



GRUPA PBG

**DIRECTORS' REPORT ON THE OPERATIONS OF
RAFAKO S.A.
IN 2015**

Racibórz, March 21st 2016

Table of contents

	Page
I. General information	4
II. Economic and financial standing.....	7
1. <i>External and internal factors material to the Company's financial performance and development prospects.....</i>	<i>7</i>
2. <i>Key risks and threats.....</i>	<i>7</i>
3. <i>Analysis of key financial and economic data</i>	<i>9</i>
3.1. <i>Summary of 2015 (compared with previous years).....</i>	<i>9</i>
3.2. <i>Revenue and its structure.....</i>	<i>10</i>
3.3. <i>Deliveries, procurement and purchase of production materials.....</i>	<i>13</i>
3.4. <i>Related-party transactions</i>	<i>14</i>
3.5. <i>Operating expenses, structure of operating expenses and gross profit (loss)</i>	<i>14</i>
3.6. <i>Other income and expenses and net finance income/cost</i>	<i>15</i>
3.6.1. <i>Net other income/expenses.....</i>	<i>15</i>
3.6.2. <i>Net finance income/cost</i>	<i>15</i>
3.7. <i>Income and its structure</i>	<i>16</i>
3.8. <i>Margins and ROE</i>	<i>16</i>
3.9. <i>Financial liquidity</i>	<i>16</i>
3.10. <i>Debt</i>	<i>18</i>
3.11. <i>Assets financing structure.....</i>	<i>19</i>
3.12. <i>Non-current assets.....</i>	<i>20</i>
3.12.1. <i>Structure of non-current assets</i>	<i>20</i>
3.12.2. <i>Key investments in property, plant and equipment</i>	<i>20</i>
3.13. <i>Current assets</i>	<i>21</i>
3.14. <i>Equity amount and structure</i>	<i>21</i>
3.15. <i>Changes in RAFAKO S.A.'s equity interests.....</i>	<i>22</i>
3.16. <i>Use of proceeds from the issue of Series J shares</i>	<i>22</i>
4. <i>Human resources and workforce at the Company.....</i>	<i>23</i>
5. <i>Other information</i>	<i>24</i>
III. Key events and developments in 2015 and in the period from the end of the financial year to the date of the report	25
1. <i>Contract with TAURON (Jaworzno Power Plant)</i>	<i>25</i>
2. <i>Contract with PGE Elektrownia Opole</i>	<i>27</i>
3. <i>Events related to other significant contracts</i>	<i>27</i>
4. <i>Other material events</i>	<i>28</i>
5. <i>Research & development and quality improvement projects</i>	<i>30</i>
6. <i>Projects related to management and deployment of computer-based processes</i>	<i>30</i>
7. <i>Other information</i>	<i>30</i>
8. <i>Disputes, pending litigation, arbitration or administrative proceedings</i>	<i>31</i>
IV. Growth prospects for 2016	31
1. <i>Energy policy.....</i>	<i>31</i>
2. <i>Asset development plans for the power sector.....</i>	<i>34</i>

3.	<i>Operational plans</i>	37
4.	<i>Order book</i>	39
	Management Board's statement.....	43

Appendices:

1	List of ratios for 2015, 2014 and 2013
2	Statement of financial position as at December 31st 2015, December 31st 2014 and December 31st 2013 - structure, change in items, change (%)
3	Statement of comprehensive income for 2015, 2014 and 2013
4	Structure and change of pre-tax profit (loss) in 2015, 2014 and 2013
5	List of insurance agreements in effect as at December 31st 2015
6	Structure of RAFAKO S.A.'s share portfolio as at December 31st 2015
7	List of loans advanced
8	List of borrowings as at December 31st 2015
9	Statement of compliance with corporate governance rules by RAFAKO S.A. in 2015

I. General information

About us

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

The Company's key products and services include:

Complete power generating units	Steam generators and heat generators	Air protection systems	Subassemblies and parts of power machinery and equipment
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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). 	<ul style="list-style-type: none"> • 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

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

The Company 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 Wry. RAFAKO S.A.'s total production capacity for 2015 exceeded 1.4 million man-hour per year, with the potential to be increased to more than 1.6 million man-hour per year. The Group is currently Poland's and EU's leader in terms of the production capacity for high-pressure equipment.

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

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

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

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

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

Foreign sales account for a significant part of RAFAKO S.A.'s total sales. The largest steam generators manufactured by RAFAKO S.A. are used in power plants in former Yugoslavia. A number of large units have also been delivered to the Czech Republic, China, Turkey, and India. RAFAKO S.A. is also an important player on the European market for steam-generator components. In 2015, RAFAKO products were sold to customers in the United Kingdom, Finland, Turkey, Germany, Serbia and the Czech Republic.

The Company is building its position on the European market of waste incineration solutions. In 2011, RAFAKO S.A. supplied three heat recovery steam generators to a waste incineration facility in Turin, Italy, and further two heat recovery steam generators were delivered to Baku, Azerbaijan. In December 2013, a steam generator was placed in service at a municipal waste incineration plant in Roskilde, Denmark. In 2013, the Company began to execute a contract for delivery of the process part for two units at the waste thermal treatment plant of the Szczecin Metropolitan Area. In 2014, we delivered a waste combustion boiler to Billingham, Cleveland County, England. At the beginning of 2016, a contract providing for the delivery of a boiler for a municipal waste incineration facility located in Calvert, Buckinghamshire, UK, had been completed, and in March 2016 the boiler was tested before its final commissioning. Acceptance is scheduled for April 2016.

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

RAFAKO S.A. is also a leading manufacturer of large environmental protection facilities in Poland. The Parent has delivered units of this type to the Jaworzno III Power Plant, Bełchatów Power Plant, Pątnów Power Plant, Ostrołęka B Power Plant, Dolna Odra Power Plant, Siekierki CHP Plant, Łódź CHP Plant, Siersza Power Plant, Skawina Power Plant, Trzebowice Power Plant (for Dalkia, the Czech Republic), Koziencice Power Plant, and Połaniec Power Plant.

In 2012, RAFAKO S.A. delivered one of its largest projects, the wet flue gas desulfurisation unit at the Siekierki CHP Plant owned by PGNiG Termika S.A. The unit is also one of the largest environmental projects completed in Poland, and one of the largest stand-alone structures ever built by RAFAKO S.A. In December 2014, RAFAKO S.A. completed the modernisation of the FGD units on Units 5 and 6 at the Bełchatów Power Plant. In 2015, the construction of wet FGD units at CHP plants owned by the EDF Group was completed. The units were built in Wrocław, Kraków, Gdańsk and Gdynia as part of the EDF Group's comprehensive plan of bringing its generation assets in line with new environmental requirements. Guarantee measurements, to be completed in Q1 2016, are currently underway.

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

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

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

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

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

The project designs are based on the state-of-the-art technology of electricity generation by means of supercritical steam generators and turbines, which pushes the efficiency of a generating unit up to 45% or more. The Company has long cooperated with Polish scientists on the concept of generating units with efficiencies in excess of 50%, that is ultra-supercritical units. Its implementation will mark another milestone in the history of both the Company and Polish power sector, which cannot afford to discontinue the use of domestically produced coal as the key fuel. In May 2014, RAFAKO 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 Company provides after-sale support and servicing for all products and equipment supplied. The Company also offers upgrades for the existing equipment to enhance its operating parameters and mitigate negative environmental impacts.

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

In 2011, the RAFAKO Group was included in the PBG Group, whose Parent is PBG S.A. PBG S.A. w upadłości układowej (in company voluntary arrangement) is the Parent of a group of companies operating on the specialist construction market. The key segments of the Group's business currently include the construction of facilities and structures for the power, natural gas, crude oil and fuel sectors. In June 2012, the Court declared PBG S.A. insolvent in voluntary arrangement. By the decision of August 25th 2015, the Judge Commissioner approved PBG's Arrangement with Creditors consistent with the Arrangement Proposals of April 28th 2015.

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

II. Economic and financial standing

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

A. External factors:

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

B. Internal factors:

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

2. Key risks and threats

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

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

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

Risks specific to the Company:

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

Regulatory risks:

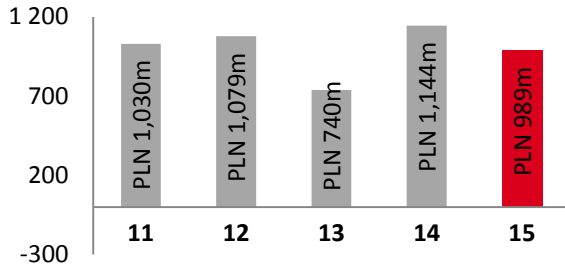
1. Risk related to changes in regulations concerning the power sector;
2. Risk related to environmental protection;
3. Risk of changes in tax laws or their interpretation and changes of private letter rulings;
4. Risk associated with related-party transactions.

For information on the objectives and rules of financial risk management, including the specification of the most material risks, see Note 51 to the Company's financial statements.

3. Analysis of key financial and economic data

3.1. Summary of 2015 (compared with previous years)

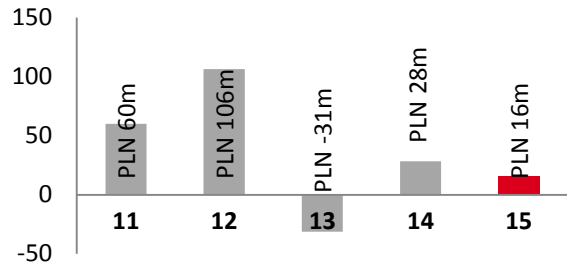
Revenue PLN 989m



Definition: Total sales of products, merchandise and materials, net of VAT.

Relative to 2014: Revenue shrank by 13.5% as a result of lower sales across all product groups except power generating units and steam generators.

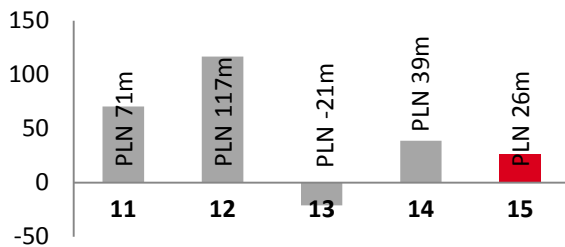
EBIT PLN 16m



Definition: Profit (loss) from continuing operations

Relative to 2014: Profit from continuing operations reached almost PLN 16m, down by PLN 12m year on year.

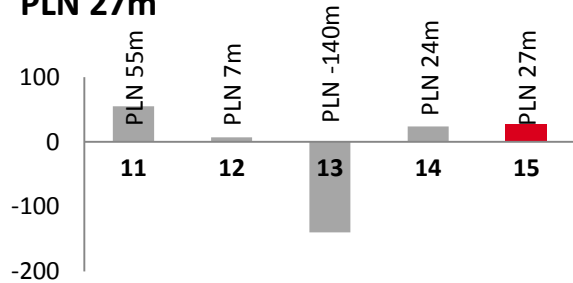
EBITDA PLN 26m



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

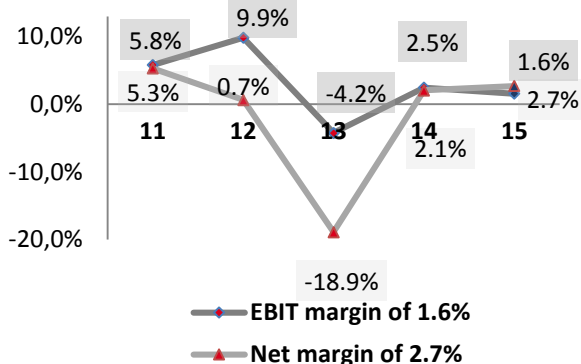
Relative to 2014: EBITDA fell from PLN 39m to PLN 26m, i.e. by PLN 13m.

Net profit PLN 27m



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

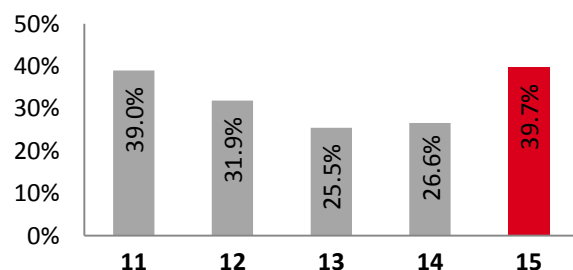
Relative to 2014: The Company's net profit of PLN 27m is PLN 3m higher than in the previous year, mainly as a result of the sale of shares in FPM S.A. The gain on the transaction was PLN 11.4m.



Definition: EBIT margin: operating profit (loss) / net revenue from sale of products and merchandise; Net margin: net profit (loss) / net revenue from sale of products and merchandise.

Relative to 2014: The Company's operating margin fell slightly compared with 2014.

Share of equity in financing 39.7%



Definition: Equity / total assets.

Relative to 2014: The share of equity in the financing of assets increased by 13.1pp, to 39.7%. The increase follows from a share issue.

3.2. Revenue and its structure

Revenue from sale of products, merchandise and materials was PLN 989,296 thousand, having decreased year on year by PLN 154,444 thousand (13.5%). Sales of products and services amounted to PLN 987,274 thousand, while revenue from sales of materials was PLN 2,022 thousand.

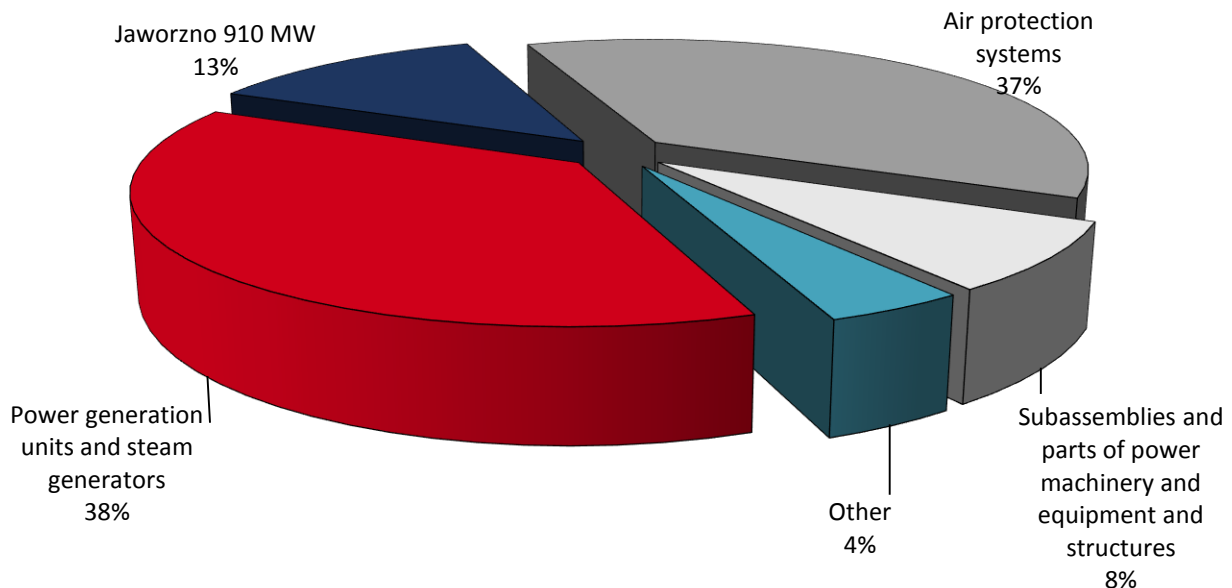
The sales decline reported in 2015 was caused mainly by lower revenue from sales of air protection systems, including flue gas desulfurisation units. The decline in sales of air protection systems is related to the completion of projects performed for companies of the EDF Polska Group (with a value of approximately PLN 770m) and lack of new orders of considerable value. Sales of air protection systems on the domestic market amounted to PLN 364,395 thousand and were 48.3% lower than in the previous year (2014: PLN 705,405 thousand).

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

The Company recorded higher sales of power generating units and steam generators. The strong sales of these products are related chiefly to the execution of the Jaworzno 910MW Project, with a value of PLN 4.4bn (RAFAKO S.A. is responsible for approximately 11.5% of the scope of work), the CHP construction contract with Grupa Azoty ZAK S.A. (PLN 320m), and the contract for the construction of a fluidised bed boiler with a dust removal system for Synthos (PLN 151.6m). Sales of power generating units and steam generators on the domestic market amounted to PLN 436,044 thousand and were 179.6% higher year on year (PLN 155,958 thousand in 2014). Sales related to the Jaworzno 910MW Project amounted to PLN 124,207 thousand (PLN 14,623 thousand in 2014).

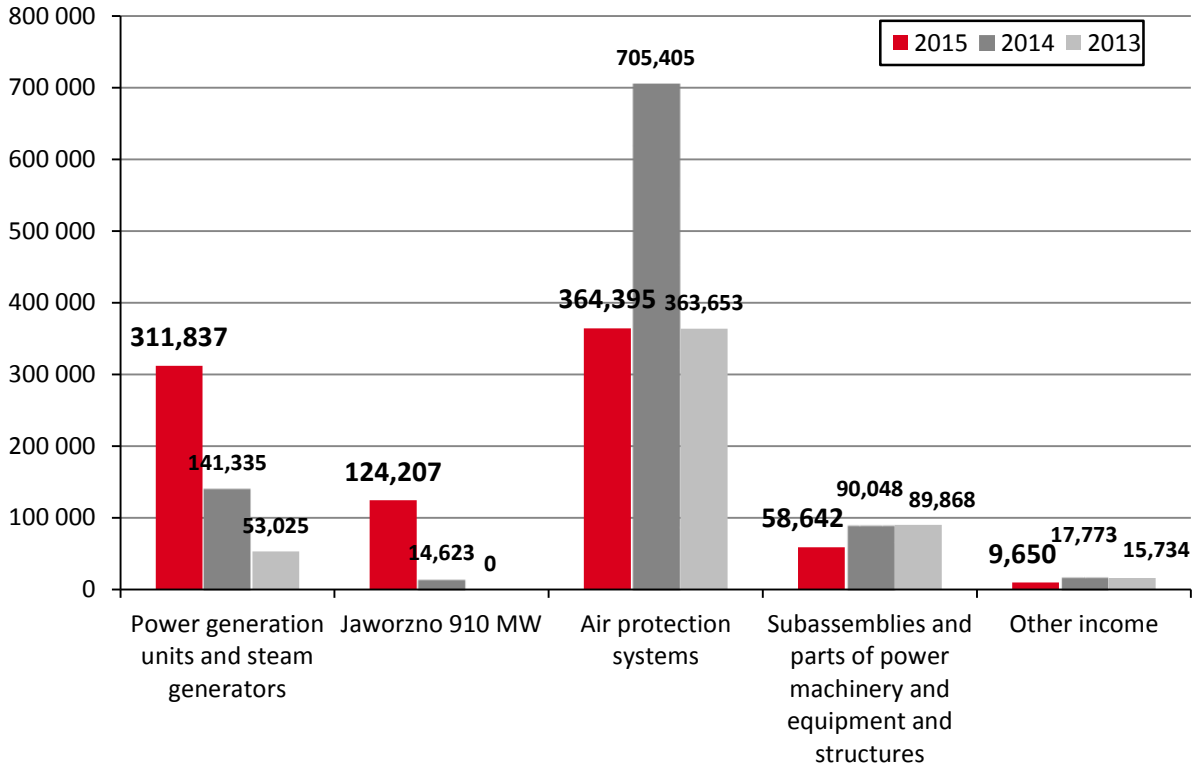
The share of export sales in total sales was 12.2%, having decreased year on year by 3.1 percentage points. In 2015, export sales were PLN 120,565 thousand, down by 30.9% from PLN 174,556 thousand reported in 2014. Export sales fell in all product groups except power generating units and steam generators. The change results mainly from the lack of new, significant orders in these product groups. Export sales of power generating units and steam generators reached PLN 59,064 thousand and were 11.3% higher than in 2014, when these sales amounted to PLN 53,071 thousand.

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

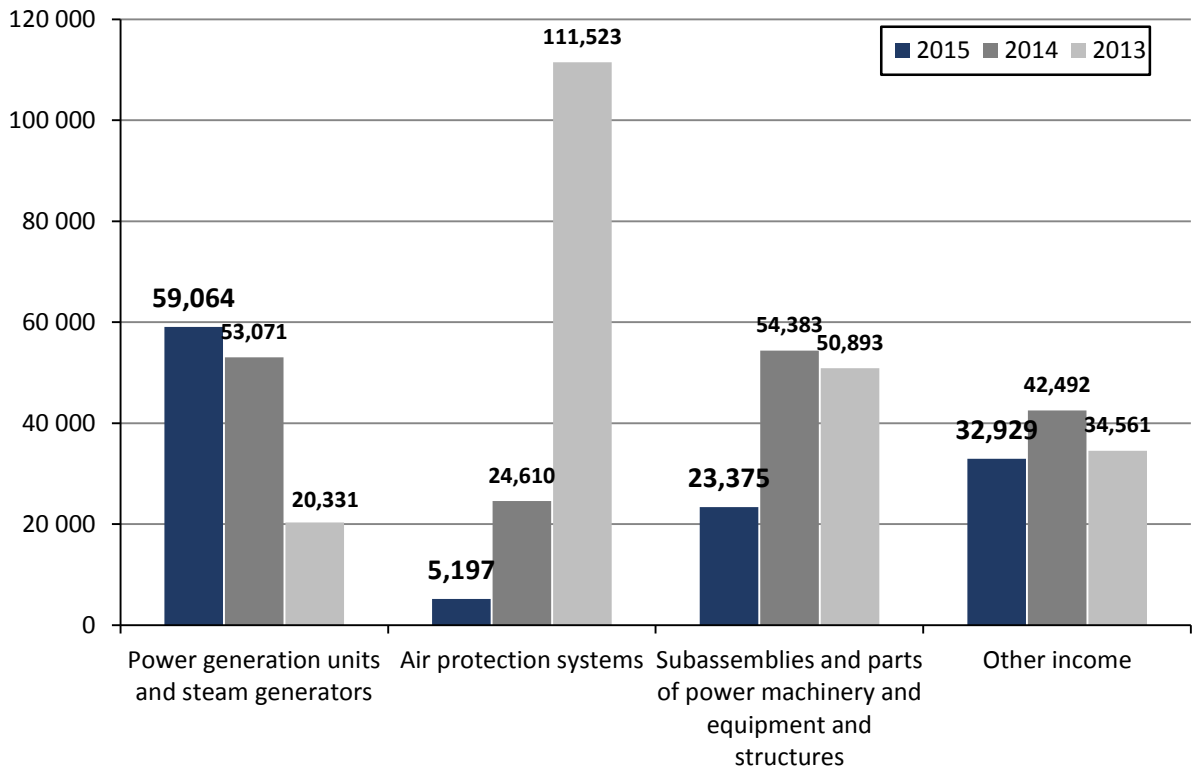


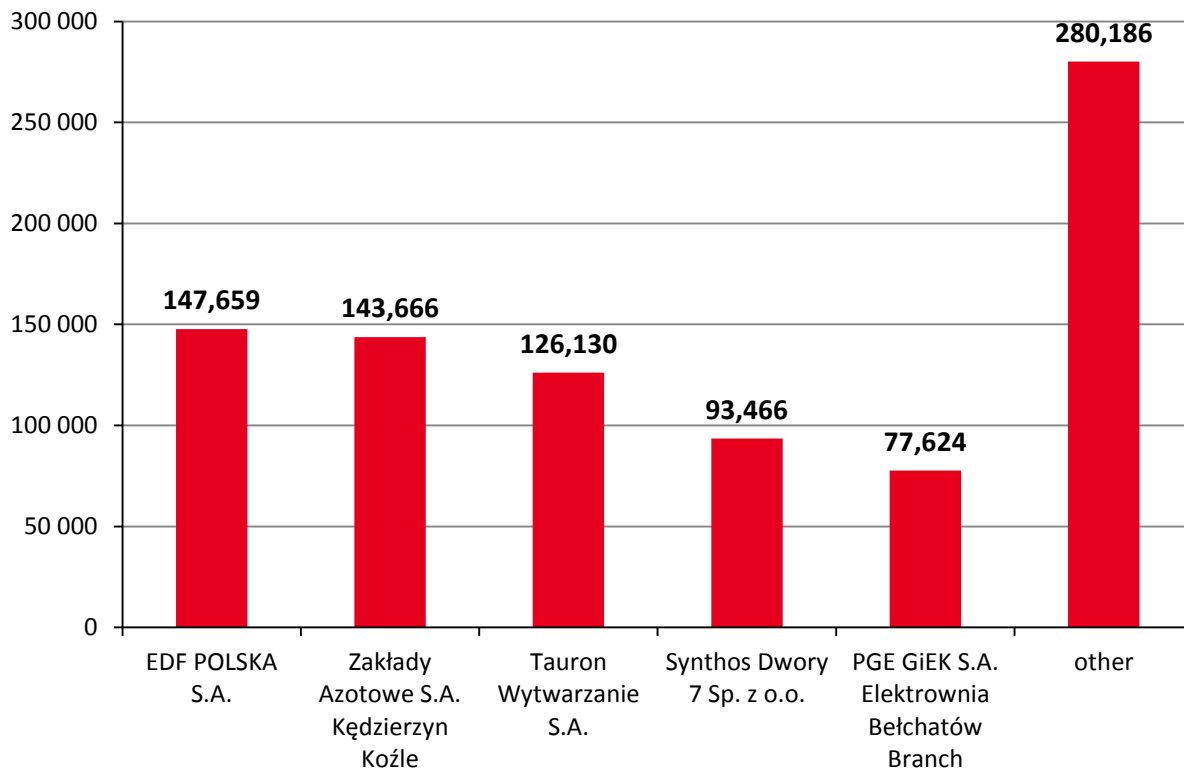
Sales by market:

Domestic market (2015: PLN 868,731 thousand; 2014: PLN 969,184 thousand; 2013: PLN 522,280 thousand):



Foreign markets (2015: 120,565 thousand; 2014: PLN 174,556 thousand; 2013: PLN 217,308 thousand):



RAFAKO S.A.'s major customers in 2015 included:
on the domestic market (PLN 686,731 thousand in total):


In 2015, the Company's main customer was EDF Polska S.A., which accounted for 14.9% of the Company's total sales (30.7% in 2014). Revenue from sales to this customer was generated mostly on the construction of flue gas desulfurization units for CHP plants in Gdańsk, Gdynia and Kraków.

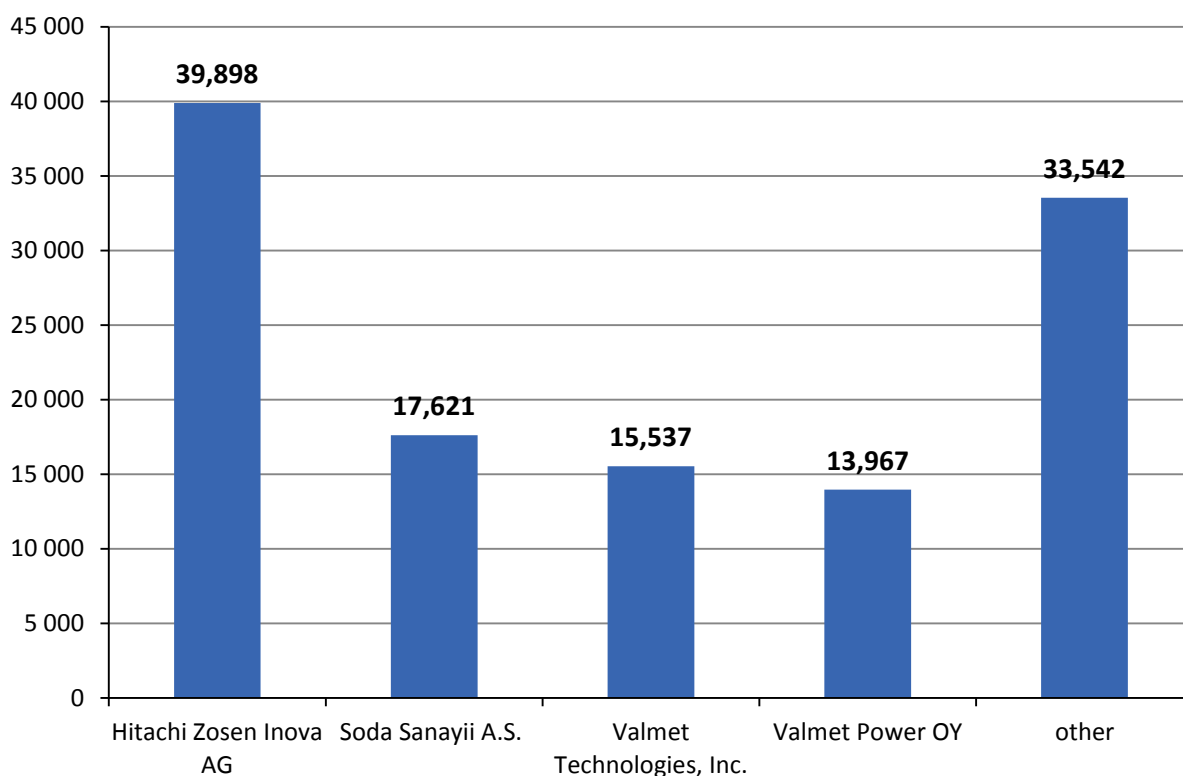
Also Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. had a significant share in the Company's total sales: 14.5% in 2015 (1.1% in 2014). Revenue from sales to this customer was generated on the construction of a new CHP plant.

Another important customer of the Company was Tauron Wytwarzanie S.A., which accounted for 12.7% of total sales (1.3% in 2014). Revenue from this customer was generated mostly on the construction of the 910 MW supercritical power generating unit at the Jaworzno Power Plant. Total sales to TAURON Polska Energia S.A. reached PLN 126,154 thousand in 2015.

Another customer accounting for a material portion of the Company's total sales was Synthos Dwory 7 Sp. z o.o. (9.4% in 2015, 3.5% in 2014), for which the Company built an OFz-140 fluidised bed boiler on a turn-key basis.

Also sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów Power Plant Branch accounted for a significant share in total sales: 7.8% in 2015 (14.4% in 2014). Revenue from sales to this customer was generated on the overhaul and upgrade of the power generating units' flue gas heating system. Total sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. in 2015 amounted to PLN 82,715 thousand.

on foreign markets (PLN 120,565 thousand in total):



On foreign markets, RAFAKO S.A.'s main customer was Hitachi Zosen Inova AG of Switzerland, accounting for 4.0% of the Company's total sales (2014: 4.6%). The contract with this customer was for the delivery, assembly and start-up of a boiler for a municipal waste incineration system in Hereford & Worcestershire in the United Kingdom.

Given the nature of the Company's sales, individual shares of major customers in total sales exceed 10% during execution of the largest projects.

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

3.3. Deliveries, procurement and purchase of production materials

In 2015, RAFAKO S.A.'s main supply sources included:

Source	PLN '000			
	2015		2014	
	value	share in total purchases	value	share in total purchases
Domestic suppliers	704,306	81.2%	798,278	84.4%
Foreign suppliers	163,454	18.8%	148,020	15.6%
TOTAL	867,760	100.0%	946,298	100.0%

In 2015, the Company's supplier structure was highly distributed as none of the suppliers represented more than 10% of the total value of purchases.

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

The range of purchases depends heavily on the nature and requirements of individual orders (customised production). The Company is not limited by availability of production materials, supplies or procurement services. Suppliers are chosen based on their ability to provide materials and equipment that meet relevant technical and quality standards within specified deadlines and in the most cost-effective manner. The procurement process is based on market analysis, with the pool of suppliers including only manufacturers recognised for the quality of their products and compliance with safety, environmental and other relevant standards.

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

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

3.4. Related-party transactions

In 2015, the Company did not enter into any material related-party transactions on non-arm's length terms.

For a detailed list of related-party transactions in 2015, see Note 48 to the full-year financial statements of the Company for 2015.

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

In 2015, cost of sales of products, services and materials was PLN 906,829 thousand, with revenue at PLN 989,296 thousand. Thus the Company posted gross profit of PLN 82,467 thousand (79.8% of the gross profit recorded in 2014).

Gross profit fell mainly due to:

- a drop in the value of the Company's order book, coupled with
- the recognition of a significant portion of revenue from the Jaworzno 910MW Project by an SPV of RAFAKO S.A., without an effect on the revenue figure disclosed in the separate financial statements of RAFAKO S.A.,
- a lower, compared with 2014, change in provisions for contractual penalties (settlements of charged penalties), leading to a positive adjustment of gross profit/(loss) on sales of products and services.

Gross profit margin fell year on year, to 8.3% (2014: 9.0%).

Administrative expenses totalled PLN 39,389 thousand, up PLN 975 thousand year on year.

In 2015, distribution costs were PLN 28,564 thousand, having decreased by PLN 1,835 thousand year on year. Distribution costs net of impairment losses on trade receivables and write-down of previously impaired trade receivables stood at PLN 28,233 thousand and were higher than the previous year's figure by PLN 1,055 thousand. Impairment losses on trade receivables and write-down of previously impaired trade receivables went up by PLN 331 thousand in 2015 (compared with an increase of PLN 3,221 thousand in 2014).

After accounting for distribution costs and administrative expenses, the Company generated profit on sales of PLN 14,514 thousand in 2015, compared with PLN 34,533 thousand in 2014.

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

3.6.1. Net other income/expenses

In 2015, the Company recorded net other income of PLN 1,061 thousand (compared with net other expenses of PLN 6,148 thousand in 2014), attributable to:

	<i>PLN '000</i>
1. income under sureties	5,652
3. grants	1,399
4. income from contractual penalties and compensations received	701
5. cost of licence fees	(3,444)
6. recognition of provision for cost of litigation and disputed claims	(1,206)
7. donations	(1,041)
8. negative net balance of other items of other income and expenses	(1,000)

The income under sureties is received pursuant to the Surety Agreement executed in order to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with execution of the Jaworzno III 910 MW Project.

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

3.6.2. Net finance income/cost

In 2015, the Company recorded net finance income of PLN 17,863 thousand (compared with net finance cost of PLN 1,084 thousand in 2014), attributable to:

	<i>PLN '000</i>
1. net gain/(loss) on disposal of a subsidiary	11,376
2. discount (long-term accounts receivable and payable)	3,916
3. reversal of impairment loss on investments	3,639
4. interest on security deposits provided	2,373
5. bank commissions paid on bank borrowings	(889)
6. interest on financial instruments	(853)
7. other interest	(702)
8. negative net balance of other finance income and cost	(997)

The net finance income is largely attributable to the disposal of shares in FPM S.A., a subsidiary, for a total of PLN 48m. The assets sold represented 82.19% of FPM S.A.'s share capital and conferred 82.19% of total voting rights at the FPM S.A. General Meeting. The carrying amount of the shares in the Company's accounting books was approximately PLN 35.2m (presented as assets held for sale in the statement of financial position as at December 31st 2014). The gain on the sale, net of transaction costs, was PLN 11.4m. Following the transaction, RAFAKO S.A. holds no FPM S.A. shares.

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

For more information on the litigations, see Note 46 to the financial statements for 2015.

3.7. Income and its structure

The main source of the Company's pre-tax profit, which amounted to PLN 33,438 thousand in 2015 (22.5% more than in 2014), was the net finance income of PLN 17,863 thousand and gross profit of PLN 14,514 thousand generated by the Company from its core operations.

After accounting for net other income (PLN 1,061 thousand) and income tax (PLN 6,851 thousand), the Company achieved a net profit of PLN 26,587 thousand, against a profit of PLN 23,515 thousand reported in 2014.

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

The structure and change of pre-tax profit (loss) in 2015, 2014 and 2013 are presented in Appendix 4.

3.8. Margins and ROE

In 2015, the Company reported a decrease in its operating profit margin compared with a year earlier. Gross profit margin fell to 8.3% and was 0.7pp lower than in 2014, while operating profit margin amounted to 1.6% (compared with 2.5% in 2014).

With its net profit at PLN 26,587 thousand, the Company's return on equity (ROE) amounted to 6.8%. In the same period of the previous year, ROE stood at 8.5%.

The improvement in net earnings, coupled with a 4.9% decrease in the Company's total assets (down by PLN 50,927 thousand), lifted its return on assets to 2.7% (ROA in 2014: 2.3%).

The 2015, 2014 and 2013 profitability ratios are presented in Appendix 1.

3.9. Financial liquidity

As at the end of 2015, RAFAKO S.A.'s liquidity ratios improved. Both the current ratio (current assets to current liabilities) and the quick ratio (current assets net of inventories to current liabilities) stood at 1.3 (both ratios were at 1.0 at the end of December 2014). The increase in the ratios is attributable to, among other things, a decrease in current liabilities, including lower deferred income, chiefly associated with the valuation of construction contracts. It is important to note the high value of current financial assets, which stood at PLN 103,541 thousand at the end of 2015, accounting for 10.5% of total assets.

In 2015, the average collection period shortened by 16 days (to 58 days), while the inventory cycle lengthened by 49 days (to 141 days) and the average payment period contracted by 7 days (to 107 days). The working capital cycle (average collection period + inventory cycle - average payment period) lengthened by 40 days year on year, to 92 days.

In 2015, liabilities to the Social Security Institution (ZUS), State Treasury and employees were settled in a timely manner, though delays occurred in the payment of liabilities towards suppliers.

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

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

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

A factor of key importance from the point of view of financial liquidity will be the Company's access to new bank/insurance guarantees requiring no security in the form of cash collateral, that would enable the Company to free some of the cash serving as performance bonds provided in respect of contracts which are already being performed.

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

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

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

The strategy of currency risk management followed by the Company is to use natural hedging to the largest possible extent. Therefore, the Company strives 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 Company can hedge between 30% and 70% of its net exposure to foreign exchange risk by means of approved derivative instruments (e.g. FX forwards) available on the market.

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

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

For the objectives and rules of financial risk management, see Note 51 to the financial statements for 2015.

3.10. Debt

In 2015, RAFAKO S.A.'s liabilities towards its creditors decreased by PLN 166,253 thousand. As at December 31st 2015, total non-current and current liabilities were PLN 595,148 thousand, compared with PLN 761,401 thousand as at December 31st 2014.

The decrease in liabilities was seen mainly in provisions for contract work and deferred income (by PLN 79,558 thousand to PLN 120,992 thousand) and current trade payables (by PLN 42,424 thousand to PLN 256,803 thousand), which declined primarily on the back of lower purchases and other current liabilities (by PLN 25,779 thousand). A drop was also reported in the case of interest-bearing borrowings, which fell by PLN 19,016 thousand to PLN 111,213 thousand, as a result of a decrease in drawdowns under a credit limit in H2 2015.

As at December 31st 2015, the Company's assets not encumbered with on-balance-sheet (non-current and current) liabilities were PLN 391,823 thousand (as at December 31st 2014 they were 41.7% lower, at PLN 276,497 thousand).

Debt (including non-current and current liabilities) to assets ratio, measuring the Company's ability to secure repayment of debt with assets, dropped by 13.1 pp year on year, to 60.3%.

Debt to assets ratio does not take into consideration the Company's contingent liabilities under bank and insurance guarantees granted on the Company's instruction (including mainly performance bonds and advance payment guarantees which are typical for RAFAKO S.A.'s business and the market of power generation equipment), letters of credit and promissory notes issued as security. As at December 31st 2015, the Company's contingent liabilities under these instruments totalled PLN 1,275,928 thousand (PLN 1,317,879 thousand at December 31st 2014). The main item of these liabilities (PLN 1,046m) is a surety issued for the benefit of the financial institutions which provided financial security in respect of the Jaworzno 910 MW Project. The surety was provided to secure proper discharge of obligations by the Jaworzno project SPV in connection with financial guarantee agreements.

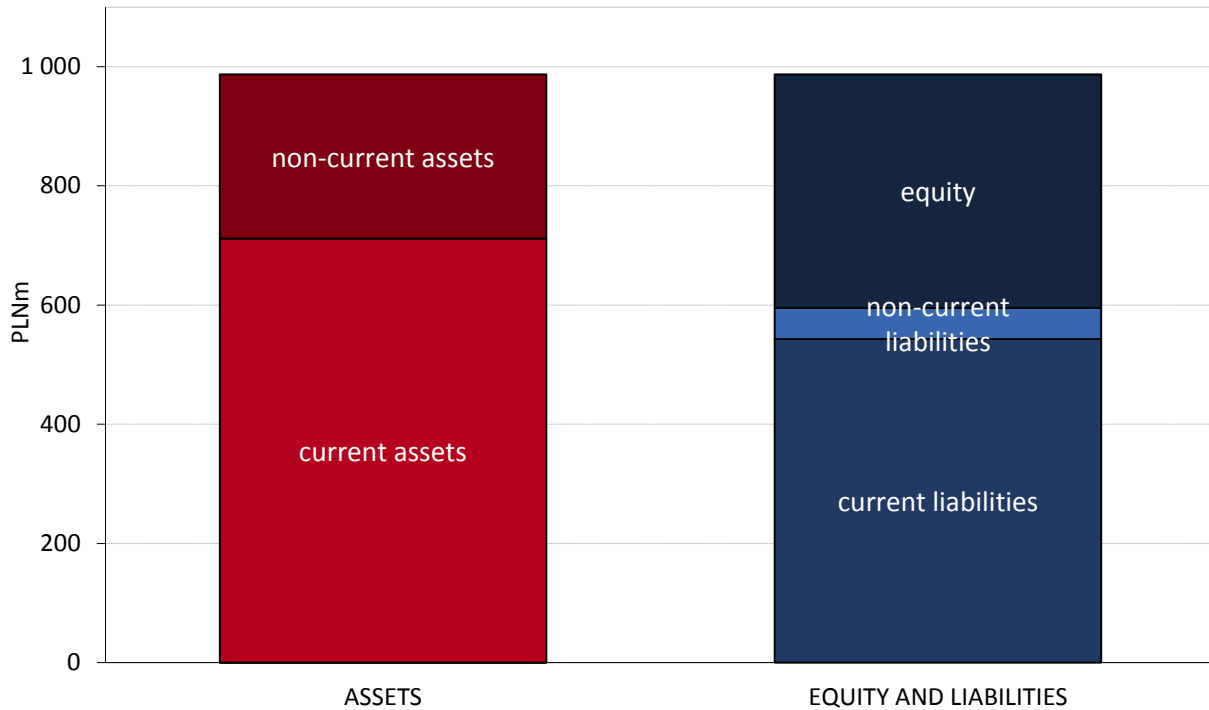
In the 12 months of 2015, guarantees (mainly performance bonds of PLN 42,973 thousand and bid bonds of PLN 12,107 thousand) were issued by banks and insurance companies to the Company's trading partners upon RAFAKO S.A.'s instruction. In this category of liabilities, the largest item was a performance bond of PLN 11,090 thousand issued in September 2015.

In connection with its ongoing contracts, besides contingent (off-balance-sheet) liabilities, the Company also carried contingent receivables, which amounted to PLN 269,811 thousand as at December 31st 2015 (PLN 243,938 thousand as at December 31st 2014). The main item of these receivables was represented by bank and insurance guarantees totalling PLN 235,544 thousand. In 2015, the value of received guarantees was PLN 45,943 thousand.

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

The 2015, 2014 and 2013 liquidity and debt ratios are presented in Appendix 1.

3.11. Assets financing structure



As at December 31st 2015, total assets stood at PLN 986,971 thousand and were PLN 50,927 thousand (4.9%) lower than as at December 31st 2014, mainly due to a decrease in current trade receivables (by PLN 96,019 thousand) and in non-current assets held for sale (by PLN 35,331 thousand). Current financial assets were up by PLN 89,123 thousand, which followed primarily from the share issue carried out in July 2015 (with proceeds amounting to PLN 89,225 thousand).

As at December 31st 2014, the Company classified non-current assets worth PLN 35,450 thousand (December 31st 2015: PLN 119 thousand) as assets held for sale. The assets included mainly shares in FPM S.A. sold to TDJ S.A. for PLN 48m on February 23rd 2015.

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

As a result, the share of equity in the financing of assets increased by 13.1pp relative to December 31st 2014, and was 39.7%.

The long-term capital (equity plus non-current liabilities) covered the full amount of non-current assets (excluding non-current assets held for sale) and 23.7% of current assets.

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

1. non-current assets of PLN 275,335 thousand were fully financed with equity,
2. current assets (and non-current assets held for sale) of PLN 711,637 thousand were financed with:

long-term capital	23.7%
trade payables	36.1%
current borrowings	15.6%
amounts due to customers for construction contract work	17.0%
other current liabilities	7.6%

3.12. Non-current assets

3.12.1. Structure of non-current assets

The structure of non-current assets changed as a result of execution of investment projects, sale of assets, liquidation or sale of redundant property, plant and equipment, remeasurement of assets, and changes in the deferred tax asset. As at December 31st 2015 and December 31st 2014, it was as follows:

	<i>Dec 31 2015</i>	<i>Dec 31 2014</i>
1. Property, plant and equipment, including:	55.9%	49.3%
- land and buildings	33.6%	31.2%
- plant and equipment	19.0%	15.2%
- vehicles	2.6%	1.9%
- property, plant and equipment under construction	0.7%	1.0%
2. Intangible assets	4.2%	3.2%
3. Shares	9.2%	8.8%
4. Other financial assets	12.9%	11.5%
5. Deferred tax asset	15.5%	17.1%
6. Other non-current assets	2.3%	10.1%

The most important item of non-current assets was represented by land and buildings, which accounted for 33.6% of non-current assets and about 9.4% of total assets. Other significant items included plant and equipment and deferred tax assets. At the end of 2015, these accounted for 19.0% and 15.5%, respectively, of total assets. Plant and equipment includes mostly machinery, equipment and apparatuses used in the production process, as well as computer sets.

In 2015, non-current assets decreased by PLN 13,998 thousand (down 4.8%) compared with the previous year. The change in this asset group was attributable to a decline in non-current trade receivables (down PLN 23,330 thousand) and higher property, plant and equipment (up PLN 11,021 thousand), mainly as a result of placement in service of a new paint shop together with equipment.

3.12.2. Key investments in property, plant and equipment

In 2015, the Company incurred capital expenditure on non-financial non-current assets of PLN 25,035 thousand, including:

- PLN 21,013 thousand on property, plant and equipment,
- PLN 4,022 thousand on intangible assets.

Capital expenditure on property, plant and equipment involved chiefly expenditure on upgrade of the Company's buildings and structures and purchases of plant and equipment. Significant investment projects completed in 2015 include the construction of a new paint shop (expenditure incurred in 2015 was PLN 7,245 thousand; total project value was PLN 8,630 thousand) and purchase of a CNC tube bending machine (expenditure amounted to PLN 2,394 thousand).

Expenditure on the purchase of intangible assets was mainly attributable to the acquisition of an organised part of business of related entity PBG Avatia Sp. z o.o., including intangible assets of PLN 1,253 thousand and goodwill recognised on acquisition of PLN 1,398 thousand. The total acquisition cost of the organised part of business was PLN 2,500 thousand.

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

3.13. Current assets

In 2015, current assets fell by PLN 1,598 thousand, to PLN 711,518 thousand.

The change in this group was a result of:

1. A PLN 96,019 thousand decrease in trade receivables and a PLN 22,188 thousand decrease in other receivables and prepayments, chiefly due to lower security deposits receivable,
2. A PLN 82,761 thousand increase in cash and cash equivalents, mainly attributable to the share issue of July 2015 (proceeds from the issue totalled PLN 89,225 thousand). An increase was also recorded in gross amount due from customers for contract work (up PLN 36,968 thousand).

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

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

3.14. Equity amount and structure

As at December 31st 2015, RAFAKO S.A.'s equity was PLN 391,823 thousand, of which:

1. Share capital was PLN 169,864 thousand and comprised 84,931,998 Series A, B, C, D, E, F, G, H, I and J ordinary shares. In the twelve months of 2015, RAFAKOS.A.'s share capital was increased by PLN 30,664 thousand following the issue of 15,331,998 Series J shares with a par value of PLN 2.00 per share;
2. Share premium was PLN 95,340 thousand. In 2015, after the issue of Series J shares had been accounted for, the share premium was PLN 62,861 thousand, while the cost directly related to the issue was PLN 4,300 thousand. Following the recognition of a share premium of PLN 58,562 thousand, less issue costs, the share premium totalled PLN 95,340 thousand (December 31st 2014: PLN 36,778 thousand);
3. Statutory reserve funds were PLN 104,716 thousand (a PLN 23,515 thousand increase was attributable to the allocation of the 2014 net profit to statutory reserve funds);
4. Retained earnings were PLN 26,587 thousand;
5. Exchange differences on translating foreign operations were PLN (+)60 thousand;

In 2015, the Company did not acquire its own shares.

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

On February 23rd 2015, an agreement was signed to sell shares in subsidiary FPM S.A. for a total amount of PLN 48m. The assets sold represented 82.19% of FPM S.A.'s share capital and conferred 82.19% of total voting rights at the FPM S.A. General Meeting. The carrying amount of the shares in the Parent's accounting books was about PLN 35.2m. Following the transaction, RAFAKO S.A. holds no FPM S.A. shares. There are no links between RAFAKO S.A. or the management or supervisory personnel of RAFAKO S.A. and TDJ or its management personnel.

On September 1st 2015, a resolution was passed to increase the share capital of subsidiary RAFAKO Engineering Sp. z o.o. from PLN 1m to PLN 1,959 thousand, i.e. by PLN 959 thousand through the creation of 1,918 new shares with a par value of PLN 500.00 per share. The resolution waives the pre-emptive rights of the existing Shareholder (RAFAKO S.A., the Parent) to acquire the newly created shares in proportion to the shares already held, assuming that the new shares will be acquired by a new shareholder – related entity PBG oil and gas Sp. z o.o., a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement). The shares will be acquired in return for a non-cash contribution in the form of an organised part of business with a total value of PLN 3,879 thousand and a cash contribution of PLN 1,200 thousand. After the registration of the share capital increase at RAFAKO Engineering Sp. z o.o., the respective interests held in the company by RAFAKO S.A. and PBG oil and gas Sp. z o.o. will be 51.05% and 48.95%. The RAFAKO Engineering Sp. z o.o. share capital increase was registered by the District Court of Gliwice, 10th Commercial Division of the National Court Register, on October 29th 2015.

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

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

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

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

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

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

- a) to finance contractual security arrangements in building the order book and to finance working capital requirements to enable the performance of contracts in the future. The Parent plans to apply approximately 85-90% of the funds raised from the issue towards that purpose;
- b) to increase its research and development spending with a view to advancing its technology portfolio and supplementing it with unique solutions that help improve product efficiency and reliability.

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

4. Human resources and workforce at the Company

In 2015, the average workforce at the Company was 2,143 employees, 33 more than in 2014.

	<i>Dec 31 2015</i>	<i>Dec 31 2014</i>
Workforce structure at end of period	2,128	2,155
production	990	1,004
engineering design office	314	313
technology office	96	96
quality control	101	101
maintenance	19	45
other employees (financial and accounting, sales and procurement staff)	608	596

As at December 31st 2015, the Company's employees with university degree or secondary school diploma accounted for 65.7% of the personnel (against 65.2% as at December 31st 2014). The Company's Management Board recognises the importance of acquiring new, well-educated employees. As more than 90% of posts at the Company require specialist knowledge, persons with specialist university degrees are given priority in the recruitment process. As at December 31st 2015, university graduates accounted for 38.7% of the personnel (against 38.6% as at the end of December 2014). The Company also attaches importance to continuous professional advancement, and many employees decide to enrol on part time university courses.

The age distribution of employees remained stable: the share of employees aged up to 40 increased slightly from 40.5% as at December 31st 2014 to 40.8% as at December 31st 2015, while the percentage of employees aged between 41 and 50 declined from 24.3% to 23.8% and the share of employees aged over 50 rose from 35.2% to 35.4%.

Some slight changes were seen in the workforce structure in terms of length of service. The share of employees working for the Company for up to 10 years was 30.0%, down by 0.3% year on year, while the percentage of employees with 11-20 years of service grew by 1.5% to 15.5%, and the share of employees with over 20 years of service fell to 54.5%, from 55.7% as at the end of 2014. The Company has personnel with many years' unique professional experience.

5. Other information

For the statement of compliance with corporate governance rules by RAFAKO S.A. in 2015, see Appendix 9.

For information on the amount of remuneration, awards and benefits for members of the Management and Supervisory Boards, see Note 48.7 to the Company's financial statements.

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

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

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

For information on the number of shares in RAFAKO S.A. and its related entities held by members of the Management and Supervisory Boards, see Note 48.5 to the Company's financial statements.

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

III. Key events and developments in 2015 and in the period from the end of the financial year to the date of the report

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

1. Contract with TAURON (Jaworzno Power Plant)

On April 17th 2014, RAFAKO S.A., acting as the leader of a consortium with Mostostal Warszawa S.A., executed a contract with Tauron Wytwarzanie S.A. for the construction of a power generation unit at the Jaworzno III Power Plant - Power Plant II. The value of the contract is PLN 4.4bn. The subject matter of the contract is design and delivery, on a turn-key basis, of a supercritical 910 MW power generation unit consisting of a steam generator, turbine generator set, main building, electrical and I&C systems.

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

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

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

Environmental implications:

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

Key events in 2015 and 2016

2015	
January	On January 20th 2015, SPV Jaworzno and UNISERV-PIECBUD S.A. of Katowice executed a PLN 164,800 thousand contract for the design, delivery and assembly of a cooling tower along with related equipment.
January–July	Delivery of key milestones: <ol style="list-style-type: none"> 1. Development and delivery of the Basic Engineering Package to the Employer 2. Preparation of documents necessary for the Employer to update the Construction Plans with respect to the Unit 3. Completion of the foundation pit for the boiler house and removal of excess soil. 4. Excavation for cooling tower foundation.
August	On August 18th 2015, SPV Jaworzno and Energopol – Szczecin S.A. signed an annex to the subcontractor agreement for the performance of construction work, reducing the scope of work of the Subcontractor and, consequently, reducing its remuneration from PLN 380m to PLN 30m.
November	On November 12th 2015, SPV Jaworzno and a consortium of Kopex S.A. of Katowice and Stal-Systems S.A. of Wólka Pełkińska signed a contract for the delivery and assembly of the steel structure of a building housing the turbine house, boiler house, bunkering room, LUVU and SCR, assembly of coal bunkers, as well as hoisting and laying of steam blowers. The contract value is PLN 179,952 thousand.
December	On December 1st 2015, SPV Jaworzno and Zakłady Remontowe Energetyki S.A. signed a PLN 98,350 thousand contract for the delivery and assembly of high-pressure (LAB, LBB, LBC and LBA) pipelines together with valves and auxiliary systems, as well as for the selection and assembly of primary fixings.
2016	
January	Construction of the ground slab for the steam generator.
February	<p>On February 26th 2016, SPV Jaworzno and PKO BP S.A., PZU S.A., Bank Gospodarstwa Krajowego and mBank S.A. signed an annex to the agreement of April 16th 2014 for bank and insurance guarantees for the SPV. Under the annex, mBank agreed to issue in favour of Tauron Wytwarzanie S.A. an advance payment bank guarantee of PLN 48m and a performance bond bank guarantee of PLN 126,334 thousand subject to fulfilment of the conditions stipulated in the Agreement.</p> <p>As a result of signing the annex and in connection with the change of the form of performance bond relating to the agreement, after the guarantees issued by mBank are posted the amount of PLN 40m deposited in cash by Rafako to secure the performance of the agreement will be returned to the Company.</p>

In its separate financial statements, RAFAKO S.A. recognises only income and expenses related to its own scope of work, i.e. 11.5% of the total scope of work to be performed on the Jaworzno 910 MW Project. In its separate financial statements, the Parent does not recognise income and expenses related to the portion of work performed by E003B7 Sp. z o.o. – they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

For the rules of accounting for the contract, see Note 14.1 to the financial statements.

2. Contract with PGE Elektrownia Opole

On February 15th 2012, the Parent, acting as the Leader of a Consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. of Warsaw and Mostostal Warszawa S.A. of Warsaw, executed a PLN 9,397m contract with PGE Elektrownia Opole S.A. of Bełchatów (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.) for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at the Opole Power Plant, together with equipment and devices as well as all related buildings and structures (the "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.

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

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

The settlement became effective on November 7th 2013, following execution of a subcontractor agreement for the Opole Project between the RAFAKO Group and the Alstom Group.

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

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

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

For the rules of accounting for the contract, see Note 14.1 to the financial statements.

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

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

3. Events related to other significant contracts

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

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

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

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

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

4. Other material events

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

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

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

c. On November 3rd 2014, PBG S.A. w upadłości układowej (in company voluntary arrangement) put forward updated arrangement proposals with respect to the group of creditors including RAFAKO S.A., providing for repayment of PLN 500 thousand and an 80% reduction of receivables in excess of PLN 500 thousand. The receivables will be repaid in semi-annual instalments over a period of five years beginning on June 30th 2016. The Company's Management Board estimates that the first instalment will be paid by June 30th 2016. The total amount of receivables from the related entity (PBG S.A.), recognised in the statement of financial position, is PLN 35.3m.

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

For a detailed description of the receivables, see Note 47 to the Company's financial statements.

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

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

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

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

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

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

- to finance contractual security arrangements in building the order book and to finance working capital requirements to enable the performance of contracts in the future. The Company plans to apply 85-90% of the funds raised from the issue towards that purpose;
- to increase its research and development spending with a view to advancing its technology portfolio and supplementing it with unique solutions that help improve product efficiency and reliability. The Company's key focus in its research and development work financed with the proceeds from the issue will be on environmental protection technologies. The Company plans to apply approximately 10-15% of the funds raised from the issue towards that purpose; The final allocation schedule will depend, inter alia, on results the R&D projects.

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

f. On October 30th 2015, the Company acquired an organised part of the business of its related entity PBG Avatia Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), comprising movables, intangible assets and rights under agreements, for a total amount of PLN 2,500,000.00. The acquisition was made as part of a strategy aimed at standardising the IT processes and services across the PBG Group and locating them within RAFAKO S.A.

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

Under the credit facility agreement, in February 2012 the Bank granted to the Company a PLN 300m overdraft facility for the financing of its day-to-day operations. The annex introduced the restated text of the agreement, now renamed as 'Multi-purpose credit facility agreement'. Under the annex, the Bank made available to RAFAKO S.A. a multi-purpose credit facility of PLN 200m.

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

The other terms and conditions of the credit facility agreement were not materially amended under the annex. The facility bears interest at 1M WIBOR + bank margin. The agreement also provides for customary bank fees and commissions. Interest is payable on a monthly basis.

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

In addition to the agreements specified in Section 6, partnership and cooperation agreements significant to the Company's business and executed in 2015 also include insurance agreements.

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

For information on the agreement with the qualified auditor of financials statements, see Note 50 to the Company's financial statements.

5. Research & development and quality improvement projects

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

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

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

The most significant research & development and quality improvement projects completed in 2015 include:

- a. Material testing – description of technological and performance properties of materials used for the 50+ unit.
- b. Development of the concept of a reference unit with a capacity in the range 450–920 MW, with the highest achievable net efficiency;
- c. Development of 'Guidelines for design of boiler pressure equipment' (classification work);
- d. Modification of the structure of the rapping device for collecting electrodes;
- e. Development of design guidelines for the SCR technology with a view to reducing the SO₂ to SO₃ conversion, decomposition of residual (unreacted) ammonia – ammonia content in ash, gypsum and waste water, likelihood of ABS (ammonium bisulfate) and AS (ammonium sulfate) formation;
- f. Development of guidelines for CAD-supported 'Best Practices for Design';
- g. Development of guidelines and models relating to gypsum crystallisation for absorbers in the wet flue gas desulfurisation method;
- h. Development and testing of the prototype of a new clutch for a discharge electrode rapping device;
- i. Research into a sieve tray absorber;

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

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

In 2015, there were no changes to the basic management rules at RAFAKO S.A.

7. Other information

The Company did not launch any employee share option schemes.

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

8. Disputes, pending litigation, arbitration or administrative proceedings

For information on material disputes and litigations, see Note 46 to the Company's financial statements.

IV. Growth prospects for 2016

1. Energy policy

Power market and environmental protection regulations

The power market, especially its commercial segment, is subject to extensive regulation governing both the way it operates and its future development and structure. The highly-regulated nature of the segment follows from the power market's strategic importance to energy security of each country, with environmental protection and reduced 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 gases during production, such as CHP plants and power plants, are required to upgrade their existing units and install new equipment to reduce air emissions. This translates into more projects in the power segment, including construction of low-emission, high-efficiency power plants and upgrade of old power plants to make them comply with the strict environmental requirements imposed under EU law, which may in turn boost demand for products and services offered by the Group.

Environmental protection regulatory environment in the EU

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

- a. to ensure the functioning of the energy market;
- b. to ensure security of energy supply in the Union;
- c. to promote energy efficiency and saving and the development of new and renewable forms of energy;
- d. to promote the interconnection of energy networks.

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

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

The targets to be achieved by 2020:

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

The targets to be achieved by 2030:

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

The target to be achieved by 2050:

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

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

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

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

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

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

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

In July 2015, the European Commission presented a set of regulations reforming the CO₂ emission allowances system. In line with the amended system, some of the CO₂ emission allowances will be automatically withdrawn from the market and placed in a market stability reserve whenever the number of allowances in circulation goes outside a predefined level. At present, there is a surplus of over 2 billion allowances on the market, increasing as of 2009. The adopted solution provides for withdrawing 900m emission allowances through a backloading procedure and placing them in the stability reserve. The amended directive on the EU Emissions Trading Scheme is a step towards meeting the EU's goal of reducing greenhouse gas emissions by at least 40% by 2030. Pursuant to the new system, Poland and nine other of the less developed EU countries will have the right to allocate some of the allowances free of charge to power plants, thus enabling them to use their funds on unit upgrades rather than redemption of emission allowances. Priority will be given not only to large investment projects with a value of more than EUR 10m, but also to smaller ones. Some of the power plant upgrade projects may be joined by the RAFAKO Group entities.

Regulatory environment in Poland

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

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

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

It is also planned that the share of biofuels in the fuel market will reach 10% in 2020. The Policy also highlights the need to reduce the environmental impact of the energy sector (including the reduction of CO₂, SO₂ and NO_x emissions), which would enable Poland to meet its international obligations. Among the objectives relating to electricity and heat supplies, the Policy lists the construction of new generating capacities to balance the domestic electricity demand and maintain an operationally available capacity surplus of at least 15% of the maximum domestic demand for electricity during the peak use of total capacity of the domestic conventional and nuclear generation sources. The Policy defines the key priorities and directions in which Poland's energy policy, and thus the Polish energy market, will develop.

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

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

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

At the beginning of 2015, the long-anticipated acts on shale gas and renewable energy came into force. The Act on Renewable Energy Sources and the so-called shale gas law were among the most anticipated pieces of legislation in recent years. The regulations on hydrocarbon exploration became effective as of 2015. The Act on Renewable Energy Sources, designed to promote the development of renewable energy sources in Poland by replacing the green certificate system with an auction system, became effective as of May 4th 2015. At the year end, the minor amendment to the RES Act, postponing the launch of a new, auction-based, RES support system by six months, came into force. The Act also postponed the launch of a new feed-in-tariff support system for micro installations. In H1 2016, the government plans to adopt a bill amending the RES Act.

2. Asset development plans for the power sector

Energy infrastructure in Poland

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

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

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

Investments in energy infrastructure

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

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

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

Ongoing projects include the construction of two power generating units at the Opole Power Plant (percentage of completion: ca. 30%), and one power generating unit at each of the Jaworzno III Power Plant (percentage of completion: ca. 10%) and the Kozienice Power Plant (percentage of completion: over 70%). In aggregate, these projects will deliver nearly 4,000 MW of new capacity.

Among large power units currently being built, three most advanced projects to construct power generating units should be specifically mentioned, all implemented under contracts signed in 2012:

- Construction of a 449 MW CCGT unit at the Stalowa Wola CHP Plant for Tauron/PGNiG by Abener Energia of Spain, valued at PLN 1.6bn (VAT exclusive) – based on recent information, the unit is expected to be placed in service a year later than originally planned, in mid-2016;
- Construction of a 1,075 MW hard coal-fired unit at the Kozienice power plant for Enea by Polimex-Mostostal in cooperation with Hitachi Power Europe, valued at PLN 6.4bn (VAT exclusive),
- Construction of a 463 MWe gas-fired unit at the Włocławek power plant for PKN Orlen by the consortium of General Electric International and SNC-Lavalin Polska, valued at PLN 1.4bn (VAT exclusive) – the start-up of the gas turbine has been completed successfully and the entire unit is to be placed in service in Q2 2016.

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

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

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

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

Another planned project is the construction of a 1,000 MW coal-fired power generating unit in Wola for Kompania Węglowa. However, given the circumstances of the project originator, i.e. Kompania Węglowa, the project had to be suspended. Another major coal-fired power plant construction project is Elektrownia Północ (target capacity of 2x800 MW). The project is to be executed by Polenergia of the Kulczyk Investments Group, which has long been involved in a tug-of-war with environmental NGOs blocking the start of construction work.

PGE is planning to spend about PLN 50bn by 2020, mostly on new conventional capacities as well as on development and upgrade of power distribution networks.

In the same period, the Enea Group is expecting to spend about PLN 20bn, of which about PLN 6bn will be assigned to investments in distribution assets, and about PLN 14bn – in power generation.

The Tauron Group assumes that the value of its investment projects in 2014–2023 will reach PLN 37bn. As part of these projects, the Group plans, among other things, to increase its installed capacity.

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

In 2013, French corporation EDF commenced to modernise its Polish assets. The value of EdF's entire investment programme is estimated at about PLN 3.3bn. The largest project will involve comprehensive modernisation of the Rybnik Power Plant, at an estimated cost of about PLN 1.4bn.

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

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

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

Environmental protection construction projects

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

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

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

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

Competitive environment

The Company and the other RAFAKO Group members (the "Group") operate on a market dominated by large, mainly international players. On this market, contracts are typically awarded as part of tenders announced by customers, and projects can take as much as several years to complete.

Given the significance of 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 being implemented in this format.

The Group operates on the Polish market (87.8% of revenue in 2015 came from domestic sales) and foreign markets (12.2% of revenue in 2015). Given the limited number of projects and customers on each market, as well as specific contract requirements, contractors competing with the Company over projects in Poland (major foreign companies often have branches in Poland) usually also bid for foreign contracts.

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

companies, as well as the Group, offer products necessary to construct complete generating units utilising any kind of fuel.

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

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

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

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

3. Operational plans

RAFAKO S.A. is prepared to meet the challenges of the power market. The Company currently offers the widest selection of power technologies in Europe. In addition to all environmental protection facilities, which are constantly developed and upgraded, RAFAKO S.A. has capabilities necessary to construct power units for all parameters and types of fuels. RAFAKO S.A. is one of Europe's four companies (alongside Alstom, Hitachi Power Europe and Doosan Babcock) offering the complete technology for supercritical power units.

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

In 2016, RAFAKO S.A. will continue to offer on the domestic and foreign markets:

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

- Manufacture of steam generator parts;
- Engineering and maintenance services, including diagnostics, modernisation and repair of steam generators and auxiliaries.

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

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

- securing financial liquidity and obtaining access to new bank/insurance guarantees that will enable the Group to perform new contracts,
- making good progress in construction of the 910 MW supercritical power generating unit at the Jaworzno Power Plant,
- outcome of the arrangement proceedings at PBG,
- performance of a large number of significant contracts in the Polish and European markets, including construction of modern steam generators, flue gas desulfurisation and denitration units, biomass-fired units, municipal waste treatment and incineration systems, as well as pressurised parts of supercritical boilers,
- acquisition of new material contracts,
- organisational changes; at present, the Company is undergoing reorganisation aimed at building a modern enterprise ready for the greatest challenges of a rapidly changing market. Some of the key changes are: implementation of a CRM-based model, implementation of system-based foreign markets management, introduction of uniform standards in bidding and project implementation, market orientation of production.

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

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

4. Order book

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

ORDER BOOK				
	Dec 31 2015	Dec 31 2014		
	~ PLN 1.3bn	~ PLN 1.9bn		
	ORDER BOOK as at December 31st 2015	Due for execution in		
		2016	2017	after 2017
TOTAL	~PLN 4.6bn	~ PLN 1.8bn	~PLN 1.7bn	~ PLN 1.1bn
RAFAKO	~PLN 1.3bn	~ PLN 0.7bn	~ PLN 0.4bn	~ PLN 0.2bn
SPV Jaworzno	~PLN 3.3bn	~ PLN 1.1bn	~ PLN 1.3bn	~PLN 0.9bn

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

- the order book value is equal to the aggregate amount of RAFAKO S.A.'s and SPV Jaworzno's remuneration under individual contracts executed by the Company in the period to December 31st 2015; the figure does not take into account any planned contracts that have not yet been signed;
- the order book value is disclosed as at December 31st 2015; actual revenue from contracts and performance periods depend on a number of factors, which may be outside RAFAKO's control.

Key contracts for power generating units, boilers, subassemblies and parts of power machinery and equipment:

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

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

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

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

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

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

The contract provides for:

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

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

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

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

4) Construction of fluidised bed boiler at Synthos Dwory 7

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

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

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

5) Construction of a municipal waste steam generator for Hereford & Worcestershire in the United Kingdom.

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

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

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

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

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

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

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

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

The contract provides for the delivery of boiler pressure parts.

Key contracts for air protection systems:**1) Construction of catalytic flue gas denitration system at the Koziencice Power Plant**

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

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

2) SCR systems in Połaniec

On June 14th 2012, RAFAKO S.A. signed a contract for 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) Upgrade of flue gas desulfurisation systems at the Bełchatów Power Plant units 5 and 6

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

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

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

On October 10th 2014, a consortium comprising RAFAKO S.A. and OMIS S.A signed a contract with ENERGA Elektrownie Ostrołęka S.A. The contract provides for reduction of NO_x emissions from the OP-650 units at the 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 process leading to reduction of nitrogen oxides emissions will be gradual, and will cover three coal-fired units at the Ostrołęka Power Plant. It will be carried out in stages, with the common part of the installation and the first boiler unit expected to be placed in operation next year, and the entire project scheduled for completion by the end of 2017. The guaranteed maximum NO_x emissions on completion of the project are 100 mg/Nm³, with the option to improve the denitration efficiency should more stringent emission standards be introduced.

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

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

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

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

Management Board's statement

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

- 1) to their best knowledge, the financial statements for the year ended December 31st 2015, as well as comparative data for the year ended December 31st 2014, were drawn up in compliance with the applicable accounting standards and give a true, fair and clear view of the Company's assets, its financial condition and performance, and that the Directors' Report on the operations of RAFAKO S.A. gives a true view of the Company's development, achievements and standing, including a description of key risks and threats;
- 2) the auditor of the Company's full-year financial statements, being an entity qualified to audit financial statements, was appointed in compliance with the applicable laws, and the auditing firm and the auditors who conducted the audit satisfied the auditor independence criteria to deliver an unbiased and independent auditor's opinion on the audited full-year financial statements, in compliance with the applicable laws and professional standards.

Signatures of Management Board members:

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