler and the necessary construction works by January 2016.

Fluidised bed boilers enable reduction of sulfur and nitrogen oxides emissions already at the combustion stage. Consequently, they do not require any separate desulfurisation units, which are very costly. RAFAKO S.A. has designed and delivered seven boilers with circulating fluidised beds for burning coal.

5) **Construction of a municipal waste incinerator boiler for Hereford & Worcestershire in the United Kingdom.**

On July 18th 2014, RAFAKO S.A. and Hitachi Zosen Inova AG of Zurich executed a EUR 11.2m-worth contract

providing for delivery, assembly and start-up of a boiler for a municipal waste incineration system in Hereford & Worcestershire in the United Kingdom.

6) **Upgrade and overhaul of the rotary air heaters and boiler auxiliary systems for power generating units No. 7-12 at the Bełchatów Power Plant**

On January 18th 2011, a contract of ca. PLN 120m was signed with PGE Górnictwo i Energetyka Konwencjonalna S.A., Bełchatów Power Plant Branch.

Key contracts for air protection systems:

1) **Construction of catalytic flue gas denitration 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 turnkey delivery of complete, advanced catalytic (SCR) flue gas denitration 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.

2) **Flue gas desulfurisation units for the EDF Polska Group**

The contract provides for design, delivery and start-up of wet flue gas desulfurisation units at the Gdynia CHP Plant, Gdańsk CHP Plant, Wrocław CHP Plant (ZEW Kogeneracja S.A.) and Kraków CHP Plant. The VAT-exclusive value of the contract for:

Gdynia CHP Plant:	PLN 147.1m
Gdańsk CHP Plant:	PLN 186.0m
Wrocław CHP Plant:	PLN 199.0m
Kraków CHP Plant:	PLN 237.8m

The project provides for turnkey delivery to the EDF Polska Group companies of wet flue gas desulfurisation units comprising: an absorber with auxiliary systems; an absorber stack; sorbent unloading, storage and preparation systems; process residue collection, storage and loading systems; installation for loading the sorbent onto trucks; process water system, including water preparation units; process wastewater treatment system; systems for controlling other units required for the proper operation of the wet flue gas desulfurisation unit, along with adaptation of existing systems.

3) **SCR systems in Połaniec**

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

4) Upgrade of flue gas desulfurisation systems at the Bełchatów Power Plant units 5 and 6

The contract, worth PLN 116m, provides for upgrade of the flue gas desulfurisation systems at the Bełchatów Power Plant units 5 and 6.

The upgrade of the FGD systems of units 5 and 6 follows from the requirement to further reduce SO2 emissions from active units at the Bełchatów Power Plant, introduced by environmental protection regulations.

5) SCR units on OP-650 boiler No. 1, 2 and 3 at the Ostrołęka B Power Plant

On October 10th 2014, a consortium comprising RAFAKO S.A. and OMIS S.A signed a contract with ENERGA Elektrownie Ostrołęka S.A. The contract provides for reduction of NOx emissions from the OP-650 units at the Ostrołęka B Power Plant. In accordance with the contract, RAFAKO is responsible for performance of 58% of the scope of work, and is entitled to receive remuneration reflecting this share.

The project, with a budget of nearly PLN 150m, represents another step towards making the Ostrołęka B Power Plant compliant with new emission standards. The investment process related to reduction of nitrogen oxides emissions will be gradual, and will cover three coal-fired units at the Ostrołęka Power Plant. It will be carried out in stages, with the common part of the installation and the first boiler unit expected to be placed in operation next year, and the entire project scheduled for completion by the end of 2017. The guaranteed maximum NOx emissions on completion of the project are 100 mg/Nm3, with the option to improve the denitration efficiency should more stringent emission standards be introduced.

6) Upgrade of electrostatic precipitators in units 1, 2 and 3 at Elektrownie Ostrołęka S.A.

The upgrade work, scheduled for three years, will cover three units of the power plant. With an estimated value of over PLN 85m, the project represents another stage in adapting the Ostrołęka B Power Plant to new EU emission standards for coal- and biomass-fired units. Following completion of the work, dust emissions will be cut in more than half.

Management Board's statement

The Management Board of RAFAKO S.A. hereby represents that:

1) to their best knowledge, the financial statements for the year ended December 31st 2014, as well as comparative data for the year ended December 31st 2013, were drawn up in compliance with the applicable accounting standards and give a true, fair and clear view of the Company's assets, its financial condition and performance, and that the Directors' Report on the operations of RAFAKO S.A. gives a true view of the Company's development, achievements and standing, including a description of key risks and threats;
2) the auditor of the Company's annual 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 annual financial statements, in compliance with the applicable laws and professional standards.

Signatures of Management Board members:

March 23rd 2015	Agnieszka Wasilewska-Semail	President of the Management Board	.....
March 23rd 2015	Krzysztof Burek	Vice-President of the Management Board	.....
March 23rd 2015	Jarosław Dusiło	Vice-President of the Management Board	.....
March 23rd 2015	Edward Kasprzak	Vice-President of the Management Board	.....
March 23rd 2015	Tomasz Tomczak	Vice-President of the Management Board	.....