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

IN 2017

Racibórz, April 5th 2018

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I. General information

About us

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

The Company's key products and services include:

Complete power generating units	Heat and power steam generators	Air pollution control systems	Power equipment, machinery and components	Natural gas, crude oil and fuels
• consisting of a boiler (fired with fossil fuels or biomass) together with a turbine coupled with a generator and complete assembly necessary for proper operation of the unit	• fired with fossil fuels, biomass and waste • with stoker-fired, fluidised bed- and pulverised fuel furnaces • sub- and supercritical • manufacture and delivery of heat recovery steam generators	• manufacture and delivery of wet and semi-dry flue gas desulfurisation units • manufacture and delivery of flue gas NOx reduction units, including SCR systems • manufacture and delivery of dust extraction equipment (electrostatic precipitators, bag filters)	• manufacture of components for steam generators and precipitators • diagnostics, repairs, and upgrades of boiler equipment • design, advisory and maintenance services • manufacture of steel structures and other parts for the power generation industry	• surface installations for oil and gas production • installations for unloading, regasification and storage of LNG • oil and gas pipelines • fuel tanks • technical and sanitary installations

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

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

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

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

Farmaceutyczne Polpharma Starogard Gdański. In 2016, an OFz-140 fluidised bed boiler was placed in service at Synthos Dwory 7 in Oświęcim.

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

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

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

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

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

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

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

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

In 2011, the Company gained a foothold in a new area of pro-environmental projects in the power sector, i.e. the catalytic reduction of nitrogen oxides, commencing the manufacture of state-of-the-art SCR units on a turn-key basis. The first such unit was built for the K8 boiler at PKN Orlen, and the construction of another SCR system commenced in June 2011 at the Kozienice Power Plant. With respect to this system, on December 20th 2017 the final acceptance report was signed for Unit 8, which marked the completion of the contract for Enea

Wytwarzanie Sp. z o.o. In 2012, a contract for delivery of catalytic flue gas NOx reduction systems for six power generating units at Elektrownia Połaniec S.A. was signed with GDF SUEZ Energia Polska S.A. (currently Enea Połaniec S.A.). In 2014, a consortium formed by RAFAKO S.A. and OMIS S.A. executed a contract with ENERGA Elektrownie Ostrołęka S.A. for the construction of flue gas NOx reduction systems for units 1, 2 and 3 at Elektrownia Ostrołęka S.A. In September 2016, RAFAKO S.A. and ENEA Wytwarzanie Sp. z o.o. executed a contract for delivery and installation of a catalytic flue gas NOx reduction system for AP-1650 boilers No. 9 and 10, and for upgrade of electrostatic precipitators at the Kozienice Power Plant.

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

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

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

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

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

In October 2017, the final certificate was signed for a project carried out for Javno Preduzece Elektroprivreda Srbije of Serbia, upon which the warranty period commenced. The project, with a value of approximately EUR 14m, was to replace the component parts of a combustion chamber of steam generator B2 at TENT B Obrenovac.

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

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

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

For the shareholding structure as at December 31st 2017, see Appendix 9.

II. Economic and financial condition

1. External and internal factors materially affecting the Company'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 Company's market
- financial condition and market position of the Company's customers, consortium partners, subcontractors and suppliers;
- timeliness of payments by the employers;
- market prices of materials used by the Company in manufacturing, market prices of services, and employee benefits expense;
- foreign exchange rates;
- financial institutions' willingness to provide financing and guarantees for contracts performed by the Company;
- financial condition of the Company's main shareholder;
- limited ability of the Company 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 Company;
- maintaining financial liquidity of the Company;
- ability to achieve the expected increase in efficiency and effectiveness thanks to the reorganisation process;
- improvement of management processes at the Company, 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

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

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

1. Risk factors relating to the macroeconomic situation, including the GDP growth rate, unemployment rate, salaries and wages, growth of the industrial and construction output, 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.
6. Risk of higher subcontracting costs.

Risks specific to the Company:

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 Company;

3. Risk associated with performance of high value contracts and limited number of customers;
4. Risk of increased operating costs of the Company resulting from higher prices of supplies and services and increased employee benefits expense;
5. Risk of failure to correctly estimate project costs;
6. Risk related to winning new contracts;
7. Risk inherent in execution of certain projects as part of consortia;
8. Risk inherent in acquisition and execution of projects in cooperation with suppliers and subcontractors;
9. Risk of failure to obtain financial guarantees required to win and perform contracts;
10. Risk of failure to secure sufficient external financing on terms originally expected by the Group;
11. Risk related to full or partial repayment of arrangement receivables by PBG;
12. Risk related to failure to maintain appropriate liquidity by the Company;
13. Risk of failure to implement the Group's strategy;
14. Reputational risk,
15. Risk related to the use by the Company of complex and innovative manufacturing technologies;
16. The Company's IT systems may suffer a failure or security breach;
17. The Company's day-to-day operations and growth depend on its senior management and ability to hire and retain highly-qualified personnel, particularly specialist production staff and engineers;
18. Risk of insufficient insurance cover;
19. Risk of consequences of accidents at work and occupational diseases;
20. Risk related to plant failure or to destruction or loss of the Company's assets.

Regulatory risks:

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

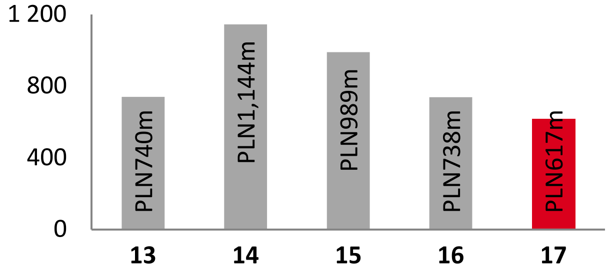
For information on the objectives and rules of financial risk management, including the specification of the most material risks, see Note 47 to the Company's financial statements.

3. Analysis of key financial and economic data

3.1. 2017 highlights (compared with previous years)

Revenue

PLN 617m

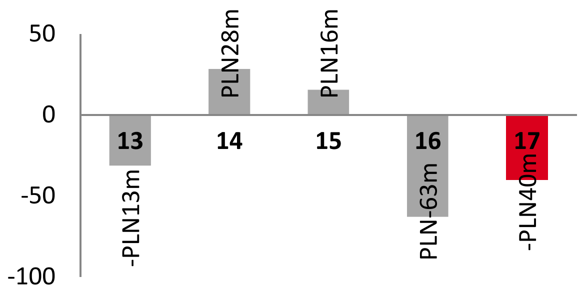


Definition: Total revenue, net of VAT

Relative to 2016: Revenue fell by 16.5% due to the completion of several large contracts, relatively little progress on new contracts, and a lower value of contracts secured in 2017.

EBIT

PLN -40m



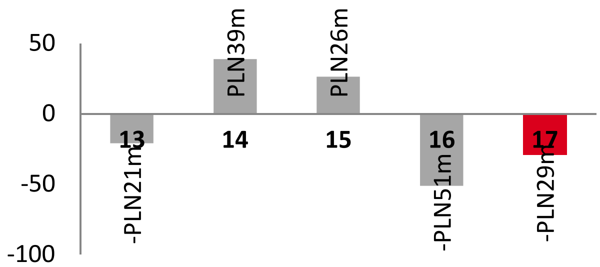
Definition: Profit/(loss) from continuing operations

Relative to 2016: Loss from continuing operations of nearly PLN 40m was recorded, compared with a PLN 63m loss from continuing operations for 2016.

This was mainly due to a higher gross margin (by PLN 25.5m).

EBITDA

PLN -29m

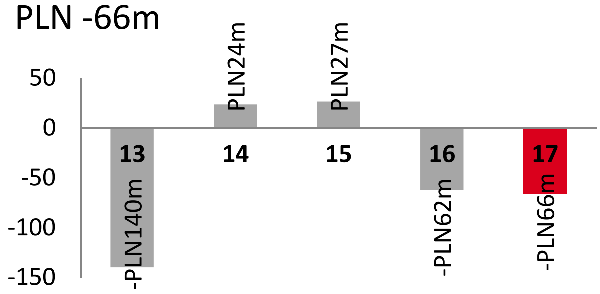


Definition: Total of profit/(loss) from continuing operations, depreciation and amortisation

Relative to 2016: EBITDA for 2017 was negative at PLN -29m, compared with PLN -51m reported a year earlier.

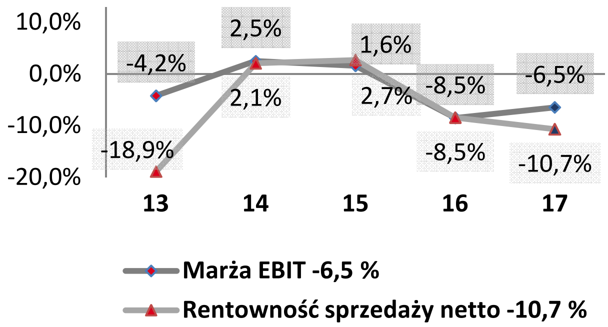
Net profit

PLN -66m



Definition: Excess that remains after deducting all costs. Difference between revenue and total costs.

Relative to 2016: The Company posted a net loss of PLN 66m, compared with a net loss of PLN 62m for 2016. In addition to negative EBIT, also deferred income tax of almost PLN 17m largely contributed to the net loss.

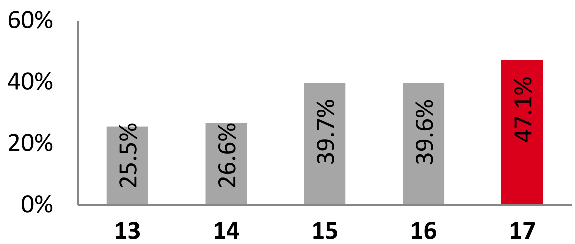


Definition: EBIT margin: operating profit/(loss) / net revenue; Net margin: net profit/(loss) / net revenue.

Relative to 2016: The Company reported an improvement in its operating profit margin compared with a year earlier, from -8.5% to -6.5%.

EBIT margin of -6.5%	Marża EBIT -6,5%
Net margin of -10.7%	Rentowność sprzedaży

Share of equity in financing 47.1%



Definition: Equity / total assets.

Relative to 2016: The share of equity in the total financing of assets increased by 7.5pp to 47.1%. The increase in the ratio results from issue of Series K shares worth PLN 170m.

	netto -10,7%

3.2. Revenue: amount and structure

In 2017, revenue from sales of products, merchandise and materials was PLN 616,631 thousand, having decreased year on year by PLN 121,596 thousand (or 16.5%). The sales of products and services amounted to PLN 614,071 thousand, of which revenue from construction contracts was PLN 605,745 thousand. Revenue from sale of materials was PLN 2,560 thousand.

The decrease in sales recorded in 2017 was mainly due to lower revenue from sale of generating units and steam generators on the domestic market. The lower sales in this product group were mainly attributable to the completion of the contract to construct a CHP plant at Grupa Azoty ZAK S.A. (value of approximately PLN 320m; revenue in 2017: PLN 19,379 thousand, revenue in 2016: PLN 144,222 thousand) and a decreased share in the Jaworzno 910 MW Project, which generated revenue of PLN 108,601 thousand against PLN 175,868 thousand in 2016. Sales of generating units and steam generators in Poland amounted to PLN 168,638 thousand, down by 54.6% year on year (PLN 371,593 thousand in 2016).

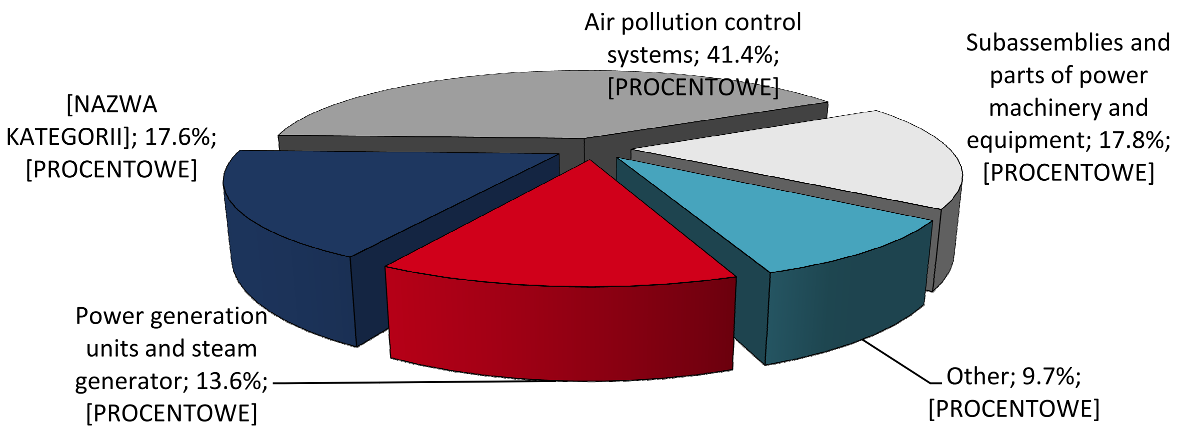
On the domestic market, there was an increase in sales of air pollution control systems. The strong sales of these systems followed mainly from the performance of contracts signed with Enea Wytwarzanie Sp. z o.o. The contracts primarily provided for the construction of an SCR unit at the Kozienice Power Plant and FGD units for the K7 and K8 boilers of the Białystok CHP Plant. Sales of air pollution control systems in Poland amounted to PLN 254,622 thousand, up by 46.0% year on year (PLN 174,341 thousand in 2016).

Sales of power equipment, machinery and components also increased on the domestic market. Sales in this product range reached PLN 36,477 thousand, having grown by 73.7% relative to 2016, when they amounted to PLN 21,006 thousand.

The share of export sales in total sales was 24.3%, having increased year on year by 2.1pp. In 2017, export sales amounted to PLN 149,754 thousand, down by 8.5% from PLN 163,749 thousand reported in 2016.

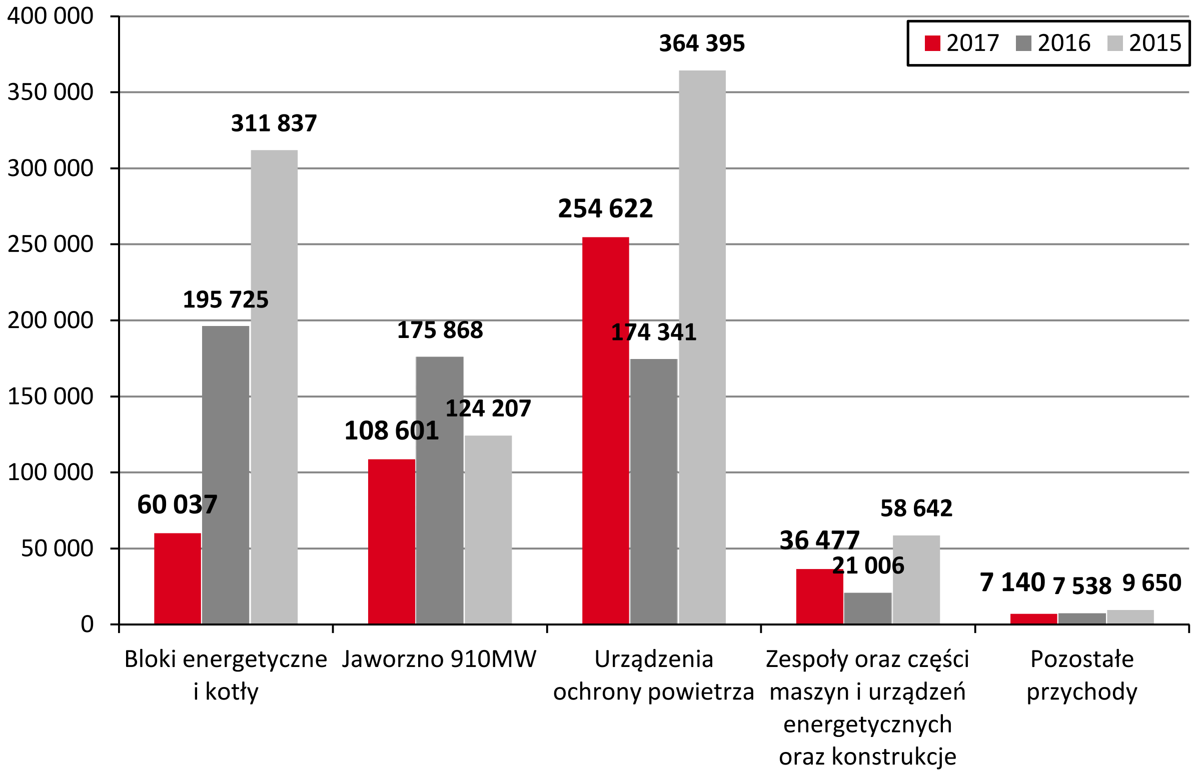
A decline in export sales was recorded in air pollution control systems as well as power equipment, machinery and components. Exports of air pollution control systems amounted to PLN 387 thousand (2016: PLN 17,661 thousand), having decreased by PLN 97.8% year on year. Revenue from sales of power equipment, machinery and componentstotalled PLN 73,317 thousand and were down by 22.9% on 2016, mainly due to the sale of the pressure section of a steam generator for a waste incineration plant to CNIM (Constructions industrielles de la Méditerranée). Sales of power generation units and steam generators went up to PLN 23,674 thousand from PLN 12,136 thousand in 2016. In the other product groups, exports grew to PLN 52,376 thousand, mainly on account of the manufacture of pressure parts for Valmet Power OY, Valmet Technologies Inc., and Babcock & Wilcox Volund Aps.

In 2017, the sales structure was as follows:



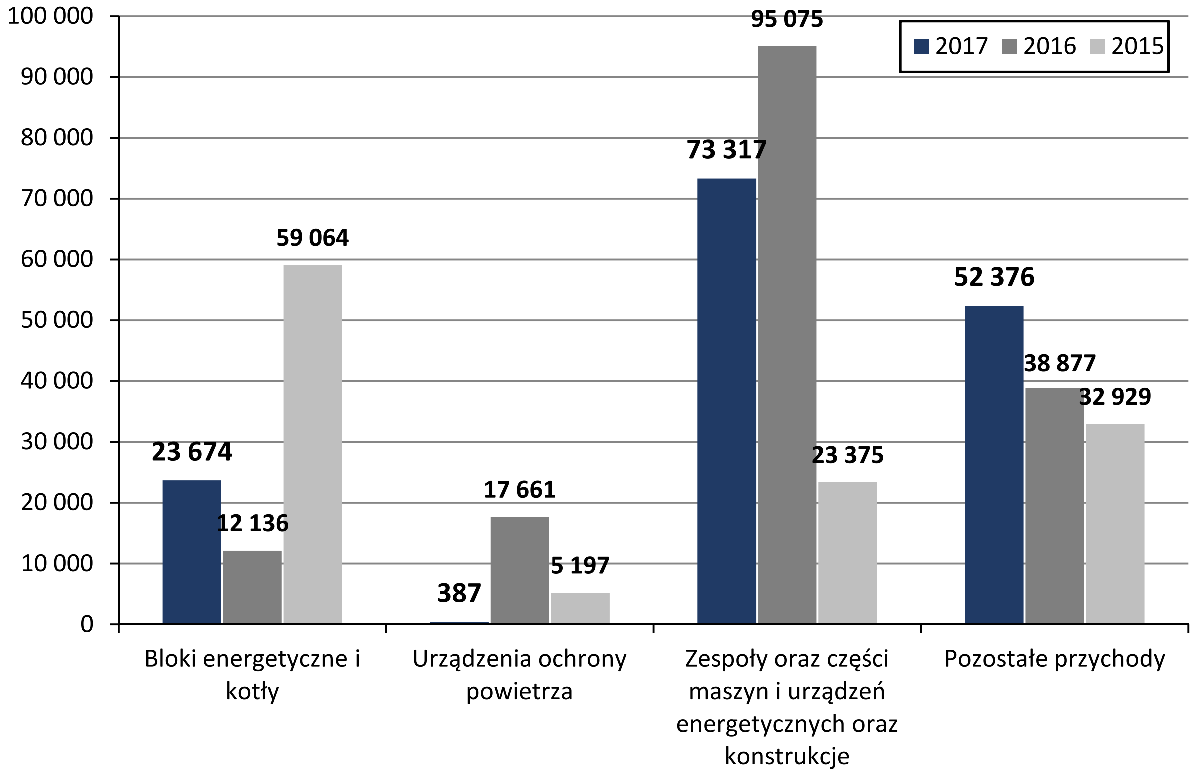
Sales by market:

Domestic market (2017: PLN 466,877 thousand; 2016: PLN 574,478 thousand; 2015: PLN 868,713 thousand):



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

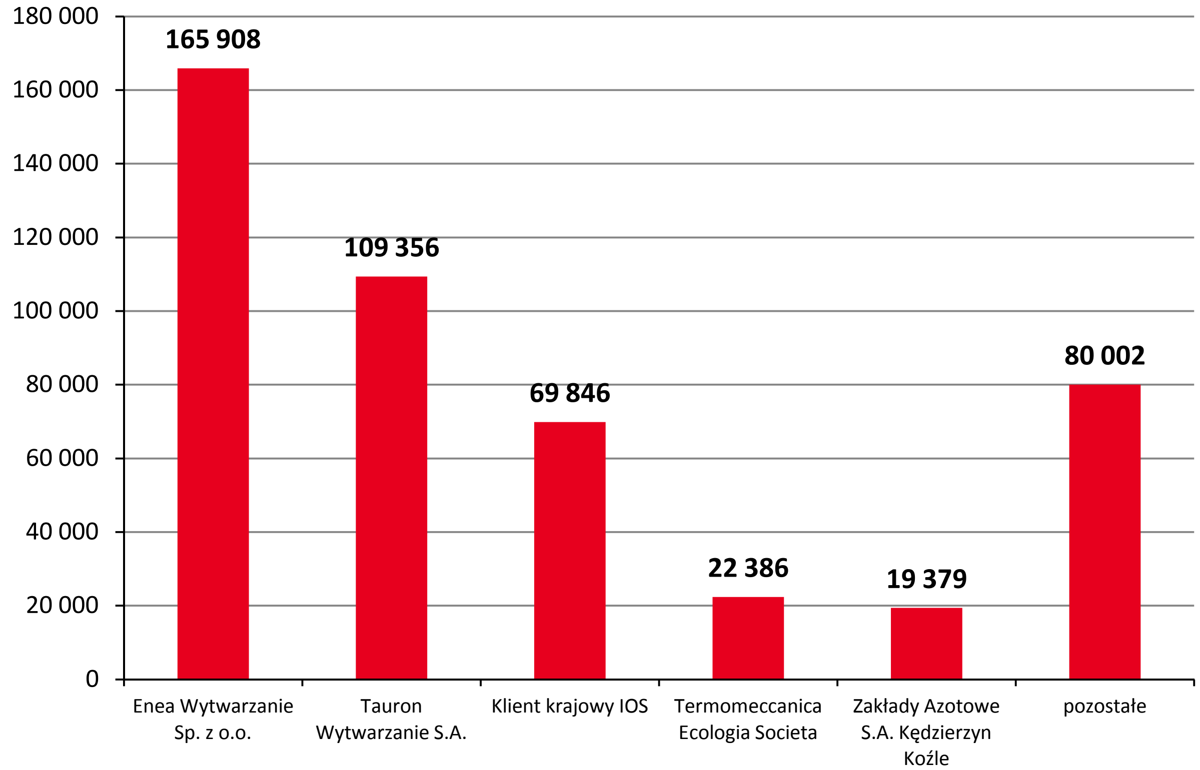
Foreign market (2017: PLN 149,754 thousand; 2016: PLN 163,749 thousand; 2014: 120,565 thousand):



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

In 2017, RAFAKO S.A.'s main customers included:

on the domestic market (PLN 466,877 thousand in total):



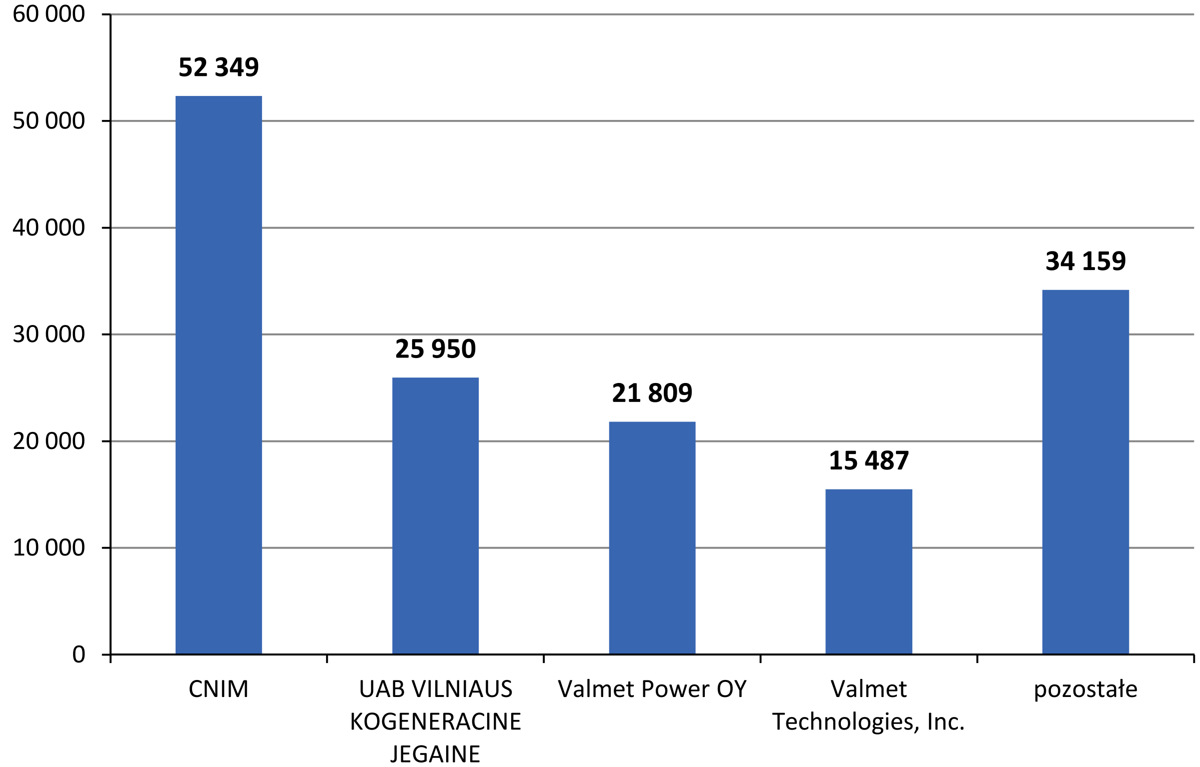
In 2017, the Company's main customer was Enea Wytwarzanie S.A., which accounted for 26.9% of total sales (9.0% in 2016). Revenue from sales to this customer was generated mainly on the construction of an SCR unit at the Kozienice Power Plant (PLN 97,702 thousand) and FGD units for the K7 and K8 boilers of the Białystok CHP Plant (PLN 47,516 thousand).

Another major customer was Tauron Wytwarzanie S.A., accounting for 17.7% of total sales in 2017, down from 23.9% in 2016. Revenue attributable to this customer was generated mostly in connection with the construction of a 910 MW supercritical power generating unit at the Jaworzno Power Plant. 2017 sales to TAURON Polska Energia S.A. totalled PLN 109,358 thousand.

Another key customer on the domestic market accounted for 11.3% of total sales (2016: 1.0%), with the construction of an FGD system being the main source of revenue attributable to this customer.

Termomeccanica Ecologia Societa also became one of the Company's major customers, with a 3.6% share in total sales (no sales in 2016). Sales to this customer were effected under a contract for the delivery of the process section for two lines of the Thermal Waste Treatment Plant in Szczecin. Initially, the contract was performed for Mostostal Warszawa S.A.

on foreign markets (PLN 149,754 thousand in total):



RAFAKO S.A.'s main customer on foreign markets was the French company CNIM (Constructions Industrielles De La Mediterranee), whose share in total sales was 8.5%. Revenue from that customer was generated on the sale of high-pressure part of a steam generator for waste incineration plant.

Given the nature of the Company's sales, the shares of major customers in total sales exceed 10% at times when large projects are being executed.

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 2017, RAFAKO S.A.'s main supply sources included:

	PLN '000			
	2017		*2016*	
Supply sources	*Value*	*share in total purchases*	*Value*	*share in total purchases*
Domestic suppliers	433,855	88.6%	495,805	76.7%
Foreign suppliers	55,844	11.4%	150,286	23.3%
TOTAL	**489,699**	**100.0%**	**646,091**	**100.0%**

In 2017, the Company's supplier structure was highly fragmented as none of the suppliers represented more than 10% of the total value of purchases.

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

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

3.4. Related-party transactions

In 2017, the Company did not enter into any material transactions with related parties on non-arm's length terms.

For a detailed list of related-party transactions in 2017, see Note 44 to the full-year financial statements of the Company for 2017.

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

In 2017, cost of sales of products, services and materials was PLN 572,644 thousand, with revenue of PLN 616,631 thousand. Thus, the Company posted gross profit of PLN 43,987 thousand, up by PLN 25,464 thousand year on year.

The increase in gross profit was chiefly attributable to a higher weighted average margin on contracts performed in 2017 compared with 2016. However, the higher average margin was accompanied by worse performance under some of the contracts. Following a periodic analysis of costs incurred to perform long-term contracts and a revision of assumptions regarding future revenue and costs, the Management Board of the Company decided to make adjustments to the valuation of those contracts as at December 31st 2017, including adjustments with a negative impact on the net profit. The adjustments included in particular the recognition of a PLN 10m loss incurred in connection with the replacement of some of the equipment under a contract to construct a fluidised bed boiler and the recognition of an additional provision for an expected loss of PLN 9.2m under a contract to construct a flue gas denitrification unit, which may be incurred if a proceed order for the project is issued.

Gross profit margin went up year on year, to 7.1% (2016: 2.5%).

Administrative expenses were PLN 42,893 thousand, having decreased by PLN 1,392 thousand year on year.

Distribution costs were PLN 35,383 thousand in 2017, having increased by PLN 3,805 thousand year on year. Distribution costs net of impairment losses on trade receivables and write-off of previously impaired trade receivables amounted to PLN 32,242 thousand in 2017, and were higher than the previous year's figure by PLN 881 thousand. Impairment losses on trade receivables and write-off of previously impaired trade receivables went up by PLN 2,942 thousand in 2017.

After accounting for distribution costs and administrative expenses, the Company generated a loss on sales of PLN 34,289 thousand in 2017, compared with a loss on sales of PLN 57,340 thousand in 2016. The loss was mainly attributable to relatively low sales, apart from the aforementioned adjustments to the valuation of long-term contracts.

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

3.6.1. Net other income/(expenses)

In 2017, the Company recorded net other expenses of PLN 5,221 thousand (compared with net other expenses of PLN 5,633 thousand in 2016), attributable to:

		PLN '000
1.	recognition of restructuring provision	(8,368)
2.	donations	(1,930)
3.	recognition of impairment loss on other receivables	(538)

4.	recognition of provision for other costs	(403)
5.	cost of scrapping	(377)
6.	costs of membership fees	(268)
7.	income from sureties	5,272
8.	reversal of provision for other costs	1,237
9.	grants	897
10.	negative net balance of other income and expenses	(743)

The restructuring provision was recognised in connection with the RAFAKO Management Board's decision to launch the redundancy programme. In addition to the redundancy programme, the restructuring process will involve a number of optimisation measures to be implemented across the organisation, which will help generate the planned cost savings.

Income from sureties was mainly received pursuant to the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the Jaworzno 910 MW Project.

3.6.2. Net finance income/costs

In 2017, the Company recorded net finance costs of PLN 9,699 thousand (2016: net finance costs of PLN 4,545 thousand), attributable to:

		PLN '000
1.	net foreign exchange losses	(5,397)
2.	interest on financial instruments, including interest on bank loans and other borrowings, lease, past due liabilities, and bank loan fees	(3,736)
3.	interest on employee benefit obligations	(769)
4.	recognition of provisions for interest expense	(662)
6.	interest on security deposits provided	524
7.	costs of valuation of long-term settlements	354
8.	negative net balance of other finance income and costs	(13)

3.7. Income: amount and structure

In 2017, the Company incurred a loss on sales of PLN 34,289 thousand.

After accounting for net other expenses (PLN 5,221 thousand), net finance costs (PLN 9,699 thousand) and income tax (PLN 16,839 thousand), the Company generated net loss of PLN 66,048 thousand, compared with loss of PLN 62,241 thousand reported in 2016.

The Company did not publish any financial forecasts or profit guidance for 2017.

For the structure and change of pre-tax profit/(loss) in 2017, 2016 and 2015, see Appendix 4.

3.8. Margins and ROE

In 2017, the Company reported an improvement in its operating profit margin compared with a year earlier. Gross profit margin rose to 7.1% and was 4.6pp higher than in 2016, while operating profit margin amounted to -6.4% (compared with -8.5% in 2016).

As a result of net loss (PLN 66,048 thousand), return on equity was negative at -15.5%. In 2016, ROE was -18.9%.

The 2017, 2016 and 2015 profitability ratios are presented in Appendix 1.

3.9. Financial liquidity

As at the end of 2017, the RAFAKO Group's liquidity ratios changed relative to the end of 2016. The current ratio (current assets to current liabilities) increased by 0.24, to 1.46.

Relative to 2016, in 2017 the average collection period and the average collection period for amounts due from customers for construction contract work extended by 20 days (to 112 days) and 9 days (to 93 days) respectively. Inventory turnover changed only slightly and was 8 days. The average payment period extended by 57 days (to 117 days), while the average payment period for amounts payable for construction contract work shortened by 15 days (to 36 days).

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

The Company continued its multi-purpose credit facility agreement with PKO BP S.A. Several annexes to the agreement were signed, the most recent one extending the availability period until June 30th 2018 and amending certain provisions of the agreement. For detailed information on the amendments, see Section III.4 'Other material events' on page 28.

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

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

Ultimately, the Company seeks to have all of its contractual obligations secured exclusively with financial guarantees (with assignment of receivables under the contract as security in respect of the Group's obligations towards financial institutions). Such security arrangements will allow the Company to freely manage its own financial resources and avoid using these resources directly as security, which will improve the Company's financial liquidity.

Access to new bank/insurance guarantees will be of paramount importance for the Group to be able to maintain liquidity. Unavailability of a satisfactory amount of guarantee limits may restrict the Company's ability to conclude revenue-generating contracts. In 2017, RAFAKO S.A. secured new guarantee limits totalling PLN 165.1m.

In 2017, the Company carried out a share issue with the main objective of raising funds to finance future foreign contracts and the working capital required for the performance of contracts in Poland (approximately 65.0% of the funds raised from the issue); to finance the Company's own contribution towards putting new products, including polygeneration islands, into production, and towards projects related to gasification of waste and biomass (approximately 25.0% of the issue proceeds); and to finance R&D projects carried out by the Company (approximately 10.0% of the issue proceeds).

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

The Company's currency risk management strategy provides for the use of natural hedging to the extent possible. The Company 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 Company 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. In the second half of 2017, the Company entered into futures/forward transactions to hedge the USD/PLN exchange rate risk. As at December 31st 2017, the Company had open hedging positions for a total amount of USD 4m.For the objectives and rules of financial risk management, see Note 47 to the financial statements for 2017.

3.10. Debt

In 2017, RAFAKO S.A.'s liabilities towards its creditors decreased by PLN 21,476 thousand. As at December 31st 2017, total non-current and current liabilities were PLN 478,868 thousand, compared with PLN 500,344 thousand as at December 31st 2016.

The change was mainly caused by a decrease of PLN 18,531 thousand in short-term liabilities, attributable primarily to a PLN 50,544 thousand decrease in bank and other borrowings and a PLN 43,581 thousand decrease in liabilities, provision for construction contract work, and deferred income. At the same time, trade payables increased by PLN 65,049 thousand. In 2017, non-current liabilities fell by PLN 2,945 thousand year on year.

As at December 31st 2017, the Company's assets not encumbered with on-balance-sheet (non-current and current) liabilities amounted to PLN 426,074 thousand, compared with PLN 328,760 thousand as at December 31st 2016.

The debt (non-current and current liabilities) to assets ratio declined to 52.9%, from 60.3% in 2016. The change results mainly from an increase in the value of assets.

Debt to assets ratio does not take account of the Company's contingent liabilities under bank and insurance guarantees (mainly performance bonds and advance payment guarantees granted on the Group's instructions; such guarantees are typical for RAFAKO S.A.'s business and the market of power generation equipment), letters of credit and promissory notes issued as security. As at December 31st 2017, the Company's contingent liabilities under these instruments totalled PLN 1,629,882 thousand (PLN 1,602,229 thousand as at December 31st 2016). The main item of these liabilities was a surety of PLN 1,294,375 thousand issued for the benefit of 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.

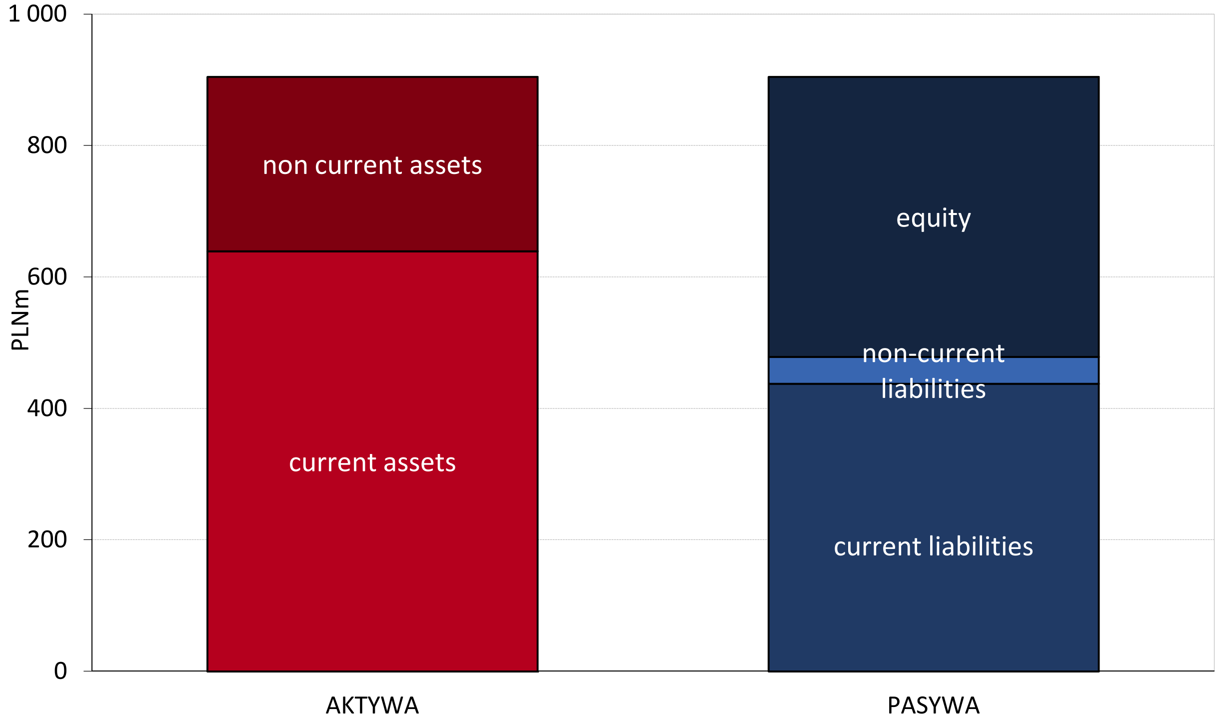
In the first three months of 2017, guarantees (mainly performance bonds of PLN 142,678 thousand and bid bonds of PLN 47,716 thousand) were issued by banks and insurance companies to the Group's trading partners at the request of the parent. In this category of liabilities, the largest item was a performance bond of PLN 11,972 thousand, issued in May 2017.

In connection with its ongoing contracts, besides contingent (off-balance-sheet) liabilities, the Company also had contingent receivables, which amounted to PLN 201,584 thousand as at December 31st 2017 (PLN 233,779 thousand as at December 31st 2016). The main item among these receivables was bank and insurance guarantees totalling PLN 182,715 thousand. In 2017, the value of guarantees received was PLN 73,707 thousand.

For details of changes in contingent receivables and liabilities, see Note 40 to the financial statements for 2017.

The 2017, 2016 and 2015 liquidity and debt ratios are presented in Appendix 1.

3.11. Assets financing: amounts and structure



ASSETS	AKTYWA
EQUITY AND LIABILITIES	PASYWA

As at December 31st 2017, total assets stood at PLN 904,942 thousand, having risen by PLN 75,838 thousand (9.1%) on December 31st 2016. The change was mainly driven by a PLN 93,039 thousand increase in cash and cash equivalents, to PLN 158,921 thousand. A decrease was, however, recorded in a deferred tax asset (PLN 17,036 thousand) and in gross amount due from customers for construction contract work and prepayments related to accounting for the contracts (PLN 13,602 thousand).

Long-term capital (equity plus non-current liabilities) covered the full amount of non-current assets and 31.5% of current assets.

As at December 31st 2017, the assets financing structure was as follows:

1. non-current assets of PLN 265,443 thousand were fully financed with long-term capital,
2. current assets (and non-current assets held for sale) of PLN 639,499 thousand were financed with:

long-term capital	31.5%,
trade payables	29.0%,
short-term bank borrowings	15.4%,
amounts due to customers for construction contract work	9.1%,
other current liabilities	15.0%.

3.12. Non-current assets

3.12.1. Structure of non-current assets

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

	December 31st 2017	*December 31st 2016*
1. Property, plant and equipment, including:	52.9%	54.4%
- land and buildings	33.4%	33.2%
- plant and equipment	17.4%	18.1%
- vehicles	2.1%	2.6%
- property, plant and equipment under construction	0.0%	0.5%
2. Intangible assets	4.0%	4.1%
3. Shares	13.3%	10.9%
4. Other financial assets	15.4%	12.9%
5. Deferred tax assets	11.7%	17.6%
6. Other non-current assets	2.7%	0.1%

The most important item of non-current assets was represented by land and buildings, which accounted for 33.4% of non-current assets and about 9.8% of total assets. Other significant items included plant and equipment and other financial assets. At the end of 2017, these accounted for 17.4% and 15.4%, respectively, of total assets. Plant and equipment include mostly machinery, equipment and apparatuses used in manufacturing processes, as well as computer hardware.

In 2017, non-current assets decreased by PLN 6,614 thousand (2.4%) compared with the previous year. The change in non-current assets was attributable to a PLN 17,036 thousand decrease in a deferred tax asset, a PLN 7,604 thousand decline in property, plant and equipment, and a PLN 6,020 thousand increase in other non-current financial assets. Other non-current financial assets consisted mainly of bonds worth PLN 24,769 thousand which the Group acquired in 2017 as part of the conversion of receivables from PBG S.A. For details, see section III.4.

3.12.2. Key investments in property, plant and equipment

In 2017, the Company incurred capital expenditure on non-financial non-current assets of PLN 2,896 thousand, including:

- PLN 2,132 thousand on property, plant and equipment,
- PLN 764 thousand on intangible assets.

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

Expenditure on intangible assets was incurred mainly in connection with the implementation of a new controlling system, upgrade of the server rooms, and implementation of a document workflow system.

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

3.13. Current assets

In 2017, current assets increased by PLN 82,351 thousand, to PLN 639,391 thousand.

The change in current assets is primarily a consequence of a PLN 93,039 thousand increase in cash and cash equivalents, to PLN 158,921 thousand. Another major contributing factor was a decrease in gross amount due from customers for construction contract work and prepayments related to accounting for the contracts (PLN 13,602 thousand), and income tax receivable (PLN 10,918 thousand).

Material receivables included deposits provided as security for contract guarantees (issued mainly by banks on the Company's instructions). At the end of December 2017, the amount of deposits provided as security for guarantees was PLN 62.2m (PLN 68.1m at the end of December 2016).

For the list of loans advanced as at December 31st 2017, see Appendix 7.

3.14. Equity amount and structure

As at December 31st 2017, RAFAKO S.A.'s equity was PLN 426,074 thousand, and comprised:

1. The share capital of PLN 254,864 thousand, comprising 127,431,998 Series A, B, C, D, E, F, G, H, I, J, and K ordinary shares. In the twelve months of 2017, the share capital of RAFAKO S.A was changed following the issue of 42,500,000 Series K shares with a par value of PLN 2.00 per share. As a result of the issue, the Company's share capital increased by PLN 85,000 thousand;
2. The share premium of PLN 173,708 thousand. In 2017, following the settlement of the issue of Series K shares, the share premium was PLN 85,000 thousand, while the direct costs of the issue were PLN 6,632 thousand. Following the recognition of PLN 78,368 thousand as share premium, less the issue cost, the share premium totalled PLN 173,708 thousand (December 31st 2014: PLN 95,340 thousand);
3. Statutory reserve funds of PLN 69,061 thousand (a PLN 62,240 thousand decrease was attributable to the allocation of the 2016 net loss to statutory reserve funds);
4. Accumulated losses of PLN 71,222 thousand;
5. Exchange differences on translating foreign operations of PLN (-)337 thousand.

In 2017, the Company did not acquire its own shares.

3.15. Changes in RAFAKO S.A.'s equity links with other entities

On December 21st 2017, the subsidiary RAFAKO ENGINEERING Sp. z o.o. sold to RAFAKO S.A. 960 shares in the subsidiary ENERGOTECHNIKA ENGINEERING Sp. z o.o., with a par value of PLN 500 per share and a total par value of PLN 480,000. Also on December 21st 2017, the subsidiary PGL-DOM Sp. z o.o. sold to RAFAKO S.A. 1,340 shares in the subsidiary ENERGOTECHNIKA ENGINEERING Sp. z o.o., with a par value of PLN 500 per share and a total par value of PLN 670,000. As a result of the transactions, RAFAKO S.A. holds directly 100% of shares in ENERGOTECHNIKA ENGINEERING Sp. o.o. and all voting rights at the company's General Meeting.

As at December 31st 2017, the Company's share in total voting rights in the subsidiaries was equal to the Company's holdings in the share capital of these entities.

As at December 31st 2016, the Company's share in total voting rights held in the subsidiaries was equal to the Company'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. held 41.74% of preference shares (58.90% of total voting rights); 47.83% of the shares (33.74% of total voting rights) were held by PGL-DOM Sp. z o.o.

On July 4th 2017, PGL DOM Sp. z o.o., a subsidiary, acquired a total of 240 shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o., with a total value of PLN 240 thousand. Following the transaction, PGL DOM Sp. z o.o. holds 58.26% of shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o.'s share capital (41.10% of the total voting rights at its General Meeting).

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. on 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 Company's share capital increased by PLN 30,664 thousand.

PLN 89,225 thousand of share issue proceeds were used in 2017, of which:

- PLN 22,588 thousand was used as security for new financial instruments,
- PLN 7,914 thousand was used as financing support for new contracts,

- PLN 4,911 thousand was used to finance R&D work in 2017.

In 2017, a total of PLN 35,413 thousand from proceeds from the issue of Series J shares was used. Thus, the share issue of 2015 was accounted for in full.

Summing up, proceeds from the issue of Series J shares, totalling PLN 89,225 thousand, were used as follows between 2015 and 2017:

- PLN 55,865 thousand was used as security for new financial instruments,
- PLN 22,289 thousand was used as financing support for new contracts,
- PLN 11,071 thousand was used to finance R&D work.

3.17. Use of proceeds from the issue of Series K shares

In 2017, based on a resolution passed by the Extraordinary General Meeting of RAFAKO S.A. of September 12th 2017, RAFAKO S.A. carried out a new share issue. Following the issue of 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 per share, the Company's share capital increased by PLN 85,000 thousand.

PLN 163,368 thousand of share issue proceeds were used in 2017 and in 2018 by the date of this report, of which:

- PLN 74,051 thousand was used to finance contracts,
- PLN 625 thousand was used to finance projects related to putting new products, including polygeneration islands, into production, and to finance projects related to gasification of waste and biomass,
- PLN 840 thousand was used to finance R&D projects.

A total of PLN 75,516 thousand was used from the proceeds from the issue of Series K shares. The balance of PLN 87,852 thousand is to be used:

a. to finance future foreign contracts and working capital in contracts signed with customers on the Polish market, in order to ensure that the Company is able to implement its international expansion strategy and participate in Poland's market of environmental protection systems. The Company plans to apply approximately 65.0% of the issue proceeds towards that purpose;

b. to finance the Company's contribution towards putting new products, including polygeneration islands, into production, and towards projects related to gasification of waste and biomass. Commercialization of new products by the Company is to help it enter new business areas, not related to the heat and power generation sector, to stabilise the Company's revenue in the future. The Company plans to apply up to 25.0% of the issue proceeds towards that purpose;

c. to finance the R&D projects run by the Company. The R&D projects are to ensure continuous development of the Company's operations and keep its offering competitive. The Company plans to apply up to 10.0% of the issue proceeds towards that purpose.

4. Human resources and workforce at the Company

In 2017, the average workforce at the Company was 1,807 employees, 238 fewer than in 2016.

	Dec 31 2017	*Dec 31 2016*
Employment structure at end of period	**1,741**	**1,993**
production	754	897
engineering design office	259	278
technology office	63	71
quality control	81	97
maintenance	23	30
other employees (financial and accounting, sales and procurement staff)	561	620

As at December 31st 2017, the Company's employees with university degree or secondary school diploma accounted for 67.8% of the personnel (compared with a similar percentage of 66.6% as at December 31st 2016). The Company's Management Board recognises the importance of recruiting new, well-educated employees. As more than 90% of job positions at the Company require specialist knowledge, persons with specialist university degrees are given priority in the recruitment process. As at December 31st 2017, university graduates accounted for 41.9% of the personnel (compared with 40.4% as at the end of December 2016). The Company also attaches importance to continuous professional advancement, and many employees decide to enrol on part-time university courses.

The age distribution of employees remained stable: the share of employees up to 40 years of age fell from 38.0% as at December 31st 2016 to 37.3% as at December 31st 2017, while the percentage of employees aged between 41 and 50 rose from 24.6% to 26.7%, and the share of employees above 50 years of age decreased from 37.4% to 36.0%.

The share of employees working for the Company for up to 10 years was 22.3%, down by 4.2% year on year, while the percentage of employees with 11–20 years of service grew by 2.3% to 18.9%, and the share of employees with over 20 years of service rose to 58.8%, from 57.1% as at the end of December 2016. The Company has personnel with many years of unique professional experience.

5. Other information

For the statement of compliance with corporate governance rules by RAFAKO S.A. in 2017, see Appendix 9.

RAFAKO S.A. used the exemption from the obligation to prepare a non-financial statement or non-financial report pursuant to Art. 49b.11 of the Accounting Act of September 29th 1994 (Dz.U. of 1994, No. 121, item 591, as amended). PBG S.A. of Wysogotowo, the parent of RAFAKO S.A., will publish a Group-wide non-financial report, which will include non-financial information of RAFAKO S.A. and its subsidiaries. The non-financial report of the PBG Group will be published on the website of RAFAKO S.A.

For information on the amount of remuneration, awards and benefits for members of the Management and Supervisory Boards, see Note 44.7 to the financial statements of the Company.

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

A member of the Management Board who is for any reason removed from office during their contract term (except where such removal is caused by the member's failure to properly discharge their duties under the contract, or by wilful or negligent conduct adversely affecting the Company's business), or whose contract has been terminated or expired, is entitled to a one-off termination payment equal to their six months' remuneration.

Additionally, the Company is required to pay non-compete compensation to members of the Management Board, equal to 50% of their monthly remuneration, for six months following the date of dismissal, expiry of mandate or end of the notice 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 44.5 to the Company's financial statements.

III. Key events and developments in 2017 and in the period from the end of the financial year to the date of the report

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

1. Contract with TAURON (Jaworzno Power Plant)

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

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

Key parameters

Supercritical pulverised-fuel, tower-type, once-through steam generator,

Unit's nominal output (gross) – 910 MW,

Generator's rated thermal input – 1,832 MWt,

Rated capacity – 2,390 t/h,

Temperature of steam at outlet (live/superheated) – 603/621°C,

Pressure of live steam at outlet – 28.5 MPa,

Pressure of superheated steam at outlet – 6.2 MPa,

Efficiency in standard conditions >95%,

Availability > 95%,

Net generation efficiency > 45.91%.

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

Environmental implications:

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

Key events in 2017 and 2018

2017	
January	Delivery of the turbine island.
March	On March 1st, RAFAKO S.A. and Mostostal Warszawa signed annex 5 to the contract for the Jaworzno 910 MW Project with Tauron Wytwarzanie (the employer). Under the annex, the contract price was increased by PLN 71.05m due to the need to change the design and place the structure accommodating the power generating unit on deep foundations; and also to account for the additional work commissioned from the contractor (i.e. the parent and Mostostal Warszawa S.A.) which involves laying the foundations in the fifth zone (the electrostatic precipitator zone) and extension of the electrostatic precipitator switchgear building. The additional works will enable the employer to bring the unit partly in line with future requirements of the BAT Conclusions. The employer did not acknowledge the claims arising from changes in the design standards (Eurocodes) as valid. Under the annex, the contract completion deadline was extended by eight months and five days, and therefore the unit commissioning report will be signed by November 2019. Execution of the annex will result in amendments to the project financing documentation, contract performance timetable, project budget and the subcontractor agreement between SPV Jaworzno and the parent.
April	Construction of the load-bearing structure of the building accommodating the control room and electric devices.
July	Construction of the reinforced concrete structure of the cooling tower bowl.
September	Completion of installation of the scrubber without ancillary equipment.
October	On October 31st, SPV Jaworzno signed an agreement to terminate the contract executed on July 13th 2016 with POLIMEX Energetyka Sp. z o.o. (Polimex) for erection of the boiler's pressurised section, performance of tests and participation in the start-up, in connection with the Jaworzno 910MW Project. The contract's value was PLN 118,750 thousand. The Management Board of RAFAKO S.A. believes that the termination of the contract does not give rise to any negative consequences for SPV Jaworzno or RAFAKO S.A. as the contract was terminated at Polimex's request and on the date of the termination SPV Jaworzno and Polimex signed with Polimex's subcontractors (Przedsiębiorstwo Modernizacji Urządzeń Energetycznych REMAK S.A. and JWW Invest S.A.) agreements providing for replacement of Polimex by SPV Jaworzno.
November	Completion of erection of the load-bearing structure of the bunkering room with the coal conveyor over the bunkers. The guarantees for the Jaworzno 910MW Project were changed as described in Current Report No. 57/2018 of November 20th 2017.
December	Completion of power generator assembly.
2018	
March	Completion of installation of the membrane walls of the steam generator (to the extent necessary for hydraulic test of the generator).

In its separate financial statements, RAFAKO S.A. recognises only revenue and expenses related to its own scope of work, i.e. 11.3% of the total scope of work to be performed on the Jaworzno 910 MW Project. In its separate financial statements, the Company does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. – they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group. By December 31st 2017, 65.8% of the contract's total value had been invoiced.

For the rules of accounting for the contract, see Note 12.1.1 to the financial statements.

2. Contract with PGE Elektrownia Opole

In February 2012, RAFAKO S.A., acting as the leader of a consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. executed a PLN 9.4bn contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. − the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at PGE Elektrownia Opole S.A., 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 from the notice to proceed for unit No. 6.

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

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

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

For the rules of accounting for the contract, see Note 12.1.2 to the financial statements.

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

On September 26th 2017, RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A. and GE Power proposed to the employer that the Opole Project schedule be updated in order to move the commissioning dates for Unit 5 and Unit 6 from July 31st 2018 to December 20th 2018 and from March 31st 2019 to July 31st 2019, respectively. The proposed changes in the project schedule follow from technical and organisational issues.

On February 22nd, the Management Board of PGE Polska Grupa Energetyczna S.A. ("PGE") announced that following talks with the consortium and GE Power new commissioning dates for Unit 5 and Unit 6 of the Opole Power Plant were estimated. The new commissioning dates announced by the consortium were May 31st 2019 for Unit 5 and September 30th 2019 for Unit 6. Due to the complexity of the project and the nature of the delays, the negotiations between PGE, the consortium and GE Power are still in progress.

As part of subcontracting E001RK Sp. z o.o.'s scope of work, all legal consequences arising from the contract between RAFAKO S.A. and the employer, in particular those relating to performance bonds and, consequently, any potential contractual penalties resulting from, inter alia, failure to comply with the project schedule, passed to GE Power.

As at December 31st 2017, PLN 2,657,242 thousand (82.4% of the contract's total value) was invoiced in relation to the Opole Project.

3. Other significant contracts

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

b. On August 16th 2017, RAFAKO S.A. was notified that PT. PLN (PERSERO), JALAN TRUNOJOYO BLOK M I/135, KEBAYORAN BARU, JAKARTA 12160, INDONESIA (the "Employer") had selected the bid submitted by a consortium comprising RAFAKO S.A. and PT. Rekayasa Industri as the consortium leader as the best bid in tender construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia.

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

On December 23rd 2017, the Employer and the consortium signed a conditional contract, which will come into force upon (i) confirmation by the Employer that the Construction Site has been transferred, and (ii) a credit facility agreement (the financing package) coming into force. The second condition was fulfilled on February 21st 2018, when the Employer and Bank Gospodarstwa Krajowego executed the credit facility agreement.

c. On October 16th 2017, National Trading & Transport Group Co. Ltd. of the Sukhbaatar District of Ulaanbaatar, Mongolia, (the "NTT Group") awarded the Company, acting as the leader of the consortium with Gmax Group Sp. z o.o. of Warsaw, a contract for the design and construction of a fuel storage depot in Rashaant, Mongolia. On that day, a conditional contract was signed between the NTT Group and the consortium. The value of the Company's bid is EUR 42.3m.

d. On March 20th 2018, the Company was notified that Elering AS of Tallinn, Estonia, selected the Company's bid as the best bid in the tender procedure for the turnkey construction of the Paldiski and Puiatu gas compressor stations in Estonia. The total value of the Company's bid is EUR 50m (approximately PLN 210m), VAT exclusive. The project completion deadline is 26 months from the contract date.

4. Other material events

a. On June 30th 2017, RAFAKO S.A. executed an annex to the credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw. Under the annex, the multi-purpose credit facility limit was granted for up to PLN 200m, including: in the period from July 1st 2017 to July 30th 2017 – an overdraft facility of up to PLN 100m and a working capital facility of up to PLN 50m; from July 31st 2017 to August 30th 2017 – an overdraft facility of up to PLN 90m and a working capital facility of up to PLN 60m; from August 31st 2017 to September 29th 2017 – an overdraft facility of up to PLN 80m and a working capital facility of up to PLN 70m; and from September 30th 2017 to June 30th 2018 – an overdraft facility of up to PLN 70m and a working capital facility of up to PLN 80m. The annex extended the facility's term and maturity date until June 30th 2018. For a detailed description of the annex, see Current Report No. 24/2017.

For more details on the credit facility agreement, see Note 33 to the Company's financial statements.

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

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

The total issue price will be covered through a set-off of the debts owed by PBG to the Company under the arrangement.

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

The bonds will be redeemed in individual series, as presented in Note 26 to the Company's financial statements. The last series is to be redeemed on June 30th 2020. In the twelve months ended December 31st 2017, the parent PBG S.A. redeemed Series B1, C1 and D1 bonds worth in aggregate PLN 5,658.8 thousand. As at December 31st 2017, the discounted value of bonds maturing in more than one year was PLN 24,769 thousand.

c. On September 8th 2017, the Management Board of RAFAKO S.A. resolved to launch a collective redundancy programme. The decision is part of the next phase of changes aimed at building a flexible, more cost-effective organisation adapted to current market conditions. The maximum number of employees affected by the redundancies will be 276. In addition to the collective redundancies, the reorganisation process would also include optimisation measures to be implemented across the organisation. The final amount of liabilities arising in connection with the organisational restructuring of the Company was estimated at PLN 8.4m and is fully accounted for in the 2017 results (a provision has been recognised), allowing the Company to achieve the planned cost savings.

d. The resolutions passed by RAFAKO S.A.'s Extraordinary General Meeting of September 12th 2017, convened by RAFAKO S.A.'s Management Board, concerned:

- increase of the Company's share capital through an issue of new shares with a total par value of no more than PLN 85,000,000 (issue of no fewer than 1 (one) and no more than 42,500,000 (forty two million, five hundred thousand) Series K ordinary bearer shares with a par value of PLN 2 (two złoty) per share),
- amendments to the Company's Articles of Association,
- extension of the Company's business profile.

e. In November 2017, RAFAKO S.A. successfully carried out the issue of 42,500,000 Series K shares for a total amount of PLN 170,000,000 (PLN 4.00 per share). 35,107,416 shares were allotted to subscribers who had submitted subscription orders in the exercise of their pre-emptive rights and to entities which had submitted additional subscription orders, while 7,392,584 shares were allotted to subscribers who had submitted subscription orders in response to an invitation from the Company's Management Board. 1,307 entities were allotted the Offer Shares as part of the subscription process. The costs of issuing series K shares amounted to PLN 6,632 thousand.

On January 18th 2018, 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 for the Company to raise funds to be used to:

• Finance future foreign contracts and working capital in contracts signed with customers on the Polish market, in order to ensure that the Company is able to implement its international expansion strategy and participate in Poland's market of environmental protection systems. The Company plans to apply approximately 65.0% of the issue proceeds towards that purpose;

• Finance the Company's contribution towards putting new products, including polygeneration islands, into production, and towards projects related to gasification of waste and biomass. Commercialization of new products by the Company is to help it enter new business areas, not related to the heat and power generation sector, to stabilise the Company's revenue in the future. The Company plans to apply up to 25.0% of the issue proceeds towards that purpose;

• Finance the R&D projects run by the Company. Financing R&D projects is aimed at ensuring continuous development of the Company's operations and maintaining a competitive offering. The Company plans to apply up to 10.0% of the issue proceeds towards that purpose.

f. On July 26th 2017, the Company executed a letter of intent with Fundusz Inwestycji Polskich Przedsiębiorstw, Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("FIPP FIZ AN") and Polski Fundusz Rozwoju S.A. ("PFR"). In the letter, PFR expressed its willingness to cooperate with RAFAKO S.A. in implementing joint strategic projects and FIPP FIZ AN expressed its willingness to discuss terms of its equity investment in RAFAKO S.A. FIPP FIZ AN acquired 12,615,769 Series K ordinary bearer shares in the Company, representing approximately 9.9% of its share capital.

In addition to the agreements specified in Section 4, partnership and cooperation agreements significant for the Company's business and executed in 2017 also include insurance agreements.
A list of insurance agreements in effect as at December 31st 2017 is presented in Appendix 5.

For information on the agreement with the qualified auditor of financials statements, see Note 46 to the Company's financial statements.

5. Research & development and quality improvement projects

In the course of its R&D activity, RAFAKO S.A. cooperates with institutions of science education, 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, the Polish Institute of Welding, and other research and scientific institutions. 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 and by InnoEnergy – Knowledge & Innovation Community.

The Company's research and development activity has two directions: improvement of the products in the current offering and search for completely new products for new markets.

The first direction aims to keep up with emission reduction requirements, where mercury emissions have appeared to be the most important issue recently (work on this issue will be continued in 2018), as well as the 'Elaglom' project co-financed by the National Centre for Research and Development, concerning the reduction of submicron dust particulate matter (PM1) and completed in 2017; the solution developed in the process has been patented.

In the area of traditional products, in response to express demand from our customers, especially those from the Polish market, we are preparing a range of solutions supporting continued operation of 200 MWe generating units.

The research and science projects aimed at developing new products include:

- CO 2 -SNG - CO 2 methanation for storage of cheap, surplus energy through the production of SNG (InnoEnergy co-financing);
- Polygen – a municipal polygeneration system fired with biomass and refuse-derived fuel (financed by InnoEnergy);
- E-bus – an innovative small electric bus.

The technologies available to the Company allow it to continuously increase production capacities and the range of services provided, improve the quality of its products, and reduce the costs of operations.

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

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

In 2017, the Company implemented V-desk, a new document flow system, and Infor d/EPM, a controlling system for planning and budgeting. An additional server room was also placed in service as a backup data centre and a service centre for external customers.

7. Other information

The Company did not launch any employee share option schemes.

The Company has a self-reporting branch in Turkey which prepares its financial statements in accordance with Turkish law. The functional currency of the branch is EUR. The branch was established for the purpose of executing a turn-key contract for 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 litigation, see Note 42 to the Company's financial statements.

IV. Growth prospects

1. The RAFAKO Group's strategy

Considering the shifts and trends prevailing in the Company's core market, including declining investment in conventional energy projects (chiefly in new large generating units in Poland), at the start of 2018 RAFAKO decided to update its strategy and expand its operations to include EPC and general contracting services for the oil and gas upstream and downstream sectors. This growth direction is to diversify revenue sources and ensure further development of the Group's business. Following this decision, the RAFAKO Group's core and strategic business segments comprise the power construction segment and the natural gas, crude oil and fuels segment.

RAFAKO's strategy is to deliver long-term growth in the Company's value by building the largest Polish engineering and construction group and an important international player, offering specialist construction services for the heat and power sector and for the oil and gas upstream and downstream sectors.

The Group conducts its business taking into account its corporate social responsibility, with respect for the natural environment, in compliance with ethical principles, and with care for the employees' and customers' satisfaction.

The Group's strategic objectives are to:

a) Strengthen its position in the domestic power construction market by delivering and participating in the largest capital investment projects in Poland, capturing a market share in the market for services related to the modernisation of heat and power infrastructure, and ensuring compliance with BAT regulations;

b) Enter the natural gas, crude oil and fuels sector by leveraging the capabilities, experience and credentials of the PBG Group;

c) Expand the business in foreign markets in both of the Group's core segments;

d) Develop the Group's solutions, especially its proprietary technologies;

e) Capture a market share in industrial construction;

f) Optimise contract financing and contract performance security;

g) Improve profitability through control and mitigation of project risks;

h) Achieve dividend distribution capacity in 2020.

These objectives are feasible provided the Group is properly organised and focused on the provision of EPC project management and general contracting services in both strategic business segments. Internal reorganisation of the Group will, on the one hand, involve acquisition of EPC capabilities in the natural gas, crude oil and fuels sector, and on the other – separation of services from manufacturing through planned spin-off (within the RAFAKO Group) of an organised part of business, namely the Steam Generator Plant, and RAFAKO's subsequent in-kind contribution of the organised part of business to a subsidiary. The acquisition of competences in the oil and gas segment will take place through the merger of RAFAKO Engineering with PBG Oil and Gas. Additionally, PGL Dom Sp. z o.o. will be included in the transaction, with a view to strengthening the balance sheet and thus the borrowing capacity of the combined entity, in which RAFAKO will acquire a majority interest. This will increase the RAFAKO Group's capacity to bid for and deliver projects within the areas of its expanded capabilities and will naturally facilitate its business growth by leveraging synergies between the merged companies. The spin-off of the Steam Generator Plant within the RAFAKO Group is designed to better orient this business towards the market, enhance competitiveness through rightsizing, and streamline the organisational structure.

Power construction segment

RAFAKO has been operating in the power sector since 1949, designing, manufacturing and supplying steam generators and environmental protection facilities, including under EPC contracts, for this sector. RAFAKO owns a comprehensive technology for the construction of traditional generating units and is among Europe's largest manufacturers of steam generators and environmental protection facilities for the power sector. RAFAKO is the undisputed leader of the Polish market for power generation equipment. In line with the adopted strategy, the operations of the RAFAKO Group in the power sector will significantly boost the Group's revenue. In the near future, the Group intends to focus on further developing and improving its competences relevant to EPC and general contracting services in the power sector through the participation in and execution of the largest projects in Poland, as well as participation in project execution on foreign markets. Given the Group's experience as well as the solutions and technologies it has on offer, the Group also plans to actively participate in the market for modernisation of heat and power infrastructure, in particular 200 MW and smaller generating units, and in the market for modernisation of environmental protection facilities in accordance with the IED (Directive 2010/75/EU on industrial emissions) and BAT (Best Available Techniques). Given its proprietary technologies and credentials, RAFAKO is well prepared to take part in such tenders and meet market expectations.

In 2018, in the power sector, the RAFAKO Group plans to bid for contracts on the Polish and foreign markets with a total value of over PLN 4.44bn, and assumes to secure contracts for at least PLN 500m by the end of 2018. In these tenders, contracts are to be awarded for the construction of generating units and waste thermal treatment plants, construction and delivery or modernisation of steam generators and related facilities, as well as construction and upgrade of existing flue gas desulfurisation, denitrification and dust removal units.

Oil and gas segment

The reasons for RAFAKO's entry into this strategic segment of the PBG Group's operations include primarily the market environment, growth prospects, and opportunities to use of the Group's potential. The experience, credentials and know-how acquired by PBG during more than 20 years of its operations in this specialist construction services market will be concentrated within the RAFAKO Group. Historically, the PBG Group was the leader of this market in Poland and the implementation of multi-billion projects enabled the Group to obtain unique credentials that can be now used in tenders and which represent an added value for the entire Group. The credentials include experience as a general contractor in turnkey projects covering the design, delivery, assembly, construction and commissioning of the complete LMG (Lubiatów-Międzychód-Grotów) oil and gas production facility, a power plant worth PLN 1,397m (VAT exclusive), and unique experience in implementing a turnkey project to construct an LNG terminal with a value of PLN 2,368m (VAT exclusive). The LMG facility is the largest oil and gas production facility in Poland with production capacities reaching 1,300 tonnes of crude oil per day and 35,000 Nm^3 of gas per hour. Since 2013, PBG Oil and Gas has also been playing an important role in the PBG Group's operations in the gas and oil upstream and downstream segment. In the last five years (from 2013 to 2017), PBG Oil and Gas generated revenue totalling over PLN 400m and gained credentials relevant for construction, modernisation and upgrade of gas pipelines and expansion of underground gas storage facilities. In 2017, PBG Oil and Gas successfully completed the construction of the Radoszyn production facility. It is the third largest oil and gas production facility in Poland, with the production capacity reaching 80 tonnes of crude oil per day. Thanks to its active participation in the market and contract performance, PBG Oil and Gas has the competencies in managing projects at each stage of execution. These competences include planning of design, production and construction work necessary to execute an entire project, and comprehensive management of the supply chain and logistics to ensure timely delivery and high quality of products and services. The company also has the important experience and competencies related to the start-up and commissioning of projects.

The RAFAKO Group intends to actively participate in the market of investment projects related to gas and oil production and to the development and modernisation of gas networks in Poland and abroad. The Group is interested in participating in projects of key importance to Poland's energy security, related to the expansion of underground gas and oil storage facilities and distribution infrastructure, including gas compressor stations. In 2018, in the gas and oil upstream and downstream sector, the RAFAKO Group plans to bid for contracts in the Polish and foreign markets with a total estimated value of almost PLN

3.2bn, and assumes to secure contracts for at least PLN 400m by the end of 2018. Tenders in this segment mainly relate to installations for liquefying natural gas and LNG storage, compressor stations, gas pipelines, gas production facilities, and modernisation of existing installations and facilities.

Foreign operations

The RAFAKO Group plans to increase its activity in foreign markets in both of its strategic business segments, i.e. the natural gas, crude oil, fuels and the power construction segments, including in markets where:

- the Group has maintained a continuous presence;
- the Group was present in the past and where it intends to return, i.e. on Asian markets (India, etc.);
- the Group has never been present to supply its products and services, in particular Central Asia, Vietnam, Mongolia, and Indonesia.

In the countries where RAFAKO was active in the past, mainly as a subcontractor for steam generator facilities (e.g. in West European countries), the Group plans to continue cooperation with the customers who purchased steam generators and pressurised sections manufactured by the Company's Boiler Production Plant in the past. In addition to supplying steam-generator components, the Group will also be involved in the execution of projects to upgrade power facilities using the technologies provided in the past by RAFAKO. A new business area in the EU countries are installations for gas, oil, and fuel segment operators, which are an element of strategic plans to end the EU countries' dependence on oil and gas supplies from countries east of Poland.

In expanding back into the foreign markets where the Group was present in the past and where it intends to return, the Group plans to develop its business by collaborating with both international players and selected local partners.

As many countries have made commitments to bring their coal-fired generation plants and industrial enterprises in compliance with the increasingly stringent environmental protection requirements, the Group may now more easily enter the market for environmental protection facilities, including in the countries where RAFAKO was present as a supplier of steam generator systems in the past (e.g. India). The Group's proprietary technologies and credentials based on which local strategic partners may carry out projects give the Group a competitive advantage for building its presence on those markets. The Group will focus here on exporting technologies as a consortium or technology partner, including issuing contractor licences to local businesses.

In Central Asia, Vietnam, Mongolia, and Indonesia, the Group plans to develop its operations by collaborating with strong local partners who know the local markets and can guarantee access to local contractors. With regard to new markets, the Group – in addition to cooperating with local entities – relies on the expertise of internationally recognised legal, tax, and financial advisers.

The Group also has the benefit of being able to win contracts based on a greater use of the financial instruments offered by the companies of the PFR Group, which in 2017, through Fundusz Inwestycji Polskich Przedsiębiorstw, acquired a significant equity interest in RAFAKO.

The potential of foreign markets for the Group is as follows: Indonesia – approximately USD 7.5bn; Mongolia – approximately USD 1.2bn; Balkans – approximately PLN 0.55bn; Turkey and India – USD 0.82bn; Kazakhstan, Uzbekistan, other post-Soviet states, Central and Eastern Europe – EUR 500m; Iran and Persian Gulf countries – approximately PLN 4.1bn.

Development of the Group's solutions, especially proprietary technologies

The RAFAKO Group's critical competitive edge lies in the wide array of technologies enabling it to flexibly respond to market expectations, including to developments in the power sector. The Group has engaged in a number of research and development projects designed to:

- modify and improve traditional products, such as steam generators and environmental protection equipment,

- develop new products, including a programme to improve the flexibility of 200 MW generating units, together with a comprehensive upgrade offering, polygeneration islands (the POLYGEN project), CO2 methanation, and electromobility (the innovative school/city bus project).

Dividend policy

The Company's objective is to regain its dividend payment capacity in 2020. The dividend policy will be defined following the completion of the project to construct the 910 MW supercritical power generating unit at the Jaworzno Power Plant.

2. Factors and developments relevant for the Company's prospects in 2018

In 2018, the following factors and developments will have the greatest bearing on the Company'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 on the construction of a 910 MW supercritical power generating unit at the Jaworzno Power Plant,
- making good progress on the construction of a biomass-fired co-generation unit in Vilnius (Lithuania),
- start of construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia,
- performance of a large number of significant contracts in the Polish and European markets, including construction of modern steam generators, flue gas desulfurisation and NOx reduction units, municipal waste treatment and incineration systems, as well as pressurised parts of supercritical boilers,
- performance of new contracts in the natural gas and oil segment, including fuel storage depots and gas transmission installations,
- acquisition of new material contracts,
- adjusting the level and costs of employment at the Company to the conditions prevailing in the market where it operates.

The capital expenditure to be made in 2018 on property, plant and equipment will mainly be incurred to purchase or upgrade plant and equipment and to modernise production buildings. Expenditure on intangible assets will involve the purchase of software and licences. The Company also plans substantial spending on property, plant and equipment related to research and development work, mainly the 'E-bus – an innovative small electric bus' project. The capex projects will be financed primarily with internally generated funds, and also through external means (e.g. leases).

The Company's Management Board continues its efforts to win new contracts and believes that the key assumptions underlying its financial projections will materialise, ensuring the Company's liquidity in 2018.

3. Order book

As at December 31st 2017, the value of RAFAKO S.A.'s order book was in excess of PLN 3.1bn. The order book's largest item is the Jaworzno 910 MW Project. The amount outstanding under the contract is PLN 1.53bn, of which PLN 0.15bn is attributable to RAFAKO S.A. and PLN 1.38bn to SPV Jaworzno. The order book does not include the Opole contract (RAFAKO's outstanding share in the project, worth PLN 0.6bn, was subcontracted outside the RAFAKO Group). At present, the order book comprises mostly power construction projects.

ORDER BOOK	
Dec 31 2017	**Dec 31 2016**
PLN ~3.1 bn	**PLN ~4.0 bn**

	ORDER BOOK as at December 31st 2017	Due for execution in		
		2018	2019	after 2019
TOTAL	**~3.1bn**	**~1.5bn**	**~1.5bn**	**~0.1bn**
RAFAKO	**~1.7bn**	**~0.8bn**	**~0.8bn**	**~0.1bn**
SPV Jaworzno	**~1.4bn**	**~0.7bn**	**~0.7bn**	**~0.0bn**

As regards the value of RAFAKO S.A. and SPV Jaworzno's order book, the data presented in this document is based on the following assumptions:

a. The order book value is equal to the aggregate amount of RAFAKO S.A.'s and SPV Jaworzno's remuneration under individual contracts executed by the Company in the period to December 31st 2017; the figure does not take into account any planned contracts that have not yet been signed, but it does take into account the contracts signed conditionally.

b. The order book value is disclosed as at December 31st 2017; actual revenue from contracts and performance periods depend on a number of factors, which may be outside RAFAKO's control.

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

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

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

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

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

The award of this project is an important step towards one of RAFAKO's strategic objectives, which is to increase its overall export revenues.

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

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

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

The unit will be a high-efficiency base-load electricity generation facility operating within the power system. It will be fitted with systems enabling compliance with the NOx, SO_2 and dust emission standards, i.e. an SCR unit, a desulfurisation unit and an electrostatic precipitator. The operating life of the unit will be at least 200 thousand hours or 30 years, and its output will increase the total capacities of the Polish electric utility sector by approximately 2.5%.

3) Construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia

On December 28th 2017, a consortium comprising RAFAKO S.A. and PT. Rekayasa Industri of Indonesia, as the Consortium Leader, signed a conditional agreement with PT. PLN (PERSERO), JALAN TRUNOJOYO BLOK M I/135, KEBAYORAN BARU, JAKARTA 12160, INDONESIA, for the construction of two coal-fired steam units (2x50 MW) on the Lombok Island, Indonesia. The total value of the Consortium Agreement is EUR 70.3m, USD 18.9m, and IDR 1,590,700m (approximately 850.3m in total, VAT-exclusive), including the remuneration of RAFAKO S.A. amounting to EUR 70.3m (approximately PLN 295m), VAT-exclusive, representing ca. 35% of the total value of the Consortium Agreement.

The project completion deadline is 36 months for Unit I and 39 months for Unit II. The Agreement provides for a financing package for the Employer arranged with members of the Polish Development Fund Group (Korporacja Ubezpieczeń Kredytów Eksportowych (Export Credit Insurance Corporation) and Bank Gospodarstwa Krajowego).

The Agreement will enter into force upon confirmation by the Employer of giving possession of the Construction Site to the Contractor.

Key contracts for air pollution control systems

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

On September 30th 2016, the parent and ENEA Wytwarzanie Sp. z o.o. signed a contract for delivery and installation of a catalytic flue gas NOx reduction system for AP-1650 boilers No. 9 and 10 and for upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. for PLN 289.2m.

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

The contract completion deadline is:

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

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

2) SCR systems in Połaniec

On June 14th 2012, RAFAKO S.A. signed a contract for delivery of SCR Catalytic Flue Gas NOx Reduction Systems to the Połaniec Power Plant. The contract, providing for delivery of the systems for six units

(No. 2−7), will be carried out in stages until 2018. The total value of the contract is PLN 240m. The contract includes optional delivery of equipment with a value of PLN 26m.

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

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

Key contracts for natural gas, crude oil and fuels solutions:

1) Design and construction of a storage depot in Rashaant, Mongolia.

On October 16th 2017, a consortium comprising Rafako (leader, 90% interest) and Gmax Group concluded with National Trading & Transport Group Co Ltd. (NTT Group) a conditional agreement for the design and construction of a fuel storage depot in Rashaant, Mongolia, for approximately EUR 47m. RAFAKO S.A's interest in the consortium is 90% (EUR 42.3m). The contract completion deadline is 30 months from the date of handing over the construction site and technical documentation to the consortium.

The contract will enter into force provided that:

- the NTT Group makes an advance payment that will be credited to the consortium's bank account;
- the work under the contract will be financed by Bank Gospodarstwa Krajowego S.A. or Korporacja Ubezpieczeń Kredytów Eksportowych S.A. on the terms and conditions set out in the contract.

Position of the Management Board and Supervisory Board of the Company regarding the qualifications expressed by the auditor in the audit report

a) Quantitative and qualitative effect on the full-year financial statements, including on the results and other financial data, of the matter subject to qualification, in each case with a presentation of materiality assessment

The Company holds bonds (described in detail in Note 26 to the Company's full-year financial statements for 2017), which were issued by the parent and offered to creditors who are to be satisfied in accordance with the Terms of the Arrangement. The bonds are secured bonds within the meaning of the Bonds Act of January 15th 2015. In line with IAS 39, the Company classifies the above assets as 'financial assets held to maturity' and measures them at amortised cost using the effective interest rate method. At the end of each reporting period the Company assesses whether there is any objective evidence that the financial assets are impaired, and recognises an impairment loss if needed. In the opinion of the Management Board, the carrying amount of the bonds presented in the full-year financial statements, of PLN 30.1m, has been calculated correctly and is equal to the recoverable amount. As at the date of this report, the Company's Management Board is not able to estimate the effect of this matter on profit or loss. However, the maximum effect could be PLN 30.1m. Profit before tax, net profit and equity would decline accordingly.

b) Measures taken and planned to be taken by the Company in view of the situation described above

Reasons for the auditor's qualification in the reporting period may be removed if the parent (of the Group) presents the security and documents confirming cash flows that will guarantee payment to the parent of the liabilities under the bonds in issue throughout the life of the asset. This is clearly beyond the control of the Company's Management Board. In assessing the probability of recovering the amounts due to the Company under the bonds issued by PBG S.A., the Company's Management Board takes into account not only the present value of the security created for the issuer's bonds, but also the market prospects for the entire PBG Group. The Company's Management Board believes that the risk of non-recoverability of those assets is minimal.

c) Opinion of the supervisory body

The Company's Supervisory Board, exercising ongoing supervision over the Company's operations, has repeatedly addressed the issue of recoverability of amounts due to the Company under the bonds issued by PBG S.A. In the opinion of the Supervisory Board, proving that the recoverability of amounts due under the bonds issued by PBG S.A. is sufficiently secured is beyond the control of the Company's Management Board, and therefore removal of the reason for the qualification is also beyond its control.

Management Board's statement

The Management Board of RAFAKO S.A. represent that:

1) to the best of their knowledge, the financial statements for the year ended December 31st 2017, as well as comparative data for the year ended December 31st 2016, were drawn up in compliance with the applicable accounting standards and give a true, fair and clear view of the Company's assets, its financial condition and performance, and that the Directors' Report on the operations of RAFAKO S.A. gives a true view of the Company's development, achievements and position, including a description of key risks and threats;
2) the auditor of the full-year financial statements, being an entity qualified to audit financial statements, was appointed in compliance with the applicable laws, and the auditing firm and the auditors who conducted the audit satisfied the auditor independence criteria to deliver an unbiased and independent auditor's opinion on the audited full-year financial statements, in compliance with the applicable laws and professional standards.

Signatures of Management Board members

April 5th 2018	Agnieszka Wasilewska-Semail	President of the Management Board	....
April 5th 2018	Jarosław Dusiło	Vice President of the Management Board	....
April 5th 2018	Edward Kasprzak	Vice President of the Management Board	....
April 5th 2018	Karol Sawicki	Vice President of the Management Board	....
April 5th 2018	Tomasz Tomczak	Vice President of the Management Board	....