The RAFAKO Group

THE PBG GROUP

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

for the nine months ended
September 30th 2016

November 14th 2016

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1. Interim condensed separate financial statements of RAFAKO S.A. for the nine months ended September 30th 2016

(PLN '000)

Interim condensed consolidated statement of comprehensive income

for the nine months ended September 30th 2016

	Note	*Three months ended Sep 30 2016 (unaudited)*	*Nine months ended Sep 30 2016 (unaudited)*	*Three months ended Sep 30 2015 (unaudited)*	*Nine months ended Sep 30 2015 (unaudited)*
Continuing operations					
Revenue	12.1	**495,548**	**1,236,112**	**321,784**	**1,017,056**
Revenue		494,975	1,234,258	321,215	1,015,419
Revenue from sale of materials		573	1,854	569	1,637
Costs of sales	12.1	(454,888)	(1,140,666)	(290,394)	(933,476)
Gross profit/(loss)		**40,660**	**95,446**	**31,390**	**83,580**
Other income	12.1	979	2,030	489	2,508
Distribution costs	12.1	(7,888)	(22,769)	(7,360)	(21,077)
Administrative expenses	12.1	(12,457)	(40,569)	(12,855)	(37,181)
Other expenses	12.1	(2,017)	(4,209)	(912)	(1,917)
Operating profit (loss)		**19,277**	**29,929**	**10,752**	**25,913**
Finance income	12.1	632	3,229	1,960	9,826
Finance costs	12.1	(1,370)	(4,683)	(2,706)	(5,796)
Profit/(loss) before tax		**18,539**	**28,475**	**10,006**	**29,943**
Income tax expense	12.2	(3,069)	(5,846)	(2,354)	(8,210)
Net profit/(loss) from continuing operations	12.23	**15,470**	**22,629**	**7,652**	**21,733**
Discontinued operations		–	–	–	**(55)**
Profit/(loss) from discontinued operations		–	–	–	(55)
Net profit for the year		**15,469**	**22,629**	**7,652**	**21,678**

Racibórz, November 14th 2016

Agnieszka Wasilewska-Semail	Krzysztof Burek	Jarosław Dusiło	Edward Kasprzak	Tomasz Tomczak	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN '000)

Interim condensed consolidated statement of comprehensive income

for the nine months ended September 30th 2016

	Note	*Three months ended Sep 30 2016 (unaudited)*	*Nine months ended Sep 30 2016 (unaudited)*	*Three months ended Sep 30 2015 (unaudited)*	*Nine months ended Sep 30 2015 (unaudited)*
Other comprehensive income for the period		**(1,320)**	**(1,398)**	**(374)**	**(846)**
Exchange differences on translating foreign operations		(204)	(27)	(183)	(347)
Exchange differences on translating foreign operations attributable to non-controlling interests		(34)	(9)	2	(1)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(238)**	**(36)**	**(181)**	**(348)**
Other comprehensive income due to actuarial gains/(losses)		(1,336)	(1,680)	(239)	(615)
Tax on other comprehensive income	12.2	254	318	46	117
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(1,082)**	**(1,362)**	**(193)**	**(498)**
Total comprehensive income for the period		**14,150**	**21,231**	**7,278**	**20,832**
Net profit/(loss) attributable to:		**15,470**	**22,629**	**7,652**	**21,678**
Owners of the Parent	12.23	14,599	22,127	7,595	21,520
Non-controlling interests		871	502	57	158
Comprehensive income attributable to:		**14,150**	**21,231**	**7,278**	**20,832**
Owners of the Parent		13,313	20,738	7,219	20,675
Non-controlling interests		837	493	59	157
Earnings/(loss) per share:					
Basic earnings/(loss) per share, PLN	12.23	0.17	0.26	0.10	0.30
Profit/(loss) per share from continuing operations					
Basic earnings/(loss) per share, PLN	12.23	0.17	0.26	0.10	0.30

Racibórz, November 14th 2016

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(PLN '000)

Interim condensed consolidated statement of financial position

as at September 30th 2016

	Note	*Sep 30 2016 (unaudited)*	*Dec 31 2015*
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	12.4, 12.5	180,133	183,439
Investment property		–	–
Intangible assets	12.5	18,947	15,211
Trade and other receivables - non-current		35,366	35,648
Trade receivables	12.8, 14	35,258	35,409
Other receivables and prepayments	12.8	108	239
Non-current financial assets		27,371	30,129
Shares in other entities	12.7	821	229
Non-current loans advanced	12.9, 14	–	–
Other non-current financial assets	12.9, 14	26,550	29,900
Deferred tax asset	12.2	55,065	47,796
		316,882	**312,223**
Current (short-term) assets			
Inventories	12.10	11,304	18,817
Trade receivables, other receivables and prepayments	12.13, 14	497,049	481,766
Trade receivables	12.13, 14	318,806	277,397
Income tax receivable	12.13	18,592	21,137
Other receivables and prepayments	12.13	159,651	183,232
Gross amount due from customers for contract work	11	192,387	233,992
Current financial assets		243,807	203,357
Derivative instruments	16	–	–
Current deposits	14	72	70
Current loans advanced	14	52	80
Other current financial assets	12.11, 14	10,070	5,946
Cash and cash equivalents	12.3, 12.12, 14	233,613	197,261
Other current non-financial assets			–
		944,547	**937,932**
Non-current assets held for sale		971	1,063
TOTAL ASSETS		**1,262,400**	**1,251,218**

Racibórz, November 14th 2016

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(PLN '000)

Interim condensed consolidated statement of financial position

as at September 30th 2016

	Note	Sep 30 2016 (unaudited)	Dec 31 2015
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent			
Share capital	12.16	169,864	169,864
Share premium	12.19	95,340	95,340
Reserve funds	12.20	171,050	112,715
Exchange differences on translating foreign operations	12.21	(68)	(41)
Retained earnings / (Accumulated losses)	12.22	9,643	47,213
		445,829	**425,091**
Equity (attributable to non-controlling interests)		9,102	4,675
Total equity		**454,931**	**429,766**
Non-current liabilities			
Interest-bearing borrowings		–	–
Finance lease liabilities	12.25, 14	3,770	3,686
Deferred tax liability	12.2	383	94
Provision for employee benefits	12.24, 18.2	23,970	23,552
Trade and other payables		35,061	40,332
Trade payables	12.25, 14	29,283	34,844
Capital commitments	12.25, 14, 21	238	852
Other liabilities	12.25	5,540	4,636
		63,184	**67,664**
Current liabilities			
Trade and other payables		445,786	467,547
Trade payables	12.26, 14	357,473	400,842
Capital commitments	14, 21	3,914	2,663
Income tax payable		56	4
Other liabilities	12.26	84,343	64,038
Current portion of interest-bearing borrowings	14, 15, 17	141,473	109,208
Other financial liabilities and finance lease liabilities	14	2,181	1,542
Provision for employee benefits	12.24, 18.2	2,128	2,004
Gross amount due to customers for contract work, provisions for contract work and deferred income	11	152,716	173,487
Gross amount due to customers for construction contract work	11	134,537	142,795
Provisions for construction contract work	11, 18	17,279	29,885
Grants		900	807
		744,284	**753,788**
Liabilities directly related to assets classified as held for sale		1	–
Total liabilities		**807,469**	**821,452**
TOTAL EQUITY AND LIABILITIES		**1,262,400**	**1,251,218**

Racibórz, November 14th 2016

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(PLN '000)

Interim condensed consolidated statement of cash flows

for the nine months ended September 30th 2016

	Note	*Nine months ended Sep 30 2016 (unaudited)*	*Nine months ended Sep 30 2015 (unaudited)*
Cash flows from operating activities			
Profit/(loss) before tax from continuing operations		28,475	29,943
Profit/(loss) before tax from discontinued operations		–	(66)
Profit/(loss) before tax		28,475	29,877
Adjustments for:		**(15,814)**	**3,719**
Depreciation and amortisation		10,923	9,525
Foreign exchange gains/(losses)		14	449
Interest and dividends, net		3,280	2,988
(Gain)/loss from investing activities		(1,424)	(3,082)
Increase/(decrease) in liabilities/assets from valuation of derivative instruments		–	(89)
(Increase)/decrease in receivables	12.3	(17,511)	4,816
Change in inventories		7,513	2,914
Increase/(decrease) in employee benefit provisions and obligations, excluding borrowings	12.3	(19,408)	(33,977)
Change in prepayments and accruals for construction contracts	12.3	20,741	48,545
Income tax (paid)/received		(19,245)	(28,480)
Other		(698)	110
Net cash from operating activities		**12,660**	**33,596**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		1,374	1,613
Purchase of property, plant and equipment and intangible assets	12.3	(4,892)	(15,260)
Sale of financial assets		–	21,430
Purchase of financial assets		(202)	–
Repayment of loans advanced		–	22
Dividends and interest received		34	77
Other		169	(1,440)
Net cash from investing activities		**(3,517)**	**6,442**
Cash flows from financing activities			
Proceeds from issue of shares		–	–
Payment of finance lease liabilities		(2,193)	(1,249)
Proceeds from borrowings	12.3	32,295	17,418
Repayment of borrowings		–	–
Interest paid	12.3	(2,146)	(3,085)
Bank fees		(827)	(930)
Other		112	(259)
Net cash from financing activities		**27,241**	**11,895**
Net increase/(decrease) in cash and cash equivalents		36,384	51,933
Net foreign exchange differences		(32)	(372)
Cash at beginning of period	12.12	197,261	65,899
Cash at end of period	12.12	233,613	117,460

Racibórz, November 14th 2016

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(PLN '000)

Interim condensed consolidated statement of changes in equity

for the nine months ended September 30th 2016

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 2016	**169,864**	**95,340**	**112,715**	**(41)**	**47,213**	**425,091**	**4,675**	**429,766**
Total comprehensive income for the period	–	–	–	(27)	20,765	20,738	493	21,231
Dividend	–	–	–	–	–	–	–	–
Distribution of prior year profits	–	–	58,335	–	(58,335)	–	–	–
Change in Group structure	–	–	–	–	–	–	3,934	3,934
As at Sep 30 2016 *(unaudited)*	**169,864**	**95,340**	**171,050**	**(68)**	**9,643**	**445,829**	**9,102**	**454,931**
As at Jan 1 2015	**139,200**	**36,778**	**114,393**	–	**190**	**10,700**	**301,261**	**12,193**
Total comprehensive income for the period	–	–	–	–	(347)	21,022	20,675	157
Distribution of prior year profits	–	–	25,674	–	–	(25,674)	–	–
Series J shares issue	30,664	58,562					89,226	
Disposal of subsidiary	–	–	(27,352)	–	–	27,352	–	(11,452)
Equity contributions to subsidiary	–	–	–	5,079	–	–	5,079	–
As at Sep 30 2015 *(unaudited)*	**169,864**	**95,340**	**112,715**	**5,079**	**(157)**	**33,400**	**416,241**	**898**

Racibórz, November 14th 2016

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NOTES

1. General information

The RAFAKO Group (the "Group") is composed of RAFAKO S.A. (the "Parent") and its subsidiaries presented in Note 8.8

RAFAKO S.A. (the "Company" or the "Parent") is a publicly-traded joint stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland. The Company was established under a notary deed of January 12th 1993. On August 24th 2001 it was entered in the Register of Entrepreneurs maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 34143. The Parent's Industry Identification Number (REGON) is 270217865.

The Parent and other Group companies were established for an indefinite period.

These interim condensed consolidated financial statements of the Group cover the nine months ended September 30th 2016 and contain consolidated comparative data for the nine months ended September 30th 2015 and as at December 31st 2015. The interim condensed consolidated statement of comprehensive income contains data for the three months ended September 30th 2016 and the comparative data for the three months ended September 30th 2015, which have not been audited or reviewed by an auditor.

The Group's principal business activity includes:

- Production of steam generators, excluding hot water central heating boilers,
- Metalworking and coating,
- Manufacture of industrial cooling and ventilation equipment,
- Repair and maintenance of finished metal goods,
- Installation of industrial machinery, plant and equipment,
- Other specialist construction activities n.e.c.,
- Wholesale of hardware, plumbing and heating equipment and supplies,
- Wholesale of waste and scrap,
- Engineering activities and related technical consultancy,
- Other technical testing and analyses.

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.

These interim condensed consolidated financial statements of the RAFAKO Group have been prepared in accordance with the historical cost principle, modified with respect to financial instruments measured at fair value.

These interim condensed consolidated financial statements are presented in Polish zloty ("PLN"), and all amounts are stated in PLN thousands unless otherwise indicated.

These interim condensed consolidated financial statements for the nine months ended September 30th 2016 were authorised for issue by the Parent's Management Board on November 14th 2016.

The Company's interim financial performance may not be indicative of its potential full-year financial performance.

2. Basis of preparation

These interim condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed by the European Union, in particular in accordance with International Accounting Standard 34.

The International Financial Reporting Standards comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the Committee on International Financial Reporting Interpretations Committee ("IFRIC").

These interim condensed consolidated financial statements of the RAFAKO Group have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the end of the reporting period, i.e. September 30th 2016.

To be able to continue trading, the Group must maintain its financial liquidity, that is ability to secure full financing for the current contracts. In view of the above, the Management Board of the Parent has prepared financial projections for the 12 months from September 30th 2016 and for the following years, based on a number of assumptions, the most important of which relate to:

- timely delivery and execution of the contracts in the Group's current order book, including in particular the timely generation of cash flows from the contracts,

- timely delivery and execution of the contracts in the Group's current order book on the assumption that the target margins would be achieved and the loss already recognised on some contracts would not increase,

- continuing efforts to maintain and expand the Group's order book,

- extension of the bank facility financing the Parent's operations beyond June 30th 2017 and fulfilment of all obligations under the agreement (including its annexes),

- release of cash locked in performance bonds against delivery of appropriate bank guarantees to the Parent's trading partners. As at the date of these consolidated financial statements, the Parent had PLN 223.2m available in open guarantee lines provided by several financial institutions, with approximately 60% of the limit currently used.

The RAFAKO Group's financial standing is affected mostly by the situation of its subsidiary E003B7 Sp. z o.o., which as at September 30th 2016 held PLN 216.4m in cash. When considering the RAFAKO Group's financial standing, its restricted cash should be taken into account, as described in detail in Note 12.1 to these interim condensed consolidated financial statements.

In line with assumptions, in the nine months of 2016, RAFAKO S.A. executed an annex of June 30th 2016 with PKO BP S.A. extending repayment of the PLN 150m bank facility until June 30th 2017, and an agreement with mBank under which the bank provided guarantees in relation to the Jaworzno project. It also signed an annex with TAURON Wytwarzanie S.A. to accelerate the completion of milestones under the project. The documents, executed in line with the Management Board's assumptions, had a positive bearing on the liquidity of RAFAKO S.A.

On September 29th 2016, the Parent signed a conditional contract with JSC VILNIAUS KOGENERACINĖ JĖGAINĖ for construction of a biomass-fired co-generation unit composed of boilers with fluidised beds, biomass storage and feeder systems, and flue gas treatment system. The project will be executed as part of the process to construct a new CHP plant in Vilnius, Lithuania. The value of the contract is EUR 149,650,000 (VAT exclusive). The project completion deadline is 28 months as of the date of the Notice To Proceed, which will be issued within nine months of the contract date. If the Employer fails to issue the NTP within those nine months (condition), the contract will be null and void.

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 denitrification system for AP-1650 boilers No. 9 and 10 and for upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. The contract price is PLN 289,182,112.

The Parent's Management Board continues its efforts to win new contracts and believes that the above key assumptions underlying the financial projections will materialise, which will significantly improve the Parent's liquidity during at least the 12 months subsequent to the reporting date.

Given the above, the Parent's Management Board is convinced that the financial forecasts prepared for the coming year will be met, and therefore it drew up these interim condensed financial statements based on the going concern assumption.

The Group applied IFRSs applicable to financial statements prepared for the year beginning on January 1st 2016.

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the RAFAKO Group for the year ended December 31st 2015, which were authorised for issue on March 21st 2016.

The Group's interim financial performance may not be indicative of its potential full-year financial performance. The Group applied the IFRSs applicable to consolidated financial statements prepared for the year beginning on January 1st 2016.

3. Significant accounting policies

The accounting policies applied in preparing these interim condensed consolidated financial statements are consistent with the policies applied in preparing the Group's annual consolidated financial statements for the year ended December 31st 2015, save for the effect of application of the following amended standards and new interpretations effective for annual periods beginning on or after January 1st 2016.

- *Amendments to IFRSs introduced as part of the 2010-2012 improvements cycle:*
  - Amendments to IFRS 2 *Share-based Payment*

    The amendments apply prospectively and clarify the definitions of the 'market condition' and 'vesting condition', while adding definitions of the 'service condition' and 'performance condition', both of which are vesting conditions.

    As the Group companies do not operate any share-based payment plans, the application of these amendments had no effect on the Group's financial position or performance.

  - Amendments to IFRS 3 *Business Combinations*

    The amendments apply prospectively and clarify that any contingent consideration which is not classified as a component of equity should be measured at fair value through profit or loss, irrespective of whether it falls within the scope of IAS 39.

    The application of these amendments had no effect on the financial standing or performance of the Group.

  - Amendments to IFRS 8 *Operating Segments*

    The amendments apply retrospectively and clarify that:

    - An entity should disclose the judgements made by management in applying the aggregation criteria to operating segments as described in paragraph 12 of IFRS 8, and should include a short description of the segments that were aggregated and a description of the segments' economic characteristics which were taken into account when analysing similarity between the segments.
    - Reconciliation of the segments' assets to the entity's total assets is required only if such amounts are provided to the chief operating decision maker.

    The application of these amendments had no effect on the financial standing or performance of the Group.

  - Amendments to IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets*

    The amendments apply retrospectively and clarify that an asset may be revalued by reference to observable market data by adjusting the asset's gross carrying amount to its market value or by changing the gross carrying amount of the asset proportionately, so that the carrying amount of the asset after revaluation equals its market value. In addition, accumulated depreciation/amortisation is calculated as the difference between the gross and the net carrying amount of an asset.

    The amendments apply to the valuation of property, plant and equipment and intangible assets under the revaluation model. The Group companies do not use this model and therefore the application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IFRS 13 *Fair Value Measurement*

  The amendments clarify that removing paragraph B5.4.12 of IFRS 9 *Financial Instruments*: *Recognition and Measurement* was not intended to change the guidance related to measurement of short-term receivables and payables. As a result, entities may still measure short-term receivables and payables with no stated interest rate at invoice amounts if the effect of discounting does not have a material bearing on the presented financial data.

  The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IAS 24 *Related Party Disclosures*

  The amendments apply retrospectively and clarify that an entity providing key management personnel services should be treated as a related party for the purpose of related party disclosures. In addition, an entity which uses the services provided by such management entity is required to disclose the costs of such services.

  The Group does not use any services provided by a management entity.

- *Amendments to IFRS introduced as part of the 2012-2014 improvements cycle:*

  - Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

    Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendments clarify that changing from one of these disposal methods to the other should not be considered a new plan of disposal, rather it is a continuation of the original plan.

    The application of these amendments had no effect on the financial standing or performance of the Group.

  - Amendments to IAS 34 *Interim Financial Reporting*

    The amendments clarify that the required interim disclosures must either be made in the interim financial statements or incorporated by cross-reference between the interim financial statements and another report (e.g. the directors' report). Other information within the interim financial statements must be available to users on the same terms and at the same time as the interim financial statements.

    The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IAS 16 *and* IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

  The amendments clarify the provisions of IAS 16 and IAS 38 stating with reference to the revenue-based method that it reflects the generation of expected economic benefits rather than consumption of the expected future economic benefits embodied in the asset. Accordingly, the revenue-based method may not be used for depreciation of property, plant and equipment, and its application for the amortisation of intangible assets may be appropriate only in certain circumstances. The amendments apply prospectively.

  The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IAS 27 *Equity Method in Separate Financial Statements*

  The amendments enable investments in subsidiaries, associates and joint ventures to be measured in the investor's separate financial statements using the equity method. Entities that apply the IFRSs and decide to change the method of accounting for their investments to the equity method will apply this change retrospectively.
  In the consolidated financial statements, the Group companies did not apply the option provided for in the amendments.

- Amendments to IAS 1 *Disclosure Initiative*

  The amendments clarify the existing requirements of IAS 1 concerning:
  - materiality,
  - aggregation and subtotals,
  - ways of ordering the notes,
  - aggregation of information on an entity's share of other comprehensive income of equity-accounted associates and joint ventures (single line disclosure).

  Moreover, the amendments explain the requirements which apply when additional subtotals are presented in the statement of financial position and statement of profit or loss and other comprehensive income.
  The application of these amendments had no effect on the financial standing or performance of the Group.
  In addition, the following new or amended standards and interpretations are effective for annual periods beginning after January 1st 2015, but do not apply to the information presented and disclosed in the Group's financial statements:

- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

  The amendments pertain to accounting for bearer plants.

- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

  The amendments address the accounting for an acquired interest in a joint operation by the acquirer.

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

  The amendment refers to contributions from employees or third parties, which should be included when accounting for defined benefit plans.

- and *Amendments to IFRS introduced as part of the 2012-2014 improvements cycle*:
  - Amendments to IFRS 7 *Financial Instruments: Disclosures*

    I. Servicing contracts – the amendment clarifies that a servicing contract that provides for a fee for servicing the financial asset can constitute continuing involvement in the financial asset.

    II. Applicability of the amendments to IFRS 7 (issued in December 2011) to condensed interim financial statements.
  - Amendments to IAS 19 *Employee Benefits*

    The amendment refers to determination of the discount rate.

The application of the amendments had no effect on the Group's financial standing, performance or the scope of disclosures in the interim condensed consolidated financial statements.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective as not yet endorsed by the European Union.

4. New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, but are not yet effective:

- IFRS 9 *Financial Instruments* (published on July 24th 2014) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements.
- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- IFRS 15 *Revenue from Contracts with Customers* (published on May 28th 2014), including amendments to IFRS 15 *Effective Date of IFRS 15* (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) − work leading to approval of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period,
- IFRS 16 *Leases* (published on January 13th 2016) − effective for annual periods beginning on or after January 1st 2019 − not adopted by the EU by the date of authorisation of these financial statements,
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (published on September 12th 2016) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements.
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements for issue, the amendments were not adopted by the EU,
- Amendments to IAS 7 *Disclosure Initiative* (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (published on April 12th 2016) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective.

As at the date of these interim condensed consolidated financial statements, the introduction of the standards, amendments and interpretations as well as their effect on financial information resulting from first-time application of these standards, amendments or interpretations are being analysed by the Parent's Management Board.

5. Significant judgements and estimates

5.1. Professional judgement

When preparing interim condensed consolidated financial statements of the Group, the Management Board of the Parent has to make some judgements, assumptions and estimates which affect the presented revenue, costs, assets, liabilities, as well as related notes and disclosures concerning contingent liabilities. Uncertainties related to these assumptions and estimates may result in material changes to carrying amounts of assets and liabilities in the future.

Apart from the accounting estimates, the management's professional judgement, which affects the amounts recognised in the financial statements, was of key importance in the application of the accounting policies in the cases described below. The assumptions underlying these estimates are based on the management's best knowledge of current and future activities and events in the particular areas.

Classification of leases where the Group is the lessee

Group companies are parties to lease agreements. The Group classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership have been transferred from the lessor to the lessee. The assessment is based on economic substance of each transaction.

Identification of embedded derivatives

At the end of each reporting period the Group makes an assessment of the contracts signed for whether they contain any embedded foreign currency derivatives whose economic characteristics and risks are closely related to those of the host contract.

Syndicated agreements

Each time after signing a construction contract to be executed as part of a consortium, the Management Board evaluates the nature of the contract in order to determine the method of accounting for contract revenue and expenses.

5.2. Uncertainty of estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year are discussed below. The Group used the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates contained in these financial statements may change in the future due to market developments or factors beyond the Group's control. Such developments or factors will be reflected in the estimates or assumptions as and when they occur.

Estimates relating to the following items had a critical impact on the net result for the nine months ended September 30th 2016 and the amounts of assets and liabilities as at September 30th 2016:

- budgeted revenue from and costs of execution of construction contracts, based on which the executed contracts are measured in accordance with IAS 11,
- estimated amount of contractual penalties for late performance of contracts,
- estimated amount of provisions for employee benefits (the Group incurs costs of jubilee bonuses and post-employment benefits),
- impairment of assets, including financial assets (e.g. receivables under arbitration and arrangement proceedings),
- depreciation and amortisation rates applied,
- realisation of a deferred tax asset (including the deferred tax asset on tax loss).

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next reporting period are discussed below.

Impairment of assets

At the end of the reporting period, the Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. Group companies made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the nine months ended September 30th 2016 there were no such indications.

The amounts of impairment losses on other assets at the end of the reporting period are presented in Note 12.14 to these interim condensed consolidated financial statements.

Measurement of provision for employee benefits

Provisions for employee benefits were estimated with actuarial methods.

The assumptions adopted for this purpose are presented in Note 12.24, and they do not differ from assumptions adopted as at December 31st 2015.12.24 The change in provisions for employee benefits in the period was caused by the recognition of current service costs, interest expense and benefits paid.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 14.

Revenue recognition

In accounting for its long-term contracts, the Group uses the percentage of completion method. The use of the method requires the Group to estimate the percentage of completion. If the estimated total cost of contract execution increased by 10% in relation to the Group's original estimate, the revenue would decrease by approximately PLN 65.5m. Revenue recognition is subject to estimation risk; for detailed information on the risk, see Note 11.

Depreciation and amortisation rates

Depreciation and amortisation rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment and their estimated residual values. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Deferred tax asset

The Group recognises deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. Deterioration of future taxable profits might render this assumption unreasonable. Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realised, based on tax laws in effect at the date of these interim condensed consolidated financial statements.

Provision for expected losses on contracts

At the end of each reporting period the Group remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss on the contract is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and costs for the reporting period are presented in Note 11 to these interim condensed consolidated financial statements.

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Provision for costs due to late performance of contracts

The Group recognises a provision for contractual penalties arising from late performance of contracts if the probability of being charged for delay in the performance of the contract is significant and the delay is due to the fault of the Group Companies as contractors. The amount of the provision reflects the amount of the contractual penalty that may be charged for a given period of delay. Details of provisions estimated in this manner are presented in Note 11 to these interim condensed consolidated financial statements.

Impairment of financial assets

At the end of the reporting period, the Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognises an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of fair value/recoverable amount of receivables from related parties in bankruptcy, see Note 24.

Recognition of a financial asset (receivable) due to loss of control of a subsidiary

As a result of loss of control of a subsidiary, as discussed in detail in Note 24, the Group recognised in the consolidated statement of financial position for the year 2012 a receivable, initially recognised at fair value, i.e. the present value of expected inflows.24 This valuation was performed based on a set of assumptions, such as the estimated discounting period, estimated amount of the inflow, and estimated discount rate. Given the uncertainty as to the Parent's ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A., the estimation of the parameters for measurement of the receivable, in particular at its initial recognition, is difficult and subject to uncertainty.

Valuation of receivables from related parties under arrangement proceedings

As at the date of issue of these interim condensed consolidated financial statements, the Judge Commissioner had declared that an arrangement, consistent with the arrangement proposals, was reached between PBG and its creditors (for more details see Note 24). The Parent's Management Board remeasured the related receivable as discussed in subsection '*Recognition of a financial asset (receivable) as a result of loss of control of a subsidiary*' based on new assumptions, i.e. the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A. in the context of PBG S.A.'s arrangement proposals providing for the repayment of PLN 500 thousand and an 80% reduction of the debt in excess of PLN 500 thousand (for which no deferred tax asset was recognised) and the schedule of cash repayments to be made in accordance with the arrangement with creditors.

Functional currency and presentation currency

The Polish złoty is the functional and presentation currency of these interim condensed consolidated financial statements.

Exchange rates used to determine carrying amounts:

	Sep 30 2016	*Dec 31 2015*	*Sep 30 2015*
USD	3.8558	3.9011	3.7754
EUR	4.3120	4.2615	4.2386
GBP	4.9962	5.7862	5.7305
CHF	3.9802	3.9394	3.8785
SEK	0.4487	0.4646	0.4515
TRY	1.2822	1.3330	1.2477

6. Change in estimates

In the nine months ended September 30th 2016 and as at September 30th 2016, there were no changes of estimates in significant areas of the Group's operations, as discussed in Note 5.2.

7. Operating segments

Management of the Group's business is based on separate segments, corresponding to the types of products and services offered. Each segment is the Group's component which earns revenue and incurs costs, in accordance with IFRS 8 *Operating Segments*.

The Group identifies the following operating segments in which individual companies are engaged:

Operating segments	Segment companies
Power and environmental protection facilities	RAFAKO S.A.
	E001RK Sp. z o.o.
	E003B7 Sp. z o.o.
Other segments	PGL-DOM Sp. z o.o.
	RAFAKO ENGINEERING Sp. z o.o.
	ENERGOTECHNIKA ENGINEERING Sp. z o.o.
	RAFAKO ENGINEERING SOLUTION doo.
	RAFAKO Hungary Kft.

The power and environmental protection facilities segment offers power generating units, stoker-fired boilers, pulverised fuel boilers, stationary and circulating fluidised bed boilers; heat recovery steam generators; systems and facilities ancillary to power boilers; wet, semi-dry and dry flue gas desulfurization systems; flue gas denitrification technologies; dust extraction equipment, including electrostatic precipitators and bag filters, as well as industrial and municipal waste incineration systems. The company is a supplier to both commercial and industrial power plants.

Other segments are made up of those segments which do not meet the quantitative thresholds set out in IFRS 8, including property management and design services provided by other entities of the Group.

The Management Board monitors the segments' operating performance to make decisions on allocation of resources and evaluate the results of the allocation as well as the results of operations. Results of operations are evaluated based on operating profit or loss.

(PLN '000)

For the nine months ended September 30th 2016 or as at September 30th 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	1,210,954	24,089	1,235,043	1,069	1,236,112
Inter-segment sales	1,110	14,934	16,044	(16,044)	–
Total revenue	1,212,064	39,023	1,251,087	(14,975)	1,236,112
Costs of sales	(1,130,808)	(32,365)	(1,163,173)	22,507	(1,140,666)
Total					
Gross profit (loss)	81,256	6,658	87,914	7,532	95,446
Other income (expenses)	(57,428)	(4,072)	(61,500)	(4,017)	(65,517)
Operating profit (loss)	23,828	2,586	26,414	3,515	29,929
Finance income (costs)	(1,074)	31	(1,043)	(411)	(1,454)
Profit (loss) before tax	22,754	2,617	25,371	3,104	28,475
Income tax expense	(5,888)	(164)	(6,052)	206	(5,846)
Net profit (loss) from continuing operations	16,866	2,453	19,319	3,310	22,629
Depreciation and amortisation	9,893	1,128	11,021	(98)	10,923
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at September 30th 2016 (unaudited)					
Assets	1,337,815	71,314	1,409,129	(146,729)	1,262,400
Liabilities	894,906	18,412	913,318	(105,849)	807,469
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	6,769	5,317	12,086	(354)	11,732

(PLN '000)

For the three months ended September 30th 2016 or as at September 30th 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	480,333	14,412	494,745	803	495,548
Inter-segment sales	608	4,841	5,449	(5,449)	–
Total revenue	480,941	19,253	500,194	(4,646)	495,548
Costs of sales	(446,263)	(15,059)	(461,322)	6,434	(454,888)
Total					
Gross profit (loss)	34,678	4,194	38,872	1,788	40,660
Other income (expenses)	(18,777)	(1,177)	(19,954)	(1,429)	(21,383)
Operating profit (loss)	15,901	3,017	18,918	359	19,277
Finance income (costs)	(583)	7	(576)	(162)	(738)
Profit (loss) before tax	15,318	3,024	18,342	197	18,539
Income tax expense	(3,056)	(62)	(3,118)	49	(3,069)
Net profit (loss) from continuing operations	12,262	2,962	15,224	246	15,470
Depreciation and amortisation	3,429	409	3,838	(61)	3,777
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at September 30th 2016 (unaudited)					
Assets	1,337,815	71,314	1,409,129	(146,729)	1,262,400
Liabilities	894,906	18,412	913,318	(105,849)	807,469
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	2,785	258	3,043	(355)	2,688

(PLN '000)

For the nine months ended September 30th 2015 or as at September 30th 2015 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Furnaces and mills – discontinued operations*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	1,007,881	11,751	1,019,632	8,542	(11,118)	1,017,056
Inter-segment sales	3,277	9,659	12,936	–	(12,936)	–
Total revenue	1,011,158	21,410	1,032,568	8,542	(24,054)	1,017,056
Costs of sales	(927,324)	(17,279)	(944,603)	(7,023)	18,150	(933,476)
Total						
Gross profit (loss)	83,834	4,131	87,965	1,519	(5,904)	83,580
Other income (expenses)	(50,013)	(2,858)	(52,871)	(1,594)	(3,202)	(57,667)
Operating profit (loss)	33,821	1,273	35,094	(75)	(9,106)	25,913
Finance income (costs)	4,712	75	4,787	(57)	(700)	4,030
Profit (loss) before tax	38,533	1,348	39,881	(132)	(9,806)	29,943
Income tax expense	(9,611)	(536)	(10,147)	11	1,926	(8,210)
Net profit (loss) from continuing operations	28,922	812	29,734	(121)	(7,880)	21,733
Depreciation and amortisation	8,572	744	9,316	265	(56)	9,525
Share of profit of associates	–	–	–	–	–	–
Assets and liabilities as at September 30th 2015 (unaudited)						
Assets	1,336,607	54,475	1,391,082	–	(153,353)	1,237,729
Liabilities	929,919	12,374	942,293	–	(121,703)	820,590
Other information						
Investments in associates	–	–	–	–	–	–
Capital expenditure	15,712	323	16,035	1,016	–	17,051

(PLN '000)

For the three months ended September 30th 2015 or as at September 30th 2015 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Furnaces and mills – discontinued operations*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	314,193	6,402	320,595	–	1,189	321,784
Inter-segment sales	3,026	2,949	5,975	–	(5,975)	–
Total revenue	317,219	9,351	326,570	–	(4,786)	321,784
Costs of sales	(289,586)	(7,797)	(297,383)	–	6,989	(290,394)
Total						
Gross profit (loss)	27,633	1,554	29,187	–	2,203	31,390
Other income (expenses)	(18,813)	(1,157)	(19,970)	–	(668)	(20,638)
Operating profit (loss)	8,820	397	9,217	–	1,535	10,752
Finance income (costs)	(2,825)	(16)	(2,841)	–	2,095	(746)
Profit (loss) before tax	5,995	381	6,376	–	3,630	10,006
Income tax expense	(1,476)	(198)	(1,674)	–	(680)	(2,354)
Net profit (loss) from continuing operations	4,519	183	4,702	–	2,950	7,652
Depreciation and amortisation	2,968	246	3,214	–	9,553	12,767
Share of profit of associates	–	–	–	–	–	–
Assets and liabilities as at September 30th 2015 (unaudited)						
Assets	1,336,607	54,475	1,391,082	–	(153,353)	1,237,729
Liabilities	929,919	12,374	942,293	–	(121,703)	820,590
Other information						
Investments in associates	–	–	–	–	–	–
Capital expenditure	8,422	86	8,508	–	–	8,508

(PLN '000)

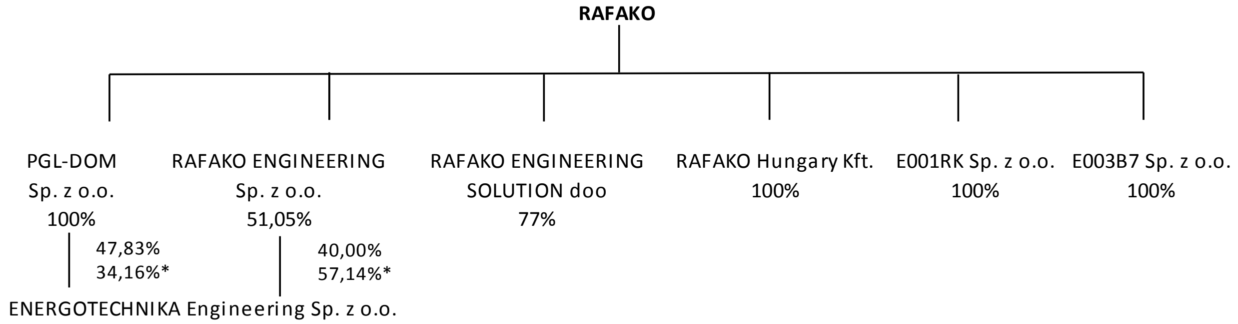
8. Scope of consolidated financial statements

These interim condensed consolidated financial statements incorporate the financial statements of RAFAKO S.A. and its subsidiaries, except for ELWO S.A. w upadłości (in bankruptcy) as the Group no longer controls its operations.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the Parent, with the use of consistently applied accounting policies. These consolidated financial statements have been prepared in accordance with IAS 27/IFRS 10 *Consolidated and Separate Financial Statements*.

As at September 30th 2016, the RAFAKO Group was composed of the Parent and seven subsidiaries operating in the power construction, services and trade sectors.

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



* % share of voting rights at the General Meeting.

The table below lists the consolidated RAFAKO Group companies.

Name and registered office	*Principal business activity (according to the Polish Classification of Business Activity)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method used*
RAFAKO S.A. Racibórz	Manufacture of steam generators except central heating hot water boilers	District Court of Gliwice KRS 34143	-
PGL-DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO ENGINEERING Sp. z o.o. of Racibórz	Engineering activities and related technical consultancy	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o.* Gliwice	Engineering activities and related technical consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION d.o.o. Belgrade	Process design, construction, industry, and environmental protection consultancy and supervision	Commercial Register Agency of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	Registry Court of the Capital City of Budapest	full
E001RK Sp. z o.o. Racibórz	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.	District Court of Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	District Court of Gliwice KRS 486911	full

* Subsidiary of RAFAKO ENGINEERING Sp. z o.o. and PGL-DOM Sp. z o.o., indirect subsidiary of RAFAKO S.A.

As at September 30th 2016, the Group's share in total voting rights held in the subsidiaries was equal to the Group's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 40% of preference shares (conferring the right to 57.14% of the total vote); the remaining 47.83% of the shares (conferring the right to 34.16% of the total vote) are held by PGL-DOM Sp. z o.o.

As at December 31st 2015, the Group's share in total voting rights held in the subsidiaries was equal to the Group's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 40% of preference shares (conferring the right to 57.14% of the total vote); the remaining 43.48% of the shares (conferring the right to 31.06% of the total vote) are held by PGL-DOM Sp. z o.o.

9. Changes in the structure of the Parent and its consolidated subsidiaries

In the nine months ended September 30th 2016, a number of changes occurred in the Group's structure.

On April 29th 2016, the Extraordinary General Meeting of RAFAKO Engineering Sp. z o.o. passed a resolution to increase the share capital from PLN 1,959,000.00 to PLN 3,555,500.00, i.e. by PLN 1,596,500.00, through the creation of 3,193 new shares with a par value of PLN 500.00 per share. The new shares were acquired pro rata by the existing shareholders, i.e.:

- RAFAKO S.A. acquired 1,630 shares with a par value of PLN 500 per share, and a total value of PLN 815,000; the shares were acquired in return for a cash contribution of PLN 4,317 thousand;
- PBG Oil & Gas Sp. z o.o. acquired 1,563 shares with a par value of PLN 500 per share, and a total value of PLN 781,500; the shares were acquired for a non-cash contribution with a total value of PLN 4,140 thousand in the form of an organised part of business.

After the registration of the share capital increase at RAFAKO Engineering Sp. z o.o., the respective interests held in the company by RAFAKO S.A. and PBG oil and gas Sp. z o.o. will remain unchanged at 51.05% and 48.95%. As at the date of issue of these financial statements, the share capital increase at the subsidiary had not yet been entered in the National Court Register.

On September 30th 2016, PGL DOM Sp. z o.o., a subsidiary, acquired from a minority shareholder 100 shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o., a subsidiary, for PLN 137 thousand, increasing its equity interest in the company to 47.83%.

On September 13th 2016, a new company RENG-NANO Sp. z o.o. was incorporated by a notary deed. The company's share capital amounts to PLN 1,000,000 and is divided into 10,000 shares with a par value of PLN 100 per share. Interests in the company's share capital were acquired in return for cash contributions by the following shareholders:

- RAFAKO ENGINEERING Sp. z o.o., which acquired 6,000 shares with a total par value of PLN 600,000, representing 60% of the company's share capital;
- NANO Corp Ltd. of Seoul, which acquired 3,500 shares with a total par value of PLN 350,000, representing 35% of the company's share capital;
- Marek Buzanowski–Konakry, who acquired 500 shares with a total par value of PLN 50,000, representing 5% of the company's share capital.

10. Seasonality and cyclical nature of the Group's operations

The operations of Group companies are not affected by seasonality or periodic fluctuations that could materially impact the Group's financial performance.

(PLN '000)

11. Construction contracts

Revenue from construction contracts is recognised with the percentage of completion method. The percentage of completion is determined as the relation of costs incurred to total estimated costs necessary to complete the contract.

The table below presents the effects of accounting for construction contracts, including revenue and costs of running contracts as at September 30th 2016, December 31st 2015 and September 30th 2015, as well as gross amount due to customers and gross amount due from customers for contract work at the dates stated above.

	Sep 30 2016 (unaudited)	*Dec 31 2015*	*Sep 30 2015 (unaudited)*
Contract costs incurred to date (cumulative)	3,986,326	3,260,138	2,780,076
Recognised profits less recognised losses to date (cumulative)	290,550	243,305	192,699
Contract revenue recognised by reference to the contract stage of completion (cumulative)	4,276,876	3,503,443	2,972,775
Progress billings (cumulative)	4,109,895	3,324,100	2,906,133
Gross amount due to customers for contract work (liability), including:	**(134,537)**	**(142,795)**	**(243,328)**
- advances received (liabilities arising from advances received)	(158,977)	(157,126)	(138,088)
- adjustment to advances received arising from amounts due from customers	95,362	56,859	49,584
- gross amount due to customers for contract work	(70,922)	(42,528)	(154,824)
Prepayments relating to accounting for construction contracts, including:	**192,387**	**233,992**	**242,472**
- gross amount due from customers for contract work (asset)	159,820	194,897	200,053
- contract acquisition cost and other accrued contract costs	32,567	39,095	42,419
Provision for penalties for late contract performance or failure to meet guaranteed technical specifications	(3,762)	–	–
Provision for losses on construction contracts	(13,517)	(29,885)	(28,171)

The Group analyses each contract for potential losses, which are immediately recognised as an expense in accordance with IAS 11.36. In accordance with IAS 11.11-15, in its accounting for construction contracts the Group recognises estimated penalties arising from delays in the completion of contracts or failure to meet guaranteed technical specifications. Penalty estimates are made based on source documentation concerning delays in contract performance or issues relating to guaranteed technical specifications, based on contractual assumptions and management's assessment of the risk of such penalties being imposed. The level of the potential estimated risk depends, to a large extent, on external factors that are partly beyond the Company's control, and may change in subsequent periods.

Under "Contract acquisition cost and other accrued contract costs", the Group recognises accrued expenses on contract acquisition, as well as on bank and insurance guarantees relating to contract execution.

Key contracts executed by the Group

11.1. Opole Project

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 PGE Elektrownia Opole S.A., together with equipment and devices as well as all related buildings and structures.

E001RK Sp. z o.o. ("SPV-RAFAKO") was appointed by RAFAKO S.A., as the subcontractor in charge of the entire scope of work and services related to the construction of the power generating units at Elektrownia Opole (Opole Power Plant). SPV-RAFAKO's remuneration for the performance of the works and services is PLN 3.96bn.

Under the subcontractor agreement between SPV-RAFAKO and Alstom Power Sp. z o.o., SPV-RAFAKO appointed Alstom as its subcontractor responsible for 100% of the work and services making up the Company's scope of work under the Opole Project. Alstom took over the entire responsibility towards the Employer for the execution of the contract.

Rules of accounting for the Opole Contract:

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

The value of balances under the contract has no effect on the values disclosed in the Group's statement of financial position.

Payments under the contract are made by the Employer directly to Alstom.

11.2. Jaworzno Project

RAFAKO S.A. in a consortium comprising RAFAKO S.A. (Consortium Leader) and MOSTOSTAL WARSZAWA S.A. is executing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800–910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The value of the contract is approximately PLN 5.4bn (VAT inclusive). On August 4th 2013, the project consortium agreement was amended, with RAFAKO S.A. taking over 99.99% of the Project scope of deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently, the distribution of consideration due to the consortium members changed to reflect the members' actual shares in the work executed under the Project.

Rules of accounting for the Jaworzno Project:

For the purposes of execution of the Project, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO S.A. subcontracted approximately 88.5% of the Project's scope of work, with RAFAKO S.A. executing directly the remaining 11.5% (with an approximate value of PLN 506m; the scope includes the design of the boiler island, as well as supply of boiler pressurised parts and a dust removal unit).

For the purposes of execution of the Project, RAFAKO S.A. and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees with an aggregate amount of PLN 689m, required for the Project execution; under the same agreements, security for the guarantees was established over the assets of RAFAKO SA and E003B7 Sp. z o.o.

Following arrangements with the financial institutions which issued guarantees in connection with the Jaworzno Project, the Parent does not plan for E003B7 sp. z o. o. to pay any dividends until expiry of the guarantee agreements, i.e. until April 2020, as this could result in negative consequences from the guarantee providers.

The Parent, as the Consortium Leader, issues invoices, directly to the Employer, for the entire scope of work; payments are made directly to the special purpose vehicle as well as key subcontractors and sub-suppliers. The payment for the scope of work performed by the Parent is made by the special purpose vehicle.

In its consolidated financial statements, the Group recognises total income and expenses related to the Jaworzno Project, i.e. for both RAFAKO S.A. and E003B7 Sp. z o.o. The contract is measured in its entirety, that is with the use of a single margin and single percentage of completion for the Project's entire scope of work.

In the consolidated financial statements, RAFAKO S.A. eliminates Project-related income, expenses and settlements between RAFAKO S.A. and the special purpose vehicle.

12. Types and amounts of items with a significant impact on assets, liabilities, equity, financial performance and cash flows

12.1. Revenue, distribution costs, operating income and expenses and finance income and costs

For the nine months ended September 30th 2016, the Group posted revenue of PLN 1,236,112 thousand, up by PLN 219,056 thousand on the corresponding period of 2015. The increase was mainly attributable to further progress in the performance of the Jaworzno contract (construction of a 910 MW power generating unit at the Jaworzno III Power Plant). The revenue increase was recorded on both domestic and foreign markets.

Cost of sales in the first nine months of 2016 amounted to PLN 1,140,666 thousand, with the Group's gross profit at PLN 95,446 thousand. The change relative to the first nine months of 2015 results primarily from higher revenue as well as an increase in provisions for contractual penalties and in provisions related to guarantee liabilities under completed sale contracts.

Distribution costs disclosed by the Group mainly include contract acquisition cost as well as cost of promotion and advertising. Such costs also include impairment losses on trade receivables. Distribution costs recognised in the Group's comprehensive income for the first nine months of 2016 (PLN 22,769 thousand) were primarily attributable to contract acquisition cost (PLN 19,446 thousand) and cost of promotion and advertising (PLN 3,216 thousand).

Administrative expenses for the first nine months of 2016 totalled PLN 40,569 thousand, up PLN 3,388 thousand year on year. The year-on-year increase in administrative costs is attributable mainly to higher costs of legal and advisory services, including costs of business support services and costs of reorganisation.

Other income chiefly included gain on sale of property, plant and equipment of PLN 671 thousand (September 30th 2015: PLN 912 thousand), recovery of materials from sale of property, plant and equipment of PLN 430 thousand, and contractual penalties and compensations received of PLN 483 thousand (September 30th 2015: PLN 515 thousand).

Other expenses chiefly included donations and grants of PLN 807 thousand (September 30th 2015: PLN 491 thousand), scrapping cost of PLN 499 thousand, cost of the Power Engineer's Day of PLN 509 thousand (September 30th 2015: PLN 506 thousand), and provision for a fine imposed on RAFAKO S.A. by the Polish Financial Supervision Authority of PLN 700 thousand.

In the first nine months of 2016, the Group's finance income was generated mainly from interest on financial instruments of PLN 1,834 thousand (September 30th 2015: PLN 4,678 thousand), including PLN 677 thousand of interest on security deposits provided in respect of contracts (September 30th 2015: PLN 1,882 thousand) and PLN 1,300 thousand resulting from discount on non-current settlements.

Finance costs in the period chiefly included interest on financial instruments of PLN 2,428 thousand (September 30th 2015: PLN 2,910 thousand), interest on employee benefit obligations of PLN 675 thousand, net foreign exchange losses of PLN 650 thousand as well as commissions on bank borrowings, financial guarantees and insurance of PLN 718 thousand (September 30th 2015: PLN 619 thousand).

(PLN '000)

12.2. Income tax

Income tax expense

Main components of income tax expense in the consolidated statement of comprehensive income:

Continuing operations	*Three months ended Sep 30 2016 (unaudited)*	*Nine months ended Sep 30 2016 (unaudited)*	*Three months ended Sep 30 2015 (unaudited)*	*Nine months ended Sep 30 2015 (unaudited)*
Consolidated statement of profit or loss				
Current income tax	1,522	(12,508)	(3,300)	(19,871)
Current income tax expense	1,522	(12,509)	(3,300)	(19,871)
Adjustments to current income tax from previous years	–	1	–	–
Deferred tax	(4,591)	6,662	946	11,661
Related to recognition and reversal of temporary differences	(4,591)	6,662	946	11,661
Adjustments to deferred tax from previous years	–	–	–	–
Income tax expense in the consolidated statement of profit or loss	**(3,069)**	**(5,846)**	**(2,354)**	**(8,810)**
Deferred tax on other comprehensive income	254	318	46	117
Related to recognition and reversal of temporary differences	254	318	46	117
Adjustments to current income tax from previous years	–	–	–	–
Income tax expense recognised in other comprehensive income	**254**	**318**	**46**	**117**

Discontinued operations	*Three months ended Sep 30 2016 (unaudited)*	*Nine months ended Sep 30 2016 (unaudited)*	*Three months ended Sep 30 2015 (unaudited)*	*Nine months ended Sep 30 2015 (unaudited)*
Consolidated statement of profit or loss				
Current income tax	–	–	–	(21)
Current income tax expense	–	–	–	(21)
Adjustments to current income tax from previous years	–	–	–	–
Deferred tax	–	–	–	32
Related to recognition and reversal of temporary differences	–	–	–	32
Adjustments to deferred tax from previous years	–	–	–	–
Income tax expense in the consolidated statement of profit or loss	–	–	–	**11**

(PLN '000)

Deferred income tax calculated as at September 30th 2016

Deferred income tax calculated as at September 30th 2016 relates to:

	Statement of financial position		*Statement of comprehensive income*	
	Sep 30 2016 (unaudited)	*Dec 31 2015*	*Nine months ended Sep 30 2016 (unaudited)*	*Nine months ended Sep 30 2015 (unaudited)*
- investment reliefs	(3)	(3)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(16,244)	(18,811)	2,567	2,574
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,403	1,447	(44)	(328)
- difference between tax base and carrying amount of loans and receivables	1,702	1,209	493	1,297
- different timing of recognition of revenue from sale of goods and services for tax purposes	(42,345)	(43,185)	840	(1,298)
- difference between tax base and carrying amount of inventories	1,986	1,981	5	330
- provisions	20,031	18,420	1,611	1,919
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	–	–	(17)
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	44	(44)	(47)
- different timing of recognition of cost of sales for tax purposes	59,731	63,105	(3,374)	7,434
- tax asset related to tax loss	17,172	974	16,198	(132)
- adjustment to costs of unpaid invoices	10,264	18,475	(8,211)	5,139
other	985	1,537	(552)	(2,553)
Deferred tax expense			**9,489**	**14,319**
Net deferred tax asset/(liability)	**54,682**	**45,193**		
Deferred tax expense – continuing operations			**6,980**	**11,778**
Net deferred tax asset/liability, including:	**54,682**	**45,193**		
Deferred tax asset	55,065	47,796		
Deferred tax liability	(383)	(94)		
Deferred tax liability – discontinued operations	–	(2,509)		

In the nine months ended September 30th 2016, the Parent recognised a single deferred tax asset on a tax loss of PLN 88,658 thousand, which will be offset against profits in future reporting periods.

In the nine months ended September 30th 2016, other Group companies recognised a single deferred tax asset on a tax loss of PLN 1,719 thousand in total, which will be offset against profits in future reporting periods.

12.3. Significant items disclosed in the statement of s

The PLN 17,511 thousand increase in receivables disclosed in the consolidated statement of cash flows for the nine months ended September 30th 2016 resulted mainly from:

– PLN (41,258) thousand increase in trade receivables,
– PLN (3,108) increase in receivables from the state budget (including VAT),
– PLN (9,578) thousand increase in prepayments made,

- PLN 47,105 thousand decrease in security deposit receivables,
- PLN (7,894) thousand increase in disputed receivables,
- PLN (2,342) thousand increase in receivables related to prepayments,
- PLN (436) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the nine months ended September 30th 2016, see Note 12.13.

The PLN 19,408 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (48,930) thousand decrease in trade payables,
- PLN 3,052 increase in the provision for warranty repairs,
- PLN 5,257 thousand increase in the provisions for delayed cost collection,
- PLN 9,305 thousand set-off of income tax liabilities,
- PLN (1,680) thousand decrease in actuarial gains/(losses),
- PLN 9,149 thousand increase in VAT liabilities,
- PLN 4,439 thousand increase in other liabilities.

The PLN 20,741 thousand change in accruals and deferrals relating to construction contracts as shown in the statement of cash flows was mainly caused by:

- decrease in receivables relating to accounting for construction contracts and in gross amount due from customers for contract work of PLN 41,605 thousand,
- PLN (8,258) thousand decrease in gross amount due to customers for contract work,
- PLN (12,606) thousand decrease in provisions for contract work,
  including:
- PLN (37,414) thousand decrease in advances,

The PLN 37,414 thousand change in advances in 2016 resulted primarily from recognition of some of the advances as revenue, in accordance with IAS 11 *Construction Contracts.*

The cash flows of PLN 4,892 thousand related to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 3,842 thousand and of intangible assets for PLN 1,050 thousand.

Cash flows from financing activities were mainly affected by an increase in debt outstanding under the overdraft facility and working capital facility advanced to the Parent by PKO BP S.A. of PLN 32,295 thousand.

(PLN '000)

12.4. Property, plant and equipment

Sep 30 2016 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2016	**23,776**	**91,838**	**56,485**	**8,389**	**787**	**2,164**	**183,439**
Transfers from property, plant and equipment under construction	–	373	2,158	219	–	(2,749)	–
Acquisitions	–	–	311	2,454	223	3,412	6,400
Liquidation/sale	(4)	(68)	(160)	(165)	–	–	(397)
Exchange differences on translating foreign operations	–	–	(1)	–	(16)	–	(15)
Depreciation for the period	–	(2,129)	(5,486)	(1,624)	(189)	–	(9,428)
Impairment loss for the reporting period	–	–	–	27	–	–	27
Acquisition of subsidiary	–	–	–	86	13	–	99
Other, including reclassification of property, plant and equipment to/from assets held for sale	(2)	(54)	97	(33)	–	–	8
Net carrying amount as at Sep 30 2016 *(unaudited)*	**23,770**	**89,960**	**53,404**	**9,353**	**818**	**2,827**	**180,133**

*tangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.15.1.

Sep 30 2015 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2015	**23,773**	**89,529**	**46,140**	**6,370**	**358**	**6,029**	**172,199**
Transfers from property, plant and equipment under construction	–	1,860	6,280	55	–	(8,195)	–
Acquisitions	3	306	1,059	2,358	101	12,440	16,267
Liquidation/sale	(19)	(66)	(66)	(399)	–	–	(550)
Exchange differences on translating foreign operations	–	–	(3)	–	–	–	(3)
Depreciation for the period	–	(2,085)	(5,076)	(948)	(57)	–	(8,166)
Impairment loss for the reporting period	–	(6)	–	–	–	–	(6)
Loss of control of a subsidiary	–	(410)	(110)	(34)	–	(194)	(748)
Acquired in business combinations	–	–	30	231	19	–	280
Other, including reclassification of property, plant and equipment to/from assets held for sale	20	(63)	(457)	51	(18)	–	(467)
Net carrying amount as at Sep 30 2015 *(unaudited)*	**23,777**	**89,065**	**47,797**	**7,684**	**403**	**10,080**	**178,806**

12.5. Purchase and sale of property, plant and equipment and intangible assets

	Nine months ended Sep 30 2016 (unaudited)	*Nine months ended Sep 30 2015 (unaudited)*
Purchase of property, plant and equipment and intangible assets*	11,732	15,070
Proceeds from sale of property, plant and equipment and intangible assets	1,374	930

*Capital expenditure incurred in the period to purchase property, plant and equipment, as shown in the table of changes in property, plant and equipment, and capital expenditure incurred to purchase intangible assets.

The Group's capital expenditure on property, plant and equipment involved chiefly expenditure on purchases of production plant and equipment, vehicles and computer hardware. The expenditure was financed with internally generated funds and through lease agreements.

12.6. Goodwill

In the first nine months of 2016, goodwill changed and as at September 30th 2016 amounted to PLN 9,166 thousand. The change resulted from acquisition of control of an organised part of business by subsidiary RAFAKO Engineering Sp. z o.o., following which the RAFAKO Group disclosed goodwill of PLN 4,041 thousand.

	Fair value (PLN '000)
Value of property, plant and equipment	86
Value of low-cost items	13
Total fair value of net assets acquired	99
Total cost of the acquisition	4,140
Goodwill recognised on acquisition	4,041

For a detailed description of the transaction, see Note 9 to these interim condensed consolidated financial statements.

12.7. Shares in other entities

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Shares in other listed companies	190	210
Shares in other non-listed companies	631	19
	821	**229**

*shares pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.15.3

In the first nine months of 2016, the change in the value of shares in non-listed companies was attributable to the establishment of a new company RENG-Nano Sp. z o.o., as described in more detail in Note 9 to these interim condensed consolidated financial statements.

(PLN '000)

12.8. Non-current trade receivables, other receivables and prepayments

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Trade receivables, including:	35,258	35,409
Trade receivables from related entities	–	–
Trade receivables from other entities	35,258	35,409
Other receivables and prepayments, including:	108	239
Prepayments under bank and insurance guarantees	–	–
Security deposits	104	239
Other	4	–
Total receivables (net)	**35,366**	**35,648**
Impairment loss on receivables	–	–
Gross receivables	**35,366**	**35,648**

*trade receivables pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.15.5.

12.9. Other non-current financial assets

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Non-current loans advanced	–	–
Non-current deposits, including:	–	–
- deposits pledged as security for bank guarantees provided to the Group	–	–
Other non-current financial assets, including:	26,550	29,900
Receivable from PBG S.A. related to the return of shares in ENERGOMONTAŻ-POŁUDNIE S.A.	22,070	24,854
Receivable from PBG S.A. in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	4,480	5,046
	26,550	**29,900**

In the nine months ended September 30th 2016, the Group remeasured the receivables from PBG S.A., as described in detail in Note 24.

The change in the receivables relative to the amount disclosed as at December 31st 2015 follows from measurement of the receivables at amortised cost, taking into account the assumptions and estimates specified in Note 6, and reclassification of receivables maturing on June 30th 2017 to current receivables discussed in 12.11.

12.10. Inventories

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Materials (at net realisable value)	10,360	18,817
At cost	20,814	29,169
At net realisable value	10,360	18,817
Work in progress	551	–
At cost	551	–
Merchandise	393	–
At cost	393	–
At net realisable value	393	–
Total inventories, at the lower of cost and net realisable value	**11,304**	**18,817**

*inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.15.4

(PLN '000)

Inventory write-downs

	Nine months ended Sep 30 2016 (unaudited)	*Nine months ended Sep 30 2015 (unaudited)*
At the beginning of the period	(10,353)	(7,793)
Write-down recognised	(4,052)	(2,160)
Write-down reversed	3,951	170
Transfer to assets held for sale	–	–
Balance at end of period	**(10,454)**	**(9,783)**

12.11. Other current financial assets

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Other current financial assets, including:	–	–
Advance payment to acquire the right to a loan	10,500	10,500
Impairment loss on advance payment to acquire the right to a loan	(10,500)	(10,500)
Receivable from PBG S.A. related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	8,371	4,943
Receivable from PBG S.A. in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	1,699	1,003
	10,070	**5,946**

In the nine months ended September 30th 2016, based on the adopted assumptions the Company recognised the current portion of the receivables from PBG S.A. under other financial assets, as further discussed in Note 24.

The change in the receivables relative to the amount disclosed as at December 31st 2015 follows from the reclassification of receivables maturing on June 30th 2017 to current receivables.

On April 18th 2012, the Parent and Olenia Ltd entered into a preliminary agreement for the purchase of 50% of shares in Bioelektrownia Szarlej sp. z o.o. and assignment of rights to receivables in the form a loan granted to that company. The total amount of a prepayment paid by the Parent under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid for shares recognised as other non-financial assets and PLN 10,500 thousand was paid for the loan recognised as other financial assets). Bioelektrownia Szarlej sp. z o.o. is a special purpose vehicle established for the purpose of construction of a biogas power plant, to be financed from internally-generated funds, a loan from investors, and a subsidy awarded to the project. Bioelektrownia Szarlej sp. z o.o. terminated its agreement with the contractor, which caused delays in the performance of work and termination of the project subsidy agreement. Bioelektrownia Szarlej sp. z o.o.'s efforts to resume the project were unsuccessful.

Due to the status of the project, the Parent's Management Board concluded that the risk of non-recoverability of the assets is significant and upheld its decision to recognise an impairment loss for the full value of the project, which is PLN 16,176 thousand.

(PLN '000)

12.12. Cash and cash equivalents

	Sep 30 2016 (unaudited)	Dec 31 2015	Sep 30 2015 (unaudited)
Cash in hand and at banks	233,516	114,051	113,537
Current deposits for up to 3 months, including:	97	83,210	94,336
- deposits pledged as security for contingent liabilities	–	–	–
	233,613	**197,261**	**207,873**

Cash at banks earns interest at variable rates linked to the interest rates for deposits. Current deposits, classified as cash, are placed for various periods, usually of one day to one month, depending on Group companies' immediate cash requirement, and earn interest at rates agreed with the bank.

Group companies carry restricted cash, including cash from subsidies (held in separate bank accounts), which may be used to make payments under current contracts.

As at September 30th 2016, cash included restricted cash of PLN 216.4m (December 31st 2015: PLN 95.1m), which comprised cash held by E003B7 Sp. z o.o. earmarked for implementation of the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions financing the Jaworzno project.

Dividend from E003B7 Sp. z o.o. shares may be paid to the company's sole shareholder, RAFAKO S.A., with no adverse consequences from the financial institutions after expiry of the guarantee provided by those institutions (for details, see Note 11.2).

12.13. Current trade receivables, other receivables and prepayments

	Sep 30 2016 (unaudited)	Dec 31 2015
Trade receivables, including:	318,806	277,397
Trade receivables from related entities	6,380	17,581
Trade receivables from other entities	312,426	259,816
Income tax receivable	18,592	21,137
Other receivables and prepayments, including:	159,651	183,232
Receivables under prepayments made	44,047	34,469
Receivables from the state budget	25,697	22,589
Settlement of property insurance costs	190	800
Settlements with the Company Social Benefits Fund	803	301
Disputed receivables	8,194	300
Prepaid expenses	3,561	1,219
Security deposits	75,760	122,734
Other	1,399	820
Total receivables (net)	**497,049**	**481,766**
Impairment loss on receivables	32,477	32,393
Gross receivables	**529,526**	**514,159**

*trade receivables pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.15.5.

Receivables from the state budget include chiefly domestic and foreign VAT receivable.

Trade receivables bear no interest and are usually payable within 30 days. However, in the case of some trading partners, the final due dates for payment are set by way of individual arrangements and fall between one and three months of the invoice date.

The Group follows a policy pursuant to which it sells its products exclusively to customers who have successfully passed a credit verification procedure. As a result, the Management believes there is no additional credit risk that would exceed the uncollectible debt allowance made for trade receivables.

(PLN '000)

Current trade receivables of PLN 318,806 thousand recognised in the consolidated statement of financial position as at September 30th 2016 relate to trading contracts with domestic and foreign contractors.

Security deposits of PLN 75,760 thousand disclosed in the consolidated statement of financial position relate mainly to projects implemented in the following areas:

- environmental protection – PLN 10,535 thousand,
- flue gas denitrification – PLN 13,297 thousand,
- construction of a biomass-fired unit – PLN 12,936 thousand.

The change in security deposits in the first nine months of 2016 was primarily attributable to a PLN 40,000 thousand cash security deposit returned in connection with the construction of a power generation unit.

A significant item of other receivables were advance payments, which amounted to PLN 44,047 thousand as at September 30th 2016 and included: The largest items included an advance payment received under the contracts for replacing component parts of a combustion chamber of PLN 9,990 thousand and advance payments received under the contract for development of new coal-fired generation capacities of PLN 29,992 thousand.

12.14. Impairment losses on consolidated assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Receivables****
Jan 1 2016	(24,361)	(164,557)	(5,676)	(10,353)	(32,393)
Impairment loss recognised	(30)	–	–	(4,052)	(664)
Impairment loss utilised/reversed	10	154,057	–	3,951	580
Sep 30 2016 *(unaudited)*	**(24,381)**	**(10,500)**	**(5,676)**	**(10,454)**	**(32,477)**
Jan 1 2015	(24,230)	(164,557)	(5,676)	(7,793)	(40,862)
Impairment loss recognised	(130)	–	–	(2,161)	(1,381)
Impairment loss utilised/reversed	28	–	–	170	4,930
Sep 30 2015 (unaudited)	**(24,332)**	**(164,557)**	**(5,676)**	**(9,784)**	**(37,313)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares in companies which are in a company voluntary arrangement process
** inventory write-downs and write-down reversals are charged to cost of products and services sold
*** impairment losses on non-current and current trade and other receivables, including contractual penalties

In the nine months ended September 30th 2016, after PBG S.A.'s arrangement with creditors became final, the Parent used impairment losses of PLN 154,057 thousand.

(PLN '000)

12.15. Assets pledged as security for Group's liabilities

12.15.1. Property, plant and equipment pledged as security

As at September 30th 2016, property, plant and equipment pledged as security for the Parent's liabilities amounted to PLN 141,795 thousand. The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage for a total maximum amount of PLN 300m over property of which RAFAKO S.A. is the owner or perpetual usufructuary, with the exception of residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Property, plant and equipment mortgaged, including:	90,724	92,225
land	9,273	9,273
buildings and structures	81,451	82,952
Property, plant and equipment encumbered with registered pledge, including:	51,071	53,566
plant and equipment	49,527	50,793
motor vehicles	1,544	2,773
	141,795	**145,791***

*the disclosed amounts include property, plant and equipment of PLN 55 thousand classified as held for sale (December 31st 2015: PLN 119 thousand).

12.15.2. Intangible items pledged as security

As at September 30th 2016, intangible assets worth PLN 10,799 thousand were pledged as security for the Parent's liabilities (December 31st 2015: PLN 11,449 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

12.15.3. Inventories pledged as security

As at September 30th 2016, shares held by the Company worth PLN 29,558 thousand (December 31st 2015: PLN 25,261 thousand) were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

12.15.4. Inventories pledged as security

As at September 30th 2016, inventories worth PLN 10,287 thousand were pledged as security for the Parent's liabilities (December 31st 2015: PLN 18,726 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

12.15.5. Trade receivables pledged as security

Trade receivables with a carrying amount of PLN 19,253 thousand were pledged as security in respect of guarantees and borrowings received by the Group as at September 30th 2016 (December 31st 2015: PLN 26,137 thousand).

12.16. Share capital

In the nine months ended September 30th 2016, the Parent's share capital remained unchanged and as at September 30th 2016 was worth PLN 169,864 thousand.

Share capital	*Number of shares pcs.*	*Value of shares PLN '000*
Series A shares	900,000	1,800
Series B shares	2,100,000	4,200
Series C shares	300,000	600
Series D shares	1,200,000	2,400
Series E shares	1,500,000	3,000
Series F shares	3,000,000	6,000
Series G shares	330,000	660
Series H shares	8,070,000	16,140
Series I shares	52,200,000	104,400
Series J shares	15,331,998	30,664
	84,931,998	**169,864**

12.17. Par value per share

All the shares have a par value of PLN 2.00 per share and have been taken up for cash contributions.

12.18. Shareholders' rights

Shares of all series carry equal rights as to dividend payment and return on equity.

12.19. Share premium

The share premium comprises the excess of issue price over the par value of the shares, amounting to PLN 77,947 thousand. On May 15th 2000, RAFAKO S.A.'s General Meeting resolved to allocate PLN 41,169 thousand to cover accumulated loss brought forward from previous years. Additionally, in 2015, following the recognition of a share premium of PLN 58,562 thousand on sale of Series J shares, less issue costs, the share premium totalled PLN 95,340 thousand (December 31st 2015: PLN 95,340 thousand).

12.20. Reserve funds

Reserve funds have been created from statutorily required transfers from profits generated by the Group in previous financial years, as well as from profit appropriations in excess of the statutorily required transfers. In the first nine months of 2016, following allocation of the 2015 net profit to reserve funds, their amount changed and as at September 30th 2016 totalled PLN 171,050 thousand (December 31st 2015: PLN 112,715 thousand).

12.21. Translation reserve

The balance of translation reserve is adjusted for exchange differences arising from translation of the financial statements of a foreign subsidiary and a foreign branch of the Parent. As at September 30th 2016, translation reserve amounted to PLN -68 thousand (December 31st 2015: PLN -41 thousand).

12.22. Retained earnings and dividends paid

Following recognition of a net profit of PLN 22,127 thousand for the nine months ended September 30th 2016, recognition of actuarial gains/losses of PLN -1,362 thousand, and distribution of prior year profits of PLN 58,335 thousand, as at September 30th 2016 the Group's retained earnings amounted to PLN 9,643 thousand (December 31st 2015: PLN 47,213 thousand).

In the nine months ended September 30th 2016, Group companies did not pay any dividends.

(PLN '000)

12.23. Earnings /(loss) per share

Basic earnings/(loss) per share is calculated as the quotient of net consolidated profit/(loss) for the given accounting period attributable to ordinary shareholders of the Parent and the weighted average number of ordinary shares of the Parent outstanding in the period.

Presented below is data on the net profit/(loss) and shares applied to calculate basic earnings/(loss) per share:

	Nine months ended Sep 30 2016 (unaudited)	*Nine months ended Sep 30 2015 (unaudited)*
Net profit/(loss) from continuing operations	22,629	21,733
Profit/(loss) from discontinued operations	–	(55)
Net profit/(loss)	22,629	21,678
Net profit/(loss) attributable to ordinary shareholders, applied to calculate earnings/(loss) per share	**22,127**	**21,520**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	84,931,998	70,947,868
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share	84,931,998	70,947,868
Earnings/(loss) per share, PLN		
– basic earnings from profit attributable to ordinary shareholders for the period	0.26	0.30
Earnings/(loss) per share from discontinued operations, PLN		
– basic earnings from profit attributable to ordinary shareholders for the period	0.00	0.00

The weighted average number of ordinary shares outstanding used to calculate basic and diluted earnings per share from discontinued operations is presented in the table above. The table below presents the profit/(loss) amounts used to calculate earnings per share from discontinued operations:

	Nine months ended Sep 30 2016 (unaudited)	*Nine months ended Sep 30 2015 (unaudited)*
Profit/(loss) from discontinued operations	–	(55)
Net profit/(loss) from discontinued operations, attributable to ordinary shareholders, applied to calculate earnings per share	–	(45)

In the nine months ended September 30th 2016, the Parent did not issue new shares.

The Group does not present diluted earnings per share for the nine months ended September 30th 2016 as it does not have any dilutive financial instruments.

(PLN '000)

12.24. Post-employment and other employee benefits

Based on a valuation forecast made at the end of the accounting period by a professional actuary, the Group recognises a provision for the present value of its obligation related to payment of retirement gratuity benefits, jubilee benefits and the Company Social Benefits Fund. The provision amount and a reconciliation showing movements in the provision during the financial year are presented in the table below:

	Sep 30 2016 (unaudited)	*Dec 31 2015*
As at Jan 1 2012	25,556	26,803
Interest expense	637	670
Current service costs	401	485
Actuarial (gains)/losses	1,680	314
Benefits paid	(2,176)	(2,716)
Closing balance	**26,098**	**25,556**
Non-current provisions	23,970	23,552
Current provisions	2,128	2,004

The main assumptions adopted for the valuation of employee benefits as at the end of the reporting period are as follows:

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Discount rate (%)	2,8	2,8
Anticipated inflation rate (%)*	–	–
Employee turnover rate	5	5
Anticipated salary growth rate (%)**	2	2

*No data in the actuary's report.
** 2% in 2016 and in subsequent years

12.25. Non-current trade and other payables

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Trade payables		
Trade payables to related entities	–	55
Trade payables to other entities	29,283	34,789
	29,283	**34,844**
Financial liabilities		
Finance lease liabilities	3,770	3,686
	3,770	**3,686**
Other liabilities		
Unpaid bonus accrual	498	311
Capital commitments	238	852
Provisions for warranty repairs	5,042	4,325
	5,778	**5,488**

(PLN '000)

12.26. Current provisions, trade and other payables

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Trade payables		
Trade payables to related entities	9,479	6,330
Trade payables to other entities	347,994	394,512
	357,473	**400,842**
Capital commitments	3,914	2,663
	3,914	**2,663**

	Sep 30 2016 (unaudited)	Dec 31 2015
Other liabilities		
VAT	10,932	1,783
Personal income tax	2,611	2,557
Social security liabilities	9,039	9,001
Amounts payable to the Tax Office	1	–
Other taxes, customs duties and insurance payable	334	103
Settlements with the Company Social Benefits Fund	–	–
Salaries and wages payable	9,259	8,572
Accrued holiday entitlements	4,147	3,659
Unpaid bonus accrual	10,243	11,237
Provisions for warranty repairs	9,935	7,600
Provision for uninvoiced services and materials	10,562	5,305
Audit provision	228	227
Other current accruals and deferred income	8,443	4,855
Security deposits	308	144
Other amounts payable to employees	–	279
Provision for future costs	7,194	7,000
Other	1,107	1,716
	84,343	**64,038**
Other financial liabilities		
Finance lease liabilities	2,181	1,542
Other financial liabilities		–
	2,181	**1,542**

13. Objectives and policies of financial risk management

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

(PLN '000)

14. Financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at September 30th 2016 and December 31st 2015.

	Carrying amount	
	Sep 30 2016 (unaudited)	*Dec 31 2015*
Assets at fair value through profit or loss	–	–
Investment fund units	–	–
Derivative instruments	–	–
Available-for-sale financial assets	**190**	**210**
Long-term shareholdings	190	210
Loans and receivables	**474,762**	**471,839**
Trade receivables	354,064	312,806
Other receivables	83,954	123,037
Loans advanced	52	80
Non-current deposits	–	–
Current deposits	72	70
Other non-current financial assets	26,550	29,900
Other current financial assets	10,070	5,946
Cash and cash equivalents	**233,613**	197,261
	708,565	**669,310**

	Carrying amount	
	Sep 30 2016 (unaudited)	*Dec 31 2015*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**532,381**	**548,409**
Borrowings	141,473	109,208
Trade payables (including capital commitments)	390,908	439,201
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**5,951**	**5,228**
Liabilities under leases and lease agreements with a purchase option	5,951	5,228
	538,332	**553,637**

(PLN '000)

15. Borrowings

In the nine months ended September 30th 2016, liabilities under bank borrowings recognised by Group companies amounted to PLN 141,473 thousand.

Current borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity date*	*Liabilities under borrowings*	
						Sep 30 2016 (unaudited)	*Dec 31 2015*
Current borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts,* clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company	Agreement for a renewable overdraft of PLN 100m***	PLN	1M WIBOR + margin	Jun 30 2017****	98,924	109,208
PKO BP S.A.	registered pledge over a set of movables and rights comprising the entire business of RAFAKO, all claims that may arise in relation to the advanced limit	revolving working capital facility of PLN 50m	PLN	1M WIBOR + margin	Jun 30 2017****	42,549	–
Podkarpacki Bank Spółdzielczy, Dębica Branch	Blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	bank overdraft	PLN		Sep 8 2016	–	–
						141,473	**109,208**

*The facility is secured by receivables under contracts performed by the Company;
**As at the date of these financial statements, the Company established mortgages on its properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facility;
***As at the date of issue of these financial statements, in accordance with the annex of June 30th 2016 to the credit facility agreement, the multi-purpose credit facility limit amounted to PLN 200,000,000.00, including a PLN 100,000,000.00 overdraft facility;
****As at the date of issue of these financial statements, in accordance with the annex of June 30th 2016 to the credit facility agreement, the term of the facility and its repayment date were extended until June 30th 2017.

The RAFAKO Group's credit standing should be analysed taking into account the information included in Note 2, relating to continuation of the Group's operations.

(PLN ‘000)

16. Derivative instruments

As at September 30th 2016, the Group did not carry any open currency forward contracts or any other derivative instruments.

Group companies do not apply hedge accounting, but the transactions are not speculative and their purpose is to effectively hedge foreign currency-denominated purchase/sale contracts. As a result, the Group recognises the effects of fair-value measurement/ realisation of such instruments similarly as exchange differences, i.e. in other income or expenses.

17. Capital management

The purpose of capital management by the Group is to ensure a high level of security for its operations while minimising the costs of raising financing. To ensure stable development, the Group needs to maintain an appropriate relationship between its own and external capital and effectively manage free cash. The Group analyses its capital structure using the capitalisation ratio (which measures the share of the Group’s equity in its total financing sources).

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Share of debt in equity		
Equity attributable to owners of the Parent	445,829	425,091
External capital (bank credit facility and loan)	141,473	109,208
Total equity and liabilities	1,262,400	1,251,218
Capitalisation ratio	**0.35**	**0.34**

18. Provisions for costs

18.1. Provision for penalties due to late contract performance or failure to meet technical specifications guaranteed under construction contracts

During the nine months ended September 30th 2016, the Parent reviewed the amounts of provisions for costs of late contract performance (including delays in meeting contractual obligations and terms of assessing penalties) recognised for ongoing contracts. Using the most recent data on running contracts and based on settlements of completed contracts, the Management Board of the Parent decided to recognise a PLN 12,415 thousand provision for costs of late contract performance. In Q3 2016, in connection with the execution of an agreement with a significant customer to extend the contract completion deadline, PLN 8,653 thousand of the provision for costs of late contract performance was reversed.

(PLN '000)

18.2. Change in provisions, liabilities and accruals and deferred income disclosed in the Group's consolidated statement of financial position

	*Provision for expected losses on contracts**	*Provision for length-of-service awards and retirement gratuity*	*Provision for unused holiday entitlement***	*Provision for warranty repairs***	*Provision for costs of contractual penalties*	*Provision for bonuses***	*Provision for other costs***	*Provision for costs under bank guarantees and sureties issued*	*Other provisions***
Jan 1 2016	29,885	25,556	3,659	11,925	–	11,548	7,000	–	227
Provision recognised	2,729	542	805	10,206	12,415	4,823	938		352
Reversal/utilisation of provision	(19,097)		(317)	(7,154)	(8,653)	(5,630)	(744)		(351)
Sep 30 2016 *(unaudited)*	**13,517**	**26,098**	**4,147**	**14,977**	**3,762**	**10,741**	**7,194**	–	**228**
Jan 1 2015	30,321	26,803	3,780	11,848	1,946	9,454	5,667	745	113
Provision recognised	18,580	623	190	2,642	–	5,039	20	66	318
Reversal/utilisation of provision	(20,730)	–	(355)	(7,526)	(1,946)	(8,761)	(720)	(811)	(203)
Sep 30 2015 (unaudited)	**28,171**	**27,426**	**3,615**	**6,964**	–	**5,732**	**4,967**	–	**228**

*Amounts resulting from accounting for construction contracts described in Note 11.
**Provisions presented in the statement of financial position as other liabilities.

(PLN '000)

19. Issue, redemption and repayment of debt and equity securities

In the nine months ended September 30th 2016, the Group companies did not issue, redeem or repay any debt or equity securities.

20. Dividends paid or declared

In the nine months ended September 30th 2016, Group companies did not pay any dividends. In accordance with the applicable laws, dividends may only be paid out of the profit of individual Group companies, and not on the basis of consolidated earnings of the Group.

21. Capital commitments

As at September 30th 2016, the RAFAKO Group companies had commitments related to purchase of property, plant and equipment of PLN 4,152 thousand. Group companies had also signed agreements envisaging capital expenditure to be made in 2016 which was not disclosed in the accounting books at the end of the reporting period, totalling PLN 304 thousand. The agreements related mainly to capital expenditure on production, plant and equipment.

22. Movements in off-balance sheet items, information on loan sureties and guarantees granted

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	661,566	585,065
- from related entities	–	–
Receivables under sureties received, including:	–	7,600
- from related entities	–	–
Promissory notes received as security, including:	32,578	22,160
- from related entities	9,024	8,134
Letters of credit	–	–
	694,144	**614,825**

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	243,534	201,181
- to related entities	–	–
Liabilities under sureties, including:	1,394,668	1,046,000
- to related entities	–	–
Promissory notes issued as security, including:	27,159	28,798
- to related entities	–	–
Letters of credit	–	–
	1,665,361	**1,275,979**

In the first nine months of 2016, the RAFAKO Group recorded a PLN 389,382 thousand rise in contingent liabilities, which resulted mainly from an increase in liabilities under sureties. In the first nine months of 2016, guarantees (mainly performance bonds of PLN 33,118 thousand and bid bonds of PLN 25,462 thousand) were issued by banks and insurance companies to the RAFAKO Group's trading partners upon Group companies' instruction. The largest item of these liabilities was the bid bond of EUR 3m issued in June 2016. Liabilities under sureties issued, of PLN 1,394,668 thousand, relate to a surety for E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project involving the 'Construction of new coal-fired generation capacities at TAURON Wytwarzanie S.A. − construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant −Power Plant II'. The change in liabilities under sureties in the first nine months of 2016 results from the execution of an annex to an agreement of April 16th 2014 for the provision of bank and insurance guarantees to an SPV in relation to an ongoing project, under which mBank agreed to provide a guarantee of PLN 348,668 thousand. The largest item among guarantees which expired in the first nine months of 2016 was a performance bond of PLN 9,079 thousand.

In the first nine months of 2016, the Group recorded an increase of PLN 79,319 thousand in contingent receivables related mainly to performance bonds, including an increase of PLN 76,501 thousand in receivables under bank and insurance guarantees, and an increase of PLN 10,418 thousand in receivables under promissory notes. The largest item among guarantees received in the first nine months of 2016 was an advance payment guarantee of EUR 1,831 thousand. The largest item among guarantees expired in the first nine months of 2016 was an advance payment guarantee of EUR 1,831 thousand.

23. Litigation and disputes

As at the date of these interim condensed financial statements, the Parent was party to pending court proceedings, both as the defendant and plaintiff.

In another material litigation, RAFAKO S.A. is seeking compensation from Donetskoblenergo of Ukraine. RAFAKO demands the compensation following the customer's final decision to abandon a steam-generator construction project. On August 6th 2010, the Company received a decision issued by the Judicial Chamber for business cases of the Supreme Court of Ukraine granting a cassation appeal lodged by RAFAKO S.A. on March 2nd 2010 and upholding the ruling of the Donetsk Commercial Court of Appeals of December 23rd 2008, whereby RAFAKO was awarded UAH 56.7m (approximately USD 11.5m) in compensation, default interest, court expenses and legal representation costs. As the recovery of the awarded receivable is uncertain, the Company did not recognise that amount as revenue. RAFAKO's attorney reported that in July 2012 the Commercial Court for the Donetsk region resumed the examination of the case having received Donetskoblenergo's petition to declare the agreement of May 16th 1994 invalid. According to the attorney, there are no new arguments or evidence to grant the petition. Due to the current situation in Ukraine, no date for the next hearing has been set.

On December 9th 2014, RAFAKO S.A. received a claim for payment of EUR 644.5 thousand from ESPD Environmental Solutions and Project Development GmbH of Vienna (ESPD). The Company's liability is alleged to arise out of the cooperation agreement signed between the parties, under which ESPD agreed to provide support for RAFAKO S.A.'s efforts to win contracts for flue gas denitration (DeNOx) units. RAFAKO S.A.'s stance is that the fee claimed by ESPD is not due since no services have been provided. On December 7th 2015, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw awarded the full claimed amount to ESPD. The amount owed by the Parent was paid to ESPD, but RAFAKO S.A. remains in dispute, and on January 21st 2016 it filed an appeal against the award with the Court of Appeals in Katowice. The Court is expected to announce its decision on November 18th 2016.

On August 2nd 2016, RAFAKO S.A. received, as leader of the consortium (with OMIS S.A.) performing the contract for NOx reduction in OP-650 boilers No. 1, 2 and 3 at the Ostrołęka Power Plant B, a debit note for PLN 13,491 thousand from ENERGA Elektrownie Ostrołęka S.A. (ENERGA). The penalties were charged by ENERGA for: i) delay in the completion of installation work, and ii) delay in the commissioning of the unit. Subsequently, as a result of negotiations held between the parties, ENERGA decided to waive the second penalty in whole, which reduced the debit note amount by PLN 899,400. On September 20th 2016, the consortium filed an action with the Regional Court of Białystok for determining non-existence of the liabilities towards ENERGA in connection with non-performance or improper performance of the contract. On October 27th 2016, ENERGA sent a letter to RAFAKO S.A. and OMIS S.A. in which it notified them of deducting PLN 6,453,698.68, representing part of the contractual penalties, from current payments under the contract. The deduction amount attributable to RAFAKO is PLN 4,177,451.83. The consortium refuses to accept that deduction, which it deems groundless given the contested grounds for charging the contractual penalties, which are now under litigation. In consequence, the consortium will amend its action to a demand for payment of the deducted amount with interest. Next, on November 4th 2016, the Regional Court of Białystok, as part of the pending litigation, decided to refer the case to mediation. The Court appointed a mediator and set a 70-day deadline for the mediation proceedings.

On October 11th 2016, the Parent filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, for payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of funds retained as a performance bond. The grounds for the claim were that the parties terminated their cooperation under the subcontractor agreement for design, delivery and erection of a grid, boiler and flue gas treatment system for two lines of the Thermal Waste Treatment Plant in Szczecin, concluded on December 18th 2012 (eventually, on July 7th 2016, RAFAKO S.A. submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project was discontinued, Mostostal Warszawa S.A. is obliged to refund the amounts retained as a performance bond because the contractual reason for providing a performance bond ceased to exist. On October 19th 2016, the Court issued a non-final payment order.

24. Receivables from related parties under arrangement proceedings

At the end of the reporting period, the Group recognised in the statement of financial position net receivables of PLN 36.6m from a related entity with respect to which a court decision was issued on approval of its scheme arrangement and discontinuation of bankruptcy proceedings. The receivables were recognised in connection with the events described in detail in Note 44 to the consolidated financial statements of RAFAKO S.A. for 2015.

After the Bankruptcy Court's decision approving the arrangement between PBG S.A. and its creditors, dated October 8th 2015, became final on June 13th 2016, the Parent used the impairment loss on the above receivables in a total amount of PLN 156.9m.

Under the arrangement, the date of the first cash repayment to the Parent was set for June 30th 2016. However, in accordance with the agreement made by the Parent with PBG S.A. on November 8th 2016, the date was postponed until November 28th 2016. On November 9th 2016, PBG S.A. announced that it had commenced the procedure to issue bonds to be offered to creditors which in accordance with the Arrangement are to have their claims satisfied as Group 1, 3, 4, 5 and 6 creditors (the Parent's receivables are recorded in Group 3). As a result, the Parent's Management Board expects to receive a relevant invitation to acquire bonds.

(PLN '000)

25. Management Board and Supervisory Board of the Parent

In the nine months ended September 30th 2016, there were no changes in the composition of the Parent's Management Board.

As at the date of these interim condensed consolidated financial statements, the composition of the Parent's Management Board was as follows:

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

In the nine months ended September 30th 2016, there were no changes in the composition of the Parent's Supervisory Board.

At the date of these interim condensed financial statements, the composition of the Supervisory Board is as follows:

Jerzy Wiśniewski – Chairman of the Supervisory Board
Dariusz Sarnowski – Deputy Chairman of the Supervisory Board
Krzysztof Gerula – Member of the Supervisory Board (independent member)
Przemysław Schmidt – 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.

26. Transactions with members of the Management Board and Supervisory Board

In the reporting and comparative periods, the Group companies did not enter into any transactions with members of their Management Boards.

27. Related-party transactions

In the nine months ended September 30th 2016 and September 30th 2015, the Parent and its subsidiaries did not enter into any material transactions with related parties on other than on arm's length terms.

Aggregate amounts of related-party transactions in the financial periods indicated:

Related party	*Nine months ended Sep 30:*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
Parent:					
PBG S.A. *	*2016*	2,202	2,445	37,623	133
	2015	–	22	35,540	17
PBG Group companies:					
PBG oil and gas Sp. z o.o.	*2016*	8,172	41,888	4,880	9,911
	2015	525	22,640	278	8,005
PBG Avatia Sp. z o.o. w upadłości układowej (in company voluntary arrangement)	*2016*	–	–	–	18
	2015	–	3	–	1
PBG ERIGO Sp. z o.o.	*2016*	12	–	6	–
PBG ERIGO Projekt Sp. z o.o. Platan Hotel	*2016*	56	–	8	–

**The receivables from PBG S.A. described in Note 24.*

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Related party	*Nine months ended Sep 30:*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
Entities related through personal links:					
SWGK KSIĘGOWOŚĆ Sp. z o. o	*2016*	–	–	–	–
	2015	–	1,316	–	172
SWGK PODATKI Sp. z o.o.	*2016*	–	–	–	–
	2015	–	30	–	–
PBG Foundation	*2016*	–	196	–	66
	2015	–	139	–	–
Mostostal Energomontaż Gliwice S.A.	*2016*	–	–	–	102
	2015	–	18	–	373
Dwór w Smólsku	*2016*	1	160		49
SWGK Consulting Sp. z o.o.	*2016*	–	74	–	
	2015	–	30	–	37
PONER Sp. z o.o.	*2016*	–	17	–	21
BPIL Grzegorz Kiczor	*2016*	–	135	37	–
Energoprojekt Katowice S.A.	*2016*	–	–	–	–
	2015	–	–	–	154
SWGK AVATAR Sp. z o.o.	*2015*	–	164	–	8

28. Brief description of the Group's achievements and failures in Q3 2016

On July 13th 2016, E003B7 Sp. z o.o., a wholly-owned subsidiary of RAFAKO S.A., and POLIMEX Energetyka Sp. z o.o. of Warsaw executed an agreement for assembly of the boiler's pressurised section, performance of tests and participation in the start-up, in connection with the project 'Development of new coal-fired generation capacities at Tauron Wytwarzanie S.A. – Construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II' carried out by RAFAKO and the SPV. The estimated value of the agreement for performance of the full scope of works is PLN 118,750,000 (VAT exclusive), and its completion date is April 2018. The Parties agreed that the amount of contractual penalties to be imposed on the subcontractor for a delay in performing obligations under the agreement may not exceed 15% of the agreement's value (VAT exclusive). If the agreement is terminated due to circumstances attributable to the other party, the penalty is 10% of the agreement's value (VAT exclusive). Payment of the contractual penalties does not preclude the Parties' right to seek compensation in excess of these amounts, with the proviso that the Parties' liability for non-performance or improper performance of this agreement may not exceed 100%.

On July 14th 2016, RAFAKO S.A. and POLIMEX Energetyka Sp. z o.o. of Warsaw signed a letter of intent expressing the parties' intention to cooperate on: (i) joint participation in a potential tender for expansion of power generation capacities at the Ostrołęka Power Plant (Elektrownia Ostrołęka) and (ii) performance of works under the contract to be concluded if the consortium of POLIMEX Energetyka Sp. z o.o. and RAFAKO S.A. wins the bid for the project, on the terms and dates provided for therein. The parties plan to participate in the project as a consortium. In the consortium agreement, the parties will specify the detailed scope of bid preparation and works for each party. The procedures to be followed by each party in using its resources, granting credentials etc. will also be provided for in the contract. If the parties decide to conclude the consortium agreement, PE will be the consortium leader, performing the assembly and construction works for the project. RAFAKO S.A. will be the consortium member and will perform the technology part of the project (excluding the turbine island), to be defined in detail in the agreement.

On September 29th 2016, RAFAKO S.A. and JSC VILNIAUS KOGENERACINĖ JĖGAINĖ signed a contract for construction of a biomass-fired co-generation unit composed 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. The value of the contract is EUR 149,650,000 (VAT exclusive). The project completion deadline is 28 months as of the date of the Notice To Proceed, which will be issued no later than nine months after the contract date. If the employer fails to issue the NTP within those nine months (condition), the contract will be null and void.

On September 30th 2016, the RAFAKO Group and ENEA Wytwarzanie Sp. z o.o. effectively signed a contract for delivery and installation of a catalytic flue gas denitrification system for AP-1650 boilers No. 9 and 10 and for upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. The Contract, executed on a turn-key basis, is divided into two tasks subject to two separate acceptance procedures:

Task 1 – Preparation of a Construction Plan for the entire contract (i.e. for task 1 and task 2), construction of an SCR Unit at boiler No. 9 with a DRiM II Station – entire scope, all trades (development of documentation, delivery, performance of construction, electrical, mechanical, and I&C works), replacement of flue gas ducts at the boiler outlet stub – LUVO 1÷3 inlet stub section, replacement of electrostatic precipitator with the ash removal system and the flue gas inlet and outlet ducts, replacement of flue gas fans, removal of REGAVO and auxiliary fans including the construction of new flue gas ducts in place of the removed REGAVO and auxiliary fans, and construction of protection system for flue gas ducts from the FGD I absorber outlet to stack No. 5.

Task 2 – Construction of an SCR Unit at boiler No. 10 and connecting the unit to DRiM II Station – entire scope, all trades (development of documentation, delivery, performance of construction, electrical, mechanical, and I&C works), replacement of flue gas ducts at the boiler outlet stub – LUVO 1÷3 inlet stub section, replacement of flue gas fans, and upgrade of electrostatic precipitator with flue gas ducts before and after the electrostatic precipitator (adaptation to new pressures following the construction of the SCR Unit).

The total value of the contract is PLN 289,182,112.00, VAT exclusive (or PLN 355,693,997.76 VAT inclusive). The above amount comprises remuneration for the performance of task 1 (PLN 189,524,080.00 VAT exclusive) and task 2 (PLN 99,658,032.00).

On September 29th 2016, RAFAKO S.A. received a letter from ENERGA Elektrownie Ostrołęka S.A. in which it was notified of a major overhaul of generation unit No. 1, planned to commence on March 1st 2018. As a consequence, the date for completion of the contract was rescheduled for Q3 2018. The contract completion deadline may be further extended, as the employer reserved the right to change the shutdown date of generation unit No.1 referred to in the letter.

29. Management Board's position on the feasibility of meeting previously published forecasts

The Group did not publish forecasts for 2016.

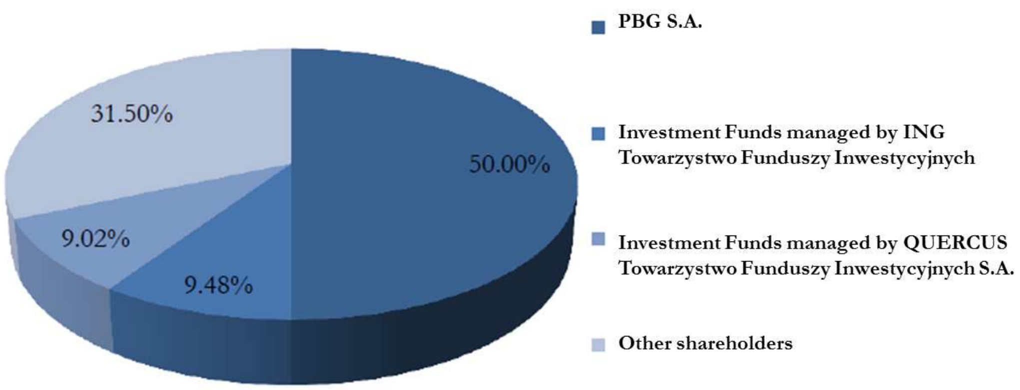
(PLN '000)

30. Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. (the Parent)

Shareholder	*Number of shares (pcs.)*	*Number of votes attached to the shares held*	*Ownership interest*	*% of total vote*
PBG S.A. * **including:**	42,466,000	42,466,000	50% plus 1 share	50% plus 1 share
held directly:	7,665,999	7,665,999	9.026%	9.026%
held indirectly through Multaros Trading Company Limited ** (a subsidiary of PBG S.A.):	34,800,001	34,800,001	40.974%	40.974%
Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.**	8,048,507	8,048,507	9.480%	9.480%
Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.*, including:**	7,662,062	7,662,062	9.020%	9.020%
QUERCUS PARASOLOWY SFIO	5,791,025	5,791,025	6.820%	6.820%

* Based on a notification of September 9th 2015.
** Based on a notification of July 30th 2015.
*** Based on a notification of September 10th 2015.

Shareholder structure as at September 30th 2016



(PLN '000)

31. Statement of changes in holdings of RAFAKO S.A. shares or RAFAKO share options by management and supervisory staff of the consolidated Group companies of which RAFAKO S.A. became aware after the issue of the previous financial statements

To the best of RAFAKO S.A.'s knowledge, as at the date of these financial statements the holdings of RAFAKO S.A. shares by the management and supervisory staff of the consolidated Group companies are as follows:

	Company name	*As at Aug 31 2016*	*Increase*	*Decrease*	*As at Nov 14 2016*
Member of the management staff					
Edward Kasprzak – Vice President of the Management Board	RAFAKO S.A.	2,000	–	–	2,000
Member of the supervisory staff	–	–	–	–	–

32. Remuneration of members of the Management and Supervisory Boards of the Parent and Group companies

The remuneration paid to members of the Management and Supervisory Boards of Group companies for the nine months ended September 30th 2016 was as follows:

	Base pay	*Awards*	*Other*
RAFAKO S.A. – the Parent			
Management Board	2,340	1,248	164
Supervisory Board	756	–	1,008
PGL-DOM Sp. z o.o. – a subsidiary			
Management Board	80	30	–
Supervisory Board	127	–	–
RAFAKO ENGINEERING Sp. z o.o. – a subsidiary			
Management Board	172	–	–
Supervisory Board	77	–	–
ENERGOTECHNIKA ENGINEERING Sp. z o.o. – an indirect subsidiary			
Management Board	284	–	42
Supervisory Board	28	–	–
E001RK Sp. z o.o. – a subsidiary			
Management Board	81	60	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – a subsidiary			
Management Board	1,167	616	–
Supervisory Board	810	540	–

(PLN '000)

33. Factors with a material bearing on the Group's performance in Q4 2016

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period after September 30th 2016.
- The adequacy of provisions and impairment losses for current contracts (some of these matters may be settled only after the date of submission of the Q4 2016 financial statements).
- The risk that provisions may need to be recognised for contractual penalties for time overruns or failure to meet guaranteed technical specifications of certain contracts.
- The risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs.
- Currency movements − substantial changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts.
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

34. Order book

As at September 30th 2016, the value of the Group's order book was nearly PLN 4.5bn. The order book's largest item is the Jaworzno project – the amount outstanding under the contract is PLN 3.0bn, of which PLN 0.35bn is attributable to the Parent and PLN 2.67bn to SPV Jaworzno. The order book does not include the Opole contract (RAFAKO's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 1.3bn is still outstanding). At present, the order book comprises only power construction projects.

ORDER BOOK	
Sep 30 2016	**Dec 31 2015**
~ PLN 4.5bn	**~ PLN 4.6bn**

	ORDER BOOK as at September 30th 2016	Due for execution in		
		Oct - Dec 2016	2017	after 2017
TOTAL, of which:	**~ PLN 4.5bn**	**~PLN 0.6bn**	**~PLN 2.0bn**	**~PLN 1.9bn**
RAFAKO S.A.	**~PLN 1.8bn**	**~PLN 0.2bn**	**~PLN 0.7bn**	**~PLN 0.9bn**
SPV Jaworzno	**~PLN 2.7bn**	**~PLN 0.4bn**	**~PLN 1.3bn**	**~PLN 1.0bn**

As regards the value of the RAFAKO Group's order book, data presented in these interim condensed consolidated financial statements is based on the following assumptions:

a) the order book value is equal to the aggregate amount of the Group's remuneration under individual contracts executed by Group companies in the period to September 30th 2016; the figure does not take into account any planned contracts that have not yet been signed;

b) the order book value is disclosed as at September 30th 2016; actual revenue from contracts and performance periods depend on a number of factors, which may be outside the Group's control.

(PLN '000)

35. Events after the end of the reporting period

After the end of the reporting period, no events took place that would affect the Group's financial performance.

On October 20th 2016, the Parent effectively signed with Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. an annex to the contract for execution of phase 1 of the 'New CHP Plant at Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.' project. Under the annex, the parties postponed the final deadline for completion of the contract to the end of Q1 2017. However, the Company expects that the actual completion of work and the project will occur earlier, in late 2016 or early 2017.

These interim condensed consolidated financial statements of the RAFAKO Group were authorised for issue on November 14th 2016 by virtue of the RAFAKO S.A. Management Board's resolution of November 14th 2016.

Signatures:

November 14th 2016	Agnieszka Wasilewska-Semail	President of the Management Board	....
November 14th 2016	Krzysztof Burek	Vice President of the Management Board	....
November 14th 2016	Jarosław Dusiło	Vice President of the Management Board	....
November 14th 2016	Edward Kasprzak	Vice President of the Management Board	....
November 14th 2016	Tomasz Tomczak	Vice President of the Management Board	....
November 14th 2016	Jolanta Markowicz	Chief Accountant	....