RAFAKO S.A.

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the nine months ended September 30th 2017

November 29th 2017

Table of contents

(PLN '000)

Interim condensed statement of comprehensive income

for the nine months ended September 30th 2017

	Note	*9 months ended September 30th 2017 (unaudited)*	*9 months ended September 30th 2016 (unaudited)*	*3 months ended September 30th 2017 (unaudited)*	*3 months ended September 30th 2016 (unaudited)*
Continuing operations					
Revenue	11.1	**450,750**	**607,742**	**164,016**	**160,701**
Revenue from sale of goods and services		448,837	605,870	163,413	160,110
Revenue from sale of materials		1,913	1,872	603	591
Cost of sales	11.1	(390,200)	(571,393)	(139,250)	(154,659)
Profit/(loss) before tax		**60,550**	**36,349**	**24,766**	**6,042**
Other income	11.1	4,478	5,230	1,334	1,912
Distribution costs	11.1	(27,833)	(22,621)	(8,143)	(7,700)
Administrative expenses		(32,855)	(30,362)	(11,985)	(9,781)
Other expenses	11.1	(3,828)	(3,590)	(946)	(1,648)
Operating profit/(loss)		**512**	**(14,994)**	**5,026**	**(11,175)**
Finance income	11.1	592	967	287	(713)
Finance costs	11.1	(6,645)	(4,456)	31	(1,666)
Profit/(loss) before tax		**(5,541)**	**(18,483)**	**5,344**	**(13,554)**
Income tax expense	11.2	(14,804)	2,848	(8,164)	2,337
Net profit/(loss) from continuing operations	11.22	**(20,345)**	**(15,635)**	**(2,820)**	**(11,217)**

Racibórz, November 29th 2017

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 – person responsible for keeping accounting books

(PLN '000)

Interim condensed statement of comprehensive income

for the nine months ended September 30th 2017

	Note	*9 months ended September 30th 2017 (unaudited)*	*9 months ended September 30th 2016 (unaudited)*	*3 months ended September 30th 2017 (unaudited)*	*3 months ended September 30th 2016 (unaudited)*
Other comprehensive income for period		**(964)**	**(1,391)**	**(912)**	**(1,184)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(161)	(31)	(28)	(104)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(161)**	**(31)**	**(28)**	**(104)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		(991)	(1,679)	(1,091)	(1,334)
Tax on other comprehensive income	11.2	188	319	207	254
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(803)**	**(1,360)**	**(884)**	**(1,080)**
Total comprehensive income for the period		**(21,309)**	**(17,026)**	**(3,732)**	**(12,401)**
Weighted average number of shares	11.22	84,931,998	84,931,998	84,931,998	84,931,998
Basic/diluted earnings/(loss) per share, PLN	11.22	(0.24)	(0.18)	(0.03)	(0.13)

Racibórz, November 29th 2017

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 – person responsible for keeping accounting books

(PLN '000)

Interim condensed statement of financial position
as at September 30th 2017

	Note	*September 30th 2017 (unaudited)*	*December 31st 2016*
ASSETS			
Non-current assets			
Property, plant and equipment	11.4	142,761	147,968
Intangible assets		10,752	11,058
Long-term trade receivables, other receivables and prepayments		3,425	284
Trade receivables	11.6	3,326	3
Other receivables and prepayments	11.6	99	281
Non-current financial assets		70,399	64,570
Shares in subsidiaries	11.7	29,349	29,349
Shares in other entities	11.7	293	227
Long-term bonds	11.8	25,600	–
Other non-current financial assets	11.9, 13	15,157	34,994
Deferred tax assets	11.2	33,425	48,177
		260,762	**272,057**
Current assets			
Inventories	11.10	13,411	13,039
Short-term trade receivables, other receivables and prepayments	11.14	154,738	294,144
Trade receivables	11.14	67,197	188,754
Income tax receivable	11.14	–	10,918
Other receivables and prepayments	11.14	87,541	94,472
Gross amount due from customers for construction contract work	10	163,501	172,387
Current financial assets		57,457	77,470
Short-term bonds	11.11	6,112	–
Derivative instruments		13	–
Short-term loans advanced	13	411	458
Other current financial assets	11.12, 13	–	11,130
Cash and cash equivalents	11.3, 11.13	50,921	65,882
		389,107	**557,040**
Non-current assets held for sale		9	7
TOTAL ASSETS		**649,878**	**829,104**

Racibórz, November 29th 2017

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 – person responsible for keeping accounting books

(PLN '000)

Interim condensed statement of financial position

as at September 30th 2017

	Note	*September 30th 2017 (unaudited)*	*December 31st 2016*
EQUITY AND LIABILITIES			
Equity			
Share capital		169,864	169,864
Share premium	11.20	95,340	95,340
Reserve funds		69,061	131,301
Exchange differences on translating foreign operations		(230)	(69)
Retained earnings/Accumulated losses		(26,584)	(67,676)
		307,451	**328,760**
Non-current liabilities			
Finance lease liabilities	11.24	1,378	2,662
Employee benefit obligations	11.23, 17.2	22,560	21,773
Long-term trade and other payables		16,836	19,598
Trade payables	11.24	10,418	11,874
Amounts payable for tangible and intangible assets	13, 20	–	16
Other liabilities	11.24	6,418	7,708
		40,774	**44,033**
Current liabilities			
Trade and other payables	11.25	155,964	201,981
Trade payables	13	81,386	120,449
Amounts payable for tangible and intangible assets	13, 20	388	954
Other liabilities	11.25	74,190	80,578
Current portion of interest-bearing borrowings	15	83,986	149,112
Other financial liabilities and finance lease liabilities	11.25, 13	1,949	1,616
Employee benefit obligations	11.23, 17.2	2,413	1,994
Amounts due to customers and provisions for construction contract work and deferred income	10	57,341	101,608
Amounts due to customers for construction contract work	10	41,299	76,992
Provisions for construction contract work	17	14,879	24,095
Grants		1,163	521
		301,653	**456,311**
Total liabilities		**342,427**	**500,344**
TOTAL EQUITY AND LIABILITIES		**649,878**	**829,104**

Racibórz, November 29th 2017

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 – person responsible for keeping accounting books

(PLN '000)

Interim condensed statement of cash flows
for the nine months ended September 30th 2017

	Note	*9 months ended September 30th 2017 (unaudited)*	*9 months ended September 30th 2016 (unaudited)*
Cash flows from operating activities			
Profit/(loss) before tax		(5,541)	(18,483)
Adjustments for:		57,135	(86,252)
Depreciation and amortisation		7,903	8,949
Foreign exchange gains/(losses)		13	(4)
Interest and dividends, net		1,632	3,065
(Gain)/loss from investing activities		(474)	(762)
Increase/(decrease) in liabilities under FX contracts		163	–
(Increase)/decrease in receivables	11.3	120,921	(10,199)
(Increase)/decrease in inventories		(372)	8,517
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.3	(36,072)	(73,031)
Change in prepayments and accruals for construction contracts	11.3	(36,023)	(19,332)
Income tax (paid)/received		(857)	(3,467)
Other		301	12
Net cash from operating activities		**51,594**	**(104,735)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		232	531
Purchase of property, plant and equipment and intangible assets	11.3	(3,016)	(4,449)
Purchase of financial assets		–	(4,317)
Proceeds from debt instruments held	11.8	3,685	–
Dividends and interest		5	4
Loans advanced		34	27
Net cash from investing activities		**940**	**(8,204)**
Cash flows from financing activities			
Payment of finance lease liabilities		(1,360)	(1,449)
Proceeds from borrowings	11.3	–	32,295
Repayment of borrowings		(64,573)	–
Interest paid	11.3	(1,980)	(2,121)
Bank fees		(84)	(813)
Other		656	103
Net cash from financing activities		**(67,341)**	**28,015**
Net increase/(decrease) in cash and cash equivalents		(14,807)	(84,924)
Net foreign exchange differences		(154)	(31)
Cash at beginning of period	11.13	65,882	97,109
Cash at end of period	11.13	50,921	12,154

Racibórz, November 29th 2017

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 – person responsible for keeping accounting books

(PLN '000)

Interim condensed statement of changes in equity
for the nine months ended September 30th 2017

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total equity*
As at Jan 1 2017	**169,864**	**95,340**	**131,301**	**(69)**	**(67,676)**	**328,760**
Profit from continuing operations	–	–	–	–	(20,345)	(20,345)
Other comprehensive income	–	–	–	(161)	(803)	(964)
Distribution of retained earnings	–	–	(62,240)	–	62,240	–
As at Sep 30 2017 *(unaudited)*	**169,864**	**95,340**	**69,061**	**(230)**	**(26,584)**	**307,451**
As at Jan 1 2016	**169,864**	**95,340**	**104,716**	**60**	**21,843**	**391,823**
Profit from continuing operations	–	–	–	–	(15,635)	(15,635)
Other comprehensive income	–	–	–	(31)	(1,360)	(1,391)
Distribution of retained earnings	–	–	26,585	–	(26,585)	–
As at Sep 30 2016 (*unaudited*)	**169,864**	**95,340**	**131,301**	**29**	**(21,737)**	**374,797**

Racibórz, November 29th 2017

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 – person responsible for keeping accounting books

NOTES

1. GENERAL INFORMATION

RAFAKO S.A. (the "Company") is a listed 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 was established for an indefinite term.

These interim condensed financial statements of the Company cover the nine months ended September 30th 2017 and contain comparative data for the nine months ended September 30th 2016 and as at December 31st 2016. The statement of comprehensive income and notes to the statement of comprehensive income contain data for the three months ended September 30th 2017 and the comparative data for the three months ended September 30th 2016 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 for the nine months ended September 30th 2017 were authorised for issue by the Company's Management Board on November 29th 2017.

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

The Company also prepared interim condensed consolidated financial statements for the nine months ended September 30th 2017, which were authorised for issue by the Company's Management Board on November 29th 2017.

2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, endorsed by the European Union ("IAS 34").

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

The currency of these interim condensed financial statements is the Polish złoty ("PLN"), and all amounts are stated in thousands of złotys unless otherwise indicated.

The Company applied IFRSs applicable to financial statements prepared for the year beginning on January 1st 2017.

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 reporting period, i.e. September 30th 2017.

To continue as a going concern, the Company must secure an appropriate order book and maintain financial liquidity, and first of all have sufficient financing to perform the contracts in the order book.

An analysis of the Company's financial position should take into consideration the following factors: in the nine months ended September 30th 2017, the Company recognised revenue of PLN 450m and a net loss of PLN 20m; further, as at September 30th 2017, the Company's net current assets were PLN 87m (including cash of PLN 51m). A year-on-year decrease in revenue in the first nine months of 2017 was primarily a consequence of lower revenue from nearly completed contracts combined with an early stage of work under two new major contracts, awarded to the Company in the six months ended December 31st 2016 (the EUR 150m contract to construct a biomass-fired co-generation unit and the PLN 289m contract to deliver and install an SCR system and upgrade electrostatic precipitators).

Despite a year-on-year drop in sales, the Company achieved higher gross profit, mainly due to the adjustment of contract valuation following a periodic analysis of incurred costs and a review of assumptions concerning future costs.

As previously assumed, in the first nine months of 2017 the Company executed the following documents: an annex of June 30th 2017 with PKO BP S.A. to postpone the repayment of a facility of up to PLN 150m until June 30th 2018 and an annex of March 1st 2017 with TAURON Wytwarzanie S.A. to increase the contract price for the Jaworzno project by PLN 71m and to extend the contract term by eight months. In addition, on August 16th 2017, the Company was notified that the bid submitted by a consortium of which it was a member, for the "Construction of two coal-fired steam units (2x50 MW) on Lombok Island (Indonesia)", had been selected as the winning bid by PT. PLN (PERSERO). The Company's share in the contract is EUR 70m. In 2017, the Company has secured from insurance companies new guarantee limits totalling PLN 138.9m. Guarantees provided under those limits can be used to secure contracts both in Poland and abroad. Work is under way to secure further guarantee limits, including bank limits, mainly for the financing of contracts performed abroad given the Company's participation in tenders organised outside Poland. In line with the Management Board's assumptions, these measures have a positive effect on the Company's liquidity.

An important part of the analysis of the Company's financial condition is a forecast of profit or loss and cash flows for the 12 months following September 30th 2017 (and for subsequent periods), prepared by the Management Board. The key assumptions of the forecast are as follows:

- Expected revenue increase − the assumption is based on the current value of the order book (which to a significant extent supports the revenue forecast) and acquisition of material new contracts. The Management Board is taking steps to deliver a net profit in 2018 and to further improve the Company's liquidity position. These plans assume that the existing contracts (which account for a significant portion of the forecast revenue) will be performed in line with original budgets, and that in the coming 12 months the Company will acquire new contracts to fully deliver the budgeted revenue;
- Timely delivery and execution of the contracts in the Company's current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the Company's current order book, and the Company's ability to prevent any further increase in losses already recognised on some of the contracts;
- Continued efforts to maintain and expand the order book;
- The assumed capital expenditure flexibility allowing for significant capex reduction;
- No material limitation of the Company's access to financial guarantees (necessary to acquire and execute contracts) on the part of financial institutions and feasibility of extending financing of the Company's operations with a bank borrowing after June 30th 2018.

In view of the challenges faced by the Company, the Management Board has taken steps to secure new sources of financing, including through issue of shares. The Management Board is of the opinion that additional capital will enable the Company to continue on a path of sustainable growth and maintain competitiveness.

The revenue and financial result achieved by RAFAKO S.A. in the nine months ended September 30th 2017 were lower than expected. However, considering the structure of the Company's net current assets, the available cash balance, the current backlog, and cash-flow projections for the coming 12 months, as at the date of these interim condensed financial statements the Management Board did not identify any material threats to the Company's ability to continue as a going concern in the foreseeable future.

Accordingly, these interim condensed financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

Despite the constraints discussed in Note 11.1.1, the Company's financial condition is supported by the very sound financial position of E003B7 sp. z o.o., a subsidiary which executes around 88.7% of the Jaworzno 910 MW project with an approximate value of PLN 4.6bn. In Q1–Q3 2017, the subsidiary delivered revenue of PLN 852m and net profit of PLN 43m, had net current assets of PLN 145m, and identified no material risks to the execution of the project.

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 2016. After January 1st 2016, no new or revised standards or interpretations have been published which would be effective for annual periods beginning after January 1st 2016. Standards and interpretations published but not yet effective as they have not yet been endorsed by the European Union or have been endorsed by the European Union and have not been early applied by the Company are presented in the full-year financial statements for 2016. In the first nine months of 2017, only IFRS 17 Insurance Contracts and IFRIC 23 Uncertainty over Income Tax Treatments were published.

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.

At the date of authorisation of these interim condensed separate financial statements for issue, the Company's Management Board had not completed its assessment of the impact of the new standards and interpretations on the accounting principles (policy) applied by the Company with respect to the Company's operations or financial results.

Implementation of IFRS 15

As at the date of these interim condensed financial statements, the Company was well advanced with work on implementing IFRS 15 *Revenue from Contracts with Customers*, analysing all running contracts in terms of their recognition in accordance with the amended revenue recognition criteria. Given the extent of amendments and required analysis, as at the date of these interim condensed financial statements the Company had yet not fully quantified the impact of implementation of IFRS 15 on the items of financial statements.

The Company has already performed the required analysis of most of its significant contracts in terms of meeting the recognition criteria in accordance with the five-step model, and at this stage it did not identify any major differences compared to its current approach to revenue recognition. The Company performs long-term contracts for the construction of assets tailored to individual customer needs, for which there is no alternative use. Given the nature of its services, the Company in general treats them as one performance obligation. The analysis of running contracts also revealed other obligations whose share in the value of a given contract is negligible or whose performance will coincide with the date of final accounting for the contract. In such cases, the Company will take advantage of the simplification permitted under this standard and account for such obligations as part of contract valuation without separating them. The Company passes control of an asset or service over time and thus satisfies its performance obligation and recognises revenue over time measuring progress towards complete satisfaction of a performance obligation based on the expenditure incurred.

Under the contracts, the Company is obliged to provide its customers with warranty services for completed projects. The Company is in the process of estimating the amount of provisions to reflect the expected cost of fulfilling contract warranties.

At the current stage of standard implementation, the Company is yet to decide whether the full or modified retrospective application of IFRS 15 will be used upon initial application of the standard.

Implementation of IFRS 9

As at the date of these interim condensed financial statements, the Company analysed its business model of financial asset management, whose main objective is to provide financing for the Company's operations by maintaining financial assets to collect contractual cash flows or cash flows from payment of principal and interest.

The Company uses derivative instruments at fair value through profit or loss only to a limited extent. The Company holds shares in subsidiaries which are not listed on the Warsaw Stock Exchange, recognized in accordance with IFRS 10 *Consolidated Financial Statements*.

Except for introducing the expected credit losses model as the method of recognising impairment losses on receivables, the Company did not change the valuation methods for its financial assets.

As at the date of these interim condensed financial statements, the Company estimates that the effect of IFRS 9 will necessitate the recognition of additional impairment losses on trade receivables, whose amount will not be material.

4. Material judgements and estimates

4.1. Professional judgement

When preparing interim condensed financial statements, the Management Board of the Company has to make certain 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.

When applying the accounting policies, the Management Board made the following judgements which most significantly affect the presented carrying amounts of assets and liabilities.

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. Such assessment is in each case based on the economic substance of the transaction.

Embedded derivatives

At the end of each reporting period the management of the Company reviews current contracts to determine whether they contain any embedded foreign currency derivatives whose economic characteristics and risks which would be closely related to those of the host contract.

Consortium agreements

Each time after signing a construction contract which is 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.

4.2. 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 assets and liabilities in the next financial year are discussed below. The Company made the assumptions and estimates concerning the future based on its knowledge at the time of preparation of these interim condensed financial statements. The assumptions and estimates presented 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.

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 a 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 recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. 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 2017 there were no such indications.

For further information on asset impairment as at the end of the reporting period, see Notes 11.10, 11.14, and 11.15 to these interim condensed financial statements.

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods. The underlying assumptions are presented in Note 11.23. The change in employee benefit obligations in the reporting period resulted from the recognition of current service costs, interest expense and benefits paid.

Deferred tax asset

The Company recognises deferred tax assets (including deferred tax assets on tax loss) based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be realised. If future taxable profits deteriorate, this assumption may become unjustified. 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.

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 intangible assets, as well as their estimated residual values. The Company reviews the useful lives of its assets annually, on the basis of current estimates.

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 contract costs increased by 10% in relation to the Company's original estimate, the revenue would decrease by approximately PLN 28.2m.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Company and its amount can be measured reliably.

Revenue

Revenue is recognised at the fair value of payment made or due under the sale of merchandise and services, net of VAT, discounts and rebates:

a) Revenue from the sale of products and merchandise is recognised when the significant risks and rewards of ownership of the products and merchandise have passed to the buyer and the amount of revenue can be reliably measured;

b) revenue from the provision of construction services is recognised with use of the percentage of completion method. Revenue from construction contracts is recognised and disclosed in line with the policies discussed in Note 8.23.6 to the financial statements for 2016;

c) Revenue from the sale of services is recognised in the period in which service is provided if: - the amount of revenue can be reliably measured; - it is probable that the economic benefits associated with the transaction will flow to the Group; - the percentage of completion as at the reporting date can be reliably determined.

Provision for expected contract losses

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. An expected loss on the contract is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and expenses in the reporting period are presented in Note 10 to these interim condensed financial statements.

Provision for costs due to late performance

The Company recognises a provision for liquidated damages arising from late completion if the probability of being charged for late contract completion 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 liquidated damages that may be charged for the delay. For details of provisions estimated in accordance with this policy, see Note 0 to these interim condensed financial statements.

Provisions for warranty repairs

Provisions for warranty repairs are recognised based on estimates of expected and measurable costs of internal and external oversight, repairs and warranty works related to the Company's contractual obligations arising from the completion of a long-term contract (including the cost of removal of non-critical faults and other costs of a completed master project which cannot be allocated to the master project being completed given the expected date of occurrence of the cost). The amount of the recognised provision is the sum of estimated costs (the Company's own cost and costs of third-party supplies and services) less any expected and probable income from cost refunds (e.g. by suppliers and sub-contractors).

Impairment losses on financial assets

At the end of a 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 Company recognises an allowance to bring down the carrying amount to the present value of the expected cash flows.

Uncertainty related to tax settlements

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and their diverse interpretations, both between various public authorities and between public authorities and businesses.

Tax settlements and other areas of activity (e.g. customs or foreign exchange control) are subject to inspection by bodies authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

(PLN '000)

On July 15th 2016, the Tax Legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent creation and use of artificial schemes to avoid paying taxes in Poland. Under GAAR, tax avoidance is an arrangement the main purpose of which is to obtain a tax advantage which is contrary to the objectives and purpose of tax legislation. In accordance with GAAR, no tax advantage can be obtained through a scheme if such scheme was artificially contrived. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an artificial scheme subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but benefits of the tax advantage obtained through the arrangement continued or still continue after that date. After the new regulations are implemented, Polish tax inspection authorities will be able to challenge certain legal agreements and arrangements made by taxpayers, such as corporate restructurings.

The Company discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration uncertainties related to tax settlements.

Whenever an uncertainty exists related to whether and to what extent a tax authority would accept an individual tax settlement, the Company discloses such settlement taking into consideration assessed uncertainty.

5. Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	September 30th 2017	*December 31st 2016*	*September 30th 2016*
USD	3.6519	4.1793	3.8558
EUR	4.3091	4.4240	4.3120
GBP	4.8842	5.1445	4.9962
CHF	3.7619	4.1173	3.9802
SEK	0.4492	0.4619	0.4487
TRY	1.0269	1.1867	1.2822

6. Change in estimates

In the nine months ended September 30th 2017 and as at September 30th 2017, there were no changes of estimates in significant areas of the Company's operations, as discussed in Note 4.2.

7. Changes in Company structure

On July 24th 2017, the District Court for Katowice-Wschód closed the bankruptcy proceedings concerning Fabryka Elektrofiltrów ELWO S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) of Pszczyna, whose bankruptcy (including the liquidation of assets) was declared on February 26th 2009 by decision of the District Court for Katowice-Wschód in Katowice.

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

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

The table below presents the effects of accounting for construction contracts, including revenue and costs of running contracts in the nine months ended September 30th 2017 and September 30th 2016, as well as gross amount due to customers and gross amount due from customers for contract work at the dates stated above.

	September 30th 2017 (unaudited)	*December 31st 2016*	*September 30th 2016 (unaudited)*
Contract costs incurred to date (cumulative)	2,857,082	2,965,209	2,836,431
Recognised profits less recognised losses to date (cumulative)	126,978	181,204	189,523
Contract revenue recognised by reference to the contract stage of completion (cumulative)	2,984,059	3,146,413	3,025,954
Progress billings (cumulative)	2,843,590	3,064,402	2,825,346
Gross amount due to customers for contract work (liability), including:	**(41,299)**	**(76,992)**	**(78,182)**
- advance payments received (liabilities arising from advances received)	(49,143)	(27,841)	(42,897)
- adjustment to advance payments received arising from amounts due from customers	49,140	26,048	35,048
- gross amount due to customers for contract work	(41,296)	(75,199)	(70,333)
Prepayments relating to accounting for construction contracts, including:	**163,501**	**172,387**	**271,420**
- gross amount due from customers for contract work (asset)	147,503	155,257	253,281
- contract acquisition cost and other accrued contract costs	15,998	17,130	18,139
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(4,795)	(4,856)	(3,762)
Provision for construction contract losses	(10,084)	(19,239)	(13,626)

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 damages for late contract completion or failure to meet guaranteed technical specifications. Liquidated damages are estimated based on source documentation pertaining to late contract completion or issues relating to guaranteed technical parameters, based on contract 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. Certain contracts for which provisions have been recognised for late performance or failure to meet guaranteed technical parameters are exposed to the risk of a dispute, which in the opinion of the Company gives rise to risk of indeterminable consequences.

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.

10.1. Key contracts executed by the Company

10.1.1. Jaworzno Project

RAFAKO S.A., acting as the Consortium Leader in consortium with MOSTOSTAL WARSZAWA S.A., is performing 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 5.5bn (VAT included). On August 4th 2013, the Jaworzno Project consortium agreement was amended, with RAFAKO taking over 99.99% of the project 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 project.

Accounting for the Jaworzno project:

For the purposes of project execution, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO subcontracted approximately 88.7% of the scope of work, with RAFAKO being directly responsible for the remaining 11.3% (with an approximate value of PLN 506m; the scope includes the design of the boiler island, as well as supply of the boiler's HP components and a dust removal unit), scheduled mainly for 2015−2017.

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 initial amount of PLN 645m, 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. On November 20th 2017, an annex to the contract was signed with the employer. Under the annex, the project completion date was postponed and the contract value was increased, as described in detail in Note 32 to these interim condensed financial statements.

Given the arrangements with the credit and guarantee providers, RAFAKO S.A. does not plan for E003B7 Sp. z o. o. to pay any dividend until expiry of the guarantee agreements, i.e until April 2020, as this could result in negative consequences for RAFAKO and E003B7.

In the consolidated financial statements, RAFAKO S.A. sets off project-related income, expenses and settlements between RAFAKO and the special purpose vehicle. In its separate financial statements, RAFAKO S.A. recognises only revenue and expenses related to its own scope of work, i.e. 11.3% of the total scope of work to be performed on the Jaworzno project. In its separate financial statements, the Company does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. − they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

RAFAKO S.A., as the consortium leader, issues invoices, directly to the employer, for the entire scope of work; payments are made directly to the special purpose vehicle as well as key subcontractors and sub-suppliers. Payments for the work performed by RAFAKO S.A. are made by the special purpose vehicle.

10.1.2. Opole Project

In February 2012, the Company, acting as the leader of a consortium comprising RAFAKO, 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.

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

SPV-Rafako concluded with GE Power Sp. z o.o. (formerly Alstom Power Sp. z o.o.) a subcontract whereby 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. GE Power assumed full responsibility for the performance of the contract towards the Employer.

Accounting for the Opole project:

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

Amounts of balances and settlements under the contract have no effect on the values disclosed in the Company's statement of financial position.

If conditions for payment are fulfilled, payments under the contract are made by the Employer directly to GE Power.

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 2017, the Company's revenue was PLN 450,750 thousand, which was PLN 156,992 thousand less than in the corresponding period of 2016, primarily a consequence of lower revenue from nearly completed contracts combined with an early stage of work under two new major contracts awarded to the Company in the second half of 2016 (the EUR 150m contract to construct a biomass-fired co-generation unit and the PLN 289.2m contract to deliver and install an SCR system and upgrade electrostatic precipitators).

Cost of sales in the first nine months of 2017 amounted to PLN 390,200 thousand, with gross profit at PLN 60,550 thousand (up by PLN 24,201 thousand on the first nine months of 2016). Despite a year-on-year drop in sales, the Company achieved higher gross profit, mainly due to the adjustment of contract valuation following a periodic analysis of incurred costs and a review of assumptions concerning future costs.

The sales volumes and net profit of RAFAKO S.A. result largely from the fact that RAFAKO S.A. is responsible only for approximately 11.3% of the value of the contract to construct 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 88.7% of the contract is being performed by E003B7 Sp. z o.o., an SPV.

In the current reporting period, distribution costs recognised in the Company's comprehensive income for the first nine months of 2017 (PLN 27,833 thousand) were primarily attributable to contract acquisition costs of PLN 8,940 thousand (September 30th 2016: PLN 19,446 thousand), costs of promotion and advertising of PLN 4,029 thousand (September 30th 2016: PLN 3,216 thousand), and the recognition of impairment losses on trade receivables of PLN 3,112 thousand (September 30th 2016: PLN 138 thousand).

The largest components of other income included income of PLN 3,948 thousand from a surety provided to the subsidiary E003B7 Sp. z o.o. (September 30th 2016: PLN 3,679 thousand) and income from liquidated damages totalling PLN 141 thousand (September 30th 2016: PLN 67 thousand).

Other expenses chiefly included donations of PLN 1,895 thousand (September 30th 2016: PLN 804 thousand) and scrapping cost of PLN 375 thousand (September 30th 2016: PLN 499 thousand).

In the first nine months of 2017, the Company's finance income was generated mainly from interest on security deposits of PLN 318 thousand (September 30th 2016: PLN 677 thousand), interest on financial instruments of PLN 71 thousand (September 30th 2016: PLN 25 thousand), as well as PLN 135 thousand resulting from ???discount on non-current settlements??? (September 30th 2016: PLN 263 thousand).

Finance costs in the period chiefly included net foreign exchange losses of PLN 3,097 thousand (September 30th 2016: PLN 475 thousand), interest on financial instruments of PLN 2,041 thousand (September 30th 2016: PLN 2,417 thousand), interest on employee benefit obligations of PLN 573 thousand (September 30th 2016: PLN 675 thousand), as well as commissions on bank borrowings, financial guarantees and insurance of PLN 654 thousand (September 30th 2016: PLN 708 thousand).

(PLN '000)

A decline in the net profit was mainly attributable to higher distribution costs, which in the first nine months of 2017 amounted to PLN 23,812 thousand (September 30th 2016: PLN 22,621 thousand), high finance costs, which in the first nine months of 2017 reached PLN 6,645 thousand (September 30th 2016: PLN 4,456 thousand), and deferred income tax related to the valuation of construction contracts, which in the first nine months of 2017 stood at PLN 9,555 thousand (September 30th 2016: PLN 2,195 thousand).

11.2. Income tax expense

Income tax expense

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

	9 months ended September 30th 2017 (unaudited)	*9 months ended September 30th 2016 (unaudited)*	*3 months ended September 30th 2017 (unaudited)*	*3 months ended September 30th 2016 (unaudited)*
Statement of profit or loss				
Current income tax	136	–	–	–
Current income tax expense	–	–	–	–
Adjustments to current income tax from previous years	136	–	–	–
Deferred tax	(14,940)	2,848	(8,164)	2,337
Related to recognition and reversal of temporary differences	(14,940)	2,848	(8,164)	2,337
Adjustments to deferred tax from previous years	–	–	–	–
Income tax expense in the statement of profit or loss	**(14,804)**	**2,848**	**(8,164)**	**2,337**
Other comprehensive income				
Deferred tax on other comprehensive income	188	319	207	254
Related to recognition and reversal of temporary differences	188	319	207	254
Income tax expense recognised in other comprehensive income	**188**	**319**	**207**	**254**

(PLN '000)

Deferred income tax calculated as at September 30th 2017

Deferred income tax calculated as at September 30th 2017 relates to:

	Statement of financial position		*Statement of comprehensive income for nine months ended*	
	September 30th 2017 (unaudited)	*December 31st 2016*	*September 30th 2017 (unaudited)*	*September 30th 2016 (unaudited)*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,792)	(15,688)	(104)	(444)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,591	1,512	79	(106)
- difference between tax base and carrying amount of loans and receivables	1,290	1,125	165	399
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(29,946)	(20,504)	(9,442)	905
- difference between tax base and carrying amount of inventories	2,200	2,276	(76)	19
- provisions	13,197	17,504	(4,307)	(1,914)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	11	34	(23)	16
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	34	–	34	–
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	–	–	(6)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	36,951	37,064	(113)	(3,100)
- tax loss	17,083	17,083	–	16,243
- adjustment to costs of unpaid invoices	6,234	7,763	(1,529)	(8,155)
other	574	10	564	(690)
Deferred tax expense/benefit			**(14,752)**	**3,167**
Net deferred tax asset/liability, including:	**33,425**	**48,177**		
Deferred tax assets	33,425	48,177		
Deferred tax liability	–	–		

As at September 30th 2017, the Company recognised a single deferred tax asset on a tax loss of PLN 89,911 thousand, which will be offset against profits in future reporting periods.

In the nine months ended September 30th 2017, the Company recorded a tax loss of PLN 73,239 thousand. The Company assessed its ability to realise a deferred tax asset on account of a tax loss based on tax forecasts. In line with the prudent valuation principle, the Management Board decided not to recognise a deferred tax asset on the tax loss recorded in the nine months ended September 30th 2017. The total amount of tax loss for 2016 and 2017 which was not recognized in deferred tax is PLN 107,828 thousand.

11.3. Significant items of the statement of cash flows

The PLN 120,921 thousand decrease in receivables disclosed in the statement of cash flows for the nine months ended September 30th 2017 resulted mainly from:

- PLN (118,234) thousand decrease in trade receivables,
- PLN (2,068) thousand increase in receivables from the state budget (including VAT),
- PLN (667) thousand increase in prepayments made,
- PLN 16,181 thousand decrease in security deposits receivable,
- PLN (6,234) thousand increase in disputed receivables,
- PLN (4,234) thousand increase in receivables under sureties,
- PLN (536) thousand increase in Company Social Benefits Fund receivables,
- PLN 245 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the nine months ended September 30th 2017, see Note 11.14

The PLN 36,072 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (40,519) thousand decrease in trade payables,
- PLN (3,021) thousand decrease in the provision for warranty repairs,
- PLN (4,980) thousand decrease in the provision for employee benefits,
- PLN 16,685 thousand increase in the provision for delayed cost collection,
- PLN (13,592)thousand decrease in VAT liabilities,
- PLN 215 thousand increase in retirement benefit obligations, net of actuarial gains/(losses)
- PLN 9,140 thousand increase in other liabilities.

The PLN (36,023) thousand change in prepayments relating to accounting for construction contracts as disclosed in the statement of cash flows was mainly caused by:

- PLN (8,886) thousand decrease in gross amount due from customers for construction contract work and related prepayments and accrued income,
- PLN (9,216) thousand decrease in provisions for contract work,
- PLN (35,693) thousand decrease in gross amount due to customers for contract work, including:

  PLN (1,790) thousand decrease in advances.

The cash flows of PLN 3,016 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 2,460 thousand and intangible assets for PLN 556 thousand.

Cash flows from financing activities were mainly affected by a PLN 64,573 thousand decrease in debt outstanding under the overdraft facility and working capital facility advanced by PKO BP S.A.

(PLN '000)

11.4. Property, plant and equipment

For the nine months ended September 30th 2017 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Motor vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2017	**9,280**	**81,093**	**49,383**	**6,987**	**–**	**1,225**	**147,968**
Purchases	–	–	–	–	–	1,878	1,878
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale			(1)	(148)	–	–	(149)
Transfers from property, plant and equipment under construction	–	821	2,273	–	–	(3,094)	–
Exchange differences on translating foreign operations	–	–	(1)	–	–	–	(1)
Depreciation for period	–	(1,938)	(4,063)	(1,041)	–	–	(7,042)
Impairment loss for period	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	–	(3)	–	–	(3)
Net carrying amount as at Sep 30 2017 *(unaudited)*	**9,280**	**79,976**	**47,591**	**5,905**	**–**	**9**	**142,761***

*tangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.16.1.

For the nine months ended September 30th 2016 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Motor 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
Purchases	–	–	–	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 period	–	(1,875)	(4,521)	(1,209)	–	–	(7,605)
Impairment loss for 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**

(PLN '000)

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

	9 months ended September 30th 2017 (unaudited)	*9 months ended September 30th 2016 (unaudited)*
Purchase of property, plant and equipment and intangible assets*	2,543	3,185
Proceeds from sale of property, plant and equipment	164	202

*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 comprised chiefly expenditure on construction infrastructure, purchase and modernisation of production plant and equipment and purchase of computer hardware. The expenditure was financed with internally generated funds and finance leases.

11.6. Long-term trade receivables, other receivables and prepayments

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade receivables, including:	3,326	3
Trade receivables from related entities	–	–
Trade receivables from other entities	3,326	3
Other receivables and prepayments, including:	99	281
Receivables on sale of property, plant and equipment and intangible assets	–	185
Security deposits	99	96
Total receivables (net)	**3,425**	**284**
Impairment loss on receivables	–	–
Gross receivables	**3,425**	**284**

11.7. Shares in subsidiaries and other entities

	September 30th 2017 (unaudited)	*December 31st 2016*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	29,349	29,349
Shares in other listed companies	275	209
Shares in other non-listed companies	18	18
	29,642	**29,576**

*Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.16.3

(PLN '000)

11.8. Long-term bonds

On November 9th 2016, PBG S.A. announced that it had commenced the procedure to issue bonds offered to creditors which in accordance with the Arrangement were to have their claims satisfied as Group 1, 3, 4, 5 and 6 creditors (RAFAKO's receivables were recorded in Group 3, comprising creditors who are PBG S.A.'s subsidiaries).

On January 20 2017, RAFAKO S.A. submitted a declaration of acceptance of the invitation to acquire secured ordinary bonds in book-entry form, issued in series from B1 to I1 by PBG S.A., the Company's parent, with a nominal value of PLN 100 per bond, that is, a total of 388,492 non-interest bearing bonds with a total nominal value of PLN 38,849,200.00 thousand. In order to pay the issue price of the bonds, RAFAKO also submitted a declaration of offsetting the total issue price of the bonds, amounting to PLN 38,849,200.00 against the Company's claim against PBG S.A. under the Arrangement concluded by PBG S.A. in the course of arrangement proceedings approved by way of a decision of the District Court for Poznań-Stare Miasto (File No. XI GUp 29/12) dated October 8th 2015, which became final on June 13th 2016. As a result, the Company's claim against PBG S.A. under the arrangement was cancelled. A detailed description of the claim is provided in the financial statements for 2016.

On February 10th 2017, the bonds were allotted to RAFAKO S.A. The key terms and conditions of the bonds are as follows:

1. The bonds are redeemable in series, as presented in the table below, with the last series to be redeemed on June 30th 2020.

Series	Number of bonds	Nominal value	Value of series (PLN)	Maturity date
Series B1	1,646	PLN 100.00	164,600	2017/03/31
Series C1	35,208	PLN 100.00	3,520,800	2017/06/30
Series D1	19,734	PLN 100.00	1,973,400	2017/12/31
Series E1	41,386	PLN 100.00	4,138,600	2018/06/30
Series F1	12,294	PLN 100.00	1,229,400	2018/12/31
Series G1	49,961	PLN 100.00	4,996,100	2019/06/30
Series H1	37,813	PLN 100.00	3,781,300	2019/12/31
Series I1	190,450	PLN 100.00	19,045,000	2020/06/30
	388,492		**38,849,200**	

   In accordance with the bond programme, PBG S.A. issued bonds with a total value of PLN 472,447,600.00, of which bonds worth PLN 38,849,200.00 were acquired by the Company in Q1 2017.

2. In accordance with the terms of issue, the bonds issued by PGB S.A. are secured bonds within the meaning of the Bonds Act of January 15th 2015. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO S.A. shares in book-entry form (representing 50% plus 1 share of RAFAKO S.A.'s share capital), mortgages over PBG Group's properties (with one selected mortgage securing another financial liability of the PBG Group), registered pledges over other assets of the PBG Group, sureties and declarations of voluntary submission to enforcement up to the amount of PLN 1,065,000,000.00, pursuant to Art. 777 of the Code of Civil Procedure. In the opinion of the Management Board, the provided collateral corresponding to the total amount payable under the bonds as at the date of these interim condensed financial statements is sufficient to consider the claim as recoverable.

3. PBG S.A. agreed to arrange for the bonds to be converted into securities in book-entry form and listed on the WSE ATS Market or Bondspot ATS Market within three months of their issue. By a decision of the Warsaw Stock Exchange dated March 9th 2017, the first listing of Series B, C, D, E, F, G, H and I bearer bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017.

(PLN '000)

During the nine months ended September 30th 2017, the parent PBG S.A. redeemed Series B1 and C1 bonds worth in aggregate PLN 3,685,400.

Taking into consideration the successful completion of the voluntary arrangement process and performance of the arrangement by PBG S.A., the Management Board believes that Company's acquisition of bonds secured with a registered pledge on the Company shares and with mortgages significantly changes the circumstances and prospects for the recovery of this claim relative to the situation as at December 31st 2015. Given the current circumstances, as at the date of these condensed interim financial statements the Management Board deems the risk of non-recovery of the claim as minimal.

As at September 30th 2017, the discounted value of bonds maturing in more than one year was PLN 25,600 thousand.

11.9. Other non-current financial assets

	September 30th 2017 (unaudited)	*December 31st 2016*
Other non-current financial assets, including:	15,157	34,994
Arrangement receivables from related entity	–	24,071
Receivables under sureties provided to related entities	15,157	10,923
	15,157	**34,994**

In 2017, the Company converted arrangement receivables from a related entity, PBG S.A., into bonds, as described in detail in Note 11.8 to these interim condensed financial statements.

11.10. Inventories

	September 30th 2017 (unaudited)	*December 31st 2016*
Materials (at net realisable value)		
At cost	24,991	25,017
At net realisable value	13,411	13,039
Total inventories, at the lower of cost and net realisable value	**13,411**	**13,039**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.16.4

Inventory write-downs

	9 months ended September 30th 2017 (unaudited)	*9 months ended September 30th 2016 (unaudited)*
At beginning of period	(11,978)	(10,353)
- write-down recognised	(796)	(4,052)
- write-down reversed	–	–
- write-down used	1,194	3,951
Balance at end of period	**(11,580)**	**(10,454)**

11.11. Short-term bonds

As at September 30th 2017, the Company held PLN 6,112 thousand worth of bonds with maturity of less than one year, as described in detail in Note 11.8 to these interim condensed financial statements.

(PLN '000)

11.12. Other current financial assets

	September 30th 2017 (unaudited)	*December 31st 2016*
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)
Arrangement receivables from related entity	–	11,130
	–	**11,130**

In 2017, the Company converted arrangement receivables from a related entity, PBG S.A., into bonds, as described in detail in Note 11.8 to these interim condensed financial statements.

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 payment made by the Company under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid for shares recognised as other non-financial assets and PLN 10,500 thousand was paid for the loan recognised as other financial assets). Bioelektrownia Szarlej Sp. z o.o. is a special purpose vehicle established to construct 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 led to delays in the performance of works and termination of the project subsidy agreement. Bioelektrownia Szarlej sp. z o.o.'s efforts to resume the project were unsuccessful.

As a result, the 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.

11.13. Cash and cash equivalents

	September 30th 2017 (unaudited)	*December 31st 2016*	*September 30th 2016 (unaudited)*
Cash in hand and at banks	50,856	65,075	12,057
Short-term deposits for up to 3 months	65	807	97
	50,921	**65,882**	**30,731**

Cash at banks earns interest at variable rates linked to the reference rates prevailing on the interbank market. Short-term 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 current contracts.

(PLN '000)

11.14. Short-term trade receivables, other receivables and prepayments

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade receivables, including:	67,197	188,754
Trade receivables from related entities	4,450	662
Trade receivables from other entities	62,747	188,092
Income tax receivable	–	10,918
Other receivables and prepayments, including:	87,541	94,472
Advance payments to other entities	3,830	3,163
Receivables from the state budget	7,260	5,192
Settlement of property insurance costs	126	675
Settlements with the Company Social Benefits Fund	773	237
Disputed receivables*	20,178	13,944
Prepaid expenses	2,756	2,377
Receivables on sale of property, plant and equipment and intangible assets	274	343
Security deposits	51,887	68,068
Other	457	710
Total receivables (net)	**154,738**	**294,144**
Impairment loss on receivables	33,182	31,834
Gross receivables	**187,920**	**325,978**

* The Company recognised an impairment loss on the receivables in an amount corresponding to the risk of their non-recoverability. For a detailed description of disputed receivables, see Note 22 to these interim condensed financial statements.

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

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's policy is to sell 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.

Short-term trade receivables of PLN 67,197 thousand recognised in the statement of financial position as at September 30th 2017 relate to trading contracts with domestic and foreign contractors.

Security deposits of PLN 51,887 thousand disclosed in the statement of financial position relate mainly to projects implemented in the following areas:

- construction of a coal-fired steam unit – PLN 14,608 thousand,
- SCR system – PLN 8,139 thousand,
- manufacture of high-pressure parts of a boiler – PLN 5,616 thousand.

The change in security deposits in the nine months ended September 30th 2017 was primarily attributable to:

- a PLN 14,024 thousand cash security deposit returned in connection with the construction of a power generation unit,
- a PLN 7,279 thousand cash security deposit returned in connection with the replacement of component parts of a combustion chamber,
- a PLN 4,136 thousand cash security deposit provided for the construction of a fluidized bed boiler.

(PLN '000)

11.15. Impairment of assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Receivables****
January 1st 2017	(24,363)	(10,500)	(5,676)	(11,978)	(31,834)
Impairment loss recognised	–	–	–	(796)	(4,533)
Provision reversed/	66	–	–	–	755
Utilisation	19,375	–		1,194	2,430
September 30th 2017 *(unaudited)*	**(4,922)**	**(10,500)**	**(5,676)**	**(11,580)**	**(33,182)**
January 1st 2016	(24,361)	(164,557)	(5,676)	(10,353)	(31,636)
Impairment loss recognised	(30)	–	–	(4,052)	(635)
Provision reversed/	10	–	–	–	433
Utilisation	–	154,057	–	3,951	4
September 30th 2016 *(unaudited)*	**(24,381)**	**(10,500)**	**(5,676)**	**(10,454)**	**(31,834)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares in companies.
**Inventory write-downs and write-down reversals are charged to cost of products and services sold .
*** Impairment losses on long- and short-term trade and other receivables, including contractual penalties.

In connection with the decision of the District Court for Katowice-Wschód of July 24th 2017 to close the insolvency proceedings in respect of Fabryka Elektrofiltrów ELWO S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) of Pszczyna, the Company used the impairment loss on the shares held in the subsidiary in a total amount of PLN 19,375 thousand.

(PLN '000)

11.16. Assets pledged as security for the Company's liabilities

11.16.1. Property, plant and equipment pledged as security

As at September 30th 2017, property, plant and equipment pledged as security for the liabilities amounted to PLN 137,367 thousand. The property, plant and equipment are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except 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).

	September 30th 2017 (unaudited)	*December 31st 2016*
Mortgaged property, plant and equipment, including:	89,068	90,182
land	9,258	9,258
buildings and structures	79,810	80,924
Property, plant and equipment encumbered with registered pledge, including:	48,299	50,259
plant and equipment	47,189	48,935
motor vehicles	1,110	1,324
	137,367*	**140,441***

*The disclosed amounts include property, plant and equipment of PLN 9 thousand classified as held for sale (December 31st 2016: PLN 7 thousand).

11.16.2. Intangible items pledged as security

As at September 30th 2017, intangible assets worth PLN 10,752 thousand were pledged as security for the Company's liabilities (December 31st 2016: PLN 11,058 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.16.3. Shares pledged as security

As at September 30th 2017, PLN 29,642 thousand (December 31st 2016: PLN 29,576 thousand) worth of shares in companies 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.).

11.16.4. Inventories pledged as security

As at September 30th 2017, inventories worth PLN 13,411 thousand were pledged as security for the Company's liabilities (December 31st 2016: PLN 13,039 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).

11.17. Share capital

In the nine months ended September 30th 2017, the RAFAKO S.A.'s share capital remained unchanged and as at September 30th 2017 was worth PLN 169,864 thousand.

Share capital	*Number of shares*	*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**

11.18. Par value per share

The par value of the shares is PLN 2.00 per share, and the shares were taken up for cash.

11.19. Shareholders' rights

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

11.20. 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. In 2015, following the recognition of share premium of PLN 58,562 thousand on sale of Series J shares, less issue costs, the share premium totalled PLN 95,340 thousand. As at September 30th 2017, share premium amounted to PLN 95,340 thousand (December 31st 2016: PLN 95,340 thousand).

11.21. Dividends paid

In the nine months ended September 30th 2017, no dividends were paid by the Company or declared by the Management Board.

(PLN '000)

11.22. Earnings /(loss) per share

Basic earnings/(loss) per share is calculated as the quotient of net profit/(loss) for the period attributable to holders of ordinary shares 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:

	9 months ended September 30th 2017 (unaudited)	*9 months ended September 30th 2016 (unaudited)*
Net profit/(loss) from continuing operations	(20,345)	(15,635)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(20,345)	(15,635)
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**(20,345)**	**(15,635)**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	84,931,998	84,931,998
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**	**84,931,998**
Earnings/(loss) per share		
– basic/diluted earnings/(loss) from profit/(loss) for the period	(0.24)	(0.18)

The Company does not present diluted earnings per share for the nine months ended September 30th 2017 as it did not issue any dilutive financial instruments.

(PLN '000)

11.23. Post-employment and other benefits

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

	September 30th 2017 (unaudited)	*December 31st 2016*
As at Jan 1	23,767	25,473
Interest expense	574	713
Current service costs	386	501
Actuarial (gains)/losses	991	854
Benefits paid	(1,805)	(2,714)
Recognition/reversal of provision for employee benefit obligations	1,060	(1,060)
Closing balance	**24,973**	**23,767**
Long-term provisions	22,560	21,773
Short-term provisions	2,413	1,994

The main assumptions adopted by the actuary as at September 30th 2017 and for the nine months ended September 30th 2017, as well as for the 12 months ended December 31st 2016 to determine the amount of the obligation were as follows:

	September 30th 2017 (unaudited)	*December 31st 2016*
Discount rate (%)	3.3	3.1
Expected inflation rate (%)*	–	–
Employee turnover rate	6	5
Expected growth of salaries and wages (%)**	2.81	2.81

** No data provided in the actuary's report.*
*** 2.81% in 2017 and 2% in 2018 and subsequent years.*

11.24. Long-term trade and other payables

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade payables		
Payables to related entities	–	100
Payables to other entities	10,418	11,774
	10,418	**11,874**
Capital commitments	–	16
	–	**16**

(PLN '000)

	September 30th 2017 (unaudited)	*December 31st 2016*
Employee benefit obligations	22,560	21,773
	22,560	**21,773**
Financial liabilities		
Finance lease liabilities	1,378	2,662
	1,378	**2,662**
Other liabilities		
Employee benefit obligations	496	531
Provision for warranty repairs	5,444	5,717
Amounts payable under voluntary redundancy programme	478	1,460
	6,418	**7,708**

11.25. Short-term provisions, trade and other payables

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade payables		
Payables to related entities	2,662	4,972
Payables to other entities	78,724	115,477
	81,386	**120,449**
Other financial liabilities		
Measurement of derivative instruments	176	–
Finance lease liabilities	1,773	1,616
	1,949	**1,616**
Liabilities under investments in non-current assets	388	954
	388	**954**

(PLN '000)

	September 30th 2017 (unaudited)	*December 31st 2016*
Other liabilities		
VAT	7,709	21,301
Personal income tax	2,194	2,104
Social security	6,893	7,320
Other taxes, customs duties and insurance payable	62	5
Salaries and wages payable	6,883	6,987
Accrued holiday entitlements	3,446	3,553
Employee benefit obligations	6,456	6,765
Provisions for warranty repairs	11,188	13,936
Accrual for costs of uninvoiced materials and services	21,805	5,120
Accrual for audit fees	198	56
Provisions for other liabilities and disputed claims	4,553	5,802
Amounts payable under voluntary redundancy programme	1,636	5,634
Provision for penalty imposed by the PFSA	–	700
Other amounts payable to employees	356	398
Security deposits	274	289
Other	537	608
	74,190	**80,578**

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 for 2016.

13. Financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at September 30th 2017 and December 31st 2016.

The Company presents the particular classes and categories of its financial instruments at carrying amounts Their fair values approximate their carrying amounts due to relatively short maturities of short-term items or discounts on long-term accounts receivable and payable.

	Carrying amount	
Classes and categories of financial assets	*September 30th 2017 (unaudited)*	*December 31st 2016*
Available-for-sale financial assets	**275**	**209**
Long-term shareholdings	275	209
Financial assets held to maturity	**31,712**	–
Long-term bonds	25,600	–
Short-term bonds	6,112	–
Assets at fair value through profit or loss	**13**	–
Derivative instruments	13	–
Loans and receivables	**158,156**	**317,536**
Trade receivables	70,523	188,757
Investment receivables	–	185
Other receivables	72,065	82,012
Loans advanced	411	458
Other non-current financial assets*	15,157	34,994
Other current financial assets*	–	11,130
Cash and cash equivalents	**50,921**	**65,882**
	241,077	**383,627**

* For a detailed description of changes, see Note 11.9

(PLN '000)

Classes and categories of financial liabilities	*Carrying amount* September 30th 2017 (unaudited)	December 31st 2016
Financial liabilities at fair value through profit or loss	**176**	**–**
Derivative instruments	176	–
Financial liabilities at amortised cost	**176,178**	**282,405**
Borrowings	83,986	149,112
Trade payables (including capital commitments)	92,192	133,293
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**3,151**	**4,278**
Liabilities under leases and rental contracts with purchase option	3,151	4,278
	179,505	**286,683**

14. Derivative instruments

As at September 30th 2017, the Company carried open currency forward contracts. (USD 4m sale transactions).

Currency forward transactions were concluded in connection with USD-denominated tender procedures, based on market terms that do not differ from standard terms used in transactions of this type.

As at September 30th 2017, the Company did not carry any other derivative instruments.

The Company does not apply hedge accounting, but the transactions are not speculative and their purpose is to effectively hedge purchase/sale contracts in foreign currencies.

(PLN '000)

15. Borrowings

As at September 30th 2017, the Company's liabilities under bank and non-bank borrowings were PLN 83,986 thousand.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Sep 30 2017 (unaudited)	*Dec 31 2016*
Short-term 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 an entire business	a current account overdraft facility of up to PLN 100m***	PLN	1M WIBOR + margin	30/06/2018****	53,457	99,394
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 an entire business	a revolving working capital facility of up to PLN 50m***	PLN	1M WIBOR + margin	30/06/2018****	28,519	47,713
						81,976	**147,107**

*The facilities are secured by receivables under contracts executed by the Company.

**As at the date of these financial statements, the Company had 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 2017 to the credit facility agreement, the multi-purpose credit facility limit was up to PLN 200m, including:

a current account overdraft facility of up to PLN 100m and a working capital facility of up to PLN 50m in July 1st–30th 2017,
a current account overdraft facility of up to PLN 90m and a working capital facility of up to PLN 60m in July 31st–August 30th 2017,
a current account overdraft facility of up to PLN 80m and a working capital facility of up to PLN 70m in August 31st–September 29th 2017,
a current account overdraft facility of up to PLN 70m and a working capital facility of up to PLN 80m in September 30th 2017–June 30th 2018,

****As at the date of issue of these interim condensed financial statements, in accordance with the annex of June 30th 2017 to the credit facility agreement, the term of the facility and its repayment date were extended until June 30th 2018.

(PLN '000)

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Sep 30 2017 (unaudited)	*Dec 31 2016*
Short-term loans							
PGL-DOM Sp. z o.o.*****	blank promissory note with a promissory note declaration	cash loan agreement for financing of day-to-day operations	PLN	1M WIBOR + margin	31/12/2017	2,010	2,005
						2,010	**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 presented in Note 2, relating to continuation of the Company's operations.

(PLN '000)

16. Capital management

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

	September 30th 2017 (unaudited)	*December 31st 2016*
Equity	307,451	328,760
Borrowed funds (bank and non-bank borrowings)	83,986	149,112
Total equity and liabilities	649,878	829,104
Capitalisation ratio	**0.47**	**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 2017, the Company reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under current contracts

During the nine months ended September 30th 2017, the Company reversed/utilised a provision of PLN 4,884 thousand for costs of late performance, in connection with an out-of-court settlement with a key customer. Moreover, using the most recent contract data and based on settlements of completed contracts, the Company decided to recognise a PLN 4,823 thousand provision for costs of late performance.

(PLN '000)

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

	*Provision for expected contract losses**	*Provision for jubilee benefits, retirement gratuity and Company Social Benefits Fund*	*Provision for holiday entitlements***	*Provisions for warranty repairs***	*Provision for contractual penalties*	*Employee benefit obligations***	*Provision for voluntary redundancy programme*	*Provision for other costs***	*Other provisions*
January 1st 2017	19,239	23,767	3,553	19,653	4,856	7,296	7,094	6,502	56
Provision recognised	2,977	3,011	–	7,697	4,823	299	–	6,480	198
Reversal of provision	–	–	–	–	(678)	(177)	–	(6,444)	–
Utilised	(12,132)	(1,805)	(107)	(10,718)	(4,206)	(466)	(4,980)	(1,985)	(56)
September 30th 2017 *(unaudited)*	**10,084**	**24,973**	**3,446**	**16,632**	**4,795**	**6,952**	**2,114**	**4,553**	**198**
January 1st 2016	29,807	25,473	3,076	11,925	–	7,095	–	7,000	111
Provision recognised	2,547	542	481	11,821	12,415	640	–	859	172
Reversal of provision	–	–	–	–	(8,653)	(503)	–	–	–
Utilised	(18,728)	–	–	(7,154)	–	(1,406)	–	(744)	(200)
September 30th 2016 *(unaudited)*	**13,626**	**26,015**	**3,557**	**16,592**	**3,762**	**5,825**	**–**	**7,115**	**83**

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

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

On September 12th 2017, the Extraordinary General Meeting passed Resolution No. 4 on increasing the Company's share capital through the issue of no fewer than 1 (one) and no more than 42,500,000 (forty-two million, five hundred thousand) new Series K ordinary bearer shares with a par value of PLN 2 (two złoty) per share, public offering of new shares, setting the record date for pre-emptive rights in respect of new shares for November 6th 2017, conversion into book-entry form and seeking admission of pre-emptive rights, allotment certificates and new shares to trading on a regulated market of the Warsaw Stock Exchange, amendment of the Company's articles of association, and authorising the Supervisory Board to adopt the consolidated text of RAFAKO S.A.'s Articles of Association.

In the performance of the resolution of the Extraordinary General Meeting, on October 24th 2017 the RAFAKO S.A. Management Board adopted a resolution under which: i) the issue price of Series K ordinary bearer shares (the "Offer Shares") was set at PLN 4 (four złoty) per Offer Share; ii) 1 (one) individual pre-emptive right entitles to subscribe for 0.50040033204 of one Offer Share, and 1.99839995294 individual pre-emptive rights entitle to subscribe for 1 (one) Offer Share. The Company's Management Board decided not to make use of its authorisation to determine the final amount by which the share capital of RAFAKO S.A is to be increased. Therefore, the final number of the Offer Shares is equal to the maximum number of the Offer Shares provided for in the Resolution, i.e. 42,500,000 (forty-two million, five hundred thousand) Offer Shares.

On November 3rd 2017, the Polish Financial Supervision Authority approved the issue prospectus, which was published in electronic form on RAFAKO S.A.'s website. On November 7th 2017, the Management Board of the Warsaw Stock Exchange ("WSE") passed Resolution No. 1305/2017 under which 84,931,998 pre-emptive rights to Series K ordinary bearer shares will be listed from November 9th 2017 through November 14th 2017.

On October 24th 2017, PBG S.A. and FUNDUSZ INWESTYCJI POLSKICH PRZEDSIĘBIORSTW FUNDUSZ INWESTYCYJNY ZAMKNIĘTY AKTYWÓW NIEPUBLICZNYCH of Warsaw ("FIPP FIZ AN"), managed and represented by Towarzystwo Funduszy Inwestycyjnych BGK S.A., agreed on the terms of sale by PBG and its subsidiary Multaros Trading Company Limited of Cyprus ("Multaros") to FIPP FIZ AN of individual pre-emptive rights to series K shares ("Individual Pre-Emptive Rights") of RAFAKO S.A., to which the Company and Multaros will be entitled if RAFAKO S.A. carries out the planned public offering of no more than 42,500,000 series K ordinary bearer shares with a par value of PLN 2 per share, with pre-emptive rights in favour of the existing shareholders. FIPP FIZ AN intends to acquire all the Individual Pre-Emptive Rights to which PBG S.A. will be entitled and a portion of the Individual Pre-Emptive Rights which may be acquired by Multaros ("Transaction"). Having agreed on the terms and conditions of the Transaction, on October 24th 2017 PBG, Multaros and FIPP FIZ AN entered into a cooperation agreement concerning RAFAKO S.A., which is an agreement within the meaning of Art. 87.1.6 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005. Pursuant to the agreement, the parties agreed to cooperate with respect to appointing to the Supervisory Board of RAFAKO S.A. of a person designated by FIPP FIZ AN as long as FIPP FIZ AN holds RAFAKO S.A. shares representing at least 5% (i.e. 5% + 1 share) of the total voting rights at the General Meeting of RAFAKO S.A. In particular, as part of the cooperation provided for in the agreement, on condition that Series K Shares representing at least 5% of total voting rights (i.e. 5% + 1 share) acquired by FIPP FIZ AN following the exercise of the Individual Pre-Emptive Rights acquired in the Transaction are registered in FIPP FIZ AN's investment account, PBG agreed to ensure that, at FIPP FIZ AN's request, a person designated by FIPP FIZ AN would be appointed to the Supervisory Board of RAFAKO S.A. (in particular, by ensuring that the General Meeting of RAFAKO S.A. is convened and that all RAFAKO S.A. shares held by the Company and Multaros are voted in favour of a resolution to appoint a person designated by FIPP FIZ AN to the Supervisory Board of RAFAKO). If FIPP FIZ AN's share in the total voting rights at the General Meeting of RAFAKO falls below 5% (i.e. 5% + 1 share) of the total voting rights and this situation continues for at least 30 days, PBG will not be required to ensure that a person designated by FIPP FIZ AN be appointed to the Supervisory Board of RAFAKO S.A., and will have the right to vote in favour of the removal from the Supervisory Board of RAFAKO S.A. of the person previously designated by FIPP FIZ AN and appointed to the Supervisory Board of RAFAKO S.A.

The parties agreed to pay a financial penalty for breach of the obligations set forth in the agreement.

In addition, the agreement also defines the principles of cooperation in connection with the performance of obligations under Chapter 4 of the Public Offering Act. In the event of a breach by either party (and PBG and Multaros are treated as one party and their liability is joint and several) of the obligations set out in the agreement, relating to the performance of obligations specified in Chapter 4 of the Public Offering Act, the party in breach will be obliged to remedy any damage suffered by the other party to the agreement and to indemnify it as provided for in Art. 392 of the Civil Code, as well as to pay a financial penalty to the other party. Should such breach result in the disapplication of the voting right attached to RAFAKO shares held by the parties to the agreement, the party in breach will be obliged to purchase from the other party, on its written demand, all shares in RAFAKO S.A. held by such party for the price determined in accordance with the agreement. Such obligation will be conditional on the fulfilment of the following conditions: (i) in the case of the obligation of PBG and Multaros – obtaining the consent of the bondholders holding Series D, E, F, G, H, I, D1, E1, F1, G1, H1, I1 bonds issued by PBG; and (ii) in the case of FIPP FIZ AN – obtaining by FIPP FIZ the consent of all unit holders of FIPP FIZ AN (as a closed-end private equity fund).

The agreement contains terms and conditions commonly applied in agreements of this type.

The agreement took effect as of its date and was concluded for an indefinite period. However, in the event that: (i) the number of votes represented by RAFAKO S.A. shares held (directly or indirectly) by FIPP FIZ AN in the total voting rights at the general meeting of RAFAKO S.A. falls below 5% (i.e. 5% + 1 share) and this situation continues for at least three months; or (ii) after November 1st 2025 the total number of votes represented by RAFAKO S.A. shares held by PBG and Multaros falls below 33% of the total voting rights at the general meeting of RAFAKO S.A. and this situation continues for at least three months, the agreement will expire.

19. Dividends paid or declared

In the nine months ended September 30th 2017, no dividends were paid by the Company or declared by the Management Board.

20. Capital commitments

As at September 30th 2017, the Company had commitments related to purchase of property, plant and equipment of PLN 388 thousand. As at September 30th 2017, the Company had no signed agreements envisaging any capital expenditure to be made in 2017 and not disclosed in the accounting books at the end of the reporting period.

(PLN '000)

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

	September 30th 2017 (unaudited)	*December 31st 2016*
Off-balance-sheet items under financial guarantees received mainly as security for performance of contracts, including:	188,670	207,835
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	19,738	25,289
- from related entities	11,183	11,536
Letters of credit	–	655
	208,408	**233,779**

	September 30th 2017 (unaudited)	*December 31st 2016*
Off-balance-sheet items under financial guarantees granted mainly as security for performance of contracts, including:	284,219	200,609
- to related entities	–	–
Liabilities under sureties, including:	1,394,668	1,394,668
- to related entities	1,394,668	1,394,668
Promissory notes issued as security, including:	17,076	6,952
- to related entities	2,000	2,000
Letters of credit	–	–
	1,695,963	**1,602,229**

In the nine months ended September 30th 2017, RAFAKO S.A. recorded a PLN 93,734 thousand rise in contingent liabilities (December 31st 2016: PLN 1,602,229 thousand), which resulted mainly from an increase in liabilities under guarantees. In the first nine months of 2017, guarantees (mainly performance bonds of PLN 108,596 thousand and advance payment guarantees of PLN 20,140 thousand) were issued by banks and insurance companies to trading partners at the request of RAFAKO S.A. In this category of liabilities, the largest item was a performance bond of EUR 11,972 thousand, issued in May 2017. Liabilities under sureties issued, of PLN 1,394,668 thousand, comprise a surety covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the Jaworzno project (construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant). The largest item among guarantees which expired in the first nine months of 2017 was a USD 2m bid bond.

In the nine months ended September 30th 2017, the Company recorded a decrease of PLN 25,371 thousand in contingent receivables related mainly to performance bonds, including a decrease of PLN 19,165 thousand in receivables under bank and insurance guarantees, and a decrease of PLN 5,551 thousand in receivables under promissory notes. The largest item among the guarantees received in the first nine months ended September 30th 2017 was a PLN 7,048 thousand performance bond. The largest item among expired guarantees in the period was a performance bond of PLN 4,152 thousand.

22. Litigation and disputes

As at the date of these interim condensed financial statements, the Company was involved in litigation both as a defendant and a plaintiff.

In a material case under litigation, RAFAKO S.A. is seeking compensation from Donetskoblenergo of Ukraine. RAFAKO S.A. 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 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 enforceability of the decision remains uncertain, RAFAKO S.A. did not recognise the awarded amount in 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 August 2nd 2016, RAFAKO 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 damages were charged by ENERGA for: i) late completion of assembly work, and ii) delay in 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 liquidated damages, from current payments due to the consortium under the contract. The deduction amount attributable to RAFAKO S.A. is PLN 4,177,451.83. The consortium refuses to accept the set-off, which it deems groundless given the contested grounds for charging the liquidated damages, 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 extended the mediation deadline until the end of March 2017. The mediation ended with the parties' signing an out-of-court settlement on May 24th 2017, subsequently approved by the Court on June 1st 2017. Upon the settlement, the Company reversed/utilised a PLN 4,884 thousand provision for costs of late performance, recognised in previous reporting periods.

On October 11th 2016, the Company filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, demanding payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of the amounts retained by Mostostal 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 submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project had been discontinued, Mostostal Warszawa S.A. was obliged to refund the amounts retained as a performance bond, because the contractual basis for providing a performance bond had ceased to exist. On October 19th 2016, the Regional Court of Gliwice issued a payment order for the full amount claimed by RAFAKO S.A. On November 25th 2016, the Court received an objection against the payment order, lodged by Mostostal Warszawa S.A. On June 30th 2017, the Regional Court of Gliwice awarded the entire sum demanded by the Company. On August 28th 2017, the defendant filed an appeal against the ruling of the court of first instance. In the current state of affairs, after RAFAKO S.A. submitted a response to the appeal on October 5th 2017, the parties have been waiting for the court to schedule the hearing.

(PLN '000)

On March 20th 2017, the Company filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 plus statutory interest accrued from November 18th 2016, based on the invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the Company carried out a relevant survey of the work performed and delivered the results to the debtors. In the Company's opinion, it is only the amount of the claim that may be disputed – when awarded by the Court, it may ultimately depend on results of the survey carried out by a court expert. On March 29th 2017, the court issued a non-final order for payment of claimed amounts. On April 19th 2017, the defendants lodged with the court an objection against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the defendants' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. By the date of these interim condensed financial statements, one preliminary hearing took place on October 6th 2017. The defendants submitted to the court a response to the plaintiff's pleading of July 27th 2017, in which the claim was extended. Since the subject matter of the dispute is very complicated, it is difficult to predict its closing date.

23. Arrangement receivables from related entity

In the nine months ended September 30th 2017, the Company converted arrangement receivables from the related entity PBG S.A. into bonds, as described in detail in Note 11.8 to these interim condensed financial statements.

24. Company's Management Board and Supervisory Board

In the nine months ended September 30th 2017 and by the date of authorization of these interim condensed financial statements for issue there were no changes in the composition of the Company's Management Board.

As at the date of these 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 2017 and by the date of authorization of these interim condensed financial statements for issue, changes took place in the composition of the Company's Supervisory Board. On November 9th 2017, Mr Dariusz Sarnowski, Deputy Chairman of the RAFAKO Supervisory Board, tendered his resignation from the Supervisory Board.

As at the date of these financial statements, the composition of the of the Supervisory Board was as follows:

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

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, other than transactions described in Note 26.

(PLN '000)

26. RELATED-PARTY TRANSACTIONS

In the first nine months of 2017 and 2016, 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		*Sales to related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Purchases from related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Receivables from related parties as at Sep 30 2017/ Dec 31 2016*	*Liabilities to related parties as at Sep 30 2017/ Dec 31 2016*
Parent:					
PBG S.A.	2017	617	3,828	31,919	323
	2016	617	2,197	35,201	1
PBG Group companies:					
PBG oil and gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	2017	61	957	16	108
	2016	62	31,542	9	1,260
PBG ERIGO Sp. z o.o.	2017	–	–	–	–
	2016	12	–	7	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	2017	55	–	15	–
	2016	56	–	8	–
PBG DOM Sp. z o.o.	2017	7	–	1	–
	2016	–	–	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2017	11	45	–	5
	2016	–	44	–	1
RAFAKO Engineering Sp. z o. o.	2017	742	6,612	806	761
	2016	798	4,079	1,046	2,176
RAFAKO Engineering Solution doo.	2017	–	653	–	–
	2016	–	3,302	–	2
RAFAKO Hungary Sp. z o.o.	2017	3,325	–	3,362	–
	2016	–	–	310	3
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2017	52	5,419	7	988
	2016	108	7,116	6	1,364
E001RK Sp. z o.o.	2017	5	182	1	–
	2016	5	180	–	25
E003B7 Sp. z o.o.	2017	1,225	–	15,266	–
	2016	530	–	11,109	10
RENG-Nano Sp. z o.o.	2017	8	–	–	–
	2016	–	–	–	–

Related party		*Sales to related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Purchases from related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Receivables from related parties as at Sep 30 2017/ Dec 31 2016*	*Liabilities to related parties as at Sep 30 2017/ Dec 31 2016*
Entities related through personal links:					
PBG Foundation	2017	–	261	–	–
	2016	–	180	–	–
SWGK CONSULTING Sp. z o.o.	2017	–	138	–	154
	2016	–	59	–	–
Mostostal Energomontaż Gliwice S.A.	2017	–	–	–	57
	2016	–	–	–	102
Corporate Finance & IT Sp. z o.o.	2017	–	–	–	–
	2016	187	–	27	–
BPIL Grzegorz Kiczor	2017	–	145	–	18
	2016	–	135	–	37
Dwór w Smólsku	2017	–	180	–	25
	2016	–	140	–	25
SWGK Księgowość Sp. z o.o.	2017	–	250	–	–
	2016	–	–	–	–
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	2017	–	–	516	–
SWGK Podatki Sp. z o.o.	2017	–	80	–	98
Miko-Tech Sp. z o.o.	2017	–	393	–	1
	2016	7	3,655	–	233
Economic Chamber of Energy and Environmental Protection	2017	–	23	–	7
Polimex-Mostostal S.A.	2017	–	–	–	117

27. Management Board's position on the Group's ability to deliver forecast results

The Company did not publish forecasts for 2017.

28. Brief description of the Company's material achievements and failures in Q3 2017

On July 26th 2017, the Company's Management Board made a delayed disclosure of inside information on the analysis of possible sources of co-financing. Considering the development of Company, the Management Board decided to analyse possible sources of both debt and equity financing. At the present stage, all options will be considered, including finding an investor interested in providing the Company with capital in exchange for its shares. In the Management Board's view, such financial support would ensure continued stable growth of RAFAKO S.A. and improve its competitiveness. No decision has been made on the selection of a particular option or investor, and there is no certainty as to whether and when such a decision will be made in the future. The decision to delay the disclosure of Inside Information was made by the Management Board on June 6th 2017. The Management Board decided not to disclose the inside information in view of the fact that immediate disclosure could adversely affect the outcome of negotiations held with potential investors/lenders in the Company, considering the threat of the negotiation process being influenced by competitors or public pressure, which posed a direct risk of the Company's legitimate interests being prejudiced. On July 26th 2017, RAFAKO S.A. signed a letter of intent with Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("FIPP FIZ AN") and Polski Fundusz Rozwoju S.A. ("PFR"), following which the risk of the Company's legitimate interests being prejudiced no longer existed. As a result, the Management Board of RAFAKO S.A. decided to publish the inside information.

At the same time, in reference to the above, the Company's Management Board, acting under Article 17(1) of MAR, published inside information on RAFAKO S.A. and FIPP FIZ and PFR signing the Letter of Intent on July 26th 2017. By signing the Letter of Intent, PFR and the Company expressed their willingness to cooperate in implementing joint strategic projects, with the scope and details of possible cooperation to be defined in separate agreements on potential future projects. Moreover, FIPP FIZ AN and the Company expressed their willingness to take steps aimed at enabling FIPP FIZ AN and the Company to make decisions, if any, regarding the nature, structure and manner of investment in the Company ("Investment"). The Management Board would like to note that as at the date of signing the Letter of Intent, the consummation of the Investment, its scope, purpose and the extent of FIPP FIZ AN's participation, had not yet been determined by the Parties, and all arrangements made so far are general and non-binding in nature. Signing the Letter of Intent marks another stage of the above-described analysis of possible ways of financing the Company.

On August 16th 2017, the Management Board of RAFAKO S.A. was informed that PT. PLN (PERSERO), JALAN TRUNOJOYO BLOK M I/135, KEBAYORAN BARU, JAKARTA 12160, INDONESIA had selected the bid submitted by a consortium including RAFAKO S.A. and PT. Rekayasa Industri as the Consortium Leader (the "Consortium") as the best bid in the tender procedure for "Construction of two coal-fired steam units (2x50 MW) on the Lombok Island (Indonesia)". The value of the Company's bid is EUR 70,290,000.00 (approximately PLN 295m) VAT-exclusive, representing approximately 35% of the total value of the bid submitted by the Consortium. The project completion deadline is 39 months. The bid included a financing package arranged by the Employer with members of the Polski Fundusz Rozwoju Group (Korporacja Ubezpieczeń Kredytów Eksportowych and Bank Gospodarstwa Krajowego). In view of the above, the Company, as a Consortium member, will commence contract negotiations but only after the lapse of a standstill period of three days, when protests may be lodged. As protests may be filed by other bidders, the Company is uncertain as to if and when a contract for the project will be executed.

On September 8th 2017 the Company's Management Board made a decision to reduce employment at RAFAKO S.A. by way of collective redundancies in accordance with the Act on Special Rules Governing Termination of Employment for Reasons Not Attributable to Employees of March 13th 2003. The decision to launch a collective redundancy process is part of the next phase of changes aimed at building a flexible, more cost-effective organisation adapted to current market conditions. The analytical process conducted as part of the next stage of the reorganisation project yielded a list of optimisation recommendations covering resources, processes and fixed costs. The expected annual savings to be achieved following the implementation of all of the recommendations are expected to total approximately PLN 25m, starting from the second quarter of 2018.

(PLN '000)

On September 28th 2017, the consortium comprising RAFAKO S.A., Mostostal Warszawa S.A., and Polimex-Mostostal S.A., as well as GE Power, the general design engineer and Consortium leader managing the contract performance, submitted to Górnictwo i Energetyka Konwencjonalna S.A. a proposal to update the schedule for the construction of Units 5 and 6 in the Opole power plant under the contract announced by the Company in Current Report No. 18/2012. The Consortium proposed to change the project schedule so as to move the commissioning dates for Unit 5 and Unit 6 from July 31st 2018 to December 20th 2018 and from March 31st 2019 to July 31st 2019, respectively. The proposed changes in the project schedule follow from technical and organisational issues.

29. Shareholders holding 5% or more of total voting rights 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 29 to the interim condensed consolidated financial statements for the nine months ended September 30th 2017.

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

	Company	*As at Sep 7 2017*	*Increase*	*Decrease*	*As at Nov 29 2017*
Member of the management staff					
Edward Kasprzak Vice President of the Management Board	RAFAKO S.A.	2,000	1,000*	–	3,000*
Member of the supervisory staff	–	–	–	–	–

*- Shares will be acquired in the exercise of pre-emptive rights to Series K shares.

31. Factors with a material bearing on the Group's performance in Q4 2017

- 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 2017;
- The adequacy of provisions and impairment losses for current contracts;
- 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;
- Costs of the ongoing reorganisation of the Company;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

32. Events after the reporting period

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

On October 16th 2017, National Trading & Transport Group Co. Ltd. of the Sukhbaatar District of Ulaanbaatar, Mongolia, (the "NTT Group") awarded the Company, acting as the leader (90% of the contract value) of the consortium with Gmax Group Sp. z o.o. of Warsaw (the "Consortium"), a contract for the design and construction of a fuel storage depot in Rashaant, Mongolia. Also on October 16th 2017 the NTT Group and the Consortium signed a conditional contract for the design and construction of the fuel storage depot in Rashaant, Mongolia, including the construction of storage tanks and auxiliary infrastructure. The total value of the contract is EUR 46,968,403 (VAT-exclusive). The contract completion deadline is 30 months from the date of handing over the construction site and technical documentation to the Consortium. The construction site and technical documentation are to be made available within seven days of the contract effective date. In accordance with its terms, the contract will become effective provided that:

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

As the NTT Group and the Consortium signed the contract, the only conditions that must be satisfied for the contract to become effective are making the advance payment and the NTT Group obtaining financing for the work from Bank Gospodarstwa Krajowego S.A. or Korporacja Ubezpieczeń Kredytów Eksportowych S.A.

On October 31st 2017, E003B7 Sp. z o.o., a subsidiary, and Polimex Energetyka Sp. z o.o. executed an agreement for the termination of the contract 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'. The agreement will take effect upon E003B7 having obtained relevant consents from the Guarantors (PKO BP S.A., PZU S.A., BGK S.A., and mBank v), RAFAKO S.A., and the Investor, on the first day of the calendar month immediately following the month in which all these consents are obtained. As at the date of this report, E003B7 had secured RAFAKO S.A.'s consent to enter into the agreement. The Company's Management Board believes that the termination of the Agreement does not give rise to any negative consequences for E003B7 or the Company as the Agreement was terminated at Polimex's request and on the date of termination of the Agreement agreements providing for replacement of Polimex by E003B7 were signed by Polimex and E003B7 with Polimex's subcontractors (Przedsiębiorstwo Modernizacji Urządzeń Energetycznych REMAK S.A. and JWW Invest S.A.). The agreements with the subcontractors are not significant agreements.

On November 20th 2017, annexes to the agreements for the financing of the Jaworzno project were signed with the Guarantors, in connection with the annex signed on February 28th 2017 between Tauron Wytwarzanie and the project execution consortium, extending the project's completion date and increasing its value. The annexes extended the validity of performance bonds until December 20th 2020 and of advance payment bonds until March 20th 2020. At the same time, the value of the performance bonds was increased to a total of PLN 514,072.8 thousand, and in connection with the settlement of a portion of the advance payment the value of the advance payment bond fell to PLN 132,172.5 thousand. Due to the reduction of the total amount of the advance payment bonds and performance bonds, the amount of surety for the liabilities of the subsidiary E003B7 Sp. z o.o., granted by RAFAKO S.A. to the Guarantors for a period until April 17th 2028, fell to a total of PLN 1,292,490.7 thousand.

(PLN '000)

These interim condensed financial statements of the Company were authorised for issue on November 14th 2017 by way of a resolution of the RAFAKO S.A. Management Board dated November 14th 2017.

Signatures:

November 29th 2017	Agnieszka Wasilewska-Semail	President of the Management Board	....
November 29th 2017	Krzysztof Burek	Vice President of the Management Board	....
November 29th 2017	Jarosław Dusiło	Vice President of the Management Board	....
November 29th 2017	Edward Kasprzak	Vice President of the Management Board	....
November 29th 2017	Tomasz Tomczak	Vice President of the Management Board	....
November 29th 2017	Jolanta Markowicz	Chief Accountant– person responsible for keeping accounting books	....