RAFAKO S.A.

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the six months ended June 30th 2017

September 7th 2017

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(PLN '000)

Interim condensed statement of comprehensive income

for the six months ended June 30th 2017

	Note	*Six months ended June 30th 2017 (unaudited)*	*Six months ended June 30th 2016 (unaudited)*	*Three months ended June 30th 2017 (unaudited)*	*Three months ended June 30th 2016 (unaudited)*
Continuing operations					
Revenue	11.1	**286,734**	**447,041**	**152,532**	**218,252**
Revenue from sale of goods and services		285,424	445,760	151,934	217,535
Revenue from sale of materials		1,310	1,281	598	717
Cost of sales	11.1	**(250,950)**	**(416,734)**	**(137,103)**	**(205,902)**
Gross profit/(loss)		**35,784**	**30,307**	**15,429**	**12,350**
Other income	11.1	3,144	3,318	1,634	1,928
Distribution costs	11.1	(19,690)	(14,921)	(12,166)	(7,887)
Administrative expenses		(20,870)	(20,581)	(10,241)	(10,672)
Other expenses	11.1	(2,882)	(1,942)	(1,565)	(1,537)
Operating profit/(loss)		**(4,514)**	**(3,819)**	**(6,909)**	**(5,818)**
Finance income	11.1	305	1,680	164	1,249
Finance costs	11.1	(6,676)	(2,790)	(1,441)	(1,161)
Profit/(loss) before tax		**(10,885)**	**(4,929)**	**(8,186)**	**(5,730)**
Income tax expense	11.2	(6,640)	511	(570)	995
Net profit/(loss) from continuing operations	11.23	**(17,525)**	**(4,418)**	**(8,756)**	**(4,735)**

Racibórz, September 7th 2017

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

(PLN ’000)

Interim condensed statement of comprehensive income

for the six months ended June 30th 2017

	Note	*Six months ended June 30th 2017 (unaudited)*	*Six months ended June 30th 2016 (unaudited)*	*Three months ended June 30th 2017 (unaudited)*	*Three months ended June 30th 2016 (unaudited)*
Other comprehensive income for period		**(52)**	**(207)**	**(97)**	**(450)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(133)	73	(35)	78
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(133)**	**73**	**(35)**	**78**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		100	(345)	(77)	(651)
Tax on other comprehensive income	11.2	(19)	65	15	123
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**81**	**(280)**	**(62)**	**(528)**
Total comprehensive income for the period		**(17,577)**	**(4,625)**	**(8,853)**	**(5,185)**
Weighted average number of shares	11.23	84,931,998	84,931,998	84,931,998	84,931,998
Basic/diluted earnings/(loss) per share, PLN	11.23	(0.21)	(0.05)	(0.10)	(0.06)

Racibórz, September 7th 2017

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(PLN '000)

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

	Note	*June 30th 2017 (unaudited)*	*December 31st 2016*
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	11.4	145,100	147,968
Intangible assets		10,773	11,058
Long-term trade receivables, other receivables and prepayments		3,424	284
Trade receivables	11.6	3,301	3
Other receivables and prepayments	11.6	123	281
Non-current financial assets		68,601	64,570
Shares in subsidiaries	11.7	29,349	29,349
Shares in other entities	11.7	281	227
Long-term bonds	11.8	25,269	–
Other non-current financial assets	11.9, 13	13,702	34,994
Deferred tax assets	11.2	41,382	48,177
		269,280	**272,057**
Current (short-term) assets			
Inventories	11.10	13,367	13,039
Short-term trade receivables, other receivables and prepayments	11.15	181,124	294,144
Trade receivables	11.15	118,667	188,754
Income tax receivable	11.15	–	10,918
Other receivables and prepayments	11.15	62,457	94,472
Gross amount due from customers for construction contract work	10	135,848	172,387
Current financial assets		75,038	77,470
Short-term bonds	11.12	5,903	–
Short-term loans advanced	13	422	458
Other current financial assets	11.13, 13	–	11,130
Cash and cash equivalents	11.3, 11.14	68,713	65,882
		405,377	**557,040**
Non-current assets held for sale		7	7
TOTAL ASSETS		**674,664**	**829,104**

Racibórz, September 7th 2017

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(PLN '000)

Interim condensed statement of financial position

as at June 30th 2017

	Note	*June 30th 2017 (unaudited)*	*December 31st 2016*
EQUITY AND LIABILITIES			
Equity			
Share capital		169,864	169,864
Share premium	11.21	95,340	95,340
Reserve funds		69,061	131,301
Exchange differences on translating foreign operations		(202)	(69)
Retained earnings / Accumulated losses		(22,880)	(67,676)
		311,183	**328,760**
Non-current liabilities			
Finance lease liabilities	11.25	1,760	2,662
Employee benefit obligations	11.24, 17.2	22,394	21,773
Long-term trade and other payables		19,298	19,598
Trade payables	11.25	12,016	11,874
Amounts payable for tangible and intangible assets	13, 20	–	16
Other liabilities	11.25	7,282	7,708
		43,452	**44,033**
Current liabilities			
Trade and other payables	11.26	172,184	201,981
Trade payables	13	91,102	120,449
Amounts payable for tangible and intangible assets	13, 20	996	954
Other liabilities	11.26	80,086	80,578
Current portion of interest-bearing borrowings	14	51,132	149,112
Other financial liabilities and finance lease liabilities	11.26, 13	1,803	1,616
Employee benefit obligations	11.24, 17.2	2,359	1,994
Amounts due to customers and provisions for construction contract work and deferred income	10	92,551	101,608
Amounts due to customers for construction contract work	10	76,413	76,992
Provisions for construction contract work	17	15,578	24,095
Grants		560	521
		320,029	**456,311**
Total liabilities		**363,481**	**500,344**
TOTAL EQUITY AND LIABILITIES		**674,664**	**829,104**

Racibórz, September 7th 2017

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(PLN ’000)

Interim condensed statement of cash flows

for the six months ended June 30th 2017

	Note	*Six months ended June 30th 2017 (unaudited)*	*Six months ended June 30th 2016 (unaudited)*
Cash flows from operating activities			
Profit/(loss) before tax		(10,885)	(4,929)
Adjustments for:		112,682	(92,295)
Depreciation and amortisation		5,289	5,863
Foreign exchange gains/(losses)		20	(16)
Interest and dividends, net		1,963	1,892
(Gain)/loss from investing activities		235	(472)
(Increase)/decrease in receivables	11.3	96,018	46,143
(Increase)/decrease in inventories		(328)	4,759
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.3	(17,127)	(53,944)
Change in prepayments and accruals for construction contracts	11.3	27,443	(96,028)
Income tax (paid)/received		(857)	(489)
Other		26	(3)
Net cash from operating activities		**101,797**	**(97,224)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		188	425
Purchase of property, plant and equipment and intangible assets	11.3	(2,007)	(3,196)
Proceeds from debt instruments held	11.8	3,685	–
Purchase of financial assets		–	(4,317)
Dividends and interest		4	4
Loans advanced		16	–
Net cash from investing activities		**1,886**	**(7,084)**
Cash flows from financing activities			
Payment of finance lease liabilities		(912)	(936)
Proceeds from borrowings	11.3	–	40,016
Repayment of borrowings		(98,282)	–
Interest paid	11.3	(1,529)	(1,106)
Bank fees		(47)	(165)
Other		44	49
Net cash from financing activities		**(100,726)**	**37,858**
Net increase/(decrease) in cash and cash equivalents		2,957	(66,450)
Net foreign exchange differences		(126)	72
Cash at beginning of period	11.14	**65,882**	**97,109**
Cash at end of period	11.14	**68,713**	**30,731**

Racibórz, September 7th 2017

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(PLN ’000)

Interim condensed statement of changes in equity

for the six months ended June 30th 2017

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total equity*
As at Jan 1 2017	**169,864**	**95,340**	**131,301**	**(69)**	**(67,676)**	**328,760**
Profit from continuing operations	–	–	–	–	(17,525)	(17,525)
Other comprehensive income	–	–	–	(133)	81	(52)
Distribution of retained earnings	–	–	(62,240)	–	62,240	–
As at Jun 30 2017 *(unaudited)*	**169,864**	**95,340**	**69,061**	**(202)**	**(22,880)**	**311,183**
As at Jan 1 2016	**169,864**	**95,340**	**104,716**	**60**	**21,843**	**391,823**
Profit from continuing operations	–	–	–	–	(4,418)	(4,418)
Other comprehensive income	–	–	–	73	(280)	(207)
Distribution of retained earnings	–	–	26,585	–	(26,585)	–
As at Jun 30 2016 *(unaudited)*	**169,864**	**95,340**	**131,301**	**133**	**(9,440)**	**387,198**

Racibórz, September 7th 2017

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NOTES

1. General information

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

The Company was established for an indefinite term.

These interim condensed financial statements of the Company cover the six months ended June 30th 2017 and contain comparative data for the six months ended June 30th 2016 and as at December 31st 2016. The statement of comprehensive income and notes thereto contain data for the three months ended June 30th 2017 and the comparative data for the three months ended June 30th 2016, and have not been audited or reviewed by an auditor.

The Company’s principal business activity includes:

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

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

These interim condensed financial statements for the three months ended June 30th 2017 were authorised for issue by the Company’s Management Board on September 7th 2017.

The Company has also prepared interim condensed consolidated financial statements for the six months ended June 30th 2017, which were authorised for issue by the Company’s Management Board on September 7th 2017.

2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”).

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 the Polish złoty (“PLN”), and all amounts are stated in PLN thousands unless otherwise indicated.

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. June 30th 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.

An analysis of the Company’s financial position should take into consideration the following factors: in the six months ended June 30th 2017, the Company recognised revenue of PLN 287m and a net loss of PLN 18m; further, as at June 30th 2017, the Company’s net current assets were PLN 86m (including cash of PLN 69m). A year-on-year decrease in revenue in the six months ended June 30th 2017 was primarily a consequence of lower revenue from nearly completed contracts combined with an early stage of work under two new major contracts, awarded to the Company in the six months ended December 31st 2016 (the EUR 150m contract to construct a biomass-fired co-generation unit and the PLN 289m contract to deliver and install an SCR system and upgrade electrostatic precipitators).

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

In the first half of 2017, as planned, the Company executed the following documents: an annex of June 30th 2017 with PKO BP S.A. to extend repayment of a PLN 150m facility until June 30th 2018 and an annex of March 1st 2017 with TAURON Wytwarzanie S.A. to increase the contract price for the Jaworzno project by PLN 71m and to extend the contract term by eight months. In addition, on August 16th 2017, the Company was notified that the bid submitted by a consortium of which it was a member for the “Construction of two coal-fired steam units (2x50 MW) on the Lombok Island (Indonesia)” had been selected as the winning bid by PT. PLN (PERSERO). The Company’s share in the contract is EUR 70m. In line with the Management Board’s assumptions, these measures have a positive effect on the Company’s liquidity.

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

- Expected revenue increase − the assumption is based on the current value of the order book (which to a significant extent supports the revenue forecast) and acquisition of material new contracts. The Management Board is taking steps to deliver a net profit in 2018 and to further improve the Company’s liquidity position. These plans assume that the existing contracts (which account for a significant portion of the forecast revenue) will be performed in line with original budgets, and that in the coming 12 months the Company will acquire new contracts to fully deliver the budgeted revenue;
- Timely delivery and execution of the contracts in the Company’s current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the Company’s current order book, and the 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 Company should be able to materially reduce;
- No material limitations of the Company’s access to necessary financial guarantees imposed by financial institutions (such guarantees are necessary to acquire and execute contracts), and feasibility of extending financing of the Company’s operations with a bank borrowing after June 30th 2018.

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

The revenue and financial results achieved by the Company in the six months ended June 30th 2017 were lower than expected. However, having considered the structure of the Company’s net current assets, the better-than-expected cash flows, the available cash balance, the current backlog, and cash-flow projections for the coming 12 months, as at the date of these consolidated financial statements, the Management Board did not identify any material threats to the Company’s ability to continue as a going concern in the foreseeable future. Accordingly, these interim condensed financial statements of the have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

Despite the constraints discussed in Note 11.1.1, the Company’s financial condition is supported by the very sound financial position of E003B7 sp. z o.o., a subsidiary which executes around 88.7% of the Jaworzno 910 MW project with an approximate value of PLN 4.6bn. In H1 2017, the subsidiary delivered revenue of PLN 572m and net profit of PLN 28m, had net current assets of PLN 125m, and identified no material risks to the execution of the project.

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

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

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

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

Implementation of IFRS 15

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

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.

Implementation of IFRS 16

As at the date of these interim financial statements, the Company was analysing the impact of new standard IFRS 16 on its financial statements.

4. Material judgements and estimates

4.1. Professional judgement

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

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

Classification of leases where the Company is the lessee

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

Embedded derivatives

At the end of each reporting period the management of the Company reviews current contracts to determine whether they contain any embedded foreign currency derivatives whose economic characteristics and risks 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.

4.2. Uncertainty of estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of 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 recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company made an assessment of whether there were any indications of impairment of assets. The analysis showed that during the six months ended June 30th 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 11.11, 11.15 and 11.16 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 11.24. 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 13

Depreciation and amortisation rates

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

Revenue recognition

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total contract costs increased by 10% in relation to the Company’s original estimate, the revenue would decrease by approximately PLN 29.4m.

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 is recognised as cost of core activities in accordance with IFRS. Details of accounting for construction contract revenue and costs in the reporting period are presented in Note 0 to these interim condensed financial statements.

Provision for costs due to late performance

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

Provisions for warranty repairs

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

Impairment losses on financial assets

At the end of a reporting period, the Company makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the Company recognises an allowance to bring down the carrying amount to the present value of the expected cash flows.

Uncertainty related to tax settlements

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

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

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

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

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

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

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

(PLN ’000)

5. Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	June 30th 2017	*December 31st 2016*	*June 30th 2016*
USD	3.7062	4.1793	3.9803
EUR	4.2265	4.4240	4.4255
GBP	4.8132	5.1445	5.3655
CHF	3.8667	4.1173	4.0677
SEK	0.4379	0.4619	0.4696
TRY	1.0535	1.1867	1.3791

6. Change in estimates

In the six months ended June 30th 2017 and as at June 30th 2017, there were no changes of estimates in significant areas of the Company’s operations.

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

In the reporting period, there were no changes in the structure of the Group.

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

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

9. Operating segments

The Company operates in a single market segment of power and environmental protection facilities.

(PLN ’000)

10. Construction contracts

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

The table below presents the effects of accounting for construction contracts, including revenue and costs of contracts performed in the six months ended June 30th 2017 and June 30th 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.

	June 30th 2017 (unaudited)	*December 31st 2016*	*June 30th 2016 (unaudited)*
Contract costs incurred to date (cumulative)	2,722,242	2,965,209	2,681,927
Recognised profits less recognised losses to date (cumulative)	99,938	181,204	197,929
Contract revenue recognised by reference to the contract stage of completion (cumulative)	2,822,180	3,146,413	2,879,856
Progress billings (cumulative)	2,757,189	3,064,402	2,568,974
Gross amount due to customers for contract work (liability), including:	**(76,413)**	**(76,992)**	**(66,166)**
- advance payments received (liabilities arising from advances received)	(38,787)	(27,841)	(59,147)
- adjustment to advance payments received arising from amounts due from customers	23,160	26,048	52,702
- gross amount due to customers for contract work	(60,786)	(75,199)	(59,721)
Prepayments relating to accounting for construction contracts, including:	**135,848**	**172,387**	**348,885**
- gross amount due from customers for contract work (asset)	118,195	155,257	330,036
- contract acquisition cost and other accrued contract costs	17,653	17,130	18,849
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(4,676)	(4,856)	(12,135)
Provision for construction contract losses	(10,902)	(19,239)	(18,038)

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 S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for ‘Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800–910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems’. The value of the contract is approximately PLN 5.5bn (VAT included). On August 4th 2013, the Jaworzno Project consortium agreement was amended, with RAFAKO taking over 99.99% of the project deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently, the distribution of consideration due to the consortium members changed to reflect the members’ actual shares in the project.

Accounting for the Jaworzno project:

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

RAFAKO and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees for an aggregate amount of PLN 648m, 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 receivables/payables 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.

The subsidiary E001RK Sp. z o.o. (“SPV-Rafako”) was appointed by RAFAKO S.A. as its subcontractor in charge of the entire scope of work and services related to the construction of the power generating units at Elektrownia Opole. SPV-RAFAKO’s consideration 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.

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

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

For the six months ended June 30th 2017, the Company posted revenue of PLN 286,734 thousand, down by PLN 160,307 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 six months of 2017 amounted to PLN 250,950 thousand, with the Company's gross profit at PLN 35,784 thousand (up by PLN 5,477 thousand on the first six 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 E003B7 Sp. z o.o.

In the current reporting period, distribution costs recognised in the Company's comprehensive income for the six months ended June 30th 2017 (PLN 19,690 thousand) were primarily attributable to contract acquisition costs of PLN 5,338 thousand (June 30th 2016: PLN 5,762 thousand), costs of promotion and advertising of PLN 3,247 thousand (June 30th 2016: PLN 1,675 thousand) and impairment losses on trade receivables of PLN 3,107 thousand (June 30th 2016: PLN 146 thousand).

The largest component of other income was income of PLN 2,600 thousand from a surety provided to E003B7 Sp. z o.o., a subsidiary (June 30th 2016: PLN 2,402 thousand) and income from liquidated damages totalling PLN 186 thousand (June 30th 2016: PLN 4 thousand).

Other operating expenses chiefly included donations of PLN 1,284 thousand (June 30th 2016: PLN 539 thousand) and scrapping cost of PLN 372 thousand (June 30th 2016: PLN 17 thousand).

In the six months ended June30th 2017, the Company's finance income was generated mainly from interest on security deposits provided of PLN 187 thousand (June 30th 2016: PLN 541 thousand), and interest on financial instruments PLN 63 thousand (June 30th 2016: PLN 19 thousand).

Finance costs in the period chiefly included net foreign exchange losses of PLN 3,803 thousand, interest expense on financial instruments of PLN 1,650 thousand (June 30th 2016: PLN 1,380 thousand), interest on employee benefit obligations of PLN 378 thousand (June 30th 2016: PLN 639 thousand), and commissions charged by banks on borrowings, financial guarantees and insurance of PLN 367 thousand (June 30th 2016: PLN 540 thousand).

The decrease in net result was mainly attributable to an increase in distribution costs, which in the six months ended June 30th 2017 amounted to PLN 19,690 thousand (June 30th 2016: PLN 14,921 thousand), high finance costs, which in the six months of 2017 amounted to PLN 6,676 thousand (June 30th 2016: PLN 2,790 thousand) and deferred income tax related to the valuation of construction contracts, which in the six months ended June 30th 2017 amounted to PLN 3,275 thousand (June 30th 2016: PLN 9,107 thousand).

(PLN ’000)

11.2. Income tax expense

Income tax expense

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

	Six months ended June 30th 2017 (unaudited)	*Six months ended June 30th 2016 (unaudited)*	*Three months ended June 30th 2017 (unaudited)*	*Three months ended June 30th 2016 (unaudited)*
Statement of profit or loss				
Current income tax	136	–	–	–
Current income tax expense	–	–	–	–
Adjustments to current income tax from previous years	136	–	–	–
Deferred tax	(6,776)	511	(570)	995
Related to recognition and reversal of temporary differences	(6,776)	511	(570)	995
Adjustments to deferred tax from previous years	–	–	–	–
Income tax expense in the statement of profit or loss	**(6,640)**	**511**	**(570)**	**995**
Other comprehensive income				
Deferred tax on other comprehensive income	(19)	65	15	123
Related to recognition and reversal of temporary differences	(19)	65	15	123
Income tax expense recognised in other comprehensive income	**(19)**	**65**	**15**	**123**

(PLN '000)

Deferred income tax calculated as at June 30 2017

Deferred income tax calculated as at June 30 2017 relates to the following:

	Statement of financial position		*Statement of comprehensive income for six months ended*	
	June 30th 2017 (unaudited)	*December 31st 2016*	*June 30th 2017 (unaudited)*	*June 30th 2016 (unaudited)*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,799)	(15,688)	(111)	(353)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,695	1,512	183	(61)
- difference between tax base and carrying amount of loans and receivables	1,254	1,125	129	380
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(15,759)	(20,504)	4,745	(19,167)
- difference between tax base and carrying amount of inventories	2,265	2,276	(11)	328
- provisions	13,977	17,504	(3,527)	495
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	31	34	(3)	22
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	–	–	(4)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	29,044	37,064	(8,020)	10,060
- tax loss	17,083	17,083	–	16,481
- adjustment to costs of unpaid invoices	6,546	7,763	(1,217)	(7,102)
other	1,047	10	1,037	(503)
Deferred tax expense/benefit			**(6,795)**	**576**
Net deferred tax asset/liability, including:	**41,382**	**48,177**		
Deferred tax assets	41,382	48,177		
Deferred tax liability	–	–		

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

In the first half of 2017, the Company recorded a tax loss of PLN 38,419 thousand. The Company assessed its ability to realise a deferred tax asset on account of the tax loss based on tax forecasts. In line with the prudent valuation principle, the Company's Management Board decided not to recognise a deferred tax asset on the tax loss recorded in the six months ended June 30th 2017. The total amount of tax loss for 2016 and 2017, which was not recognized in deferred tax, is PLN 73,008 thousand.

11.3. Significant items disclosed in the statement of cash flows

The PLN 96,018 thousand decrease in receivables disclosed in the statement of cash flows for the six months ended June 30th 2017 resulted mainly from:

- PLN 66,789 thousand — decrease in trade receivables,
- PLN (1,610) thousand — increase in receivables from the state budget (including VAT),
- PLN 1,127 thousand — decrease in prepayments made,
- PLN 19,688 thousand — decrease in security deposits receivable,
- PLN 13,944 thousand — decrease in disputed receivables,
- PLN (355) thousand — increase in receivables under sureties,
- PLN (786) thousand — increase in Company Social Benefits Fund receivables,
- PLN (2,779) thousand — increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the six months ended June 30th 2017, see Note 11.15.

The PLN 17,127 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (29,205) thousand — decrease in trade payables,
- PLN (1,993) thousand — decrease in the provision for warranty repairs,
- PLN (123) thousand — decrease in the provision for employee benefit obligations,
- PLN 2,244 thousand — increase in the provisions for delayed cost collection,
- PLN 5,813 thousand — increase in VAT liabilities,
- PLN 1,086 thousand — increase in the provision for retirement benefit obligations net of actuarial gains/losses
- PLN 5,051 thousand — increase in other liabilities

The decrease of PLN 27,443 thousand in accruals and deferrals relating to accounting for construction contracts as disclosed in the statement of cash flows was mainly caused by:

- PLN 36,539 thousand — decrease in gross amount due from customers for construction contract work
- PLN (8,517) thousand — decrease in provisions for contract work
- PLN (579) thousand — decrease in gross amount due to customers for contract work, including:
- PLN 13,834 thousand — increase in prepayments.

The cash flows of PLN 2,007 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 1,719 thousand and purchase of intangible assets for PLN 288 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 98,282 thousand.

(PLN ’000)

11.4. Property, plant and equipment

For the six months ended June 30 2017 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Motor vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2017	**9,280**	**81,093**	**49,383**	**6,987**	**–**	**1,225**	**147,968**
Purchases	–	–	–	–	–	1,745	1,745
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale			(1)	(4)	–	–	(5)
Transfers from property, plant and equipment under construction	–	785	1,504	–	–	(2,289)	–
Exchange differences on translating foreign operations	–	–	(1)	–	–	–	(1)
Depreciation for period	–	(1,292)	(2,719)	(706)	–	–	(4,717)
Impairment loss for period	–	–	–	–	–	–	–
Net carrying amount as at June 30 2017 *(unaudited)*	**9,280**	**80,586**	**48,166**	**6,387**	**–**	**681**	**145,100**

*Tangible assets pledged as security for the Company’s liabilities as at the reporting date are presented in Note 11.17.1

For the six months ended June 30 2016 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Motor vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2016	9,295	83,125	52,413	7,012	–	1,982	153,827
Purchases	–	–	–	1,045	–	1,464	2,509
Liquidation/sale	–	–	(137)	(25)	–	–	(162)
Transfers from property, plant and equipment under construction	–	371	1,595	219	–	(2,185)	–
Exchange differences on translating foreign operations	–	–	1	–	–	–	1
Depreciation for period	–	(1,249)	(3,019)	(717)	–	–	(4,985)
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	108	(33)	–	–	75
Net carrying amount as at June 30 2016 *(unaudited)*	**9,295**	**82,247**	**50,961**	**7,501**	**–**	**1,261**	**151,265**

(PLN '000)

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

	Six months ended June 30th *2017* *(unaudited)*	*Six months ended* June 30th *2016* *(unaudited)*
Purchase of property, plant and equipment and intangible assets*	2,142	3,225
Proceeds from sale of property, plant and equipment	24	177

*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, as well as purchases and upgrades of production plant and equipment and computer hardware. The expenditure was financed with internally generated funds and finance leases.

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

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Trade receivables, including:	3,301	3
Trade receivables from related entities	–	–
Trade receivables from other entities	3,301	3
Other receivables and prepayments, including:	123	281
Receivables on sale of property, plant and equipment and intangible assets	27	185
Security deposits	96	96
Total receivables (net)	**3,424**	**284**
Impairment loss on receivables	–	–
Gross receivables	**3,424**	**284**

11.7. Shares in subsidiaries and other entities

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	29,349	29,349
Shares in other listed companies	263	209
Shares in other non-listed companies	18	18
	29,630	**29,576**

*Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.17.3

(PLN '000)

11.8. Long-term bonds

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

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

On February 10th 2017, the bonds were allotted to RAFAKO S.A. Below are presented 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 (PLN)	Maturity date
Series B1	1,646	PLN 100.00	164,600	2017-03-31
Series C1	35,208	PLN 100.00	3,520,800	2017-06-30
Series D1	19,734	PLN 100.00	1,973,400	2017-12-31
Series E1	41,386	PLN 100.00	4,138,600	2018-06-30
Series F1	12,294	PLN 100.00	1,229,400	2018-12-31
Series G1	49,961	PLN 100.00	4,996,100	2019-06-30
Series H1	37,813	PLN 100.00	3,781,300	2019-12-31
Series I1	190,450	PLN 100.00	19,045,000	2020-06-30
	388,492		**38,849,200**	

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

2. In accordance with the terms of issue, the bonds issued by PGB S.A. are secured bonds within the meaning of the Bonds Act of January 15 2015. 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, pursuant to Art. 777 of the Code of Civil Procedure. In the opinion of the Management Board, the provided collateral and the total amount payable under the bonds as at the date of these interim condensed 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)

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

Taking into consideration the successful completion of the voluntary arrangement process and performance of the arrangement by PBG S.A., the Management Board believes that 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. Given the current circumstances, as at the date of these interim condensed financial statements, the Management Board deems the risk of non-recovery of the receivables as minimal.

As at June 30th 2017, the discounted value of bonds maturing in more than one was PLN 25,269 thousand.

11.9. Other non-current financial assets

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Other non-current financial assets, including:	13,702	34,994
Arrangement receivables from related entity	–	24,071
Receivables under sureties provided to related entities	13,702	10,923
	13,702	**34,994**

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

11.10. Inventories

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Materials (at net realisable value)		
At cost	25,287	25,017
At net realisable value	13,367	13,039
Total inventories, at the lower of cost and net realisable value	**13,367**	**13,039**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.17.4.

11.11. Inventory write-downs

	Six months ended June 30th *2017* *(unaudited)*	*Six months ended* June 30th *2016* *(unaudited)*
At beginning of period	(11,978)	(10,353)
- write-down recognised	(796)	(2,354)
- write-down reversed	–	–
- write-down used	854	629
Balance at end of period	**(11,920)**	**(12,078)**

11.12. Short-term bonds

As at June 30th 2017, the Company held PLN 5,903 thousand worth of bonds with maturity of less than one year worth, as described in detail in Note 11.8 to these interim condensed financial statements.

(PLN '000)

11.13. Other current financial assets

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Other current financial assets, including:	–	
Advance payment to acquire the right to a loan	10,500	10,500
Impairment loss on advance payment to acquire the right to a loan	(10,500)	(10,500)
Arrangement receivables from related entity	–	11,130
	–	**11,130**

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

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

11.14. Cash and cash equivalents

	June 30th *2017* *(unaudited)*	*December 31st 2016*	June 30th *2016* *(unaudited)*
Cash in hand and at banks	38,076	65,075	6,439
Current deposits for up to 3 months	30,637	807	24,292
	68,713	**65,882**	**30,731**

Cash at banks earns interest at variable rates linked to the reference rates prevailing on the interbank market. 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)

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

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Trade receivables, including:	118,667	188,754
Trade receivables from related entities	1,114	662
Trade receivables from other entities	117,553	188,092
Income tax receivable	–	10,918
Other receivables and prepayments, including:	62,457	94,472
Advance payments to other entities	2,036	3,163
Receivables from the state budget	6,802	5,192
Settlement of property insurance costs	271	675
Settlements with the Company Social Benefits Fund	1,023	237
Disputed receivables	–	13,944
Prepaid expenses	3,195	2,377
Receivables on sale of property, plant and equipment and intangible assets	336	343
Security deposits	48,380	68,068
Other	414	710
Total receivables (net)	**181,124**	**294,144**
Impairment loss on receivables	33,171	31,834
Gross receivables	**214,295**	**325,978**

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

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

The Company 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 118,667 thousand recognised in the statement of financial position as at June 30th 2017 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 48,380 thousand disclosed in the statement of financial position as at June 30th 2017 relate mainly to the following projects:

- SCR system – PLN 8,139 thousand,
- manufacture of high-pressure parts – PLN 5,508 thousand,

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

- a PLN 14,024 thousand cash security deposit returned in connection with the construction of a power generation unit,
- a PLN 7,050 thousand cash security deposit returned in connection with the replacement of component parts of a combustion chamber ,
- a PLN 5,625 thousand cash security deposit provided for the construction of the high-pressure part of a boiler for a waste incineration plant.

(PLN ’000)

11.16. Impairment losses on assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Receivables****
January 1st 2017	(24,363)	(10,500)	(5,676)	(11,978)	(31,834)
Impairment loss recognised	–	–	–	(796)	(4,376)
Impairment loss reversed	53	–	–	–	723
Utilisation	–	–		854	2,316
June 30th 2017 *(unaudited)*	**(24,310)**	**(10,500)**	**(5,676)**	**(11,920)**	**(33,171)**
January 1st 2016	(24,361)	(164,557)	(5,676)	(10,353)	(31,636)
Impairment loss recognised	(12)	–	–	(2,354)	(562)
Impairment loss reversed	10	–	–	–	255
Utilisation	–	154,057	–	629	4
June 30th 2016 *(unaudited)*	**(24,363)**	**(10,500)**	**(5,676)**	**(12,078)**	**(31,939)**

* 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.

11.17. Assets pledged as security for the Company’s liabilities

11.17.1. Property, plant and equipment pledged as security

As at June 30th 2017, property, plant and equipment pledged as security for the Company’s liabilities amounted to PLN 138,615 thousand. The Company’s property, plant and equipment are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.’s, PKO BP S.A.’s, mBank S.A.’s and PZU S.A.’s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Mortgaged property, plant and equipment, including:	89,677	90,182
land	9,258	9,258
buildings and structures	80,419	80,924
Property, plant and equipment encumbered with registered pledge, including:	48,938	50,259
plant and equipment	47,748	48,935
motor vehicles	1,190	1,324
	138,615*	**140,441***

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

11.17.2. Intangible items pledged as security

As at June 30th 2017, intangible assets worth PLN 10,773 thousand were pledged as security for the Company's liabilities (December 31st 2016: PLN 11,058 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.17.3. Shares pledged as security

As at June 30th 2017, shares in companies worth PLN 29,630 thousand (December 31st 2016: PLN 29,576 thousand) are pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

11.17.4. Inventories pledged as security

As at June 30th 2017, inventories worth PLN 13,367 thousand were pledged as security for the Company's liabilities (December 31st 2016: PLN 13,039 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.18. Share capital

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

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

11.19. Par value of shares

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

11.20. Shareholders' rights

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

(PLN '000)

11.21. 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 share premium of PLN 58,562 thousand on sale of Series J shares, less issue costs, the share premium totalled PLN 95,340 thousand. As at June 30th 2017, share premium was PLN 95,340 thousand (December 31st 2016: PLN 95,340 thousand).

11.22. Dividends paid

In H1 2017, the Company did not pay dividends nor did the Management Board declare such payment.

11.23. 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:

	Six months ended June 30th *2017* *(unaudited)*	*Six months ended* June 30th *2016* *(unaudited)*
Net profit/(loss) from continuing operations	(17,525)	(4,418)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(17,525)	(4,418)
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**(17,525)**	**(4,418)**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	84,931,998	84,931,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share	**84,931,998**	**84,931,998**
Earnings/(loss) per share		
– basic/diluted earnings/(loss) from profit/(loss) for the period	(0.21)	(0.06)

The Company does not present diluted earnings per share for the six months ended June 30th 2017 as it does not have any dilutive financial instruments.

(PLN '000)

11.24. 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:

	June 30th *2017* *(unaudited)*	*December 31st 2016*
As at Jan 1	23,767	25,473
Interest expense	378	713
Current service costs	254	501
Actuarial (gains)/losses	(100)	854
Benefits paid	(606)	(2,714)
Recognition/reversal of provision for employee benefit obligations	1,060	(1,060)
Closing balance	**24,753**	**23,767**
Long-term provisions	22,394	21,773
Short-term provisions	2,359	1,994

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

	June 30th *2017* *(unaudited)*	*December 31st 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.
** 2.81% in 2017 and 2% in 2018 and subsequent years.

11.25. Long-term trade and other payables

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Trade payables		
Payables to related entities	78	100
Payables to other entities	11,938	11,774
	12,016	**11,874**
Capital commitments	–	16
	–	**16**

(PLN '000)

	June 30th 2017 (unaudited)	December 31st 2016
Employee benefit obligations	22,394	21,773
	22,394	**21,773**
Financial liabilities		
Finance lease liabilities	1,760	2,662
	1,760	**2,662**
Other liabilities		
Employee benefit obligations	456	531
Provisions for warranty repairs	6,021	5,717
Amounts payable under voluntary redundancy programme	805	1,460
	7,282	**7,708**

11.26. Short-term provisions, trade and other payables

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Trade payables		
Payables to related entities	2,614	4,972
Payables to other entities	88,488	115,477
	91,102	**120,449**
Other financial liabilities		
Valuation of derivatives	–	–
Finance lease liabilities	1,803	1,616
	1,803	**1,616**
Capital commitments	996	954
	996	**954**

(PLN ’000)

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Other liabilities		
VAT	27,114	21,301
Personal income tax	1,740	2,104
Social security	6,541	7,320
Other taxes, customs duties and insurance payable	4	5
Salaries and wages payable	6,259	6,987
Accrued holiday entitlements	4,480	3,553
Employee benefit obligations	6,717	6,765
Provisions for warranty repairs	11,639	13,936
Provision for uninvoiced services and materials	7,364	5,120
Provisions for audit costs	145	56
Provisions for other liabilities and disputed claims	4,518	5,802
Amounts payable under voluntary redundancy programme	1,696	5,634
Provision for penalty imposed by the PFSA	700	700
Other amounts payable to employees	360	398
Security deposits	289	289
Other	520	608
	80,086	**80,578**

12. Objectives and policies of financial risk management

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

13. Financial instruments

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

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

Classes and categories of financial assets	*Carrying amount*	
	June 30th *2017* *(unaudited)*	*December 31st 2016*
Available-for-sale financial assets	**263**	**209**
Long-term shareholdings	263	209
Financial assets held to maturity	**31,172**	–
Long-term bonds	25,269	–
Short-term bonds	5,903	–
Loans and receivables	**184,499**	**317,536**
Trade receivables	121,968	188,757
Investment receivables	27	185
Other receivables (security deposits)	48,380	82,012
Loans advanced	422	458
Long-term deposits	–	–
Short-term deposits	–	–
Other non-current financial assets*	13,702	34,994
Other current financial assets*	–	11,130
Cash and cash equivalents	**68,713**	**65,882**
	284,647	**383,627**

* For a detailed description of changes, see Note 11.9

(PLN '000)

Classes and categories of financial liabilities	Carrying amount June 30th *2017* *(unaudited)*	 *December 31st 2016*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**155,246**	**282,405**
Borrowings	51,132	149,112
Trade payables (including capital commitments)	104,114	133,293
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**3,563**	**4,278**
Liabilities under leases and rental contracts with purchase option	3,563	4,278
	158,809	**286,683**

(PLN ’000)

14. Borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						June 30th *2017 (unaudited)*	*December 31st 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	a revolving overdraft facility of up to PLN 100m***	PLN	1M WIBOR + margin	30.06.2018****	36,377	99,394
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO’s 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	a revolving working capital facility of up to PLN 50m***	PLN	1M WIBOR + margin	30.06.2018****	12,745	47,713
						49,122	**147,107**

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

** As at the date of these financial statements, the Company had established mortgages on its properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facilities.

*** As at the date of issue of these financial statements, in accordance with the annex of June 30th 2017 to the credit facility agreement, the multi-purpose credit facility limit was up to PLN 200m, including:

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

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

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						June 30th *2017 (unaudited)*	*December 31st 2016*
Short-term non-bank borrowings:							
PGL-DOM Sp. z o.o.*****	blank promissory note with a promissory note declaration	cash loan agreement for financing of day-to-day operations	PLN	1M WIBOR + margin	31.12.2017	2,010	2,005
						2,010	**2,005**

***** A subsidiary.

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

(PLN '000)

15. Derivative instruments

As at June 30th 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.

16. Capital management

The purpose of capital management by the Company is to ensure a high level of security for its operations while minimising the costs of raising financing. To ensure stable development, the Company needs to maintain an appropriate relationship between 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).

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Equity	311,183	328,760
Borrowed funds (bank credit facility and loans)	51,132	149,112
Total equity and liabilities	674,664	829,104
Capitalisation ratio	**0.46**	**0.40**

17. Provisions for costs

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

During the six months ended June 30th 2017, the Company reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under current contracts.

During the six months ended June 30th 2017, the Company reversed/utilised a PLN 4,884 thousand provision for costs of late performance, in connection with an out-of-court settlement with one of the key trading partners. Moreover, using the most recent contract data and based on settlements of completed contracts, the Company decided to recognise a PLN 4,704 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 retirement gratuity and Company Social Benefits Fund*	*Provision for unused holiday entitlement***	*Provision for warranty repairs***	*Provision for liquidated damages*	*Employee benefit obligations***	*Provision for voluntary redundancy programme*	*Provision for other costs***	*Other provisions*
January 1st 2017	19,239	23,767	3,553	19,653	4,856	7,296	7,094	6,502	56
Provision recognised	1,751	986	927	5,246	4,704	–	–	46	145
Provision reversed	–	–	–	–	(678)	–	–	(45)	–
Utilised	(10,088)	–	–	(7,239)	(4,205)	(123)	(4,593)	(1,285)	(56)
***June 30th 2017** (unaudited)*	**10,902**	**24,753**	**4,480**	**17,660**	**4,676**	**7,173**	**2,501**	**5,218**	**145**
January 1st 2016	29,807	25,473	3,076	11,925	–	7,095	–	7,000	111
Provision recognised	1,182	337	1,623	7,719	12,135	346	–	837	145
Provision reversed	–	–	–	–	–	(381)	–	–	–
Utilised	(12,951)	–	–	(4,449)	–	(1,406)	–	(615)	(111)
***June 30th 2016** (unaudited)*	**18,038**	**25,810**	**4,699**	**15,195**	**12,135**	**5,654**	–	**7,222**	**145**

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

(PLN '000)

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

In the six months ended June 30th 2017, the Company did not issue, redeem or repay any debt or equity securities.

19. Dividends paid or declared

In the six months ended June 30th 2017, the Company did not pay dividends nor did the Management Board declare such payment.

20. Capital commitments

As at June 30th 2017, the Company had commitments related to purchase of property, plant and equipment of PLN 996 thousand. As at June 30th 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.

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

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Off-balance sheet items under financial guarantees received mainly as security for the performance of contracts, including:	218,020	207,835
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	14,943	25,289
- from related entities	9,165	11,536
Letters of credit	–	655
	232,963	**233,779**

	June 30th *2017* *(unaudited)*	*December 31st 2016*
Off-balance sheet items under financial guarantees issued mainly as security for the performance of contracts, including:	270,535	200,609
- to related entities	–	–
Liabilities under sureties, including:	1,394,668	1,394,668
- to related entities	1,394,668	1,394,668
Promissory notes issued as security, including:	6,282	6,952
- to related entities	2,000	2,000
Letters of credit	–	–
	1,671,485	**1,602,229**

In the six months ended June 30th 2017, RAFAKO S.A. recorded a PLN 69,256 thousand (December 31st 2016: PLN 1,602,229 thousand) rise in contingent liabilities, which resulted from an increase in liabilities under guarantees issued. In the first six months of 2017, guarantees (mainly performance bonds of PLN 92,813 thousand and advance payment guarantees of PLN 20,140 thousand) were issued by banks and insurance companies to the Group’s trading partners at the request of RAFAKO S.A. In this category of liabilities, the largest item was a performance bond of EUR 11,972 thousand, issued in May 2017. Liabilities under sureties issued, of PLN 1,394,668 thousand, comprise a surety covering E003B7 Sp. z o.o.’s liabilities, issued by RAFAKO on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the Jaworzno project (construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant). The largest item among guarantees which expired in the six months ended June 30th 2017 was a performance bond of PLN 2,993 thousand.

In the first six months of 2017, the Company’s contingent receivables fell by PLN 816 thousand (mainly performance bonds), including an increase of PLN 10,185 thousand in receivables under bank and insurance guarantees, and a decrease of PLN 10,346 thousand in receivables under promissory notes. The largest item among the guarantees received in the six months ended June 30th 2017 was a PLN 7,048 thousand performance bond. The largest item among expired guarantees in the period was a performance bond of PLN 4,152 thousand.

22. Litigation and disputes

As at the date of these interim condensed financial statements, the Company was involved in court proceedings either as a defendant or plaintiff.

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

On August 2nd 2016, RAFAKO received, as leader of the consortium (with OMIS S.A.) performing the contract for NOx reduction in OP-650 boilers No. 1, 2 and 3 at the Ostrołęka Power Plant B, a debit note for PLN 13,491 thousand from ENERGA Elektrownie Ostrołęka S.A. (ENERGA). The damages were charged by ENERGA for: i) late completion of assembly work, and ii) delay in commissioning of the unit. Subsequently, as a result of negotiations held between the parties, ENERGA decided to waive the second penalty in whole, which reduced the debit note amount by PLN 899,400. On September 20th 2016, the consortium filed an action with the Regional Court of Białystok for determining non-existence of the liabilities towards ENERGA in connection with non-performance or improper performance of the contract. On October 27th 2016, ENERGA sent a letter to RAFAKO 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 amount of liquidated damages 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 extended the mediation deadline until the end of March 2017. The mediation process concluded with the parties signing an out-of-court settlement on May 24th 2017, which was approved by the court on June 1st 2017. Upon the settlement, the Company reversed/utilised a PLN 4,884 thousand provision for costs of late performance, recognised in previous reporting periods.

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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 June 30th 2017, the Regional Court of Gliwice awarded the entire sum demanded by the Company. The judgment is not final. The Company expects the defendant to file an appeal against the judgment of the court of first instance.

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 29th 2017, the court issued a non-final order for payment of claimed amounts. On April 19th 2017, the defendants lodged with the court an objection against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the defendants' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. The date of the first hearing was set for October 6th 2017.

23. Arrangement receivables from related entity

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

24. Management Board and Supervisory Board of the Company

In the six months ended June 30th 2017 and by the date of these interim condensed financial statements, there were no changes in the composition of the Company's Management Board.

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

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

In the six months ended June 30th 2017 and by the date of these interim condensed financial statements, 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 was as follows:

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

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

In the reporting and comparative 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, save for transactions described in Note 26.

26. Related-party transactions

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

Related party		*Sales to related parties in the six months ended June 30th 2017/June 30th 2016*	*Purchase from related parties for the six months ended June 30th 2017/June 30th 2016*	*Receivables from related entities as at June 30th 2017/December 31st 2016*	*Liabilities to related parties as at June 30th 2017/December 31st 2016*
Parent:					
PBG S.A.	2017	411	2,342	31,256	15
	2016	411	1,612	35,201	1
PBG Group companies:					
PBG oil and gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	2017	41	766	17	52
	2016	42	25,488	9	1,260
PBG ERIGO Sp. z o.o.	2017	–	–	–	–
	2016	8	–	7	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	2017	37	–	7	–
	2016	38	–	8	–
PBG DOM Sp. z o.o.	2017	–	–	5	–
	2016	–	–	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2017	11	31	–	13
	2016	–	31	–	1
RAFAKO ENGINEERING Sp. z o.o.	2017	459	4,553	850	1,010
	2016	631	3,262	1,046	2,176
RAFAKO ENGINEERING SOLUTION doo.	2017	–	653	–	–
	2016	–	1,173	–	2
RAFAKO Hungary Sp. z o.o.	2017				1
	2016	–	–	310	3
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2017	33	4,575	6	1,219
	2016	24	5,530	6	1,364

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Related party		Sales to related parties in the six months ended June 30th 2017/June 30th 2016	Purchase from related parties for the six months ended June 30th 2017/June 30th 2016	Receivables from related entities as at June 30th 2017/December 31st 2016	Liabilities to related parties as at June 30th 2017/December 31st 2016
E001RK Sp. z o.o.	2017	3	120	1	24
	2016	3	120	–	25
E003B7 Sp. z o.o.	2017	1,150	–	14,122	–
	2016	148	–	11,109	10
RENG-Nano Sp. z o.o.	2017	*6*	–	–	–
	2016	–	–	–	–
Entities related through personal links:					
PBG Foundation	2017	–	220	–	–
	2016	–	128	–	–
SWGK Consulting Sp. z o.o.	2017	–	13	–	–
	2016	–	59	–	–
Mostostal Energomontaż Gliwice S.A.	2017				57
	2016	–	–	–	102
Corporate Finance & IT Sp. z o.o.	2017	–	–	–	–
	2016	121	–	27	–
BPIL Grzegorz Kiczor	2017	–	15	–	–
	2016	–	–	–	37
Dwór w Smólsku	2017	–	120	–	25
	2016	–	80	–	25
SWGK KSIĘGOWOŚĆ Sp. z o.o.	2017	–	100	–	123
	2016	–	–	–	–
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	2017	–	–	359	–
MIKO-Tech Sp. z o.o.	2017	–	48	–	28
	2016	6	3,201	–	233

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

The Company has not published any forecasts for 2017.

28. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A.

Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A. are presented in Note 28 to the interim condensed consolidated financial statements for the six months ended June 30th 2017.

(PLN '000)

29. 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 May 15 2017*	*Increase*	*Decrease*	*As Sep 7 2017*
Member of the management staff					
Edward Kasprzak Vice President of the Management Board	RAFAKO S.A.	2,000	–	–	2,000
Member of the supervisory staff	–	–	–	–	–

30. Events after the reporting period

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

On July 26th 2017, the Company's Management Board made a delayed disclosure of inside information on the analysis of possible sources of co-financing. Considering the need to finance the Company's development, the Management Board has decided to analyse possible sources of both debt and equity financing. At this stage all options will be considered, including finding an investor interested in providing the Company with capital in exchange for its shares. The Management Board is of the opinion that additional capital would enable the Company to continue on a path of sustainable growth and to maintain it competitiveness. No decision has been made on the selection of a particular option or investor, and there is no certainty as to whether and when such a decision will be taken in the future. The decision to delay the inside information was taken by the Company's Management Board on June 6th 2017. The Management Board decided to keep the inside information secret because its immediate disclosure could have an adverse effect on the outcome of discussions with prospective investors/lenders of the Company and due to the potential threat of the course of talks being influenced by competitors and of the public pressure, which posed a direct risk of infringing the Company's legitimate interests. On July 26th 2017, RAFAKO S.A. signed a letter of intent with Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("FIPP FIZ AN") and Polski Fundusz Rozwoju S.A. ("PFR") (the "Parties") (the "Letter of Intent"), as a result of which the risk of infringement of the Company's legitimate interests ceased to exist. Accordingly, the Management Board decided to publish the inside information.

At the same time, in reference to the above, the Company's Management Board, acting under Art. Article 17(1) of MAR, published inside information on RAFAKO S.A. and FIPP FIZ and PFR signing the Letter of Intent on July 26th 2017. By signing the Letter of Intent, PFR and the Company expressed their willingness to cooperate in order to implement joint strategic projects, with the proviso that the scope and specific aspects of possible cooperation are addressed in separate agreements on specific future potential projects. In addition, FIPP FIZ AN and the Company expressed their intent to take steps designed to enable the parties to make decisions, if any, on the nature, structure and method of investment in the Company (the "Investment"). The Company's Management Board further indicates that, at the date of the Letter of Intent, the consummation of the Investment, as well as its scope, purpose and level of FIPP FIZ AN's involvement had not yet been determined between the parties, and all existing related agreements are general and non-binding. Signing the Letter of Intent marks another stage of the above-described analysis of possible ways of financing the Company.

On July 26th 2017, the Management Board of RAFAKO S.A. convened the Extraordinary General Meeting of RAFAKO S.A., which commenced at the Company's registered office in Racibórz, ul. Łąkowa 33, at 12.00 noon on August 29th 2017. On August 29th 2017, the Extraordinary General Meeting was adjourned until 12.00 noon on September 12th 2017.

(PLN '000)

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

These interim condensed financial statements of the Company were authorised for issue on September 7th 2017 by resolution of the RAFAKO S.A. Management Board of September 7th 2017.

Signatures:

September 7th 2017	Agnieszka Wasilewska-Semail	President of the Management Board ....
September 7th 2017	Krzysztof Burek	Vice President of the Management Board………………….
September 7 2017	Jarosław Dusiło	Vice President of the Management Board………………..
September 7 2017	Edward Kasprzak	Vice President of the Management Board………………..
September 7 2017	Tomasz Tomczak	Vice President of the Management Board………………..
September 7 2017	Jolanta Markowicz	Chief Accountant........................ – person responsible for keeping accounting books