

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

This statement has been prepared in accordance with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2018, item 757).

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

In 2018, the Company applied the rules of corporate governance stipulated in the 'Code of Best Practice for WSE Listed Companies 2016' (Code of Best Practice), approved by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated October 13th 2015 on approval of the 'Code of Best Practice for WSE Listed Companies 2016', which is available at:

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

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

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

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

Reasons for non-compliance: *The company has not adopted a separate formal regulation governing its diversity policy. However, the Company applies the principle of equal treatment based on generally applicable laws, including labour law, the EU regulations, and the Charter of Human Rights.*

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

Reasons for non-compliance: After each General Meeting, the Management Board will announce that the General Meeting proceedings were audio- or video-recorded and that the recording is available on the Company's website. The Company declares that it will comply with the corporate governance principle requiring the publication of audio- or video-recordings of general meetings on a corporate website if Company shareholders, including minority shareholders (stock exchange investors), express an interest in general meetings being so recorded. The Company continues not to comply with this principle, the non-compliance being, however, attributable to different reasons.

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

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

II. Management Board, Supervisory Board

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

Reasons for non-compliance:

The Company continues not to comply with this principle, the non-compliance being, however, attributable to different reasons. The Audit Committee and the Remuneration Committee established within the Supervisory Board operate in accordance with the provisions of applicable laws and the Rules of Procedure of the Supervisory Board as adopted by the Supervisory Board. In addition, the Audit Committee's operations are regulated by the separate Rules of Procedure of the Audit Committee. Most of the Audit Committee and Remuneration Committee members satisfy the independence criteria provided for in the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (Dz.U. of 2017, item 1089) as well as the independence criteria set out in Annex II to the Commission Recommendation referred to in principle II.Z.4. Both committees are comprised of persons with requisite qualifications and experience. A significant part of the provisions of Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and operation the Audit Committee and Remuneration Committee. Through the Remuneration Committee and the remuneration policy, the Company ensures that the amount of remuneration of Management Board members is set by the Supervisory Board according to the specific responsibilities of individual Management Board members. The Management Board sets the amount of remuneration of key managers on the same basis, in accordance with the remuneration policy in place at the Company. Therefore, the Company's Management Board currently can see no adverse effects that non-compliance with this principle could cause to existing or potential Shareholders.

II.Z.10.2. A report on the activity of the supervisory board containing at least the following information:

- full names of the members of the supervisory board and its committees,
- supervisory board members' fulfilment of the independence criteria,
- number of meetings of the supervisory board and its committees in the reporting period,
- self-assessment of the supervisory board;

The Company's comment on the application of this principle.

Activity reports prepared by the Supervisory Board contain all necessary information, except self-assessment. The Supervisory Board's performance is assessed by the General Meeting.

III. Internal Systems and Functions

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

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

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

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

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

The assessment of other systems and functions is performed jointly by the Management Board and the management staff. These matters are periodically discussed by the Management Board with the Supervisory Board.

III.Z.5. The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

Reasons for non-compliance: *The Company has in place an internal control system and internal audit function, whose performance is periodically reported on by the head of the audit function and the Management Board to the Audit Committee and the Supervisory Board. Due to the distribution of risk management and compliance functions, it is the Management Board that discusses potential and actual events related to the risk management and compliance with the Supervisory Board.*

III.Z.6. Where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated.

Comment:

As the Company has a separate internal audit function in its organisation, this principle does not apply to the Company.

IV. General Meeting, Shareholder Relations

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

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

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

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

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

VI. Remuneration

Recommendation VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

Reasons for non-compliance:

As the Company does not apply principle II.Z.7. to the tasks or operation of the committees established within the Supervisory Board, this principle is not applicable to the Remuneration Committee either.

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

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

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

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

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

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

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

Reasons for non-compliance: In its annual financial statements, the Company discloses the amounts of all benefits payable to members of the Company's governing bodies in accordance with relevant stock exchange regulations and International Accounting Standards applicable to the Company, and therefore such statements contain only some of the data referred to in this principle. Moreover, the company treats the details of its remuneration policy as a trade secret.

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

The role of the continually enhanced internal control and risk management systems at RAFAKO S.A. is to ensure that the financial statements are prepared in a reliable, timely, comprehensive and transparent manner. The purpose of the systems is to identify, assess, manage and monitor potential events, a process which reasonably ensures the reliability and compliance of financial reporting. Improvement of control and risk identification mechanisms is a continuous process.

The Company's internal environment effectively contributes to providing reasonable assurance of the reliability of financial statements as well as the effectiveness and efficiency of the Company's financial transactions. It comprises, in particular, the WAN, the Integrated Management System, and the Organisational Rules defining the Company's functioning, organisational structure, employee competencies, delegation of powers and duties, specific procedures for the exercise of supervision by the Company's Management, ethical principles, as well as fraud, corruption and bribery prevention rules.

By taking care to ensure that adequate controls are in place, especially in the area of control mechanisms, including the division of duties (remit), access control, internal regulations, as well as record-keeping processes and financial and economic operations, the Company minimises potential fraud.

The process of communication of information to the employees/Management at specific points in time is effectively monitored and updated, thus enhancing the expected reliability of financial statements.

The continuous monitoring of effectiveness of the internal control system allows for taking appropriate corrective measures/ mitigating potential irregularities.

The aim of these measures is, among others, to prepare financial statements that give a fair view of the Company's business activities, in compliance with IAS and the Polish Accounting Act.

The Company's important internal regulations include the Accounting Policy and Chart of Accounts, adopted and applied by the Management Board of RAFAKO S.A., compliant with International Financial Reporting Standards.

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

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

The Supervisory Board (including through the Audit Committee) participates in the process of risk control and management in financial reporting by reviewing periodic financial statements prior to their issue and by assessing the Company's financial statements on an annual basis. The Supervisory Board's powers include approval of annual budgets and multi-year plans, binding commercial bids, purchase and disposal of property, acquisition and disposal of equity interests. The Supervisory Board also reviews the economic aspects of Company's operating, financing and investing activities on an ongoing basis. Whenever the Supervisory Board deems it necessary, it delegates its members to individually perform specific supervisory tasks.

In accordance with the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017, an Audit Committee has been established within the Supervisory Board, with the powers and responsibilities as defined in the Act, including also advising the Supervisory Board on proper implementation of budget reporting, financial reporting, and internal control standards at the Company and the RAFAKO Group, and other matters.

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

RAFAKO S.A.'s organisational structure includes an Internal Audit Unit, which reports to the Supervisory Board of RAFAKO S.A. and the Audit Committee of the Supervisory Board. The Internal Audit Unit operates on the basis of the adopted Internal Audit Rules as well as on the basis of international internal auditing standards. As it meets the criteria of organisational independence, the Internal Audit Unit carries out its activities in an objective and independent manner.

The Internal Audit Unit carries out internal audits according to an annual audit plan, carries out *ad hoc* audits and performs other audit exercises the aim of which is to, among others, provide the Supervisory Board/Management Board with reasonable assurance that the internal control system is effective and that the audit process requirements are met. The internal control system is assessed in terms of its effectiveness as well as in terms of how it contributes to streamlining the risk management processes.

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

- Infor LN10, an integrated ERP system whose functionalities ensure the transparent allocation of responsibilities and consistency of accounting records. An extensive reporting system makes it possible to verify the consistency of information.
- IBM Notes and Vdesk systems, guaranteeing the achievement of assumed objectives; used in an extensive computer network, they also support reviewing individual documents/financial and business transactions/processes in terms of quantity, quality and substance.

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

RAFAKO S.A. has long-standing relationships with a group of reputable audit firms offering high-quality services and satisfying the criterion of full independence. The auditor is selected by the Supervisory Board in an RFP process, in accordance with the Policy and Procedure for selection of a qualified auditor of financial statements.

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

Shareholders holding each more than 5% of shares as at December 31st 2018

| SHAREHOLDER/COMPANY NAME | | | OWNERSHIP INTEREST | % OF TOTAL VOTING |
|--------------------------|--|--|--------------------|-------------------|
|--------------------------|--|--|--------------------|-------------------|

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

| | NUMBER OF SHARES | NUMBER OF VOTING RIGHTS | | RIGHTS AT GM |
|--|--------------------|-------------------------|----------------|----------------|
| PBG S.A., Multaros Trading Company Ltd. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, in accordance with the agreement of October 24th 2017 referred to in Art. 87.1.6) of the Public Offering Act (*), of which: | 55,081,769 | 55,081,769 | 43.22% | 43.22% |
| PBG S.A. (*) | 7,665,999 | 7,665,999 | 6.02% | 6.02% |
| - Multaros Trading Company Ltd. (*) (***) | 34,800,001 | 34,800,001 | 27.31% | 27.31% |
| Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych managed by PFR TFI S.A. (**) | 12,615,769 | 12,615,769 | 9.90% | 9.90% |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny managed by Powszechnie Towarzystwo Emerytalne S.A. (****) | 12,582,710 | 12,582,710 | 9.87% | 9.87% |
| Other | 59,767,519 | 59,767,519 | 46.90% | 46.90% |
| TOTAL | 127,431,998 | 127,431,998 | 100.00% | 100.00% |

(*) Number of shares based on PBG's and Multaros's notifications of December 28th 2017.

(**) Number of shares based on a notification of January 3rd 2018 received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

(***) Given the fact that Multaros Trading Company Ltd. is PBG S.A.'s subsidiary, RAFAKO S.A. (the "Company") is indirectly controlled by PBG S.A., which holds, directly and indirectly, 42,466,000 Company shares, representing 33.32% of its share capital and conferring the right to 33.32% of total voting rights at its General Meeting.

(****) Number of shares estimated based on the annual asset structure published by Nationale-Nederlanden Otwarty Fundusz Emerytalny (as at December 29th 2017).

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

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

6. Any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or provisions according to which the financial rights attaching to securities are separated from the holding of securities

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

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

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

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

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

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

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

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

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

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

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

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

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

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

11. Activities of the Company's management, supervisory or administrative bodies and of their committees, including information on their composition and changes in their composition over the last financial year

In the financial year 2018, there were changes in the composition of the Company's Management Board.

On February 20th 2018, Mr Krzysztof Burek resigned from the position of Vice President of the Management Board.

On the same date, the Supervisory Board appointed Mr Karol Sawicki as Vice President of the Management Board.

On October 30th 2018, the following events took place:

1. The following persons resigned from the Management Board:
 - a) Mr Edward Kasprzak,
 - b) Mr Karol Sawicki,
 - c) Mr Tomasz Tomczak.
2. The Supervisory Board removed Ms Agnieszka Wasilewska-Semail from the position of President of the Management Board, appointing her as Vice President of the Management Board.
3. Mr Jerzy Wiśniewski resigned as member of the Company's Supervisory Board.
4. The Supervisory Board appointed Mr Jerzy Wiśniewski to the Company's Management Board as President.

As at December 31st 2018, the Management Board of RAFAKO S.A. was composed of:

1. Jerzy Wiśniewski – President of the Management Board,
2. Agnieszka Wasilewska-Semail – Vice President of the Management Board,
3. Jarosław Dusiło – Vice President of the Management Board.

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

In the financial year 2018, there were changes in the composition of the Company's Supervisory Board.

On October 30th 2018, Mr Jerzy Wiśniewski resigned as member of the Company's Supervisory Board.

In the exercise of its special right referred to in Art. 17.3 and Art. 17.4 of the Company's Articles of Association, on October 30th 2018 the shareholder PBG S.A. appointed Ms Helena Fic to the Supervisory Board as its Chair.

On December 18th 2018, the Extraordinary General Meeting of RAFAKO S.A. appointed Mr Michał Sikorski to the Company's Supervisory Board.

As at December 31st 2018, the Supervisory Board of RAFAKO S.A. was composed of:

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

1. Helena Fic – Chair of the Supervisory Board,
2. Małgorzata Wiśniewska – Deputy Chair of the Supervisory Board,
3. Przemysław Schmidt – Secretary of the Supervisory Board (independent member),
4. Krzysztof Gerula – Member of the Supervisory Board (independent member),
5. Dariusz Szymański – Member of the Supervisory Board,
6. Adam Szyszka – Member of the Supervisory Board (independent member),
7. Michał Sikorski – Member of the Supervisory Board.

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

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

In the financial year 2018, there were no changes in the composition of the Supervisory Board's Audit Committee. As at December 31st 2018, the Audit Committee was composed of:

1. Adam Szyszka – Chairman,
2. Przemysław Schmidt,
3. Dariusz Szymański.

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

In the financial year 2018, there were changes in the composition of the Supervisory Board's Remuneration Committee. In view of the resignation by Mr Jerzy Wiśniewski, who also served as member of the Remuneration Committee, on October 30th 2018 the Supervisory Board appointed Ms Małgorzata Wiśniewska to the Remuneration Committee. As at December 31st 2018, the Remuneration Committee was composed of:

1. Małgorzata Wiśniewska,
2. Krzysztof Gerula,
3. Przemysław Schmidt.

The Remuneration Committee's responsibilities include:

- presenting proposals, for approval by the Supervisory Board, concerning the rules of remuneration for Management Board members;
- presenting to the Supervisory Board the proposed amounts of remuneration for individual Management Board members;
- proposing to the Supervisory Board appropriate types of contracts to be signed with Management Board members. The Remuneration Committee presents to the Supervisory Board its recommendations regarding the rules and amounts of remuneration for Management Board members orally or in writing.

12. With respect to the audit committee or the supervisory board or any other supervisory or controlling body that performs the duties of the audit committee, indication of:

- persons meeting the statutory independence criteria,
- persons having the knowledge of and skills in accounting or auditing of financial statements, including information on how the knowledge and skills were acquired,
- persons having the knowledge and skills relevant for the industry in which the Company operates, including information on how the knowledge and skills were acquired,
- whether any permitted non-audit services were provided to the Company by the audit firm that audited its financial statements and whether the independence of that audit firm was assessed and consent for the provision of such services was given,
- the main assumptions of the policy for selecting an audit firm to conduct the audit and the policy for the provision of permitted non-audit services by the audit firm, its related entities, or members of its network,
- whether the recommendation to select an audit firm to conduct the audit met the applicable conditions, and where the selection of the audit firm was not related to extension of the contract for audit of

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

financial statements – whether the recommendation was prepared following a selection procedure, organised by the issuer, which met the applicable criteria;

- the number of meetings held by the audit committee or by the supervisory board or any other supervisory or controlling body which were devoted to the performance of duties of the audit committee,
- if the duties of the audit committee are performed by the supervisory board or any other supervisory or controlling body – which of the statutory conditions permitting the Company to use this option have been met, including specification of relevant data.

The Company has an Audit Committee, established as part of the Supervisory Board, composed of:

1. Adam Szyszka,
2. Przemysław Schmidt,
3. Dariusz Szymański.

1. Mr Adam Szyszka, Chairman of the Audit Committee, meets the statutory independence criteria and has the knowledge of and skills in accounting or auditing of financial statements which he acquired in the course of his education in finance (from Msc in Finance and Accounting to Professor of Economics). In addition, Mr Szyszka acquired the relevant practical skills working in the audit department of PwC, working for the consultancy AT INVEST Sp. z o.o., and also as the chairman of the audit committee at PANI TERESA MEDICA S.A. Adam Szyszka has the knowledge and skills relevant for the industry in which the Company operates, acquired during the period of nearly five years when he held the position of member of the Supervisory Board of RAFAKO S.A., and also earlier when he worked on advisory projects for construction sector companies during his employment at INVEST Sp. z o.o.
2. Mr Przemysław Schmidt, Member of the Audit Committee, meets the statutory independence criteria and has the knowledge of and skills in accounting. Mr Schmidt graduated from the Adam Mickiewicz University of Poznań with a degree in law, has completed a number of training programmes in management and finance, and has also served on supervisory board audit committees at a number of companies. Mr Przemysław Schmidt has acquired the knowledge and skills relevant for the industry in which the Company operates working for more than 20 years as an investment banker for customers operating in the power construction or related sectors and also during the nearly six years when he served on the Supervisory Board of RAFAKO S.A.
3. Mr Dariusz Szymański, Member of the Audit Committee, graduated from the Faculty of Law and Administration of the Adam Mickiewicz University in Poznań. Mr Szymański has served and serves on management and supervisory boards of domestic and foreign commercial-law companies. Mr Dariusz Szymański has acquired the knowledge and skills relevant for the industry in which the Company operates by participating for many years in investment processes concerning the energy sector, including as a member of the Supervisory Board of RAFAKO S.A. for almost four years.

The audit firm which audited the Company's financial statements performed permitted non-audit services for the Company, consisting in a review of the Company's half-year financial statements and the RAFAKO Group's half-year consolidated financial statements. The auditor's independence was therefore assessed on May 25th 2018 and consent to the provision of those services was given.

Key assumptions of the policy for selection of an audit firm to perform an audit:

1. The qualified auditor is selected by the Supervisory Board.
2. As regards the appointment of the qualified auditor, the Supervisory Board acts on the basis of the recommendation provided to it by the Audit Committee.
3. Any contractual clauses restricting the Supervisory Board's freedom in selecting a qualified auditor are void by operation of the law.
4. Some of the clauses restricting the freedom of selecting a qualified auditor include those requiring that the auditor be selected from a specific category or list of qualified auditors.
5. Both the Supervisory Board when making the final choice and the Audit Committee when formulating its recommendation observe the following guidelines regarding the selection of the qualified auditor:
 - a) the quality of audit work performed,
 - b) the price proposed by the qualified auditor,
 - c) the ability to provide the full range of services required by RAFAKO S.A.,
 - d) auditor's experience in auditing the financial statements of entities with similar business profiles,

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

- e) auditor's experience in auditing the financial statements of public-interest entities,
 - f) professional qualifications and experience of the persons who would be directly engaged in performing the audit,
 - g) the ability to perform the audit at the time specified by RAFAKO S.A.,
 - h) qualified auditor's reputation on the financial markets,
 - i) confirmation of the independence and impartiality of the qualified auditor already at the selection procedure stage.
6. In accordance with the applicable laws, the Audit Committee follows the principle of rotation of the lead auditor.

The main assumptions of the policy for the provision of permitted non-audit services by the audit firm, its related entities, or members of its network

1. The qualified auditor, the audit firm carrying out the statutory annual audit of the financial statements of RAFAKO S.A. or a review of its half-year financial statements, and an entity related to the audit firm or member of the network to which the qualified auditor or the audit firm belongs, may not provide RAFAKO S.A. or its related entities with any direct or indirect services referred to in Article 5 (1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, or any other services which are not financial audit services, with the exception of the services specified in Art. 136.2 of the Act, the provision of which is permitted.
2. The qualified auditor or the audit firm carrying out statutory audits of public-interest entities and, where the qualified auditor or the audit firm belong to a network, any member of such network, may provide the audited entity, its parent or any undertakings it controls with non-audit services other than the prohibited services referred to in paragraph 2, only to the extent not related to RAFAKO S.A.'s tax policy and provided that the provision of such additional services:
 - a) has, individually or in the aggregate, no direct effect or an immaterial direct effect on the audited financial statements;
 - b) the assessment of the effect of such additional services on the audited financial statements is documented and explained in an additional report prepared by the Management Board and provided to the Audit Committee;
 - c) the qualified auditor or the audit firm comply with the principles of independence stipulated by applicable laws.
3. An agreement for the provision of permitted services is concluded (or provision of permitted services envisaged under a framework agreement commences) after the Audit Committee gives its consent to the provision of additional services, expressed in a relevant resolution.
4. To obtain the Audit Committee's consent to the provision of additional services, the Management Board of RAFAKO S.A. submits a request to the Audit Committee, along with a document describing the estimated effect of the provision of the additional services on the audit of the financial statements and independence.
5. The Audit Committee's resolution on granting consent to the provision of additional services is adopted following an assessment of threats to the audit of financial statements and of the safeguards applied to ensure independence of the statutory auditor or the audit firm.
6. If necessary, the Audit Committee issues appropriate guidance concerning the performance of permitted services.

The recommendation on selecting the audit firm to perform the audit met the applicable conditions stipulated in RAFAKO S.A.'s procedure for selecting the entity qualified to perform a statutory audit of financial statements.

The Supervisory Board's Audit Committee operates in accordance with the applicable laws and the Rules of Procedure for the Audit Committee adopted by the Supervisory Board. In 2018, the Audit Committee held eight meetings and made its decisions at meetings, during conference calls and by using means of remote communication.

13. Sponsorship and charity policy

Recommendation I.R.2: Where a company pursues sponsorship, charity or other similar activities, it should publish information about its sponsorship and charity policy in its full-year directors' report.

RAFAKO S.A.'s mission is to build state-of-the-art power capacities, with due regard to environmental protection.

Statement of compliance with corporate governance rules by RAFAKO S.A. in 2018

We are proud to be present both on the Polish and international markets, but this presence also makes us aware of our social responsibility. Therefore, in building our image of a large and stable Polish company, we support major economic events, as well as sports, science and culture, with special care given to the local communities, and our employees in particular.

As part of our sponsorship activities, we act as a partner of the most important conferences on the Polish economy, and the power sector in particular. As one of the largest employers in our region, we are particularly attuned to the needs of the local communities, offering support to local cultural, educational and sport initiatives, especially local clubs, cultural projects, and sports events.

We also remember about those in need, allocating considerable resources to social and charitable projects. RAFAKO S.A. supports Polish sports, both individual athletes and clubs, as well as various sports events. We focus on endurance sports, which require strong character, determination and hard work, as well as those based on cooperation and mutual trust.

Therefore, the Company sponsors not only Ewa Bugdoł, a resident of our region and one of the world's best triathlon racers, but also those of its employees who are ready to embrace sporting challenges, in particular those related to endurance sports, such as triathlon, running and cycling. There are a number of highly active clubs, associations, informal groups and individuals at the Company with passion for various sports and recreation activities. The Company employees successfully compete in various nationwide and local competitions, combining their favourite pastimes with representing the RAFAKO brand on a local and countrywide scale.

14. The diversity policy applicable with respect to the Company's administrative, management and supervisory bodies, including in particular in relation to the age, gender, education or professional experience; objectives of the diversity policy, manner of its implementation and its effects in any given reporting period; if the Company does not apply such policy – an explanation of such decision

In 2018, the Company did not have an official document describing the diversity policy. However, the Company applies the principle of equal treatment based on generally applicable laws, including the labour law, EU regulations, Charter of Human Rights, and the RAFAKO Code of Ethics. RAFAKO's key management staff is diversified in all material respects (i.e. gender, education, age, and professional experience), in accordance with the general non-discrimination principle followed by the Company. The Company has not recorded any acts of discrimination, including gender or age discrimination, within the Company's governing bodies or management personnel. The Company has been following a policy of appointing to its governing bodies and key management competent and creative persons with relevant professional experience and diverse educational backgrounds. No other factors, including gender, are taken into account as selection criteria. The Company strives to have diverse management and supervisory personnel (in terms of experience and education), because diversity enhances innovation, creativity, and management methods, and thus contributes to the Company's growth, improving the quality of its products and services, etc.