The RAFAKO Group

THE PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended March 31 2017

May 15th 2017

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1. Interim condensed separate financial statements of RAFAKO S.A. for the three months ended March 31st 2017

(PLN '000)

Interim condensed consolidated statement of comprehensive income
for the three months ended March 31st 2017

	Note	*Three months ended Mar 31 2017 (unaudited)*	*Three months ended Mar 31 2016 (unaudited)*
Continuing operations			
Revenue	12.1	**439,703**	**334,262**
Revenue from sale of goods and services		439,060	333,698
Revenue from sale of materials		643	564
Cost of sales	12.1	(390,745)	(307,871)
Gross profit/(loss)		**48,958**	**26,391**
Other income	12.1	755	457
Distribution costs	12.1	(7,622)	(7,087)
Administrative expenses		(14,892)	(12,481)
Other expenses	12.1	(1,507)	(565)
Operating profit/(loss)		**25,692**	**6,715**
Finance income	12.1	618	841
Finance costs	12.1	(5,412)	(1,858)
Pre-tax profit (loss)		**20,898**	**5,698**
Income tax expense	12.2	(10,248)	(1,497)
Net profit/(loss) from continuing operations	12.23	**10,650**	**4,201**

Racibórz, May 15th 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

(PLN ‘000)

Interim condensed consolidated statement of comprehensive income

for the three months ended March 31st 2017

	Note	*Three months ended Mar 31 2017 (unaudited)*	*Three months ended Mar 31 2016 (unaudited)*
Other comprehensive income for period		**(69)**	**241**
Exchange differences on translating foreign operations		(194)	(7)
Exchange differences on translating foreign operations attributable to non-controlling interests		(19)	
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(213)**	**(7)**
Other comprehensive income due to actuarial gains/(losses)		177	307
Tax on other comprehensive income	12.2	(33)	(59)
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**144**	**248**
Total comprehensive income for the period		**10,581**	**4,442**
Net profit/(loss) attributable to:		**10,650**	**4,201**
Owners of the parent	12.23	10,694	4,354
Non-controlling interests		(44)	(153)
Comprehensive income attributable to:		**10,581**	**4,442**
Owners of the parent		10,644	4,595
Non-controlling interests		(63)	(153)
Earnings/(loss) per share:			
Basic earnings/(loss) per share, PLN	12.23	0.13	0.05
Earnings/(loss) per share from continuing operations			
Basic earnings/(loss) per share, PLN	12.23	0.13	0.05

Racibórz, May 15th 2017

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(PLN '000)

Interim condensed consolidated statement of financial position
as at March 31st 2017

	Note	*Mar 31 2017 (unaudited)*	*Dec 31 2016*
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	12.4, 12.5	177,772	178,585
Intangible assets	12.5	18,549	18,782
Trade and other receivables - non-current		34,427	34,007
Trade receivables	12.9, 14	34,108	33,817
Other receivables and prepayments	12.9	319	190
Non-current financial assets		29,091	24,911
Shares in other entities	12.8	267	840
Long-term notes	12.9	28,824	–
Other non-current financial assets	12.10, 14	–	24,071
Deferred tax asset	12.2	44,469	51,387
		304,308	**307,672**
Current (short-term) assets			
Inventories	12.11	13,888	13,983
Trade receivables, other receivables and prepayments	12.15, 14	424,660	750,365
Trade receivables		261,562	587,263
Income tax receivable		21,070	19,583
Other receivables and prepayments		142,028	143,519
Gross amount due from customers for construction contract work	11	291,562	235,351
Current financial assets		303,310	118,763
Short-term deposits	14	–	74
Short-term loans advanced	14	33	35
Short-term bonds	12.12	5,494	–
Other current financial assets	12.12, 14	–	11,130
Cash and cash equivalents	12.14, 14	297,783	107,524
		1,033,420	**1,118,462**
Non-current assets held for sale		117	935
TOTAL ASSETS		**1,337,845**	**1,427,069**

Racibórz, May 15th 2017

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(PLN '000)

Interim condensed consolidated statement of financial position
as at March 31st 2017

	Note	Mar 31 2017 (unaudited)	Dec 31 2016
EQUITY AND LIABILITIES			
Equity (attributable to owners of the parent)			
Share capital	12.18	169,864	169,864
Share premium	12.21	95,340	95,340
Reserve funds		243,079	175,365
Exchange differences on translating foreign operations		(291)	(97)
Retained earnings / Accumulated losses	12.22	(62,493)	(5,617)
		445,499	**434,855**
Equity (attributable to non-controlling interests)		9,423	8,996
Total equity		**454,922**	**443,851**
Non-current liabilities			
Finance lease liabilities	12.25, 14	3,096	3,540
Deferred tax liability	12.2	461	384
Employee benefit obligations	12.24, 18.2	22,242	21,855
Trade and other payables		47,576	48,070
Trade payables	12.25, 14	40,759	40,213
Capital commitments	12.25, 14, 21	113	149
Other liabilities	12.25	6,704	7,708
		73,375	**73,849**
Current liabilities			
Trade and other payables		491,382	577,013
Trade payables	12.26, 14	399,208	473,476
Capital commitments	14, 21	1,151	1,610
Income tax payable		142	123
Other liabilities	12.26	90,881	101,804
Current portion of interest-bearing borrowings	14, 15, 17	145,896	147,107
Other financial liabilities and finance lease liabilities	14	2,057	2,045
Employee benefit obligations	12.24, 18.2	2,355	2,022
Gross amount due to customers for contract work, provisions for contract work and deferred income	11	167,858	181,182
Gross amount due to customers for construction contract work	11	151,817	156,644
Provisions for construction contract work	11, 18	15,507	24,017
Grants		534	521
		809,548	**909,369**
Total liabilities		**882,923**	**983,218**
TOTAL EQUITY AND LIABILITIES		**1,337,845**	**1,427,069**

(PLN '000)

Racibórz, May 15th 2017

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Interim condensed consolidated statement of cash flows

for the three months ended March 31st 2017

	Note	*Three months ended Mar 31 2017 (unaudited)*	*Three months ended Mar 31 2016 (unaudited)*
Cash flows from operating activities			
Profit/(loss) before tax from continuing operations		**20,898**	**5,698**
Adjustments for:		**172,389**	**(7,589)**
Depreciation and amortisation		3,535	3,498
Foreign exchange gains/(losses)		(33)	64
Interest and dividends, net		946	956
(Gain)/loss from investing activities		294	(469)
(Increase)/decrease in receivables	12.3	326,703	96,836
Change in inventories		95	163
Increase/(decrease) in employee benefit obligations, excluding borrowings	12.3	(84,752)	(114,111)
Change in prepayments and accruals for construction contracts	12.3	(69,548)	12,352
Income tax (paid)/received		(4,746)	(6,927)
Other		(105)	49
Net cash from operating activities		**193,287**	**(1,891)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		617	516
Purchase of property, plant and equipment and intangible assets	12.3	(2,022)	(3,174)
Sale of financial assets		165	–
Repayment of loans advanced		–	(7)
Interest on loans advanced		–	32
Dividends and interest received		10	14
Other		–	(2)
Net cash from investing activities		**(1,230)**	**(2,621)**
Cash flows from financing activities			
Payment of finance lease liabilities		(591)	(524)
Proceeds from borrowings		–	39,026
Repayment of borrowings	12.3	(1,320)	–
Interest paid	12.3	(791)	(443)
Bank fees		(13)	(57)
Other		1,016	(2)
Net cash from financing activities		**(1,699)**	**38,000**
Net increase/(decrease) in cash and cash equivalents		190,358	33,488
Net foreign exchange differences		(99)	(9)
Cash at beginning of period	12.14	107,524	197,261
Cash at end of period	12.14	297,783	230,740

Racibórz, May 15th 2017

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(PLN '000)

Interim condensed consolidated statement of changes in equity

for the three months ended March 31st 2017

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 207	**169,864**	**95,340**	**175,365**	**(97)**	**(5,617)**	**434,855**	**8,996**	**443,851**
Profit from continuing operations	–	–	–	–	10,694	10,694	(44)	10,650
Other comprehensive income	–	–	–	(194)	144	(50)	(19)	(69)
Distribution of retained earnings	–	–	67,714	–	(67,714)	–	–	–
Change in Group structure	–	–	–	–	–	–	490	490
As at Mar 31 2017 *(unaudited)*	**169,864**	**95,340**	**243,079**	**(291)**	**(62,493)**	**445,499**	**9,423**	**454,922**
As at Jan 1 2016	**169,864**	**95,340**	**112,715**	**(41)**	**47,213**	**425,091**	**4,675**	**429,766**
Profit from continuing operations	–	–	–	–	4,354	4,354	(153)	4,201
Other comprehensive income	–	–	–	(7)	248	241	–	241
As at Mar 31 2016 *(unaudited)*	**169,864**	**95,340**	**112,715**	**(48)**	**51,815**	**429,686**	**4,522**	**434,208**

Racibórz, May 15th 2017

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NOTES

1. General information

The RAFAKO Group ("Group") comprises RAFAKO S.A. ("parent") and its subsidiaries presented in Note 8.

RAFAKO („Company" or "parent") is a listed joint-stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland.{1}{1} 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 parent and other Group companies were established for an indefinite period.

These interim condensed consolidated financial statements of the Group cover the three months ended March 31st 2017 and contain consolidated comparative data for the three months ended March 31st 2016 and as at December 31st 2016. The interim condensed statement of comprehensive income contains data for the three months ended March 31st 2017 and the comparative data for the three months ended March 31st 2016 and have not been audited or reviewed by an auditor.

The Group's principal business activity includes:

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

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

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

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

These interim condensed consolidated financial statements for the three months ended March 31st 2017 were authorised for issue by the parent's Management Board on May 15th 2017.

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

2. Basis of preparation

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

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

These interim condensed consolidated financial statements of the Group have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the reporting period, i.e. March 31st 2017.

For the Group to continue as a going concern, the key is to secure an appropriate order book and maintain financial liquidity, including primarily to secure financing sufficient to perform contracts in the order book.

In view of the above, the Management Board of the parent has prepared financial projections for 2017 and subsequent years, based on a number of assumptions, the most important of which relate to:

- \- continued financing of RAFAKO S.A.'s operations with a credit facility subsequent to June 30th 2017 – pursuant to the annex executed on June 30th 2016, the repayment date for the credit facility used by the parent was extended until June 30th 2017;
- Timely delivery and execution of the contracts in the Group's current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the Group's current order book, and the ability to prevent any further increase in losses already recognised on some of the contracts;
- Continued efforts to maintain and expand the Group's order book;
- Flexibility of capital expenditure, which the parent should be able to materially reduce;
- Absence of material limitations from financial institutions on the Group's access to financial guarantees required to win and perform contracts.

RAFAKO S.A.'s financial condition is supported by the very sound financial position of E003B7 Sp. z o.o. − the subsidiary which executes around 88.7% of the Jaworzno project with an approximate value of PLN 4.5bn − and the fact that no material risks to the project have been identified. It should be noted at this point that on March 1st 2017 the Company and TAURON Wytwarzanie S.A. signed an annex to the Jaworzno contract and agreed to increase the contract price by PLN 71m and extend the project completion date by eight months.

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

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

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the RAFAKO Group for the year ended December 31st 2016, which were authorised for issue on March 21st 2017.

The Group's interim financial performance may not be indicative of its potential full-year financial performance. The Group applied IFRSs applicable to consolidated financial statements prepared for the year beginning on January 1st 2017.

3. Significant accounting policies

The accounting policies applied in preparing these interim condensed consolidated financial statements are consistent with the policies applied in preparing the Group's full-year consolidated financial statements for the year ended December 31st 2016, save for the effect of application of the following amended standards and new interpretations effective for annual periods beginning on or after January 1st 2017.

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

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

    As the Group does not operate any share-based payment plans, the application of these amendments had no effect on the Group's financial condition or results of operations.
  - Amendments to IFRS 3 *Business Combinations*

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

    The application of these amendments had no effect on the Group's financial condition or results of operations.
  - Amendments to IFRS 8 *Operating Segments*

    The amendments apply retrospectively and clarify that:

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

    The application of these amendments had no effect on the Group's financial condition or results of operations.
  - Amendments to IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets*

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

    The entity should apply amendments to all revaluations performed in annual periods beginning on or after July 1st 2014 and in the immediately preceding annual period. The entity may, but is not required to, present adjusted comparative data for previous annual periods. However, if the entity presents unadjusted data for previous periods, it should highlight that the data has not been adjusted, and state that it has been presented on a different basis and provide reasons therefor.

    The amendments apply to the valuation of property, plant and equipment and intangible assets under the revaluation model. The Group does not apply this model of valuation.
  - Amendments to IFRS 13 *Fair Value Measurement*

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

    The application of these amendments had no effect on the Group's financial condition or results of operations.

- Amendments to IAS 24 *Related Party Disclosures*

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

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

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

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

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

    The amendments apply prospectively and pertain to changes which occurred in annual periods beginning on or after January 1st 2016, and the entity may elect to early adopt the amendments.

    The application of these amendments had no effect on the Group's financial condition or results of operations.

  - Amendments to IAS 34 *Interim Financial Reporting*

    The amendments apply to interim reporting and had no effect on the scope of information and data presented in these consolidated financial statements.

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

  The amendments clarify the provisions of IAS 16 and IAS 38 stating with reference to the revenue-based method that it reflects the generation of expected economic benefits rather than consumption of the expected future economic benefits embodied in the asset. Accordingly, the revenue-based method may not be used for depreciation of property, plant and equipment, and its application for the amortisation of intangible assets may be appropriate only in certain circumstances. The amendments apply prospectively for annual periods beginning on or after January 1st 2016, and the entity may elect to early adopt the amendments.

  The application of these amendments had no effect on the financial condition or results of operations of the Company.

- Amendments to IAS 1 *Disclosure Initiative*

  The amendments clarify the existing requirements of IAS 1 concerning:

  - materiality,
  - aggregation and subtotals,
  - order of presenting notes,
  - presentation of information on an entity's share of other comprehensive income of equity-accounted associates and joint ventures.

  Moreover, the amendments explain the requirements which apply when additional subtotals are presented in the statement of financial position and statement of profit or loss and other comprehensive income.

  The amendments apply for annual periods beginning on or after January 1st 2016, and the entity may elect to early adopt the amendments.

  The application of these amendments had no effect on the Group's financial condition or results of operations.

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

  The amendments enable investments in subsidiaries, associates and joint ventures to be measured in the investor's separate financial statements using the equity method. Entities that apply the IFRSs and decide to change the method of accounting for their investments to the equity method will apply this change retrospectively.

  In these separate financial statements, the parent did not apply the option provided for in the amendments.

The application of the amendments had no effect on the Group's financial condition, results of operations or the scope of disclosures in the interim condensed financial statements.

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

4. New standards and interpretations issued but not yet effective

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

- IFRS 9 *Financial Instruments* (published on July 24th 2014) − effective for annual periods beginning on or after January 1st 2018,
- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- IFRS 15 *Revenue from Contracts with Customers* (published on May 28th 2014), including amendments to IFRS 15 *Effective Date of IFRS 15* (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) − work leading to approval of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period,
- IFRS 16 *Leases* (published on January 13th 2016) − effective for annual periods beginning on or after January 1st 2019 − not adopted by the EU by the date of authorisation of these financial statements,
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (published on September 12th 2016) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements.
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements for issue, the amendments were not adopted by the EU,
- Amendments to IAS 7 *Disclosure Initiative* (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (published on April 12th 2016) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements,
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2014−2016 Cycle* (published on December 8th 2016**)**; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU; amendments to IFRS 12 are effective for annual periods beginning on or after January 1st 2017; amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1st 2018,
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 40 *Transfer of Investment Property* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,

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

4.1. Implementation of IFRS 15

As at March 31st 2017, the Group had begun work to implement IFRS 15 *Revenue from Contracts with Customers* by reviewing all current contracts for their compliance with the new revenue recognition criteria. Due to the scope and extent of changes and necessary analyses, as at the date of these interim condensed financial statements the Group had not completed a full quantitative assessment of the effect of IFRS 15 on its accounts. The Group expects that the implementation of IFRS 15 may materially affect both the Group's balance-sheet items and its financial results.

4.2. Implementation of IFRS 9

As at March 31t 2017, the Group had begun work to implement IFRS 9, and is currently defining its new business model for managing financial assets. The Group does not apply hedge accounting and does not carry any derivative or hedging instruments. As at the date of these interim condensed consolidated financial statements, the Group had not completed a full quantitative assessment of the effect of IFRS 9 on its accounts.

4.3. Implementation of IFRS 16

As at the date of these interim condensed consolidated financial statements, the Group was analysing the impact of the new standard on its financial statements.

4.4. Implementation of other standards and interpretations

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

5. Significant judgements and estimates

5.1. Professional judgement

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

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

Classification of leases where the Group is the lessee

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

Identification of embedded derivatives

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

Consortium agreements

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

5.2. Uncertainty of estimates

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

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 Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Group made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the three months ended March 31st 2017 there were no indications of impairment.

For further information on asset impairment as at the end of the reporting period, see Notes 12.11, 12.15 and 12.16 to these interim condensed consolidated financial statements.

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods.

The underlying assumptions are presented in Note 12.24. The change in employee benefit obligations in the reporting period resulted from recognition of current service costs, interest expense and benefits paid.

Deferred tax asset

The Group 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 Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 14

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

Revenue recognition

In accounting for its long-term contracts, the Group 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 Group's original estimate, the revenue would decrease by approximately PLN 100.9m.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Group 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 7.28.6 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 Group remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and costs in the reporting period are presented in Note 11 to these interim condensed consolidated financial statements.

Provision for costs due to late performance of contracts

The Group 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 Group 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 11 to these interim condensed consolidated 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 contractual commitments of the Group, arising from a completed long-term contract (including the cost of removal of non-critical faults and other costs of the completed master project, if such costs cannot be allocated to the master project given the expected date of occurrence of the cost). The amount of the recognised provision is the sum of estimated costs (both 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 of financial assets

At the end of a reporting period, the Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the Group 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 diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

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Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are 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.

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 abusive arrangements 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 the tax legislation. In accordance with GAAR, no tax advantage can be obtained through an arrangement if the arrangement was abusive. 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 abusive arrangement 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 the benefit of the tax advantage obtained through the arrangement continued or still continues 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 restructuring.

The Group 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 Group discloses such settlement taking into consideration assessed uncertainty.

Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	Mar 31 2017	*Dec 31 2016*	*Mar 31 2016*
USD	*3.9455*	*4.1793*	*3.7590*
EUR	*4.2198*	*4.4240*	*4.2684*
GBP	*4.9130*	*5.1445*	*5.4078*
CHF	*3.9461*	*4.1173*	*3.9040*
SEK	*0.4419*	*0.4619*	*0.4624*
TRY	*1.0853*	*1.1867*	*1.3284*

6. Change in estimates

In the three months ended March 31st 2017 and as at March 31st 2017, there were no changes of estimates in significant areas of the Group's operations, discussed in Note 5.2

7. Operating segments

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

The Group identifies the following operating segments:

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

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

The other segments within the Group do not meet the quantitative thresholds set out in IFRS 8, and include property management and design services provided by other entities of the Group.

The Management Board monitors the performance of each of the segments separately to make resource allocation decisions and to evaluate results of the allocation as well as results of the segments' operations. Operating profit/(loss) is used as the key metric to evaluate results of the operations.

(PLN '000)

Three months ended March 31st 2017 or as at March 31st 2017	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	432,230	7,964	440,194	(491)	439,703
Inter-segment sales	858	3,908	4,766	(4,766)	–
Segment's total revenue	433,088	11,872	444,960	(5,257)	439,703
Cost of sales	(388,797)	(9,609)	(398,406)	7,661	(390,745)
Total					
Gross profit/(loss)	44,291	2,263	46,554	2,404	48,958
Other income/(expenses)	(20,415)	(1,474)	(21,889)	(1,377)	(23,266)
Operating profit/(loss)	23,876	789	24,665	1,027	25,692
Finance income/(costs)	(4,688)	20	(4,668)	(126)	(4,794)
Profit/(loss) before tax	19,188	809	19,997	901	20,898
Income tax expense	(10,622)	(79)	(10,701)	453	(10,248)
Segment's net profit/(loss)	8,566	730	9,296	1,354	10,650
Results					
Depreciation and amortisation	3,168	403	3,571	(36)	3,535
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at March 31st 2017					
Segment's assets	1,386,995	70,059	1,457,054	(119,209)	1,337,845
Segment's liabilities	948,378	15,933	964,311	(81,388)	882,923
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	1,529	239	1,768	–	1,768

(PLN '000)

Three months ended March 31st 2016 or as at March 31st 2016	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	329,527	4,626	334,153	109	334,262
Inter-segment sales	193	3,797	3,990	(3,990)	–
Segment's total revenue	329,720	8,423	338,143	(3,881)	334,262
Cost of sales	(305,746)	(7,164)	(312,910)	5,039	(307,871)
Total					
Gross profit/(loss)	23,974	1,259	25,233	1,158	26,391
Other income/(expenses)	(17,360)	(1,132)	(18,492)	(1,184)	(19,676)
Operating profit/(loss)	6,614	127	6,741	(26)	6,715
Finance income/(costs)	(920)	14	(906)	(111)	(1,017)
Profit/(loss) before tax	5,694	141	5,835	(137)	5,698
Income tax expense	(1,964)	(246)	(2,210)	713	(1,497)
Segment's net profit/(loss)	3,730	(105)	3,625	576	4,201
Results					
Depreciation and amortisation	3,196	320	3,516	(18)	3,498
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at March 31st 2016					
Segment's assets	1,321,076	57,431	1,378,507	(96,404)	1,282,103
Segment's liabilities	891,013	15,529	906,542	(58,647)	847,895
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	1,842	116	1,958	1	1,959

(PLN '000)

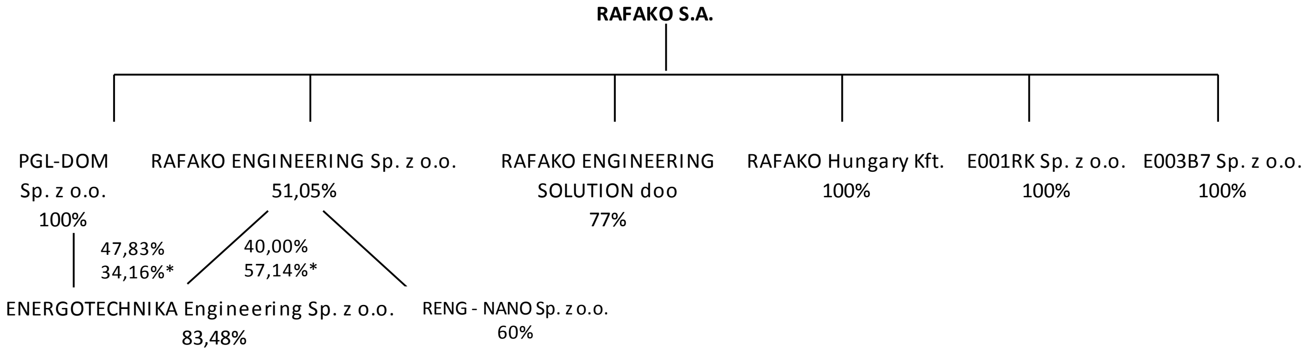
8. Scope of consolidated financial statements

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

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

As at March 31st 2017, the RAFAKO Group comprised the parent and eight subsidiaries operating in the power construction, services and trade sectors.

As at March 31st 2017, the following subsidiaries were included in the Group's consolidated financial statements:



* % share of voting rights at GM.

The table below lists the consolidated companies of the RAFAKO Group:

Name and principal place of business	*Principal business activity (according to the Polish Classification of Business Activity)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
RAFAKO Racibórz	Manufacture of steam generators except central heating hot water boilers	District Court of Gliwice KRS 34143	-
PGL-DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Engineering activities and related technical consultancy	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o.* Gliwice	Engineering activities and related technical consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION d.o.o. Belgrade	Process design, construction, industry, and environmental protection consultancy and supervision services	Commercial Register Agency of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	Registry Court of the Capital City of Budapest	full
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	District Court of Gliwice KRS 479758	full

(PLN '000)

Name and principal place of business	*Principal business activity (according to the Polish Classification of Business Activity)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	District Court of Gliwice KRS 486911	full
RENG – NANO Sp. z o.o.	Manufacture of metal structures and parts of structures and repair and maintenance of finished metal goods	District Court of Gliwice KRS 663393	full

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

As at March 31st 2017, the parent's share in total voting rights held in the subsidiaries was equal to the parent's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 41.74% of preference shares (58.90% of total voting rights); 47.83% of the shares (33.74% of total voting rights) are held by PGL-DOM Sp. z o.o.

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

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

In the three months ended March 31st 2017, a number of changes occurred in the Group's structure.

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

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

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

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

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

(PLN '000)

11. Construction contracts

Revenue from 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 as at March 31st 2017, December 31st 2016 and March 31st 2016, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the dates stated above.

	Mar 31 2017 (unaudited)	*Dec 31 2016*	*Mar 31 2016 (unaudited)*
Contract costs incurred to date (cumulative)	4,462,181	4,585,053	3,152,115
Recognised profits less recognised losses to date (cumulative)	243,246	328,791	217,024
Contract revenue recognised by reference to the contract stage of completion (cumulative)	4,705,427	4,913,844	3,369,139
Progress billings (cumulative)	4,444,527	4,722,666	3,172,532
Gross amount due to customers for contract work (liability), including:	**(151,817)**	**(156,644)**	**(254,035)**
- advance payments received (liabilities arising from advances received)	(163,481)	(166,642)	(185,458)
- adjustment to advance payments received arising from amounts due from customers	80,259	85,890	51,649
- gross amount due to customers for contract work	(68,595)	(75,892)	(120,226)
Prepayments relating to accounting for construction contracts, including:	**291,562**	**235,351**	**324,696**
- gross amount due from customers for contract work (asset)	264,743	205,197	286,885
- contract acquisition cost and other accrued contract costs	26,819	30,154	37,811
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(2,562)	(4,856)	–
Provision for construction contract losses	(12,945)	(19,161)	(21,701)

The Group analyses each contract for potential losses, which are immediately recognised as an expense in accordance with IAS 11.36. In accordance with IAS 11.11−15, in its accounting for construction contracts the Group recognises estimated 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 Group's control, and may change in subsequent periods. Completion of certain contracts where provisions have been recognised for late performance is exposed to the risk of arbitration, which in the opinion of the Group gives rise to risk of indeterminable consequences.

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

11.1. Key contracts executed by the Group

11.1.1. Jaworzno Project

RAFAKO, as a member of the consortium comprising RAFAKO (consortium leader) and MOSTOSTAL WARSZAWA S.A., is executing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800–910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The value of the contract is approximately PLN 5.5bn (VAT inclusive). On August 4th 2013, the 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.

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

Given the arrangements with the credit and guarantee providers, the parent 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.

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

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

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

11.1.2. Opole project

In February 2012, the parent, 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.

E001RK Sp. z o.o. („SPV-RAFAKO") was appointed by RAFAKO 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 (Opole Power Plant). SPV-RAFAKO's remuneration for the performance of the works and services is PLN 3.96bn.

Under the subcontractor agreement between SPV-RAFAKO and Alstom Power Sp. z o.o., SPV-RAFAKO appointed Alstom as its subcontractor responsible for 100% of the work and services originally assigned to the Company as part of the Opole project. Alstom assumed the entire responsibility towards the employer for the contract performance.

Accounting for the Opole project:

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

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

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

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

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

For the three months ended March 31st 2017, the Group posted revenue of PLN 439,703 thousand, up by PLN 105,441 thousand on the corresponding period of 2016. The increase was mainly attributable to further progress in the performance of the Jaworzno contract (construction of a 910 MW power generating unit at the Jaworzno III Power Plant). The revenue increase was recorded in both domestic and foreign markets.

Cost of sales in the first three months of 2016 amounted to PLN 390,745 thousand, with the Group's gross profit at PLN 48,958 thousand. The change on the comparative period was mainly related to the increase in sales achieved by the Group.

Distribution costs mainly include contract acquisition cost as well as cost of promotion and advertising. This item also includes impairment losses on trade receivables. Distribution costs recognised in the Group's comprehensive income for the first three months of 2017 (PLN 7,622 thousand) were primarily attributable to contract acquisition costs (PLN 2,240 thousand) and costs of promotion and advertising (PLN 1,270 thousand).

Other income chiefly included gain on sale of property, plant and equipment of PLN 452 thousand (March 31st 2016: PLN 191 thousand) and reversal of an impairment loss on other receivables of PLN 116 thousand (March 31st 2016: PLN 24 thousand).

Other expenses chiefly included donations and subsidies of PLN 629 thousand (March 31st 2016: PLN 203 thousand) and scrapping cost of PLN 365 thousand.

In the first three months of 2017, the Group's finance income was generated mainly from interest on financial instruments of PLN 464 thousand (March 31st 2016: PLN 827 thousand), including PLN 93 thousand of interest on security deposits provided in respect of contracts (March 31st 2016: PLN 454 thousand).

Finance costs in the period chiefly included net foreign exchange losses of PLN 3,631 thousand, interest on financial instruments of PLN 811 thousand (March 31st 2016: PLN 490 thousand), discount on non-current settlements of PLN 547 thousand (March 31st 2016: PLN 156 thousand), and interest on employee benefit obligations of PLN 187 thousand.

(PLN '000)

12.2. Income tax expense

Income tax expense

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

Continuing operations	*Three months ended Mar 31 2017 (unaudited)*	*Three months ended Mar 31 2016 (unaudited)*
Consolidated statement of profit or loss		
Current income tax	(3,286)	(15,113)
Current income tax expense	(3,286)	(15,113)
Adjustments to current income tax from previous years	–	1
Deferred tax	(6,962)	13,616
Related to recognition and reversal of temporary differences	(6,962)	13,616
Adjustments to deferred tax from previous years	–	–
Income tax expense in the consolidated statement of profit or loss	**(10,248)**	**(1,497)**
Deferred tax on other comprehensive income	(33)	(59)
Related to recognition and reversal of temporary differences	(33)	(59)
Adjustments to current income tax from previous years	–	–
Income tax expense recognised in other comprehensive income	**(33)**	**(59)**

(PLN '000)

Deferred income tax calculated as at Mar 31 2017

Deferred income tax calculated as at Mar 31 2017 relates to the following:

	Statement of financial position		*Statement of comprehensive income*	
	Mar 31 2017 (unaudited)	*Dec 31 2016*	*Three months ended Mar 31 2017 (unaudited)*	*Three months ended Mar 31 2016 (unaudited)*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(16,341)	(16,252)	(89)	2,911
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,772	1,641	131	46
- difference between tax base and carrying amount of loans and receivables	1,685	1,739	(54)	346
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(54,737)	(42,605)	(12,132)	(15,570)
- difference between tax base and carrying amount of inventories	2,121	2,276	(155)	(133)
- provisions	42,326	39,243	3,083	11,885
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	–	–	(40)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	39,879	38,095	1,784	14,131
- tax asset related to tax loss	17,288	17,243	45	7,042
- adjustment to costs of unpaid invoices	7,004	7,763	(759)	(3,536)
other	3,013	1,862	1,151	(1,016)
Deferred tax expense			**(6,995)**	**16,066**
Net deferred tax asset/(liability)	**44,008**	**51,003**		
Deferred tax expense – continuing operations			**(6,995)**	**13,557**
Net deferred tax asset / liability, including:	**44,008**	**51,003**		
Deferred tax asset	44,469	51,387		
Deferred tax liability	461	384		

In the period ended March 31st 2017, the parent 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 first quarter of 2017, the Company recorded a tax loss of PLN 34,089 thousand. The parent assessed its ability to realise a deferred tax asset on account of the tax loss based on tax forecasts. In line with the prudent valuation principle, the Management Board of RAFAKO S.A. decided not to recognise a deferred tax asset on the tax loss recorded in Q3 2017. The total amount of tax loss for 2016 and 2017, which was not recognized in deferred tax, is PLN 68,678 thousand.

12.3. Significant items disclosed in the statement of cash flows

The PLN 326,703 thousand decrease in receivables disclosed in the consolidated statement of cash flows for the three months ended March 31st 2017 resulted mainly from:

- PLN 325,410 thousand decrease in trade receivables,
- PLN (10,769) thousand increase in receivables from the state budget (including VAT),
- PLN 6,345 thousand decrease in prepayments made,
- PLN 2,290 thousand decrease in security deposits receivable,
- PLN 3,398 thousand decrease in disputed receivables,
- PLN 29 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the three months ended March 31st 2017, see Note 12.13.

The PLN 84,752 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (73,722) thousand decrease in trade payables,
- PLN (1,809) thousand decrease in the provision for warranty repairs,
- PLN (4,569) thousand decrease in the provision for bonuses,
- PLN 2,113 thousand increase in the provisions for delayed cost collection,
- PLN 3,599 thousand increase in salaries and wages payable,
- PLN 3,383 thousand decrease in provision for the voluntary redundancy programme,
- PLN (12,000) thousand decrease in VAT liabilities,
- PLN 5,019 thousand increase in other liabilities.

The decrease of PLN 69,548 thousand in accruals and deferrals relating to accounting for construction contracts as disclosed in the statement of cash flows was mainly caused by:

- PLN (56,211) thousand increase in gross amount due from customers for contract work and in gross amount due from customers for contract work,
- PLN (4,827) thousand decrease in gross amount due to customers for contract work,
- PLN (8,510) thousand decrease in provisions for contract work,
  including:
  PLN 2,470 thousand increase in prepayments.

The PLN 2,470 thousand change in prepayments in Q1 2017 resulted primarily from the recognition of some of received advance payments as revenue, in accordance with IAS 11 *Construction Contracts*.

The cash flows of PLN 2,022 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 1,926 thousand and of intangible assets for PLN 96 thousand.

Cash flows from financing activities were mainly affected by a decrease in debt outstanding under the overdraft facility and working capital facility advanced to the parent by PKO BP S.A. of PLN 1,315 thousand.

(PLN '000)

12.4. Property, plant and equipment

As at Mar 31 2017 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2017	**23,754**	**89,344**	**54,122**	**9,161**	**795**	**1,409**	**178,585**
Transfers from property, plant and equipment under construction	–	254	659	–	–	(913)	–
Purchases	–	4	59	309	6	1,171	1,549
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale	(2)	(32)	(1)	(6)	–	–	(41)
Exchange differences on translating foreign operations	–	–	(3)	(4)	(10)	–	(17)
Depreciation for period	–	(730)	(1,830)	(576)	(55)	–	(3,191)
Impairment loss for period	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	59	695	28	(5)	–	–	777
Net carrying amount as at Mar 31 2017 *(unaudited)*	**23,811**	**89,535**	**53,034**	**8,989**	**736**	**1,667**	**177,772**

*Tangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.17.1

Mar 31 2016 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2016	**23,776**	**91,838**	**56,485**	**8,389**	**787**	**2,164**	**183,439**
Transfers from property, plant and equipment under construction	–	190	1,071	219	–	(1,480)	–
Purchases	–	–	58	314	6	759	1,137
Lease agreements	–	–	–	170	–	–	170
Liquidation/sale	(2)	(37)	(130)	(102)	–	–	(271)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–
Depreciation for period	–	(708)	(1,819)	(404)	(52)	–	(2,983)
Impairment loss for period	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	(13)	108	(33)	–	–	62
Net carrying amount as at Mar 31 2016 *(unaudited)*	**23,774**	**91,270**	**55,773**	**8,553**	**741**	**1,443**	**181,554**

(PLN '000)

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

	Three months ended Mar 31 2017 (unaudited)	*Three months ended Mar 31 2016 (unaudited)*
Purchase of property, plant and equipment and intangible assets*	1,754	3,439
Proceeds from sale of property, plant and equipment and intangible assets	617	516

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

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

12.6. Goodwill

In the three months ended March 31st 2017, goodwill did not change and amounted to PLN 9,165 thousand as at March 31st 2017.

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

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Trade receivables, including:	34,108	33,817
Trade receivables from related entities	–	–
Trade receivables from other entities	34,108	33,817
Other receivables and prepayments, including:	319	190
Security deposits	108	97
Other	211	–
Total receivables (net)	**34,427**	**34,007**
Impairment loss on receivables	–	–
Gross receivables	**34,427**	**34,007**

*Trade receivables pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.17.5.

12.8. Shares in other entities

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Shares in other listed companies	248	208
Shares in other non-listed companies	19	632
	267	**840**

*Shares pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.17.3

(PLN '000)

12.9. Long-term notes

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).

Therefore, on January 20th 2017, RAFAKO 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. 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.

On February 10th 2017, the bonds were allotted to RAFAKO. Key terms and conditions of the bonds:

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	Nominal value of the series	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, as at the date of approval of these financial statements, PBG S.A. had issued bonds with a total value of PLN 472,447,600.00, of which PLN 38,849,200.00 was acquired by the Company in Q1 2017.

2. The bonds issued by PGB S.A. are secured bonds within the meaning of the Bonds Act. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (which represents 50% plus 1 share in RAFAKO's share capital), mortgages over PBG Group's properties (including one mortgage securing another financial liability of PBG S.A.), 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. In the opinion of the Management Board, the provided collateral and the total amount payable under the bonds as at the date of these condensed quarterly financial statements are sufficient to consider the receivables 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)

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 the parent's acquisition of bonds secured by a registered pledge on the Company shares and mortgages significantly changes the circumstances and prospects for recovery of the receivables, compared with December 31st 2015 and June 30th 2016 (described in the respective financial statements). Given the current circumstances (and taking into account the events subsequent to the reporting date, as described above), as at the date of these condensed quarterly financial statements, the Management Board deems the risk of non-recovery of the receivables as minimal.

On March 31st 2017, the parent PBG S.A. redeemed Series B bonds worth PLN 164,600.

As at March 31st 2017, bonds maturing in more than one year amounted to PLN 28,824 thousand.

12.10. Other non-current financial assets

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Long-term loans advanced	–	–
Long-term deposits, including:	–	–
- deposits pledged as security for bank guarantees provided to the Group	–	–
Other non-current financial assets, including:	–	24,071
Arrangement receivables from related entity	–	24,071
	–	**24,071**

In 2017, the parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 12.9 to these interim condensed consolidated financial statements.

12.11. Inventories

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Materials (at net realisable value)	**13,888**	**13,796**
At cost	25,053	25,774
At net realisable value	13,888	13,796
Work in progress	–	–
At cost	–	–
Merchandise	–	**187**
At cost	–	187
At net realisable value	–	187
Total inventories, at the lower of cost and net realisable value	**13,888**	**18,817**

*Inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.17.4

(PLN '000)

Inventory write-downs

	Three months ended Mar 31 2017 (unaudited)	*Three months ended Mar 31 2016 (unaudited)*
At beginning of period	(11,978)	(10,352)
Write-down recognised	–	–
Write-down reversed	813	628
Balance at end of period	**(11,165)**	**(9,724)**

12.12. Short-term bonds

As at March 31st 2017, the parent held PLN 5,494 thousand worth of bonds with maturity of less than one year worth, as described in detail in Note 12.9 to these interim condensed consolidated financial statements.

12.13. Other current financial assets

	Mar 31 2017 (unaudited)	*Dec 31 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 parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 12.9 to these interim condensed consolidated financial statements.

On April 18th 2012, the parent and Olenia Ltd entered into a preliminary agreement for the purchase of 50% of shares in Bioelektrownia Szarlej sp. z o.o. and assignment of rights to receivables in the form a loan granted to that company. The total amount of the advance payment made by the parent under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid for shares recognised as other non-financial assets and PLN 10,500 thousand was paid for the loan recognised as other financial assets). Bioelektrownia Szarlej sp. z o.o. is a special purpose vehicle established 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 caused contract delays and led to termination of the project subsidy agreement. Bioelektrownia Szarlej sp. z o.o.'s efforts to resume the project were unsuccessful.

As a result, the parent's Management Board concluded that the risk of non-recoverability of the assets is significant and upheld its decision to recognise an impairment loss for the full amount of the project, i.e. PLN 16,176 thousand.

(PLN '000)

12.14. Cash and cash equivalents

	Mar 31 2017 (unaudited)	*Dec 31 2016*	*Mar 31 2016 (unaudited)*
Cash in hand and at banks	253,114	106,342	155,064
Current deposits for up to 3 months, including:	44,669	1,182	75,676
- deposits pledged as security for contingent liabilities	–	–	–
	297,783	**107,524**	**230,740**

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

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

As at March 31st 2017, cash included restricted cash of PLN 219.2m (December 31st 2016: PLN 36.5m), which comprised cash held by E003B7 Sp. z o.o. earmarked for the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project.

Dividend from E003B7 Sp. z o.o. may be paid to the company's sole shareholder, RAFAKO, with no adverse consequences imposed by the financial institutions only after expiry of the guarantee provided by those institutions (for details, see Note 11.1.1).

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

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Trade receivables, including:	261,562	587,263
Trade receivables from related entities	1,486	4,613
Trade receivables from other entities	260,076	582,650
Income tax receivable	21,070	19,583
Other receivables and prepayments, including:	142,028	143,519
Receivables under advance payments	20,530	26,875
Receivables from the state budget	40,972	30,203
Settlement of property insurance costs	501	723
Settlements with the Company Social Benefits Fund	97	237
Disputed receivables	10,546	13,944
Prepaid expenses	2,344	2,504
Security deposits	65,844	68,263
Other	1,194	770
Total receivables (net)	**424,660**	**750,365**
Impairment loss on receivables	32,152	32,472
Gross receivables	**456,812**	**782,837**

*Trade receivables pledged as security for the Group's liabilities as at the reporting date are presented in Note 12.17.5.12.17.5

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 Group'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 receivables of PLN 261,562 thousand recognised in the consolidated statement of financial position as at March 31st 2017 relate to trading contracts with domestic and foreign trading partners.

(PLN '000)

Security deposits of PLN 65,844 thousand disclosed in the consolidated statement of financial position as at March 31st 2017 mainly to the following projects:

- construction of a biomass-fired unit – PLN 14,179 thousand,
- SCR system – PLN 8,139 thousand,
- replacement of component parts of a combustion chamber – PLN 7,891 thousand,
- high-pressure part of a boiler for waste incineration plant − PLN 5,499 thousand.

The change in security deposits in the three months ended March 31st 2017 followed primarily from the return of a PLN 4,290 thousand security deposit connected with the construction of a fluidised boiler and the provision of a PLN 5,499 thousand security deposit for the construction of the high-pressure part of a boiler for waste incineration plant.

A significant item of other receivables were advance payments, which amounted to PLN 20,530 thousand as at March 31st 2017 and included:

- advance payment of PLN 7,455 thousand under a contract for the delivery and assembly of an NOx reduction unit;
- advance payment of PLN 3,553 thousand under a contract for the design, delivery and assembly of high-pressure pipelines together with valves and auxiliary systems, as well as selection and assembly of primary fixings, as part of the unit construction;
- advance payment of PLN 2,089 thousand under a contract for delivery, pre-assembly and assembly of the SCR reactor, and delivery of accumulators and coal bunkers,
- advance payment of PLN 1,945 thousand under a contract for the delivery and assembly of the steel structure of a building housing the turbine house, bunkering room, LUVO and SCR, assembly of coal bunkers, as well as hoisting and laying of steam blowers.

12.16. Impairment losses on consolidated assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*'eceivables****
Jan 1 2017	(24,363)	(10,500)	(5,676)	(11,978)	(32,472)
Impairment loss recognised	–	–	–	–	(12)
Impairment loss utilised/reversed	40	–	–	813	332
As at Mar 31 2017 *(unaudited)*	**(24,323)**	**(10,500)**	**(5,676)**	**(11,165)**	**(32,152)**
Jan 1 2016	(24,361)	(164,557)	(5,676)	(10,352)	(32,393)
Impairment loss recognised	–	–	–	–	(148)
Impairment loss utilised/reversed	10	–	–	628	249
As at Mar 31 2016 *(unaudited)*	**(24,351)**	**(164,557)**	**(5,676)**	**(9,724)**	**(32,292)**

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

(PLN '000)

12.17. Assets pledged as security for the Group's liabilities

12.17.1. Property, plant and equipment pledged as security

As at March 31st 2017, property, plant and equipment pledged as security for the parent's liabilities amounted to PLN 139,290 thousand. The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage for a total maximum amount of PLN 300m over property of which RAFAKO S.A. is the owner or perpetual usufructuary, with the exception of residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Mortgaged property, plant and equipment, including:	89,791	90,182
land	9,258	9,258
buildings and structures	80,533	80,924
Property, plant and equipment encumbered with registered pledge, including:	49,499	50,259
plant and equipment	48,248	48,935
motor vehicles	1,251	1,324
	139,290	**140,441***

*The amounts include property, plant and equipment classified as held for sale, of PLN 12 thousand (December 31st 2016: PLN 7 thousand).

12.17.2. Intangible items pledged as security

As at March 31st 2017, intangible assets worth PLN 10,401 thousand were pledged as security for the parent's liabilities (December 31st 2016: PLN 11,449 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

12.17.3. Shares pledged as security

As at March 31st 2017, PLN 29,616 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.).

12.17.4. Inventories pledged as security

As at March 31st 2017, inventories worth PLN 13,023 thousand were pledged as security for the parent's liabilities (December 31st 2016: PLN 13,039 thousand). Inventories are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

12.17.5. Trade receivables pledged as security

As at March 31st 2017, trade receivables were not pledged as security for guarantees and borrowings received by the Group.

12.18. Share capital

In the three months ended March 31st 2017, the parent's share capital remained unchanged and as at March 31st 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**

12.19. Par value per share

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

12.20. Shareholders' rights

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

12.21. Share premium

The share premium comprises the excess of issue price over the par value of the shares, amounting to PLN 77,947 thousand. On May 15th 2000, RAFAKO S.A.'s General Meeting resolved to allocate PLN 41,169 thousand to cover accumulated loss brought forward from previous years. Additionally, in 2015, following the recognition of a share premium of PLN 58,562 thousand on sale of Series J shares, less issue costs, the share premium totalled PLN 95,340 thousand (December 31st 2016: PLN 95,340 thousand).

12.22. Dividends paid

In the three months ended March 31st 2017, Group companies did not pay any dividends.

(PLN '000)

12.23. Earnings /(loss) per share

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

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

	Three months ended Mar 31 2017 (unaudited)	*Three months ended Mar 31 2016 (unaudited)*
Net profit/(loss) from continuing operations	10,650	4,201
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	10,694	4,354
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, PLN		
– basic earnings from profit attributable to holders of ordinary shares for period	0.13	0.05

In the three months ended March 31st 2017, the parent did not issue new shares.

The Group does not present diluted earnings per share for the three months ended March 31st 2017 as it does not have any dilutive financial instruments.

12.24. Post-employment and other benefits

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

	Mar 31 2017 (unaudited)	*Dec 31 2016*
As at Jan 1	23,877	25,556
Interest expense	188	713
Current service costs	127	528
Actuarial (gains)/losses	(177)	854
Benefits paid	(478)	(2,714)
Recognition/reversal of provision for employee benefit obligations	1,060	(1,060)
Closing balance	**24,597**	**23,877**
Long-term provisions	22,242	21,855
Short-term provisions	2,355	2,022

(PLN '000)

Principal assumptions adopted by the actuary as at March 31st 2017 and for the three months ended March 31st 2017 as well as for the 12 months ended December 31st 2016 to determine the amount of the obligation were as follows:

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Discount rate (%)	3.3	3.1
Expected inflation rate (%)*	–	–
Employee turnover rate	6	5
Expected salary growth rate (%)**	2.81	2.81

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

12.25. Long-term trade and other payables

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Trade payables		
Payables to related entities	–	5
Payables to other entities	40,759	40,208
	40,759	**40,213**
Financial liabilities		
Finance lease liabilities	3,096	3,540
	3,096	**3,540**
Other liabilities		
Unpaid bonus accrual	569	530
Capital commitments	113	149
Provisions for warranty repairs	5,003	5,718
Amounts payable under voluntary redundancy programme	1,132	1,460
	6,817	**7,857**

12.26. Short-term provisions, trade and other payables

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Trade payables		
Payables to related entities	303	1,400
Payables to other entities	398,905	472,076
	399,208	**473,476**
Capital commitments	1,151	1,610
	1,151	**1,610**

(PLN '000)

	Mar 31 2017 (unaudited)	Dec 31 2016
Other liabilities		
VAT	9,985	21,985
Personal income tax	3,056	2,552
Social security liabilities	10,675	9,471
Amounts payable to the Tax Office	–	6
Other taxes, customs duties and insurance payable	239	238
Salaries and wages payable	12,962	9,363
Accrued holiday entitlements	5,672	4,999
Unpaid bonus accrual	6,893	11,501
Provisions for warranty repairs	11,415	12,509
Amounts payable under voluntary redundancy programme	2,579	5,634
Provision for uninvoiced services and materials	7,233	5,120
Audit provision	89	177
Settlements with the Company Social Benefits Fund	735	9
Other current accruals and deferred income	11,558	9,890
Security deposits	289	289
Provision for future costs	6,307	6,644
Other	1,194	1,417
	90,881	**101,804**
Other financial liabilities		
Finance lease liabilities	2,057	2,045
Other financial liabilities	–	–
	2,057	**2,045**

13. Objectives and policies of financial risk management

The objectives and policies of financial risk management have not changed relative to those published in the most recent consolidated full-year financial statements for 2016.

(PLN '000)

14. Financial instruments

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

The Group 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	
	Mar 31 2017 (unaudited)	*Dec 31 2016*
Available-for-sale financial assets	**249**	**209**
Long-term shareholdings	249	209
Financial assets held to maturity	**34,318**	-
Long-term notes	28,824	–
Short-term bonds	5,494	–
Loans and receivables	**372,100**	**738,597**
Trade receivables	295,670	621,080
Other receivables	76,397	82,207
Loans advanced	33	35
Short-term deposits	–	74
Other non-current financial assets	–	24,071
Other current financial assets	–	11,130
Cash and cash equivalents	**297,783**	**107,524**
	704,450	**846,330**

	Carrying amount	
	Mar 31 2017 (unaudited)	*Dec 31 2016*
Financial liabilities at amortised cost	**587,127**	**662,555**
Borrowings	145,896	147,107
Trade payables (including capital commitments)	441,231	515,448
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**5,153**	**5,585**
Liabilities under leases and rental contracts with purchase option	5,153	5,585
	592,280	**668,140**

(PLN '000)

15. Borrowings

As at March 31st 2017, the Group's liabilities under borrowings were PLN 145,896 thousand.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Mar 31 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 cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company	PLN 100m revolving overdraft agreement***	PLN	1M WIBOR + margin	30.06.2017****	99,567	99,394
PKO BP S.A.	registered pledge over a set of movables and rights comprising the entire business of RAFAKO, all claims that may arise in relation to the facility	PLN 50m revolving working capital facility	PLN	1M WIBOR + margin	30.06.2017****	46,329	47,713
						145,896	**147,107**

*The facility is secured by receivables under contracts performed 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 2016 to the credit facility agreement, the multi-purpose credit facility limit was PLN 200,000,000.00, including a PLN 100,000,000.00 overdraft facility;

****As at the date of issue of these financial statements, in accordance with the annex of June 30th 2016 to the credit facility agreement, the term of the facility and its repayment date were extended until June 30th 2017.

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

(PLN '000)

16. Derivative instruments

As at March 31st 2017, the Group did not carry any open currency forward contracts or any other derivative instruments.

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

17. Capital management

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

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Share of debt in equity		
Equity (attributable to owners of the parent)	445,499	434,855
External capital (bank credit facility and loan)	145,896	99,394
Total equity and liabilities	1,337,845	1,427,069
Capitalisation ratio	**0.33**	**0.30**

18. Provisions for costs

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

During the twelve months ended March 31st 2017, the parent reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under current contracts. Using the most recent contract data and based on settlements of completed contracts, the parent decided to reverse a PLN 2,304 thousand provision for costs of late performance.

(PLN '000)

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

	*Provision for expected losses on contracts**	*Provision for length-of-service awards and retirement gratuity and Company Social Benefits Fund*	*Provision for unused holiday entitlement***	*Provision for warranty repairs***	*Provision for costs of contractual penalties*	*Provision for bonuses***	*Provision for voluntary redundancy programme*	*Provision for other costs***	*Other provisions*
Jan 1 2017	19,160	23,877	4,999	18,227	4,856	12,031	7,094	6,644	177
Provision recognised	–	–	1,500	851	11	–	–	31	74
Reversal/utilisation of provision	(6,215)	720	(827)	(2,660)	(2,305)	(4,569)	(3,383)	(368)	(162)
As at Mar 31 2017 *(unaudited)*	**12,945**	**24,597**	**5,672**	**16,418**	**2,562**	**7,462**	**3,711**	**6,307**	**89**
Jan 1 2016	29,885	25,556	3,659	11,925	–	11,548	–	7,000	227
Provision recognised	148	76	1,276	3,166	–	337	–	127	74
Provision reversed/ utilised	(8,332)	–	–	(1,864)	–	(297)	–	(473)	(122)
As at Mar 31 2016 *(unaudited)*	**21,701**	**25,632**	**4,935**	**13,227**	**–**	**11,588**	**–**	**6,654**	**179**

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

(PLN '000)

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

In the three months ended March 31st 2017 the Group companies did not issue, redeem or repay any debt or equity securities.

20. Dividends paid or declared

In the three months ended March 31st 2017, Group companies did not pay any dividends. In accordance with the applicable laws, dividends may only be paid out of the profit of individual Group companies, and not on the basis of consolidated earnings of the Group.

21. Capital commitments

As at March 31st 2017, the Group companies had commitments related to purchase of property, plant and equipment of PLN 1,264 thousand. Group companies had not 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.

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

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	656,337	667,316
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	19,894	24,865
- from related entities	6,114	9,280
Letters of credit	–	–
	676,231	**692,181**

	Mar 31 2017 (unaudited)	*Dec 31 2016*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	208,812	200,609
- to related entities	–	–
Liabilities under sureties, including:	1,394,668	1,394,668
- to related entities	–	–
Promissory notes issued as security, including:	19,976	10,736
- to related entities	–	–
Letters of credit	–	–
	1,623,456	**1,606,013**

In the first three months of 2017, the RAFAKO Group recorded a PLN 17,443 thousand rise in contingent liabilities, which resulted mainly from an increase in liabilities under bank guarantees and promissory notes.

In the first three months of 2017, guarantees (mainly performance bonds of PLN 21,970 thousand and bid bonds of PLN 3,151 thousand) were issued by banks and insurance companies to the Group's trading partners at the request of the parent. In this category of liabilities, the largest item was a performance bond of PLN 1,303 thousand issued in February 2017. Liabilities under sureties issued, of PLN 1,394,668 thousand, comprise a surety for the liabilities of E003B7 Sp. z o.o., issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to construct new coal-fired generation capacities at TAURON Wytwarzanie S.A. − construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant − Power Plant II. The largest item among guarantees which expired in the first three months of 2017 was a performance bond of PLN 975 thousand.

In Q1 2017, the Group's contingent receivables (mainly under performance bonds) fell by PLN 15,950 thousand, including a decrease of PLN 10,979 thousand in receivables under bank and insurance guarantees and of PLN 4,971 thousand in receivables under promissory notes. The largest item among guarantees received in the three months ended March 31st 2017 was an advance payment guarantee of EUR 376 thousand. The largest item among expired guarantees in the first three months of 2017 was a performance bond of PLN 4,152 thousand.

23. Litigation and disputes

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

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

On 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 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 is PLN 4,177,451.83. The consortium does not accept the deduction and considers the contractual penalty amounts unjustified, which is the subject of the court 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 the parties applied for an extension of the mediation deadline until the end of May 2017. In the Company's opinion, there is a chance to resolve the dispute amicably.

(PLN '000)

On October 11th 2016, the parent 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. On November 25th 2016, the Court received an objection against the payment order lodged by Mostostal Warszawa S.A. 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. or 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 21st 2017, a claim was filed against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów Sp. z o.o. of Szczecin for payment for work performed by the Company by the date of withdrawal from the subcontractor agreement. On March 29th 2017, a non-final payment order was issued. RAFAKO S.A. expects that the jointly and severally responsible debtors will file an objection against the order. The Company does not expect this dispute to be resolved this year.

24. Arrangement receivables from related entity

In 2017, the parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 12.9 to these interim condensed consolidated financial statements.

25. Management Board and Supervisory Board of the parent

In the three months ended March 31st 2017, there were no changes in the composition of the parent's Management Board.

As at the date of these interim condensed consolidated financial statements, the composition of the 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 three months ended March 31st 2017, no changes took place in the composition of the parent's Supervisory Board.

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

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

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

In the reporting and comparable periods, the Group companies did not enter into any transactions with members of their management boards.

(PLN '000)

27. Related-party transactions

In the three months ended March 31st 2017 and March 31st 2016, the parent and its subsidiaries did not enter into any material transactions with related parties on other than arm's length terms.

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

Related party	*Three months ended March 31:*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
Parent:					
PBG S.A.	*2017*	707	1,472	1,016	100
	2016	269	761	36,333	439
PBG Group companies:					
PBG oil and gas Sp. z o.o.	*2017*	974	592	1,519	39
	2016	1,360	8,467	938	6,813
PBG Avatia Sp. z o.o.	*2017*	–	–	–	12
	2016	–	–	4	–
PBG ERIGO Sp. z o.o.	*2017*	–	–	3	–
	2016	4	–	5	–
PBG ERIGO Projekt Sp. z o.o.	*2017*	18	–	8	–
	2016	19	–	8	–
PBG DOM Sp. z o.o.	*2017*	4	–	4	–

Related party	*Three months ended March 31:*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
Entities related through personal links:					
SWGK KSIĘGOWOŚĆ Sp. z o.o.	*2017*				
	2016	–	420	–	172
SWGK Consulting Sp. z o.o.	*2017*	–	25	7	29
	2016	–	15	107	18
Dwór w Smólsku	*2017*	–	60	–	25
	2016	–	25	–	25
Mostostal Energomontaż Gliwice S.A.	*2017*	–	–	–	57
	2016	–	–	–	102
PBG Foundation	*2017*	–	200	–	2
	2016	–	110	–	44
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	*2017*	–	–	–	556
BPIL Grzegorz Kiczor	*2017*	–	70	–	60
Polimex Mostostal S.A.	*2017*	–	–	–	137
Economic Chamber of Energy and Environmental Protection	*2017*	–	–	–	8

28. Brief description of the Group's achievements and failures in Q1 2017

On March 1st 2017, RAFAKO and Mostostal Warszawa S.A. (acting as a consortium) signed Annex 5 to the contract for the Jaworzno Project with Tauron Wytwarzanie S.A. The annex provides for:

1. An increase of the master contract price by PLN 71.05m plus VAT (to PLN 4,470m) due to the need to change the design and place the unit facilities on deep foundations, also covering an additional task currently commissioned to RAFAKO and Mostostal Warszawa S.A., which involves laying foundations of the fifth zone of the electrostatic precipitator and extension of the electrostatic precipitator switchgear building. The additional works will enable the employer to partly adapt the unit to meet the future requirements of the BAT Conclusions. In the course of negotiations, the employer and Tauron Polska Energia S.A. admitted some of the financial and deadline claims raised by RAFAKO and its subsidiary E003B7 Sp. z o.o. relating to the above circumstances and variation order requests. The employer did not admit the claims arising from changes in the design standards (Eurocodes);
2. Extension of the contract completion deadline by eight months and five days; the Commissioning Report will be signed within 67 months and five days from the master contract date (November 2019);
3. Abandonment of the claims resulting from an assessment of the conditions found on the construction site and review of the employer's documentation – Mostostal Warszawa, the contractor, represented that it had completed an assessment of the conditions found on the construction site and the review of the employer's documentation delivered to the contractor (RAFAKO and Mostostal Warszawa), and that it makes no further claims in this respect;
4. Waiver by the Company of its other claims against the employer – the parties to the contract represented that the settlements made under Annex 5 fully satisfied their mutual claims related to the Variation Order Requests („VOR") and that they would raise no further claims in this respect. RAFAKO and Mostostal Warszawa irrevocably and unconditionally waived any claims raised in the VORs, considering any claims related to the change of technical standards (from the previous Polish Standards to Eurocodes) to be groundless;
5. Six-month extension with respect to the unit's availability for direct deliveries by the Company, boiler maximum continuous rating, minimum load of the unit, moisture content in flue gases downstream of the FGD unit, and the level of structure vibrations; twelve-month extension for structure and building deliveries. The contractor will extend the term of the performance bond accordingly. The extended Warranty Period covers 2 (two) years of quality guarantee and warranty against defects (basic warranty period) and extended quality guarantee periods for the unit's buildings, structures and sections specified above;
6. Extension of type B guaranteed specifications for certain parts of the unit.

On March 7th 2017, RAFAKO received a notice from Quercus Towarzystwo Funduszy Inwestycyjnych S.A., acting on behalf of investment funds under its management (QUERCUS Parasolowy SFIO, QUERCUS Absolutnego Zwrotu FIZ, QUERCUS Absolutne Return FIZ and Acer Aggressive FIZ) to the effect that the percentage share in total voting rights at RAFAKO held jointly by the funds decreased below 5%. The reduction of the funds' shareholding below 5% of total voting rights resulted from transactions executed in the regulated market on March 6th 2017. Prior to the change, the Funds held 4,988,086 shares in RAFAKO and the same number of voting rights at its General Meeting, representing 5.87% of RAFAKO's share capital and the same percentage of total voting rights at its General Meeting. As at March 6th 2017, the Investment Funds held 4,163,086 shares in RAFAKO and the same number of voting rights at its General Meeting, representing 4.90% of RAFAKO's share capital and the same percentage of total voting rights at its General Meeting.

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

The Group did not publish forecasts for 2017.

(PLN '000)

30. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO (the parent) as at the date of issue of the Q1 report

Shareholder	*Number of shares*	*Number of voting rights*	*Ownership interest*	*% of total vote at GM*
PBG S.A. * **including:**	42,466,000	42,466,000	50% plus 1 share	50% plus 1 share
held directly:	7,665,999	7,665,999	9.026%	9.026%
held indirectly through Multaros Trading Company Limited ** (a subsidiary of PBG S.A.):	34,800,001	34,800,001	40.974%	40.974%
Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.**	8,048,507	8,048,507	9.480%	9.480%
Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.***	4,273,794	4,273,794	5.03%	5.03%
Other	30,143,697	30,143,697	35.49%	35.49%

* Based on a notification of September 9th 2015.
** Based on a notification of July 30th 2015.
*** Based on a notification of May 4th 2017.

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

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

	Company	*As at Mar 21 2017*	*Increase*	*Decrease*	*As at May 15 2017*
Member of the management staff					
Edward Kasprzak – Vice President of the Management Board	RAFAKO	2,000	–	–	2,000
Member of the supervisory staff	–	–	–	–	–

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

(PLN '000)

The remuneration paid to the members of the Management and Supervisory Boards of Group companies for the three months ended March 31st 2017 was as follows:

	Base pay	*Awards*	*Other*
RAFAKO S.A. – parent			
Management board	780	–	28
Supervisory board	192	–	186
PGL-DOM Sp. z o.o. – subsidiary			
Management board	27	–	–
Supervisory board	44	–	–
RAFAKO ENGINEERING Sp. z o.o. – subsidiary			
Management board	53	130	–
Supervisory board	32	–	–
ENERGOTECHNIKA ENGINEERING Sp. z o.o. – indirect subsidiary			
Management board	120	–	–
Supervisory board	13	–	–
E001RK Sp. z o.o. – subsidiary			
Management Board	42	–	–
Supervisory Board	-	–	–
E003B7 Sp. z o.o. – subsidiary			
Management Board	382	1,812	–
Supervisory Board	270	960	–
RENG – NANO Sp. z o.o. – subsidiary			
Management Board	108	–	–
Supervisory Board	-	–	–

33. Factors with a material bearing on the Group's performance in Q2 2017

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts being executed for the delivery of products and services), which may have a positive or negative effect on the results after March 31st 2017;
- The adequacy of provisions and impairment losses for ongoing contracts (some of these matters may be settled only after the date of submission of the Q2 2017 financial statements);
- The risk that provisions may need to be recognised for contractual penalties for time overruns or failure to meet guaranteed technical specifications of certain contracts.
- The risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs.
- Currency movements – substantial changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts.
- Risk of failure to obtain financial guarantees required to win and perform contracts.

(PLN '000)

34. Order book

As at March 31st 2017, the value of the Group's order book was in excess of PLN 3.7bn. The order book's largest item is the Jaworzno project – the amount outstanding under the contract is PLN 2.4bn, of which PLN 0.3bn is attributable to the parent and PLN 2.1bn to SPV Jaworzno. The order book does not include the Opole contract (RAFAKO's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 1.0bn is still outstanding). At present, the order book comprises only power construction projects.

ORDER BOOK	
Mar 31 2017	Dec 31 2016
~ PLN 3.7bn	~ PLN 4.0bn

	ORDER BOOK as at March 31st 2017	Due for execution in		
		Apr - Dec 2017	2018	after 2018
TOTAL, of which:	**~ 3.7bn**	**~1.3bn**	**~1.3bn**	**~1.1bn**
RAFAKO S.A.	**~1.6bn**	**~0.5bn**	**~0.7bn**	**~0.4bn**
SPV Jaworzno	**~2.1bn**	**~0.75bn**	**~0.65bn**	**~0.7bn**

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

a) the order book value is equal to the aggregate amount of the Group's remuneration under individual contracts executed by Group in the period to March 31st 2017; the figure does not take into account any planned contracts that have not yet been signed;

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

35. Events after the reporting period

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

By a resolution of April 26th 2017, the Supervisory Board of RAFAKO S.A., acting in accordance with the Articles of Association, appointed Ernst & Young Audyt Polska Sp. z o.o. sp.k. of Warsaw, Rondo ONZ 1, entered in the register of the National Chamber of Statutory Auditors under No. 130, to audit the Company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. The agreement with the auditor will be concluded for a period of time necessary to review and audit the financial statements of RAFAKO S.A. and the consolidated financial statements of the RAFAKO Group for the financial year 2017. In the past, Ernst & Young Audyt performed reviews and audits of the financial statements of the Company and the consolidated financial statements of the RAFAKO Group for 2002−2005 and 2011−2016.

(PLN '000)

On May 4th 2017, RAFAKO received a notice from Quercus Towarzystwo Funduszy Inwestycyjnych S.A., acting on behalf of investment funds under its management (QUERCUS Parasolowy SFIO, QUERCUS Absolutnego Zwrotu FIZ, QUERCUS Absolutne Return FIZ and Acer Aggressive FIZ) to the effect that the percentage share in total voting rights at RAFAKO held jointly by the funds increased above 5%. The threshold of 5% of total voting rights at the parent was exceeded by the Funds as a result of transactions executed in the regulated market on April 28th 2017. Prior to the change, the funds held 4,226,334 RAFAKO shares and the same number of voting rights at the RAFAKO General Meeting, representing 4.98% of RAFAKO's share capital and the same percentage of total voting rights at its General Meeting. As at May 2nd 2017, the funds held 4,273,794 RAFAKO shares and the same number of voting rights at the RAFAKO General Meeting, representing 5.03% of RAFAKO's share capital and the same percentage of total voting rights at its General Meeting.

These interim condensed consolidated financial statements of the RAFAKO Group were authorised for issue on May 15th 2017 by a resolution of the RAFAKO S.A. Management Board dated May 15th 2017.

Signatures:

May 15th 2017	Agnieszka Wasilewska-Semail	President of the Management Board	
May 15th 2017	Krzysztof Burek	Vice President of the Management Board	
May 15th 2017	Jarosław Dusiło	Vice President of the Management Board	
May 15th 2017	Edward Kasprzak	Vice President of the Management Board	
May 15th 2017	Tomasz Tomczak	Vice President of the Management Board	
May 15th 2017	Jolanta Markowicz	Chief Accountant	