DIRECTORS' REPORT ON THE OPERATIONS OF THE RAFAKO GROUP IN 2015

Racibórz, March 21st 2016

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I. General information

About us

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

The RAFAKO Group's key products and services include:

Complete power generating units	Steam generators and heat generators	Air protection systems	Subassemblies and parts of power machinery and equipment	Other
• 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 for the power generation industry	• construction and process design, urban planning • engineering and technical advisory services • supervision services for the construction, industrial and environment protection sectors • equipment assembly in the power and chemical industries • property management

The Group delivers the above products and services in the EPC model (end-to-end project management including design, procurement, manufacture, assembly/construction, and commissioning) and in a non-EPC model (design, procurement, manufacture, assembly/construction of a given product in various configurations, with procurement and manufacture as mandatory elements).

The Parent operates its own production plants. The main plant is located in Racibórz, along with the plant management staff, the head office, design and technology offices, as well as five production plants where mainly high-pressure equipment is produced. Electrostatic precipitators and their components are manufactured in Wyry. The Group's total production capacity for 2015 exceeded 1.4 million man-hour per year, with the potential to be increased to more than 1.6 million man-hour per year. The Group is currently Poland's and EU's leader in terms of the production capacity for high-pressure equipment.

RAFAKO S.A. has operated in the power sector since 1949. The Parent's product offering, initially comprising mainly steam generators and their components, has gradually been expanded to include flue gas desulfurisation and denitration units, dust removal units, etc. From a typical manufacturer, the Parent has been transformed into a general contractor for power facilities. In 2014, the Parent 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 (the "Jaworzno 910MW Project").

Since its inception, the Parent has been a leading supplier of steam generators for the country's power and industrial sectors. The combined capacity of RAFAKO-delivered steam generators accounts for a significant part of the capacity installed in the Polish commercial and industrial power sector. The most important facilities which use steam generators delivered by the Parent include power plants in Bełchatów, Opole, Turów, Dolna Odra (all owned by PGE), Rybnik (EDF), Pątnów-Adamów-Konin, Kozienice (Enea), and power plants owned by Tauron Wytwarzanie, as well as Warsaw CHP Plants – Elektrociepłownie Warszawskie (PGNiG Termika), Wrocław CHP Plants – Zespół Elektrociepłowni Wrocławskich Kogeneracja, Łódź CHP Plants – Zespół Elektrociepłowni Łódź (Dalkia), and Zielona Góra CHP Plant – Elektrociepłownia Zielona Góra (EDF). The Parent has also delivered circulating fluidised bed (CFB) boilers to the Żerań CHP Plant and Bielsko-Biała II CHP Plant (Tauron Wytwarzanie), Siersza Power Plant (Tauron Wytwarzanie), 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 a 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 have also been delivered to the Czech Republic, China, Turkey, and India. RAFAKO S.A. is also an important player on the European market for steam-generator components. In 2015, RAFAKO products were sold to customers in the United Kingdom, Finland, Turkey, Germany, Serbia and the Czech Republic.

The Parent is solidifying its position on the European market of waste incineration solutions. In 2011, RAFAKO S.A. supplied three heat recovery steam generators to a waste incineration facility in Turin, Italy, and further two heat recovery steam generators 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. At the beginning of 2016, a contract providing for the delivery of a boiler for a municipal waste incineration facility located in Calvert, Buckinghamshire, UK, had been completed, and in March 2016 the boiler was tested before its final commissioning. Acceptance is scheduled for April 2016.

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 RAFAKO'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 environmental protection facilities in Poland. The Parent has delivered units of this type to the Jaworzno III Power Plant, Bełchatów Power Plant, Pątnów Power Plant, Ostrołęka B Power Plant, Dolna Odra Power Plant, Siekierki CHP Plant, Łódź CHP Plant, Siersza Power Plant, Skawina Power Plant, Trzebowice Power Plant (for Dalkia, the Czech Republic), Kozienice Power Plant, and Połaniec Power Plant.

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 environmental projects completed in Poland, and one of the largest stand-alone structures ever built by RAFAKO S.A. In December 2014, RAFAKO S.A. completed the modernisation of the FGD units on Units 5 and 6 at the Bełchatów Power Plant. In 2015, the construction of wet FGD units at CHP plants owned by the EDF Group was completed. The units were 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. Guarantee measurements, to be completed in Q1 2016, are currently underway.

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 Parent 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, the Parent 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.

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, in February 2014, the long-awaited contract for the 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 Parent 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 Parent provides after-sale support and servicing for all products and equipment supplied. The Parent 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 Parent'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. By the decision of August 25th 2015, the Judge Commissioner approved PBG's Arrangement with Creditors consistent with the Arrangement Proposals of April 28th 2015.

For the shareholding structure of the Parent as at December 31st 2015, see Appendix 9.

II. Organisation of the RAFAKO Group

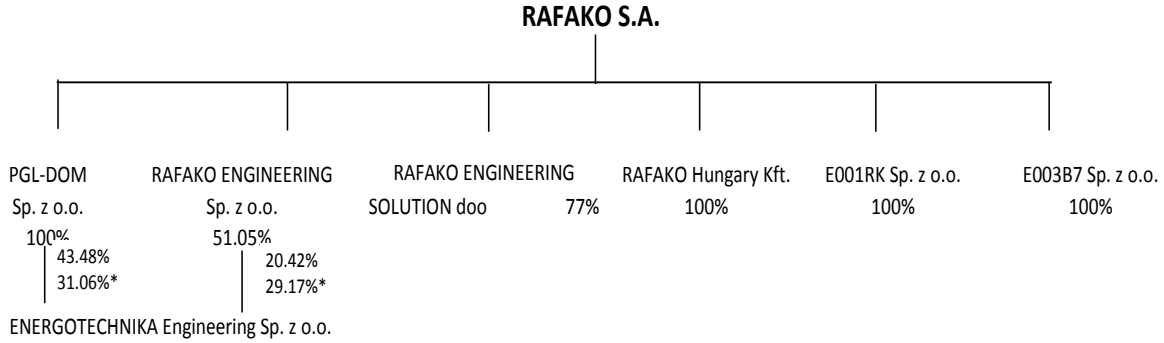
1. Structure of the Group and its consolidated subsidiaries

As at December 31st 2015, the RAFAKO Group was composed of the Parent and seven subsidiaries operating in the power construction, services and trade sectors.

As at December 31st 2015, in addition to the Parent, the RAFAKO Group comprised:

- Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o., registered office at ul. Bukowa 1, Racibórz, Poland. Principal business activity: housing community management.
- RAFAKO ENGINEERING Sp. z o.o., registered office at ul. Łąkowa 33, Racibórz, Poland. The Parent holds a 51.05% interest in the share capital of the company and the same percentage of voting rights at the General Meeting. The company's business includes engineering activities and related technical consultancy.
- ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice, a subsidiary of RAFAKO ENGINEERING Sp. z o.o. (which holds 29.17% of voting rights at the company's General Meeting) and of PGL DOM Sp. z o.o. (which holds 31.06% of voting rights at its General Meeting). Principal business activity: construction and process design, urban planning and engineering consultancy.
- RAFAKO ENGINEERING SOLUTION doo, registered office at Učiteljska 46, Belgrade, Serbia. The Parent holds a 77% interest in the share capital of the company and the same percentage of voting rights at the General Meeting. Principal business activity: process design, construction, industry, and environmental protection consultancy and supervision.
- RAFAKO Hungary Kft. of Budapest, Hungary. The Parent holds the entire share capital of the company and all voting rights at the General Meeting. Principal business activity: equipment assembly for the power sector and the chemical industry.
- E001RK Sp. z o.o. of Racibórz, entered in the National Court Register on October 9th 2013. The Parent holds 100% of the company shares. Principal business activity: development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.
- E003B7 Sp. z o.o. of Racibórz (or "SPV Jaworzno"), entered in the National Court Register on November 22nd 2013. The Parent holds 100% of the company shares. Principal business activity: development of construction projects, construction, engineering and process consultancy and design.

As at December 31st 2015, the following subsidiaries were included in the Group's consolidated financial statements:



* % share of voting rights at the General Meeting.

The Parent holds 1,956 shares, i.e. 26.23% of the share capital, of SANBEI-RAFAKO Sp. z o.o., of Zhangjiakou, Hebei Province, China. The company's principal business activity includes production of small steam generators and water boilers and other power equipment. As at December 31st 2015, the Parent's interest in the company's share capital was not material for the assessment of the Group's assets, liabilities, profits or losses.

The RAFAKO Group's Parent is PBG S.A. w upadłości układowej (in company voluntary arrangement), registered office at ul. Skórzewska 35, Wysogotowo, Poland.

2. Significant changes of equity interests

As at December 31st 2015, the Group's share in total voting rights held in the subsidiaries was equal to the Group's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 40% of preference shares (conferring the right to 57.1% of the total vote); the remaining 43.48% of the shares (conferring the right to 31.06% of the total vote) are held by PGL-DOM Sp. z o.o.

In the 12 months ended December 31st 2015, the following changes took place in the composition of the RAFAKO Group.

On February 23rd 2015, an agreement was signed to sell shares in subsidiary FPM S.A. for a total amount of PLN 48m. The assets sold represented 82.19% of FPM S.A.'s share capital and conferred 82.19% of total voting rights at the FPM S.A. General Meeting. The carrying amount of the shares in the Parent's accounting books was about 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.

On September 1st 2015, a resolution was passed to increase the share capital of subsidiary RAFAKO Engineering Sp. z o.o. from PLN 1,000 thousand to PLN 1,959 thousand, i.e. by PLN 959 thousand through the creation of 1,918 new shares with a par value of PLN 500 per share. The resolution waives the pre-emptive rights of the existing Shareholder (RAFAKO S.A., the Parent) to acquire the newly created shares in proportion to the shares already held, assuming that the new shares will be acquired by a new shareholder – related entity PBG oil and gas Sp. z o.o., a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement). The shares will be acquired in return for a non-cash contribution in the form of an organised part of business with a total value of PLN 3,879 thousand and a cash contribution of PLN 1,200 thousand. After the registration of the share capital increase at RAFAKO Engineering Sp. z o.o., the respective interests held in the company by RAFAKO S.A. and PBG oil and gas Sp. z o.o. will be 51.05% and 48.95%. The RAFAKO Engineering Sp. z o.o. share capital increase was registered by the District Court of Gliwice, 10th Commercial Division of the National Court Register, on October 29th 2015.

On October 30th 2015, the Parent acquired an organised part of the business of its related entity PBG Avatia Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), comprising movables, intangible assets and rights under agreements, for a total amount of PLN 2,500 thousand. The acquisition was made as part of a strategy aimed at standardising the IT processes and services across the PBG Group and locating them within RAFAKO S.A. As the condition precedent to the taking of control of the acquired business has been met, the transaction will be accounted for in accordance with IFRS 3 Business Combinations. As at the date of these financial statements, the final accounting for the transaction and its recognition in the accounting books were still pending.

3. Parent's governing bodies

The governing bodies of RAFAKO S.A. include:
- the General Meeting;
- the Supervisory Board;
- the Management Board.

General Meeting

The Annual General Meeting of RAFAKO S.A. held on June 18th 2015 passed the following resolutions:

1. to set the number of the Parent's Supervisory Board members at seven,
2. to appoint the Supervisory Board for the eighth term.

Moreover, on June 18th 2015 the Annual General Meeting of RAFAKO S.A.:

1. reviewed and approved the Directors' Report on the Parent's operations and the Parent's financial statements for the financial year 2014,
2. reviewed and approved the Directors' Report on the RAFAKO Group's operations and the RAFAKO Group's consolidated financial statements for the financial year 2014,
3. approved the Report on the activities of the Parent's Supervisory Board in 2014,
4. granted discharge to members of the Parent's Management Board for performance of their duties in 2014,
5. granted discharge to members of the Parent's Supervisory Board for performance of their duties in 2014,
6. decided that the Parent's entire profit for the financial year from January 1st 2013 to December 31st 2014 will be applied towards the Parent's statutory reserve funds.

Supervisory Board

The Supervisory Board exercises ongoing supervision over the Parent's operations.

Over the last financial year, there were changes in the composition of the Parent's supervisory body.

On June 18th 2015, the Annual General Meeting of RAFAKO S.A. resolved to set the number of Supervisory Board members at seven and to appoint to the Supervisory Board of the eighth term the following persons:

Jerzy Wiśniewski	– Member of the Supervisory Board (Chairman)
Dariusz Sarnowski	– Member of the Supervisory Board (Deputy Chairman)
Piotr Wawrzynowicz	– Member of the Supervisory Board (Secretary)
Przemysław Schmidt	– Member of the Supervisory Board
Dariusz Szymański	– Member of the Supervisory Board
Adam Szyszka	– Member of the Supervisory Board
Małgorzata Wiśniewska	– Member of the Supervisory Board.

On November 9th 2015, Mr Piotr Wawrzynowicz, Secretary of the Supervisory Board, resigned from his position on the Supervisory Board of RAFAKO S.A.

On December 21st 2015, the Extraordinary General Meeting of RAFAKO S.A. appointed Mr Krzysztof Gerula to the Company's Supervisory Board.

As at the date of the financial statements, the composition of the supervisory body of RAFAKO S.A. was as follows:

Jerzy Wiśniewski	– Chairman of the Supervisory Board
Dariusz Sarnowski	– Deputy Chairman of the Supervisory Board
Krzysztof Gerula	– Member of the Supervisory Board (independent member)
Przemysław Schmidt	– Member of the Supervisory Board (independent member)
Dariusz Szymański	– Member of the Supervisory Board
Adam Szyszka	– Member of the Supervisory Board (independent member)
Małgorzata Wiśniewska	– Member of the Supervisory Board.

Management Board

During the financial year, there were no changes in the composition of the Parent's Management Board.

As at the date of this Directors' Report on the operations of the RAFAKO Group, the composition of the managing body of RAFAKO S.A. was as follows:

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

III. Economic and financial standing

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

A. External factors:

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

B. Internal factors:

- conclusion and performance of material contracts by the Group companies;
- maintaining financial liquidity of the Group companies;
- ability to capitalise on the effects of completed and planned investment projects designed to boost efficiency at the companies, particularly in manufacturing and management, and to increase the their capacity to win and execute orders;
- improvement of management processes at the Group, including management of long-term contracts and operating costs (fixed costs);
- formation of large, multi-industry teams for coordination of work on comprehensive power sector facilities;
- maintaining and acquiring new highly-qualified staff for designing and production.

2. Key risks and threats

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

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

1. Risk factors relating to the macroeconomic situation, including the GDP growth rate, unemployment rate, salaries and wages, growth rates in the industrial production and construction and assembly sectors, capital expenditure, and foreign exchange rates;
2. Risk relating to political environment, as well as energy policy and uncertainty over its future directions;
3. Currency risk;
4. Interest rate risk;
5. Risk of competition.

Risks specific to the RAFAKO Group companies:

1. Risk relating to non-performance or improper performance of contracts;
2. Risk related to non-payment or delayed payment of amounts due under contracts performed by the companies;
3. Risk relating to performance of high value contracts and limited number of customers;

4. Risk of increased operating costs of the RAFAKO Group companies resulting from higher prices of supplies and services and increased employee benefit expenses;
5. Risk of underestimating project costs;
6. Risk related to winning new contracts;
7. Risks related to execution of certain projects in consortia;
8. Risk related to project acquisition and execution in cooperation with suppliers and subcontractors;
9. Risk of failure to obtain financial guarantees required to acquire and perform contracts;
10. Risk related to failure to secure external financing in assumed amounts and on expected terms;
11. Risk related to full or partial repayment of arrangement receivables by PBG;
12. Risk of failure to implement the strategy;
13. Reputational risk;
14. Risk related to the use by the Group of complex and innovative manufacturing technologies;
15. The Group's IT systems may suffer a failure or security breach;
16. The Group's day-to-day operations and growth depend on its senior management and on ability to hire and retain highly-qualified personnel, particularly specialist production staff and engineers;
17. Risk that the insurance cover maintained by the Group will prove insufficient;
18. Risk related to consequences of accidents at work and occupational diseases;
19. Risk related to plant failure or destruction or loss of the companies' assets.

Regulatory risks:

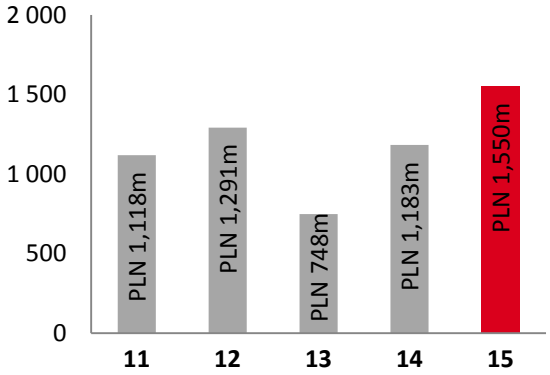
1. Risk related to changes in regulations concerning the power sector;
2. Risk related to environmental protection;
3. Risk of changes in tax laws or their interpretation and changes of private letter rulings;
4. Risk associated with related-party transactions.

For information on the objectives and rules of financial risk management, including the specification of the most material risks, see Note 56 to the Group's financial statements.

3. Analysis of key financial and economic data

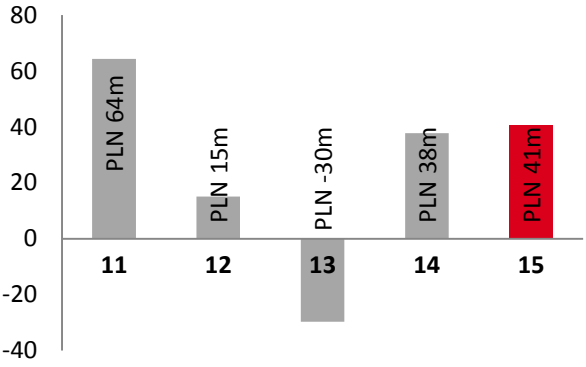
3.1. 2015 highlights

Revenue PLN 1,550m



Definition: Total sales of products, merchandise and materials, net of VAT.
Relative to 2014: Revenue rose by 31.0%, driven mainly by higher sales of power generating units and steam generators, with Jaworzno 910 MW Project being the largest ongoing project.

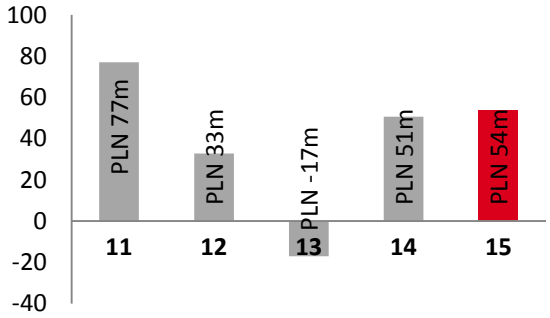
EBIT PLN 41m



Definition: Profit (loss) from continuing operations

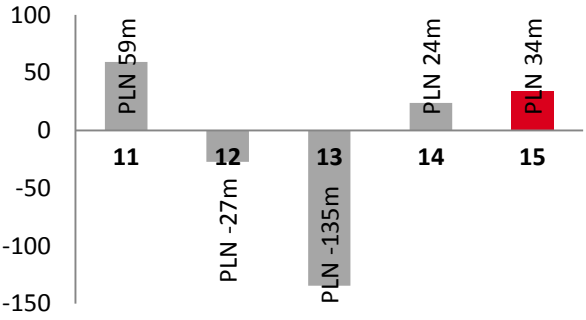
Relative to 2014: Profit from continuing operations amounted to PLN 41m, up by PLN 3m year on year.

EBITDA PLN 54m

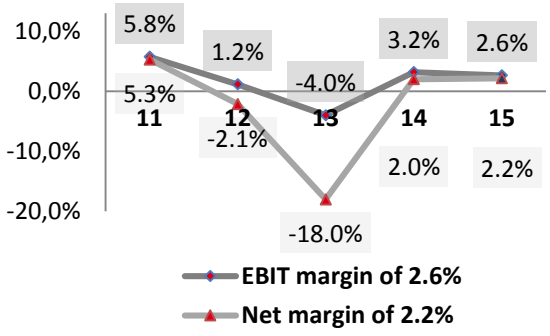


Definition: Sum of profit (loss) from continuing operations, depreciation and amortisation
Relative to 2014: EBITDA improved from PLN 51m to PLN 54m.

Net profit PLN 34m

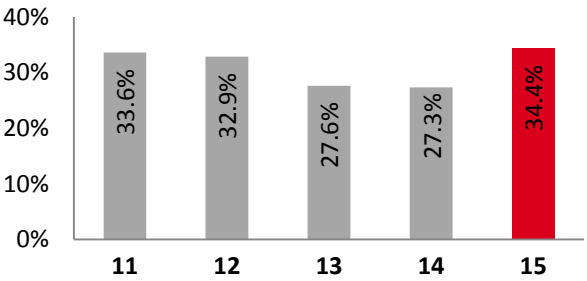


Definition: Excess that remains after deducting all costs. Difference between revenue and total costs.
Relative to 2014: The Group generated a net profit of PLN 34m, compared with PLN 24m reported a year earlier.



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 2014: EBIT margin was down by 0.6%, while net margin improved by 0.2%.

Share of equity in financing 34.4 %



Definition: Equity / total assets.

Relative to 2014: The share of equity in total sources of financing of assets was up by 7.1%. The increase followed primarily from the share issue carried out by the Parent.

3.2. Revenue and its structure

In 2015, revenue from sales of products, merchandise and materials was PLN 1,550,090 thousand, having increased year on year by PLN 366,618 thousand (or 31.0%). Sales of products and services amounted to PLN 1,548,069 thousand, while revenue from sales of materials was PLN 2,021 thousand.

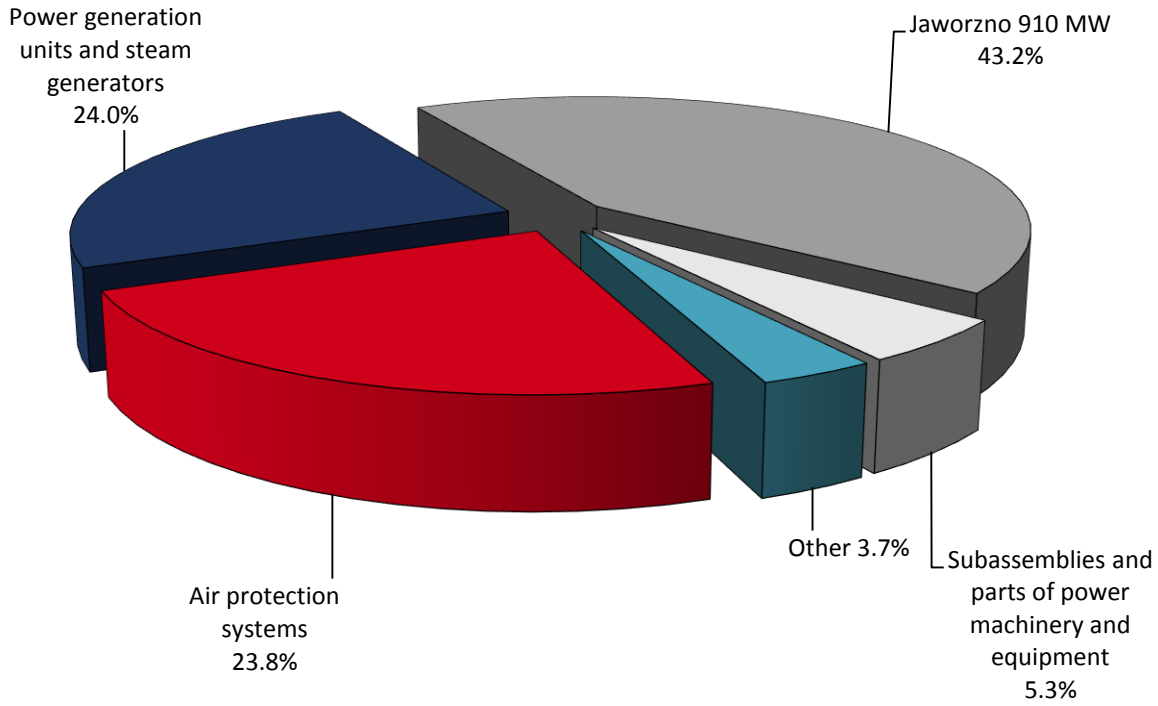
The sales growth reported in 2015 was driven mainly by higher revenue from sales of power generation units and steam generators. Strong sales generated by this segment are chiefly attributable to the implementation of the Jaworzno 910MW Project, worth PLN 4.4bn, the revenue from which reached PLN 669,723 thousand in 2015 (PLN 45,286 thousand in 2014). In 2015, domestic revenue from other contracts for power generating units and steam generators also improved, from PLN 141,335 thousand to PLN 313,275 thousand. The reasons for the improvement include the performance of the CHP construction contract signed with Grupa Azoty ZAK S.A. (PLN 320m) and the contract for the construction of a fluidised bed boiler with a dust removal system for Synthos (PLN 151.6m).

On the other hand, in the air protection systems product group, revenue fell: in 2015 sales of air protection systems on the domestic market amounted to PLN 364,258 thousand and were 48.4% lower year on year. The decline in sales of air protection systems is related to the completion of projects performed for companies of the EDF Polska Group (with a value of approximately PLN 770m) and lack of new orders of considerable value.

Sales of subassemblies and parts of power machinery and equipment also declined. On the domestic market, revenue totalled PLN 58,642 thousand, having decreased by 34.9% year on year (2014: PLN 90,048 thousand).

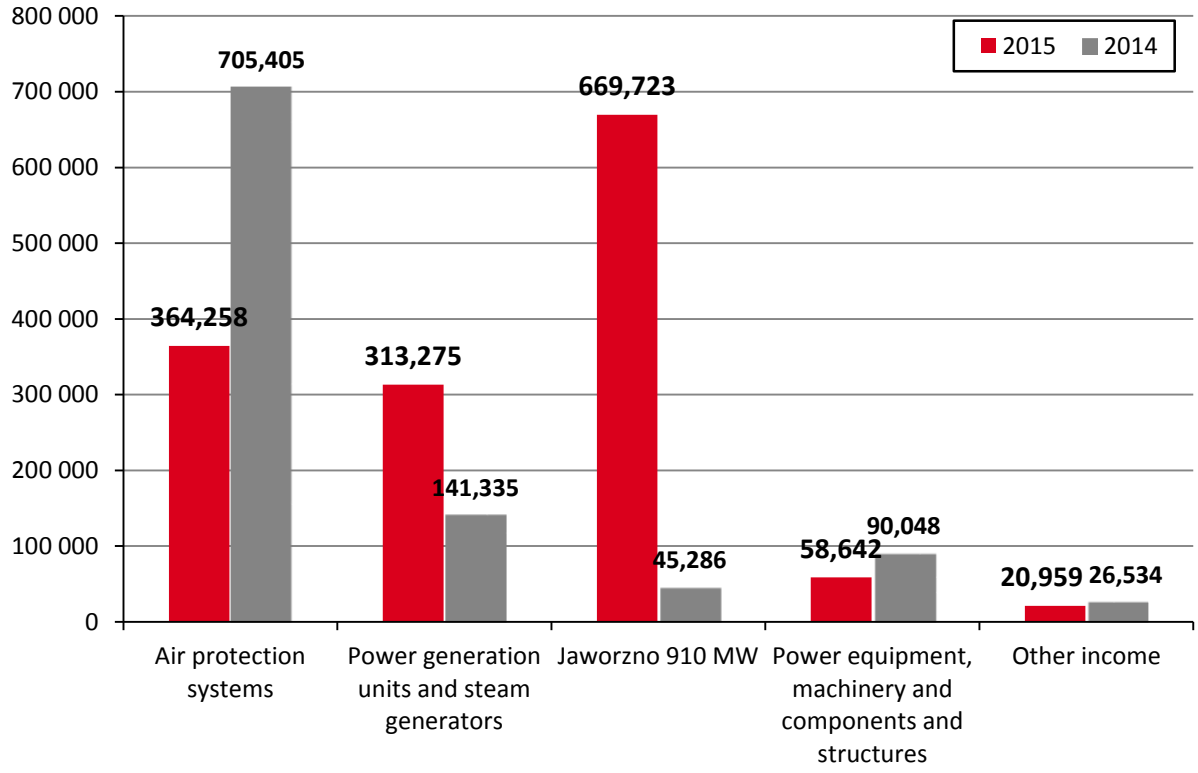
The share of exports in total sales was 8.0%, having decreased year on year by 6.8 percentage points. In 2015, export sales amounted to PLN 123,233 thousand, down by 29.5% from PLN 174,864 thousand reported in 2014. Foreign sales declined across all product groups except for power generating units and steam generators, in the case of which sales rose by 12.7% to PLN 59,064 thousand. The value of air protection systems sold on foreign markets was PLN 5,197 thousand (down by 78.9%), and foreign sales of subassemblies, parts of power machinery and equipment and structures fell by 57.0%, to PLN 23,375 thousand. The sales drop was attributable to the lack of significant new orders in those product groups.

In 2015, the Group's sales structure was as follows:

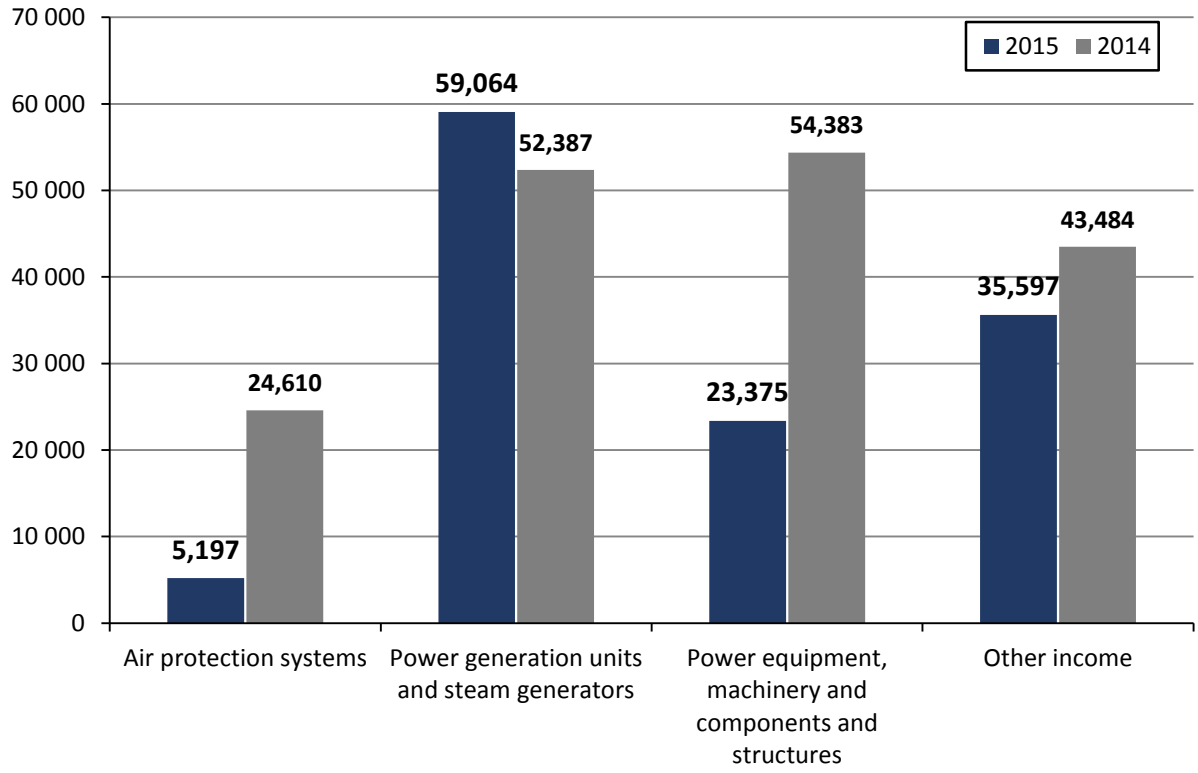


Sales by market:

Domestic market (2015: PLN 1,426,857 thousand; 2014: PLN 1,008,608 thousand)

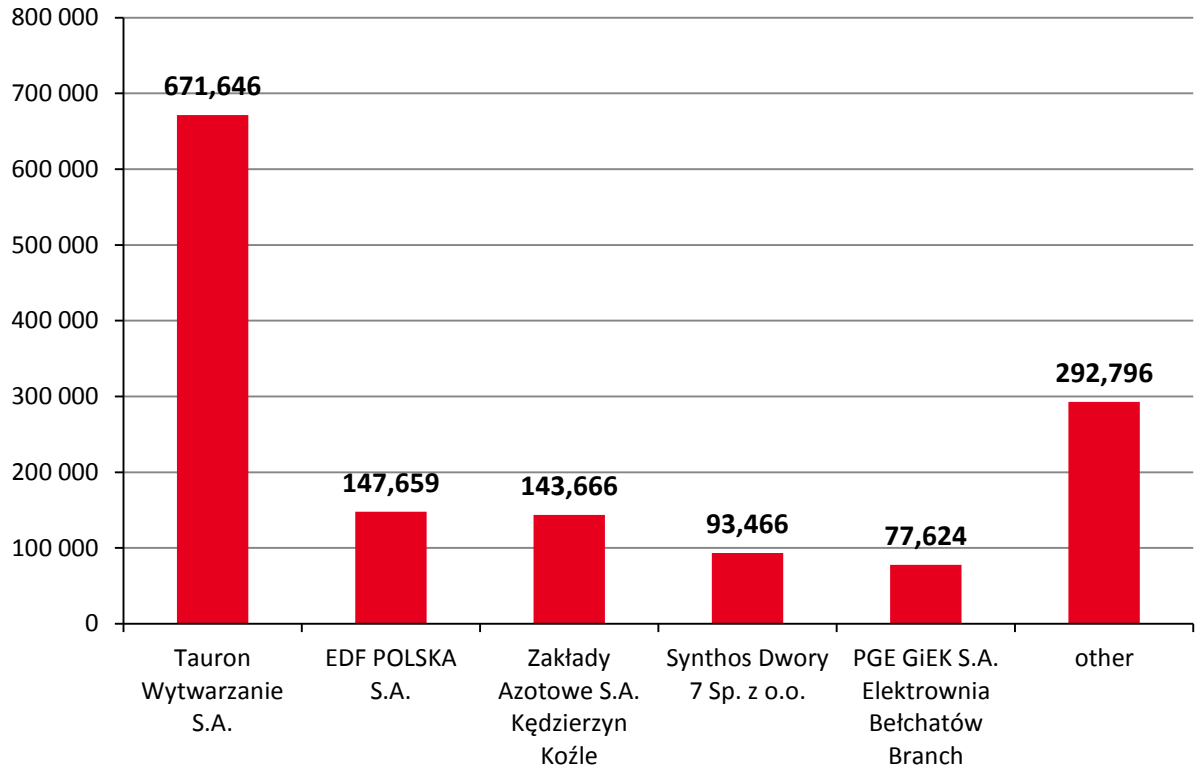


Foreign markets (2015: PLN 123,233 thousand; 2014: PLN 174,864 thousand)



In 2015, the RAFAKO Group's major customers included:

on the domestic market (PLN 1,426,857 thousand in total):



In 2015, the Group's main customer was Tauron Wytwarzanie S.A., which accounted for 43.3% of total sales (5.9% in 2014). The revenue attributable to this customer was generated mostly in connection with the construction of the 910MW supercritical power generating unit at the Jaworzno Power Plant.

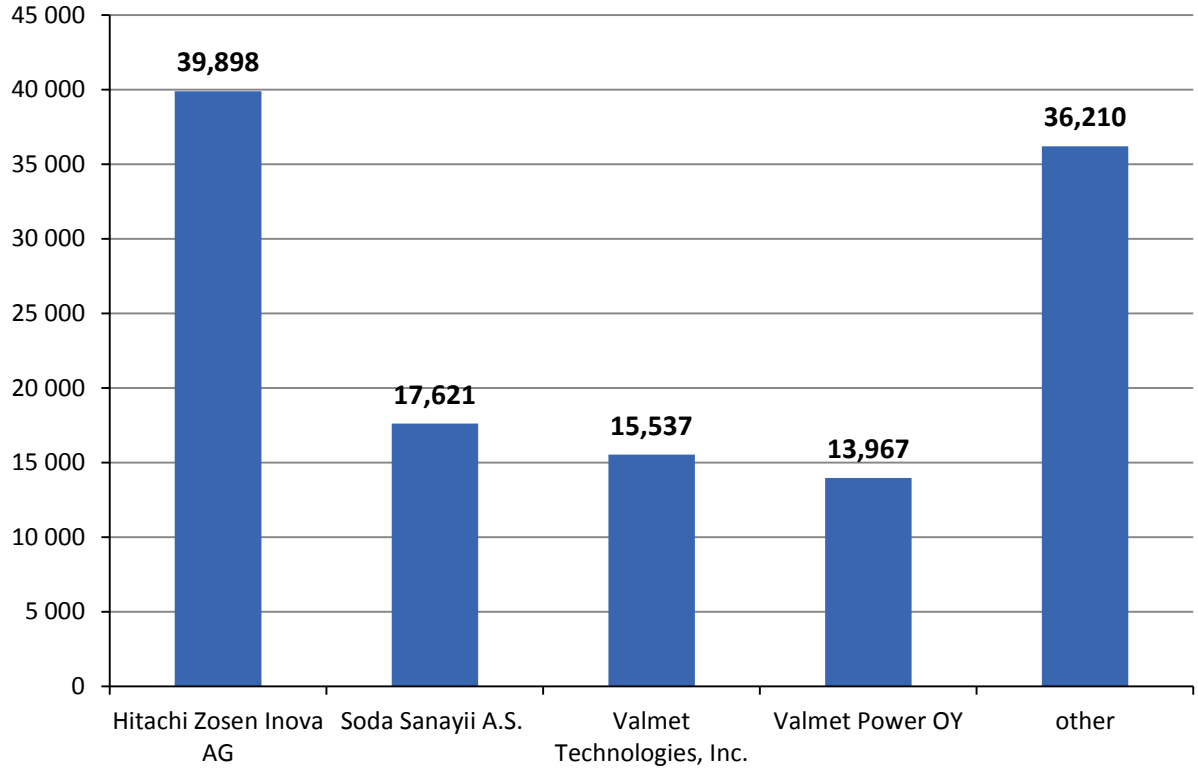
Also EDF Polska S.A. accounted for a considerable portion (9.5%) of total sales in 2015, although compared with the previous year (29.7%) the value of sales to this customer fell considerably. Revenue from sales to this customer was generated mostly on the construction of flue gas desulfurisation units for the CHP plants in Gdańsk, Gdynia and Kraków.

With a share of 9.3% in the RAFAKO Group's total sales in 2015 (2014: 1.1%), Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. was another significant customer of the Group. Revenue from sales to this customer was generated on the construction of a new CHP plant at Grupa Azoty ZAK S.A.

Another customer accounting for a material portion of the Group's total sales was Synthos Dwory 7 Sp. z o.o. (6.0% in 2015, 3.4% in 2014), for which the Group built an OFz-140 fluidised bed boiler on a turn-key basis.

PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów Power Plant Branch had an equally important share in the Group's total sales: 5.0% of total sales in 2015 and 13.9% in 2014. Revenue from sales to this customer was generated on the overhaul and upgrade of the power generating units' flue gas heating system. Total sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. in 2015 amounted to PLN 82,763 thousand.

on foreign markets (PLN 123,233 thousand in total):



On foreign markets, the RAFAKO Group's main customer was Hitachi Zosen Inova AG of Switzerland, accounting for 2.6% of the Group's total sales (2014: 4.4%). 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 Group's sales, the shares of major customers in total sales exceed 10% at times of execution of large projects.

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

3.3. Deliveries, procurement and purchase of production materials

In 2015, the Group's main supply sources included:

PLN '000

Source	*2015*		*2014*	
	value	*share in total purchases*	*value*	*share in total purchases*
Domestic purchases	1,047,455	75.4%	839,718	85.0%
Foreign purchases	340,981	24.6%	148,065	15.0%
TOTAL	**1,388,436**	**100.0%**	**987,783**	**100.0%**

In 2015, the RAFAKO Group's supplier structure was highly distributed. The share of one of the suppliers - Siemens AG - exceeded 10% of the Group's total purchases, amounting to 11.0% of total purchases (PLN 152,526 thousand). Purchases from Siemens AG comprise mainly the manufacture, delivery and installation of a turbine island system for the Jaworzno 910MW Project. The RAFAKO Group companies are not related to Siemens AG.

The Group 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 Group 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 Group'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 revenue of the Group companies.

3.4. Related-party transactions

In 2015, the Parent and its subsidiaries did not enter into any material related-party transactions on non-arm's length terms. The list of related-party transactions is disclosed in Note 49 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2015.

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

In 2015, the cost of sales of products, services and materials was PLN 1,423,015 thousand, with revenue at PLN 1,550,090 thousand. Thus, the Group posted gross profit of PLN 127,075 thousand (up 5.8% year on year).

The increase was attributable chiefly to:

- stronger sales in 2015 (up by 31.0% on 2014), attributable mainly to higher sales on the Jaworzno 910MW Project,
- lower weighted average margin on contracts in 2015 compared with the margin in 2014.

Gross profit margin fell year on year, to 8.2% (2014: 10.2%).

Administrative expenses totalled PLN 53,054 thousand, up PLN 7,865 thousand year on year. The main reason behind the increase in administrative expenses was the commencement of implementation of the Jaworzno 910MW Project by subsidiary E003B7 (the order was signed on April 17th 2014).

In 2015, distribution costs were PLN 29,416 thousand, having decreased by PLN 2,067 thousand year on year. Excluding impairment losses reversed and used, in 2015 distribution costs were PLN 28,899 thousand, having increased by PLN 914 thousand year on year. Impairment losses on trade receivables and write-down of previously impaired trade receivables went up by PLN 510 thousand in 2015 (compared with an increase of PLN 3,498 thousand in 2014).

After accounting for distribution costs and administrative expenses, the Group generated profit on sales of PLN 44,605 thousand in 2015, compared with PLN 43,437 thousand in 2014.

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

3.6.1. Net other income/expenses

In 2015, the Group recorded net other expenses of PLN 3,886 thousand (2014: net other expenses of PLN 5,718 thousand), attributable to:

		PLN '000
1.	cost of licence fees	(3,444)
2.	recognition of provisions for future costs	(1,206)
3.	costs of substitute performance	(690)
4.	organisation of the Power Engineer's Day	(506)
5.	gain on sale of property, plant and equipment	1,090
6.	donations and subsidies	379
7.	positive net balance of other income and expenses	491

Net other income/expenses were strongly affected by the settlement made in connection with the dispute with Steinmüller Babcock Environment GmbH (formerly FISIA BABCOCK ENVIRONMENT GmbH), which was unfavourable to the Parent. The proceedings were initiated following the filing of a claim for payment of approximately EUR 3.8m in connection with a licence agreement relating to a wet flue gas desulfurisation unit. Under the settlement, RAFAKO S.A. will pay Steinmüller Babcock Environment GmbH EUR 800 thousand in three instalments.

3.6.2. Net finance income/cost

In 2015, the Group recorded net finance income of PLN 5,360 thousand (2014: net finance cost of PLN 3,302 thousand), attributable to:

		PLN '000
1.	reversal of impairment loss on interest	3,639
2.	interest on security deposits provided	2,373
3.	discount (long-term accounts receivable and payable)	1,553
4.	net foreign exchange gains	586
5.	reversal of provision for finance costs	281
6.	recognition of provision for finance costs	(1,335)
7.	bank commissions paid on bank borrowings	(907)
8.	other interest	(756)
9.	negative net balance of other finance income and cost	(74)

The RAFAKO Group's net finance income strongly benefited from the favourable settlement of its dispute with ING Bank Śląski S.A., as a result of which a PLN 3,636 thousand impairment loss on disputed receivables was revered and interest income rose by PLN 2,557 thousand.

3.7. Income and its structure

The main source of the Group's pre-tax profit, which amounted to PLN 46,079 thousand in 2015 (PLN 34,417 thousand in 2014), was the gross profit generated by the Group from its principal operations, of PLN 44,605 thousand.

After accounting for net other expense (PLN 3,886 thousand), net finance income (PLN 5,360 thousand), income tax (PLN 12,074 thousand) and loss from discontinued operations (PLN 55 thousand), the Group achieved a net profit of PLN 33,950 thousand, against a loss of PLN 23,784 thousand reported in 2014.

The Group did not publish any financial forecasts or profit guidance for 2015.

For the structure and change of consolidated pre-tax profit (loss) in 2015 and 2014, see Appendix 4.

3.8. Margins and ROE

In 2015, the Group reported a deterioration in its operating profit margin compared with a year earlier. Gross profit margin fell to 8.2% and was 2.0pp lower than in 2014, while operating profit margin amounted to 2.6% (compared with 3.2% in 2014).

With its net profit at PLN 33,950 thousand, the Group's return on equity (ROE) amounted to 8.0% (in 2014: 7.9%).

The improvement in net profit, coupled with a 9.1% increase in the Group's total assets (up by PLN 104,656 thousand), lifted its return on assets to 2.7% (ROA in 2014: 2.1%).

The 2015 and 2014 profitability ratios are presented in Appendix 1.

3.9. Financial liquidity

The ratios measuring the RAFAKO Group's financial liquidity as at the end of 2015 are presented below. The current ratio (current assets to current liabilities) increased 0.2 compared with the previous year, to 1.2. Similarly, the quick ratio (current assets net of inventories to current liabilities) rose by 0.2 to 1.2 at the end of 2015.

In 2015, the average collection period shortened by 8 days (to 68 days), while the inventory cycle shortened by 23 days (to 67 days) and the average payment period contracted by 7 days (to 104 days). The working capital cycle (average collection period + inventory cycle - average payment period) shortened by 24 days year on year, to 31 days.

In 2015, 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.

The Parent continued its multi-purpose credit facility agreement with PKO BP S.A. Several annexes were signed to extend the period of availability of the facility. Currently, the end of the facility availability period and its final repayment date are set for May 31st 2016. The last of the signed annexes changed the amount of the guarantee facility. Under the annex, the Parent is granted an overdraft facility of PLN 150m and a guarantee facility of PLN 100m, with the proviso that the aggregate amount of the overdraft facility and bank guarantees issued under the agreement may not exceed PLN 200m.

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

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

A factor of key importance from the point of view of financial liquidity will be the Company's access to new bank/insurance guarantees requiring no security in the form of cash collateral, 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.

In 2015, the Parent carried out a share issue with the main objective to raise funds to finance contractual security arrangements in building the Parent's order book and to finance working capital requirements to enable the performance of contracts in the future. The Parent is planning to allocate 85-90% of the issue proceeds for this purpose. The remainder will be assigned to financing research and development work. The issue was successful − all the offered shares were sold for PLN 93,525 thousand. Moreover, the Parent obtained additional guarantee facilities for an aggregate amount of PLN 215m, and has been negotiating agreements for more guarantee facilities with other financial institutions.

On August 25th 2015, the Judge Commissioner declared that an Arrangement was made between PBG S.A. (Parent of the PBG Group of which RAFAKO S.A. is a member) and its Creditors. The execution of the Arrangement should have a positive effect on the ability of the RAFAKO Group companies to obtain financial guarantees, and thus on its capacity to win and perform contracts.

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

Given its expected income and expenses and the present structure of its net currency exposure, the Parent refrained from entering into new hedging FX transactions for purchase or sale of foreign currencies within the limits set under its currency risk hedging policy. The Parent periodically updates its currency positions and based on such update it makes decisions on hedging the positions.

As at December 31st 2015, the Group did not carry any unsettled FX hedging transactions.

For the objectives and rules of financial risk management, see Note 56 to the RAFAKO Group's consolidated financial statements for 2015.

3.10. Debt

In 2015, the RAFAKO Group's liabilities towards its creditors decreased by PLN 11,656 thousand. As at December 31st 2015, total non-current and current liabilities were PLN 821,452 thousand, compared with PLN 833,108 thousand as at December 31st 2014.

The decrease in liabilities related mostly to current liabilities (down by PLN 9,712 thousand) and liabilities associated with non-current assets held for sale (down by PLN 14,840 thousand). The decrease in current liabilities was for the most part attributable to gross amount due to customers for construction contract work, which amounted to PLN 142,795 thousand (PLN 207,271 thousand in 2014), while the highest growth (by PLN 96,616 thousand) was reported in the case of current trade payables, which amounted to PLN 400,842 thousand. The current portion of interest-bearing bank loans and borrowings fell by PLN 19,319 thousand, to PLN 109,208 thousand.

Non-current liabilities increased by PLN 15,647 thousand, to PLN 67,664 thousand, and the increase was mainly due to the growth in trade payables, which rose by PLN 14,340 thousand.

As at December 31st 2015, the Group's assets not encumbered with on-balance-sheet (non-current and current) liabilities were PLN 429,766 thousand (as at December 31st 2014 they were 37.1% higher, at PLN 313,454 thousand).

Debt to equity ratio (including non-current and current liabilities), measuring the Group's ability to secure repayment of debt with assets, fell by 5.7 pp year on year, to 65.7%.

Debt to equity ratio does not take into consideration the Group's liabilities under bank and insurance guarantees (mainly performance bonds and advance payment guarantees granted on the Group's instruction; such guarantees are typical for the RAFAKO Group's business and the market of power generation equipment), letters of credit and promissory notes issued as security.

The 2015 and 2014 liquidity and debt ratios are presented in Appendix 1.

3.11. Off-balance-sheet items

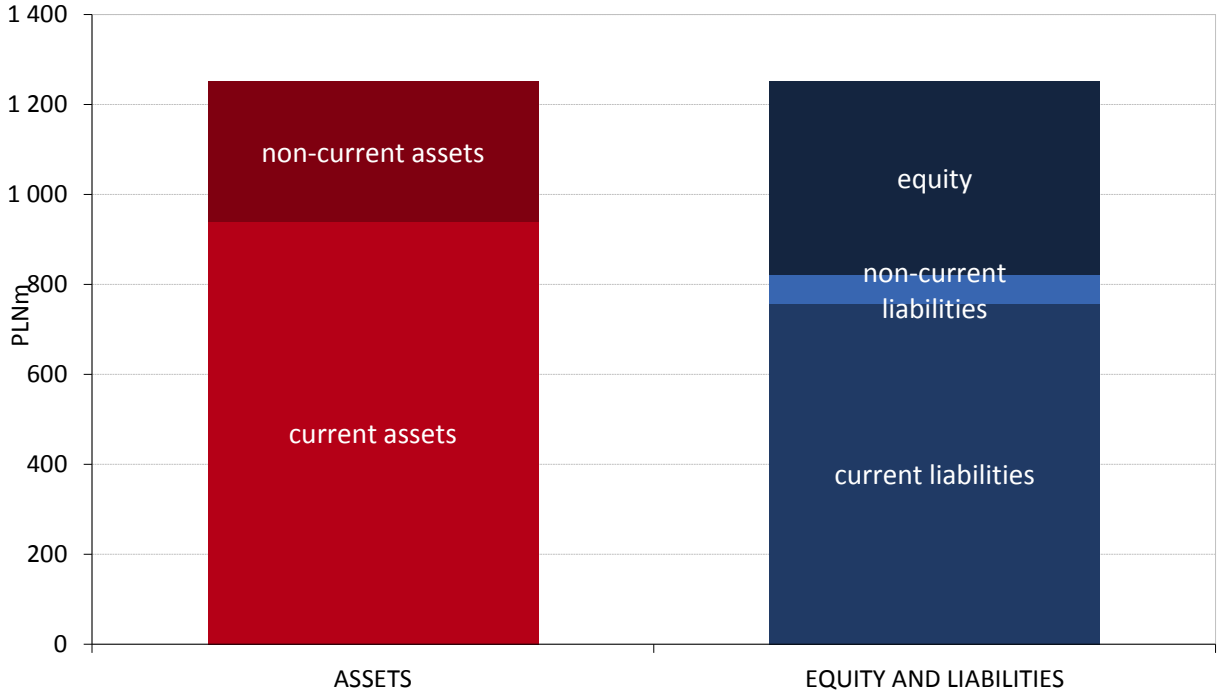
As at December 31st 2015, the Group's contingent liabilities under bank and insurance guarantees, letters of credit and promissory notes issued as security stood at PLN 1,275,979 thousand (as at December 31st 2014: PLN 1,316,844 thousand). The main items of these liabilities were sureties issued for the benefit of the financial institutions which provided financial security in respect of the Jaworzno 910 MW Project. The surety was provided to secure proper discharge of obligations by the Jaworzno project SPV in connection with financial guarantee agreements (PLN 1,046m). In the 12 months of 2015, guarantees (mainly performance bonds of PLN 42,973 thousand and bid bonds of PLN 12,107 thousand) were issued by banks and insurance companies to the Group's trading partners upon the Parent's instruction. In this category of liabilities, the largest item was a performance bond of PLN 11,090 thousand.

In connection with its ongoing contracts, besides contingent (off-balance-sheet) liabilities, the Group also had contingent receivables, which amounted to PLN 614,825 thousand as at December 31st 2015 (PLN 546,916 thousand as at December 31st 2014). The increase of PLN 68,008 thousand included chiefly the PLN 79,137

thousand increase in receivables under bank and insurance guarantees received, an increase of PLN 8,051 thousand in receivables under promissory notes and a decrease of PLN 19,180 thousand in receivables under letters of credit opened for the benefit of the Parent.

For details of changes in contingent receivables and liabilities, see Note 44 to the consolidated financial statements for 2015.

3.12. Assets financing structure



As at December 31st 2015, total assets stood at PLN 1,251,218 thousand and were PLN 104,656 thousand (9.1%) higher than as at December 31st 2014, mainly due to a PLN 158,412 thousand increase in cash and cash equivalents, part of which was raised through a share issue carried out in July 2015 (all the offered shares were sold for PLN 93,525 thousand), as well as a PLN 73,075 thousand decline in non-current assets held for sale (to PLN 1,063 thousand). The decrease in non-current assets held for sale was attributable to the sale of shares in FPM S.A., which were sold to TDJ S.A. for PLN 48m on February 23rd 2015.

In the twelve months ended December 31st 2015, the share capital of RAFAKO S.A. changed following the issue of 15,331,998 Series J shares with a par value of PLN 2.00 per share. Following the issue, the Parent's share capital increased by PLN 30,664 thousand and amounted to PLN 169,864 thousand as at December 31st 2015.

As a result, the share of equity in the financing of assets increased by 7.7pp relative to December 31st 2014, and was 34.0%.

The long-term capital (equity plus non-current liabilities) covered the full amount of non-current assets (excluding assets held for sale) and 19.4% of current assets.

As at December 31st 2015, the assets financing structure was as follows:

1. non-current assets of PLN 312,223 thousand were fully financed with equity,
2. current assets (and non-current assets held for sale) of PLN 938,995 thousand were financed with:

- long-term capital 19.7%,
- current borrowings 11.6%,
- trade payables 42.7%,
- gross amount due to customers for contract work 15.2%,
- other current liabilities 10.8%.

3.13. Non-current assets

3.13.1. 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 2015 and December 31st 2014, it was as follows:

	Dec 31 2015		*Dec 31 2014*	
	Amount	*Percentage*	*Amount*	*Percentage*
1. Property, plant and equipment, including:	*183,439*	*58.8%*	172,199	58.5%
- land	*23,776*	*7.6%*	23,773	8.1%
- buildings	*91,832*	*29.4%*	89,529	30.4%
- plant and equipment	56,489	18.1%	46,140	15.7%
- vehicles	8,389	2.7%	6,370	2.2%
- property, plant and equipment under construction	2,162	0.7%	6,029	2.0%
- other	793	0.3%	358	0.1%
2. Intangible assets	15,211	4.9%	9,310	3.1%
3. Non-current trade receivables, other receivables and prepayments	35,648	11.4%	29,706	10.1%
4. Non-current financial assets	30,129	9.6%	33,770	11.5%
5. Deferred tax asset	47,796	15.3%	49,536	16.8%

The most important item of non-current assets was represented by land and buildings, which accounted for 37.0% of non-current assets and about 9.2% of total assets. Other significant items included plant and equipment and deferred tax assets. At the end of 2015, these accounted for 18.1% and 15.3%, respectively, of total assets. Plant and equipment includes mostly machinery, equipment and apparatuses used in the production process, as well as computer sets.

In 2015, non-current assets increased by PLN 17,702 thousand (up 6.0%) compared with the previous year. A PLN 11,240 thousand increase was recorded in property, plant and equipment after the Parent placed in service a new paint shop together with equipment. Non-current trade receivables, other receivables and prepayments increased by PLN 5,942 thousand, while intangible assets increased by PLN 5,901 thousand. Other non-current financial assets went down by PLN 3,444 thousand.

3.13.2. Key investments in property, plant and equipment

In 2015, the Group incurred capital expenditure on non-financial non-current assets of PLN 32,065 thousand, including:

- PLN 24,289 thousand on property, plant and equipment,
- PLN 7,776 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. The Group also made capital expenditure on vehicle fleet. After a few years, the Parent completed the modernisation of the paint shop, at a total cost of more than PLN 8,6300 thousand, with PLN 7,245 thousand of that amount spent in 2015. A CNC tube bending machine was purchased, for PLN 2,394 thousand.

Capital expenditure on intangible assets was made mainly to acquire an organised part of business of PBG Avatia Sp. z o.o. by the Parent. The total acquisition cost of the related entity was PLN 2,500 thousand, including goodwill measured at PLN 1,398 thousand and intangible assets measured at PLN 1,253 thousand. Licences and computer software were also purchased.

The expenditure was financed with internally generated funds and through lease agreements.

3.14. Current assets

In 2015, current assets increased by PLN 160,029 thousand, to PLN 937,932 thousand. The change in this asset group is attributable to a PLN 158,412 thousand increase in cash and cash equivalents (mainly

proceeds from share issue) and an increase in trade receivables from PLN 248,399 thousand to PLN 277,397 thousand.

Material receivables included deposits provided as security for contract guarantees (mainly issued by banks on the Parent's instruction). At the end of December 2015, the amount of deposits provided as security for guarantees was PLN 122.7m (PLN 162.3m at the end of December 2014). The change in receivables from security deposits was mainly attributable to the Parent's repayment of the cash security deposit related to the execution of the contract concluded with EDF Polska CUW Sp. z o.o. for the design, construction and commissioning of a wet lime-and-gypsum flue gas desulfurisation units at the Gdańsk, Gdynia, Wrocław and Kraków CHP plants. The value of security deposits repaid in the 12 months ended December 31st 2015 was PLN 36,820 thousand.

For the list of loans advanced in 2015, see Appendix 7.

3.15. Equity amount and structure

As at December 31st 2015, the RAFAKO Group's equity was PLN 429,766 thousand, up PLN 116,312 year on year. The equity comprised:

1. Share capital of PLN 169,864 thousand, divided into 84,931,998 Series A, B, C, D, E, F, G, H, I and J ordinary shares. In 2015, RAFAKO S.A.'s share capital was increased by PLN 30,664 thousand following the issue of 15,331,998 Series J shares with a par value of PLN 2.00 per share;
2. Parent's share premium of PLN 95,340 thousand. In 2015, after the issue of Series J shares had been accounted for, the share premium was PLN 62,861 thousand, while the cost directly related to the issue was PLN 4,300 thousand. Following the recognition of a share premium of PLN 58,562 thousand, less issue costs, the share premium totalled PLN 95,340 thousand (December 31st 2014: PLN 36,778 thousand);
3. Reserve funds of PLN 112,715 thousand. Reserve funds decreased by PLN 27,352 thousand as a result of disposal of a subsidiary and increased by 25,674 thousand following the transfer of the 2014 earnings, altogether resulting in a net decrease of PLN 1,678 thousand in 2015;
4. Retained earnings/accumulated losses of PLN (+)47,213 thousand.
5. Exchange differences on translating foreign operations of PLN (-)41 thousand;
6. Equity attributable to non-controlling interests of PLN 4,675 thousand.

In 2015, the Group companies did not acquire their own shares.

3.16. Use of proceeds from the issue of Series J shares

In 2015, based on a resolution passed by the Extraordinary General Meeting of RAFAKO S.A. of March 24th 2014, RAFAKO S.A. carried out an issue of new shares with the existing shareholders' pre-emptive rights waived. Following the issue of 15,331,998 Series J ordinary bearer shares with a par value of PLN 2 per share, the Parent's share capital increased by PLN 30,664 thousand.

As at the date of this Directors' Report on RAFAKO S.A.'s operations, the issue proceeds of PLN 89,225 thousand were used as follows:

- PLN 4,696 thousand towards security deposits for new financial instruments,
- PLN 3,066 thousand towards financial services related to the execution of the Jaworzno 910 MW Project,
- PLN 1,031 thousand towards R&D work in Q4 2015.

A total of PLN 8,793 thousand was expensed from the proceeds from the issue of Series J shares. The balance of approximately PLN 80,432 is to be used:

a) to finance contractual security arrangements in building the order book and to finance working capital requirements to enable the performance of contracts in the future. The Parent plans to apply approximately 85-90% of the funds raised from the issue towards that purpose;

b) to increase its research and development spending with a view to advancing its technology portfolio and supplementing it with unique solutions that help improve product efficiency and reliability. The Parent's key focus in its research and development work financed with the

proceeds from the issue will be on environmental protection technologies. The Parent plans to apply approximately 10-15% of the funds raised from the issue towards that purpose; The final allocation schedule will depend, inter alia, on the results the R&D projects.

4. Human resources and workforce at the RAFAKO Group

In 2015, the average workforce at the Group was 2,381 employees, 126 more than in 2014.

Workforce structure at end of period	*Dec 31 2015* **2,425**
production	1,011
engineering design office	444
technology office	96
quality control	111
maintenance	71
other employees (financial and accounting, sales and procurement staff)	692

As at December 31st 2015, the Group's employees with university degree or secondary school diploma accounted for 69.4% of the personnel (67.6% as at December 31st 2014). The Parent'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 2015, university graduates accounted for 43.5% of the personnel (up by 1.2% on December 31st 2014). The Group also attaches importance to continuous professional advancement, and many employees decide to enrol on part-time university courses.

Workforce structure at the Group companies at end of period	**2,425**
RAFAKO S.A.	2,128
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	108
E003B7 Sp. z o.o.	79
RAFAKO ENGINEERING Sp. z o. o.	63
Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o.	28
RAFAKO ENGINEERING SOLUTION doo.	10
RAFAKO Hungary Kft.	7
E001RK Sp. z o.o.	2

No major changes in the employee age structure were recorded. The share of employees aged 30 or below remained at the unchanged level of 18.8%. Employees aged between 31 and 40 represented 23.3% (2014: 23.0%) of the total workforce, while the share of those aged between 41 and 50 decreased slightly by 0.2% to 23.3%. The share of employees aged 51 or more was 34.6%.

Over the last 12 months, some changes were observed in the workforce structure in terms of length of service. Employees with a length of service between 11 and 20 years represented 19.1% of the entire personnel (17.0% in 2014), while the percentage of employees with 21–30 years of service decreased by 2.1% year on year, to 17.4%. 34.1% of the entire workforce are employees who had worked for more than 31 years at the Group companies. The Group has personnel with many years' unique professional experience.

5. Other information

Statement of compliance with corporate governance principles at the RAFAKO Group in 2015 is included in Appendix 9.

For information on the amount of remuneration, awards and benefits for members of the Management and Supervisory Boards, see Note 53 to the consolidated financial statements of the RAFAKO Group.

The Parent 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 Parent'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 Parent'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 Parent 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 51 to the Group's consolidated financial statements.

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

IV. Key events and developments in 2015 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 the RAFAKO Group are presented below.

1. Contract with TAURON (Jaworzno Power Plant)

On April 17th 2014, the Parent, 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.

Key events in 2015 and 2016

2015	
January	On January 20th 2015, 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.
January–July	Delivery of key milestones: 1. Development and delivery of the Basic Engineering Package to the Employer 2. Preparation of documents necessary for the Employer to update the Construction Plans with respect to the Unit

	3. Completion of the foundation pit for the boiler house and removal of excess soil. 4. Excavation for cooling tower foundation.
August	On August 18th 2015, SPV Jaworzno and Energopol – Szczecin S.A. signed an annex to the subcontractor agreement for the performance of construction work, reducing the scope of work of the Subcontractor and, consequently, reducing its remuneration from PLN 380m to PLN 30m.
November	On November 12th 2015, SPV Jaworzno and a consortium of Kopex S.A. of Katowice and Stal-Systems S.A. of Wólka Pełkińska signed a contract for the delivery and assembly of the steel structure of a building housing the turbine house, boiler house, bunkering room, LUVO and SCR, assembly of coal bunkers, as well as hoisting and laying of steam blowers. The contract value is PLN 179,952 thousand.
December	On December 1st 2015, SPV Jaworzno and Zakłady Remontowe Energetyki S.A. signed a PLN 98,350 thousand contract for the delivery and assembly of high-pressure (LAB, LBB, LBC and LBA) pipelines together with valves and auxiliary systems, as well as for the selection and assembly of primary fixings.
2016	
January	Construction of the ground slab for the steam generator.
February–March	On February 24th 2016, SPV Jaworzno and Powszechna Kasa Oszczędności Bank Polski S.A., Powszechny Zakład Ubezpieczeń S.A., Bank Gospodarstwa Krajowego and mBank S.A., signed an annex to the agreement of April 16th 2014 for bank and insurance guarantees required for the Jaworzno 910 MW Project. Under the annex, mBank agreed to issue, in favour of SPV Jaworzno, an advance payment bank guarantee of PLN 48m and a performance bond bank guarantee for the Jaworzno 910 MW Project of PLN 126,334 thousand. Under the annex, the PLN 40m amount which RAFAKO S.A. has contributed in cash as a performance bond for the master agreement will be returned to the Parent. In addition, as part of the security interests, the Parent also concluded an annex to the agreement of October 29th 2014 on creation of a registered pledge over movables and rights of the Company, as announced by the Company in Current Report No. 47/2014. Under the annex, the scope of the pledge was extended so that, in addition to existing and future receivables of PKO, BGK and PZU, it also secures receivables of mBank, as providers of performance bond and advance payment guarantees for the Company in connection with the Main Contract. Also, the maximum security amount was changed to PLN 1,300m (the previous value of security was up to PLN 1,046m). In connection with the annex, in March the Parent received a decision on the entry of the pledge in the register of pledges.

In its separate financial statements, RAFAKO S.A. recognises only income and expenses related to its own scope of work, i.e. 11.5% of the total scope of work to be performed on the Jaworzno 910 MW Project. In its separate financial statements, the Parent 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 14.1.2 to the consolidated financial statements.

2. Contract with PGE Elektrownia Opole

On February 15th 2012, the Parent, 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 Parent in previous reports.

On October 15th 2013, the Parent 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 Parent and the Alstom Group, and defining the scope of collaboration between the Parent and the Alstom Group on RAFAKO'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 Parent,

- the Parent 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 Parent'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 Group's statement of comprehensive income.

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

For rules of accounting for the contract, see Note 14.1.1 to the consolidated financial statements.

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

The project is on schedule, with invoices issued and payments made without any disruptions. As at December 31st 2015, PLN 1,078,989 thousand (33.5% of the contract's total value) was invoiced in relation to the Opole Project.

3. Events related to other significant contracts

I. 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.;

II. 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.

III. April 30th 2015 – execution with Valmet Technologies Oy of a contract for the delivery of boiler pressurised parts to the Metsa Fibre Oy boiler in Finland, with a total value of EUR 7,702 thousand.

IV. October 23rd 2015 – execution of a PLN 78,500 thousand contract with ENEA Wytwarzanie Sp. z o.o. The contract provides for the construction of a flue gas desulfurisation unit for Boilers K7 and K8 in the Białystok CHP Plant.

V. December 2015 – execution of a EUR 8,150 thousand contract with Javno Preduzeće Elektroprivreda Srbije, for membrane installation at the OP-380b steam generator at TE Morava, Phase 2.

4. Other material events

a. On February 20th 2015 in Racibórz, the articles of association of JV Sanbei-RAFAKO Ltd of Zhangjiakou (the Parent'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.

b. On February 23rd 2015, the Parent 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.

FPM was sold as part of the plan to raise funds otherwise than through issue of shares, in line with the Group'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 Parent'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.

c. On November 3rd 2014, PBG S.A. w upadłości układowej (in company voluntary arrangement) put forward updated arrangement proposals with respect to the group of creditors including 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.), recognised in the statement of financial position, is PLN 35.3m.

By the decision of August 25th 2015, the Judge Commissioner approved PBG's Arrangement with Creditors consistent with the Arrangement Proposals of April 28th 2015.

For a detailed description of the receivables, see Note 25 to the interim condensed consolidated financial statements of the Group.

d. In July 2015, the Parent of the RAFAKO Group successfully issued 15,331,998 Series J shares for a total of PLN 93,525,188 (price of PLN 6.10 per share). In response to the invitation to subscribe, a total of 145 institutional investors eligible to participate in the offering subscribed for the shares.

PBG S.A., which held 11.01% of RAFAKO S.A. shares prior to the issue, and Multaros Trading Company LTD, which held 50% + 1 share in RAFAKO S.A., did not exercise their subscription rights.

On July 29th 2015, the WSE Management Board introduced 15,331,998 rights to Series J ordinary bearer shares to trading on the main market of the WSE.

On July 23rd 2015, the Parent filed an application with the District Court of Gliwice, 10th Commercial Division of the National Court Register, for registration of an increase in the Company's share capital. On September 7th 2015, the Court registered the Parent's increased share capital of PLN 169,863,996.

On September 21st 2015, the new shares were registered by the Central Securities Depository of Poland and introduced to trading on the WSE Main Market.

The purpose of the issue was to raise funds which the Group intends to use:

- to finance contractual security arrangements in building the Group's order book and to finance working capital requirements to enable the performance of contracts in the future The Parent plans to apply approximately 85-90% of the funds raised from the issue towards that purpose;

- to increase its research and development spending with a view to advancing its technology portfolio and supplementing it with unique solutions that help improve product efficiency and reliability. The

Parent's key focus in its research and development work financed with the issue proceeds will be on environmental protection technologies. The Parent plans to apply approximately 10-15% of the funds raised from the issue towards that purpose; The final allocation schedule will depend, inter alia, on results the R&D projects.

e. Amendments to the Parent's Articles of Association (consolidated text of the Articles of Association was published in Current Report No. 31/2015) of September 8th 2015.

f. On October 30th 2015, the Parent acquired an organised part of the business of its related entity PBG Avatia Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), comprising movables, intangible assets and rights under agreements, for a total amount of PLN 2,500 thousand. The acquisition was made as part of a strategy aimed at standardising the IT processes and services across the PBG Group and locating them within RAFAKO S.A.

g. On May 29th 2015, an annex to the Credit Facility Agreement with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw was executed. The annex extends the availability and repayment date of the overdraft facility and the period during which the bank will issue guarantees under the agreement until May 31st 2016. In addition, under the annex the Company agreed to amend the terms of the joint contractual mortgage for up to PLN 300m to make it an instrument securing not only the amounts due under the overdraft facility, the working capital revolving facility, interest and the Bank's other costs, but also amounts due under payments made in respect of the bank guarantees issued under the Agreement.

Under the credit facility agreement, in February 2012 the Bank granted the Parent a PLN 300,000 thousand 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,

The most recent of the annexes (signed on December 7th 2015) changes the amount of the guarantee facility and grants the Parent an overdraft facility of PLN 150m and a guarantee facility of PLN 100m, with the proviso that the aggregate amount of the overdraft facility and bank guarantees issued under the agreement may not exceed PLN 200m.

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.

h. Amendments to the Parent's Articles of Association (consolidated text of the Articles of Association was published in Current Report No. 5/2016) of February 26th 2016.

In addition to the agreements specified in Section 4, partnership and cooperation agreements significant to the Group's business and executed in 2015 also include insurance agreements.

A list of insurance agreements in effect as at December 31st 2015 is presented in Appendix 5.

For information on the agreement with the qualified auditor of financials statements, see Note 55 to the Group's consolidated financial statements.

5. Research & development and quality improvement projects

The Group'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 2015 include:

a. Material testing – description of technological and performance properties of materials used for the 50+ unit.

b. Development of the concept of a reference unit with a capacity in the range 450–920 MW, with the highest achievable net efficiency;

c. Development of 'Guidelines for design of boiler pressure equipment' (classification work);

d. Modification of the structure of the rapping device for collecting electrodes;

e. Development of design guidelines for the SCR technology with a view to reducing the SO_2 to SO_3 conversion, decomposition of residual (unreacted) ammonia – ammonia content in ash, gypsum and waste water, likelihood of ABS (ammonium bisulfate) and AS (ammonium sulfate) formation;

f. Development of guidelines for CAD-supported 'Best Practices for Design';

g. Development of guidelines and models relating to gypsum crystallisation for absorbers in the wet flue gas desulfurisation method;

h. Development and testing of the prototype of a new clutch for a discharge electrode rapping device;

i. Research into a sieve tray absorber;

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.

7. Other information

In 2015, there were no changes in the basic management rules at the RAFAKO Group.

The companies of the Group did not launch any employee share option schemes.

The Parent 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 the Yenikoy Power Plant, signed in November 2007 with Elektrik Uretim A.S. of Turkey, and any future contracts on that market.

8. Disputes, pending litigation, arbitration or administrative proceedings

For information on material disputes and litigations, see Note 42 to the consolidated financial statements of the RAFAKO Group for 2015.

V. Growth prospects for 2016

1. Energy policy

Power market and environmental protection regulations

The power market, especially its commercial segment, is subject to extensive regulation governing both the way it operates and its future development and structure. The highly-regulated nature of the segment follows from the power market's strategic importance to energy security of each country, with environmental protection and reduced CO_2 emissions becoming a global priority in international relations. Such regulations include both legislation and general objectives of national and EU-level power policies concerning environmental protection.

Because of the introduction of more stringent environmental protection norms, businesses generating flue gases during production, such as CHP plants and power plants, are required to upgrade their existing units and install new equipment to reduce air emissions. This translates into more projects in the power segment, including construction of low-emission, high-efficiency power plants and upgrade of old power plants to make them comply with the strict environmental requirements imposed under EU law, which may in turn boost demand for products and services offered by the Group.

Environmental protection regulatory environment in the EU

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 saving and the development of new and renewable forms of energy;

d. to promote the interconnection of energy networks.

Regulations adopted at the EU level concern chiefly environmental protection and reducing the share of coal-based generation in the energy mix of EU member states.

The EU has set energy and climate targets that should be achieved by 2020, 2030 and 2050.

The targets to be achieved by 2020:

- greenhouse gas reduction by at least 20% compared with 1990,
- 20% share of renewable energy in total energy consumption,
- energy efficiency higher by 20%.

The targets to be achieved by 2030:

- greenhouse gas reduction by 40%,
- 27% share of renewable energy in total energy consumption,
- energy efficiency higher by 27–30%,
- 15% of electricity in interconnectors (i.e. 15% of electricity generated in the EU) may be transferred to other EU member states.

The target to be achieved by 2050:

- greenhouse gas reduction by 80–95% compared with 1990.

On February 25th 2015, the European Commission adopted a Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy. The strategy aims to reduce energy dependence, promote free cross-border flow of energy, increase energy efficiency, and support the transition to a low-carbon economy.

On November 18th 2015, the first communication on the state of the energy union was issued. The European Commission undertook to submit each year a report on the state of the energy union in order to solve key problems and appropriately direct the political debate. The communication looks at the progress made over the last nine months, identifies key issues for 2016 and presents conclusions regarding domestic, regional and EU policies.

In addition to the communication on the state of the energy union, several factsheets and other reports on the energy union were adopted and issued, such as: 1) a progress report on energy efficiency: the report on progress in implementing the 2020 energy efficiency target of 20% shows that despite significant progress made, collective efforts of Member States correspond to only 17.6% of primary energy savings compared to projections for 2020; 2) a progress report on climate change: the report shows that the EU has been particularly successful in decoupling economic growth and greenhouse gas emissions. The EU has a good chance of reaching the target of 20% emission reduction by 2020.

Between November 30th and December 11th 2015, the COP21 climate change conference was held in Paris. In the climate deal, the governments agreed on a long-term goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels and to aim to limit the increase to 1.5°C. All the countries will be legally bound to reduce carbon dioxide and other greenhouse gas emissions .

Poland petitioned that three conditions (all of which were accepted) be included in the final version of the agreement:

1. the agreement should be signed by all countries in the world;
2. drafting provisions that take into account the needs of specific nations so that the climate improvement solutions do not adversely impact on the economies of individual countries;
3. special focus on forests and forestation. Poland points to this solution as one that contributes to climate improvement and solves the problem of excessive reduction of carbon dioxide emissions.

In July 2015, the European Commission presented a set of regulations reforming the CO_2 emission allowances system. In line with the amended system, some of the CO_2 emission allowances will be automatically withdrawn from the market and placed in a market stability reserve whenever the number of allowances in circulation goes outside a predefined level. At present, there is a surplus of over 2 billion allowances on the market, increasing as of 2009. The adopted solution provides for withdrawing 900m emission allowances through a backloading procedure and placing them in the stability reserve. The amended directive on the EU Emissions Trading Scheme is a step towards meeting the EU's goal of reducing greenhouse gas emissions by at least 40% by 2030. Pursuant to the new system, Poland and nine other of the less developed EU countries will have the right to allocate some of the allowances free of charge to power plants, thus enabling them to use their funds on unit upgrades rather than redemption of emission allowances. Priority will be given not only to large investment projects with a value of more than EUR 10m, but also to smaller ones. Some of the power plant upgrade projects may be joined by the RAFAKO Group Entities.

Regulatory environment in Poland

The key legal document regulating the operation of the Polish power sector is the Energy Law. The President of the Energy Regulatory Office (URE) is responsible for fuels and energy management and promoting competition in the energy sector in Poland. As a rule, operation in the energy sector requires a licence granted by the President of URE. The powers and responsibilities of the President of URE also include approval and monitoring the use of tariffs for gaseous fuels, electricity and heat, drawn up by energy companies and implemented as applicable to customer groups specified in those tariffs.

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

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

It is also planned that the share of biofuels in the fuel market will reach 10% in 2020. The Policy also highlights the need to reduce the environmental impact of the energy sector (including the reduction of CO_2 , SO_2 and NO_X emissions), which would enable Poland to meet its international obligations. Among the objectives relating to electricity and heat supplies, the Policy lists the construction of new generating capacities to balance the domestic electricity demand and maintain an operationally available capacity surplus of at least 15% of the maximum domestic demand for electricity during the peak use of total capacity of the domestic conventional and nuclear generation sources. The Policy defines the key priorities and directions in which Poland's energy policy, and thus the Polish energy market, will develop.

In 2016, the government will continue to work on PEP 2050. The draft of August 2014 sets the following three operational objectives designed to support the main objective:

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

Moreover, Poland's Energy Policy until 2050 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. The Act on Renewable Energy Sources, designed to promote the development of renewable energy sources in Poland by replacing the green certificate system with an auction system, became effective as of May 4th 2015. At the year end, the minor amendment to the RES Act, postponing the launch of a new, auction-based, RES support system by six months, came into force. The Act also postponed the launch of a new feed-in-tariff support system for micro installations. In H1 2016, the government plans to adopt a bill amending the RES Act.

2. Asset development plans for the power sector

Energy infrastructure in Poland

Given the continuing wear and tear of the power generation units and the ever more stringent EU emission standards, the existing units will be phased out or upgraded. According to Poland's Energy Policy until 2050, almost 45% of Poland's electricity generation facilities are more than 30 years old, and approximately 77% are more than 20 years old. As the expected useful life of coal-fired generation units is between 40 and 45 years, it will be necessary to install 13–18 GW in new generation capacities just to renew the current generation potential.

In Poland's Energy Policy until 2030, the new capacities to come on stream or the existing capacities to be replaced with new generation units are estimated at approximately 8.5 GW in 2016–2020, 8.2 GW in 2021–2025, and approximately 10.4 GW in 2026–2030. Factoring in the phase-out of existing electricity generation capacities in the Polish power grid, the maximum net capacity of the country's generation units is expected to increase to the region of 46.4 GW in 2030. The largest decline in maximum net capacity is expected in the case of hard coal-fired commercial power plants (fall from 14,536 MW in 2008 to 5,433 MW in 2030). Since lignite-fired power plants will be gradually replaced with new units, their maximum capacity is to remain stable until 2025, when it should begin to grow. Nuclear power plants planned to be built will bring combined installed capacity of 4,500 MW.

Generation capacities will increase the most in the case of renewable energy sources, particularly wind farms and biogas plants. By 2030, onshore and offshore wind farms should contribute an additional 6,000 MW and 2,550 MW in installed capacities respectively, although the new capacities are not expected to translate into higher power output due to the wind farm capacity factor. Biomass-fired power and CHP plants should reach a combined capacity of some 1,400 MWe by 2030, while biogas-fired units should contribute an additional 631 MWe. New capacities are planned to be built in response to an expected increase in electricity demand in Poland.

Investments in energy infrastructure

The Ministry of Economy forecasts a steady increase in electricity demand in Poland, to 194.6 TWh in 2020 and 217.4 TWh in 2030. The rising demand for electricity will translate into more investment projects in the power sector, which is where RAFAKO Group's key customers operate.

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.

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.

Ongoing projects include the construction of two power generating units at the Opole Power Plant (percentage of completion: ca. 30%), and one power generating unit at each of the Jaworzno III Power Plant (percentage of completion: ca. 15%) and the Kozienice Power Plant (percentage of completion: over 70%). In aggregate, these projects will deliver nearly 4,000 MW of new capacity.

Among large power units currently being built, 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 for Tauron/PGNiG by Abener Energia of Spain, valued at PLN 1.6bn (VAT exclusive) – based on recent information, the unit is expected to be placed in service a year later than originally planned, in mid-2016;
- 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 PLN 6.4bn (VAT exclusive),
- Construction of a 463 MWe gas-fired unit at the Włocławek power plant for PKN Orlen by the consortium of General Electric International and SNC-Lavalin Polska, valued at PLN 1.4bn (VAT exclusive) – the start-up of the gas turbine has been completed successfully and the entire unit is to be placed in service in Q2 2016.

Also a few smaller projects, commenced in 2013 and 2014, are well advanced:

- A 138 MW CCGT unit at the Gorzów plant, constructed for PGE by Siemens and valued at approximately PLN 0.6bn; the unit is to be placed in service in March 2016;
- A 50 MW coal-fired unit at the Tychy plant, constructed for Tauron Ciepło by Elektrobudowa and valued at PLN 592.5m (VAT-exclusive); the project is pencilled in for completion by June 2016;
- A 75 MW coal-fired unit at the Zofiówka plant, constructed for Jastrzębska Spółka Węglowa by Energoinstal and valued at more than PLN 500m,
- A 596 MW CCGT unit at the Płock plant, constructed for PKN Orlen by the consortium of Siemens AG and Siemens Spółka z o.o.; the value of the agreement is estimated at PLN 1.3bn (VAT-exclusive); the unit is scheduled to come online in late 2017 or early 2018,
- A 25 MW coal-fired power plant in Kędzierzyn-Koźle, constructed for Grupa Azoty ZAK by RAFAKO; the plant, with a value of PLN 320m (VAT-exclusive), should be put in operation in Q3 2016 (percentage of completion is currently ca. 60%).

May 2015 saw the inauguration of construction of a 450 MW lignite-fired unit at the Turów Power Plant. The unit will be constructed for PGE GiEK by the consortium of MHPSE, Budimex and Tecnicas Reunidas.

2016 may be a crucial year for four CCGT projects. Tauron is contemplating the construction of a 412–490 MW gas-fired unit at the Łagisza Power Plant in Będzin. PGNiG Termika is planning to build a 400–500 MW CCGT unit at the Żerań CHP plant. ZE PAK plans to build a ca. 120 MW CCGT unit at the Konin Power Plant, while Grupa Azoty ZAP intends to place in service a 400 MW CCGT unit by 2019.

Another planned project is the construction of a 1,000 MW coal-fired power generating unit in Wola for Kompania Węglowa. However, given the circumstances of the project originator, i.e. Kompania Węglowa, the project had to be suspended. Another major coal-fired power plant construction project is Elektrownia Północ (target capacity of 2x800 MW). The project is to be executed by Polenergia of the Kulczyk

Investments Group, which has long been involved in a tug-of-war with environmental NGOs blocking the start of construction work.

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.

Energa plans capital expenditure of PLN 18.2bn in 2014–2022.

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.

In accordance with the Energy Regulatory Office's data, a trend to expand generation capacities has been recently seen in the heat segment, including, under the Infrastructure and Environment Operational Programme, through the construction of twelve advanced municipal waste thermal treatment plants.

2015 saw the completion of projects in Białystok, Bydgoszcz, Konin and Kraków. 2016 is expected to see the completion of the last two municipal waste incineration plants (in Poznań and Szczecin).

In 2016, private partners may be selected for the construction of two waste incineration plants to be built as part of a public-private partnership (in Gdańsk and Olsztyn). More local governments (e.g. from Łódź and Warsaw) are contemplating the construction of waste incineration plants.

Environmental protection construction projects

In accordance with the "Environmental Protection 2015" report prepared by the Central Statistics Office, the last decade has seen an increase in spending on property, plant and equipment used for environmental protection purposes. In 2014, the expenditure was approximately PLN 14.2bn – up by 31% on 2013. Spending on environmental protection assets has remained at 0.6–0.8% of GDP for several years. The share of spending on property, plant and equipment for environmental protection in Poland's capital expenditure has been around 5% over the past years (5.7% in 2014). The data points to a potential increase in environmental protection spending in the coming years and greater investment in environmental protection construction projects.

In accordance with the General Inspectorate for Environmental Protection's 2014 "State of the Environment" report, the share of investors' own funds in environmental protection projects is 40–50% of total expenditure on property, plant and equipment for environmental protection purposes.

Ecological funds – such as environmental protection and water management funds (National Fund for Environmental Protection and Water Management) and provincial funds for environmental protection and water management – remain an important source of financing of environmental protection projects. In 2012, their share in expenditure on property, plant and equipment for environmental protection and water management purposes was 13.9% and 17.3% respectively. The funds are financed with charges for economic use of the environment, fines for violations of environmental protection standards, and from the repayment of loans advanced to investors. Environmental protection and water management projects are also financed from the budgets of individual counties and municipalities.

The share of budget funding, taking into account all levels of financing (including central and provincial), was close to 10% in the case of environmental protection projects and nearly 20% for water management projects. In 2012, the largest item of expenditure on property, plant and equipment for environmental protection purposes was wastewater management (55.9%), while 22.9% was allocated to air and climate protection projects, and 7.5% to waste management projects.

Competitive environment

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

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

The Group operates on the Polish market (92.0% of revenue in 2015 came from domestic sales) and foreign markets (8.0% of revenue in 2015). Given the limited number of projects and customers on each market, as well as specific contract requirements, contractors competing with the Group companies over projects in Poland (major foreign companies often have branches in Poland) usually also bid for foreign contracts.

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

On the Polish market, there exist several companies, such as WARBUD, BUDIMEX and POLIMEX-MOSTOSTAL, which plan to enter the power construction industry by including EPC contracts in their offering or, at the very least, by offering assembly and construction services. However, the companies do not have any technologies on a par with those of the Group and their role is essentially that of subcontractors. Developing capabilities necessary to design and manufacture equipment for the power sector is complicated and requires considerable expenditures over long periods of time. In their competition with the Group, the companies rely solely on the technologies and products supplied by the Group's direct competitors, including Alstom, Mitsubishi Hitachi Power Europe, Doosan Power Systems, Bilfinger Berger Power Systems, and CNIM.

With respect to specific products, such as steam generators, desulfurisation units, denitrification units and waste incineration facilities, the Group's major competitors again include Alstom, Mitsubishi Hitachi Power Europe, Doosan Power Systems, Bilfinger Berger Power Systems, Foster Wheeler, and CNIM, as well as Andritz, Metso and Strabag.

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

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

3. Operational plans

The RAFAKO Group is prepared to face the challenges of the power market. The Group companies currently offer the widest selection of power technologies in Europe. In addition to all environmental protection facilities, which are constantly developed and upgraded, the Parent has capabilities necessary to construct power units of all parameters, running on all types of fuels. RAFAKO S.A. is one of Europe's four companies (the other being Alstom, Hitachi Power Europe and Doosan Babcock) offering the complete technology for the construction of 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 2016, the Parent 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 Parent should continue to increase its presence on the domestic market of environmental protection systems, where it currently offers technologies for the construction of complete flue gas desulfurisation units, industrial and municipal waste incineration systems and biomass-fired units, upgrading of boilers to reduce NOx emissions, as well as dust extraction equipment.

In 2016, the following factors and developments will have the greatest effect on the Group's development and prospects:

- securing financial liquidity and obtaining access to new bank/insurance guarantees that will enable the Group 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,
- performance 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,
- acquisition of new material contracts,
- organisational changes; at present, the Parent is undergoing reorganisation aimed at building a modern enterprise ready for the greatest challenges of a rapidly changing market. Some of the key changes are: implementation of a CRM-based model, implementation of system-based foreign markets management, introduction of uniform standards in bidding and project implementation, market orientation of production.

Capital expenditure planned for 2016 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 Group companies' own funds.

According to forecasts of the Group's performance in 2016, the Group is expected to report net profit. These plans are based on the expected performance of signed contracts, which account for a significant part of projected sales, as well as on new contracts which the Group needs to win in 2016 to fully accomplish its plans.

4. Order book

As at December 31st 2015, the value of the Group's order book was nearly PLN 4.6bn. The order book's largest item is the Jaworzno 910MW Project – the amount outstanding under the contract is PLN 3.8bn, of which PLN 0.5bn is attributable to the Parent and PLN 3.3bn to SPV Jaworzno. The order book does not include the Opole contract (the outstanding share in the project, worth PLN 2.1bn, was subcontracted outside the RAFAKO Group). At present, the order book comprises only power construction projects.

ORDER BOOK	
Dec 31 2015	Dec 31 2014
~ PLN 4.6bn	~PLN 5.8bn

	ORDER BOOK as at Dec 31 2015	Due for execution in		
		2016	2017	after 2017
TOTAL	~PLN 4.6bn	~ PLN 1.8bn	~PLN 1.7bn	~ PLN 1.1bn
RAFAKO Group	~ PLN 1.3bn	~ PLN 0.7bn	~ PLN 0.4bn	~ PLN 0.2bn
SPV Jaworzno	~PLN 3.3bn	~ PLN 1.1bn	~ PLN 1.3bn	~PLN 0.9bn

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

a. the order book value is equal to the aggregate amount of the Group's remuneration under individual contracts executed by Group companies in the period to December 31st 2015; 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 2015; 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, subassemblies and parts of power machinery and equipment

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, SO_2 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.

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 Parent 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 steam generator 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.

7) Installation of membrane wall in Boiler OP-380b at TE Morava, Phase 2

A contract for the installation of a membrane wall, with a value of EUR 8,150 thousand, was concluded with Javno Preduzeće Elektroprivreda Srbije.

8) Delivery of boiler pressure parts to Metsa Fibre Oy in Finland

On April 30th 2015, RAFAKO S.A. signed a EUR 7,702 thousand contract with Valmet Technologies Oy.

The contract provides for the delivery of boiler pressure parts.

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) SCR systems in Połaniec

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

3) 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 SO_2 emissions from active units at the Bełchatów Power Plant, introduced by environmental protection regulations.

4) 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 process leading 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.

5) 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.

6) Construction of a flue gas desulfurisation unit for Boilers K7 and K8 in the Białystok CHP Plant

On October 23rd 2015, RAFAKO S.A. signed a PLN 78,500 thousand contract with ENEA Wytwarzanie Sp. z o.o. The contract provides for the construction of a flue gas desulfurisation unit for Boilers K7 and K8 in the Białystok CHP Plant. The time limit for performing the contract is 26 months as of its date.

Management Board's statement

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

1) to their best knowledge, the financial statements for the year ended December 31st 2015, as well as comparative data for the year ended December 31st 2014, were drawn up in compliance with the applicable accounting standards and give a true, fair and clear view of the Group's assets, its financial condition and performance, and that the Directors' Report on the operations of the RAFAKO Group gives a true view of the Group's development, achievements and standing, including a description of key risks and threats;

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

Signatures of Management Board members

March 21st 2016	Agnieszka Wasilewska-Semail	President of the Management Board	.....
March 21st 2016	Krzysztof Burek	Vice-President of the Management Board	.....
March 21st 2016	Jarosław Dusiło	Vice-President of the Management Board	.....
March 21st 2016	Edward Kasprzak	Vice-President of the Management Board	.....
March 21st 2016	Tomasz Tomczak	Vice-President of the Management Board	.....