DIRECTORS' REPORT ON THE OPERATIONS OF THE RAFAKO GROUP

for the 6-month period ended 30 June 2016

Racibórz, 31 August 2016

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I. General information

About us

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

The RAFAKO Group's key products and services include:

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

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

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

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

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

Plant (Tauron Wytwarzanie), Siersza Power Plant (Tauron Wytwarzanie), Zakłady Farmaceutyczne Polpharma Starogard Gdański and Jaworzno Power Plant (Tauron Wytwarzanie).

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

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

Foreign sales account for a significant part of RAFAKO S.A.'s total sales. The largest steam generators manufactured by RAFAKO S.A. are used in power plants in former Yugoslavia. A number of large units has also been delivered to Czechia, China, Turkey and India. RAFAKO S.A. is also an important player on the European market for steam-generator components. In H1 2016, RAFAKO products were sold to customers in Serbia, Finland, the United Kingdom, Hungary, Belgium and Germany.

The Parent is solidifying its position on the European market of waste incineration solutions. In 2011, RAFAKO S.A. supplied three heat recovery steam generators to a waste incineration facility in Turin (Italy) and further two heat recovery steam generators were delivered to Baku, Azerbaijan. In December 2013, a steam generator was placed in service at a municipal waste incineration plant in Roskilde, Denmark. In 2013, the Company began to execute a contract for delivery of the process part for two units at the Thermal Waste Treatment Plant of the Szczecin Metropolitan Area. In 2014, we delivered a waste combustion boiler to Billingham, Cleveland County, England. At the beginning of 2016, performance of the contract for delivery of waste combustion boiler in Calvert, Buckinghamshire (England) was completed, and in March 2016 boiler operational testing was performed before placing it in service. Boiler Technical Acceptance Protocol was signed in June 2016.

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

RAFAKO S.A. is also a leading manufacturer of large FGD units in Poland. The Parent has delivered units of this type to Jaworzno III Power Plant, Bełchatów Power Plant, Pątnów Power Plant, Ostrołęka „B" Power Plant, Dolna Odra Power Plant, Siekierki CHP, Łódź CHP, Siersza Power Plant , Skawina Power Plant, Trzebowice Power Plant (for Dalkia, Czechia), Kozienice Power Plant, and Połaniec Power Plant.

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

In 2007 – 2008, RAFAKO S.A. commissioned high-efficiency wet and semi-dry flue gas desulfurisation units at the Łódź CHP Plant and the Skawina Power Plant. The semi-dry system was engineered exclusively by RAFAKO S.A. and is more cost-efficient solution than the wet method.

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

GDF SUEZ Energia Polska S.A. In October 2014, the consortium of RAFAKO S.A. and OMIS S.A. signed a contract with ENERGA Elektrownie Ostrołęka S.A. for construction of a flue gas denitration system for units No. 1, 2, 3 at Ostrołęka Power Plant. In August 2016, RAFAKO S.A. was notified by ENEA Wytwarzanie Sp. z o.o. in Swierże Górne about selecting, as the most favourable, of the RAFAKO S.A.'s proposal, filed in an open-end public procurement procedure, for the award of the contract for „Delivery and assembly of a Catalytic De-nitriding System or the SCR (selective catalytic removal) system for AP-1650 boilers No. 9 and 10 and modernization of electrostatic precipitators at ENEA Wytwarzanie sp. z o.o".

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

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

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

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

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

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

In 2011, the RAFAKO Group was included in the PBG Group, whose Parent is PBG S.A. PBG S.A. w upadłości układowej (in company voluntary arrangement) is the Parent of a group of companies operating on the specialist construction market. The key segments of the Group's business currently include the construction of facilities and structures for the power, natural gas, crude oil and fuel sectors. PBG has been in company voluntary arrangement since June 2012. In August 2015, the provisions of company voluntary arrangement were voted and adopted by the Creditors Meeting. In October 2015, the decision on legal validation of the arrangement was approved by the Court. The PBG's company voluntary arrangement with creditors became legally valid on 13 June 2016.

The current shareholding structure is presented in Section III.6.

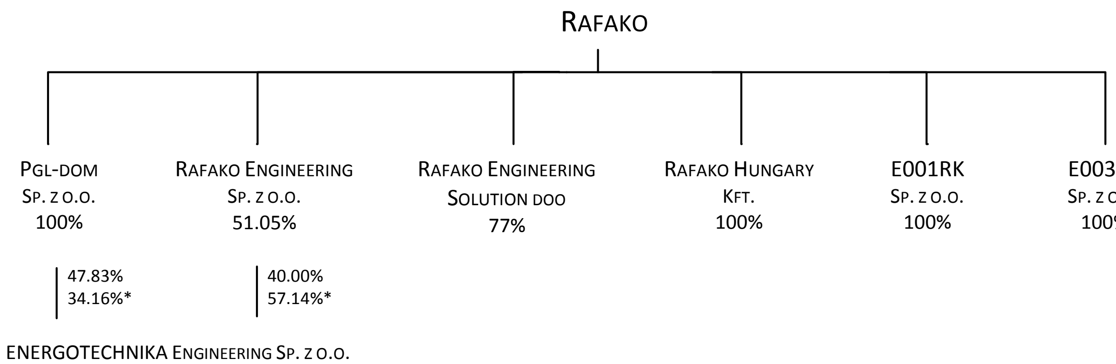
II. Organisation of the RAFAKO Group

1. Structure of the Group and its consolidated subsidiaries

As at 30 June 2016, the RAFAKO Group was composed of the Parent and seven subsidiaries operating in the power construction, services and trade sectors. As at 30 June 2016, in addition to the Parent, the RAFAKO Group comprised:

- Przedsiębiorstwo Gospodarki Lokalami PGL - DOM Sp. z o.o., registered office at ul. Bukowa 1, Racibórz, Poland. The Parent holds the entire share capital of the company and all voting rights at its General Meeting. Principal business activity: housing community management.
- RAFAKO ENGINEERING Sp. z o. o., registered office at ul. Łąkowa 33, Racibórz, Poland. The Parent holds 51.05% of the share capital of the company and 51.05% of voting rights at its General Meeting. Principal business activity: engineering and related process design advisory.
- ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice, a subsidiary of RAFAKO ENGINEERING Sp. z o. o. (which holds 57.14% of voting rights at the company's General Meeting) and of PGL DOM Sp. z o.o. (which holds 34.16% of voting rights at the company's General Meeting). Principal business activity: construction and process design, urban planning, and engineering consultancy;
- RAFAKO ENGINEERING SOLUTION doo., registered office at Uciteljska 46, Belgrade, Serbia. The Parent holds a 77% interest in the share capital of the company and the same percentage of voting rights at the General Meeting. Principal business activity: process design, construction, industry and environmental protection consultancy and supervision.
- RAFAKO Hungary Kft. of Budapest, Hungary. The Parent holds the entire share capital of the company and all voting rights at the General Meeting. Principal business activity: equipment assembly for the power sector and the chemical industry.
- E001RK Sp. z o.o. of Racibórz, entered in the National Court Register on 9 October 2013. The Parent holds 100% of the company's shares. Principal business activity: development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.
- E003B7 Sp. z o.o. of Racibórz, entered in the National Court Register on 22 November 2013. The Parent holds 100% of the company's shares. Principal business activity: development of construction projects, construction, engineering and process consultancy and design.

As at 30 June 2016, the following subsidiaries were included in the Group's consolidated financial statements:



*% share of voting rights at the General Meeting

The Parent holds 1 956 shares, i.e. 26.23% of the issued share capital of SANBEI-RAFAKO Sp. z o.o. of Zhangjiakou, Hebei Province, China. The principal business activity of SANBEI-RAFAKO Sp. z o.o. includes production of small steam generators and water boilers and other power equipment. As at 30 June 2016, the Parent's interest in the company's share capital was not material for the assessment of the Group's assets, liabilities, profits or losses.

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

2. Changes of equity interests

In the 6-month period ended 30 June 2016, a number of changes occurred in the Group's structure.

On 30 June 2016, PGL DOM Sp. z o.o., the subsidiary company, acquired from a minority shareholder 100 shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o., the subsidiary, for the amount of PLN 137 thousand thus increasing its percentage share in the issued capital of this company to 47.83%.

On 29 April 2016, the Extraordinary General Shareholder's Meeting of RAFAKO Engineering Sp. z o.o. resolved to increase the company's issued share capital from PLN 1 959 000.00 to PLN 3 555 500 i.e. by PLN 1 596 500.00 by way of creation of 3 193 new shares with a nominal value of PLN 500.00 each. The newly created shares were taken up by the current shareholders of the company in the amount proportionate to the number of shares already held i.e.:

- RAFAKO S.A. took up 1 630 shares with a nominal value of PLN 500 each and a total value of PLN 815 000, which were covered by cash contribution of PLN 4 317 thousand;
- PBG Oil & Gas Sp. z o.o. took up 1 563 shares with a nominal value of PLN 500 each and a total value of PLN 781 500, which were covered by non-monetary contribution with a total value of PLN 4 140 thousand in the form of an organized part of enterprise.

After registration of the increase in RAFAKO Engineering Sp. z o. o.'s issued share capital, the share of RAFAKO S.A. in the issued capital of this entity will not change and will be 51.05%, while the share of PBG oil and Gas Sp. z o.o. – will be 48.95%. As at the date of these financial statements, the increase in the issued capital of the subsidiary was not yet registered.

3. Parent's governing bodies

The governing bodies of RAFAKO S.A. include:

General Meeting

the Supervisory Board

the Management Board.

General Meeting

The Annual General Meeting of RAFAKO S.A. held on 21 June 2016 passed the following resolutions:

1. reviewed and approved the Directors' Report on the Parent's operations and the Parent's financial statements for the financial year 2015,
2. reviewed and approved the Director's Report on the RAFAKO Group's operations and the RAFAKO Group's consolidated financial statements for the financial year 2015,
3. approved the Report on the activities of the Parent's Supervisory Board in 2015,
4. granted discharge to members of the Parent's Management Board for performance of their duties in 2015,
5. granted discharge to members of the Parent's Supervisory Board for performance of their duties in 2015,
6. decided that the Parent's entire profit for the financial year from 1 January 2015 to 31 December 2015 will be appropriated to the Parent's reserve capital.

Supervisory Board

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

In the 6-month period ended 30 June 2016, there were no changes in the composition of the Parent's Supervisory Board or the Audit Committee.

As at the date of this Directors' Report, the composition of the Supervisory Board of the RAFAKO Group was as follows:

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

As at the date of this Directors' Report, the Audit Committee was composed of:

Dariusz Sarnowski	Chairman
Przemysław Schmidt	
Adam Szyszka.	

Management Board

The Management Board manages the Parent's day-to-day operations and its affairs and represents its affairs in relations with third parties.

In the 6-month period ended 30 June 2016, no changes occurred in the Parent's Management Board.

As at the date of this Directors' Report, the composition of the Management Board of the RAFAKO Group was as follows:

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

III. Economic and financial standing

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

A. External factors:

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

B. Internal factors:

- conclusion and performance of material contracts by Group companies;
- maintaining financial liquidity of the Group;
- ability to capitalize on the effects of completed and planned investment projects designed to boost efficiency at the Group companies, including reorganization of the Parent, particularly in manufacturing and management, and to increase the companies' capacity to acquire and execute orders;
- improvement of management processes at the Group companies, 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 threats and risks in the remaining months of the financial year

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

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

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

Risks specific to the Group:

1. Risk relating to the Group's non-performance or improper performance of contracts;
2. Risk related to non-payment or delayed payment of amounts due under contracts performed by the Group;
3. Risk relating to performance of high value contracts and limited number of customers;
4. Risk of increased operating costs resulting from higher prices of supplies and external services and increased employee benefit expenses;
5. Risk of underestimating project costs;
6. Risk related to winning new contracts;
7. Risks related to execution of certain projects in consortia;
8. Risk related to project acquisition and execution in cooperation with suppliers and subcontractors;
9. Risk of failure to obtain financial guarantees required to acquire and perform contracts;
10. Risk related to failure to secure external financing in assumed amounts and on expected terms;
11. PBG and Hydrobudowa Polska may fail to repay the Parent's claims in full or in part;
12. Risk related to failure to maintain appropriate liquidity by the Group;
13. Reputational risk;
14. Risk related to the use by the Group of complex and innovative manufacturing technologies;
15. The Group's IT systems may suffer a failure or security breach;
16. The Group's day-to-day operations and growth depend on its senior management and ability to hire and retain highly-qualified personnel, particularly specialist production staff and engineers;
17. Risk that the insurance cover maintained by the Group will prove insufficient;
18. Risk related to consequences of accidents at work and occupational diseases;
19. Risk related to plant failure or destruction or loss of the Group's assets.

Regulatory risks:

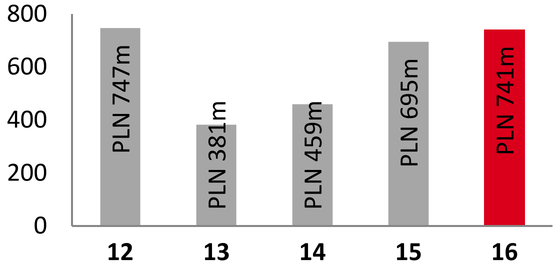
1. Risk related to changes in regulations concerning the power sector;
2. Risk related to environmental protection;
3. Risk of changes in tax laws or their interpretations and changes of private letter rulings;
4. Risk associated with related-party transactions.

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

3. Analysis of key financial and economic data

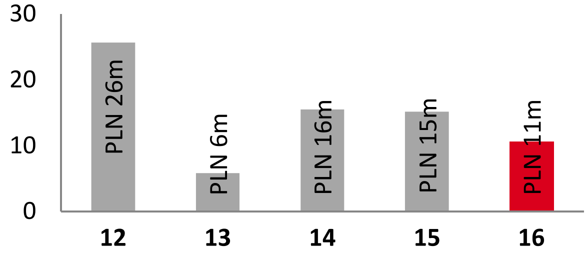
3.1. Summary of H1 2016 (compared with H1 of previous years)

Revenue
PLN 741m



Definition: Total sales of products, merchandise and materials, net of VAT.
Relative to H1 2015: Revenue rose by 6.5% mainly due to higher sales on the 910 MW Jaworzno Project.

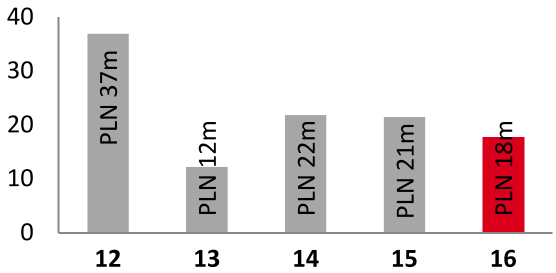
EBIT
PLN 11m



Definition: Profit (loss) from continuing operations

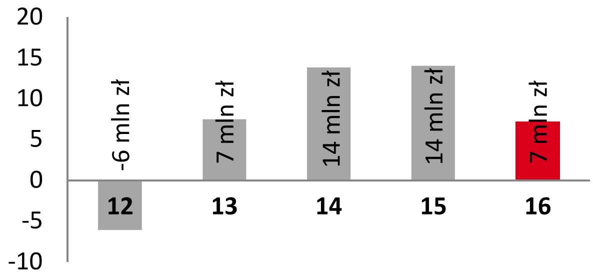
Relative to H1 2015: Profit from continuing operations amounted to nearly PLN 11m, down by PLN 4m on H1 2015, as a result of higher cost of sales and administrative expenses and loss on other operating activities.

EBITDA
PLN 18m

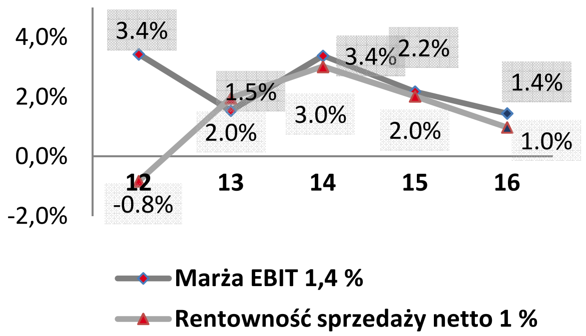


Definition: Sum of profit (loss) from continuing operations, depreciation and amortization.
Relative to H1 2015: EBITDA fell from PLN 21m to PLN 18m.

Net profit
PLN 7m

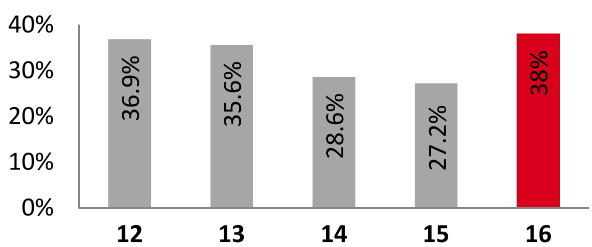


Definition: Excess that remains after deducting all costs. Difference between revenue and total costs.
Relative to H1 2015: The Group generated a net profit of PLN 7m, down by PLN 7m on H1 2015.



Definition: EBIT margin: operating profit (loss)/net revenue from sale of products and merchandise; Net margin: net profit (loss)/net revenue from sale of products and merchandise.
Relative to H1 2015: The Group's operating margin decreased relative to H1 2015.

Share of equity in financing
38.0%



Definition: Equity/ total assets.

Relative to H1 2015: The share of equity in total sources of financing increased by 10.8 p.p., mainly as a result of share issue by RAFAKO S.A.

3.2. Revenue and its structure

In H1 2016, revenue from sales of products, merchandise and materials was PLN 740 564 thousand, having increased on H1 2015 by PLN 45 292 thousand (or 6.5%). Sales of products and services amounted to PLN 739 283 thousand, while revenue from sales of materials was PLN 1 281 thousand.

The sales growth reported in H1 2016 was driven by greater involvement in the implementation of the „Jaworzno" contract (construction of a 910 MW power unit at Jaworzno III Power Plant). The project generated revenue amounted to PLN 394 257 thousand, up by PLN 163 656 thousand on H1 2015 of PLN 230 601 thousand. Excluding the Jaworzno project, sales of power generating units and power machinery and equipment on the domestic market amounted PLN 135 501 thousand and were PLN 18 690 thousand lower than in the corresponding period of the prior year (H1 2015: PLN 154 191 thousand).

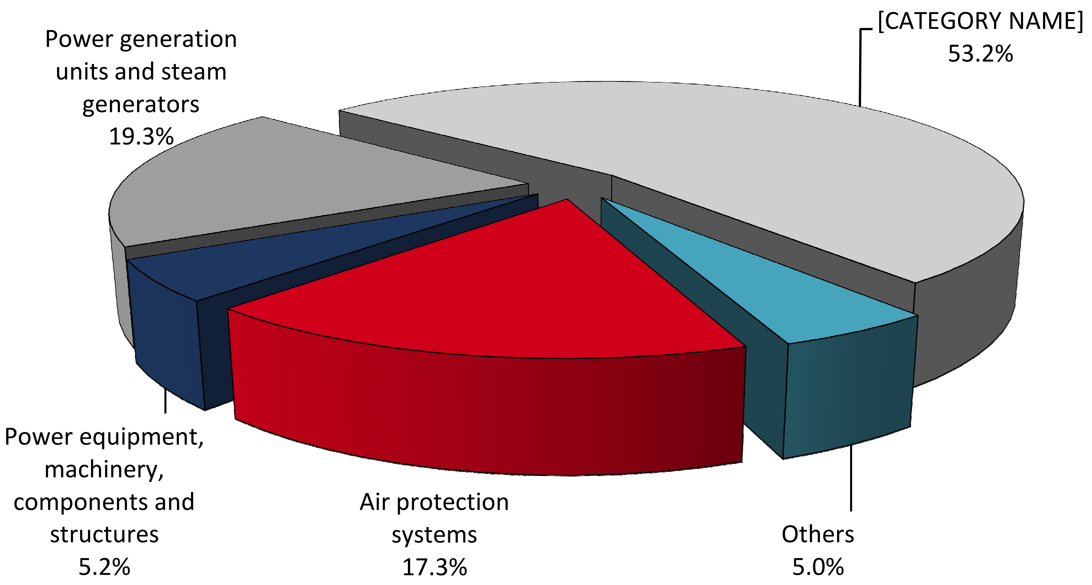
At PLN 117 545 thousand, sales of air protection systems on the domestic market were 41.0% lower than in H1 2015, when they stood at PLN 199 380 thousand. The sales decline in this product segment was related to the closing of projects performed for the EDF Polska Group companies (with a value of abut PLN 770m) and lack of new large orders.

Sales decrease was also recorded in the product segment of subassemblies and parts of power machinery and equipment. On the domestic market, sales in this segment amounted to PLN 6 282 thousand and were 83.2% lower compared to H1 2015, when they stood at PLN 37 348 thousand.

The share of export sales in total sales was 10.3%, up by 1.0 percentage point on H1 2015. In H1 2016, export sales were PLN 76 618 thousand, up by 18.3% from PLN 64 793 thousand reported in H1 2015. The increase in export sales was seen in all product segments, except for power generation units and steam generators. Sales of subassemblies and parts of power machinery and equipment amounted to PLN 31 976 thousand, up by 104.4% on H1 2015. Sales in other product categories were PLN 26 571 thousand (H1 2015: PLN 12 392 thousand), up by PLN 14 179 thousand (114.4%). Exports of air protection systems increased to PLN 10 812 thousand.

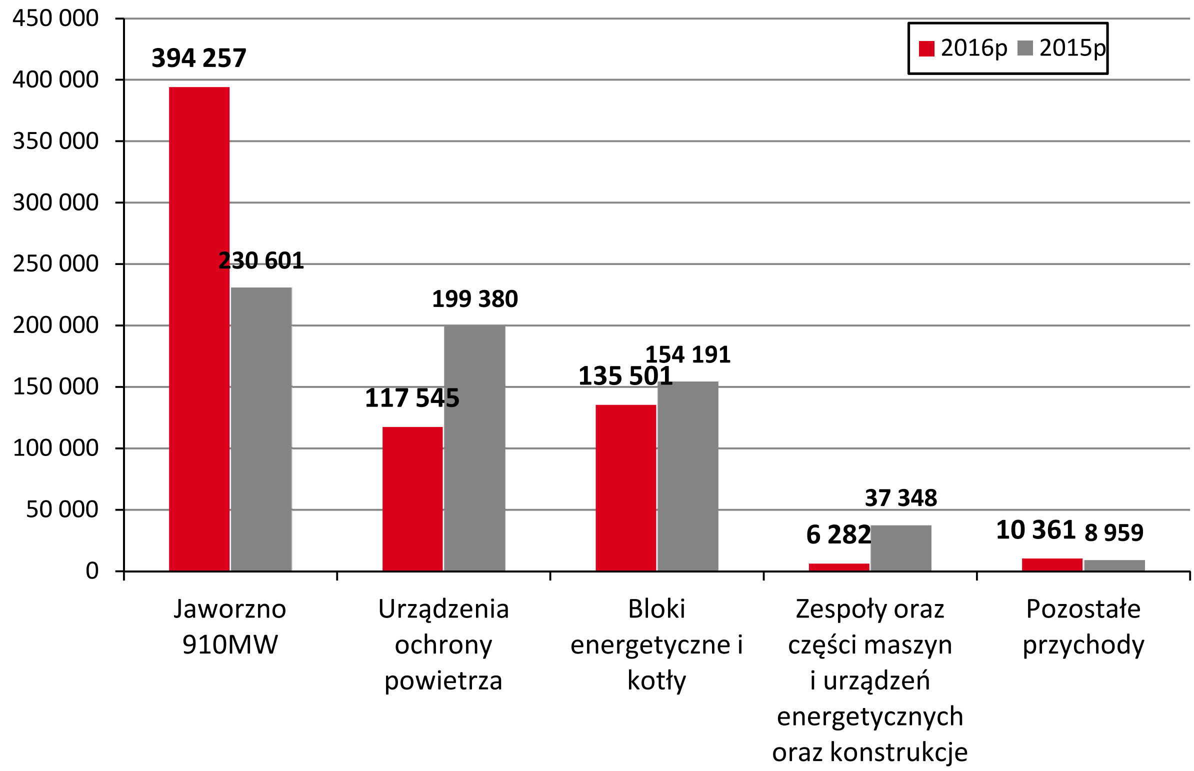
The decline in export sales of power generation units and steam generators was related mainly to lack of new orders for these products. Sales amounted to PLN 7 259 thousand and were 79.1% lower compared to H1 2015 when they stood at PLN 34 750 thousand.

In H1 2016, the Group's sales structure was as follows:

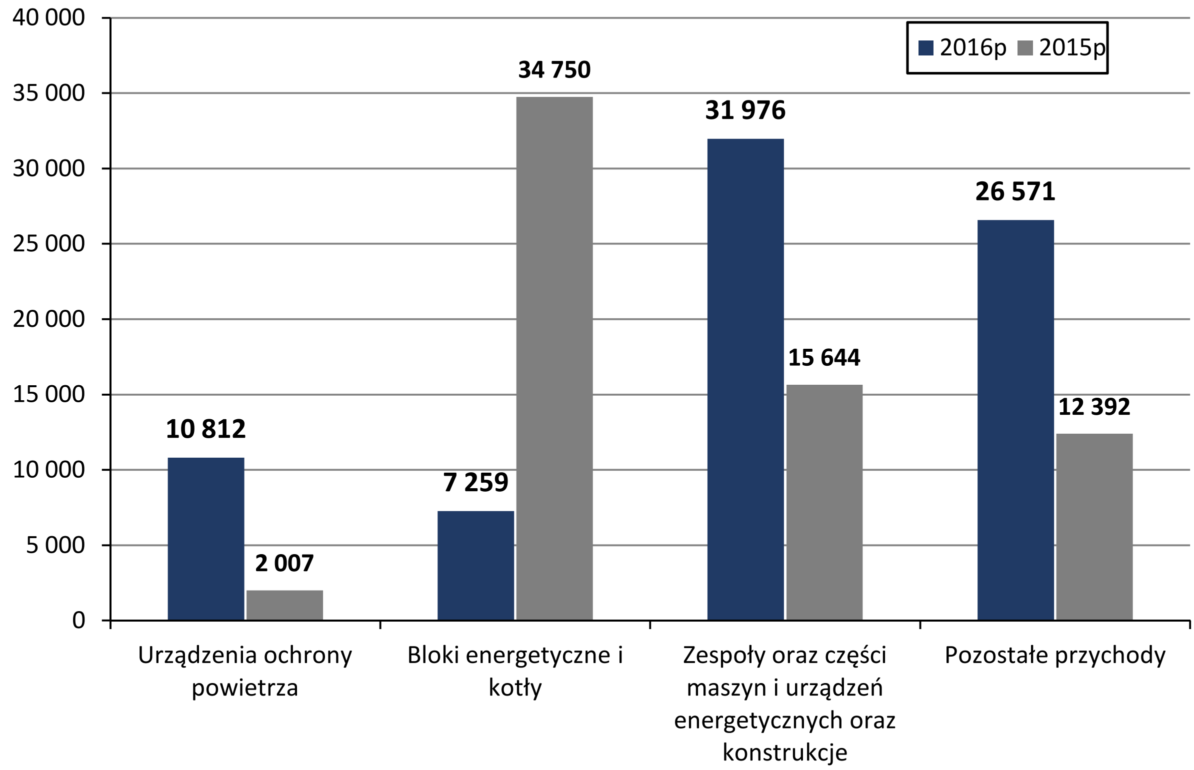


Sales by market:

Domestic market (H1 2016: PLN 663 946 thousand; H1 2015: PLN 630 479 thousand):

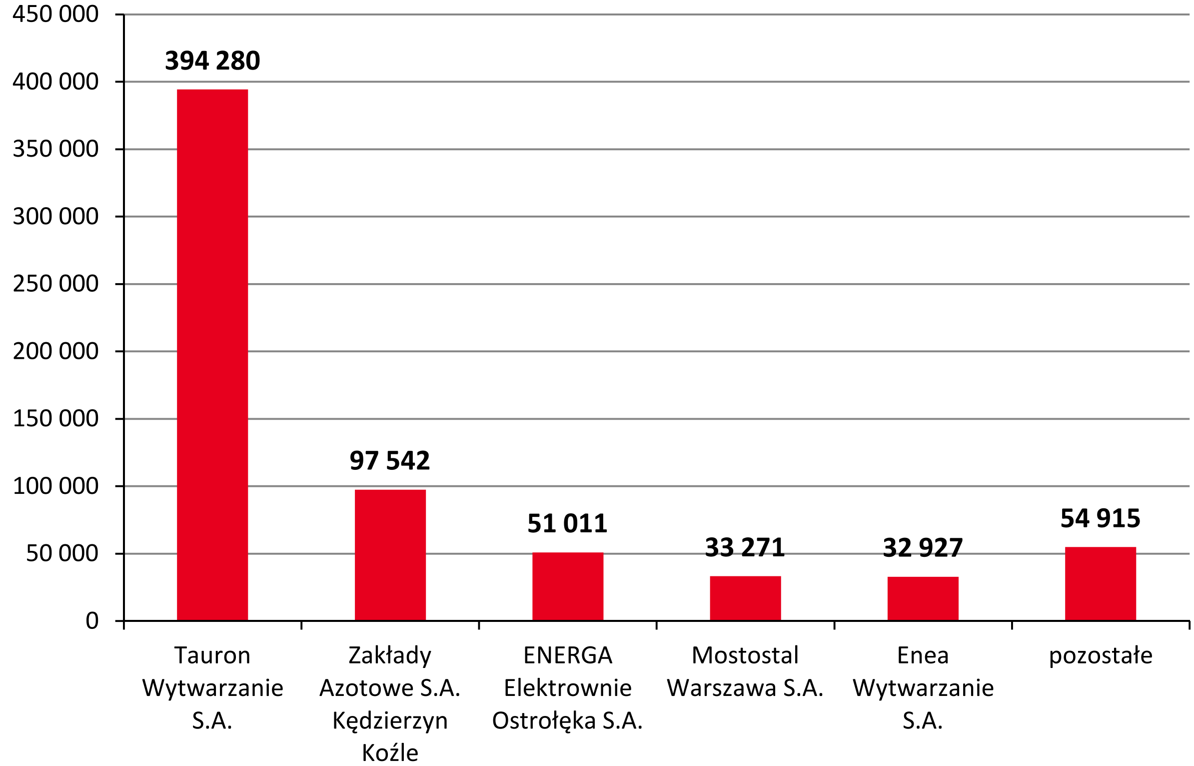


Foreign markets (H1 2016: PLN 76 618 thousand; H1 2015: PLN 64 793 thousand):



The RAFAKO Group's major customers in H1 2016 included:

On the domestic market (PLN 663 946 thousand in total):



In H1 2016, the Group's main customer was Tauron Wytwarzanie S.A., which accounted for 53.2% of the Group's total sales (34.2% in H1 2015); revenue from sales to this customer was generated mostly on the construction of the 910 MW supercritical power generating unit at the Jaworzno Power Plant.

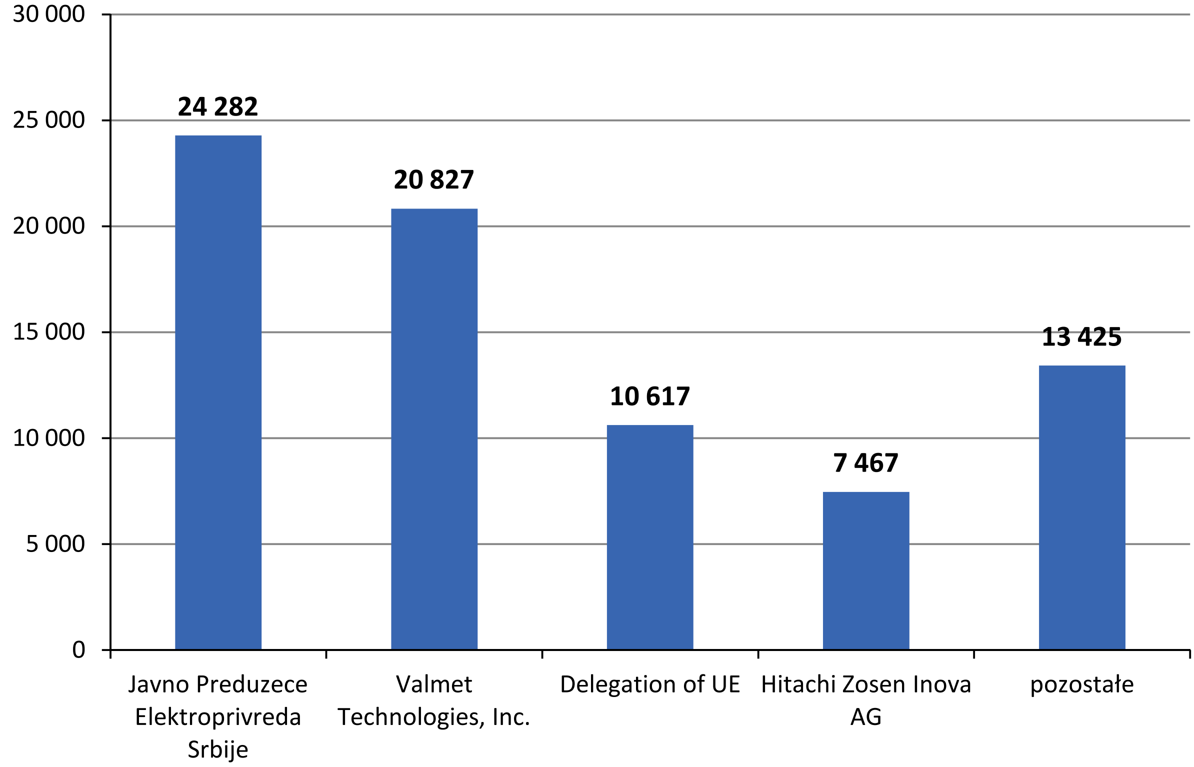
Another customer with a significant contribution to the Group's total sales was Zakłady Azotowe S.A. Kędzierzyn, which accounted for 13.2% of the total sales in H1 2016 (9.4% in H1 2015); revenue from sales to this customer were generated mostly on the construction of a new CHP plant at Grupa Azoty ZAK S.A.

ENERGA Elektrownie Ostrołęka S.A., which accounted for 6.9% of the Group's total sales (1.7% in the corresponding period of the previous year), was another significant customer of the Group; revenue from sales to this customer was generated on the construction of a flue gas desulfurization unit and modernization of electrostatic precipitators on power units No. 1, 2, 3 at Ostrołęka Power Plant.

Other customers accounting for a material portion of the Group's total sales included Mostostal Warszawa S.A (4.5% in H1 2016, 5.9% in H1 2015), for which the Group built a boiler island for the Thermal Waste Treatment Plant in Szczecin, and

Enea Wytwarzanie S.A., which accounted for about 4.4% in the total sales (about 1.5% in H1 2015); revenue from sales to this customer included construction of a catalytic reduction of nitrogen oxides unit (in the SCR system) at Kozienice Power Plant (PLN 28 436 thousand) and construction of a flue gas desulfurization unit (FGD unit) for steam generators No. K7 and K8 at Białystok CHP Plant (PLN 3 916 thousand).

on foreign markets (PLN 76 618 thousand in total):



On foreign markets, RAFAKO S.A.'s main customer was Javno Preduzece Elektroprivreda Srbije of Serbia, accounting for 3.3% of the Company's total sales. Sales to this customer included a component replacement at B2 boiler's furnace chamber at TENT B Obrenovac (1st stage) and development of membrane walls for OP-380b boiler at TE Morava (2nd stage).

Given the range of the products sold, the Parent's major customers' individual shares in total sales exceed 10% at times of execution of the largest projects.

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

3.3. Deliveries, procurement and purchase of production materials

In H1 2016, the value of the Group's purchases rose by 10.0% compared with the corresponding period of the previous year. The Group made its purchases mostly on the Polish market:

Source	*PLN '000*			
	H1 2016		*H1 2015*	
	Value	*Share in total purchases*	*Value*	*Share in total purchases*
Domestic purchases	472 479	73.2%	470 046	82.7%
Foreign purchases	172 986	26.8%	98 494	17.3%
TOTAL	**645 465**	**100.0%**	**586 540**	**100.0%**

In H1 2016, the Company's supplier structure was highly distributed, as none of the suppliers accounted for more than 10% of the total value of purchases.

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

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

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

3.4. Operating expenses, their structure and gross profit (loss)

In H1 2016, the costs of sales of products, services and materials was PLN 685 778 thousand; with the revenue at PLN 740 564 thousand, the recorded gross profit was PLN 54 786 thousand. Compared to H1 2015, gross profit increased by 5 percentage points. The gross profit increase was attributable mainly to higher sales coupled with higher provisions for costs of contractual penalties and provisions for warranty repairs under realised sales contracts.

Administrative expenses totalled PLN 28 112 thousand, up PLN 3 786 thousand on H1 2015. The main reason behind increase in administrative expenses was, among others, increase in costs of legal and advisory services, including the cost of business support services.

In H1 2016, distribution costs were PLN 14 881 thousand, having increased by PLN 1 164 thousand on H1 2015. Distribution costs, excluding impairment losses on receivables, amounted in H1 2016 to PLN 14 915 thousand, up PLN 1 628 thousand on H1 2015 (PLN 13 287 thousand). The main reason behind increase in distribution costs increase were higher bidding costs.

After accounting for distribution costs and administrative expenses, the Group generated a profit on sales of PLN 11 793 thousand in H1 2016, compared with a profit of PLN 14 147 thousand in H1 2015.

3.5. Other operating income and expenses, and net finance income/ cost

3.5.1.Net other operating income/ expenses

In H1 2016, the Group recorded net other operating expenses of PLN 1 141 thousand (compared with net other operating income of PLN 1 014 thousand in H1 2015), which resulted from:

		PLN '000
1.	income from contractual penalties and compensations received	255
2.	disposal of property, plant and equipment	228
3.	provision for penalties imposed by the Polish Financial Supervision Authority (PFSA)	(700)
4.	donations and subsidies	(541)
5.	negative net balance of other operating income and expenses	(383)

3.5.2.Net finance income/ cost

In H1 2016, the Group recorded net finance cost of PLN 716 thousand (compared with net finance income of PLN 4 776 thousand in H1 2015), which resulted from:

		PLN '000
1.	net foreign exchange gains	1 138
2.	other interest	793
3.	interest received on financial instruments	587
4.	interest paid on financial instruments	(1 383)
5.	interest on liabilities under employee benefits	(637)
6.	bank commissions on issued loans and guarantees	(543)
7.	discount on long-term settlements	(420)
8.	negative net balance of other finance income and cost	(251)

3.6. Income and its structure

The main source of the Group's pre-tax profit, which amounted to PLN 9 936 thousand in H1 2016 (PLN 19 937 thousand in H1 2015), was the gross profit of PLN 11 793 thousand generated by the Group from its core operations, down by PLN 2 354 thousand on H1 2015. Profit decrease was mainly due to the growth in administrative expenses of PLN 3 786 thousand and distribution costs of PLN 1 164 thousand, with an increase in gross profit of PLN 2 596 thousand.

After accounting for net other operating expenses of PLN 1 141 thousand, net finance cost of PLN 716 thousand (against net other operating income of PLN 1 014 thousand and net finance income of PLN 4 776 thousand in H1 2015) and income tax (in minus PLN 2 777 thousand), the Group earned a net profit of PLN 7 159 thousand, against a profit of PLN 14 026 thousand reported in H1 2015.

The financial result reported in the current report for H1 2016 cannot be compared with the forecasts for that period, as no financial forecasts have been published.

The structure and change of pre-tax profit (loss) in H1 2016 and 2015 are presented in Appendix 4.

3.7. Margins, ROE and ROA

In H1 2016, the Group's operating profit margin decreased on H1 2015. Gross profit margin fell to 7.4% and was 0.1 pp lower than in H1 2015, while operating profit margin amounted to 1.4% (compared with 2.2% in H1 2015).

With its net profit of PLN 7 159 thousand, the Group's return on equity (ROE) stood at 1.7%. In the corresponding period of the previous year, ROE stood at 4.5%. Apart from a 49.2% decrease in net result, the impact on such a large change in this ratio had 37.4% increase in equity, compared to 30 June 2015.

Compared to H1 2015, Return on assets (ROA) fell by 0.6 pp to 0.6% (with total assets lower by 0.2% and net profit down by 49.2%).

The H1 2016 and 2015 profitability ratios are presented in Appendix 1.

3.8. Financial liquidity

At the end of June 2016, the RAFAKO Group's liquidity ratios changed compared to the end of 2015. The current ratio (current assets to current liabilities) increased by 0.03 and was 1.27, whereas the quick ratio (current assets net of inventories to current liabilities) remained at a similar level and was 1.24.

In H1 2016, compared to H1 2015, receivables collection period shortened by 21 days (to 47 days), while the inventory cycle lengthened by 19 days (to 107 days) and the average payment period of trade liabilities contracted by 20 days (to 84 days). Thus the working capital cycle (average collection period + inventory cycle – average payment period) lengthened by 18 days relative to the end of 2015 and was 70 days.

In H1 2016, liabilities to the Social Security Institution (ZUS), State Treasury and employees were settled in a timely manner, though delays occurred in the payment of liabilities towards suppliers.

The Parent continued its multi-purpose credit facility agreement with PKO BP S.A. Several annexes were signed to extend the period of availability of the facility. The last annex extended the period of availability of credit facility to 30 June 2017 and changed some of the terms and conditions of the agreement. For details on changes, see chapter IV point 4 „Other material events" on page 30.

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

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

A factor of key importance from the point of view of financial liquidity will be the Company's access to new bank/ insurance guarantees that would enable the Company to free some of the cash serving as performance bonds provided in respect of the contracts which are already being performed. Failure to secure satisfactory guarantee limits may result in a limited ability to sign commercial contracts generating revenues for the Group.

In H1 2016, among the largest guarantees obtained by the Group was the guarantee of mBank with respect to the return of the advance payment of PLN 48m and performance bond with respect to the 910 MW Jaworzno Project in the amount of PLN 126.3m (for more details, see point IV.1).

In 2015, the Parent carried out a share issue the main objective of which was to raise funds to finance contractual security arrangements in building the Group's order book and to finance working capital requirements to enable the performance of contracts in the future. The Parent is planning to allocate 85-90% of the issue proceeds for this purpose. The issue was successful – all the offered shares were sold for PLN 93 525 thousand.

On 25 August 2015, the Judge Commissioner declared that an Arrangmemt was made between PBG S.A. (parent of the PBG Group of which RAFAKO is a member) and its Creditors. The PBG Arrangement became legally valid on 13 June 2016. The execution of the Arrangement should have positive effect on the Group's ability to obtain financial guarantees, and thus on its capacity to win and perform new contracts.

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

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

As at 30 June 2016, the Group did not carry any unsettled FX hedges.

The objectives and policies of financial risk management have not changed relative to those published in the most recent consolidated full-year financial statements for 2015.

3.9. Debt

In H1 2016, the RAFAKO Group's liabilities towards its creditors decreased by PLN 103 579 thousand. As at 30 June 2016, total long- and short-term liabilities were PLN 717 873 thousand compared with PLN 821 452 thousand as at 31 December 2015.

The greatest impact on liabilities decrease had a PLN 96 841 thousand drop in short-term liabilities, which resulted mainly from PLN 100 976 thousand fall in trade payables, drop in liabilities under construction contracts by PLN 45 433 thousand and an PLN 40 510 thousand increase in the current portion of interest-bearing bank loans and borrowings.

Long-term liabilities fell by PLN 6 738 thousand mainly as a result of decrease in trade payables by PLN 8 664 thousand.

As at 30 June 2016, the Group's assets not encumbered with on-balance-sheet (long- and short-term) liabilities were PLN 440 783 thousand (as at 31 December 2015 they were 2.6% lower at PLN 429 766 thousand).

Debt to equity ratio (including long- and short-term liabilities), measuring the Group's ability to secure repayment of debt with assets, fell from 65.7% at the end of 2015, to 62.0%.

Debt to assets ratio does not take into consideration the Group's contingent liabilities under bank and insurance guarantees granted on Group's instruction (mainly performance bond and return of advance payment guarantee which are typical for RAFAKO S.A.'s business on the market of manufacturers of power generation equipment), letters of credit and promissory notes issued as security.

The liquidity and debt ratios for H1 2016, 2015 and H1 2015 are presented in Appendix 1.

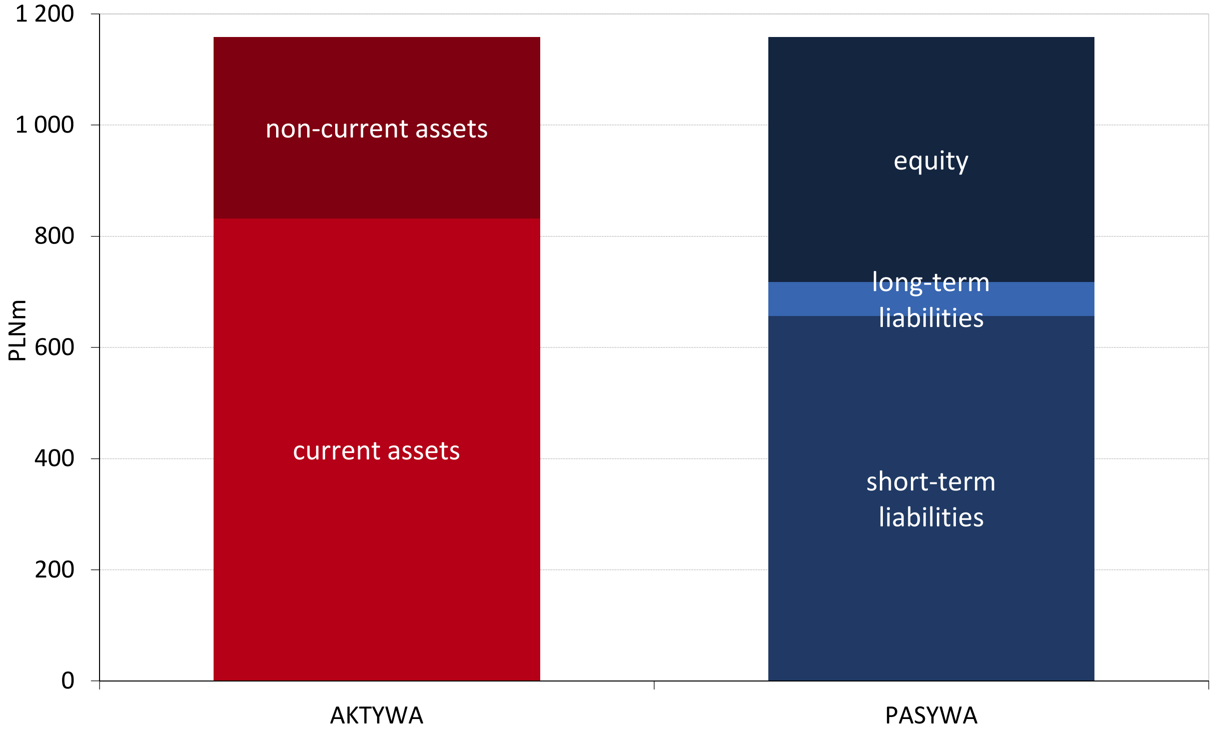
3.10. Off-balance-sheet items

As at 30 June 2016, the Group's contingent liabilities under bank and insurance guarantees, letters of credit and promissory notes issued as security stood at PLN 1 628 250 thousand. The main item of these liabilities (PLN 1 394 668 thousand and PLN 1 046 000 thousand as at 31 December 2015) was represented by a surety issued for the benefit of financial institutions which provided financial security in respect of the Jaworzno Project, the surety was provided to secure proper discharge of obligations by the Jaworzno Project SPV in connection with financial guarantee agreements. In the first six months of 2016, guarantees (mainly performance bonds of PLN 33 118 thousand and bid bonds of PLN 25 462 thousand) were issued by banks and insurance companies to the Group's trading partners upon the Parent's instruction.

In connection with its ongoing contracts, besides contingent (off-balance-sheet) liabilities, the Group also carried contingent receivables, which amounted to PLN 679 995 thousand as at 30 June 2016 (PLN 614 825 thousand as at 31 December 2015). The main item of these receivables was represented by bank and insurance guarantees totalling PLN 657 644 thousand.

For details of changes in contingent assets and liabilities, see Note 22 to the interim condensed consolidated financial statements for H1 2016.

3.11. Assets financing structure



As at 30 June 2016, total assets stood at PLN 1 158 656 thousand, down by PLN 92 562 thousand (or 7.4%) from the figure posted as at 31 December 2015. The share of equity in the financing of assets increased by 3.7 pp relative to 31 December 2015, and was 38.0%.

The long-term capital (equity plus long-term liabilities) covered the full amount of non-current assets and 21.1% of current assets.

As at 30 June 2016, the assets financing structure was as follows:

1. non-current assets of PLN 326 055 thousand were fully financed with long-term capital,
2. current assets and non-current assets held for sale of PLN 832 601 thousand, were financed with:

long-term capital	21.1%
short-term borrowings	18.0%
amounts due to customers for construction contract work	15.4%
short-term trade payables	36.0%
other short-term liabilities	9.5%

3.12. Non-current assets

3.12.1. Structure of non-current assets

The structure of non-current assets changed as a result of execution of investment projects, sale of assets, liquidation or sale of redundant property, plant and equipment, re-measurement of assets, and changes in the deferred tax asset. As at 30 June 2016 and 31 December 2015, it was as follows:

	30 June 2016		*31 December 2015*	
	Amount	*Percentage*	*Amount*	*Percentage*
1. Property, plant and equipment, of which:	180 853	55.5%	183 439	58.8%
- land	23 773	7.3%	23 776	7.6%
- buildings	90 708	27.8%	91 832	29.4%
- plant and equipment	54 633	16.8%	56 489	18.1%
- vehicles	9 599	2.9%	8 389	2.7%
- assets under construction	1 433	0.4%	2 162	0.7%
- other	707	0.2%	793	0.3%
2. Intangible assets	19 447	6.0%	15 211	4.9%
3. Long-term trade receivables, other receivables and prepayments	35 968	11.0%	35 648	11.4%
4. Long-term financial assets	30 583	9.4%	30 129	9.6%
5. Deferred tax asset	59 204	18.2%	47 796	15.3%

The most significant item of non-current assets was represented by land and buildings, which accounted for 35.1% of non-current assets and about 9.9% of total assets. Other significant items included the deferred tax assets as well as plant and equipment: at the end of June 2016, these accounted respectively for 18.2% and 16.8% of total assets. Plant and equipment includes mostly machinery, equipment and apparatuses used in the production process, as well as computer sets.

In H1 2016, non-current assets rose by PLN 13 832 thousand (or 4,4%) compared to the end of 2015. The deferred tax asset grew by PLN 11 408 thousand, or 23.9%, while intangible assets were up by PLN 4 236 thousand (or 27.8%) compared to 31 December 2015).

3.12.2. Key investments in property, plant and equipment

In H1 2016, the Group incurred capital expenditure on non-financial long-term assets of PLN 9 044 thousand, of which:

- PLN 3 805 thousand for property, plant and equipment,
- PLN 5 239 thousand for intangible assets.

Capital expenditure on property, plant and equipment involved chiefly purchases of transport vehicles, IT equipment and expenditure for production plant and equipment.

Capital expenditure on intangible assets related primarily to PLN 4 041 thousand non-cash contribution in the form of an organised part of enterprise made by PBG Oil & Gas Sp. z o.o. as the coverage for the acquired shares in the subsidiary company, RAFAKO Engineering Sp. z o.o. In addition, IT licenses and software were acquired.

The above investments were financed with internally generated funds and through lease agreements.

3.13. Current assets

In H1 2016, current assets decreased by PLN 106 332 thousand, to PLN 831 600 thousand. The change in this asset group was mainly attributable to a PLN 91 805 thousand decrease in trade receivables, a PLN 36 615 thousand decrease in amounts due from customers for construction contract work and a PLN 19 446 thousand decrease in other receivables and prepayments.

As at 30 June 2016, a PLN 52 458 thousand increase was recorded in cash and cash equivalents, to PLN 249 719 thousand.

Material receivables included deposits provided as security for contract guarantees (mainly issued by banks on the Group's instruction). At the end of June 2016, the amount of deposits provided as security for guarantees was PLN 85.8m (PLN 122.7m at the end of December 2015). The decrease in security deposits resulted mainly from the return by RAFAKO S.A. of a PLN 40m cash deposit made as performance bond for the 910 MW Jaworzno Project due to issuance of a bank guarantee by mBank.

3.14. Equity amount and structure

As at 30 June 2016, the RAFAKO Group's equity amounted to PLN 440 783 thousand, of which:

1. issued capital was PLN 864 thousand and was divided into 84 931 998 ordinary shares, series A,B,C,D,E,F,G,H,I,J; in H1 2016, there were no changes in the issued capital;
2. share premium was PLN 95 340 thousand; in H1 2016, there were no changes in the share premium account;
3. reserve capital was PLN 140 583 thousand (up by PLN 27 868 thousand, relative to 31 December 2015; the increase was the result of appropriation of net profit for 2015 to reserve capital);
4. retained earnings/ accumulated losses were PLN (+)26 593 thousand;
5. exchange differences on translating foreign operations were PLN (+)136 thousand;
6. equity attributable to non-controlling interests was PLN 8 267 thousand

In the 6-month period ended 30 June 2016, Group companies did not redeem their shares.

4. Human resources and workforce at the RAFAKO Group

In H1 2016, the average workforce at the Group was 2 459 employees and compared to H1 2015 increased by 133 persons.

	30 June 2016
Workforce structure at the end of period	**2 442**
production	982
engineering design office	387
technology office	76
quality control	112
maintenance	96
other employees (financial and accounting, sales and procurement staff)	789

As at 30 June 2016, the Group's employees with university degree or secondary school diploma accounted for 70.4% of the personnel (against 68.9% as at 30 June 2015). The Parent's Management Board recognises the importance of acquiring new, well-educated employees. As more than 90% of white-collar posts at the Company require specialist knowledge, persons with specialist university degree are given priority in the recruitment process. As at 30 June 2016, university graduates accounted for 44.3% of the personnel and increased slightly compared with 30 June 2015. The Group also attaches importance to the process of continuous professional advancement, and many employees decide to enrol on part-time university courses.

Workforce structure at the Group companies at the end of period	**2 442**
RAFAKO S.A.	2 040
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	107
E003B7 Sp. z o.o.	109
Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o.	26
RAFAKO ENGINEERING SOLUTION doo.	11
RAFAKO ENGINEERING Sp. z o. o.	141
RAFAKO Hungary Kft.	6
E001RK Sp. z o.o.	2

There was a change in the age structure of the workforce: the share of employees aged up to 30 decreased and accounted for 16.7% of the personnel (vs 18.4% as at 30 June 2015), and the share of employees aged between 31 and 40 increased slightly to 24.6% (from 23.4% as at 30 June 2015). The share of employees aged between 41 and 50 (23.6%) and employees aged 50 or older (35.1%) remained at comparable level.

Over the last 12 months, some changes were observed in the workforce structure in terms of length of service. As at 30 June 2016, employees with length of service of up to 10 years accounted for 34.3% of the Group's personnel (against 29.8% as at 30 June 2015). The employees with length of service between 11 and 20 years slightly decreased and represented 17.1% of the entire personnel, while the percentage of employees with over 20 years of service fell by 4.9% to 48.6% as at 30 June 2016. The Group has personnel with many years' unique professional experience.

5. Number of RAFAKO shares and options for RAFAKO shares held by the management and supervisory staff as at the date of this half-yearly report

To the best of RAFAKO S.A.'s knowledge, as at the date of this report the holdings of RAFAKO S.A. shares by the management and supervisory staff of the Company did not change relative to the previous consolidated quarterly report, and were as follows:

	As at 16 May 2016	*Increase*	*Decrease*	*As at 31 Aug 2016*
Supervisory staff of RAFAKO S.A.	–	–	–	–
Management staff of RAFAKO S.A.:	**2 000**	**–**	**–**	**2 000**
- Edward Kasprzak – Vice-president of the Management Board	2 000	–	–	2 000

6. Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting of the Parent as at the date of this half-yearly report

Shareholder	*Number of shares (pcs.)*	*Number of votes attached to the shares held*	*Ownership interst*	*% of the total vote at GM*
PBG S.A. w upadłości układowej (in company voluntary arrangement)[1]	**42 466 000**	**42 466 000**	**50% + 1 share**	**50% + 1 share**
of which:				
held directly:	7 665 999	7 665 999	9.026%	9.026%
held indirectly through Multaros Trading Company Limited [2] (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement))	34 800 001	34 800 001	40.974%	40.974%
Pension Funds of Nationale-Nederlanden managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A [3]	8 048 507	8 048 507	9.48%	9.48%
Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.[4]	7 662 062	7 662 062	9.02%	9.02%

1. *based on a notification of 9 September 2015*
2. *based on a notification of 9 September 2015*
3. *based on a notification of 30 July 2015*
4. *based on a notification of 10 September 2015*

Changes in major holdings since the submission of the previous quarterly report:

Multaros Trading Company Limited[1]

	As at 16 May 2016	*Increase*	*Decrease*	*As at 31 Aug 2016*
Number of shares and votes at the AGM	34 800 001	–	–	34 800 001
Ownership interest and share in total vote at the AGM	40.974%	–	–	40.974%

1. *based on a notification of 9 September 2015*

PBG S.A. w upadłości układowej (in company voluntary arrangement) [2]

	As at 16 May 2016	*Increase*	*Decrease*	*As at 31 Aug 2016*
Number of shares and votes at the GM	42 466 000	–	–	42 466 000
Ownership interest and share in total vote at the AGM	50% + 1 share	–	–	50% + 1 share
of which:				
- held directly	7 665 999	–	–	7 665 999
	9.026%	–	–	9.026%
- **held indirectly through Multaros Trading Company Limited** [3] **(a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement))**	34 800 001	–	–	34 800 001
	40.974%	–	–	40.974%

2. *based on a notification of 9 September 2015*
3. *based on a notification of 9 September 2015*

Pension Funds of Nationale-Nederlanden managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A [4]

	As at 16 May 2016	*Increase*	*Decrease*	*As at 31 Aug 2016*
Number of shares and votes at the AGM	8 048 507	–	–	8 048 507
Ownership interest and share in total vote at the AGM	9.48%	–	–	9.48%

4. *based on a notification of 30 July 2015*

Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A. [5]

	As at 16 May 2016	*Increase*	*Decrease*	*As at 31 Aug 2016*
Number of shares and votes at the AGM	7 662 062	–	–	7 662 062
Ownership interest and share in total vote at the AGM	9.02%	–	–	9.02%

5. *based on a notification of 10 September 2015*

In 2011, RAFAKO S.A. was included in the PBG Group, whose Parent is PBG S.A.

PBG S.A. is a parent of a group of companies operating on the specialist construction market. The key segments of the Group's business currently include the construction of facilities and structures for the power, natural gas, crude oil and fuel sectors.

PBG has been in company voluntary arrangement since June 2012. In August 2015, the provisions of company voluntary arrangement were voted and adopted by the Creditors Meeting. In October 2015, the decision on legal validation of the arrangement was approved by the Court. The PBG's company voluntary arrangement with creditors became legally valid on 13 June 2016.

IV. Key events and developments in H1 2016 and in the period from the end of H1 2016 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 17 April 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 Jaworzno III Power Plant – Power Plant II. The value of the contract is PLN 4.4bn. The subject matter of the contract is design and delivery, on a turn-key basis, of a supercritical 910 MW power generation unit consisting of a steam generator, turbine generator set, main building, electrical and I&C systems.

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

Key parameters	Unit's components
Supercritical pulverised-fuel, tower-type, once-through steam generator, **U**nit's nominal output (gross) - 910 MW, **G**enerator's rated thermal input - 1 832 MWt, **R**ated capacity - 2 390 t/h, **T**emperature of steam at outlet (live/superheated)- 603/621°C, **P**ressure of live steam at outlet - 28,5 MPa, **P**ressure of superheated steam at outlet - 6,2 MPa, **E**fficiency at standard conditions > 95%, **A**vailability > 95%, **N**et generating efficiency > 45,91 %.	**S**uperheated steam generator, **S**team turbine powering the electricity generator, **F**eed water pump system, **S**ystems designed to meet the sulfur dioxide, nitric oxide and dust emission standards specified in the Industrial Emissions Directive (IED), **S**ystems for disposal of combustion waste, as well as for delivery and preparation of various auxiliary media.

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

Environmental implications:

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

Key events in 2016

2016	
January	Completion of the foundation pit for steam generator
February - April	Completion of the underground structures for turbine house and lower parts of the foundation pit for turbine generator set. On 24 February 2016, SPV Jaworzno and Powszechna Kasa Oszczędności Bank Polski S.A., Powszechny Zakład Ubezpieczeń S.A., Bank Gospodarstwa Krajowego and mBank S.A signed an annex to the agreement of 16 April 2014 on issue of bank and insurance guarantees for the 910MW Jaworzno Project. Based on this annex, mBank committed to issue to SPV Jaworzno a bank guarantee for the return of the PLN 48m advance payment and a PLN 126 334 thousand performance bond with respect to the 910MW Jaworzno Project. As a result of this annex, cash funds of PLN 40m provided by RAFAKO S.A. as performance bond for the Main Agreement were returned to the Parent. In addition, under established securities, the Parent executed an annex to the contract of 29 October 2014 on establishing a registered pledge on set of movables and rights, about which the Company informed in its current report No. 47/2014. Based on this annex, the scope of the pledge was changed, whereby the pledge was to secure, apart from the existing and future financial obligations to PKO, BGK and PZU, also the obligations to mBank, as issuers of the performance bond and guarantors of the return of the advance payment under the Main Agreement; contract insurance sum was increased to PLN 1 300m (from PLN 1 046m). In March and April in connection with the above annex, the Parent was notified about including said pledge in the register of all pledges and securities .
June	Completion of reinforced concrete structure for pylons.
July	On 13 July 2016, SPV Jaworzno and POLIMEX Energetyka Sp. z o.o. signed a PLN 118 750 thousand contract for the assembly of boiler pressure components, performance of operational testing and participation in the start-up in connection with the 910MW Jaworzno Project.

In its separate financial statements, RAFAKO S.A. recognises only income and expenses related to its own scope of work i.e. approx. 11.5% of the total scope of work to be performed on the Jaworzno Project. In its separate financial statements, the Parent does not recognise income or 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 in the consolidated financial statements of the RAFAKO Group.

For the rules of accounting for the contract, see Note 11 to the financial statements.

2. Contract with PGE Elektrownia Opole

In February 2012, the Parent, acting as the Leader of a Consortium (RAFAKO S.A., Polimex-Mostostal S.A., 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 No. 6 at Elektrownia Opole, together with equipment and devices as well as all related buildings and structures (the "Opole Project").

The units, each with a capacity of 900 MW, will be fired with hard coal. The project will be completed within 54 months from the notice to proceed for unit No. 5, and within 62 months of the notice to proceed for unit No. 6.

E001RK Sp. z o.o. („SPV-Rafako") was appointed by RAFAKO S.A., the Parent, as the subcontractor in charge of 100% 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 26 October 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 Alstom Power Sp. z o.o. Under the agreement, E001RK Sp. z o.o. appointed Alsom as its subcontractor responsible for 100% of the work and services making up the Parent's scope of work under the Opole Project.

Presentation of income and expenses under the contract has no effect on the values disclosed in the statement of comprehensive income of the RAFAKO Group.

For the rules of accounting for the contract, see Note 11 to the financial statements.

On 31 January2014, the Consortium received a Notice to Proceed for the Opole Project from the Employer.

The Project is on schedule, units construction is half way through, with invoices issued and payments made without any disruptions. As at 30 June 2016, PLN 1 628 470 thousand i.e. 50.5% of the contract's total value was invoiced in relation to the Opole Project.

3. Events related to other significant contracts

a. On 13 July 2016, the Parent was notified about selecting, as the most favourable, of the RAFAKO S.A.'s offer filed in the public procurement procedure for the award of the contract for the construction of a biomass-powered cogeneration plant in Vilnius. The proposal value is EUR 149 650 000 (VAT exclusive), i.e. approx. PLN 661m. The Employer is a Lithuanian company, UAB Vilniaus Kogeneracinė Jėgainė.

Commencement of project work depends, among other things, on the Employer's securing project financing. Winning this Project is an example of executing the RAFAKO's strategic objective i.e. increase in exports on a Company-wide basis.

b. On 3 August 2016, RAFAKO S.A. was notified by ENEA Wytwarzanie Sp. z o.o. in Świerże Górne about selecting, as the most favourable, of the RAFAKO S.A.'s proposal filed in an open-end public procurement procedure for the award of the contract for „Delivery and assembly of a Catalytic De-nitriding System or the SCR (selective catalytic removal) system for AP-1650 boilers No. 9 and 10 and modernization of electrostatic precipitators at ENEA Wytwarzanie sp. z o.o". The proposal value is approx. PLN 289.2m (VAT exclusive). Contract may be signed after a 10-day standstill period at the earliest.

4. Other material events

a. Amendments to the Articles of Association of the Parent (uniform text of the Articles of Association was provided in current report No. 5/2016) on 26 February 2016.

b. In March 2016, the Management Board of RAFAKO S.A. passed a resolution on reorganisation of the Parent with a view to adjusting its business model, resources and key processes to the increasingly demanding market on which the Company operates, as well as to new markets the Company wishes to actively operate in the near future.

The main objectives of the amendments are the following:

- implementation of a model based on customer relationship management and comprehensive foreign markets management,
- implementation of comprehensive foreign markets management,
- making the process of projects/ contracts winning and execution more consistent,
- marketization of production.

The Management Board of the Parent assumed that the most efficient manner to execute these objectives will be:

- adjusting organisational structure to Parent's challenges and building business awareness and accountability for performance of strategic objectives at all levels of the Parent, as well as
- re-modelling of business processes (including the process of sale and manufacture) and financial processes (mainly the controlling process and accounting processes).

As at 30 June 2016, changes were made in the organisational structure and works were continued on re-modelling of business and financial processes.

c. On 30 June 2016, an annex was executed with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw to a loan agreement. The annex changed the conditions of financing for the following: as part of the multi-purpose facility (the "Limit"), the Bank provided to the Parent:

- an overdraft facility to the amount of PLN 100m,
- a revolving loan in credit account to the amount of PLN 50m based on the instructions of the Parent, to secure financing of current liabilities arising from conducted business activities,
- limit on bank guarantees on the terms and conditions specified in the Agreement and a revolving loan for the realisation of possible payments under realised bank guarantees of PKO BP to the amount of PLN 100m, with the proviso that the total amount of used Limit funds may not exceed PLN 200m. The annex extended Limit's maturity date to 30 June 2017.

In addition, based on the signed annex, the Parent committed to extend the then current security for its financial obligations, made in the form a registered pledge on set of movables and rights and representing RAFAKO S.A.'s entire business, to include any financial obligations that may originate under the Limit granted.

RAFAKO S.A. also committed to make an amendment to the maximum contractual mortgage of up to PLN 300m so that it collateralised all financial obligations that may arise under the Limit.

The annex also included a clause stating that had RAFAKO S.A. failed to acquire in 2016 new orders to its order book in the net amount of PLN 900m with the verification date as at 31 December 2016, PKO BP would be authorised to reduce the amount of the PLN 100m overdraft facility awarded to the Company by an appropriate percentage value equating to the percentage of unrealized plan for order book increase, rounded up to full million. Should this happen, another verification of a planned order book value, covering the period of last 12 months, i.e. from 1 April 2016 to 31 March 2017 will take place as at 31 March 2017. The verification of planned value of order book will be made based on the RAFAKO's statement filed with PKO BP. Given the outcome of public procurement procedures presented in chapter 3 of this Report, the reduction of overdraft limit seems rather unlikely.

In addition, based on the annex, PKO BP reduced the level of the required security in the form of a cash deposit for sub-Limit related to issued guarantees.

The annex does not materially change other clauses of the loan agreement. Loan interest rate was set at 1M WIBOR + margin. The loan agreement also provided for regular commissions. Interest repayment will be made on a monthly basis.

d. In May 2016, the Parent's Management Board updated the Stable Growth Strategy of the RAFAKO Group for 2015-2018; the update results from successful completion of certain objectives and from market, competition and legal developments. The main strategic objectives of the Company are as follows:

- strengthening of R&D activities,
- strengthening of the Group's position as a national leader of environment-friendly, modern technological solutions for the power and industry sector,
- higher exports,
- management optimisation at Company and Group level, including growth in post-sale services.

e. Following rescinding on 14 June 2016 by Mostostal Warszawa S.A., general contractor, of the contract for the design, delivery and assembly of a grid, boiler and flue gas purification system for two lines at the Thermal Waste Treatment Plant in Szczecin, on 7 July 2016 RAFAKO S.A. rescinded its subcontract on this project, after having considered rescinding the subcontract by Mostostal Warszawa as faulty and thus legally invalid.

The subcontract which became effective in June 2013 had the value of more than PLN 227m (VAT exclusive). As at 14 June 2016, the advancement of contract revenue work was approx. 85% of the total subcontract value. The completion of contract performance assessment is scheduled for September 2016 in order to settle the work performed.

f. On 14 July 2016, the Parent and POLIMEX Energetyka Sp. z o.o. with its registered office in Warsaw (PE) signed a letter of intent to commence cooperation in the following scope: joint participation in a possible public procurement procedure for the development of generation capacities at Elektrownia Ostrołęka and performance of work under a contract, which will be concluded if the consortium of POLIMEX Energetyka Sp. z o.o. and RAFAKO S.A. is awarded, in public procurement procedure, a contract for the Project on the terms and conditions determined in such contract.

The Parties assume participation in the project in the consortium formula. In the consortium agreement, the Parties will determine detailed scope of proposal preparation and the scope of work of each Party; in addition, the principles of use by each Party of its potential will be determined as well as policies for providing credentials etc.

If the Parties sign the consortium agreement, PE will act as the consortium leader, and at the stage of Project execution, it will be the contractor responsible for assembly-construction works. RAFAKO S.A. will be the consortium member, and at the stage of Project execution, it will also be the contractor in charge of the process part (with no turbine island), with detailed scope of work to be determined in the contract.

g. On 2 August 2016, the Parent received a debit note of PLN 13 491 000 from ENERGA Elektrownia Ostrołęka SA (Employer) issued in connection with the contract for NOx reduction system at boilers OP_650 No. 1, 2 and 3 at Elektrownia Ostrołęka B dated 10 October 2014, realized in consortium with OMIS SA. (RAFAKO S.A. – the leader of the consortium with 57.76% share, OMIS SA – Consortium member with the share of 42.24%). In its debit note justification, the Employer stated that the reason for debit note issuance is a delayed performance of contract works. The stance of the Parent's Management Board is that there are no grounds to charge contractual penalties, thus rejecting the whole line of argumentation presented in debit note justification.

h. Based on its decision of 13 June 2016, the District Court in Poznań dismissed the claim of creditors in the matter of validation of PBG S.A.'s voluntary arrangement; this effectively means that PBG's company voluntary arrangement is legally valid. PBG has been in company voluntary arrangement since June 2012. In August 2015, the provisions of company voluntary arrangement were voted and adopted by the Creditors Meeting. In October 2015, the decision on legal validation of the arrangement was approved by the Court. The PBG's company voluntary arrangement with creditors became legally valid on 13 June 2016.

The arrangement proposals with respect to the first group of creditors (which includes RAFAKO S.A.) provide for repayment of PLN 500 thousand and an 80% reduction of receivables in excess of PLN 500 thousand. The receivables will be repaid in semi-annual instalments over a period of five years beginning on 30 June 2016. The total amount of receivables from the related entity (PBG S.A.), recognised in the statement of financial position, is PLN 35.8m. The recoverable amount of these receivables depends on creditor arrangement proposals of this entity and on the possibility of this related entity to execute the arrangement proposals in the future.
Based on the concluded agreement, the date of payment of first instalment was moved to 15 September 2016.
For a detailed description of the receivables, see Note 24 to the interim condensed consolidated financial statements of the Group.

5. Pending litigation, arbitration or administrative proceedings

For information on material disputes and litigations, see Note 23 to the interim condensed consolidated financial statements of the Group.

6. Related-party transactions by RAFAKO or its subsidiaries

In H1 2016 and 2015, the Parent and its subsidiaries did not enter into any material related-party transactions on non-arm’s length basis.

For a detailed list of related-party transactions in H1 2016, see Note 25 to the interim condensed consolidated financial statements of the Group for H1 2016.

7. Sureties for loan repayment and guarantees issued by RAFAKO or its subsidiary

In H1 2016, the Parent and its subsidiaries did not issue any sureties for loan repayment or guarantees jointly to one entity or its subsidiary, where the aggregate value of such sureties or guarantees would represent 10% or more of the company’s equity.

For details of changes in contingent assets or liabilities, see Note 22 to the Group’s interim condensed consolidated financial statements for H1 2016.

V. Growth prospects for 2016

1. Energy policy

Power market and environmental protection regulations

The power market, especially its commercial segment, is subject to extensive regulation governing both the way it operates and its future development and structure in the context of increasingly stringent environmental protection norms. The highly-regulated nature of the segment follows from the power market's strategic importance to energy security of each country, with environmental protection and reduced CO2 emissions becoming a global priority in international relations. Such regulations include both legislation and general objectives of national and EU-level power policies concerning environmental protection.

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

Environmental protection regulatory environment in the EU

The EU's energy policy is formulated by Member States as well as EU institutions. The formal allocation of responsibilities in this area results from Title XXI "Energy" introduced to the Treaty on the Functioning of the European Union. In accordance with the Treaty of Lisbon (or the Reform Treaty), the main objectives of the energy policy of the EU is:

a. to ensure the functioning of the energy market;

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

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

d. to promote the interconnection of energy networks.

The energy policy realised currently is directed to comprehensive and integrated approach to energy and climate policy. In 2014, heads of state and chiefs of government of EU Member States determined the below objectives:

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

Currently, work is underway on regulations which will translate the conclusions of the European Council into concrete tools. In July 2015, the revised European Union Emissions Trading Scheme (EU ETS) was presented. According to this revised project, segments covered by EU ETS i.e. power and industry, are to achieve by 2030 a 43% reduction in emissions compared to 2005. Other sectors of the economy (the so-called non-ETS sectors such as transport, municipal & living sector or agriculture) will be required to reduce CO2 emissions by 30% compared with 2005. In order to achieve this target at the EU level, each Member State will have its own target set. In addition, during the meeting of the European Environmental Council, a consensus was reached that by 2050 the EU will reduce greenhouse emissions by 50%.

Regulatory environment in Poland

The key legal document regulating the operation of the Polish power sector is the Energy Law. The Energy Law mainly defines the principles of shaping energy policy, terms and conditions for providing and use of fuels and energy, including heat, and business of energy companies.

As regards directions for the development of national power sector, the document of significant importance is „Poland's Energy Policy (PEP) until 2030"prepared by the Ministry of Economy, which assumes, among others:

- improved efficiency of energy production through the construction of highly-efficient power generation units and twofold increase by 2020 of energy produced using the highly-efficient cogeneration technology;
- increase in the share of RESs (renewable energy sources) in total use of energy in Poland to 15% in 2020 and to 20% in 2030.

PEP 2030 also stressed the necessity to reduce negative environmental impact of heat and power sector, including the necessity to reduce the emissions of CO2, SO2 and NOX into the environment; this will help Poland meet its international obligations. As one of the objectives of energy and heat supply, PEP 2030 envisaged construction of new power capacities to balance domestic electricity demand and maintaining technically available surplus for maximum generation capacity, achievable by domestic conventional and nuclear energy producers, at 15% of maximum domestic demand. PEP 2030 set forth significant priorities and directions for the development of Poland's energy policy, and hence for the power market in Poland.

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

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

Poland's Energy Policy until 2050 provides for three scenarios of the national power sector's development: the primary scenario assuming continuation of the current trends, with coal having a predominant share in the energy mix, and two additional scenarios. First of the two assumes the dominance of nuclear energy (45-60% of the energy mix) while the second is based on gas and renewable energy (50-55% of the energy mix).

At the beginning of January 2016, a Transitional National Plan *(Przejściowy Plan Krajowy - PPK),* based on the Decree of the Minister of Environmental Protection of July 2015 came into effect. The PPK is a part of introducing to Polish legal system of the Directive of the European Parliament and the Council on industrial emissions (the IED Directive). The IED Directive introduces mechanisms facilitating deferral of the obligation to apply new emission standards for sulfur dioxide, nitric oxide and dust emissions (derogations). Derogations give power plant operators time to carry out investments necessary to adapt technically to stringent emission requirements. One of the mechanisms implemented by the IED Directive is the PPK, which will be in force in the period from 1 January 2016 to 30 June 2020; during this period, the PPK participants will be required to maintain the emission limits awarded for each year of the Plan.

In 2016, the President of the Republic of Poland signed an act on energy efficiency. This act, which introduces EU regulations to the Polish legal system, is to ensure further improvement in energy efficiency of Polish economy. The act will come into effect on 1 October 2016. Also, amendments to the act on renewable energy sources (RES Act) were signed this year. The purpose of RES Act amendments is to set in order RES producers' status and the rules of granting public aid to these producers, as well as to revise the Energy Law. The new solutions provided in the amendments are to improve energy supply security in Poland.

2. Asset development plans for the power sector

According to forecasts' conclusions prepared for the purpose of Poland's Energy Policy until 2050, electricity demand in Poland will continue to grow. On a gross basis, the forecasts provide for approx. 40% growth in demand i.e. from 158 TWh in 2010 to 223 TWh in 2050. This growth for electricity demand translates directly into higher numbers of investment projects in the power sector, where the main customers of the RAFAKO Group operate.

Power sector companies plant to invest in Poland more than PLN 100bn by 2020. Some of these investment projects have already started, while the commencement of others is still in doubt. A considerable amount of planned capital expenditure will be allocated to the construction of energy sources in various technologies.

It is expected that by the end of 2023, power sector investment projects in EU countries will cost USD 1 trillion as the installations built in the 50s and 60s of the 20th century need to be phased-out due to their natural wear and tear.

In 2016, work will continue on the three largest coal-fired power generation units, with the Kozienice unit (1075 MW) scheduled for commissioning in H2 2017; the second most advanced project is the construction of new power units in the Opole Power Plant (2x900MW) with unit No. 5 scheduled for commissioning in July 2018 and unit No. 6 – in February 2019. The third most advanced construction project is the construction of the 910MW unit in the Jaworzno Power Plant with project commissioning scheduled for Q1 2019.

Among currently realised gas-fired power units is the order for a 463 MWe gas-fired unit realised in Włocławek Power Plant for PKN Orlen. This investment project with a value of PLN 1.4bn (VAT exclusive), realised by the consortium of General Electric International and SNC-Lavalin Polska, is to be commissioned in Q1 2017.

The second gas-fired investment project ordered in 2012 i.e. a 449 MW CCGT (Combined Cycle Gas Turbine), built in Stalowa Wola CHP Plant for Tauron/PGNiG (with a value of PLN 1.6bn, VAT exclusive) is at risk due to rescinding the contract by the Employer, following bankruptcy of one of the contractors. The implications of the above are currently analysed, as well as the prospects of this contract, including its relocation.

Some other smaller investment projects commenced in 2013 and 2014 show high percentage of completion i.e.:

- a 138 MW CCGT unit (combining gas and steam technologies) in Gorzów with a value of approx. PLN 0.6bn built by Siemens for PGE is at the final stage of construction;
- a 50 MW coal-fired unit in Tychy with a value of PLN 592.5m, VAT exclusive, built by Elektrobudowa for Tauron Ciepło; the project was completed in June 2016;
- a 75 MW coal-fired power unit in Zofiówka built by Energoinstal for Jastrzębska Spółka Węglowa with a value of more than PLN 500m; the contract provides for commercial commissioning of the facility in Q4 2017;
- a 596 MW CCGT unit in Płock with an estimated value of approx. PLN 1.3bn realised for PKN Orlen by the consortium of firms comprising Siemens AG and Siemens Spółka z o.o.; the unit is to be commissioned for use in December 2017.

In 2015, construction of a 450 MW lignite-fired power unit was commenced in Turów Power Plant; this unit is built for PGE GiEK by a consortium composed of MHPSE, Budimex and Tecnicas Reunidas. In June 2015, construction was commenced of a cogeneration (heat and power) plant in Zabrze. The construction of a 220 MW unit to be fired with coal, biomass and refuse-derived fuel (RDF) is performed for Fortum by ILF Consulting Engineers Polska as part of the EPCM (Engineering, Procurement, Construction Management) services.

Among the investment projects which are to commence in the near future, the following are included: construction of a 400-500 MW CCGT unit at Żerań CHP Plant for PGNiG Termika (tender procedure for this project is currently in progress), construction of a CCGT unit of approx. 120 MW at Konin Power Plant for

ZE PAK as well as construction of a 400 MW CCGT unit in Puławy Grupa Azoty, with the proviso that with respect to the latter investment project, no decision has yet been taken as to whether this unit is to be powered with gas or coal.

In addition, in June 2016 the project for the construction of a 1000 MW coal-fired supercritical power unit for ENERGA S.A. of Ostrołęka was reactivated.

Irrespective of the above, talks are underway regarding starting public procurement procedure for another 1000 MW coal-fired supercritical power unit at Kompania Węglowa in Wola. The financial analysis is to be re-performed on the frozen project. Another large project of a coal-fired power unit is Północ Power Plant (with a target capacity of 2x800 MW) with Polenergia of Kulczyk Investments responsible for the project. However, in December 2015 the governor of the Pomorze Voivodship repealed the construction permit decision in its entirety and forwarded the matter for re-consideration.

According to the Energy Regulatory Office (URE), the recently noted tendency in the heat segment are the construction projects for additional power capacities, including the construction of twelve modern installations for municipal waste incineration under the Infrastructure and Environment Operational Program (IEOP).

In 2015, performance was completed of the investment projects in Białystok, Bydgoszcz, Konin and Kraków. In 2016, a municipal waste incineration plant in Poznań was put into operation. In Szczecin, the original deadline (December 2016) for commissioning of a similar plant will probably be delayed due to Mostostal Warszawa S.A.'s rescinding the underlying contract in June 2016.

Construction of municipal waste incineration plants is contemplated by the local governments of Gdańsk, Warsaw and Olsztyn.

Competitive environment

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

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

The Group operates on the Polish market (89.7% of revenue in H1 2016 came from domestic sales) and foreign markets (10.3% of revenue in H1 2016). Given the limited number of customers and projects on each market as well as specific contract requirements, contractors competing with the Company over projects in Poland (major foreign companies often have branches in Poland) usually bid also for foreign contracts.

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

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

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

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

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

3. Operational plans

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

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

In 2016, the Parent will continue to offer on the domestic and foreign markets:

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

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

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

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

Capital expenditure planned for 2016 will be made mainly for the purchase of production plant and machinery, upgrade of existing buildings and structures, as well as computer software and hardware. Investment projects will be financed using external sources (e.g. leases), as well as the Group companies' own funds.

According to forecasts of the Group's performance in 2016, the Group is expected to report net profit. These plans assume implementation of existing contracts, which will account for a significant part of the projected sales figures, as well as new contracts which the Group needs to win in 2016 to achieve the planned performance targets.

4. Order book

As at 30 June 2016, the value of the RAFAKO Group's order book was nearly PLN 4.1bn. The order book's largest item is the Jaworzno Project with a value of PLN 3.4bn, of which PLN 0.47bn is attributable to the Parent and PLN 2.96bn to SPV Jaworzno. The order book does not include the Opole contract (the Parent's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 1.6bn is still outstanding). At present, the order book comprises only power construction projects:

ORDER BOOK	
30 June 2016	**30 June 2015**
~PLN 4.1bn	**~PLN 5.2bn**

	ORDER BOOK as at 30 June 2016	Due for execution in: Jul - Dec 2016	2017	after 2017
TOTAL	**~PLN 4.1bn**	**~PLN 1.1bn**	**~PLN 1.8bn**	**~PLN 1.2bn**
RAFAKO Group	**~PLN 1.1bn**	**~PLN 0.4bn**	**~PLN 0.5bn**	**~PLN 0.2bn**
SPV Jaworzno	**~PLN 3.0bn**	**~PLN 0.7bn**	**~PLN 1.3bn**	**~PLN 1.0bn**

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

a. the order book value is equal to the aggregate amount of the Group's remuneration under individual contracts executed by Group companies in the period to 30 June 2016; the figure does not take into account any planned contracts that have not yet been signed;
b. the order book value is disclosed as at 30 June 2016, actual revenue from contracts and performance periods depend on a number of factors, which may be outside the Group's control.

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

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

On 17 April 2014, RAFAKO S.A., acting as the leader of a consortium with Mostostal Warszawa S.A., executed a contract with Tauron Wytwarzanie S.A. for the construction of a 910 MW supercritical power generation unit at the Jaworzno III Power Plant – Power Plant II. The value of the contract is PLN 4.4bn.

The consortium will construct a 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 generation facility operating within the power system. It will be fitted with systems enabling compliance with the NOx, SO2 and dust emission standards, i.e. an SCR (denitration unit), IOS (desulfurization unit) and an electrostatic precipitator. The operating life of the unit will be at least 200 thousand hours or 30 years, and its output will increase the total capacities of the Polish electric utility sector by approximately 2.5%.

2) Execution of the first phase of the „New CHP Plant at Grupa Azoty ZAK S.A." project

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

The contract provides for:

- construction and supply of equipment and services, as well as start-up of a boiler house with a coal-fired pulverised-fuel boiler,
- construction and supply of equipment and services, as well as start-up of a 25 MWe pass-out and condensing turbine in the existing turbine house,
- construction of a building (housing the central control room, DCS control system and social amenities), including equipment supply and start-up.

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

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

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

The original deadline (December 2016) for commissioning of a municipal waste incineration plant will probably be delayed due to Mostostal Warszawa S.A.'s rescinding the underlying contract in June 2016.

4) Construction of fluidised bed boiler at Synthos Dwory 7

The contract, with a VAT-exclusive value of PLN 151.6m, is for the turnkey delivery of a OFz – 140 fluidised-bed boilder at Synthos Dwory 7 in Oświęcim. The contract was signed on 18 October 2013.

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

Key contracts for air protection systems

1) **Construction of catalytic flue gas denitration system at the Kozienice Power Plant**

Since 28 June 2012, RAFAKO S.A. has carried out works at Kozienice Power Plant under a contract with Enea Wytwarzanie S.A. for the turnkey delivery of complete, advanced catalytic (SCR) flue gas denitration units. The total contract value is PLN 191m.

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

2) **SCR systems in Połaniec**

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

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

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

The project with a budget of nearly PLN 150m, represents another step towards making the Ostrołęka B Power Plant compliant with new emission standards. The entire investment project is to be completed at the end of 2017.

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

The upgrade work, scheduled for three years, will cover three units of the power plant. With an estimated value of over PLN 85m, the project represents another stage in adapting the Ostrołęka B Power Plant to new EU emission standards for coal- and biomass-fired power units. Following completion of the work, dust emissions will be cut in more than half. The underlying contract was signed on 28 January 2015.

5) **Construction of flue gas denitration system for steam generators No. K7 and K8 at Białystok CHP Plant**

On 23 October 2015, RAFAKO S.A. and ENEA Wytwarzanie Sp. z o.o. executed a contract of PLN 78 500 thousand for the construction of a flue gas denitration system for steam generators No. K7 and K8 at Białystok CHP Plant.

Standpoint of Parent's Management Board and opinion of Supervisory Board in the matter of Auditor's qualification

a) Quantitative and qualitative impact of Auditor's qualification on interim financial statements, including on the reported results and other financial data, with materiality assessment

Due to the Auditor's qualification regarding its inability to assess recovery probability of receivables from a related company under voluntary arrangement, with the nature and status of the receivables presented in detail in Note 24 to interim condensed consolidated financial statements, the Management Board's stance is that the probability of receivables' recovery has continued to increase although it still depends on the fulfilment of voluntary arrangement with creditors.
As at the date of this Report, the Parent's Management Board is unable to assess the impact of this matter on the financial result, nevertheless, the maximum impact could be PLN 35.8m. The gross profit, net profit and equity could be lower by this amount.

b) Presentation of Parent's measures undertaken and planned in connection with Auditor's qualification

Elimination of reasons behind Auditor's qualification depends on the fulfilment by PBG S.A. of voluntary arrangement with creditors. For obvious reasons, the underlying circumstances are not in the scope of Parent's authorisations. However, the Management Board, having in mind shareholders' interests, has considered obtaining additional securities for the receivables covered by PBG's voluntary arrangement.

c) Opinion of the Supervisory Board

In performing its oversight function, the Supervisory Board of the Parent referred on numerous occasions to the issue of recovery of receivables under PBG's voluntary arrangement. It is the opinion of this Board that the Management Board of the Parent has no influence whatsoever over the fulfilment of voluntary arrangement with creditors by PBG S.A. w upadłości układowej (in voluntary arrangement), and thus elimination of the reason behind Auditor's qualification is outside its competence.

Management Board's representations

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

1) to their best knowledge, the interim condensed consolidated financial statements for the 6-month period ended 30 June 2016, as well as the comparative data for the 6-month period ended 30 June 2015 and for the year ended 31 December 2015, were drawn up in compliance with the applicable accounting standards and give a true and fair view of the Group's financial position and results of its operations, and that the Directors' Report on the operations of the RAFAKO Group gives a true view of the Group's development, achievements and standing, including a description of key risks and threats;

2) the auditor of the Company's 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 interim condensed consolidated financial statements, in compliance with the applicable laws and professional standards.

Signatures of Management Board members

31 August 2016	Agnieszka Wasilewska-Semail	President of the Management Board	....
31 August 2016	Krzysztof Burek	Vice-president of the Management Board	....
31 August 2016	Jarosław Dusiło	Vice-president of the Management Board	....
31 August 2016	Edward Kasprzak	Vice-president of the Management Board	....
31 August 2016	Tomasz Tomczak	Vice-president of the Management Board	....