

## Statement of compliance with corporate governance rules by RAFAKO S.A. (the parent) in 2016

This statement has been prepared in accordance with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. No. 33, item 259, as amended).

**1. Code of corporate governance applicable to the Company and its availability to the general public**

In 2016, the Company applied the rules of corporate governance stipulated in the 'Code of Best Practice for WSE Listed Companies 2016' (Code of Best Practice), approved by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated October 13th 2015 on approval of the 'Code of Best Practice for WSE Listed Companies 2016', which is available at:

<http://www.rafako.com.pl/relacje-inwestorskie/lad-korporacyjny-raport>

**2. Scope of and reasons for non-compliance with the corporate governance principles****I. Disclosure Policy, Investor Communications**

I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;

**Reasons for non-compliance:** *The Company does not have a formal documented diversity policy. However, the Company applies the principle of equal treatment based on generally applicable laws, including labour law, the EU regulations and the Charter of Human Rights.*

I.Z.1.20. an audio or video recording of a general meeting.

**Reasons for non-compliance:** *After each General Meeting, the Management Board will announce that the General Meeting proceedings were audio- or video-recorded and that the recording is available on the Company's website.*

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

**Reasons for non-compliance:** *The Company does not operate an English-language website containing the documents and information specified in rule I.Z.1. of the Code of Best Practice due to high costs involved. Only selected documents that reasonably need to be translated are published in English.*

**II. Management Board, Supervisory Board**

II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

**Reasons for non-compliance:**

*The Supervisory Board passed a resolution to appoint an Audit Committee. The Committee operates in accordance with the Rules of Procedure approved by the Supervisory Board and the applicable legal regulations. The Supervisory Board has not appointed a Remuneration Committee or a Nominations Committee.*

Statement of compliance with corporate governance rules by RAFAKO S.A. (the parent) in 2016

II.Z.8. The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.

**Reasons for non-compliance:** *The current Chair of the Supervisory Board's Audit Committee does not meet the independence criteria.*

**III. Internal Systems and Functions**

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

**Reasons for non-compliance:** *Due to the nature of the Company's operations, the elements of risk management and compliance system are distributed among the organisational units and described in various internal regulations. The Management Board has adopted a Risk Management Policy. An internal audit officer, reporting directly to the President of the Management Board, has been appointed. The officer may report directly to the Supervisory Board.*

*The Company periodically reviews individual risk categories to anticipate possible threats and their potential consequences.*

III.Z.4. The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

**Reasons for non-compliance:** *The Management Board together with the internal audit officer assess the effectiveness of internal audit and the internal control system.*

*The assessment of other systems and functions is performed jointly by the Management Board and the management staff. The Management Board periodically discusses the above matters with the Supervisory Board.*

III.Z.5. The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

**Reasons for non-compliance:** *An internal control system and internal audit function have been put in place at the Company. Periodic reports on the system and the function are prepared by the internal audit officer and the Management Board and submitted to the Audit Committee and the Supervisory Board. Due to the distribution of risk management and compliance functions, it is the Management Board that discusses potential and actual events related to the risk management and compliance with the Supervisory Board.*

**IV. General Meeting, Shareholder Relations**

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

1. real-life broadcast of the general meeting;
2. real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
3. exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

**Reasons for non-compliance:** *The Management Board will consider the need to broadcast the General Meeting and will inform the shareholders of the option to participate in the General Meeting and vote by electronic means of communication on a case-by-case basis.*

## Statement of compliance with corporate governance rules by RAFAKO S.A. (the parent) in 2016

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

**Reasons for non-compliance:** *The Management Board will consider the need to ensure publicly available real-time broadcast of the General Meeting on a case-by-case basis and announce its decision.*

**V. Conflict of Interest, Related Party Transactions**

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

**Reasons for non-compliance:** *The Company is currently drafting relevant regulations.*

**VI. Remuneration**

VI.Z.1. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

**Reasons for non-compliance:** *Remuneration of the Management Board members is set by the Supervisory Board. The Supervisory Board also awards discretionary bonuses to the Management Board members, depending on their performance of duties. The Company is currently developing a new incentive scheme for the key management staff.*

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

**Reasons for non-compliance:** *The Company does not grant options or other instruments linked to Company shares.*

VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following:

1. general information about the company's remuneration system;
2. information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
3. information about non-financial remuneration components due to each management board member and key manager;
4. significant amendments of the remuneration policy in the last financial year or information about their absence;
5. assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

**Reasons for non-compliance:** *The Company complies with all applicable laws in this respect.*

**3. Key features of the Company's internal control and risk management systems used in the preparation of separate and consolidated financial statements**

The role of the continually enhanced internal control and risk management systems at RAFAKO S.A. is to ensure that the financial statements are prepared in a reliable, timely, comprehensive and transparent manner. The purpose of the systems is to identify, assess, manage and monitor potential events, a process which reasonably ensures the reliability and compliance of financial reporting. The aim is the preparation of financial statements that would give a fair view of the Company's business activity, in compliance with the IAS and Polish Accountancy

## Statement of compliance with corporate governance rules by RAFAKO S.A. (the parent) in 2016

Act. All material aspects of the Company's operations are governed by its internal regulations, including those of the Integrated Management System implemented at the Company.

The Company's Organisational Rules define its organisational structure and operating procedures, as well as the remits and responsibilities of its organisational units. The control powers of individual employees are defined in the internal regulations and relevant job descriptions.

RAFAKO S.A. has in place procedures defining the competencies required for individual jobs, as well as the rules governing employee training (from requirements description, to actual training, to its assessment measured by employee performance).

Another important internal regulation is the Accounting Policy and Chart of Accounts adopted and applied by the Management Board of RAFAKO S.A., and compliant with the International Financial Reporting Standards.

The Company has also implemented the Risk Management Policy, which defines the Risk Management System as a continuous, active and regular process, as well as the method of its management supporting the achievement of the Company's objectives. The system forms an integral part of the organisation's core management processes, using historical information, feedback from stakeholders, experience and forecasts. The Company identifies risks and threats to its operations, as described in Chapter 2 Section 2 of the Directors' Report on the Operations of RAFAKO S.A. For information on the objectives and rules of financial risk management, including the specification of the most material risks, see Note 50 to the Company's financial statements.

The Supervisory Board (through the Audit Committee) participates in the process of risk control and management in financial reporting through approval of quarterly and half-year reports, as well as assessment of the Company's financial statements on an annual basis. The Supervisory Board's powers include approval of annual budgets and multi-year plans, purchase and disposal of real property, acquisition and disposal of equity interests. The Supervisory Board also reviews the economic aspects of Company's operating, financing and investing activities on an ongoing basis. Whenever the Supervisory Board deems it necessary, it delegates its members to individually perform specific supervisory tasks.

An Audit Committee has been established within the Supervisory Board to advise the Supervisory Board on proper implementation of the budget reporting, financial reporting and internal control standards at the Company and the RAFAKO Group.

The Audit Committee's responsibilities include in particular a review of the Company's financial statements, management accounting and internal control systems, including control mechanisms in the area of finance, operations, compliance, risk assessment and management.

RAFAKO S.A.'s organisational structure includes an Internal Audit Unit, operating in accordance with the adopted Internal Control Rules and based on international standards of internal audit. As it meets the organisational independence criteria, the Internal Audit Unit carries out its activities with an objective and independent approach.

The Internal Audit Unit performs its internal audits based on the annual audit plan, carries out ad hoc audits and audit activities aimed at, among other things, assessing the effectiveness of the internal control system and improving risk management processes.

The Company uses the following IT systems to support its internal control and risk management activities and preparation of financial statements:

- an ERP Infor LN10 integrated IT system, whose functionalities ensure the transparent allocation of responsibilities and consistency of accounting records. Thanks to its extensive reporting system, it is possible to verify the consistency of information.
- IBM Notes, guaranteeing achievement of the objectives, which, integrated into the extended IT network, also supports the quantitative and qualitative verification of individual documents and their contents.

## Statement of compliance with corporate governance rules by RAFAKO S.A. (the parent) in 2016

Describing the internal control system, it should be noted that its most important element is the verification of financial statements by an independent qualified auditor. A qualified auditor also assesses the internal control and risk management systems in terms of their roles in the financial reporting process.

RAFAKO S.A. has long-standing relationships with a group of reputable audit firms offering high-quality services and satisfying the criterion of full independence. A qualified auditor of the Company's financial statements is selected by the Supervisory Board in an RFP process.

**4. Shareholders directly or indirectly holding significant holdings of shares, along with an indication of the numbers of shares and percentages of the Company's share capital held by such shareholders, and the numbers of votes and percentages of the total vote that such shares represent at the General Meeting**

Shareholders holding each more than 5% of shares as at December 31st 2016

Shareholder /company name/	Shares	Voting rights	Ownership interest	% of total voting rights at GM
<b>PBG S.A.<sup>1</sup>, including:</b>	<b>42,466,000</b>	<b>42,466,000</b>	<b>50% plus 1 share</b>	<b>50% plus 1 share</b>
- directly:	7,665,999	7,665,999	9.026%	9.026%
- held indirectly through Multaros Trading Company Limited <sup>2</sup> (a subsidiary of PBG S.A.):	34,800,001	34,800,001	40.974%	40.974%
<b>Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A.<sup>2</sup></b>	8,048,507	8,048,507	9.48%	9.48%
<b>Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.,<sup>3/4</sup> including:</b>	<b>7,662,062</b>	<b>7,662,062</b>	<b>9.02%</b>	<b>9.02%</b>
QUERCUS PARASOLOWY SFIO <sup>4</sup>	5,791,025	5,791,025	6.82%	6.82%
<b>Other</b>	<b>26,755,429</b>	<b>26,755,429</b>	<b>31.50%</b>	<b>31.50%</b>

Ownership interest = Share in total vote

1 - Based on a notification of September 9th 2015

2 - Based on a notification of July 30th 2015

3 - Based on a notification of September 10th 2015

3/4 – As at March 6th 2017, the Investment Funds held 4,163,086 shares in RAFAKO S.A. and the same number of voting rights at its General Meeting, representing 4.90% of RAFAKO's share capital and the same percentage of total voting rights at its General Meeting.

**5. Holders of any securities conferring special control rights, and description of those rights**

All RAFAKO shares are ordinary bearer shares and they confer no special control rights with respect to the Company.

**6. Any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities**

RAFAKO S.A. is aware of no restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

Shareholders of the Company may have up-to-date information on such restrictions, if any.

**7. Any restrictions on transfer of ownership rights to the Company's securities**

According to the Company's knowledge (the information is publicly available) on April 20th 2016 PBG S.A. w upadłości układowej (in company voluntary arrangement) and Multaros Trading Company Limited signed lock-up agreements with banks as part of performance of PBG's obligations towards some of its creditors. The agreements provide for creation of registered pledges over all RAFAKO shares held by PBG and Multaros.

In connection with the court's decision of June 13th 2016 to approve the arrangement between PBG and its creditors, the ordinary pledge over RAFAKO shares held by these companies, created to secure the arrangement, became effective.

Moreover, on December 2nd 2016 RAFAKO S.A. was notified by PBG S.A. of the creation of a registered pledge over RAFAKO shares held by PBG and Multaros Trading Company Limited for the benefit of PBG's arrangement creditors acquiring bonds, in accordance with the arrangement. Shareholders of the Company may have up-to-date information on such restrictions, if any.

**8. Rules governing the appointment and removal of the Company's management personnel and such personnel's powers, particularly the power to make decisions to issue or buy back shares**

Pursuant to RAFAKO's Articles of Association, members of the Management Board are appointed and removed by the Supervisory Board. The Supervisory Board may remove the President or a Member of the Management Board, as well as the entire Management Board, at any time before the expiry of their term of office. The General Meeting has the power to adopt a decision to issue or buy back shares, upon the Management Board's proposal submitted together with the Supervisory Board's written opinion.

**9. Rules governing amendments to the Company's Articles of Association**

The Articles of Association of RAFAKO S.A. may be amended by the General Meeting upon the Management Board's proposal submitted together with the Supervisory Board's written opinion, the Supervisory Board's proposal or a proposal by Shareholders entitled to convene the General Meeting.

**10. Manner of operation of the General Meeting and its key powers; shareholders' rights and the manner of exercising those rights, including in particular the rules stipulated in the rules of procedure of the General Meeting if such rules have been adopted, unless the relevant information follows directly from legal regulations**

The operation of the General Meeting of RAFAKO S.A. is governed by legal regulations (including the Commercial Companies Code), the Company's Articles of Association and the General Meeting Rules of Procedure adopted by the General Meeting. The texts of the Articles of Association and the Rules of Procedure are available on the website at:

<http://www.rafako.com.pl/o-nas/dokumenty-organizacyjne-spolki>.

**11. Composition and activities of the Company's management, supervisory or administrative bodies and of their committees; changes in their composition over the last financial year**

In the financial year 2016, there were no changes in the composition of the Company's Management Board.

As at December 31st 2016, the Management Board of RAFAKO S.A. was composed of:

- 1) Agnieszka Wasilewska-Semail – President of the Management Board,
- 2) Krzysztof Burek – Vice President of the Management Board,
- 3) Jarosław Dusiło – Vice President of the Management Board,
- 4) Edward Kasprzak – Vice President of the Management Board,
- 5) Tomasz Tomczak – Vice President of the Management Board.

## Statement of compliance with corporate governance rules by RAFAKO S.A. (the parent) in 2016

The operation of the Management Board is governed by legal regulations (including the Commercial Companies Code), the Company's Articles of Association and the Management Board Rules of Procedure adopted by the Supervisory Board. The texts of the Articles of Association and the Rules of Procedure are available on the website at: <http://www.rafako.com.pl/o-nas/dokumenty-organizacyjne-spolki>

In the financial year 2016, there were no changes in the composition of the Company's Supervisory Board.

As at December 31st 2016, the Supervisory Board of RAFAKO S.A. was composed of:

- 1) Jerzy Wiśniewski – Chairman of the Supervisory Board,
- 2) Dariusz Sarnowski – Deputy Chairman of the Supervisory Board,
- 3) Krzysztof Gerula – Member of the Supervisory Board (independent member),
- 4) Przemysław Schmidt – Member of the Supervisory Board (independent member),
- 5) Dariusz Szymański – Member of the Supervisory Board,
- 6) Adam Szyszka – Member of the Supervisory Board (independent member),
- 7) Małgorzata Wiśniewska – Member of the Supervisory Board.

The operation of the Supervisory Board is governed by legal regulations (including the Commercial Companies Code), the Company's Articles of Association and the Supervisory Board Rules of Procedure adopted by the Supervisory Board. The texts of the Articles of Association and the Rules of Procedure are available on the website at:

<http://www.rafako.com.pl/o-nas/dokumenty-organizacyjne-spolki>.

In the financial year 2016, there were no changes in the composition of the Supervisory Board's Audit Committee.

As at December 31st 2016, the Audit Committee was composed of:

- 1) Dariusz Sarnowski (Member of the Supervisory Board, qualified in accounting and financial auditing),
- 2) Przemysław Schmidt (Member of the Supervisory Board, qualified in accounting),
- 3) Edyta Senger-Kałat (Member of the Supervisory Board, qualified in accounting).

The Supervisory Board's Audit Committee operates in accordance with the provisions of applicable laws and its Rules of Operation adopted by the Supervisory Board.

Recommendation I.R.2.: Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.

RAFAKO S.A.'s mission is to build state-of-the-art power capacities, with due regard paid to environmental protection. Our presence on the Polish and international markets is a reason to be proud of, but it also makes us aware of our social responsibility. Therefore, we build the image of a large and stable Polish company while supporting major economic events, sports, science and culture.

As part of our sponsorship activities, we act as a partner of the most important conferences devoted on the Polish economy, and on the power sector in particular.

As one of the largest employers in our region, we are particularly attuned to the needs of the local communities, offering support to local cultural, educational and sport initiatives, especially local clubs, cultural projects, and sports events. We also remember about those in need, allocating considerable resources to social and charitable projects.

RAFAKO supports Polish sports, both individual athletes and clubs, as well as various sports events. We focus on endurance sports, which require strong character, determination and hard work, as well as those based on cooperation and mutual trust. Examples may include the sponsoring of the world's best long-distance triathlete Ewa Bugdoł and the top Polish volleyball team ZAKSA Kędzierzyn-Koźle. Locally, the Company mainly supports its employees keen on mountain biking, long-distance running and triathletes.

We engage in advancing Polish medicine as a partner of the Professor Zbigniew Religa Cardiac Surgery Development Foundation, and we sponsor the Race for a New Life, an annual event promoting Polish transplantology.