DIRECTORS’ REPORT ON THE OPERATIONS OF THE RAFAKO GROUP IN 2017

Racibórz, April 5th 2018
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I. General information

About us

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

The RAFAKO Group’s key products and services include:

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

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

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

Since its inception, the parent has been a leading supplier of steam generators for the country’s power and industrial sectors. The combined capacity of RAFAKO-delivered steam generators accounts for a significant part of the total capacity installed in Polish commercial and industrial power plants. The most important facilities which use steam generators delivered by the parent include power plants in Belchatów, Opole, Turów, Dolna Odra (all owned by PGE), Rybnik (EDF), Pątnów-Adamów-Konin, Koźlenice (Enea), and power plants owned by Tauron Wytwarzanie, as well as Warsaw CHP Plants – Elektrociepłownie Warszawskie (PGNiG Termika), Wrocław CHP Plants – Zespół Elektrociepłowni Wrocławskich Kogeneracji, Łódź CHP Plants – Zespół Elektrociepłowni Łódź (Veolia), and Zielona Góra CHP Plant – Elektrociepłownia Zielona Góra (PGE). The parent...
has also delivered circulating fluidised bed (CFB) steam generators to the Żerań CHP Plant (PGNiG Termika), Bielsko-Biała II CHP Plant (Tauron Wytwarzanie), Siersza Power Plant (Tauron Wytwarzanie), and Zakłady Farmaceutyczne Polpharma Starogard Gdańsk. In 2016, an OFz-140 fluidised bed boiler was placed in service at Synthos Dwory 7 in Oświęcim.

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

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

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

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

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

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

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

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

In 2011, the parent entered a new area of pro-environmental projects in the power sector, i.e. reduction of nitrogen oxides, as it commenced the manufacture of state-of-the-art SCR units on an EPC basis. The first such
unit was built for the K8 boiler at PKN Orlen, and the construction of another SCR system commenced in June 2011 at the Kozienice Power Plant. With respect to this system, on December 20th 2017 the final acceptance report was signed for Unit 8, which marked the completion of the contract for Enea Wytwarzanie Sp. z o.o. In 2012, a contract for the delivery of catalytic flue gas NOx reduction systems for six power generating units at Elektrownia Połaniec was signed. In 2014, a consortium formed by RAFAKO S.A. and OMIS S.A. executed a contract with ENERGA Elektrownie Ostrołęka S.A. for the construction of flue gas NOx reduction systems for units 1, 2 and 3 at Elektrownia Ostrołęka S.A. In September 2016, RAFAKO S.A. and ENEA Wytwarzanie Sp. z o.o. executed a contract for delivery and installation of a catalytic flue gas NOx reduction system for AP-1650 boilers No. 9 and 10, and for upgrade of electrostatic precipitators at the Kozienice Power Plant.

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

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

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

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

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

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

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

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

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

For the shareholding structure as at December 31st 2017, see Appendix 9.
II. Organisation of the RAFAKO Group

1. Structure of the Group, and its consolidated subsidiaries

As at December 31st 2017, the RAFAKO Group comprised the parent and eight subsidiaries operating in the power construction, services and trade sectors. In addition to the parent, the RAFAKO Group comprised:

- Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o., registered office at ul. Bukowa 1, Racibórz, Poland. The parent holds a 100% interest in the company’s share capital and the same percentage of voting rights. Principal business activity: housing community management.

- RAFAKO ENGINEERING Sp. z o.o., registered office at ul. Łąkowa 33, Racibórz, Poland. The parent holds a 51.05% interest in the share capital of the company and the same percentage of voting rights. The company is a provider of engineering services and related technical consultancy.

- ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice. The parent holds a 100% interest in the share capital of the company and the same percentage of voting rights. Principal business activity: construction and process design, urban planning and engineering consultancy.

- RAFAKO ENGINEERING SOLUTION doo. of Belgrade; The parent holds a 77% interest in the share capital of the company and the same percentage of the voting rights. Principal business activity: process design, construction, industry, and environmental protection consultancy and supervision;

- RAFAKO Hungary Kft. of Budapest, Hungary. The parent holds the entire share capital of the company and all voting rights. Principal business activity: equipment assembly for the power sector and the chemical industry;

- E001RK Sp. z o.o. of Racibórz, entered in the National Court Register on October 9th 2013. The parent holds 100% of the company shares. Principal business activity: development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity. The company has been established to carry out the Opole Project;

- E003B7 Sp. z o.o. of Racibórz (or “SPV Jaworzno”), entered in the National Court Register on November 22nd 2013. The parent holds 100% of the company shares. Principal business activity: development of construction projects, construction, engineering and process consultancy and design. The company has been established to carry out the 910 MW Jaworzno Project;

- RENG-NANO Sp. z o.o. of Racibórz, entered in the National Court Register on February 27th 2017. A subsidiary of RAFAKO ENGINEERING Sp. z o.o., which holds a 60% interest in the share capital of the company and the same percentage of voting rights. Principal business activity: regeneration of SCR catalysts necessary for denitrification of gases; replacement, diagnostics, servicing and testing of catalysts.

As at December 31st 2017, the following subsidiaries were consolidated in the Group’s consolidated financial statements:

The RAFAKO Group’s parent is PBG S.A., with its registered office at ul. Skórzewska 35, Wysogotowo, Poland.
2. **Structure of the Group**

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

As at December 31st 2016, the Group’s share in total voting rights in the subsidiaries was equal to the parent’s holdings in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 41.74% of preference shares (58.90% of total voting rights); 47.83% of the shares (33.74% of total voting rights) are held by PGL-DOM Sp. z o.o.

In the 12 months of 2017, a number of changes occurred in the Group’s structure.

On February 27th 2017, the District Court in Gliwice, 10th Commercial Division of the National Court Register, registered RENG-NANO Sp. z o.o. in the National Court Register under entry No. 0000663393.

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

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

3. **Parent’s governing bodies**

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

**General Meeting**

The Annual General Meeting of RAFAKO S.A. held on June 26th 2017 passed the following resolutions:

1. it reviewed and approved the Directors’ Report on the parent’s operations and the parent’s financial statements for the financial year 2016,
2. it reviewed and approved the Directors’ Report on the RAFAKO Group’s operations and the RAFAKO Group’s consolidated financial statements for the financial year 2016,
3. it approved the report on the activities of the parent’s Supervisory Board in 2016,
4. it granted discharge to members of the parent’s Management Board for performance of their duties in 2016,
5. it granted discharge to members of the parent’s Supervisory Board for performance of their duties in 2016,
6. it decided that the parent’s entire loss for the financial year from January 1st to December 31st 2016 would be covered from the statutory reserve funds.

An Extraordinary General Meeting was held on September 12th 2017 and passed resolutions concerning, among other matters:

1. increase of the parent’s share capital through a new share issue,
2. expansion of the parent’s business profile.

**Supervisory Board**

The Supervisory Board exercises ongoing supervision over the parent’s business.
During the financial year, there were changes in the composition of the parent’s Supervisory Board. On November 9th 2017, Mr Dariusz Sarnowski, Deputy Chairman of the RAFAKO Supervisory Board, tendered his resignation from the Supervisory Board.

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

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

Management Board

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

On February 20th 2018, Mr Krzysztof Burek resigned as Vice-President of the parent’s Management Board. The Supervisory Board appointed Mr Karol Sawicki in his place.

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

- Agnieszka Wasilewska-Semail – President of the Management Board,
- Jarosław Dusiło – Vice President of the Management Board,
- Edward Kasprzak – Vice President of the Management Board,
- Karol Sawicki – Vice President of the Management Board,
- Tomasz Tomczak – Vice President of the Management Board.
III. Economic and financial condition

1. External and internal factors materially affecting the RAFAKO Group’s financial performance and development prospects

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

B. Internal factors:
- execution and performance of material contracts by the Group;
- maintaining financial liquidity of the Group;
- ability to achieve the expected increase in efficiency and effectiveness thanks to the restructuring process;
- improvement of the Group’s internal management processes, including management of long-term contracts and operating expenses (fixed costs);
- formation of large, multi-industry teams for coordination of work on comprehensive power sector facilities;
- maintaining and acquiring new highly-qualified staff for designing and production.

2. Key risks and threats

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

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

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

Risks specific to the RAFAKO Group:

1. Risk of non-performance or improper performance of contracts;
2. Risk of non-payment or delayed payment of amounts due under contracts performed by the Group companies;
3. Risk associated with performance of high-value contracts and with the limited number of potential customers for the Group’s products and services;

4. Risk of increase in operating expenses resulting from higher prices of supplies and services and growing employee benefits expense;

5. Risk of failure to correctly estimate project costs;

6. Risk related to winning new contracts;

7. Risk inherent in execution of certain projects as part of consortia;

8. Risk inherent in acquisition and execution of projects in cooperation with suppliers and subcontractors;

9. Risk of failure to obtain financial guarantees required to win and perform contracts;

10. Risk of failure to secure sufficient external financing on terms originally expected by the Group;

11. Risk related to full or partial repayment of arrangement receivables by PBG;

12. Risk of failure to maintain sufficient by the Group;

13. Risk of failure to implement the Group’s strategy;

14. Reputational risk;

15. Risk inherent in the use by the Group of complex and innovative manufacturing technologies;

16. The Group’s IT systems may suffer a failure or security breach;

17. The Group’s day-to-day operations and growth depend on its senior management and ability to hire and retain highly-qualified personnel, particularly specialist production staff and engineers;

18. Risk of insufficient insurance cover;

19. Risk of consequences of accidents at work and occupational diseases;

20. Risk related to plant failure or to destruction or loss of the Group’s assets.

**Regulatory risks:**

1. Risk of changes in regulations in the power sector;

2. Risk related to environmental protection;

3. Risk of changes in tax laws or their interpretation and changes of private letter rulings;

4. Risk inherent in related-party transactions.

For information on the objectives and rules of financial risk management, including the specification of the most material risks, see Note 52 to the Group’s consolidated financial statements.
3. Analysis of key financial and economic data

1. 2017 highlights (compared with previous years)

**Revenue**
- PLN 1,783m

**EBITDA**
- PLN 61m

**Net profit**
- PLN 3m

**Share of equity in financing 47.7%**

**EBIT margin of 2.6%**

**Net margin of 0.2%**

**Marża EBIT 2,6%**

**Rentowność sprzedaży netto 0,2%**

**Definition:** Total revenue, net of VAT

**Relative to 2016:** Revenue fell by 4.9%, mainly due to the completion of several large contracts, relatively little progress under new contracts, and a lower value of contracts secured in 2017.

**EBITDA**
- increased by 16.6pp to 47.7%. The increase in the ratio results from relatively low EBIT result, also deferred income tax of almost PLN 17m, the parent’s issue of Series K shares worth PLN 170m.

**Net profit**
- The Group generated a net profit of PLN 3m, contributed to the low net profit.

**EBIT**
- Profit from continuing operations amounted to PLN 46m, up by PLN 21m year on year. This was mainly due to a higher gross margin.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>EBITDA</th>
<th>Net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>PLN 1,783m</td>
<td>PLN 61m</td>
<td>PLN 3m</td>
</tr>
<tr>
<td>2016</td>
<td>PLN 54m</td>
<td>PLN 34m</td>
<td>PLN 21m</td>
</tr>
<tr>
<td>2017</td>
<td>PLN 46m</td>
<td>PLN 34m</td>
<td>PLN 21m</td>
</tr>
</tbody>
</table>

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

**Relative to 2016:** EBITDA rose from PLN 39m to PLN 61m.

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

**Relative to 2016:** The Group generated a net profit of PLN 3m, compared with PLN 11m earned a year earlier. In addition to the relatively low EBIT result, also deferred income tax of almost PLN 17m contributed to the low net profit.
2. Revenue: amount and structure

In 2017, revenue from sales of products, merchandise and materials was PLN 1,782,594 thousand, having decreased year on year by PLN 92,718 thousand (or 4.9%). The sales of products and services amounted to PLN 1,780,024 thousand, of which revenue from construction contracts was PLN 1,761,714 thousand. Revenue from sale of materials was PLN 2,570 thousand.

The decrease in sales recorded in 2017 was mainly due to lower revenue from sale of generating units and steam generators on the domestic market, which amounted to PLN 1,292,114 thousand, down PLN 175,963 thousand year on year. Sales in this product group are mainly sales under the 910 MW Jaworzno Project, which amounted to PLN 1,232,078 thousand in 2017 (2016: PLN 1,274,220 thousand). With the 910 MW Jaworzno Project excluded, sales of generating units and steam generators on the domestic market amounted to PLN 60,036 thousand, compared with PLN 193,743 thousand in 2016. The lower sales in this product group were mainly attributable to the completion by the parent of the contract to construct a CHP plant at Grupa Azoty ZAK S.A. (value of approximately PLN 320m; revenue in 2017: PLN 19,271 thousand, revenue in 2016: PLN 144,222 thousand).

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

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

The share of export sales in total revenue was 8.9%, having decreased by 0.2pp year on year. In 2017, export sales amounted to PLN 158,660 thousand, down by PLN 11,766 thousand reported in 2016.

A decline in export sales was recorded in air pollution control systems as well as power equipment, machinery and components. Exports of air pollution control systems amounted to PLN 387 thousand (2016: PLN 17,661 thousand), having decreased by PLN 97.8% compared with 2016. Revenue from sales of power equipment, machinery and components totalled PLN 73,317 thousand and were down by 22.9% on 2016, mainly due to the sale of the pressure part of a steam generator for a waste incineration plant to CNIM (Constructions industrielles de la Méditerranée). Sales of power generation units and steam generators went up to PLN 23,674 thousand from PLN 12,136 thousand in 2016. In the other product groups, exports grew to PLN 61,282 thousand, mainly on account of manufacture of the pressure parts for Valmet Power OY, Valmet Technologies Inc., and Babcock & Wilcox Volund Aps.
In 2017, the Group’s sales structure was as follows:
Directors’ Report on the operations of the RAFAKO Group for the year ended December 31st 2017

Sales by market:

**Domestic market (2017: PLN 1,623,934 thousand; 2016: PLN 1,704,886 thousand)**

<table>
<thead>
<tr>
<th>Product Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air pollution control systems</td>
<td>254,622</td>
<td>174,341</td>
</tr>
<tr>
<td>Power generation units and stream generators</td>
<td>60,036</td>
<td>193,743</td>
</tr>
<tr>
<td>Jaworzno 910MW</td>
<td>1,232,078</td>
<td>1,274,220</td>
</tr>
<tr>
<td>Subassemblies and parts of power machinery and equipment, and structures</td>
<td>36,477</td>
<td>21,006</td>
</tr>
<tr>
<td>Other revenue</td>
<td>40,721</td>
<td>41,576</td>
</tr>
</tbody>
</table>

**Foreign markets (2017: PLN 158,660 thousand; 2016: PLN 170,426 thousand)**

<table>
<thead>
<tr>
<th>Product Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air pollution control systems</td>
<td>1,232,078</td>
<td>1,274,220</td>
</tr>
<tr>
<td>Power generation units and stream generators</td>
<td>36,477</td>
<td>21,006</td>
</tr>
<tr>
<td>Jaworzno 910MW</td>
<td>40,721</td>
<td>41,576</td>
</tr>
<tr>
<td>Subassemblies and parts of power machinery and equipment, and structures</td>
<td>254,622</td>
<td>174,341</td>
</tr>
<tr>
<td>Other revenue</td>
<td>60,036</td>
<td>193,743</td>
</tr>
</tbody>
</table>

RAFAKO GROUP
Air pollution control systems  | Urządzenia ochrony powietrza
---|---
Power generation units and stream generators  | Bloki energetyczne i kotły
Subassemblies and parts of power machinery and equipment, and structures  | Zespoły oraz części maszyn urządzeń energetycznych oraz konstrukcje
Other revenue  | Pozostałe przychody
In 2017, the RAFAKO Group’s major customers included:

**on the domestic market (PLN 1,623,933 thousand in total):**

In 2017, the Group’s main customer was Tauron Wytwarzanie S.A., which accounted for 69.2% of total sales (68.0% in 2016). Revenue attributable to this customer was generated mostly in connection with the construction of a 910MW supercritical power generating unit at the Jaworzno Power Plant.

Also Enea Wytwarzanie Sp. z o.o. had a significant share in sales, at 9.4% of total sales in 2017 (3.6% in 2016). Revenue from sales to this customer was generated mainly on the construction of an SCR unit at the Kozienice Power Plant (PLN 97,702 thousand) and FGD units for the K7 and K8 boilers of the Białystok CHP Plant (PLN 47,516 thousand).
RAFAKO Group’s main customer on foreign markets was the French company CNIM (Constructions industrielles de la Méditerranée), whose share in total sales was 2.8%. Revenue from that customer was generated on the sale of the pressure part of a steam generator for a waste incineration plant.

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

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

3. Deliveries, procurement and purchase of production materials

In 2017, the Group’s main supply sources included:

<table>
<thead>
<tr>
<th>Source</th>
<th>2017 Value</th>
<th>2017 Share in Total Purchases</th>
<th>2016 Value</th>
<th>2016 Share in Total Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic suppliers</td>
<td>1,173,813</td>
<td>79.8%</td>
<td>1,113,116</td>
<td>69.0%</td>
</tr>
<tr>
<td>Foreign suppliers</td>
<td>296,685</td>
<td>20.2%</td>
<td>500,145</td>
<td>31.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,470,497</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>1,613,261</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

In 2017, the share of one of the suppliers – Siemens AG – exceeded 10% of the Group’s total purchases, amounting to 11.4% of total purchases (PLN 167,590 thousand). Purchases from Siemens AG comprise mainly the manufacture, delivery and installation of a turbine island system for the Jaworzno 910MW Project. Purchases from Stal-Systems S.A. accounted for 9.7% of total procurement (PLN 142,345 thousand), and comprised mainly the delivery and assembly of the steel structure for the engine building and boiler house, also for the Jaworzno 910 MW project. Neither Siemens AG nor Stal-Systems S.A. is related to the Group. The structure of the RAFAKO Group’s other suppliers was highly fragmented.
The Group relies on external suppliers for various services, delivery and assembly of machines and equipment, construction and installation services and transport, as well as pipes, metal sheets, shaped materials, welding materials and specialist equipment. The range of purchases depends heavily on the nature and requirements of running contracts (customised production). The availability of production materials, supplies or procurement services is not a limiting factor for the Group’s business. Suppliers are chosen based on their ability to provide materials and equipment that meet the relevant technical and quality standards within specified deadlines and in the most cost-effective manner. The procurement process is based on market analysis, with the pool of suppliers including only manufacturers recognised for the quality of their products and compliance with the safety, environmental and other relevant standards.

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

4. Related-party transactions

In 2017, the parent and its subsidiaries did not enter into any material related-party transactions on non-arm’s length terms. The values of related-party transactions are disclosed in Note 45 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2017.

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

In 2017, the cost of sales of products, services and materials was PLN 1,632,608 thousand. With revenue of PLN 1,782,594 thousand, the Group posted a gross profit of PLN 149,986 thousand (up 20.7% year on year).

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

The gross profit margin rose to 8.4%, from 6.6% in 2016.

Administrative expenses totalled PLN 61,135 thousand, having risen by PLN 3,385 thousand year on year, driven, among other things, by higher costs of legal and advisory services, including costs of business support services.

In 2017, distribution costs were PLN 38,683 thousand, having increased by PLN 6,721 thousand year on year. Impairment losses on trade receivables and write-off of previously impaired trade receivables went up by PLN 5,880 thousand in 2017.

After accounting for distribution costs and administrative expenses, the Group generated profit on sales of PLN 50,168 thousand in 2016, compared with PLN 34,601 thousand in 2016.

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

3.6.1. Net other income/(expenses)

In 2017, the Group recorded net other expenses of PLN 3,756 thousand (2016: net other expenses of PLN 9,904 thousand), attributable to:

<table>
<thead>
<tr>
<th>PLN ’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. recognition of a restructuring provision</td>
</tr>
<tr>
<td>2. donations and subsidies</td>
</tr>
<tr>
<td>3. recognition of a provision for future costs</td>
</tr>
<tr>
<td>4. cost of scrapping</td>
</tr>
<tr>
<td>5. negative net balance of an impairment loss on other receivables</td>
</tr>
</tbody>
</table>
6. negative net balance of other income and expenses (1,290)
7. income from liquidated damages 5,336
8. gain on sale of property, plant and equipment 1,344
9. reversal of the provision for disputed claims 1,237

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

Income from liquidated damages was attributable primarily to the imposition on one of the Group’s subcontractors of a PLN 5,195,000 contractual penalty for delayed contract performance.

1.1.1. Net finance income/costs

In 2017, the Group recorded net finance costs of PLN 9,474 thousand (2016: net finance costs of PLN 2,204 thousand), attributable to:

<table>
<thead>
<tr>
<th>PLN ‘000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. foreign exchange losses (5,694)</td>
</tr>
<tr>
<td>2. interest on financial instruments, including interest on loans, past due receivables, deposits, and bank accounts (2,232)</td>
</tr>
<tr>
<td>3. interest on employee benefit obligations (769)</td>
</tr>
<tr>
<td>4. recognition of a provision for interest expense (661)</td>
</tr>
<tr>
<td>5. negative net balance of other finance income and costs (642)</td>
</tr>
<tr>
<td>6. interest on security deposits provided 524</td>
</tr>
</tbody>
</table>

2. Income: amount and structure

The main source of the Group’s pre-tax profit, which amounted to PLN 36,938 thousand in 2017 (PLN 22,493 thousand in 2016), was gross profit generated by the Group on its principal operations, of PLN 50,168 thousand.

After accounting for net other expenses (PLN 3,756 thousand), net finance costs (PLN 9,474 thousand), and income tax (PLN 33,741 thousand), the Group achieved a net profit of PLN 3,197 thousand, compared with PLN 10,940 thousand in 2016.

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

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

3. Margins and ROE

In 2017, the Group reported an improvement in its operating profit margin compared with a year earlier. Gross profit margin rose to 8.4% and was 1.8pp higher than in 2016, while operating profit margin amounted to 2.6% (compared with 1.3% in 2016).

With its net profit at PLN 3,197 thousand, the Group’s return on equity (ROE) amounted to 0.5% (in 2016: 2.5%).

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

4. Financial liquidity

As at the end of 2017, the current ratio (current assets to current liabilities) increased to 1.64, from 1.23 at the end of 2016. The quick ratio (current assets net of inventories to current liabilities) also increased, to 1.60, from 1.21 at the end of 2016.

Relative to 2016, in 2017 the average collection period shortened by 42 days (to 71 days), while the average collection period for amounts due from customers for construction contract work extended by 12 days (to 57 days). Inventory turnover did not change and was 3 days. The average payment period shortened by 28 days (to 69 days), while the average payment period for amounts payable for construction contract work shortened by 24 days (to 8 days).
In 2017, liabilities to the Social Security Institution (ZUS), State Treasury and employees were settled in a timely manner, although there were delays in payments to suppliers.

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

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

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

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

Access to new bank/insurance guarantees will be of paramount importance for the Group to be able to maintain liquidity. Unavailability of sufficient guarantee limits may restrict the Group’s ability to win new revenue-generating contracts.

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

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

The strategy of currency risk management followed by the parent is to use natural hedging to the extent possible. The parent seeks 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 parent may hedge between 30% and 70% of its net exposure to foreign exchange risk by means of approved derivative instruments (e.g. FX forwards) available on the market. In the second half of 2017, the parent entered into futures/forward transactions to hedge the USD/PLN exchange rate risk. As at December 31st 2017, the parent had open hedging positions for a total amount of USD 4m.

For the objectives and rules of financial risk management, see Note 52 to the RAFAKO Group’s consolidated financial statements for 2017.

5. Debt

In 2017, the RAFAKO Group’s liabilities towards its creditors decreased by PLN 313,597 thousand. As at December 31st 2017, total non-current and current liabilities were PLN 669,621 thousand, compared with PLN 983,218 thousand as at December 31st 2016.

Under current liabilities, the greatest decrease was recorded in trade payables, which went down to PLN 314,370 thousand (PLN 473,476 thousand at the end of 2016). Amounts due to customers and provisions for construction contract work and deferred income decreased by PLN 122,325 thousand, to PLN 58,857 thousand. Liabilities under bank and non-bank borrowings went down by PLN 48,379 thousand, to PLN 98,728 thousand.

Non-current liabilities fell by PLN 7,331 thousand, to PLN 66,518 thousand.

As at December 31st 2017, the Group’s assets not encumbered with on-balance-sheet (non-current and current) liabilities were: PLN 610,253 thousand (as at December 31st 2016: PLN 443,851 thousand, up by 37.5%).
Debt to equity ratio (including non-current and current liabilities), measuring the Group's ability to secure repayment of debt with assets, fell by 16.6pp year on year, to 52.3%.

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

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

6. Off-balance-sheet items

As at December 31st 2017, the Group’s contingent liabilities under bank and insurance guarantees, letters of credit and promissory notes issued as security stood at PLN 1,636,187 thousand (as at December 31st 2016: PLN 1,606,013 thousand). The main items of these liabilities were sureties issued for the benefit of financial institutions which provided financial security in respect of the Jaworzno 910 MW Project, the surety was provided to secure proper discharge of obligations by the Jaworzno project SPV in connection with financial guarantee agreements (PLN 1,294,375 thousand).

In the 12 months of 2017, guarantees (mainly performance bonds of PLN 142,678 thousand and bid bonds of PLN 47,766 thousand) were issued by banks and insurance companies to the Group’s trading partners upon the parent’s instructions. In this category of liabilities, the largest item was a performance bond of PLN 11,972 thousand, issued in May 2017.

In connection with its ongoing contracts, besides contingent (off-balance-sheet) liabilities, the Group also had contingent receivables, which amounted to PLN 694,179 thousand as at December 31st 2017 (PLN 692,181 thousand as at December 31st 2016).

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

7. Assets financing: amounts and structure
As at December 31st 2017, total assets stood at PLN 1,279,874 thousand, having fallen by PLN 147,195 thousand (10.3%) on December 31st 2016. The change was mainly driven by a decrease of PLN 235,291 thousand in short-term trade receivables, a PLN 19,479 thousand decrease in income tax, and a PLN 18,603 thousand decrease in the deferred tax asset.

Cash and cash equivalents and gross amount due from customers for construction contract work increased respectively by PLN 72,767 thousand (to PLN 180,291 thousand) and PLN 44,557 thousand.

The share of equity in the financing of assets increased by 16.6pp relative to December 31st 2016, to 47.0%. The increase was attributable to the parent’s issue of Series K shares worth PLN 170m.

Long-term capital (equity plus non-current liabilities) covered the full amount of non-current assets (excluding assets held for sale) and 39.2% of current assets.

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

1. non-current assets of PLN 287,963 thousand were fully financed with long-term capital,
2. current assets (and non-current assets held for sale) of PLN 991,911 thousand were financed with:
   - long-term capital 39.2%,
   - trade payables 31.7%,
   - other current liabilities 15.6%,
   - short-term borrowings 10.0%,
   - gross amount due to customers for contract work 3.5%.

8. Non-current assets

1.8.1. Structure of non-current assets

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

<table>
<thead>
<tr>
<th>Category</th>
<th>December 31st 2017</th>
<th>Percentage</th>
<th>December 31st 2016</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Property, plant and equipment, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- land</td>
<td>170,934</td>
<td>59.4%</td>
<td>178,585</td>
<td>58.1%</td>
</tr>
<tr>
<td>- buildings</td>
<td>23,759</td>
<td>8.3%</td>
<td>23,754</td>
<td>7.7%</td>
</tr>
<tr>
<td>- plant and equipment</td>
<td>87,741</td>
<td>30.5%</td>
<td>89,344</td>
<td>29.1%</td>
</tr>
<tr>
<td>- vehicles</td>
<td>50,059</td>
<td>17.4%</td>
<td>54,122</td>
<td>17.6%</td>
</tr>
<tr>
<td>- property, plant and equipment under construction</td>
<td>8,160</td>
<td>2.8%</td>
<td>9,161</td>
<td>3.0%</td>
</tr>
<tr>
<td>- other</td>
<td>254</td>
<td>0.1%</td>
<td>1,409</td>
<td>0.5%</td>
</tr>
<tr>
<td>2. Intangible assets</td>
<td>18,071</td>
<td>6.3%</td>
<td>18,782</td>
<td>6.1%</td>
</tr>
<tr>
<td>3. Long-term trade receivables, other receivables and prepayments</td>
<td>41,163</td>
<td>14.3%</td>
<td>34,007</td>
<td>11.0%</td>
</tr>
<tr>
<td>4. Non-current financial assets</td>
<td>25,011</td>
<td>8.7%</td>
<td>24,911</td>
<td>8.1%</td>
</tr>
<tr>
<td>5. Deferred tax assets</td>
<td>32,784</td>
<td>11.4%</td>
<td>51,387</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

The most important item of non-current assets was represented by land and buildings, which accounted for 38.8% of non-current assets and about 8.7% of total assets. Other significant items included plant and equipment and long-term trade receivables, other receivables and prepayments. At the end of 2017, these accounted for 17.4% and 14.3%, respectively, of total assets. Plant and equipment include mostly machinery, equipment and apparatuses used in manufacturing processes, as well as computer hardware.

In 2017, non-current assets decreased by PLN 19,111 thousand (6.4%) compared with the previous year. The deferred tax asset decreased by PLN 18,603 thousand, to PLN 32,784 thousand at the end of 2017, while long-term trade receivables, other receivables and prepayments increased by PLN 7,156 thousand, to PLN 41,163 thousand. Non-current financial assets consisted mainly of bonds worth PLN 24,769 thousand which the Group
acquired in 2017 as part of the conversion of receivables from PBG S.A. For details, see section IV.4.b.

1.8.2. Key investments in property, plant and equipment
In 2017, the Group incurred capital expenditure on non-financial non-current assets of PLN 5,922 thousand, including:
- PLN 5,144 thousand on property, plant and equipment,
- PLN 778 thousand on intangible assets.
Capital expenditure on property, plant and equipment included primarily expenditure on the purchase and modernisation of plant and equipment, including IT hardware, and the purchase of vehicles.
Capital expenditure on intangible assets was incurred mainly by the parent. The expenditure chiefly related to the implementation of a new controlling system, upgrade of the server rooms, and implementation of a document flow system.
The expenditure was financed with internally generated funds and through lease agreements.

9. Current assets
In 2017, current assets decreased by PLN 126,676 thousand, to PLN 991,786 thousand. The change in current assets was chiefly driven by a PLN 235,291 thousand decrease in trade receivables, to PLN 351,972 thousand.
Another significant item were prepayments relating to accounting for construction contracts (mainly amounts due from customers for contract work), which stood at PLN 279,908 thousand (an increase of PLN 44,557 thousand year on year).
As at the end of 2017, cash and cash equivalents were PLN 180,291 thousand (up PLN 72,767 thousand year on year).
For the list of loans advanced in 2017, see Appendix 7.

10. Equity amount and structure
As at December 31st 2017, the RAFAKO Group's equity (including equity attributable to non-controlling interests) was PLN 610,253 thousand, up PLN 166,402 thousand year on year. Equity comprised:
1. Share capital of PLN 254,864 thousand, comprising 127,431,998 Series A, B, C, D, E, F, G, H, I, J and K ordinary shares. In the twelve months of 2017, the share capital of the parent was changed following the issue of 42,500,000 Series K shares with a par value of PLN 2.00 per share. As a result of the issue, the Group's share capital increased by PLN 85,000 thousand;
2. Parent's share premium of PLN 173,708 thousand. In 2016, following the settlement of the issue of Series K shares, the share premium was PLN 85,000 thousand, while the direct costs of the issue were PLN 6,632 thousand. Following the recognition of PLN 78,368 thousand as share premium, less the issue cost, the share premium totalled PLN 173,708 thousand (December 31st 2014: PLN 95,340 thousand);
3. Statutory reserve funds of PLN 182,242 thousand;
4. Accumulated losses of PLN 8,756 thousand;
5. Exchange differences on translating foreign operations of PLN (-)433 thousand;
6. Equity attributable to non-controlling interests of PLN 8,628 thousand.
In 2017, the Group companies did not acquire their own shares.

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

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

- PLN 22,588 thousand was used as security for new financial instruments,
- PLN 7,914 thousand was used as financing support for new contracts,
- PLN 4,911 thousand was used to finance R&D work in 2017.

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

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

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

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

Summing up, proceeds from the issue of Series K shares, totalling PLN 163,368 thousand, were used as follows in 2017:

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

A total of PLN 74,516 thousand was used from the proceeds from the issue of Series K shares. The balance of PLN 87,852 thousand is to be used:

a) to finance future foreign contracts and working capital in contracts signed with customers on the Polish market, in order to ensure that RAFAKO S.A. is able to implement its international expansion strategy and participate in Poland’s market of environmental protection systems. RAFAKO S.A. plans to earmark about 65.0% of proceeds from the issue of the Offer Shares for this purpose (see “Overview of the Group’s operations – Strategy – Development of foreign sales”, and “Overview of the Group’s operations – Strategy – Optimisation in contract security and financing”);

b) to finance the parent’s contribution towards putting new products, including polygeneration islands, into production, and towards projects related to gasification of waste and biomass (see “Overview of the Group’s operations – Research and development”). Commercialization of new products by the parent is to help the Group enter new business areas, not related to the heat and power generation sector, to stabilise the Group’s revenue in the future. RAFAKO S.A. plans to apply up to 25.0% of the proceeds from the issue of the Offer Shares towards that purpose;

c) to finance R&D projects carried out by RAFAKO S.A. (see “Overview of the Group’s operations – Research and development”). The R&D projects are to ensure continuous development of the Group’s operations and keep its offering competitive. RAFAKO S.A. plans to earmark up to 10.0% of the proceeds from the issue of the Offer Shares towards that purpose.
4. Human resources and workforce at the RAFAKO Group

In 2017, the average workforce at the Group was 2,210 employees, down 203 on 2016. The decrease was reported mainly by the parent and followed from the reorganisational restructuring programme in place at RAFAKO S.A. The programme aims to adjust the level and costs of employment at RAFAKO S.A. to the conditions prevailing on the parent’s markets.

Employment structure at end of period  

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>production</td>
<td>854</td>
</tr>
<tr>
<td>engineering design office</td>
<td>382</td>
</tr>
<tr>
<td>technology office</td>
<td>64</td>
</tr>
<tr>
<td>quality control</td>
<td>108</td>
</tr>
<tr>
<td>maintenance</td>
<td>73</td>
</tr>
<tr>
<td>other employees (financial and accounting, sales and procurement staff)</td>
<td>670</td>
</tr>
</tbody>
</table>

As at December 31st 2017, the Group’s employees with university degree or secondary school diploma accounted for 72.2% of the personnel (70.9% as at December 31st 2016). The parent’s Management Board recognises the importance of recruiting new, well-educated employees. As more than 90% of job positions at the Company require specialist knowledge, persons with specialist university degrees are given priority in the recruitment process. As at December 31st 2017, university graduates accounted for 47.5% of the personnel (up by 2.1% on December 31st 2016). The Group also attaches importance to continuous professional advancement, and many employees decide to enrol in part-time university courses.

Employment structure at the Group at end of period  

<table>
<thead>
<tr>
<th>Company</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAFAKO S.A.</td>
<td>1,741</td>
</tr>
<tr>
<td>E003B7 Sp. z o.o.</td>
<td>137</td>
</tr>
<tr>
<td>RAFAKO ENGINEERING Sp. z o.o.</td>
<td>137</td>
</tr>
<tr>
<td>ENERGOTECHNIKA ENGINEERING Sp. z o.o.</td>
<td>102</td>
</tr>
<tr>
<td>Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o.</td>
<td>23</td>
</tr>
<tr>
<td>RAFAKO ENGINEERING SOLUTION doo.</td>
<td>11</td>
</tr>
<tr>
<td>RAFAKO Hungary Kft.</td>
<td>0</td>
</tr>
<tr>
<td>E001RK Sp. z o.o.</td>
<td>0</td>
</tr>
<tr>
<td>Reng Nano</td>
<td>0</td>
</tr>
</tbody>
</table>

The employee age structure slightly changed: The share of employees aged 30 or below was 13.9%, down 2.3% on 2016. Employees aged between 31 and 40 represented 25.6% (2016: 24.6%) of the total workforce, while the share of those aged between 41 and 50 increased by 2.0% to 26.4%. The share of employees aged 51 or more was 33.9% (2016: 35.3%).

Over the last 12 months, minor changes were observed in the workforce structure in terms of their length of service. Employees with a length of service of up to 10 years represented 27.1% of the entire personnel (30.5% in 2016), while 20.2% of employees had worked for 11–20 years (up by 1.8% on 2016). The proportion of employees with 21–30 years of service increased slightly, to 18.1%. 34.6% of employees had been employed at
the Group for more than 31 years. The Group’s workforce has a long-standing and unique professional experience.

5. Other information

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

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

For information on the amount of remuneration, awards and benefits for members of the Management and Supervisory Boards, see Note 49 to the consolidated financial statements of the RAFAKO Group.

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

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

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

For information on the number of shares in RAFAKO S.A. and its related entities held by members of the Management and Supervisory Boards, see Note 47 to the Group’s consolidated financial statements.
IV. Key events and developments in 2017 and in the period from the end of the financial year to the date of the report

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

1. Contract with TAURON (Jaworzno Power Plant)

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

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

<table>
<thead>
<tr>
<th>Key parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supercritical pulverised-fuel, tower-type, once-through steam generator,</td>
</tr>
<tr>
<td>Unit’s nominal output (gross) – 910 MW,</td>
</tr>
<tr>
<td>Generator’s rated thermal input – 1,832 MWt,</td>
</tr>
<tr>
<td>Rated capacity – 2,390 t/h,</td>
</tr>
<tr>
<td>Temperature of steam at outlet (live/superheated) – 603/621°C,</td>
</tr>
<tr>
<td>Pressure of live steam at outlet – 28.5 MPa,</td>
</tr>
<tr>
<td>Pressure of superheated steam at outlet – 6.2 MPa,</td>
</tr>
<tr>
<td>Efficiency in standard conditions &gt;95%,</td>
</tr>
<tr>
<td>Availability &gt; 95%,</td>
</tr>
<tr>
<td>Net generation efficiency &gt; 45.91 %,</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unit’s components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superheated steam generator,</td>
</tr>
<tr>
<td>Steam turbine powering the electricity generator,</td>
</tr>
<tr>
<td>Feed water pump system,</td>
</tr>
<tr>
<td>Systems designed to meet the sulfur dioxide, nitric oxide and dust emission standards specified in the Industrial Emissions Directive (IED),</td>
</tr>
<tr>
<td>Systems for disposal of combustion waste, as well as for delivery and preparation of various auxiliary media.</td>
</tr>
</tbody>
</table>

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

Environmental implications:

According to the project owner’s estimates, once the project is complete, sulfur dioxide emissions will be sixteen times lower than from the 120 MW units which are to be decommissioned, nitric oxide emissions will be more than five times lower, and dust emissions will be reduced eleven times. In addition, carbon dioxide emissions will be cut by nearly two million tonnes a year.
### Key events in 2017 and 2018

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

In its separate financial statements, RAFAKO S.A. recognises only revenue and expenses related to its own scope of work, i.e. 11.3% of the total scope of work to be performed on the Jaworzno 910 MW Project. In its separate financial statements, the Company does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. – they are reported in the separate financial statements of E003B7 Sp. z o.o.
For rules of accounting for the contract, see Note 11.1.1 to the consolidated financial statements.

2. Contract with PGE Elektrownia Opole

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

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

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

On October 26th 2013, E001RK Sp. z o.o. (a company dedicated to the Opole Project, wholly-owned 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 revenue and expenses under the contract has no effect on the amounts disclosed in the Group’s statement of comprehensive income.

For rules of accounting for the contract, see Note 11.1.2 to the consolidated financial statements.

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

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

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

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

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

3. Other significant contracts

a. On May 31st 2017, the parent received a notice to proceed from JSC Vilniaus Kogeneracine Jégainé with respect to the contract of September 29th 2016 for construction of a biomass-fired co-generation unit consisting of fluidised bed boilers, biomass storage and feeder systems, and a flue gas treatment
b. On August 16th 2017, RAFAKO S.A. was notified that PT. PLN (PERSERO), JALAN TRUNOJOYO BLOK M I/135, KEBAYORAN BARU, JAKARTA 12160, INDONESIA (the “Employer”) had selected the bid submitted by a consortium comprising RAFAKO S.A. and PT. Rekayasa Industri as the consortium leader as the best bid in tender construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia.

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

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

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

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

4. Other material events

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

For more details on the credit facility agreement, see Note 31 to the Group’s financial statements.

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

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

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

On February 10th 2017, the bonds were allotted to the parent.
The bonds will be redeemed in individual series, as presented in Note 24 to the Group’s financial statements. The last series is to be redeemed on June 30th 2020. In the twelve months ended December 31st 2017, the parent PBG S.A. redeemed Series B1, C1 and D1 bonds worth in aggregate PLN 5,658.8 thousand. As at December 31st 2017, the discounted value of bonds maturing in more than one year was PLN 24,769 thousand.

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

d. The resolutions passed by RAFAKO S.A.’s Extraordinary General Meeting of September 12th 2017, convened by RAFAKO S.A.’s Management Board, concerned:
   • increase of the parent’s share capital through an issue of new shares with a total par value of no more than PLN 85,000,000 (issue of no fewer than 1 (one) and no more than 42,500,000 (forty two million, five hundred thousand) Series K ordinary bearer shares with a par value of PLN 2 (two złoty) per share),
   • amendments to the parent’s articles of association,
   • extension of the parent’s business profile.

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

On January 18th 2018, the new shares were registered by the Central Securities Depository of Poland and introduced to trading on the WSE Main Market.

The purpose of the issue was for the parent to raise funds to be used to:
   • finance future foreign contracts and working capital in contracts signed with customers on the Polish market, in order to ensure that the parent is able to implement its international expansion strategy and participate in Poland’s market of environmental protection systems. The parent plans to apply approximately 65.0% of the issue proceeds towards that purpose;
   • finance the parent’s contribution towards putting new products, including polygeneration islands, into production, and towards projects related to gasification of waste and biomass. Commercialization of new products by the parent is to help the parent enter new business areas, not related to the heat and power generation sector, to stabilise the Group’s revenue in the future. The parent plans to apply up to 25.0% of the funds raised from the issue towards that purpose;
   • finance the R&D projects run by the parent. Financing R&D projects is aimed at ensuring continuous development of the parent’s operations and maintaining a competitive offering. The parent plans to apply up to 10.0% of the issue proceeds towards that purpose.

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

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

For information on the agreement with the qualified auditor of financials statements, see Note 51 to the Group’s consolidated financial statements.

5. Research & development and quality improvement projects

In the course of its R&D activity, the parent cooperates with institutions of science education, especially with the Wrocław University of Technology, Silesian University of Technology, Cracow University of Technology, AGH University of Science and Technology, Jagiellonian University, Stanisław Staszic Institute for Ferrous Metallurgy, the Polish Institute of Welding, and other research and scientific institutions. Key initiatives in this area rely on cooperation with a number of entities as part of projects commissioned by the National Centre for Research and Development and by InnoEnergy – Knowledge & Innovation Community.

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

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

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

Research and science projects aimed at developing new products include:

- CO2-SNG – CO2 methanation for storage of cheap, surplus energy through SNG production (with InnoEnergy’s co-financing);
- Polygen – a municipal polygeneration system fired with biomass and refuse-derived fuel (financed by InnoEnergy);
- E-bus – an innovative small electric bus.

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

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

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

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

In 2017, there were no changes in the basic management policies applicable at the RAFAKO Group.

7. Other information

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

The parent has a self-reporting branch in Turkey, which prepares its financial statements in accordance with Turkish law. The functional currency of the branch is EUR.

In connection with the preparatory proceedings pending against current and former employees of Е003B7 sp. o.o. in connection with the suspicion of acting to the detriment of this company, consisting in the alleged
acceptance of financial benefits from E003B7 sp. o.o.’s subcontractors, at the request of the Supervisory Board of E003B7 sp. o.o., the company’s Management Board engaged a professional adviser (law firm) to conduct internal explanatory proceedings in this regard. The procedures performed by the external adviser include an independent audit of the procurement and anti-corruption procedures applicable at E003B7 sp. o.o., and compliance of employees’ actions with these procedures during procurement proceedings, as well as verification whether a specific or alleged action could influence the selection of the supplier, whether this might give rise to any claims on the part of E003B7 sp. o.o. against the persons subject to the prosecutor’s proceedings or to any third party claims against E003B7 sp. o.o., and also whether in other procurement proceedings carried out at E003B7 sp. o.o., E003B7 sp. o.o.’s interests might have been compromised as a result of an illegal or non-standard conduct. Based on the preliminary findings of the explanatory proceedings conducted by the external adviser, summarised in the memorandum of March 19th 2018 and the updated memorandum of March 29th 2018, the parent’s Management Board is of the opinion that the above event had no effect on the internal procurement controls or on the financial statements of E003B7 sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

8. Disputes, pending litigation, arbitration or administrative proceedings

For information on material disputes and litigation, see Note 38 to the consolidated financial statements of the RAFAKO Group for 2017.
V. Growth prospects

1. The RAFAKO Group’s strategy

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

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

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

The Group’s strategic objectives are to:

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

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

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

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

e) Capture a market share in industrial construction;

f) Optimise contract financing and contract performance security;

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

h) Achieve dividend distribution capacity in 2020.

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

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

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

**Oil and gas segment**

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

The RAFAKO Group intends to actively participate in the market of investment projects related to gas and oil production and to the development and modernisation of gas networks in Poland and abroad. The Group is interested in participating in projects of key importance to Poland’s energy security, related to the expansion of underground gas and oil storage facilities and distribution infrastructure, including gas compressor stations. In 2018, in the gas and oil upstream and downstream sector, the RAFAKO Group plans to bid for contracts in the Polish and foreign markets with a total estimated value of almost
PLN 3.2bn, and assumes to secure contracts for at least PLN 400m by the end of 2018. Tenders in this segment mainly relate to installations for liquefying natural gas and LNG storage, compressor stations, gas pipelines, gas production facilities, and modernisation of existing installations and facilities.

**Foreign operations**

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

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

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

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

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

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

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

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

**Development of the Group's solutions, especially proprietary technologies**

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

- modify and improve traditional products, such as steam generators and environmental protection equipment,
• develop new products, including a programme to improve the flexibility of 200 MW generating units, together with a comprehensive upgrade offering, polygeneration islands (the POLYGEN project), CO2 methanation, and electromobility (the innovative school/city bus project).

Dividend policy

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

2. Factors and developments relevant for the Group’s prospects in 2018

In 2018, the following factors and developments will have the greatest bearing on the parent’s development and prospects:

• securing financial liquidity and obtaining access to new bank/insurance guarantees that will enable the Group to perform new contracts,
• making good progress on the construction of a 910 MW supercritical power generating unit at the Jaworzno Power Plant,
• making good progress on the construction of a biomass-fired co-generation unit in Vilnius (Lithuania),
• start of construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia,
• performance of a large number of significant contracts in the Polish and European markets, including construction of modern steam generators, flue gas desulfurisation and NOx reduction units, municipal waste treatment and incineration systems, as well as pressurised parts of supercritical boilers,
• performance of new contracts in the natural gas and oil segment, including fuel storage depots and gas transmission installations,
• acquisition of new material contracts,
• adjusting the level and costs of employment at the parent to the conditions prevailing in the market where it operates.

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

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

3. Order book

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

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

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

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

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

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

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

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

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

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

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

The consortium will construct the unit together with a complete set of key facilities, installations and external equipment required for its safe and proper operation. The unit will be fitted with a coal-fired supercritical pulverised-fuel once-through steam generator and a condensing steam turbine coupled with the power generator. The unit will be connected to a new 400 kV substation supplying electricity to the National Power Grid. The unit’s gross capacity will be 910 MWe, with a net efficiency of 45.91% and design coal consumption of ca. 345 t/h at nominal capacity.
The unit will be a high-efficiency base-load electricity generation facility operating within the power system. It will be fitted with systems enabling compliance with the NOx, SO2 and dust emission standards, i.e. an SCR unit, a desulphurisation unit and an electrostatic precipitator. The operating life of the unit will be at least 200 thousand hours or 30 years, and its output will increase the total capacities of the Polish electric utility sector by approximately 2.5%.

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

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

Key contracts for air pollution control systems

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

On September 30th 2016, the parent and ENEA Wytwarzanie Sp. z o.o. signed a contract for delivery and installation of a catalytic flue gas NOx reduction system for AP-1650 boilers No. 9 and 10 and for upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. for PLN 289,182.1 thousand.

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

The contract completion deadline is:

a) for Task 1 – May 18th 2018 (placing the SCR unit, DRiM II Station and EP 9 in service),
b) for Task 2 – August 25th 2018 (placing the SCR unit and upgraded EP 10 in service).

2) SCR systems in Polaniec

On June 14th 2012, RAFAKO S.A. signed a contract for delivery of SCR Catalytic Flue Gas NOx Reduction Systems to the Polaniec Power Plant. The contract, providing for delivery of the systems for six units (No. 2−7), will be carried out in stages until 2017. The total value of the contract is PLN 240m. The contract includes optional delivery of equipment with a value of PLN 26m.

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

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

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

On October 16th 2017, a consortium comprising Rafako (leader, 90% interest) and Gmax Group concluded with National Trading & Transport Group Co Ltd. (NTT Group) a conditional agreement for the design and construction of a fuel storage depot in Rashaant, Mongolia, for EUR 46.97m, VAT exclusive. Rafako’s interest in the consortium is 90%. The contract completion deadline is 30 months from the date of handing over the construction site and technical documentation to the consortium.

In accordance with its terms, the contract will become effective provided that:

- it has been signed by authorised representatives of both parties, i.e. the NTT Group and the consortium, and is delivered to the other party;
- the NTT Group makes an advance payment that will be credited to the consortium’s bank account;
- the work under the contract will be financed by Bank Gospodarstwa Krajowego S.A. or Korporacja Ubezpieczeń Kredytów Eksportowych S.A. on the terms and conditions set out in the contract.

As the NTT Group and the consortium signed the contract, the only conditions that must be satisfied for the contract to become effective are making the advance payment and the NTT Group obtaining financing for the work from Bank Gospodarstwa Krajowego S.A. or Korporacja Ubezpieczeń Kredytów Eksportowych S.A.
Position of the Management Board and Supervisory Board of the parent regarding the qualifications expressed by the auditor in the audit report

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

The Company holds bonds (described in detail in Note 24 to the Group’s full-year consolidated financial statements for 2017), which were issued by the parent and offered to creditors who are to be satisfied in accordance with the Terms of the Arrangement. The bonds are secured bonds within the meaning of the Bonds Act of January 15th 2015. In line with IAS 39, the parent classifies the above assets as ‘financial assets held to maturity’ and measures them at amortised cost using the effective interest rate method. At the end of each reporting period the parent assesses whether there is any objective evidence that a financial asset is impaired, and recognises an impairment loss if needed. In the opinion of the parent’s Management Board, the carrying amount of the bonds presented in the full-year financial statements, of PLN 30.1m, has been calculated correctly and is equal to the recoverable amount. As at the date of this report, the parent’s Management Board is not able to estimate the effect of this matter on profit or loss. However, the maximum effect could be PLN 30.1m. Profit before tax, net profit and equity would decline accordingly.

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

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

c) Opinion of the supervisory body

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

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

1) to the best of their knowledge, the consolidated financial statements for the year ended December 31st 2017, as well as comparative data for the year ended December 31st 2016, were drawn up in compliance with the applicable accounting standards and give a true, fair and clear view of the Group’s assets, its financial condition and performance, and that the Directors’ Report on the operations of the RAFAKO Group gives a true view of the Group’s development, achievements and standing, including a description of key risks and threats;

2) the auditor of the 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 consolidated financial statements, in compliance with the applicable laws and professional standards.

Signatures of Management Board members

April 5th 2018  
Agnieszka Wasilewska-Semail  
President of the Management Board

April 5th 2018  
Jarosław Dusiło  
Vice President of the Management Board

April 5th 2018  
Edward Kasprzak  
Vice President of the Management Board

April 5th 2018  
Karol Sawicki  
Vice President of the Management Board

April 5th 2018  
Tomasz Tomczak  
Vice President of the Management Board