# RAFAKO S.A.

THE PBG GROUP

# INTERIM CONDENSED FINANCIAL STATEMENTS

## for the three months ended March 31st 2017

May 15th 2017

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(PLN '000)

# Interim condensed 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 | **134,202** | **228,789** |
| Revenue from sale of goods and services | | 133,490 | 228,225 |
| Revenue from sale of materials | | 712 | 564 |
| Cost of sales | 12.1 | (113,847) | (210,832) |
| **Gross profit/(loss)** | | **20,355** | **17,957** |
| Other income | 12.1 | 1,540 | 1,390 |
| Distribution costs | 12.1 | (7,524) | (7,034) |
| Administrative expenses | | (10,629) | (9,909) |
| Other expenses | 12.1 | (1,347) | (405) |
| **Operating profit/(loss)** | | **2,395** | **1,999** |
| Finance income | 12.1 | 141 | 431 |
| Finance costs | 12.1 | (5,235) | (1,629) |
| **Profit/(loss) before tax** | | **(2,699)** | **801** |
| Income tax expense | 12.2 | (6,070) | (484) |
| **Net profit/(loss) from continuing operations** | 12.23 | **(8,769)** | **317** |
| **Other comprehensive income for period** | | **45** | **243** |
| *Items to be reclassified to profit/(loss) in subsequent reporting periods* | | | |
| Exchange differences on translating foreign operations | | (98) | (5) |
| **Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods** | | **(98)** | **(5)** |
| *Items not subject to reclassification to profit/(loss) in subsequent reporting periods* | | | |
| Other comprehensive income due to actuarial gains/(losses) | | 177 | 306 |
| Tax on other comprehensive income | 12.2 | (34) | (58) |
| **Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods** | | **143** | **248** |
| **Total comprehensive income for the period** | | **(8,724)** | **560** |
| Weighted average number of shares | 12.23 | 84,931,998 | 84,931,998 |
| Basic earnings/(loss) per share, PLN | 12.23 | (0.10) | 0.00 |

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 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 | 146,866 | 147,968 |
| Intangible assets | 12.5 | 10,868 | 11,058 |
| Trade and other receivables - non-current | | 263 | 284 |
| Trade receivables | 12.6 | 59 | 3 |
| Other receivables and prepayments | 12.6 | 204 | 281 |
| Non-current financial assets | | 70,743 | 64,570 |
| Shares in subsidiaries | 12.7 | 29,349 | 29,349 |
| Shares in other entities | 12.7 | 267 | 227 |
| Long-term bonds | 12.8 | 28 824 | – |
| Other non-current financial assets | 12.9, 14 | 12,303 | 34,994 |
| Deferred tax asset | 12.2 | 41,937 | 48,177 |
| | | **270,677** | **272,057** |
| **Current (short-term) assets** | | | |
| Inventories | 12.10 | 13,023 | 13,039 |
| Trade receivables, other receivables and prepayments | 12.15, 14 | 218,547 | 294,144 |
| Trade receivables | 12.15, 14 | 118,910 | 188,754 |
| Income tax receivable | 12.15 | 11,910 | 10,918 |
| Other receivables and prepayments | 12.15 | 87,727 | 94,472 |
| Gross amount due from customers for construction contract work | 11 | 191,921 | 172,387 |
| Current financial assets | | 78,156 | 77,470 |
| Short-term bonds | 12.12 | 5 494 | – |
| Short-term loans advanced | 14 | 434 | 458 |
| Other current financial assets | 12.12, 14 | – | 11,130 |
| Cash and cash equivalents | 12.3, 12.14, 14 | 72 228 | 65,882 |
| | | **501,647** | **557,040** |
| **Non-current assets held for sale** | | 12 | 7 |
| **TOTAL ASSETS** | | **772,336** | **829,104** |

Racibórz, May 15th 2017

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(PLN '000)

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

| | Note | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Total** | | | |
| Share capital | | 169,864 | 169,864 |
| Share premium | 12.21 | 95,340 | 95,340 |
| Reserve funds | | 131,301 | 131,301 |
| Exchange differences on translating foreign operations | | (167) | (69) |
| Retained earnings / Accumulated losses | 12.22 | (76,302) | (67,676) |
| | | **320,036** | **328,760** |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | | – | – |
| Finance lease liabilities | 12.25, 14 | 2,328 | 2,662 |
| Employee benefit obligations | 12.24, 17.2 | 22,160 | 21,773 |
| Trade and other payables | | 19,226 | 19,598 |
| Trade payables | 12.25, 14 | 12,521 | 11,874 |
| Capital commitments | 14, 21 | – | 16 |
| Other liabilities | 12.25 | 6,705 | 7,708 |
| | | **43,714** | **44,033** |
| **Current liabilities** | | | |
| Trade and other payables | 12.26 | 170,696 | 201,981 |
| Trade payables | 14 | 101,563 | 120,449 |
| Capital commitments | 14, 21 | 576 | 954 |
| Income tax payable | | – | – |
| Other liabilities | 12.26 | 68,557 | 80,578 |
| Current portion of interest-bearing borrowings | 15 | 147,901 | 149,112 |
| Other financial liabilities and finance lease liabilities | 12.26, 14 | 1,646 | 1,616 |
| Employee benefit obligations | 12.24, 17.2 | 2,327 | 1,994 |
| Amounts due to customers and provisions for construction contract work and deferred income | 11 | 86,016 | 101,608 |
| Gross amount due to customers for construction contract work | 11 | 69,761 | 76,992 |
| Provisions for construction contract work | 18 | 15,721 | 24,095 |
| Grants | | 534 | 521 |
| | | **408,586** | **456,311** |
| **Total liabilities** | | **452,300** | **500,344** |
| **TOTAL EQUITY AND LIABILITIES** | | **772,336** | **829,104** |

Racibórz, May 15th 2017

| Agnieszka Wasilewska-Semail | Krzysztof Burek | Jarosław Dusiło | Edward Kasprzak | Tomasz Tomczak | Jolanta Markowicz |
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(PLN '000)

# Interim condensed 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 | | (2,699) | 801 |
| Adjustments for: | | 13,089 | (51,297) |
| Depreciation and amortisation | | 2,653 | 2,913 |
| Foreign exchange gains/(losses) | | 21 | (1) |
| Interest and dividends, net | | 946 | 793 |
| (Gain)/loss from investing activities | | 638 | (299) |
| (Increase)/decrease in receivables | 12.3 | 75,148 | 71,994 |
| Change in inventories | | 16 | 165 |
| Increase/(decrease) in employee benefit obligations, excluding borrowings | 12.3 | (30,366) | (29,023) |
| Change in prepayments and accruals for construction contracts | 12.3 | (35,139) | (95,332) |
| Income tax (paid)/received | | (857) | (2,504) |
| Other | | 29 | (3) |
| **Net cash from operating activities** | | **10,390** | **(50,496)** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 84 | 283 |
| Purchase of property, plant and equipment and intangible assets | 12.3 | (1,652) | (2,711) |
| Sale of financial assets | | 165 | |
| Dividends and interest | | 4 | 4 |
| Repayment of loans advanced | | – | 25 |
| Loans advanced | | 3 | – |
| Other | | – | – |
| **Net cash from investing activities** | | **(1,396)** | **(2,399)** |
| **Cash flows from financing activities** | | | |
| Payment of finance lease liabilities | | (459) | (388) |
| Proceeds from borrowings | 12.3 | (1,315) | 39,026 |
| Interest paid | 12.3 | (787) | (442) |
| Bank fees | | (11) | (55) |
| Other | | 15 | – |
| **Net cash from financing activities** | | **(2,557)** | **38,141** |
| Net increase/(decrease) in cash and cash equivalents | | 6,437 | (14,754) |
| Net foreign exchange differences | | (91) | (5) |
| Cash at beginning of period | 12.14 | 65,882 | 97,109 |
| Cash at end of period | 12.14 | 72,228 | 82,350 |

Racibórz, May 15th 2017

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|---|---|---|---|---|---|
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(PLN '000)

# Interim condensed 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 equity* |
|---|---|---|---|---|---|---|
| **As at Jan 1 2017** | **169,864** | **95,340** | **131,301** | **(69)** | **(67 676)** | **328,760** |
| Profit from continuing operations | – | – | – | – | (8 769) | (8 769) |
| Other comprehensive income | – | – | – | (98) | 143 | 45 |
| **As at Mar 31 2017** *(unaudited)* | **169,864** | **95,340** | **131,301** | **(167)** | **(76 302)** | **320,036** |
| | | | | | | |
| **As at Jan 1 2016** | **169,864** | **95,340** | **104,716** | **60** | **21,843** | **391,823** |
| Profit from continuing operations | – | – | – | – | 317 | 317 |
| Other comprehensive income | – | – | – | (5) | 248 | 243 |
| **As at Mar 31 2017** *(unaudited)* | **169,864** | **95,340** | **104,716** | **55** | **22,408** | **392,383** |

Racibórz, May 15th 2017

| Agnieszka Wasilewska-Semail | Krzysztof Burek | Jarosław Dusiło | Edward Kasprzak | Tomasz Tomczak | Jolanta Markowicz |
|---|---|---|---|---|---|
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# NOTES

## 1. General information

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

The Company has been established for an indefinite term.

These interim condensed financial statements of the Company cover the three months ended March 31st 2017 and contain comparative data for the three months ended March 31st 2016 and as at December 31st 2016. The statement of comprehensive income and notes to the statement of comprehensive income contain data for the three months ended 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 Company's principal business activity includes:

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

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

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

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

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

The Company has also prepared interim condensed consolidated financial statements for the three months ended March 31st 2017, which were authorised for issue by the Company's Management Board on May 15th 2017.

## 2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements were prepared in accordance with the International Financial Reporting Standards ("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 financial statements of the Company have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the reporting date, i.e. March 31st 2017.

For the Company 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 Company 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 the Company'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 Company was extended until June 30th 2017;
- Timely delivery and execution of the contracts in the Company's current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the Company's current order book, and the ability to prevent any further increase in losses already recognised on some of the contracts;
- Continued efforts to maintain and expand the Company's order book;
- Flexibility of capital expenditure, which the parent should be able to materially reduce;
- No material limitations imposed by financial institutions on the Company's access to financial guarantees necessary to acquire and execute 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.

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

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

## 3. Significant accounting policies

The accounting policies applied in preparing these interim condensed financial statements are consistent with the policies applied in preparing the Company's full-year financial statements for the year ended December 31st 2016, 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 Company does not operate any share-based payment plans, the application of these amendments had no effect on the Company'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 financial condition or results of operations of the Company.

- Amendments to IFRS 8 *Operating Segments*

  The amendments apply retrospectively and clarify that:

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

  The Company operates in a single market segment of Power and Environmental Protection Facilities. The Management Board assesses the Company's operations on the basis of its financial statements. Amendments to IFRS 8 had no effect on the manner of recognition and presentation of the operating segments.

- 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 therefore.

  The amendments apply to the valuation of property, plant and equipment and intangible assets under the revaluation model. The Company 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 financial condition or results of operations of the Company.

- Amendments to IAS 24 *Related Party Disclosures*

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

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

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

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

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

    The 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 financial condition or results of operations of the Company.

  - 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 financial condition or results of operations of the Company.

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

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

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

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

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

In addition, the following new or amended standards and interpretations are effective for annual periods beginning on January 1st 2016, but do not apply to the information presented and disclosed in the Company's financial statements:

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

  The amendments pertain to accounting for bearer plants.

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

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

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

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

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*
  The amendments clarify which subsidiaries of an investment entity should be consolidated and should not be measured at fair value through profit or loss. The amendments also clarify that an investment entity which is a parent continues to be exempt from presenting consolidated financial statements. The exemption applies even when a subsidiary is measured at fair value through profit or loss by a higher-tier parent.
- and *Amendments to IFRS introduced as part of the 2012−2014 improvements cycle*:
  - Amendments to IFRS 7 *Financial Instruments: Disclosures*
    I. Servicing contracts – the amendment clarifies that a servicing contract that provides for a fee for servicing a financial asset can constitute continuing involvement in the financial asset.
    II. Applicability of the amendments to IFRS 7 (issued in December 2011) to condensed interim financial statements.
    The amendments apply retrospectively for annual periods beginning on or after January 1st 2016, and the entity may elect to early adopt the amendments.
  - Amendments to IAS 19 *Employee Benefits*
    The amendment refers to determination of the discount rate.
    A company should apply the amendments as of the beginning of the earliest comparative period presented in the first financial statements reflecting such amendments. The effect of the application of the amendments should be reflected in the opening balance of retained earnings. The amendment has been effective since January 1st 2016, with an early adoption option.

**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 Company 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 the date of these interim condensed financial statements, the Company 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 financial statements the Company had not completed a full quantitative assessment of the effect of IFRS 15 on its accounts. The Company expects that the implementation of IFRS 15 may materially affect both the Company's balance-sheet items and its financial results.

### 4.2 Implementation of IFRS 9

As at the date of these interim condensed financial statements, the Company had begun work to implement IFRS 9, and is currently defining its new business model for managing financial assets. The Company does not apply hedge accounting and does not carry any derivative or hedging instruments. As at the date of these interim financial statements, the Company 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 financial statements, the Company 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 financial statements for issue, the Company'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 Company with respect to the Company's operations or financial results.

## 5. Significant judgements and estimates

### 5.1 Professional judgement

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

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

*Classification of leases where the Company is the lessee*

The Company is party to lease agreements. It classifies leases as either finance leases or operating leases based on the assessment of the extent to which risks and benefits incidental to ownership have been transferred from the lessor to the lessee. The assessment is based on economic substance of each transaction.

*Identification of embedded derivatives*

At the end of each reporting period the management of the Company 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 Management Board evaluates the nature of the contract in order to determine the method of accounting for contract revenue and expenses.

### 5.2 Uncertainty of estimates

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

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

*Impairment of assets*

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

The amounts of impairment losses on assets at the end of the reporting period are presented in Notes 12.10, 12.15 and 12.16 to these interim condensed financial statements.

*Measurement of employee benefit obligations*

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

*Deferred tax asset*

The Company recognises deferred tax assets (including deferred tax assets on tax loss) based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be realised. If future taxable profits deteriorate, this assumption may become unjustified. Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realised, based on tax laws in effect at the end of the reporting period.

*Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Company relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 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 Company reviews the useful lives of its assets annually, on the basis of current estimates.

*Revenue recognition*

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total contract costs increased by 10% in relation to the Company's original estimate, the revenue would decrease by approximately PLN 30.8m.

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

*Revenue*

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

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

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

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

*Provision for expected contract losses*

At the end of each reporting period the Company remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss on the contract 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 financial statements.

*Provision for costs due to late performance*

The Company recognises a provision for liquidated damages arising from late completion if the probability of being charged for late contract completion is significant and the delay is due to the fault of the Company as a contractor. The amount of the provision reflects the amount of liquidated damages that may be charged for the delay. For details of provisions estimated in accordance with this policy, see Note 11 to these interim condensed financial statements.

*Provisions for warranty repairs*

Provisions for warranty repairs are recognised based on estimates of expected and measurable costs of internal and external oversight, repairs and warranty works related to contractual commitments of the Company, 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 Company makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the Company recognises an allowance to bring down the carrying amount to the present value of the expected cash flows.

*Uncertainty related to tax settlements*

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

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

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

(PLN '000)

## 6. Functional currency and presentation currency

The Polish zloty is the functional and presentation currency of these interim 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 |

## 7. 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 Company's operations.

## 8. Changes in the structure of the Company and the Group

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

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.

## 9. Seasonality and cyclical nature of the Company's operations

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

## 10. Operating segments

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

(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 the contracts performed in the three months ended March 31st 2017 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) | 2,593,467 | 2,965,209 | 2,484,966 |
| Recognised profits less recognised losses to date (cumulative) | 76,130 | 181,204 | 180,688 |
| Contract revenue recognised by reference to the contract stage of completion (cumulative) | 2 669,597 | 3,146,413 | 2,665,654 |
| Progress billings (cumulative) | 2,551,751 | 3,064,402 | 2,361,966 |
| **Gross amount due to customers for contract work (liability), including:** | **(69,761)** | **(76,992)** | (84,522) |
| - advance payments received (liabilities arising from advances received) | (26,630) | (27,841) | (51,640) |
| - adjustment to advance payments received arising from amounts due from customers | 24,834 | 26,048 | 51,630 |
| - gross amount due to customers for contract work | (67,965) | (75,199) | (84,512) |
| **Prepayments relating to accounting for construction contracts, including:** | **191,921** | **172,387** | **357,917** |
| - gross amount due from customers for contract work (asset) | 176,697 | 155,257 | 336,570 |
| - contract acquisition cost and other accrued contract costs | 15,224 | 17,130 | 21,347 |
| Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters | (2,562) | (4,856) | – |
| Provision for construction contract losses | (13,159) | (19,239) | (21,545) |

The Company analyses each contract for potential losses, which are immediately recognised as an expense in accordance with IAS 11.36. In accordance with IAS 11.11−15, in its accounting for construction contracts the Company recognises estimated damages for late contract completion or failure to meet guaranteed technical specifications. Liquidated damages are estimated based on source documentation pertaining to late contract completion or issues relating to guaranteed technical parameters, based on contract assumptions and management's assessment of the risk of such penalties being imposed. The level of the estimated risk depends, to a large extent, on external factors that are partly beyond the Company's control, and may change in subsequent periods. Completion of certain contracts where provisions have been recognised for late performance or failure to meet guaranteed technical specifications is exposed to the risk of a dispute, which in the Company's opinion gives rise to risk of indeterminable consequences.

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

## 10.1 Key contracts executed by the Company

### 10.1.1 Jaworzno Project

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

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

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

### 10.1.2 Opole Project

In February 2012, the Company, acting as the leader of a consortium comprising RAFAKO, Polimex-Mostostal S.A. and Mostostal Warszawa S.A. executed a PLN 9.4bn contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. − the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at PGE Elektrownia Opole S.A., together with equipment and devices as well as all related buildings and structures.

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 Company's statement of comprehensive income.

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

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 Company posted revenue of PLN 134,202 thousand, down by PLN 94,587 thousand on the corresponding period of 2016. The decrease resulted from lower sales under the contracts with significant progress of completion and low percentage of completion of two significant contracts signed in Q2 2016 (construction of a biomass-fired co-generation unit with a value of EUR 150m VAT exclusive, and delivery and installation of a catalytic flue gas NOx reduction system and upgrade of electrostatic precipitators with a value of PLN 289.2m).

Cost of sales in the first three months of 2017 amounted to PLN 113,847 thousand, with the Company's gross profit at PLN 20,355 thousand (up by PLN 2,398 thousand on the first three months of 2016). Despite a year-on-year drop in sales, the Company achieved higher gross profit, mainly due to adjustment of contract valuation following a periodic analysis of incurred costs and a review of assumptions concerning future costs.

The sales volumes and separate net profit of RAFAKO S.A. resulted from the fact that RAFAKO S.A. is responsible only for approximately 11.3% of the value of the contract for the construction of a 910 MW supercritical power generation unit at the Jaworzno III Power Plant, and its separate financial statements reflect only that share in the project. The remaining 88.7% of the contract is being performed by an SPV.

Despite the decline in sales revenue, the Company recorded an increase in gross profit, which was PLN 2,398 thousand higher than in the corresponding period of the previous year.

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 Company's comprehensive income for the first three months of 2017 (PLN 7,524 thousand) were primarily attributable to contract acquisition costs (PLN 2,240 thousand) and costs of promotion and advertising (PLN 1,270 thousand).

The largest component of other income was income of PLN 1,295 thousand from a surety provided to a subsidiary.

Other expenses chiefly included donations of PLN 629 thousand (March 31st 2016: PLN 201 thousand) and scrapping cost of PLN 365 thousand.

Operating profit remained broadly flat on Q1 2016. The decrease in net result was mainly attributable to high finance costs and deferred income tax related to the valuation of construction contracts.

In the first three months of 2017, the Company's finance income comprised mainly interest on security deposits of PLN 93 thousand (March 31st 2016: 411 thousand) and from financial instruments measurement (PLN 40 thousand).

Finance costs in the period chiefly included net foreign exchange losses of PLN 3,539 thousand, interest on financial instruments of PLN 807 thousand (March 31st 2016: PLN 516 thousand), discount on long-term settlements of PLN 481 thousand, interest on employee benefit obligations of PLN 187 thousand (March 31st 2016: PLN 637 thousand), and commissions charged by banks on borrowings and financial guarantees and insurance of PLN 185 thousand (March 31st 2016: PLN 280 thousand).

(PLN '000)

### 12.2. Income tax

**Income tax expense**

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

| | *Three months ended Mar 31 2017 (unaudited)* | *Three months ended Mar 31 2016 (unaudited)* |
|---|---|---|
| *Current income tax* | 136 | – |
| Current income tax expense | 136 | – |
| Adjustments to current income tax from previous years | – | – |
| *Deferred tax* | (6,206) | (484) |
| Related to recognition and reversal of temporary differences | (6,206) | (484) |
| Adjustments to deferred tax from previous years | – | – |
| **Income tax expense in the statement of profit or loss** | **(6,070)** | **(484)** |
| *Deferred tax on other comprehensive income* | – | – |
| Related to recognition and reversal of temporary differences | (34) | (58) |
| **Income tax expense recognised in other comprehensive income** | **(34)** | **(58)** |

**Deferred income tax calculated as at March 31st 2017**

(PLN '000)

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

| | *Statement of financial position* | | *Statement of comprehensive income for the period ended* | |
|---|---|---|---|---|
| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* | *Mar 31 2017 (unaudited)* | *Mar 31 2016 (unaudited)* |
| - investment reliefs | (2) | (2) | – | – |
| - difference between tax base and carrying amount of property, plant and equipment and intangible assets | (15,765) | (15,688) | (77) | (145) |
| - difference between tax base and carrying amount of assets measured at fair value through profit or loss | 1,768 | 1,512 | 256 | (38) |
| - difference between tax base and carrying amount of loans and receivables | 1,021 | 1,125 | (104) | 187 |
| - difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts | (25,851) | (20,504) | (5,347) | (15,577) |
| - difference between tax base and carrying amount of inventories | 2,121 | 2,276 | (155) | (119) |
| - provisions | 15,440 | 17,504 | (2,064) | (1,289) |
| - difference between tax base and carrying amount of financial liabilities measured at amortised cost | 23 | 34 | (11) | 4 |
| - difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39 | – | – | – | (2) |
| - difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts | 38,853 | 37,064 | 1,789 | 13,823 |
| - tax loss | 17,083 | 17,083 | – | 7,148 |
| - adjustment to costs of unpaid invoices | 7,004 | 7,763 | (759) | (3,494) |
| other | 242 | 10 | 232 | (1,040) |
| Deferred tax expense/benefit | | | **(6,240)** | **(542)** |
| Net deferred tax asset/liability, including: | 41,937 | 48,177 | | |
| Deferred tax asset | 41,937 | 48,177 | | |
| Deferred tax liability | – | – | | |

As at March 31st 2017, the Company recognised a 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 Company assessed its ability to realise the deferred tax asset on account of the tax loss based on tax forecasts. In line with the prudent valuation principle, the Company's Management Board decided not to recognise a deferred tax asset on the tax loss recorded in Q1 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 in the statement of cash flows

The PLN 75,148 thousand decrease in receivables disclosed in the statement of cash flows for the three months ended March 31st 2017 resulted mainly from:

- PLN 69,788 thousand decrease in trade receivables,
- PLN (769) thousand increase in receivables from the state budget (including VAT),
- PLN 1,124 thousand decrease in prepayments made,
- PLN 2,363 thousand decrease in security deposits receivable,
- PLN 3,398 thousand decrease in disputed receivables,
- PLN (1,380) thousand increase in receivables under sureties,
- PLN 237 thousand decrease in Company Social Benefits Fund receivables,
- PLN 414 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 12.15.

The PLN 30,366 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (18,239) thousand decrease in trade payables,
- PLN (1,032) thousand decrease in the provision for warranty repairs,
- PLN (226) thousand decrease in the provision for bonuses,
- PLN 2,113 thousand increase in the provisions for delayed cost collection,
- PLN (11,684) thousand decrease in VAT liabilities,
- PLN (1,298) thousand decrease in other liabilities.

The decrease of PLN 35,139 thousand in accruals and deferrals relating to accounting for construction contracts as disclosed in the statement of cash flows was mainly caused by:

- PLN (19,534) thousand increase in gross amount due from customers for contract work and the related accruals and deferrals,
- PLN (8,374) thousand decrease in provisions for contract work,
- PLN (7,231) thousand decrease in gross amount due to customers for contract work,
  including:
  PLN 3 thousand increase in prepayments.

The cash flows of PLN 1,652 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 1,555 thousand and of intangible assets for PLN 97 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 Company 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** | **9,280** | **81,093** | **49,383** | **6,987** | **–** | **1,225** | **147,968** |
| Purchases | – | – | – | – | – | 1,161 | 1,161 |
| Lease agreements | – | – | – | 110 | – | – | 110 |
| Liquidation/sale | | | (1) | | – | – | (1) |
| Transfers from property, plant and equipment under construction | – | 254 | 659 | | – | (913) | – |
| Exchange differences on translating foreign operations | – | – | (1) | – | – | – | (1) |
| Depreciation for period | – | (647) | (1,360) | (360) | – | – | (2 367) |
| Impairment loss for period | – | – | – | – | – | – | – |
| Other, including reclassification of property, plant and equipment to/from assets held for sale | – | – | 1 | (5) | – | – | (4) |
| **Net carrying amount as at Mar 31 2017** *(unaudited)* | **9,280** | **80,700** | **48,681** | **6,732** | **–** | **1,473** | **146,866** |

*Tangible assets pledged as security for the Company'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** | **9,295** | **83,125** | **52,413** | **7,012** | **–** | **1,982** | **153,827** |
| Purchases | – | – | – | – | – | 757 | 757 |
| Lease agreements | – | – | – | 170 | – | – | 170 |
| Liquidation/sale | – | – | (130) | – | – | – | (130) |
| Transfers from property, plant and equipment under construction | – | 190 | 1,071 | 219 | – | (1,480) | – |
| Exchange differences on translating foreign operations | – | – | – | – | – | – | – |
| Depreciation for period | – | (624) | (1,516) | (334) | – | – | (2,474) |
| Impairment loss for period | – | – | – | – | – | – | – |
| Other, including reclassification of property, plant and equipment to/from assets held for sale | – | – | 108 | (33) | – | – | 75 |
| **Net carrying amount as at Mar 31 2016** *(unaudited)* | **9,295** | **82,691** | **51,946** | **7,034** | **–** | **1,259** | **152,225** |

(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* | 1,270 | 1,304 |
| Proceeds from sale of property, plant and equipment | 2 | 152 |

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

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

### 12.6. Long-term trade receivables, other receivables and prepayments

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Trade receivables, including: | 59 | 3 |
| Trade receivables from related entities | – | – |
| Trade receivables from other entities | 59 | 3 |
| Other receivables and prepayments, including: | 204 | 281 |
| Receivables related to sale of property, plant and equipment and intangible assets | 98 | 96 |
| Security deposits | 106 | 185 |
| **Total receivables (net)** | **263** | **284** |
| Impairment loss on receivables | – | – |
| **Gross receivables** | **263** | **284** |

### 12.7. Shares in subsidiaries and other entities

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Shares in listed subsidiaries | – | – |
| Shares in non-listed subsidiaries | 29,349 | 29,349 |
| Shares in other listed companies | 249 | 209 |
| Shares in other non-listed companies | 18 | 18 |
| | **29,616** | **29,576** |

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

(PLN '000)

### 12.8. Long-term bonds

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

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 | 1646 | PLN 100.00 | 164,600 | Mar 31 2017 |
| Series C1 | 35,208 | PLN 100.00 | 3,520,800 | Jun 30 2017 |
| Series D1 | 19,734 | PLN 100.00 | 1,973,400 | Dec 31 2017 |
| Series E1 | 41,386 | PLN 100.00 | 4,138,600 | Jun 30 2018 |
| Series F1 | 12,294 | PLN 100.00 | 1,229,400 | Dec 31 2018 |
| Series G1 | 49,961 | PLN 100.00 | 4,996,100 | Jun 30 2019 |
| Series H1 | 37,813 | PLN 100.00 | 3,781,300 | Dec 31 2019 |
| Series I1 | 190,450 | PLN 100.00 | 19,045,000 | Jun 30 2020 |
| | | | | |
| | **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 Company'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.

### 12.9. Other non-current financial assets

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Other non-current financial assets, including: | 12,303 | 34,994 |
| Arrangement receivables from related entity | - | 24,071 |
| Receivables under sureties provided to related entities | 12,303 | 10,923 |
| | **12,303** | **34,994** |

In 2017, the Company converted arrangement receivables from a related entity into bonds, as described in detail in Note 12.8 to these interim condensed financial statements.

### 12.10. Inventories

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Materials (at net realisable value) | | |
| At cost | 24,189 | 25,017 |
| At net realisable value | 13,023 | 13,039 |
| Total inventories, at the lower of cost and net realisable value | **13,023** | **13,039** |

*inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 12.17.4.

### 12.11. Inventory write-downs

| | *Three months ended Mar 31 2017 (unaudited)* | *Three months ended Mar 31 2016 (unaudited)* |
|---|---|---|
| At beginning of period | (11,978) | (10,353) |
| - write-down recognised | - | - |
| - write-down reversed/used | 812 | 629 |
| Balance at end of period | **(11,166)** | **(9,724)** |

### 12.12. Short-term bonds

As at March 31st 2017, the Company held PLN 5,494 thousand worth of bonds with maturity of less than one year worth, as described in detail in Note 12.8 to these interim condensed financial statements.

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### 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 | – | – |
| Impairment loss on advance payment to acquire the right to a loan | – | – |
| Arrangement receivables from related entity | – | 11,130 |
| | **–** | **11,130** |

In 2017, the Company converted arrangement receivables from a related entity into bonds, as described in detail in Note 12.8 to these interim condensed financial statements.

On April 18th 2012, the Company and Olenia Ltd entered into a preliminary agreement for the purchase of 50% of shares in Bioelektrownia Szarlej sp. z o.o. and assignment of rights to receivables in the form a loan granted to that company. The total amount of the advance payment made by the Company under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid for shares recognised as other non-financial assets and PLN 10,500 thousand was paid for the loan recognised as other financial assets). Bioelektrownia Szarlej sp. z o.o. is a special purpose vehicle established to construct a biogas power plant, to be financed from internally-generated funds, a loan from investors, and a subsidy awarded to the project. Bioelektrownia Szarlej sp. z o.o. terminated its agreement with the contractor, which 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 Company's Management Board concluded that the risk of non-recoverability of the assets is significant and upheld its decision to recognise an impairment loss for the full amount of the project, i.e. PLN 16,176 thousand.

### 12.14. Cash and cash equivalents

| | Mar 31 2017 (unaudited) | Dec 31 2016 | Mar 31 2016 (unaudited) |
|---|---|---|---|
| Cash in hand and at banks | 27,558 | 65,075 | 6674 |
| Current deposits for up to 3 months, including: | 44,670 | 807 | 75,676 |
| - deposits pledged as security for liabilities | – | – | – |
| | **72,228** | **65,882** | **82,350** |

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

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

(PLN '000)

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

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Trade receivables, including: | 118,910 | 188,754 |
| Trade receivables from related entities | 23 | 662 |
| Trade receivables from other entities | 118,887 | 188,092 |
| Income tax receivable | 11,910 | 10,918 |
| Other receivables and prepayments, including: | 87,727 | 94,472 |
| Advance payments made to other parties | 2,039 | 3,163 |
| Receivables from the state budget | 5,988 | 5,192 |
| Settlement of property insurance costs | 464 | 675 |
| Settlements with the Company Social Benefits Fund | – | 237 |
| Disputed receivables | 10,546 | 13,944 |
| Prepaid expenses | 2,227 | 2,377 |
| Receivables related to sale of property, plant and equipment and intangible assets | 340 | 343 |
| Security deposits | 65,705 | 68,068 |
| Other | 418 | 710 |
| **Total receivables (net)** | **218,547** | **294,144** |
| Impairment loss on receivables | 31,515 | 31,834 |
| **Gross receivables** | **250,062** | **325,978** |

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

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

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

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

Short-term trade receivables of PLN 118,910 thousand recognised in the statement of financial position as at December 31st 2017 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 65,705 thousand disclosed in the statement of financial position as at March 31st 2017 relate 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 a waste incineration plant.

A significant item of other receivables were advance payments, which amounted to PLN 2,039 thousand as at March 31st 2017. The largest advanced payment amounted to PLN 900 thousand and was received under a contract to construct a flue gas desulfurization system for coal-fired boilers.

(PLN '000)

### 12.16. Impairment losses on assets

| | *Shares** | *Other financial assets* | *Other non-financial assets* | *Inventories*** | *Receivables**** |
|---|---|---|---|---|---|
| Jan 1 2017 | (24,363) | (10,500) | (5676) | (11,978) | (31,834) |
| Impairment loss recognised | – | – | – | – | (8) |
| Impairment loss utilised/reversed | 40 | – | – | 812 | 327 |
| **As at Mar 31 2017** *(unaudited)* | **(24,323)** | **(10,500)** | **(5,676)** | **(11,166)** | **(31,515)** |
| Jan 1 2016 | (24,361) | (164,557) | (5,676) | (10,353) | (31,636) |
| Impairment loss recognised | – | – | – | – | (143) |
| Impairment loss utilised/reversed | 10 | – | – | 629 | 236 |
| **As at Mar 31 2016** *(unaudited)* | **(24,351)** | **(164,557)** | **(5,676)** | **(9,724)** | **(31,543)** |

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares.

** Inventory write-downs and write-down reversals are charged to cost of products and services sold .

*** Impairment losses on long- and short-term trade and other receivables, including contractual penalties.

### 12.17. Assets pledged as security for Company'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 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 Company's liabilities (December 31st 2016: PLN 10,688 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 Company's liabilities (December 31st 2016: PLN 13,039 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW Unit Project (a second-ranking registered pledge over a set of movables and rights).

### 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, RAFAKO S.A.'s share capital remained unchanged and as at March 31st 2017 amounted to 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.

(PLN '000)

### 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. 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 Q1 2017, the Company did not pay dividends nor did the Management Board declare such payment.

### 12.23. Earnings/(loss) per share

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

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

| | *Three months ended Mar 31 2017 (unaudited)* | *Three months ended Mar 31 2016 (unaudited)* |
|---|---|---|
| Net profit/(loss) from continuing operations | (8,769) | 317 |
| Profit/(loss) from discontinued operations | – | – |
| Net profit/(loss) | (8,769) | 317 |
| Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share | (8,769) | 317 |
| Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share | 84,931,998 | 84,931,998 |
| Dilutive effect: | | |
| Stock options | – | – |
| Cancellable preference shares | – | – |
| Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share | 84,931,998 | 84,931,998 |
| Earnings/(loss) per share | | |
| – basic earnings/(loss) from profit/(loss) for the period | (0.10) | 0.00 |

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

(PLN '000)

### 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 Company recognises a provision for the present value of its obligation related to payment of retirement gratuity benefits, jubilee benefits and the Company Social Benefits Fund. The provision amount and a reconciliation showing movements in the provision during the reporting period are presented in the table below.

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| As at Jan 1 | 23,767 | 25,473 |
| Interest expense | 187 | 713 |
| Current service costs | 126 | 501 |
| Actuarial (gains)/losses | (177) | 854 |
| Benefits paid | (476) | (2,714) |
| Recognition/reversal of provision for employee benefit obligations | 1,060 | (1,060) |
| **Closing balance** | **24,487** | **23,767** |
| Long-term provisions | 22,160 | 21,773 |
| Short-term provisions | 2,327 | 1,994 |

The main 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

(PLN '000)

### 12.25. Long-term trade and other payables

| | Mar 31 2017 (unaudited) | Dec 31 2016 |
|---|---|---|
| Trade payables | | |
| Payables to related entities | 207 | 100 |
| Payables to other entities | 12,314 | 11,774 |
| | **12,521** | **11,874** |
| Capital commitments | – | 16 |
| | **–** | **16** |
| Employee benefit obligations | 22,160 | 21,773 |
| | **22,160** | **21,773** |
| Financial liabilities | | |
| Finance lease liabilities | 2,328 | 2,662 |
| | **2,328** | **2,662** |
| Other liabilities | | |
| Unpaid bonus accrual | 570 | 531 |
| Provisions for warranty repairs | 5,002 | 5,717 |
| Amounts payable under voluntary redundancy programme | 1,133 | 1,460 |
| | **6,705** | **7,708** |

### 12.26. Short-term provisions, trade and other payables

| | Mar 31 2017 (unaudited) | Dec 31 2016 |
|---|---|---|
| Trade payables | | |
| Payables to related entities | 3,602 | 4,972 |
| Payables to other entities | 97,961 | 115,477 |
| | **101,563** | **120,449** |
| Other financial liabilities | | |
| Valuation of derivatives | | |
| Finance lease liabilities | 1,646 | 1,616 |
| | **1,646** | **1,616** |
| Liabilities under investments in non-current assets | 576 | 954 |
| | **576** | **954** |

(PLN '000)

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Other liabilities | | |
| VAT | 9,617 | 21,301 |
| Personal income tax | 1,860 | 2,104 |
| Social security liabilities | 7,326 | 7,320 |
| Other taxes, customs duties and insurance payable | 3 | 5 |
| Salaries and wages payable | 7,242 | 6,987 |
| Accrued holiday entitlements | 4,437 | 3,553 |
| Unpaid bonus accrual | 6,500 | 6,765 |
| Provisions for warranty repairs | 13,619 | 13,936 |
| Accrual for costs of uninvoiced materials and services | 7,233 | 5,120 |
| Accrual for audit fees | 72 | 56 |
| Provisions for other liabilities and disputed claims | 5,573 | 5,802 |
| Amounts payable under voluntary redundancy programme | 2,579 | 5,634 |
| Provision for fine imposed by PSFA | 700 | 700 |
| Amounts payable under the Company Social Benefits Fund | 576 | |
| Other amounts payable to employees | 516 | 398 |
| Security deposits | 289 | 289 |
| Other | 415 | 608 |
| | **68,557** | **80,578** |

## 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 full-year financial statements.

## 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 Company presents the particular classes and categories of its financial instruments at carrying amounts (their fair values approximate their 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.

| *Classes and categories of financial assets* | *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 bonds | 28,824 | - |
| Short-term bonds | 5494 | - |
| **Loans and receivables** | **208,070** | **317,536** |
| Trade receivables | 118,969 | 188,757 |
| Investment receivables | 106 | 185 |
| Other receivables | 76,258 | 82,012 |
| Loans advanced | 434 | 458 |
| Long-term deposits | – | – |
| Short-term deposits | – | – |
| Other non-current financial assets | 12,303 | 34,994 |
| Other current financial assets | - | 11,130 |
| **Cash and cash equivalents** | **72,228** | **65,882** |
| | **314,865** | **383,627** |

(PLN '000)

| *Classes and categories of financial liabilities* | *Carrying amount*<br>*Mar 31 2017*<br>*(unaudited)* | *Dec 31 2016* |
|---|---|---|
| **Financial liabilities at fair value through profit or loss** | – | – |
| Derivative instruments | – | – |
| **Financial liabilities at amortised cost** | **262,561** | **282,405** |
| Borrowings | 147,901 | 149,112 |
| Trade payables (including capital commitments) | 114,660 | 133,293 |
| Other financial liabilities | – | – |
| **Liabilities under guarantees, factoring and excluded from the scope of IAS 39** | **3,974** | **4,278** |
| Liabilities under leases and rental contracts with purchase option | 3,974 | 4,278 |
| | **266,535** | **286,683** |

(PLN '000)

## 15. Borrowings

| *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 | Jun 30 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 | Jun 30 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.

(PLN '000)

| *Short-term borrowings* | *Security* | *Other* | *Currency* | *Effective interest rate* | *Maturity* | *Liabilities under borrowings* | |
|---|---|---|---|---|---|---|---|
| | | | | | | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
| **Short-term loans:** | | | | | | | |
| PGL-DOM Sp. z o.o.***** | blank promissory note with a promissory note declaration | Cash loan agreement to be used for funding day-to-day operations | PLN | 1M WIBOR + margin | Dec 31 2017 | 2,005 | 2,005 |
| | | | | | | **2,005** | **2,005** |

***** A subsidiary.

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

(PLN '000)

## 16. Derivative instruments

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

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

## 17. Capital management

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

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Total | 320,036 | 328,760 |
| Borrowed funds (bank credit facility and loans) | 147,901 | 101,399 |
| Total equity and liabilities | 772,336 | 829,104 |
| **Capitalisation ratio** | **0.41** | **0.40** |

## 18. Provisions for costs

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

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

(PLN '000)

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

| | *Provision for expected losses on contracts** | *Provision for length-of-service awards and retirement gratuity and Company Social Benefits Fund* | *Provision for unused holiday entitlement*** | *Provision for warranty repairs*** | *Provision for costs of contractual penalties* | *Provision for bonuses*** | *Provision for voluntary redundancy programme* | *Provision for other costs*** | *Other provisions* |
|---|---|---|---|---|---|---|---|---|---|
| Jan 1 2017 | 19,239 | 23,767 | 3,553 | 19,653 | 4,856 | 7,296 | 7,094 | 6,502 | 56 |
| Provision recognised | – | 720 | 884 | 1,605 | 10 | – | – | 30 | 72 |
| Reversal/utilisation of provision | (6,080) | – | – | (2,637) | (2,304) | (226) | (3,383) | (3,641) | (56) |
| **As at Mar 31 2017** *(unaudited)* | **13,159** | **24,487** | **4,437** | **18,621** | **2,562** | **7,070** | **3,711** | **2,891** | **72** |
| Jan 1 2016 | 29,807 | 25,473 | 3,076 | 11,925 | – | 7,095 | – | 7,000 | 111 |
| Provision recognised | 64 | 76 | 1,213 | 3,167 | – | 23 | – | 48 | 72 |
| Provision reversed/ utilised | (8,326) | – | – | (1,864) | – | | – | (473) | (111) |
| **As at Mar 31 2016** *(unaudited)* | **21,545** | **25,549** | **4,289** | **13,228** | **–** | **7,118** | **–** | **6,575** | **72** |

*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 Company did not issue, redeem or repay any debt or equity securities.

## 20. Dividends paid or declared

In the three months ended March 31st 2017, the Company did not pay dividend and the Management Board did not declare dividend.

## 21. Capital commitments

As at March 31st 2017, the Company had commitments related to purchase of property, plant and equipment of PLN 573 thousand. As at March 31st 2017, the Company 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* |
|---|---|---|
| Off-balance sheet items under financial guarantees received mainly as security for performance of contracts, including: | 203,929 | 207,835 |
| - from related entities | – | – |
| Receivables under sureties received, including: | – | – |
| - from related entities | – | – |
| Promissory notes received as security, including: | 23,389 | 25,289 |
| - from related entities | 11,443 | 11,536 |
| Letters of credit | – | – |
| | **227,318** | **233,124** |

| | *Mar 31 2017 (unaudited)* | *Dec 31 2016* |
|---|---|---|
| Off-balance sheet items 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 | – | 1,394,668 |
| Promissory notes issued as security, including: | 14,178 | 6,952 |
| - to related entities | 2,000 | 2,000 |
| Letters of credit | – | – |
| | **1,617,658** | **1,602,229** |

In the first three months of 2017, RAFAKO S.A. recorded a PLN 15,429 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 covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the Jaworzno project (construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant). The largest item among guarantees which expired in the first three months of 2017 was a performance bond of PLN 975 thousand.

In Q1 2017, the Company's contingent receivables fell by PLN 5,806 thousand (mainly performance bonds), including a decrease of PLN 3,906 thousand in receivables under bank and insurance guarantees, and of PLN 1,900 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 Company was party to pending court proceedings, both as the 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 Q1 2017, the Company converted arrangement receivables from a related entity into bonds, as described in detail in Note 12.8 to these interim condensed financial statements.

## 25. Management Board and Supervisory Board of the Company

In the three months ended March 31st 2017, no changes took place in the composition of the Company's Management Board.

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

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

In the three months ended March 31st 2017, no changes took place in the composition of the Company's Supervisory Board.

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

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

(PLN '000)

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

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

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

## 27. Related-party transactions

In the first three months of 2017 and in 2016, the Company did not enter into any material related-party transactions on non-arm's length terms. Aggregate amounts of related-party transactions in the financial periods indicated:

| *Related party* | *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 | 206 | 1,302 | – | 16 |
| | 2016 | 617 | 2,197 | 36,938 | - |
| **PBG Group companies:** | | | | | |
| PBG Oil and Gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.) | 2017 | 21 | 534 | 8 | – |
| | 2016 | 62 | 31,542 | 13 | 6,076 |
| PBG ERIGO Sp. z o.o. | 2017 | – | – | 3 | – |
| | 2016 | 12 | – | 6 | – |
| PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA | 2017 | 18 | – | 8 | 18 |
| | 2016 | 56 | – | 8 | – |
| **Subsidiaries:** | | | | | |
| PGL-DOM Sp. z o.o. | 2017 | – | 14 | – | 1 |
| | 2016 | – | 44 | – | 2 |
| RAFAKO Engineering Sp. z o. o. | 2017 | 278 | 1,599 | 926 | 1,070 |
| | 2016 | 798 | 4,079 | 1,140 | 732 |
| RAFAKO Engineering Solution doo. | 2017 | – | 125 | – | 147 |
| | 2016 | – | 3,302 | – | 188 |
| RAFAKO Hungary Sp. z o.o. | 2017 | – | – | – | 1 |
| | 2016 | 26 | – | 201 | – |
| ENERGOTECHNIKA ENGINEERING Sp. z o.o. | 2017 | 19 | 2,840 | 12 | 2,401 |
| | 2016 | 108 | 7,116 | 15 | 1,484 |
| E001RK Sp. z o.o. | 2017 | 2 | 60 | – | 24 |
| | 2016 | 5 | 180 | – | 25 |
| E003B7 Sp. z o.o. | 2017 | 558 | – | 12,486 | – |
| | 2016 | 530 | – | 10,097 | – |
| RENG-Nano Sp. z o.o. | 2017 | *3* | – | 2,305 | – |
| | 2016 | – | – | – | – |

| Related party | *Three months ended March 31:* | *Sale to related parties* | *Purchase from related parties* | *Receivables from related entities* | *Liabilities to related parties* |
|---|---|---|---|---|---|
| **Related parties:** | | | | | |
| PBG Foundation | 2017 | – | 180 | – | – |
| | 2016 | – | 103 | – | 35 |
| SWGK CONSULTING Sp. z o.o. | 2017 | – | 13 | | 15 |
| | 2016 | – | – | – | 100 |
| Mostostal Energomontaż Gliwice S.A. | 2017 | – | – | – | 57 |
| | 2016 | – | – | – | 102 |
| Energoprojekt Katowice | 2017 | – | – | – | – |
| | 2016 | – | 287 | – | 172 |
| BPIL Grzegorz Kiczor | 2017 | – | 70 | – | 60 |
| | 2016 | – | – | – | – |
| Dwór w Smólsku | 2017 | – | 60 | – | 25 |
| | 2016 | – | – | – | – |
| Corporate Finance & IT Sp. z o.o. | 2017 | 62 | – | 52 | – |
| | 2016 | – | – | – | – |

## 28. Brief description of the Company's material 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;

(PLN '000)

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 Company has not published any forecasts for 2017.

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

Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. are presented in Note 30 to the interim condensed consolidated financial statements for the three months ended March 31st 2017.

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

| | *Company* | *As at Mar 21 2017* | *Increase* | *Decrease* | *As at May 15 20157* |
|---|---|---|---|---|---|
| Member of the management staff | | | | | |
| Edward Kasprzak<br>Vice President of the Management Board | RAFAKO | 2,000 | – | – | 2,000 |
| Member of the supervisory staff | – | – | – | – | – |

## 32. 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)

### 33. Events after the reporting period

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

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.

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 exceeding by the Funds of the threshold of 5% of total voting rights at the Company followed as a result of transactions executed in the regulated market on April 28th 2017. Prior to the change, the Funds held 4,226,334 shares in RAFAKO S.A. and the same number of voting rights at its General Meeting, representing 4.98% of RAFAKO S.A.'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 shares in RAFAKO S.A. and the same number of voting rights at its General Meeting, representing 5.03% of RAFAKO S.A.'s share capital and the same percentage of total voting rights at its General Meeting.

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