RAFAKO S.A.

THE PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the nine months ended September 30th 2016

November 14th 2016

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(PLN '000)

Interim condensed 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	11.1	**160,701**	**607,742**	**218,051**	**703,055**
Revenue from sale of goods and services		160,110	605,870	217,482	701,418
Revenue from sale of materials		591	1,872	569	1,637
Costs of sales	11.1	(154,659)	(571,393)	(198,820)	(644,765)
Gross profit/(loss)		**6,042**	**36,349**	**19,231**	**58,290**
Other income	11.1	1,912	5,230	853	6,391
Distribution costs	11.1	(7,700)	(22,621)	(7,115)	(20,539)
Administrative expenses		(9,781)	(30,362)	(8,767)	(26,714)
Other expenses	11.1	(1,648)	(3,590)	(738)	(1,824)
Operating profit/(loss)		**(11,175)**	**(14,994)**	**3,464**	**15,604**
Finance income	11.1	(713)	967	1,636	11,590
Finance costs	11.1	(1,666)	(4,456)	(1,293)	(4,732)
Net gain/(loss) on disposal of a subsidiary		–	–	–	11,376
Profit/(loss) before tax		**(13,554)**	**(18,483)**	**3,807**	**33,838**
Income tax expense	11.2	2,337	2,848	(1,039)	(6,521)
Net profit/(loss) from continuing operations	11.22	**(11,217)**	**(15,635)**	**2,768**	**27,317**
Other comprehensive income for the period		**(1,184)**	**(1,391)**	**(387)**	**(840)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(104)	(31)	(194)	(342)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(104)**	**(31)**	**(194)**	**(342)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		(1,334)	(1,679)	(239)	(615)
Tax on other comprehensive income	11.2	254	319	46	117
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(1,080)**	**(1,360)**	**(193)**	**(498)**
Total comprehensive income for the period		**(12,401)**	**(17,026)**	**2,381**	**26,477**
Weighted average number of shares	11.22	84,931,998	84,931,998	70,947,868	70,947,868
Basic earnings/(loss) per share, PLN	11.22	(0.13)	(0.18)	0.04	0.39

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 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	11.4, 11.5	149,718	153,827
Investment property		–	–
Intangible assets	11.5	11,170	11,488
Trade and other receivables - non-current		1,840	6,392
Trade receivables	11.7	1,737	5,660
Other receivables and prepayments	11.7	103	732
Non-current financial assets		65,678	60,889
Shares in subsidiaries	11.6	29,349	25,032
Shares in other entities	11.6	209	229
Non-current loans advanced	11.8, 13	–	–
Other non-current financial assets	11.8, 13	36,120	35,628
Deferred tax asset	11.2	45,905	42,738
		274,311	**275,334**
Current (short-term) assets			
Inventories	11.9	10,287	18,804
Trade receivables, other receivables and prepayments	11.12 , 13	323,895	312,470
Trade receivables	11.12, 13	208,680	141,934
Income tax receivable	11.12	7,940	7,095
Other receivables and prepayments	11.12	107,275	163,441
Gross amount due from customers for contract work	10	271,420	276,703
Current financial assets		22,688	103,541
Derivative instruments		–	–
Current deposits	13	–	–
Current loans advanced	13	464	486
Other current financial assets	11.10, 13	10,070	5,946
Cash and cash equivalents	11.3, 11.11, 13	12,154	97,109
Other current non-financial assets		–	–
		628,290	**711,518**
Non-current assets held for sale		55	119
TOTAL ASSETS		**902,656**	**986,971**

Racibórz, November 14th 2016

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(PLN '000)

Interim condensed statement of financial position

as at September 30th 2016

	Note	Sep 30 2016 (unaudited)	Dec 31 2015
EQUITY AND LIABILITIES			
Total			
Share capital	11.15	169,864	169,864
Share premium	11.18	95,340	95,340
Reserve funds	11.19	131,301	104,716
Exchange differences on translating foreign operations	11.20	29	60
Retained earnings / Accumulated losses	11.21	(21,737)	21,843
		374,797	**391,823**
Non-current liabilities			
Interest-bearing borrowings		–	–
Finance lease liabilities	11.24, 13	2,836	3,111
Deferred tax liability		–	–
Provision for employee benefits	11.23, 17.2	23,918	23,500
Trade and other payables		5,681	25,544
Trade payables	11.24, 13	59	20,796
Capital commitments	13, 20	83	112
Other liabilities	11.24	5,539	4,636
		32,435	**52,155**
Current liabilities			
Trade and other payables	11.25	251,620	307,537
Trade payables	13	184,443	256,803
Capital commitments	13, 20	554	1,790
Income tax payable		–	–
Other liabilities	11.25	66,623	48,944
Current portion of interest-bearing borrowings	14	143,488	111,213
Other financial liabilities and finance lease liabilities	11.25, 13	1,749	1,278
Provision for employee benefits	11.23, 17.2	2,097	1,973
Amounts due to customers and provisions for construction contract work and deferred income	10	96,470	120,992
Gross amount due to customers for construction contract work	10	78,182	90,378
Provisions for construction contract work	17	17,388	29,807
Grants		900	807
		495,424	**542,993**
Total liabilities		**527,859**	**595,148**
TOTAL EQUITY AND LIABILITIES		**902,656**	**986,971**

Racibórz, November 14th 2016

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(PLN '000)

Interim condensed 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		(18,483)	33,838
Adjustments for:		(86,252)	(82,957)
Depreciation and amortisation		8,949	7,902
Foreign exchange gains/(losses)		(4)	2
Interest and dividends, net		3,065	3,440
(Gain)/loss from investing activities		(762)	(13,487)
(Increase)/decrease in receivables	11.3	(10,199)	59,740
(Increase)/decrease in inventories		8,517	2,427
Increase/(decrease) in employee benefit provisions and obligations, excluding borrowings	11.3	(73,031)	(89,612)
Change in prepayments and accruals for construction contracts	11.3	(19,332)	(50,240)
Income tax (paid)/received		(3,467)	(3,136)
Other		12	7
Net cash from operating activities		**(104,735)**	**(49,119)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		531	457
Purchase of property, plant and equipment and intangible assets	11.3	(4,449)	(10,671)
Sale of financial assets		–	48,000
Purchase of financial assets		(4,317)	–
Dividends and interest		4	15
Repayment of loans advanced		–	22
Loans advanced		27	(403)
Other		–	(1,440)
Net cash from investing activities		**(8,204)**	**35,980**
Cash flows from financing activities			
Proceeds from issue of shares		–	89,226
Payment of finance lease liabilities		(1,449)	(995)
Proceeds from borrowings	11.3	32,295	17,418
Repayment of borrowings	11.3	–	–
Interest paid	11.3	(2,121)	(2,971)
Bank fees		(813)	(1,017)
Other		103	386
Net cash from financing activities		**28,015**	**102,047**
Net increase/(decrease) in cash and cash equivalents		(84,924)	88,908
Net foreign exchange differences		(31)	(342)
Cash at beginning of period	11.11	97,109	14,348
Cash at end of period	11.11	12,154	102,914

Racibórz, November 14th 2016

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(PLN '000)

Interim condensed 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 equity*
As at Jan 1 2016	**169,864**	**95,340**	**104,716**	**60**	**21,843**	**391,823**
Total comprehensive income for the period	–	–	–	(31)	(16,995)	(17,026)
Distribution of prior year profits	–	–	26,585	–	(26,585)	–
As at Sep 30 2016 *(unaudited)*	**169,864**	**95,340**	**131,301**	**29**	**(21,737)**	**374,797**
As at Jan 1 2015	**139,200**	**36,778**	**81,201**	**293**	**19,025**	**276,497**
Total comprehensive income for the period	–	–	–	(342)	26,819	26,477
Distribution of prior year profits	–	–	23,515	–	(23,515)	–
Share issue	30,664	58,562	–	–	–	89,226
As at Sep 30 2015 *(unaudited)*	**169,864**	**95,340**	**104,716**	**(49)**	**22,329**	**392,200**

Racibórz, November 14th 2016

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NOTES

1. General information

RAFAKO S.A. ("the Company") 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 Business Register 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 Company has been established for an indefinite term.

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

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

These interim condensed financial statements of the Company have been prepared on a historical cost basis, modified in respect of financial instruments measured at fair value.

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

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

The Company also prepared interim condensed consolidated financial statements for the nine months ended September 30th 2016, which were authorised for issue by the Company's Management Board on November 14th 2016.

2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements were prepared in accordance with the International Financial Reporting Standards endorsed by the European Union ("IFRSs"), 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 financial statements of the Company have been prepared on the assumption that the Company 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 its business activities, the Company must maintain its financial liquidity, that is the ability to secure sufficient financing for the current contracts. In view of the above, the Management Board of the Company has prepared financial projections for the 12 months subsequent to 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 Company'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 Company'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 Company'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 Company's trading partners. As at the date of these financial statements, the Company had PLN 223.2m available in open guarantee lines provided by several financial institutions, with approximately 60% of the limit in outstanding guarantees.

In line with assumptions, in the nine months of 2016, the Company 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 Company's liquidity.

On September 29th 2016, the Company 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 Company 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 289,182,112.00.

The Company'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 Company's liquidity during at least the 12 months subsequent to the reporting date.

Given the above, the Management Board of RAFAKO S.A. 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 Company's interim financial performance may not be indicative of its potential full-year financial performance.

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

3. Significant accounting policies

The accounting policies applied in preparing these interim condensed financial statements are consistent with the policies applied in preparing the Company's full-year 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 Company does not operate any share-based payment plans, the application of these amendments had no effect on the Company'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 Company.

  - 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 Company.

  - 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 Company does not use this model and therefore the application of these amendments had no effect on its financial standing or performance.

  - 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 Company.

- 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 Company 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 Company.
  - 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 Company.

- 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 Company.

- 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 these separate financial statements, the Company 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 Company.
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 Company'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 Company's financial standing, performance or the scope of disclosures in the interim condensed financial statements.

The Company 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 Company 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 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 were being analysed by the Company's Management Board.

5. Significant judgements and estimates

5.1 Professional judgement

When preparing the interim condensed financial statements of the Company, the Management Board 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 Company is the lessee

The Company is party to lease agreements. It classifies leases as either finance leases or operating leases based on the assessment of the extent to which 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 management of the Company 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 Company 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 Company'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 Company 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 Company 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. The Company 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 assets at the end of the reporting period are presented in Note 11.13 to these interim condensed financial statements.

Revenue recognition

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total cost of contract execution increased by 10% in relation to the Company's original estimate, the revenue would decrease by approximately PLN 32.2m. Revenue recognition is subject to estimation risk; for detailed information on the risk, see Note 10.

Measurement of provision for employee benefits

Provisions for employee benefits were estimated with actuarial methods.

The underlying assumptions are presented in Note 11.23. The actuarial assumptions adopted at the end of 2015 remained unchanged. 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 Company relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 13.

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 Company reviews the useful lives of its assets annually, on the basis of current estimates.

Deferred tax asset

The Company 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 end of the reporting period.

Provision for expected losses on contracts

At the end of each reporting period the Company 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 10 to these interim condensed financial statements.

Provision for costs due to late performance of contracts

The Company 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 Company as a contractor. 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 10 to these interim condensed financial statements.

Impairment of financial assets

At the end of the reporting period, the Company 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 23.

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 23, the Company recognised in the statement of financial position for the year 2012 a receivable which was initially recognised at fair value, i.e. the present value of expected inflows. 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 Company's ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A., the estimation of the parameters for the measurement of the receivable, in particular at its initial recognition, was difficult and subject to uncertainty.

Valuation of receivables from related parties under arrangement proceedings

As at the date of issue of these interim condensed financial statements, the Judge Commissioner had declared that an arrangement, consistent with the arrangement proposals, was reached between PBG and its creditors (for details see Note 23). The Company'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 approved 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.

(PLN '000)

Functional currency and presentation currency

The Polish zloty is the functional and presentation currency of these 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 Company's operations.

7. Changes in the structure of the Company and the Group

In the reporting period, there were some changes in the structure of the Group.

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 June 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 34.16%.

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.

8. Seasonality and cyclical nature of the Company's operations

The operations of the Company are not affected by seasonality or periodic fluctuations that could materially impact its financial performance.

9. Operating segments

The Company operates in a single market segment of Power and Environmental Protection Facilities.

(PLN '000)

10. Construction contracts

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total cost of contract execution increased by 10% in relation to the Company's original estimate, the revenue would decrease by approximately PLN 40.6m. 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)	2,836,431	2,678,101	2,429,834
Recognised profits less recognised losses to date (cumulative)	189,523	188,963	156,762
Contract revenue recognised by reference to the contract stage of completion (cumulative)	3,025,954	2,867,064	2,586,596
Progress billings (cumulative)	2,825,346	2,676,106	2,469,450
Gross amount due to customers for contract work (liability), including:	**(78,182)**	**(90,378)**	**(102,257)**
- advances received (liabilities arising from advances received)	(42,897)	(56,955)	(51,174)
- adjustment to advances related to amounts due from customers	35,048	56,861	49,248
- gross amount due to customers for contract work	(70,333)	(90,284)	(100,331)
Prepayments relating to accounting for construction contracts, including:	**271,420**	**276,703**	**220,592**
- gross amount due from customers for contract work (asset)	253,281	254,188	196,068
- contract acquisition cost and other accrued contract costs	18,139	22,515	24,524
Provision for penalties for late contract performance or failure to meet guaranteed technical specifications	(3,762)	–	–
Provision for losses on construction contracts	(13,626)	(29,807)	(27,839)

The Company 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 Company 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 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 Company recognises accrued expenses on contract acquisition, as well as on bank and insurance guarantees relating to contract execution.

Key contracts executed by the Company

10.1. Opole Project

In February 2012, the Company, 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 Company's statement of comprehensive income.

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

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

10.2. 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, RAFAKO S.A. 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.

In the consolidated financial statements, RAFAKO S.A. offsets Project-related income, expenses and settlements between RAFAKO S.A. and the special purpose vehicle. In its separate financial statements, RAFAKO S.A. recognises only income and expenses related to its own scope of work, i.e. 11.5% of the total scope of work to be performed on the Jaworzno Project. In its separate financial statements, the Company does not recognise income and expenses related to the portion of work performed by E003B7 Sp. z o.o. − they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

RAFAKO S.A., as the Consortium Leader, issues, to the Employer, invoices 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 RAFAKO S.A. is made by the special purpose vehicle.

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

11.1 Revenue, distribution costs, operating income and expenses and finance income and costs

In the nine months ended September 30th 2016, the Company's revenue was PLN 607,742 thousand, which was PLN 95,313 thousand less than in the corresponding period of 2015, mainly due to a drop in the value of RAFAKO S.A.'s order book. Lower revenue was driven by a decline in domestic sales, despite a rise in foreign sales.

Cost of sales in the first nine months of 2016 amounted to PLN 571,393 thousand, with gross profit at PLN 36,349 thousand. The change relative to the first nine months of 2015 results primarily from lower revenue as well as an increase in provisions for contractual penalties and in provisions related to warranties under completed sale contracts.

The drop in sales and decline in separate net profit of RAFAKO S.A. resulted largely from the fact that RAFAKO S.A. is responsible only for approximately 11% of the value of the contract for the construction of a 910 MW supercritical power generation unit at the Jaworzno III Power Plant, and its separate financial statements reflect only that share in the project. The remaining 89% of the contract is being implemented by an SPV, a wholly-owned subsidiary of RAFAKO S.A., which the Company had to establish to secure the guarantees necessary to implement the contract. The aggregate value of revenue and profit from the Jaworzno contract is only disclosed in consolidated financial statements.

Distribution costs disclosed by the Company 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 Company's comprehensive income for the first nine months of 2016 (PLN 22,621 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 30,362 thousand, up PLN 3,648 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.

The largest components of other income included income from a surety provided to a subsidiary of PLN 3,679 thousand, recovery of materials from sale of property, plant and equipment of PLN 430 thousand, and sale of profit potential of PLN 355 thousand.

Other expenses chiefly included a provision for a fine imposed by the Polish Financial Supervision Authority of PLN 700 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 donations of PLN 804 thousand (September 30th 2015: PLN 485 thousand).

In the first nine months of 2016, the Company's finance income was generated mainly from interest on security deposits of PLN 677 thousand (September 30th 2015: PLN 1,882 thousand) and PLN 263 thousand resulting from discount on non-current settlements (September 30th 2015: PLN 2,730 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 2,417 thousand (September 30th 2015: PLN 2,956 thousand), interest on employee benefit obligations of PLN 675 thousand (September 30th 2015: PLN 532 thousand), net foreign exchange losses of PLN 475 thousand as well as commissions on bank borrowings, financial guarantees and insurance of PLN 708 thousand (September 30th 2015: PLN 611 thousand).

(PLN '000)

11.2 Income tax

Income tax expense

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

	Nine months ended Sep 30 2016 (unaudited)	*Nine months ended Sep 30 2015 (unaudited)*
Current income tax	–	(4,278)
Current income tax expense	–	(4,278)
Adjustments to current income tax from previous years	–	–
Deferred tax	2,848	(2,243)
Related to recognition and reversal of temporary differences	2,848	(2,243)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**2,848**	**(6,521)**
Deferred tax on other comprehensive income		
Related to recognition and reversal of temporary differences	319	117
Income tax expense recognised in other comprehensive income	**319**	**117**

(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 for the period ended*	
	Sep 30 2016 (unaudited)	*Dec 31 2015*	*Sep 30 2016 (unaudited)*	*Sep 30: 2015 (unaudited)*
- investment reliefs	(3)	(3)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,658)	(15,214)	(444)	(603)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,327	1,433	(106)	(328)
- difference between tax base and carrying amount of loans and receivables	1,003	604	399	312
different timing of recognition of revenue from sale of goods and services for tax purposes	(41,768)	(42,673)	905	(7,157)
- difference between tax base and carrying amount of inventories	1,986	1,967	19	378
- provisions	14,597	16,511	(1,914)	(3,594)
difference between tax base and carrying amount of financial liabilities measured at amortised cost	37	21	16	(28)
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	–	–	–
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	6	(6)	(7)
- different timing of recognition of cost of sales for tax purposes	57,509	60,609	(3,100)	6,294
- tax asset related to tax loss	16,845	602	16,243	–
- adjustment to costs of unpaid invoices	10,264	18,419	(8,155)	4,061
other	(234)	456	(690)	(1,455)
Deferred tax expense			**3,167**	**(2,126)**
Net deferred tax asset/liability, including:	**45,905**	**42,738**		
Deferred tax asset	45,905	42,738		
Deferred tax liability	–	–		

As at September 30th 2016, the Company 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.

11.3 Significant items in the statement of cash flows

The PLN 10,199 thousand increase in receivables disclosed in the statement of cash flows for the nine months ended September 30th 2016 resulted mainly from:

- PLN (62,823) thousand increase in trade receivables,
- PLN 9,554 thousand decrease in receivables from the state budget (including VAT),
- PLN 10,531 thousand decrease in prepayments made,
- PLN 46,966 thousand decrease in deposits receivable,
- PLN (7,894) thousand increase in disputed receivables,
- PLN (3,842) thousand increase in receivables under sureties,
- PLN (477) thousand increase in Company Social Benefits Fund receivables,
- PLN (2,214) 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 11.12.

The PLN 73,031 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (93,097) thousand decrease in trade payables,
- PLN 6,450 thousand increase in the provision for warranty repairs,
- PLN (1,270) thousand decrease in the provision for bonuses,
- PLN 5,734 thousand increase in the provision for delayed cost collection,
- PLN 8,921 thousand increase in VAT liabilities,
- PLN 231 thousand increase in other liabilities.

The PLN (19,332) thousand change in prepayments relating to accounting for construction contracts as shown in the statement of cash flows was mainly caused by:

- decrease in gross amount due from customers for contract work of PLN 5,283 thousand,
- PLN (12,419) thousand decrease in provisions for contract work,
- PLN (12,196) thousand decrease in gross amount due to customers for contract work, including:
- PLN 7,755 thousand increase in advances.

The PLN 7,755 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 4,449 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 3,422 thousand and of intangible assets for PLN 1,027 thousand.

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

(PLN '000)

11.4 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	9,295	83,125	52,413	7,012	–	1,982	153,827
Acquisitions	–	–	–	1,490	–	2,159	3,649
Liquidation/sale	–	–	(157)	(59)	–	–	(216)
Transfers from property, plant and equipment under construction	–	371	2,158	219	–	(2,748)	–
Exchange differences on translating foreign operations	–	–	(1)	–	–	–	(1)
Depreciation for the period	–	(1,875)	(4,521)	(1,209)	–	–	(7,605)
Impairment loss for the reporting period	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	97	(33)	–	–	64
Net carrying amount as at Sep 30 2016 *(unaudited)*	**9,295**	**81,621**	**49,989**	**7,420**		**1,393**	**149,718**

*tangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.14.1

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	9,288	81,066	44,095	5,349	–	3,008	142,806
Acquisitions	–	–	595	2,290	–	11,461	14,346
Liquidation/sale	(16)	–	(13)	(392)	–	–	(421)
Transfers from property, plant and equipment under construction	–	975	3,586	–	–	(4,561)	–
Exchange differences on translating foreign operations	–	–	(3)	–	–	–	(3)
Depreciation for the period	–	(1,793)	(4,128)	(730)	–	–	(6,651)
Impairment loss for the reporting period	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	23	–	(456)	51	–	–	(382)
Net carrying amount as at Sep 30 2015 *(unaudited)*	**9,295**	**80,248**	**43,676**	**6,568**	–	**9,908**	**149,695**

(PLN '000)

11.5 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*	3,185	15,052
Proceeds from sale of property, plant and equipment	202	457

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

11.6 Shares in subsidiaries and other entities

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	29,349	25,032
Shares in other listed companies	190	210
Shares in other non-listed companies	19	19
	29,558	**25,261**

*shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.14.3

In the nine months ended September 30th 2016, following a share capital increase at a subsidiary the Company recorded an increase in shares held by PLN 4,317 thousand. For a detailed description of the transaction, see Note 7 to these interim condensed financial statements.

11.7 Non-current trade receivables, other receivables and prepayments

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Trade receivables, including:	1,737	5,660
Trade receivables from related entities	–	–
Trade receivables from other entities	1,737	5,660
Other receivables and prepayments, including:	103	732
Receivables related to sale of property, plant and equipment and intangible assets	–	494
Security deposits	103	238
Total receivables (net)	**1,840**	**6,392**
Impairment loss on receivables	–	–
Gross receivables	**1,840**	**6,392**

(PLN '000)

11.8 Other non-current financial assets

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Loans advanced	–	–
Non-current deposits, including:	–	–
- deposits securing bank guarantees provided to the Company	–	–
Other non-current financial assets, including:	36,120	35,628
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
Receivables under sureties provided to related entities	9,570	5,728
	36,120	**35,628**

In the nine months ended September 30th 2016, the Company remeasured the receivables from PBG S.A., as described in detail in Note 23.

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 23, and reclassification of receivables maturing on June 30th 2017 to current receivables discussed in Note 11.10.

11.9 Inventories

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Materials (at net realisable value)		
At cost	20,741	29,157
At net realisable value	10,287	18,804
Total inventories, at the lower of cost and net realisable value	**10,287**	**18,804**

*inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.14.4.

Inventory write-downs

	Nine months ended Sep 30 2016 (unaudited)	*12 months ended Dec 31 2015*
At the beginning of the period	(10,353)	(7,792)
- write-down recognised	(4,052)	(2,731)
- write-down reversed/used	3,951	170
Balance at end of period	**(10,454)**	**(10,353)**

(PLN '000)

11.10 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 23.

The change in the receivables from PBG S.A. 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 Company 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 the advance paid by the Company under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid in respect of shares presented as other non-financial assets and PLN 10,500 thousand was paid in respect of the loan presented 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 Company'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 amount of the project, i.e. PLN 16,176 thousand.

11.11 Cash and cash equivalents

	Sep 30 2016 (unaudited)	*Dec 31 2015*	*Sep 30 2015 (unaudited)*
Cash in hand and at banks	12,057	14,766	12,058
Current deposits for up to 3 months, including:	97	82,343	90,856
- inventories pledged as security for liabilities	–	–	–
	12,154	**97,109**	**102,914**
including: restricted cash	1,277	2,153	1,431

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 the Company's immediate cash requirement, and earn interest at rates agreed with the bank.

The Company carries restricted cash, including cash from subsidies (held in separate bank accounts), which may be used to make payments under ongoing projects.

(PLN '000)

11.12 Current trade receivables, other receivables and prepayments

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Trade receivables, including:	208,680	141,934
Trade receivables from related entities	1,255	1,695
Trade receivables from other entities	207,425	140,239
Income tax receivable	7,940	7,095
Other receivables and prepayments, including:	107,275	163,441
Advance payments made to related parties	36	52
Advance payments made to other parties	14,019	24,534
Receivables from the state budget	3,729	13,283
Settlement of property insurance costs	173	726
Settlements with the Company Social Benefits Fund	776	299
Disputed receivables	8,194	300
Prepaid expenses	3,441	1,032
Receivables related to sale of property, plant and equipment and intangible assets	592	426
Security deposits	75,720	122,686
Other	595	103
Other receivables from related entities	–	–
Total receivables (net)	**323,895**	**312,470**
Impairment loss on receivables	31,834	31,636
Gross receivables	**355,729**	**344,106**

* trade receivables pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.14.5.11.14.5

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 Company 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.

Current trade receivables of PLN 208,680 thousand recognised in the statement of financial position as at September 30th 2016 relate to trading contracts with domestic and foreign contractors.

Security deposits of PLN 75,720 thousand disclosed in the 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 14,055 thousand as at September 30th 2016. The largest item was an advance payment received under the contracts for replacing component parts of a combustion chamber of PLN 9,990 thousand.

(PLN '000)

11.13 Impairment losses on assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Receivables****
Jan 1 2016	(24,361)	(164,557)	(5,676)	(10,353)	(31,636)
Impairment loss recognised	(30)	–	–	(4,052)	(635)
Impairment loss utilised/reversed	10	154,057	–	3,951	437
Sep 30 2016 (unaudited)	**(24,381)**	**(10,500)**	**(5,676)**	**(10,454)**	**(31,834)**
Jan 1 2015	(24,230)	(164,557)	(5,676)	(7,792)	(40,294)
Impairment loss recognised	(130)	–	–	(2,161)	(1,270)
Impairment loss utilised/reversed	28	–	–	170	4,889
Sep 30 2015 (unaudited)	**(24,332)**	**(164,557)**	**(5,676)**	**(9,783)**	**(36,675)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares.
** 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 Company used impairment losses on receivables of PLN 154,057 thousand.

11.14 Assets pledged as security for Company's liabilities

11.14.1. Property, plant and equipment pledged as security

As at September 30th 2016, property, plant and equipment pledged as security for 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).

(PLN '000)

	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).

11.14.2. Intangible items pledged as security

As at September 30th 2016, intangible assets worth PLN 10,799 thousand were pledged as security for the Company'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).

11.14.3. 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.).

11.14.4. Inventories pledged as security

As at September 30th 2016, inventories worth PLN 10,287 thousand were pledged as security for the Company'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 implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.14.5. 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).

11.15 Share capital

In the nine months ended September 30th 2016, the share capital of RAFAKO S.A. did not change. Following the issue of 15,331,998 Series J shares with a par value of PLN 2.00 per share, carried out in 2015, the Company's share capital was increased by PLN 30,664 thousand and amounted to PLN 169,864 thousand as at September 30th 2016.

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**

11.16 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.

11.17 Shareholders' rights

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

11.18 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).

11.19 Reserve funds

Reserve funds have been created from statutorily required transfers from profits generated by the Company in previous financial years, as well as from profit appropriations in excess of the statutorily required transfers. In the nine months ended September 30th 2016, the Company allocated prior year profits of PLN 26,585 thousand to reserve funds. As at September 30th 2016, reserve funds amounted to PLN 131,301 thousand (December 31st 2015: PLN 104,716 thousand).

11.20 Translation reserve

The balance of translation reserve is adjusted for exchange differences arising from translation of the financial statements of the Company's foreign branch. As at September 30th 2016, translation reserve amounted to PLN 29 thousand (December 31st 2015: PLN 60 thousand).

11.21 Retained earnings and dividends paid

Following recognition of a net loss of PLN 15,635 thousand for the nine months ended September 30th 2016, recognition of actuarial losses of PLN 1,360 thousand, and allocation of prior year profits of PLN 26,585 thousand, as at September 30th 2016 the Company's retained earnings amounted to PLN -21,737 thousand (December 31st 2015: PLN 22,329 thousand).

In Q3 2016, the Company did not pay dividends nor did the Management Board declare such payment.

(PLN '000)

11.22 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated as the quotient of net profit/(loss) for the given accounting period attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares of the Company 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	(15,635)	27,317
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(15,635)	27,3717
Net profit/(loss) attributable to ordinary shareholders, applied to calculate earnings/(loss) per share	**(15,635)**	**27,317**
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		
– basic earnings/(loss) from profit/(loss) for the period	(0.18)	0.39

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

11.23 Post-employment and other employee benefits

Based on a forecast made at the end of the period by a professional actuarial company, the Company recognises a provision for the present value of the liability arising from retirement benefits, jubilee bonuses and the Social 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	25,473	26,803
Interest expense	637	670
Current service costs	401	403
Actuarial (gains)/losses	1,679	314
Benefits paid	(2,175)	(2,717)
Closing balance	**26,015**	**25,473**
Non-current provisions	23,918	23,500
Current provisions	2,097	1,973

(PLN '000)

The main assumptions adopted by the actuary as at September 30th 2016 and for the nine months ended September 30th 2016, as well as for the 12 months ended December 31st 2015 to determine the amount of the obligation were 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

11.24 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	59	20,741
	59	**20,796**
Capital commitments	83	112
	83	**112**
Employee benefit obligations	23,918	23,500
	23,918	**23,500**
Financial liabilities		
Finance lease liabilities	2,836	3,111
	2,836	**3,111**
Other liabilities		
Unpaid bonus accrual	498	311
Provisions for warranty repairs	5,041	4,325
	5,539	**4,636**

(PLN '000)

11.25 Current provisions, trade and other payables

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Trade payables		
Trade payables to related entities	8,759	9,235
Trade payables to other entities	175,684	247,568
	184,443	**256,803**
Other financial liabilities		
Valuation of derivatives	–	–
Finance lease liabilities	1,749	1,278
	1,749	**1,278**
Liabilities under investments in non-current assets	554	1,790
	554	**1,790**
Other liabilities		
VAT	10,339	1,418
Personal income tax	2,190	2,116
Social security liabilities	7,274	7,537
Other taxes, customs duties and insurance payable	3	72
Salaries and wages payable	6,899	6,952
Accrued holiday entitlements	3,557	3,076
Unpaid bonus accrual	5,327	6,784
Provisions for warranty repairs	11,551	7,600
Accrual for costs of uninvoiced materials and services	10,562	4,828
Accrual for audit fees	83	111
Provisions for other liabilities and disputed claims	7,115	7,000
Other amounts payable to employees	–	279
Security deposits	308	144
Other	1,415	235
	66,623	**48,944**

12. 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 full-year financial statements.

(PLN '000)

13. 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.

Classes and categories of financial assets	*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	**336,968**	**314,295**
Trade receivables	210,417	147,594
Investment receivables	–	920
Other receivables	79,897	123,721
Loans advanced	464	486
Non-current deposits	–	–
Current deposits	–	–
Other non-current financial assets	36,120	35,628
Other current financial assets	10,070	5,946
Cash and cash equivalents	**12,154**	**97,109**
	349,312	**411,614**

Classes and categories of financial liabilities	*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	**328,627**	**390,714**
Borrowings	143,488	111,213
Trade payables (including capital commitments)	185,139	279,501
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**4,585**	**4,389**
Liabilities under leases and lease agreements with a purchase option	4,585	4,389
	333,212	**395,103**

(PLN '000)

14. Borrowings

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	30.06.2017****	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	30.06.2017****	42,549	–
						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.

Current borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity date*	*Liabilities under borrowings*	
						Sep 30 2016 (unaudited)	*Dec 31 2015*
Current loans							
PGL-DOM Sp. z o.o.*****	blank promissory note with a promissory note declaration	Cash loan agreement to be used for funding day-to-day operations	PLN	1M WIBOR + margin	31.12.2016	2,015	2,005
						2,015	**2,005**

***** A subsidiary.

The Company plans to extend the credit facility agreement for subsequent periods. The Company's credit standing should be analysed taking into account the information included in Note 2, relating to continuation of the Company's operations.

(PLN '000)

15. Derivative instruments

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

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

16. Capital management

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

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Total	374,797	391,823
Borrowed funds (bank credit facility and loans)	143,488	111,213
Total equity and liabilities	902,656	986,971
Capitalisation ratio	**0.42**	**0.40**

17. Provisions for costs

17.1 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 Company 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 Company 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)

17.2 Change in provisions, liabilities and accruals and deferred income disclosed in the statement of financial position

	*Provision for expected losses on contracts**	*Provision for length-of-service awards and retirement gratuity and Company Social Benefits Fund*	*Provision for unused holiday entitlement***	*Provision for warranty repairs***	*Provision for costs of contractual penalties*	*Provision for bonuses***	*Provision for other costs***	*Other provisions*
Jan 1 2016	29,807	25,473	3,076	11,925	–	7,095	7,000	111
Provision recognised	2,547	542	481	11,821	12,415	265	859	172
Reversal/utilisation of provision	(18,728)	–	–	(7,154)	(8,653)	(1,535)	(744)	(200)
Sep 30 2016 *(unaudited)*	**13,626**	**26,015**	**3,557**	**16,592**	**3,762**	**5,825**	**7,115**	**83**
Jan 1 2015	36,087	26,803	3,289	11,847	1,946	8,441	6,412	100
Provision recognised	12,427	623	(46)	2,642	–	591	86	172
Provision reversed/ utilised	(20,675)	–	–	(7,525)	(1,946)	(7,413)	(720)	(189)
Sep 30 2015 (unaudited)	**27,839**	**27,426**	**3,243**	**6,964**	**–**	**1,619**	**4,967**	**83**

*Amounts resulting from accounting for construction contracts described in Note 10.
**Provisions presented in the statement of financial position as other liabilities.

(PLN '000)

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

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

19. Dividends paid or declared

In the nine months ended September 30th 2016, no dividends were paid by the Company or declared by the Management Board.

20. Capital commitments

As at September 30th 2016, the Company had commitments related to purchase of property, plant and equipment of PLN 637 thousand. As at September 30th 2016, the Company was also a party to certain agreements for planned capital expenditure to be made in 2016, not disclosed in the accounting books at the end of the reporting period, for a total of PLN 304 thousand. The agreements related mainly to capital expenditure on production, plant and equipment.

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

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Off-balance sheet items under financial guarantees received mainly as security for performance of contracts, including:	214,590	235,544
- from related entities	–	–
Receivables under sureties received, including:	–	7,600
- from related entities	–	–
Promissory notes received as security, including:	26,662	26,667
- from related entities	11,338	13,204
Letters of credit	–	–
	241,252	**269,811**

	Sep 30 2016 (unaudited)	*Dec 31 2015*
Off-balance sheet items 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	1,394,668	1,046,000
Promissory notes issued as security, including:	14,178	28,747
- to related entities	2,000	2,000
Letters of credit	–	–
	1,652,380	**1,275,928**

In the first nine months of 2016, RAFAKO S.A. recorded a PLN 376,452 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 74,811 thousand and bid bonds of PLN 33,874 thousand) were issued by banks and insurance companies to the Company's trading partners upon RAFAKO S.A.'s instruction. In this category of liabilities, the largest item was a performance bond of PLN 20,569 thousand issued in September 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 H1 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 nine months ended September 30th 2016, the Company recorded a decrease of PLN 28,559 thousand in contingent receivables related mainly to performance bonds, including a decrease of PLN 20,954 thousand in receivables under bank and insurance guarantees, and a decrease of PLN 5 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.

22. Litigation and disputes

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

In one material case under 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 Company was paid to ESPD, but the Company 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 Company 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.

23. Receivables from related parties under arrangement proceedings

At the end of the reporting period, the Company 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 47 to the 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 Company 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 Company was set for June 30th 2016. However, in accordance with the agreement made by the Company 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 (RAFAKO S.A.'s receivables are recorded in Group 3). As a result, the Company's Management Board expects to receive a relevant invitation to acquire bonds.

24. Management Board and Supervisory Board of the Company

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

As at the date of these interim condensed financial statements, the composition of the 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 Company'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.

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

In the reporting and comparable periods, no loans were granted to members of the Company's Management or Supervisory Boards.

In the reporting and comparable periods, the Company did not enter into any transactions with members of its Management or Supervisory Boards.

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26. Related-party transactions

In the first nine months of 2016 and 2015, the Company did not enter into any material related-party transactions on non-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*	617	2,197	36,938	–
	2015	–	9	35,540	1
PBG Group companies:					
PBG oil and gas Sp. z o.o.	*2016*	62	31,542	13	6,076
	2015	–	–	–	5,760
PBG Avatia Sp. z o.o. w upadłości układowej (in company voluntary arrangement)	*2016*	–	–	–	–
	2015	–	–	–	1
PBG ERIGO Sp. z o.o.	*2016*	12	–	6	–
	2015	–	–	–	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	*2016*	56	–	8	–
	2015	–	–	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	*2016*	–	44	–	2
	2015	–	44	–	5
RAFAKO Engineering Sp. z o.o.	*2016*	798	4,079	1,140	732
	2015	38	–	22	26
ENERGOTECHNIKA Engineering Sp. z o.o.	*2016*	108	7,116	15	1,484
	2015	36	8,072	10	2,966
RAFAKO Engineering Solution Sp. z o.o.	*2016*	–	3,302	–	188
	2015	–	458	–	–
RAFAKO Hungary Sp. z o.o.	*2016*	26	–	201	–
	2015	2,930	–	2,967	–
E001RK Sp. z o.o.	*2016*	5	180	–	25
	2015	5	266	–	49
E003B7 Sp. z o.o.	*2016*	530	–	10,097	–
	2015	81	–	–	–

(PLN '000)

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:					
PBG Foundation	*2016*	–	180	–	64
	2015	–	139	–	–
Mostostal-Energomontaż Gliwice S.A.	*2016*	–	–	–	102
	2015	–	18	–	–
SWGK CONSULTING Sp. z o.o.	*2016*	–	59	–	–
	2015	–	–	–	–
Energoprojekt Katowice S.A.	*2016*	–	–	–	–
	2015	–	–	–	154
BPIL Grzegorz Kiczor	*2016*	–	135	–	37
	2015	–	–	–	–
Dwór w Smólsku	*2016*	–	140	–	49
	2015	–	–	–	–
Corporate Finance & IT Sp. z o.o.	*2016*	187	–	54	–
	2015	–	–	–	–
FCS Business Solutions Sp. z o.o.	*2016*	1	–	–	–
	2015	–	–	–	–

**The receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) described in Note 23.23*

27. Brief description of the Company's material 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 Company 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.

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

The Company has not published any forecasts for 2016.

29. Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A.

Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. are presented in Note 30 to the interim condensed consolidated financial statements for the nine months ended September 30th 2016.

(PLN '000)

30. Statement of changes in holdings of RAFAKO S.A. shares or RAFAKO share options by the Company's management and supervisory staff of which RAFAKO S.A. became aware after the issue of the previous financial statements

	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	–	–	–	–	–

31. 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.

32. Events after the end of the reporting period

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

On October 20th 2016, the Company 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.

(PLN '000)

These interim condensed financial statements of the Company were authorised for issue on November 14th 2016 by virtue of a resolution of the RAFAKO S.A. Management Board dated 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	....