The RAFAKO Group

THE PBG GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2015

with the auditor's opinion

COPY NO. 1

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Consolidated statement of comprehensive income
for the 12 months ended December 31st 2015

	Note	*12 months ended Dec 31 2015*	*12 months ended Dec 31 2014*
Continuing operations			
Revenue		**1,550,090**	**1,183,472**
Revenue from sale of goods and services	15.1	1,548,069	1,181,452
Revenue from sale of materials	15.2	2,021	2,020
Costs of sales	15.4	(1,423,015)	(1,063,363)
Gross profit/(loss)		**127,075**	**120,109**
Other income	15.7	4,204	5,342
Distribution costs	15.4	(29,416)	(31,483)
Administrative expenses	15.4	(53,054)	(45,189)
Other expenses	15.8	(8,090)	(11,060)
Operating profit (loss)		**40,719**	**37,719**
Finance income	15.9	17,972	6,598
Finance costs	15.10	(12,612)	(9,900)
Profit/(loss) before tax		**46,079**	**34,417**
Income tax expense	16.1	(12,074)	(5,819)
Profit/(loss) from continuing operations	20	**34,005**	**28,598**
Discontinued operations			
Profit/(loss) from discontinued operations	17	**(55)**	**(4,814)**
Net profit for the year	20	**33,950**	**23,784**

Racibórz, March 21st 2016

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

(PLN '000)

Consolidated statement of comprehensive income
for the 12 months ended December 31st 2015

	Note	*12 months ended Dec 31 2015*	*12 months ended Dec 31 2014*
Other comprehensive income for the period		**(486)**	**(4,004)**
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations	15.11	(231)	56
Exchange differences on translating foreign operations attributable to non-controlling interests		(1)	(5)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods	15.11	**(232)**	**51**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods			
Other comprehensive income due to actuarial gains/(losses)	15.11	(314)	(5,005)
Tax on other comprehensive income	15.11, 16	60	950
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(254)**	**(4,055)**
Total comprehensive income for the period		**33,464**	**19,780**
Net profit/(loss) attributable to:	20	**33,950**	**23,784**
Owners of the Parent		34,070	22,583
Non-controlling interests		(120)	1,201
Comprehensive income attributable to:		**33,464**	**19,780**
Owners of the Parent		33,585	18,584
Non-controlling interests		(121)	1,196
Earnings/(loss) per share:			
Basic earnings/(loss) per share, PLN	20	0.46	0.32
Profit/(loss) per share from continuing operations			
Basic earnings/(loss) per share, PLN	20	0.46	0.40

Racibórz, March 21st 2016

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

(PLN '000)

Consolidated statement of financial position

As at Dec 31 2015

	Note	Dec 31 2015	Dec 31 2014
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	22	183,439	172,199
Investment property	25	–	–
Intangible assets	26	15,211	9,310
Non-current trade receivables, other receivables and prepayments	29	35,648	29,706
Trade receivables		35,409	29,706
Other receivables and prepayments		239	–
Non-current financial assets		30,129	33,770
Shares in other entities	28	229	388
Non-current loans advanced	30	–	38
Non-current deposits	30	–	–
Other non-current financial assets	30	29,900	33,344
Deferred tax asset	16.3	47,796	49,536
		312,223	**294,521**
Current (short-term) assets			
Inventories	31	18,817	21,730
Current trade receivables, other receivables and prepayments	32	481,766	459,451
Trade receivables	32	277,397	248,399
Income tax receivable	32	21,137	13,852
Other receivables and prepayments	32	183,232	197,200
Gross amount due from customers for contract work	14	233,992	257,803
Current financial assets		203,357	38,919
Derivative instruments	33.1	–	–
Current deposits	33.2	70	–
Current loans advanced		80	70
Other current financial assets	33.3	5,946	–
Cash and cash equivalents	33.4	197,261	38,849
		937,932	**777,903**
Assets held for sale	17, 24	1,063	74,138
TOTAL ASSETS		**1,251,218**	**1,146,562**

Racibórz, March 21st 2016

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

(PLN '000)

Consolidated statement of financial position

As at Dec 31 2015

	Note	*Dec 31 2015*	*Dec 31 2014*
EQUITY AND LIABILITIES			
Equity (attributable to owners of the Parent)			
Share capital	36.1	169,864	139,200
Share premium	36.4	95,340	36,778
Reserve funds	36.5	112,715	114,393
Exchange differences on translating foreign operations	36.6	(41)	190
Retained earnings / Accumulated losses	0	47,213	10,700
		425,091	**301,261**
Equity (attributable to non-controlling interests)	36.9	4,675	12,193
Total equity		**429,766**	**313,454**
Non-current liabilities			
Interest-bearing borrowings	37	–	–
Finance lease liabilities	42, 39.1	3,686	2,254
Deferred tax liability	16.3	94	397
Provision for employee benefits	38	23,552	24,907
Non-current trade and other payables		40,332	24,459
Trade payables	39.1	34,844	20,504
Capital commitments	39.1	852	1,762
Other liabilities	39.1	4,636	2,193
		67,664	**52,017**
Current liabilities			
Current trade and other payables		467,547	394,443
Trade payables	39.2	400,842	304,226
Capital commitments	39.2	2,663	8,619
Income tax payable	39.9	4	901
Other liabilities	39.2	64,038	80,697
Current portion of interest-bearing borrowings	37	109,208	128,527
Other financial liabilities and finance lease liabilities	39.2, 42	1,542	776
Provision for employee benefits	38	2,004	1,896
Gross amount due to customers for contract work and provisions for contract work		173,487	240,609
Gross amount due to customers for construction contract work	14	142,795	207,271
Provisions for construction contract work	14	29,885	32,267
Grants	40	807	1,071
		753,788	**766,251**
Liabilities directly related to assets classified as held for sale	17	–	**14,840**
Total liabilities		**821,452**	**833,108**
TOTAL EQUITY AND LIABILITIES		**1,251,218**	**1,146,562**

Racibórz, March 21st 2016

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

(PLN '000)

Consolidated statement of cash flows

for the 12 months ended December 31st 2015

	Note	*12 months ended Dec 31 2015*	*12 months ended Dec 31 2014*
Cash flows from operating activities			
Profit/(loss) before tax from continuing operations		46,079	34,417
Profit/(loss) before tax from discontinued operations	17	(66)	(3,874)
Profit/(loss) before tax		46,013	30,543
Adjustments for:		**27,909**	**123,562**
Depreciation and amortisation	15.5	12,833	12,838
Foreign exchange gains/(losses)		93	(485)
Interest and dividends, net		4,181	7,092
(Gain)/loss from investing activities		(3,565)	(735)
Increase/(decrease) in financial liabilities/financial assets from valuation of derivative instruments		(89)	104
Impairment of assets held for sale	17	(66)	8,779
(Increase)/decrease in receivables	21	(22,157)	28,632
Change in inventories		3,404	(2,493)
Increase/(decrease) in employee benefit provisions and obligations, excluding borrowings	21	106,566	140,562
Change in prepayments and accruals for construction contracts	21	(41,794)	(51,955)
Income tax paid		(30,330)	(19,068)
Other		(1,167)	291
Net cash from operating activities		**73,922**	**154,105**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		1,615	1,523
Purchase of property, plant and equipment and intangible assets	21	(30,285)	(7,971)
Sale of financial assets	2	21,430	4,999
Purchase of financial assets		–	(5,242)
Interest on loans advanced		–	216
Dividends and interest received		94	177
Loans advanced		–	(190)
Repayment of loans advanced		31	81
Other		(1,622)	408
Net cash from investing activities		**(8,737)**	**(5,999)**

Racibórz, March 21st 2016

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

(PLN '000)

Consolidated statement of cash flows - contd.
for the 12 months ended December 31st 2015

	Note	12 months ended Dec 31 2015	12 months ended Dec 31 2014
Cash flows from financing activities			
Proceeds from issue of shares	41	89,225	–
Proceeds from additional contributions to equity	2	1,200	190
Payment of finance lease liabilities		(1,981)	(1,735)
Proceeds from borrowings		–	800
Repayment of borrowings	21	(18,970)	(128,599)
Dividend paid to non-controlling interests		–	(605)
Interest paid		(3,502)	(6,648)
Bank fees		(1,087)	(1,127)
Other		1,557	695
Net cash from financing activities		**66,442**	**(137,029)**
Net increase/(decrease) in cash and cash equivalents		**131,627**	11,077
Net foreign exchange differences		(265)	102
Cash at the beginning of the period	33.4	65,899	**54,720**
Cash at the end of the period, of which:	33.4	**197,261**	**65,899**
- restricted cash	33.4	2,153	1,370

Racibórz, March 21st 2016

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

(PLN '000)

Consolidated statement of changes in equity

for the 12 months ended December 31st 2015

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 2015	**139,200**	**36,778**	**114,393**	**190**	**10,700**	**301,261**	**12,193**	**313,454**
Total comprehensive income for the period	–	–	–	(231)	33,816	33,585	(121)	33,464
Distribution of prior year profits	–	–	25,674	–	(25,674)	–	–	–
Series J shares issue	30,664	58,562	–	–	–	89,226	–	89,226
Disposal of subsidiary	–	–	(27,352)	–	27,352	–	(11,452)	(11,452)
Change in Group structure	–	–	–	–	1,019	1,019	4,055	5,074
As at Dec 31 2015	**169,864**	**95,340**	**112,715**	**(41)**	**47,213**	**425,091**	**4,675**	**429,766**
As at Jan 1 2014	**139,200**	**36,778**	**252,821**	**134**	**(145,980)**	**282,953**	**11,136**	**294,089**
Total comprehensive income for the period	–	–	–	56	18,528	18,584	1,196	19,780
Distribution of prior year profits	–	–	(138,428)	–	138,428	–	–	–
Dividend	–	–	–	–	–	–	(605)	(605)
Change of equity structure at subsidiaries	–	–	–	–	(276)	(276)	466	190
As at Dec 31 2014	**139,200**	**36,778**	**114,393**	**190**	**10,700**	**301,261**	**12,193**	**313,454**

Racibórz, March 21st 2016

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

NOTES

1. General information

The RAFAKO Group (the "Group") is composed of RAFAKO S.A. (the "Parent") and its subsidiaries presented in Note 2.

RAFAKO S.A. ("the Company" or the "Parent") is a publicly-traded joint stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland. The Company was established under a notary deed of January 12th 1993. On August 24th 2001 it was entered in the Register of Entrepreneurs 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 Group companies have been established for an indefinite term.

The Group's consolidated financial statements cover the year ended December 31st 2015 and include comparative data as at and for the year ended on December 31st 2014.

The Group's principal business activities are as follows:

- Production of steam generators, excluding hot water central heating boilers
- Repair and maintenance of finished metal goods;
- Installation of industrial machinery, plant and equipment;
- Manufacture of metal structures and parts thereof;
- Other specialist construction activities n.e.c.;
- Manufacture of industrial cooling and ventilation equipment;
- Manufacture of other metal reservoirs, tanks and containers;
- Machining;
- Metalworking and coating;
- Manufacture of machinery for metalworking;
- Repair and maintenance of machinery;
- Activities in the field of architecture;
- Engineering activities and related technical consultancy;
- Manufacture of ovens, furnaces and furnace burners;
- Wholesale of other machinery and equipment;
- Wholesale of metals and metal ores;
- Manufacture of other general-purpose machinery n.e.c.;
- Manufacture of tools;
- Production of electricity;
- Transmission of electricity;
- Distribution of electricity;
- Trade in electricity;
- Production and supply of steam, hot water and air for air-conditioning systems;
- Wholesale of hardware, plumbing and heating equipment and supplies;
- Rental and management of freehold or leasehold property;
- Other technical testing and analyses;
- Other non-school forms of education n.e.c.;
- Sewage disposal and treatment;
- Hotels and similar accommodation;
- Holiday and other short-stay accommodation;
- Restaurants and other permanent catering facilities;
- Other catering services;
- Activities of cultural facilities;

- Other recreation and entertainment facilities;
- Activities related to organisation of fairs, exhibitions and conventions;
- Scientific research and development work in the field of other natural and technical sciences;
- Forging, pressing, stamping and roll-forming of metal; powder metallurgy;
- Manufacture of instruments and appliances for measuring, testing and navigation;
- Manufacture of electric motors, generators and transformers;
- Manufacture of electricity distribution and control apparatus;
- Manufacture of engines and turbines, except aircraft, vehicle and cycle engines;
- Manufacture of hydraulic and pneumatic drive equipment and accessories;
- Manufacture of other pumps and compressors;
- Manufacture of lifting and handling equipment;
- Repair and maintenance of electrical equipment;
- Treatment and disposal of non-hazardous waste;
- Dismantling of wrecks;
- Remediation activities and other waste management services;
- Construction of residential and non-residential buildings;
- Construction of roads and motorways;
- Construction of railways and underground railways;
- Construction of transmission pipelines and distribution systems;
- Construction of telecommunications lines and power lines;
- Construction of other civil engineering projects n.e.c.;
- Dismantling and demolition of buildings;
- Site preparation;
- Digging, drilling and boring for geological and engineering purposes;
- Installation of electrical wiring and fittings;
- Installation of plumbing, heat, gas and air-conditioning systems;
- Other building installations;
- Erection of roof covering and frames;
- Wholesale of waste and scrap;
- Warehousing and storage of other goods;
- Software related activities;
- Computer consultancy activities;
- IT equipment management activities;
- Other services in the field of information and computer technology;
- Data processing, hosting and related activities;
- Specialist design activities;
- Renting and leasing of cars and vans;
- Renting and leasing of other motor vehicles, except motorcycles;
- Renting and leasing of construction machinery and equipment;
- Renting and leasing of office machinery and equipment, including computers;
- Renting and leasing of other machinery, equipment and tangible goods n.e.c.;
- Repair and maintenance of computers and peripheral equipment;
- Operation of sports facilities;
- Other sports activities;
- Other business and management consultancy activities

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

(PLN '000)

2. Composition of the Group

These consolidated financial statements incorporate the financial statements of RAFAKO S.A. and its subsidiaries.

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

As at December 31st 2015, the RAFAKO Group was composed of the Parent and seven subsidiaries operating in the power construction, services and trade sectors.

As at December 31st 2015, the following subsidiaries were consolidated in the Group's consolidated financial statements:

RAFAKO S.A.

PGL-DOM Sp. z o.o. 100%
RAFAKO ENGINEERING Sp. z o.o. 51,05%
RAFAKO ENGINEERING SOLUTION doo 77%
RAFAKO Hungary Kft. 100%
E001RK Sp. z o.o. 100%
E003B7 Sp. z o.o. 100%

PGL-DOM Sp. z o.o.: 43,48% / 31,06%*
RAFAKO ENGINEERING Sp. z o.o.: 20,42% / 29,17%*
ENERGOTECHNIKA Engineering Sp. z o.o.

* % share of voting rights at the General Meeting

The table below lists the consolidated RAFAKO Group companies:

Name and registered office	*Principal business activity*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method used*
RAFAKO S.A. Racibórz	Manufacture of steam generators except central heating hot water boilers	District Court of Gliwice KRS 34143	–
PGL-DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO Engineering Sp. z o.o. Racibórz	Construction and process design, urban planning	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o.* Gliwice	Construction and process design, urban planning, engineering consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION doo Belgrade	Process design, construction, industry, and environmental protection consultancy and supervision	Commercial Register Agency of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	Registry Court of the Capital City of Budapest	full

*20.42% subsidiary of RAFAKO ENGINEERING Sp. z o. o. and 43.48% subsidiary of PGL-DOM Sp. z o.o., indirect subsidiary of RAFAKO S.A.

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Name and registered office	*Principal business activity*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method used*
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	District Court of Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design , engineering and technology	District Court of Gliwice KRS 486911	full

As at December 31st 2015 and December 31st 2014, the Group's share in total voting rights held in the subsidiaries was equal to the Group's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 40% of preference shares (conferring the right to 57.14% of the total vote); the remaining 43.48% of the shares (conferring the right to 31.06% of the total vote) are held by PGL-DOM Sp. z o.o.

In the 12 months ended December 31st 2015, the following changes took place in the composition of the RAFAKO Group.

On February 23rd 2015, an agreement was signed to sell shares in FPM S.A., for a total amount of PLN 48m, to TDJ S.A. The assets sold represented 82.19% of FPM S.A.'s share capital and conferred 82.19% of total voting rights at the FPM S.A. General Meeting. The carrying amount of the shares in the Parent's accounting books was about PLN 35.2m. Following the transaction, RAFAKO S.A. holds no FPM S.A. shares. There are no links between RAFAKO S.A. or the management or supervisory personnel of RAFAKO S.A. and TDJ S.A. or its management personnel.

On September 1st 2015, a resolution was passed to increase the share capital of subsidiary RAFAKO Engineering Sp. z o.o. from PLN 1,000,000.00 to PLN 1,959,000.00, i.e. by PLN 959,000.00, through the creation of 1,918 new shares with a par value of PLN 500.00 per share. The resolution waives the pre-emptive rights of the existing Shareholder (RAFAKO S.A., the Parent) to acquire the newly created shares in proportion to the shares already held, assuming that the new shares will be acquired by a new shareholder – related entity PBG oil and gas Sp. z o.o., a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement). The shares will be acquired in return for a non-cash contribution in the form of an organised part of business with a total value of PLN 3,878,658.74 and a cash contribution of PLN 1,200,000.00. After the registration of the share capital increase at RAFAKO Engineering Sp. z o.o., the respective interests held in the company by RAFAKO S.A. and PBG oil and gas Sp. z o.o. will be 51.05% and 48.95%. The RAFAKO Engineering Sp. z o.o. share capital increase was registered by the District Court of Gliwice, 10th Commercial Division of the National Court Register, on October 29th 2015.

On October 30th 2015, the Parent acquired an organised part of the business of its related entity PBG Avatia Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), comprising movables, intangible assets and rights under agreements, for a total amount of PLN 2,500,000.00. The acquisition was made as part of a strategy aimed at standardising the IT processes and services across the PBG Group and locating them within RAFAKO S.A. As the condition precedent to the taking of control of the acquired business has been met, the transaction will be accounted for in accordance with IFRS 3 Business Combinations. For details of the transaction, see Note 26.

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3. Composition of the Parent's Management and Supervisory Boards

In the 12 months ended December 31st 2015, there were no changes in the composition of the Parent's Management Board.

As at the date of these consolidated financial statements, the composition of the Parent's 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 12 months ended December 31st 2015, the following changes took place in the composition of the Parent's Supervisory Board.

On June 18th 2015, the Annual General Meeting of RAFAKO S.A. made the following decisions:

- to set the number of Parent's Supervisory Board members at seven;
- to appoint the Supervisory Board for the eighth term, composed of:

Jerzy Wiśniewski	– Member of the Supervisory Board
Dariusz Sarnowski	– Member of the Supervisory Board
Piotr Wawrzynowicz	– Member of the Supervisory Board
Przemysław Schmidt	– Member of the Supervisory Board
Dariusz Szymański	– Member of the Supervisory Board
Adam Szyszka	– Member of the Supervisory Board
Małgorzata Wiśniewska	– Member of the Supervisory Board

On June 18th 2015, the Supervisory Board of the new term of office constituted itself as follows:

Jerzy Wiśniewski	– Chairman of the Supervisory Board
Dariusz Sarnowski	– Deputy Chairman of the Supervisory Board
Piotr Wawrzynowicz	– Secretary of the Supervisory Board

On November 9th 2015, Mr Piotr Wawrzynowicz, Secretary of the Supervisory Board, resigned from his position on the Supervisory Board of RAFAKO S.A.

On December 21st 2015, the Extraordinary General Meeting of RAFAKO S.A. appointed Mr Krzysztof Gerula to the Parent's Supervisory Board.

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

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

4. Authorization of the financial statements

These consolidated financial statements for the year ended December 31st 2015 were authorised for issue by the Parent's Management Board on March 21st 2016.

5. Going concern assumption

The most material factor affecting the RAFAKO Group's ability to continue as a going concern is the financial standing of the Parent. These consolidated financial statements of the Group have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the end of the reporting period, i.e. December 31st 2015.

To be able to continue its business activities, the RAFAKO Group must maintain its financial liquidity, that is the ability to secure sufficient financing for the current contracts. In view of the above, the Management Board of the Parent has prepared financial projections for the 12 months from December 31st 2015 and for the following years, based on a number of assumptions, the most important of which relate to:

- continued financing of the Parent's operations with a credit facility subsequent to May 31st 2016 – pursuant to the annex executed on May 29th 2015, the repayment date for the credit facility used by the Parent was extended until May 31st 2016,

- timely delivery and execution of the contracts in the Group's current order book, including in particular the timely generation of cash flows from the contracts and renegotiation of selected contracts to optimise cash flows,

- timely delivery and execution of the contracts in the Group's current order book on the assumption that the target margins would be achieved and the loss already recognised on some contracts would not increase,

- release of cash locked in performance bonds against delivery of appropriate bank guarantees to the Group's trading partners. As at the date of these financial statements, the Group had PLN 175m available in open guarantee lines provided by several financial institutions, with approximately 65% of the limit currently used. Availability of the unused portion of the facilities and success in the negotiations with financial institutions concerning further bank / insurance guarantees will enable the Group to perform new contracts it expects to be awarded during the 12 months subsequent to December 31st 2015.

In 2015, the Parent signed an amendment to the PLN 150m facility agreement with PKO BP S.A. whereby the payment date of the facility was extended until May 31st 2016. The Parent also sold shares of FPM S.A. for approximately PLN 48m, and issued shares worth approximately PLN 93.5m to finance contract security deposits and similar instruments necessary to build RAFAKO S.A.'s order book, and to increase research and development expenditure. In 2016, the Parent and mBank executed a contract under which the bank issues guarantees relating to the execution of the Jaworzno Project. All these efforts have significantly improved the Group's liquidity.

The Management Board of the Parent believes that the above key assumptions underlying the financial projections will materialize, which will significantly improve the Group's liquidity during at least the 12 months subsequent to the reporting date.

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

The Group applied the IFRSs applicable to financial statements prepared for the year beginning on January 1st 2015.

6. Significant judgements and estimates

6.1. Professional judgement

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

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

Classification of leases where the Group is the lessee

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

Discontinued operations

On December 30th 2014, the Parent's Management Board resolved to sell the Furnaces and Mills segment, which comprises the business of FPM S.A. Given the above, FPM S.A. was recognised in the 2014 consolidated financial statements as a group held for sale. In the Management Board's opinion, the entity qualified to be designated as an entity held for sale given that:

- FPM S.A. was ready to be sold immediately in its then-current condition to a potential buyer,
- the Management Board has carried out the plan to sell FPM S.A.: on December 30th 2014 it executed a conditional preliminary sale agreement; as at the date of these consolidated financial statements, the two conditions precedent under the agreement were fulfilled, and FPM S.A has been sold.

As of February 19th 2015, FPM S.A. was excluded from the RAFAKO Group, and its results in the period January 1st−February 19th 2015 are presented under discontinued operations.

As at December 31st 2014, FPM S.A. was classified as a group held for sale and as discontinued operations. For detailed information on discontinued operations, see Note 17.

Identification of embedded derivatives

At the end of each reporting period the management of the Companies makes an assessment of the contracts signed for whether they contain any embedded foreign currency derivatives whose economic characteristics and risks are closely related to those of the host contract.

Syndicated agreements

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

6.2. Uncertainty of estimates

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

Estimates relating to the following items had a critical impact on the net result for the 12 months ended December 31st 2015 and the amounts of assets and liabilities as at December 31st 2015:

- budgeted revenue from and costs of execution of construction contracts, based on which the executed contracts are measured in accordance with IAS 11,
- estimated amount of contractual penalties for late performance of contracts,
- estimated amount of provisions for employee benefits (the Group incurs costs of jubilee bonuses and post-employment benefits),
- impairment of assets, including financial assets (e.g. receivables under arbitration and arrangement proceedings),
- depreciation and amortisation rates applied,
- realisation of a deferred tax asset (including the deferred tax asset on tax loss).

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

Impairment of assets

At the end of the reporting period, the Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Group made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 12 months ended December 31st 2015 there were no indications of impairment.

For further information on asset impairment as at the end of the financial year, see Notes 22, 26, 32.1, 33.3 and 44 to these consolidated financial statements.

Revenue recognition

In accounting for its long-term contracts, the Group uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total cost of contract execution increased by 10% in relation to the Group's original estimate, the revenue would decrease by approximately PLN 68.3m.

Measurement of provision for employee benefits

Provisions for employee benefits were estimated with actuarial methods.

The underlying assumptions are presented in Note 38.1. The change in provisions for employee benefits in the period was caused by the recognition of current service costs, interest expense and benefits paid.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 57.

Depreciation and amortisation rates

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

Deferred tax asset

The Group recognises deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. Deterioration of future taxable profits might render this assumption unreasonable. Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realised, based on tax laws in effect at the end of the reporting period.

Provision for expected losses on contracts

At the end of each reporting period the Group remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss on the contract is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and costs for the reporting period are presented in Notes 11.28.6 and 14 to these consolidated financial statements.

Provision for costs due to late performance of contracts

The Group recognises a provision for contractual penalties arising from late performance of contracts if the probability of being charged for delay in the performance of the contract is significant and the delay is due to the fault of the Group Companies as contractors. The amount of the provision reflects the amount of the contractual penalty that may be charged for a given period of delay. Details of provisions estimated in this manner are presented in Note 14 to these consolidated financial statements.

Impairment of financial assets

At the end of the reporting period, the Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognises an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of the fair value/recoverable amount of receivables from related parties in bankruptcy, see Note 44.

Recognition of a financial asset (receivable) due to loss of control of a subsidiary

As a result of loss of control of a subsidiary, as discussed in detail in Note 44, the Parent recognised in the statement of financial position for 2012 a receivable which was initially recognised at fair value, i.e. the present value of expected inflows. This valuation was performed based on a set of assumptions, such as the estimated discounting period, estimated amount of the inflow, and estimated discount rate. Given the uncertainty as to RAFAKO S.A.'s ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A., the estimation of the parameters for the measurement of the receivable, in particular at its initial recognition, was difficult and subject to uncertainty.

Valuation of receivables from related parties under arrangement proceedings

As described in detail in Note 44, in its decision of October 8th 2015 the Bankruptcy Court approved the PBG Arrangement. However, as at the date of issue of these financial statements the decision is not final. The Parent's Management Board remeasured the related receivable based on new assumptions, i.e. the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A. in the context of PBG's arrangement proposals providing for the repayment of PLN 500 thousand and an 80% reduction of the debt in excess of PLN 500 thousand (for which no deferred tax asset was recognised), and the expected date of the first inflow of cash in the 5-year repayment period, assessed by the Management Board of RAFAKO S.A. to be June 30th 2016.

7. Basis of preparation of the financial statements

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

7.1. Statement of compliance

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU IFRSs"). At the date of authorisation of these financial statements for issue, in light of the ongoing process of IFRS endorsement in the European Union and the nature of the Group's activities, within the scope of the accounting policies applied by the Group Companies there is a difference between IFRSs and the EU IFRSs.

The Group has elected the option, available if the EU-endorsed IFRSs are applied, to apply IFRIC 21 starting from annual periods beginning on or after January 1st 2015, while amendments to IFRS 19 and amendments resulting from the 2010−2012 IFRS Review − starting from annual periods beginning on January 1st 2016.

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

The Group applied IFRSs applicable to financial statements prepared for the year beginning on January 1st 2015.

7.2. Functional currency and presentation currency

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

The operational currency of the parent and the subsidiaries, except for RAFAKO Engineering Solution doo. and RAFAKO Hungary Kft., is the Polish złoty. For RAFAKO Engineering Solution doo. the functional currency is the Serbian dinar, and for RAFAKO Hungary Kft. − the Hungarian forint. The items of financial statements prepared by the foreign subsidiaries are translated into the Group's presentation currency, using relevant exchange rates.

8. Changes in accounting policies (significant accounting principles (policy))

The accounting policies applied in preparing these consolidated financial statements are consistent with the policies applied in preparing the Group's consolidated financial statements for the year ended December 31st 2014, save for the effect of application of the following amended standards and new interpretations effective for annual periods beginning on or after January 1st 2015.

- Amendments to IFRS introduced as part of the 2011-2013 improvements cycle:
  - Amendments to IFRS 3 Business Combinations

    The amendments clarify that not only joint ventures but also joint arrangements fall outside the scope of IFRS 3. The exception applies solely to the preparation of financial statements of joint arrangements. The amendment is to be applied prospectively.

    The application of these amendments had no effect on the financial standing or performance of the Group.
  - Amendments to IFRS 13 Fair Value Measurement

    The amendments clarify that the portfolio exception applies not only to financial assets and financial liabilities but also to other agreements that fall within the scope of IAS 39. The amendments are to be applied prospectively.

    The application of these amendments had no effect on the financial standing or performance of the Group.
  - Amendments to IAS 40 Investment Property

    The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e. property, plant and equipment). The amendment, to be applied prospectively, clarifies that it is IFRS 3 rather than the definition of ancillary services under IAS 40 that should be used to determine whether a transaction is an asset acquisition or a business acquisition.

    The application of these amendments had no effect on the financial standing or performance of the Group.
- IFRIC 21 Levies

    The interpretation clarifies that an entity recognises a levy liability on the occurrence of an obligating event or, in other words, the activity that triggers the obligation to pay a levy under relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. IFRIC 21 is applied retrospectively.

    The application of these amendments had no effect on the financial standing or performance of the Group.

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

9. New standards and interpretations issued but not yet effective

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

- IFRS 9 *Financial Instruments* (published on July 24th 2014) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these consolidated financial statements.
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (published on November 21st 2013) − effective for annual periods beginning on or after July 1st 2014 − in the EU, effective not later than for annual periods beginning on or after February 1st 2015,
- *Improvements to IFRSs 2010−2012* (published on December 12th 2013) − some of the amendments are effective for annual periods beginning on or after July 1st 2014, and some prospectively for transactions occurring on or after July 1st 2014 − in the EU, effective not later than for annual periods beginning on or after February 1st 2015,
- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (published on May 6th 2014) − effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* (published on May 12th 2014) − effective for annual periods beginning on or after January 1st 2016,
- IFRS 15 *Revenue from Contracts with Customers* (published on May 28th 2014), including amendments to IFRS 15. Effective Date of IFRS 15 (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* (published on June 30th 2014) − effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 27 *Equity Method in Separate Financial Statements* (published on August 12th 2014) − effective for annual periods beginning on or after January 1st 2016,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) − no decision has been made as to when EFRAG will carry out the individual stages of work leading to approval of the amendments − not adopted by the EU by the date of authorisation of these interim condensed consolidated financial statements; the effective date of the amendments has been postponed by the IASB for an indefinite term,
- *Amendments to the IFRS introduced as part of the 2012-2014 improvements cycle (published on September 25th 2014) – effective for annual periods beginning on or after January 1st 2016,*
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities*: *Applying the Consolidation Exception* (published on December 18th 2014) − effective for annual periods beginning on or after July 2016 − not adopted by the EU by the date of authorisation of these consolidated financial statements,
- Amendments to IAS 1 − *Disclosure Initiative* (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016,
- IFRS 16 *Leases* (published on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019; no decision has been made as to when EFRAG will carry out the individual stages of work leading to the approval of the amendments; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 7 *Disclosure Initiative* (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU.

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

As at the date of these consolidated financial statements, the introduction of the standards, amendments and interpretations as well as their effect on financial information resulting from first-time application of these standards, amendments or interpretations are being analysed by the Parent's Management Board.

10. Change in estimates

In the 12 months ended December 31st 2015 and as at December 31st 2015, the Group reviewed and updated estimates in significant areas, as discussed in Note 6.2.

In accounting for its long-term contracts, the Group uses the percentage of completion method. The use of the method requires the Group to estimate the percentage of completion. A change was made in the method for estimating revenue from contracts in progress where the total contract revenue is from PLN 500 thousand to PLN 5m. The previously applied zero profit margin approach was replaced by an approach where profit margins on the contracts are recognised in proportion to their percentage of completion.

The effect of the change in estimates on the statement of comprehensive income for the 12 months ended December 31st 2015 is presented below.

	Revenue from sale of goods and services	*Profit/(loss) before tax*	*Income tax expense*	*Net profit*
Before change in estimates	**1,546,215**	**44,225**	**(11,722)**	**32,503**
Measurement of contracts in accordance with IAS 11	1,854	1,854	(352)	1,502
After change in estimates	**1,548,069**	**46,079**	**(12,074)**	**34,005**

The effect of the change in estimates on the statement of financial position as at December 31st 2015 is presented below.

	Accruals and deferrals under construction contracts	*Amounts due to customers for construction contract work*	*Deferred tax asset*	*Retained earnings / Accumulated losses*
Before change in estimates	**232,899**	**143,555**	**48,148**	**45,712**
Measurement of contracts in accordance with IAS 11	1,093	(760)	(352)	1,501
After change in estimates	**233,992**	**142,795**	**47,796**	**47,213**

11. Significant accounting policies

11.1. Fair value measurement

The Group measures financial instruments, such as instruments available for sale and derivative instruments, at fair value at the end of each reporting period.

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in a transaction carried out on typical terms of sale of the asset between market participants at the measurement date in the current market conditions. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs either:

- on the principal market for the asset or liability, or
- in the absence of a principal market – on most advantageous market for the asset or liability.

Both the principal and the most advantageous markets must be available to the Group.

The fair value of the asset or liability is measured on the assumption that market participants when determining the price of an asset or liability act in their best economic interest.

In the valuation of a non-financial asset at fair value the ability of a market participant to generate economic benefits by making maximum and optimal use of the asset or by selling it to another market participant who would make maximum and optimal use of the asset is taken into account.

The Group applies valuation methods that are appropriate given the circumstances and for which sufficient information is available to determine the fair value, whereby as many relevant observable inputs as possible are used and as little as possible non-observable inputs are used.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: inputs for the asset or liability are quoted (unadjusted) market prices on an active market for identical assets or liabilities;
- Level 2: inputs for the asset or liability that are based on directly or indirectly observable market data;
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines at the end of each reporting period whether, due to a reassessment, a change has occurred in the level classification of the hierarchy (based on the input of the lowest level that is significant for the whole valuation).

Summary of significant accounting policies concerning fair value measurement

The Parent's Management Board determines the rules and procedures for systematic fair value measurement of such assets as investment property or unlisted financial assets, as well as non-recurring measurements such as assets held for sale in discontinued operations.

For the purposes of the disclosure of the results of measurement to fair value the Group has established classes of assets and liabilities based on the nature, characteristics and risks of the various components of assets and liabilities and the level in the fair value hierarchy as described above.

11.2. Basis of consolidation

These consolidated financial statements incorporate the financial statements of RAFAKO S.A. and its controlled entities (subsidiaries) prepared as at December 31st 2015.

Subject to adjustments made to ensure compliance with IFRS, the financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the Parent, using uniform accounting policies, and with accounting policies consistently applied to economic events and transactions of a similar nature. Adjustments are made in order to eliminate any discrepancies in the application of accounting principles.

All significant balances and transactions between Group companies, including unrealised gains from intra-Group transactions, have been fully eliminated. Unrealised losses are eliminated unless they are indicative of impairment.

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. The parent controls an investee if it has:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee,
- the ability to use its power over the investee to affect the amount of its returns.

The Parent determines whether it has control of investees if there is an indication of change in one or more elements of control referred to above.

If the Company holds less than majority of voting rights at an investee but the voting rights held are sufficient to direct the relevant activities of the investee unilaterally, this means that the Company has control of the investee. At present, when assessing whether the Group's voting rights at an investee are sufficient to give it power, the Group considers all material circumstances, including:

- the size of its holding of voting rights relative to the size and dispersion of other vote holders;
- potential voting rights held by the Company, other shareholders and other parties;
- rights arising from other contractual arrangements; and
- any additional circumstances that may indicate that the Parent has, or does not have, the ability to direct the relevant activities when decisions need to be made, including voting patterns at previous general meetings.

Changes in the parent's ownership interest that do not result in loss of control of a subsidiary are accounted for as equity transactions. In order to reflect such changes in ownership, the Group makes adjustments to the carrying amounts of controlling and non-controlling interests. Any differences between the amount of an adjustment to non-controlling interests and the fair value of the consideration paid or received are charged to equity and attributed to owners of the parent.

11.3. Investments in associates and joint ventures

Associates are those entities over which the parent has significant influence, either directly or indirectly through its subsidiaries, but which are neither its subsidiaries nor joint ventures.

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control

Financial year of associates, joint ventures, and the parent is the same. Associates and joint ventures apply the accounting policies set forth in the Polish Accountancy Act. Before calculating the interest in net assets of associates and joint ventures, relevant adjustments are made to ensure compliance of the associates' and joint ventures' financial information with IFRSs applied by the Group.

In the reporting periods covered by these consolidated financial statements, Group companies did not take part in any joint ventures with other business entities.

11.4. Interests in joint operations

A joint operation is a form of a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an economic activity, which exists when strategic financial and operating decisions about the activity require unanimous consent of the parties sharing control.

If a Group entity carries out activities under a joint operation, the Group as the party to a joint operation recognises the following items in relation to its interest in a joint operation:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output of the joint operation;
- Share of the revenue from the sale of the output by the joint operation;
- Expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant IFRSs applicable to individual items of assets, liabilities, revenue and expenses.

If a Group entity executes a transaction with a joint operation whose joint operator is a non-Group entity, the Group is deemed to have executed the transaction with the remaining joint operators and any gains and losses from such transaction are recognised in the consolidated financial statements of the Group only to the extent of that other party's interest in a joint operation.

If a Group entity executes a transaction with a joint operation whose joint operator is another Group entity, the Group does not account for its interest in relevant gains and losses until its interest in a joint operation is sold to a third party.

11.5. Business combinations under common control

Assuming that a transaction has an economic substance, business combinations under common control are accounted for with the acquisition method in accordance with IFRS 3.

11.6. Foreign currency translation

The Polish zloty is the functional and presentation currency of these consolidated financial statements.

Transactions denominated in currencies other than Polish zloty are translated into the Polish zloty at the rate of exchange prevailing on the transaction date.

As at the end of the reporting period, cash assets and liabilities denominated in currencies other than the Polish zloty are translated into the Polish zloty at the relevant mid rate quoted by the National Bank of Poland for a given currency, effective as at the end of the reporting period. Exchange differences resulting from currency translations are recognised as finance income (costs); realised and unrealised exchange differences on trade receivables − as revenue; realised and unrealised exchange differences on trade payables − as production cost, or are capitalised in the cost of the assets where so required under the applied accounting policies. Non-monetary assets and liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate from the transaction date. Non-monetary assets and liabilities recognised at fair value in a foreign currency are translated at the exchange rate effective on the date of determining the fair value. Gains and losses on translation of non-monetary assets and liabilities measured at fair value are recognised in correspondence with gains and losses on change in the fair value of a given asset, meaning that translation gains and losses are posted to other comprehensive income or profit or loss, depending on where the change in fair value is recognised.

(PLN '000)

Exchange rates used to determine carrying amounts:

	Dec 31 2015	*Dec 31 2014*
USD	3.9011	3.5072
EUR	4.2615	4.2623
GBP	5.7862	5.4648
CHF	3.9394	3.5447
SEK	0.4646	0.4532
TRY	1.3330	1.5070

The functional currencies of the foreign subsidiaries are the Serbian dinar (RSD) and the Hungarian forint (HUF). At the end of a reporting period, assets and liabilities of the foreign subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rate for a given financial period. Foreign currency differences on such translation are recognised in other comprehensive income and accumulated in a separate item of equity. Upon disposal of a foreign operation, accumulated deferred foreign exchange differences attributable to that operation and disclosed under equity are recognised in profit or loss.

The weighted average exchange rates for the respective financial periods were as follows:

	Dec 31 2015	*Dec 31 2014*
RSD	0.0349	0.0352
HUF	0.0136	0.0135

11.7. Property, plant and equipment

Property, plant and equipment are non-current assets:

- which are not investment property, and which are held by the Group in order to be used in the production process, in supply of goods or provision of services, for administrative purposes, or to be rented to other entities (under contract),
- which are expected to be used for more than one year,
- which may possibly bring future economic benefits to the entity,
- the cost of which can be measured reliably.

Property, plant and equipment are disclosed at cost less depreciation charges and impairment losses. Initial value of an item of property, plant and equipment comprises its cost plus any costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled. Costs incurred after an item of property, plant and equipment has been placed in service, such as costs of maintenance or repair, are charged to the profit or loss when incurred.

All material components of a given asset (which vary in terms of their useful lives) are recognised as at the date of acquisition of the asset. General overhauls also represent asset components.

The Group measured a part of the property, plant and equipment at fair value and recognised the fair value as deemed cost as at January 1st 2004, which is the date of transition to IFRSs.

Depreciation is charged on the cost of the fixed asset less its residual value. Depreciation commences when the asset is placed in service. Depreciation is based on the depreciation schedule, which specifies the expected useful life of a given asset. The applied depreciation method reflects the pattern in which the asset's economic benefits are consumed by the enterprise.

(PLN '000)

Depreciation is charged using the straight-line method over the estimated useful life of an asset, as detailed below.

Type	Depreciation rate	Period
Land (perpetual usufruct rights)	–	–
Buildings and structures	from 1.54% to 50.00%	from 2 to 65 years
Plant and equipment	from 3.33% to 50.00%	from 2 to 30 years
Office equipment	from 10.00% to 50.00%	from 2 to 10 years
Vehicles	from 6.67% to 50.00%	from 2 to 15 years
Computers	from 14.29% to 50.00%	from 2 to 7 years

The right of perpetual usufruct of land is classified by the Group as an item of property, plant and equipment. Due to the lack of premises indicating the withdrawal of or inability to renew the right of perpetual usufruct of plots of land located mainly within the area of the companies' production facilities, a decision was made to classify the rights as an item of non-depreciable property, plant and equipment, as in the case of land.

If at the time of preparing the consolidated financial statements there are any circumstances indicating that the carrying amount of property, plant and equipment may not be recoverable, such assets are reviewed for potential impairment. If any indications of impairment are identified and the carrying amount exceeds the estimated recoverable amount, then the carrying amount of such assets or cash-generating units to which such assets belong is written down to the recoverable amount. The recoverable amount is equal to the higher of the fair value less cost to sell or the value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. If an asset does not generate recognisable separate cash inflows, the recoverable amount is assessed for the cash-generating unit to which that asset belongs. Impairment losses are recognised in the statement of profit or loss as cost in the category that corresponds to the function of a given asset.

An item of property, plant and equipment may be removed from the statement of financial position if it is sold or if the company does not expect to realise any economic benefits from its further use. Any gains or losses on removal of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are charged to profit or loss for the period when the item was derecognised.

Property, plant and equipment under construction include assets in the course of construction or assembly, and are measured at cost less any impairment losses. Assets under construction are not depreciated until completed and made available for use.

At the end of each financial year the Group performs a review of its property, plant and equipment for potential impairment, of the adopted economic useful lives and depreciation methods applied and, if necessary, makes appropriate accounting adjustments affecting the current or future periods. The cost of overhauling a fixed asset that meets the capitalisation criteria is recognised as an item of property, plant and equipment.

11.8. Intangible assets

Intangible assets which are separately acquired or produced (if they meet the criteria for being recognised as development expenditure) are initially recognised at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment. Expenditure incurred on internally generated intangible assets, excluding capitalised development costs, is not capitalised and is expensed in the period in which it is incurred.

As at January 1st 2004 the Group measured a part of its intangible assets at fair value and recognised the fair value as deemed cost for IFRS 1 purposes.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Except for the development costs, internally generated intangible assets are not recognised in the statement of financial position; all expenditure incurred on internally generated intangible assets is recognised in the statement of profit or loss for the year in which it was incurred.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually, either individually or at the level of cash-generating units. For the remaining intangible assets, the Company annually assesses if there are any impairment indicators. Useful lives are also reviewed each year, and, if required, they are adjusted with effect from the beginning of the financial year.

Intangible assets with definite useful lives are amortised on a straight-line basis.

Intangible assets are amortised over periods from 2 to 10 years.

Any gains or losses arising on derecognition of intangible assets are measured as the difference between net proceeds from the sale of a given asset and its carrying amount, and are recognised in profit or loss upon derecognition of the asset.

Research and development work

Expenditure on research activities is recognised in the statement of profit or loss as incurred. Expenditure on development work performed as part of a given project is carried forward if it is expected to be recovered in the future. After initial recognition of expenditure on development work, the historical cost model is applied, which requires that assets be disclosed at cost less accumulated depreciation/amortisation and impairment. Any expenditure carried forward is amortised throughout the period during which revenue is expected to be generated under a given project.

The carrying amount of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

A summary of the policies applied to the Group's intangible assets is present below:

	Patents and licenses	Software
Useful lives	In the case of patents and licenses used under an agreement concluded for a definite term, it is assumed that the term together with an additional period for which the agreement may be extended represents the useful life.	2 - 5 years
Method	Amortised throughout the agreement term (5 - 10 years) using the straight-line method	Amortised using the straight-line method
Internally generated or acquired	Acquired	Acquired
Review for impairment / determination of the recoverable amount	Annual assessment of whether there are any indications of impairment	Annual assessment of whether there are any indications of impairment

Gains or losses from derecognition of intangible assets are measured as the difference between net proceeds from the sale of a given asset and its carrying amount, and are recognised in profit or loss upon derecognition of the asset.

11.9. Goodwill

Goodwill arising on acquisition of an entity is initially recognised at cost being the excess of:

- the aggregate of:
  - (i) the consideration transferred,
  - (ii) the amount of any non-controlling interests in the acquiree, and
  - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree
- over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Following initial recognition, goodwill is carried at acquisition cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. Goodwill is not amortised.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or set of units to which goodwill has been allocated:

- corresponds to the lowest level at which goodwill is monitored for internal management purposes and
- is not greater than a single operating segment, determined in accordance with IFRS 8 Operating Segments.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Group recognises an impairment loss. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

11.10. Investment property

Investment property is initially measured at cost, including transaction costs. The carrying amount of investment property includes the cost of replacement of component parts of the investment property at the moment it is incurred if the recognition criteria are met, and does not include day-to-day maintenance costs of the property.

After initial recognition, investment property is recognised at fair value. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss for the period in which they arise.

An investment property is eliminated from the statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits from its disposal are expected. Any gains or losses arising from the elimination of investment property from the statement of financial position are recognised in profit or loss in the period of the elimination.

Assets are reclassified as investment property only when there is a change in use, evidenced by the end of owner-occupation or execution of an operating lease agreement. If owner-occupied property (where the owner is the Company) becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

For a transfer from investment property to owner-occupied property or inventories, the property's deemed cost for subsequent accounting for under a different category is its fair value at the date of change in use.

11.11. Leases

Finance leases, which transfer to the Group all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The finance charge is recognised directly in profit or loss, unless the capitalisation criteria are met.
Property, plant and equipment used under finance leases are depreciated over the shorter of their estimated useful life and the lease term.
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Lease payments under operating leases are recognised as operating expenses in profit or loss on a straight-line basis throughout the lease term.

Contingent lease payments are expensed in the period in which they become due.

11.12. Impairment of non-financial long-term assets

An assessment is made at the end of the reporting period to determine whether there is any indication that any of non-financial long-term assets may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

The Group assesses at the end of the reporting period whether there is an indication that previously recognised impairment losses on a given asset no longer exist or should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years. Reversal of an asset impairment loss is immediately recognised as income in profit or loss. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

11.13. Borrowing costs

Borrowing costs that are directly attributable to acquisition, construction or production of an asset are part of the cost of such asset. Other borrowing costs are recognised as finance cost for the period.

11.14. Recoverable amount of long-term assets

At the end of the reporting period the Group makes an assessment to determine whether there is any indication that its assets may be impaired. If such indications exist, a formal estimate of the recoverable amounts of such assets is made. If the carrying amount of a given asset or a cash-generating unit exceeds its recoverable amount, an impairment loss is recognised and the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. Goodwill and intangible assets with indefinite useful lives and yet to be placed in service are tested for impairment.

11.15. Financial assets

Financial assets are classified into the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, quoted in an active market, which the Group has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss,
- those designated as available for sale,
- those qualifying as loans and receivables.

Financial assets held to maturity are measured at amortised cost using effective interest. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the end of the reporting period.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. Financial assets are classified as held for trading if they:
   - have been acquired principally for the purpose of being sold in the near future,
   - are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
   - are derivatives (except for those which are part of hedge accounting or financial guarantee contracts),

b) upon initial recognition it was designated at fair value through profit and loss in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, based on their market value as at the end of the reporting period, without reflecting costs to sell. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs. If a contract contains one or more embedded derivatives, the entire contract can be designated as a financial asset at fair value through profit or loss. The above does not apply when an embedded derivative has no significant impact on the cash flows generated under the contract or when it is clear, without an analysis or following a short analysis, that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited. Financial assets may be designated upon initial recognition at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment in the area of measurement or recognition (accounting mismatch), or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at December 31st 2015, the Group recognised shares in listed companies and derivative instruments in the category of financial assets accounted for at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months after the end of the reporting period. Loans and receivables with a maturity exceeding 12 months from the end of the reporting period are classified as non-current assets.

Financial assets available for sale are financial assets which are not derivative instruments, and have been classified as available for sale, or which do not belong to any of the previous three categories. Financial assets available for sale are recognised at fair value increased by the transaction costs which may be directly attributed to the acquisition or issue of the financial asset. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment losses, if any. The positive or negative differences between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be established in any other reliable manner) and their cost are recognised net of deferred tax in other comprehensive income. Impairment losses on available-for-sale financial assets are recognised in finance costs.

Any purchase or sale of financial assets is recognised at the transaction date. Initially, a financial asset is recognised at its fair value, plus, for financial assets other than classified as financial assets at fair value through profit and loss, transaction costs which are directly attributable to the purchase.

Financial assets are derecognised if the Group loses control of contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

If the Group:

- holds a valid legal title to set off the recognised amounts, and
- intends to settle on a net basis, or to recover the asset and settle the liability simultaneously,
- then financial assets and liabilities are set off against each other and are disclosed on a net basis in the statement of financial position.

The framework agreement referred to in IAS 32.50 does not provide any basis for the offset of assets and liabilities, unless the criteria specified above are satisfied.

11.16. Impairment of financial assets

The Group assesses at the end of the reporting period whether there is any objective evidence that a financial asset or a group of assets is impaired.

11.16.1. Assets recognised at amortised cost

If there is an objective indication that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying amount of an asset is reduced by recognising an impairment loss. The amount of the loss is recognised in profit or loss for the period.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the analysis shows that there is no objective evidence of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses their impairment. Assets that are individually reviewed for impairment and for which an impairment loss has been recognised or it has been concluded that the existing impairment loss will not change, are not taken into account in collective review of assets for impairment.

If an impairment loss decreases in a subsequent period, and the decrease may be objectively associated with an event that occurred after the impairment loss recognition, the recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, in so far as the carrying amount of the asset does not exceed its amortised cost as at the reversal date.

11.16.2. Financial assets carried at cost

If there exists an objective indication of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

11.16.3. Available-for-sale financial assets

If there exists an objective indication of impairment of a financial asset available for sale, the amount of the difference between the cost of that asset (less any principal and interest payments) and its current fair value, reduced by any impairment losses previously recognised in profit or loss, is derecognised from equity and reclassified to profit or loss. Reversals of impairment losses on equity instruments classified as available for sale may not be recognised in the statement of profit or loss. If the fair value of a debt instrument available for sale increases subsequently, and if the increase may be objectively associated with an event that occurred following the impairment loss recognition in the statement of profit or loss, the amount of the impairment loss is reversed through profit or loss.

11.17. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. That condition is met only if an asset is available for immediate sale in its present condition, and its sale is highly probable. Classification of an asset as held for sale means that the management intends to complete the sale within one year from the change of its classification. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

If following an intended transaction the Group loses control of its subsidiary, all of the subsidiary's assets and liabilities should be classified as held for sale, irrespective of whether the Group retains a non-controlling interest after the transaction.

If the Group is obliged to implement a sales plan providing for the sale of an investment in a joint venture or associate, or a part of such investment, than such investment or a part thereof to be sold is classified as held for sale, the above criteria having been met, and the Group ceases to apply the equity method for accounting for that part of the investment which has been classified as held for sale. The remaining part of the investment in an associate or joint venture, not classified as held for sale, continues to be equity-accounted. The Group ceases to apply the equity method upon disposal if the disposal transaction results in the Group's losing significant influence on the associate or joint venture.

Following the disposal transaction, the Group accounts for the retained interest in accordance with IAS 39, unless the interest justifies continued classification of the entity as an associate or joint venture, in which case the Group continues to apply the equity method.

Net non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Net non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. That condition is met only if an asset or disposal group is available for immediate sale in its present condition, and its sale is highly probable. The management has to be obliged to complete the sale within one year from the change of the classification.

In the statement of comprehensive income, income and expenses on discontinued operations are recognised separately from income and expenses on continuing operations at the level of profit after tax, even if the Group has retained a non-controlling interest in a subsidiary. Profit or loss (after tax) relating to discontinued operations is recognised separately in a single amount in the statement of comprehensive income.

Property, plant and equipment as well as intangible assets classified as held for sale are not subject to depreciation or amortisation.

11.18. Derivative financial instruments and hedges

The Group uses derivative financial instruments such as forward currency contracts to hedge against the risks associated with foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivative instruments are recognised as financial assets if their value is positive and as financial liabilities if their value is negative.

Given the nature of hedges and relation to the transactions hedged, despite the absence of hedge accounting policies, non-speculative gain/(loss) on realisation and measurement of derivatives representing economic security for acquisition and sale transactions adjusts revenue or cost of products sold, respectively.

11.19. Inventories

Inventories are measured at the lower of cost and net realisable value.

Materials purchased in order to be used in production, which at the moment of purchase are explicitly identified with a construction contract that is currently in progress or with other supply or services contracts, are measured during the financial year using the method of detailed identification of the individual purchase prices for a specific contract. As at the end of the reporting period, materials are measured in line with the rules applicable to the measurement of construction contracts (IAS 11), that is the value and purchase cost of those materials are recognised as production cost.

Other materials are recognised at production cost using the FIFO method.

Inventories are recognised on a net basis (net of write-downs). Write-downs on inventories are recognised when a loss is identified, in order to bring the carrying amount of inventories to their net realisable value. The amount of write-downs recognised to reduce the carrying amount to net realisable value, as well as any other loss on inventories are recognised as expenses for the period in which an impairment or other loss occurred.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

11.20. Trade and other receivables

Trade receivables are recognised and disclosed at initially invoiced amounts (unless the effect of changes in the time value of money is material), taking into consideration impairment losses.

Impairment losses on receivables are recognised under operating expenses or finance costs, depending on the nature of the receivable.

Where the effect of changes in the time value of money is material, the value of receivable is determined by discounting forecast future cash flows to their current value, with the use of a discount rate reflecting the current market assessments of the time value of money. Receivables measurement connected with time-lapse-related discount reversal is recognised as finance income.

Other receivables include in particular prepayments for future acquisitions of property, plant and equipment, intangible assets and inventories.

Prepayments are presented according to the type of assets to which they refer: as non-current or current assets, respectively. As non-cash assets, prepayments are not subject to discounting.

Receivables from the state budget are presented as other non-financial assets, except corporate income tax receivable disclosed as a separate item of the balance sheet.

11.21. Cash and cash equivalents

Cash and current deposits in the statement of financial position comprise cash at bank and on hand as well as current deposits with an original maturity of three months or less.

The balance of cash and cash equivalents disclosed in the statement of cash flows is the aggregate of cash and cash equivalents defined above. If the Group uses overdraft facilities for cash management purposes, IAS 7 requires that the balance of cash be presented in the statement of cash flows net of outstanding amounts of overdraft facilities.

11.22. Share capital

Share capital is disclosed in the financial statements in the amount defined in the Articles of Association and entered in the Court Register. Declared but outstanding contributions to equity are disclosed under "Called-up share capital not paid", as a negative value. Treasury shares are disclosed as a separate negative item of equity.

11.23. Provisions

The Group recognises a provision if the Company has a present obligation (legal or constructive) resulting from past events whose settlement is likely to result in an outflow of economic benefits and whose amount can be reliably estimated. Where expenditure required to settle a provision is expected to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that the reimbursement will be received if the entity settles the obligation. The expenditure relating to a given provision is presented in profit or loss net of any reimbursement.

Recognised provisions are disclosed as operating expenses, other operating expenses or finance cost, depending on circumstances to which future liabilities relate.

Where the effect of changes in the time value of money is material, the amount of provision matches the current value of expenditure expected to be necessary to perform the obligation.

A discount rate is determined before tax; therefore, it reflects the current market assessment of the time value of money and the risk relating specifically to a given liability. A discount rate is not burdened by the risk by which estimated future cash flows have been adjusted. If the discount method is used, any time-lapse-related increase in provision is carried as finance cost.

11.24. Interest-bearing borrowings and other debt instruments

All borrowings and other debt instruments are initially recognised at cost being their fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account the transaction costs and the discount or premium on settlement.

Upon removal of a liability from the statement of financial position, recognition of impairment loss, or accounting for a liability using the effective interest method, gains or losses are recognised in the statement of comprehensive income.

11.25. Trade and other payables

Current trade and other payables are reported at amounts payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities initially designated (due to meeting certain criteria) as financial liabilities at fair value through profit or loss.

Financial liabilities are classified as held for trading if they were acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded instruments, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a well-documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities at fair value through profit or loss are measured at fair value, based on their market value as at the end of the reporting period, without reflecting costs to sell. Changes in the fair value of such instruments are recognised in profit or loss as finance income or costs.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when it is extinguished – that is when the obligation specified in the contract is discharged or cancelled or expires. When an existing debt instrument is replaced by another on substantially different terms, where the same parties are involved, such a replacement is treated by the Group as the derecognition of the original financial liability and the recognition of a new financial liability. Similarly, when the terms of an existing financial liability are substantially modified, the Group treats such modification as the derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts is recognised in profit or loss.

Other liabilities include in particular public charges and salaries. Other liabilities are recognised at amounts due.

11.26. Employee benefits

In accordance with internal remuneration systems, Group employees are entitled to jubilee benefits upon completion of a number of years in service and to retirement gratuity upon retirement due to old age or disability.

In accordance with the internal regulations, the companies also make transfers to the Social Fund in respect of their retired employees.

The Group recognises such costs on an accrual basis.

The amount of jubilee bonuses depends on the number of years in service and average monthly remuneration. Also, employees who retire due to old age receive a one-off retirement bonus. Employees who develop a permanent work disability are entitled to receive a disability severance payment. The amount of such benefits depends on the number of years in service and the average monthly remuneration.

The Group recognises a provision for retirement gratuities due to old age and disability, contributions to the Social Fund and jubilee benefits in order to allocate the costs of those allowances to the periods to which they relate. According to IAS 19, jubilee benefits are classified as other long-term employee benefits, whereas retirement gratuity benefits and contributions to the Social Fund – as defined post-employment benefit plans. The present value of these obligations as at the end of each reporting period is calculated by an independent actuary. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account employment turnover, and relates to the reporting period. Information on demographics and employment turnover is sourced from historical data.

Actuarial valuation of long- and short-term benefits is made not less frequently than at the end of each financial year.

Revaluation of employee benefit obligations under defined benefit programmes, including actuarial gains and losses, is recognised in other comprehensive income and is not subject to subsequent reclassification to profit or loss.

11.27. Taxes

11.27.1. Income tax

Income tax presented in profit or loss comprises the actual tax expense for the given reporting period, any corrections of tax settlements for prior years as determined by the Group in accordance with the provisions of the Corporate Income Tax Act, as well as movements in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

11.27.1.1. Current income tax

Current income tax payable and receivable for the current period and for previous periods is measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and laws that have been enacted or substantively enacted at the end of the reporting period.

11.27.1.2. Deferred income tax

For financial reporting purposes, the Group recognises deferred tax assets and deferred tax liabilities on all temporary differences existing at the end of the reporting period between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised:

- except where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reviewed at the end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets are determined as the amount of income tax recoverable in the future in connection with deductible temporary differences which will reduce future income tax base and any deductible tax loss, determined in accordance with the prudence principle. Deferred tax assets are recognised only if it is probable that they will be realised.

Deferred tax liabilities are recognised at amounts of income tax payable in future in connection with taxable temporary differences, i.e. differences which will increase the future tax base.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of a particular asset or liability, based on tax rates (and tax legislation) which were enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss: as part of other comprehensive income for items recognised in other comprehensive income or directly in equity for items recognised directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset by the Group if and only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

11.27.2. Value added tax

Revenue, expenses, assets and liabilities are recognised net of the VAT, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognised in the cost of a given asset or as part of the cost item, and
- in the case of receivables and payables, which are recognised inclusive of the VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

11.28. Revenue

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Group and its amount can be measured reliably. Revenue is recognised at the fair value of the consideration received or receivable, net of value added tax (VAT) and rebates. The following specific recognition criteria must also be met before revenue is recognised.

11.28.1. Revenue from sale of goods (merchandise and products)

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue and costs incurred can be reliably measured.

Revenue includes amounts due for finished goods, merchandise and materials sold by the Group as well as other services relating to the principal activities of the Group, determined at net prices, net of rebates and discounts granted by the Group and net of excise.

11.28.2. Services

Revenue from long-term services that have not been completed in the period from the date of execution of the service contract until the reporting date - after deducting revenue that was recognised in profit or loss in prior reporting periods - is determined in proportion to the stage of completion of the service, provided that such stage of completion can be reliably estimated. Depending on the nature of the contract, the methods used to determine the stage of completion of a contract may include:

- surveys of work performed,
- completion of a physical proportion of the contract work,
- the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Contract costs incurred to date include only those costs that reflect work performed by that date. Estimated total contract costs include only costs of services which have already been performed or which are to be performed.

When the outcome of the contract cannot be estimated reliably, the revenue derived from the contract is recognised only to the extent of costs incurred that the entity expects to recover.

11.28.3. Interest

Interest income is recognised as it accrues (using the effective interest method that discounts future cash flows over the expected life of financial instruments) based on the net carrying amount of a particular financial asset.

11.28.4. Dividends

Dividends are recognised when the shareholder's right to receive payment is established.

11.28.5. Rental income

Revenue from lease of investment property is recognised with the straight-line method over the lease term (existing agreements).

11.28.6. Construction contracts

Construction contracts are business contracts associated with the Company's core operations, which provide for construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. A majority of the contracts provide for fixed prices and are accounted for using the percentage of completion method.

The overall contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments.

Variations are included in contract revenue when it is probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured. Contract revenue is measured at the fair value of the consideration received or receivable.

The overall contract costs comprise costs that relate directly to the specific contract or can be allocated to the specific contract using reasonable methods of allocation, as well as such other costs as are specifically chargeable to the customer under the terms of the contract.

The effects of changes in estimates of contract revenue or contract costs and the effects of changes in the estimate of the outcome of the contract are accounted for as a change in accounting estimate in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The changed estimates are used in the determination of the amount of revenue and expenses recognised in the consolidated statement of comprehensive income in the period in which the changes are made and in subsequent periods.

Revenue at the end of the reporting period is determined in proportion to the stage of completion of the contract, after deducting revenue that was recognised in profit or loss in prior reporting periods.

11.28.7. Government grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

If a grant concerns a cost item, it is recognised as income in matching with the expenses it is to compensate for. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset in equal annual instalments.

11.29. Earnings per share

Earnings per share for each reporting period is calculated as quotient of the net profit for the given accounting period and the weighted average number of Company shares outstanding in the given accounting period. The Group does not present diluted earnings/loss per share as there are no potential ordinary shares with dilutive effect.

12. Operating segments

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

The Group identifies the following operating segments in which individual companies are engaged:

Operating segments	Segment companies
Power and environmental protection facilities	RAFAKO S.A.
	E001RK Sp. z o.o.
	E003B7 Sp. z o.o.
Furnaces and mills – discontinued operations	FPM S.A.
	Palserwis Sp. z o.o.
Other segments	PGL-DOM Sp. z o.o.
	RAFAKO ENGINEERING Sp. z o.o.
	ENERGOTECHNIKA Engineering Sp. z o.o.
	RAFAKO ENGINEERING SOLUTION doo.
	RAFAKO Hungary Kft.

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

Other segments are made up of those segments which do not meet the quantitative thresholds set out in IFRS 8, including property management and design services provided by other entities of the Group.

The Management Board monitors the segments' operating performance to make decisions on allocation of resources and evaluate the results of the allocation as well as the results of operations. Results of operations are evaluated based on operating profit or loss.

The furnaces and mills segment offering lignite and hard coal mills, automatic stokers and extension grates, slag traps used in heat and power generating machinery and equipment, as well as spare parts, has been classified as discontinued operations. For detailed financial information concerning the discontinued operations, see Note 17.

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12 months ended December 31st 2015 as at December 31st 2015	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Furnaces and mills – discontinued operations*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	1,531,631	16,940	1,548,571	8,542	(7,023)	1,550,090
Inter-segment sales	3,587	14,022	17,609	–	(17,609)	–
Total revenue	1,535,218	30,962	1,566,180	8,542	(24,632)	1,550,090
Costs of sales	(1,413,774)	(25,195)	(1,438,969)	(7,023)	22,977	(1,423,015)
Total						
Gross profit (loss)	121,444	5,767	127,211	1,519	(1,655)	127,075
Other income (expenses)	(75,592)	(4,998)	(80,590)	(1,594)	(4,172)	(86,356)
Operating profit (loss)	45,852	769	46,621	(75)	(5,827)	40,719
Finance income (costs)	4,299	128	4,427	(57)	990	5,360
Profit (loss) before tax	50,151	897	51,048	(132)	(4,837)	46,079
Income tax expense	(13,614)	(184)	(13,798)	11	1,713	(12,074)
Net profit (loss) from continuing operations	36,537	713	37,250	(121)	(3,124)	34,005
Depreciation and amortisation	11,602	1,041	12,643	264	(74)	12,833
Share of profit of associates	–	–	–	–	–	–
Assets and liabilities as at December 31st 2015						
Assets	1,297,249	57,013	1,354,262	83,080	(186,124)	1,251,218
Liabilities	875,345	15,003	890,348	16,422	(85,318)	821,452
Other information						
Investments in associates	–	–	–	–	–	–
Capital expenditure	25,932	5,119	31,051	1,015	(2)	32,064

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12 months ended December 31st 2014 or as at December 31st 2014	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Furnaces and mills – discontinued operations*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	1,175,898	9,754	1,185,652	71,191	(73,371)	1,183,472
Inter-segment sales	778	25,811	26,589		(26,589)	
Total revenue	1,176,676	35,565	1,212,241	71,191	(99,960)	1,183,472
Costs of sales	(1,070,062)	(29,372)	(1,099,434)	(56,758)	92,829	(1,063,363)
Total						
Gross profit (loss)	106,614	6,193	112,807	14,433	(7,131)	120,109
Other income (expenses)	(77,598)	(4,783)	(82,381)	(9,756)	9,747	(82,390)
Operating profit (loss)	29,016	1,410	30,426	4,677	2,616	37,719
Finance income (costs)	(530)	164	(366)	228	(3,164)	(3,302)
Profit (loss) before tax	28,486	1,574	30,060	4,905	(548)	34,417
Income tax expense	(4,125)	(409)	(4,534)	(940)	(345)	(5,819)
Net profit (loss) from continuing operations	24,361	1,165	25,526	3,965	(893)	28,598
Depreciation and amortisation	10,422	920	11,342	1,572	(76)	12,838
Share of profit of associates	–	–	–		–	–
Assets and liabilities as at Dec 31 2014						
Assets	1,099,636	51,256	1,150,892	72,907	(77,237)	1,146,562
Liabilities	821,898	15,242	837,140	14,874	(18,906)	833,108
Other information						
Investments in associates	–	–	–		–	–
Capital expenditure	16,197	1,233	17,430	1,243	(118)	18,555

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

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

14. Construction contracts

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

The table below presents the effects of accounting for construction contracts, including revenue and costs of running contracts in the 12 months ended December 31st 2015 and December 31st 2014, 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.

	Dec 31 2015	*Dec 31 2014*
Contract costs incurred to date (cumulative)	3,260,138	2,853,112
Recognised profits less recognised losses to date (cumulative)	243,305	171,452
Contract revenue recognised by reference to the contract stage of completion (cumulative)	3,503,443	3,024,564
Progress billings (cumulative)	3,324,100	2,929,213
Gross amount due to customers for contract work (liability), including:	**(142,795)**	**(207,271)**
- advances received (liabilities arising from advances received)	(157,126)	(125,433)
- adjustment to advances received arising from amounts due from customers	56,859	44,258
- gross amount due to customers for contract work	(42,528)	(126,096)
Prepayments relating to accounting for construction contracts, including:	**233,992**	**257,803**
- gross amount due from customers for contract work (asset)	194,897	209,456
- contract acquisition cost and other accrued contract costs	39,095	48,347
Provision for penalties for late contract performance or failure to meet guaranteed technical specifications	–	(1,946)
Provision for losses on construction contracts	(29,885)	(30,321)

Group companies analyse each contract for potential losses, which are immediately recognised as an expense in accordance with IAS 11.36. In accordance with IAS 11.11-15, in its accounting for construction contracts the Group recognises estimated penalties arising from delays in the completion of contracts or failure to meet guaranteed technical specifications. Penalty estimates are made based on source documentation concerning delays in contract performance or issues relating to guaranteed technical specifications, based on contractual assumptions and management's assessment of the risk of such penalties being imposed. The level of the estimated risk depends, to a large extent, on external factors that are partly beyond the Company's control, and may change in subsequent periods. 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 arbitration, which in the opinion of the Group's companies gives rise to risk of indeterminable consequences.

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

14.1. Key contracts executed by the Group

14.1.1. Opole Project

In February 2012, the Parent, acting as the Leader of a Consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. executed a PLN 9.4bn contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. − the "Employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at PGE Elektrownia Opole S.A., together with equipment and devices as well as all related buildings and structures. The competing bidders for the project included Alstom Power Sp. z o.o. ("Alstom").

In the second half of 2011, mutual claims were raised between the RAFAKO Group and the Alstom Group companies in connection with disputes relating to jointly executed projects, as reported by the Company in previous reports.

On October 15th 2013, RAFAKO S.A. reached a settlement the Alstom Group which:

- governed in a comprehensive manner the terms of financial settlements between the groups,
- provided for a mutual waiver of claims by RAFAKO S.A. and the Alstom Group,
- and defined the scope of collaboration between the parties on RAFAKO S.A.'s projects.

The key provisions of the final settlement:

- The Alstom Group agreed to was obliged to pay EUR 43.5m to RAFAKO S.A.;
- RAFAKO S.A. and the Alstom Group waived their mutual claims relating to the Karlsruhe, Westfalen and Bełchatów projects and withdrew the court actions and calls for arbitration submitted in connection with the disputes; and
- RAFAKO S.A. agreed to cooperate with the Alstom Group on the Opole Contract, including to subcontract to the Alstom Group 100% of RAFAKO's scope of work under the Opole Contract. Detailed rules of cooperation and the scope of work subcontracted to the Alstom Group were defined in the Settlement concluded on October 25th 2013 between Alstom, the Consortium composed of RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A. and PGE, and special purpose vehicles of each of Consortium members.

The withdrawal of all claims, execution of the settlement, and the transfer of the agreed payments marked an end to all outstanding settlements, disputes, and issues related to penalties and claims between RAFAKO S.A. and the Alstom Group companies in connection with the projects described above.

On October 11th 2013, the Consortium and the Employer concluded an annex to the Agreement, whereby Alstom was included in the list of subcontractors.

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

Under the subcontractor agreement between SPV-Rafako and Alstom, SPV-Rafako appointed Alstom as its subcontractor responsible for 100% of the work and services making up the Company's scope of work under the Opole Project. Alstom took over the entire responsibility towards the Employer for the execution of the contract.

By December 31st 2015, Alstom signed with ENERGOTECHNIKA ENGINEERING Sp. z o.o., a subsidiary, an agreement for delivery of project documentation.

Rules of accounting for the Opole Contract:

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

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

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

The execution of the Opole Project may affect the Group's performance if the Parent becomes Alstom's subcontractor for the design and construction of the boiler island comprising the steam generator, desulfurization, dust removal and denitration units, as well as all equipment required for the operation of these units; such deliveries would fall within the Company's principal business activity.

14.1.2. Jaworzno Project

RAFAKO S.A. in a consortium comprising RAFAKO S.A. (Consortium Leader) and MOSTOSTAL WARSZAWA S.A. is executing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800–910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The value of the contract is approximately PLN 5.4bn (VAT inclusive). On August 4th 2013, the project consortium agreement was amended, with RAFAKO S.A. taking over 99.99% of the Project scope of deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently, the distribution of consideration due to the consortium members changed to reflect the members' actual shares in the work executed under the Project.

Rules of accounting for the Jaworzno project:

For the purposes of Project execution, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO S.A. subcontracted approximately 88.5% of the Project's scope of work, with RAFAKO S.A. executing directly the remaining 11.5% (with an approximate value of PLN 506m; the scope includes the design of the boiler island, as well as supply of boiler pressurised parts and a dust removal unit).

For the purposes of execution of the Project, RAFAKO S.A. and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees with an aggregate amount of PLN 523m, required for the Project execution; under the same agreements, security for the guarantees was established on the assets of RAFAKO SA and E003B7 Sp. z o.o.

The Parent, RAFAKO S.A., does not plan for E003B7 Sp. z o.o. to pay dividend before completion of the Jaworzno project.

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

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

In the consolidated financial statements, RAFAKO S.A. offsets Project-related income, expenses and settlements between RAFAKO S.A. and the special purpose vehicle.

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14.2. Provision for losses on construction contracts

The Group recognises provisions for anticipated losses on contracts in accordance with the methodology described in Note 11.28.6 If analysis shows that the estimated total contract costs will exceed reliable contract revenue (i.e. the overall result on the contract will be a loss), the entire loss on such contract is recognised in the reporting period.

	Dec 31 2015	*Dec 31 2014*
Opening balance	30,321	35,707
Recognition of provision for liability	22,870	11,611
Reversal/utilisation of provision for liability	(23,306)	(16,955)
Transfer to discontinued operations	–	(42)
Closing balance	**29,885**	**30,321**
Current as at	29,885	30,321
Non-current as at	–	–
	29,885	**30,321**

14.3. Provision for costs due to late performance of contracts

Group companies recognise provisions for contractual penalty if there is significant probability that such penalty will be charged for failure to meet technical specifications provided for in the contract and covered by contractual penalty, or if the performance of a contract has resulted in infringement of third parties' interests. The amount of the provision results from the amount of the penalty provided for in a given contract for failure to meet technical specification or from measurable value of the liability towards third parties.

During the 12 months ended December 31st 2015, the Group companies reviewed the amounts of provisions for costs of late contract performance (including delays in fulfilling contractual obligations and terms of assessing penalties) recognised for current contracts. Using the most recent data on running contracts and based on settlements of completed contracts, the Group companies' Management Boards determined that there was no need to recognise provisions for costs of late contract performance.

	Dec 31 2015	*Dec 31 2014*
Opening balance	1,946	50,192
Recognition of provision for liability	–	7,457
Reversal/utilisation of provision for liability	(1,946)	(55,703)
Closing balance	–	**1,946**
Current as at	–	1,946
Non-current as at	–	–
	–	**1,946**

In 2015, the Parent reversed provisions for contractual penalties for a total amount of PLN 1,946 thousand and as at December 31st 2015 the Company had no provisions for costs of late contract performance.

In 2014, the Parent reversed/used provisions for contractual penalties for a total amount of PLN 55,703 thousand, which primarily included a reversed provision for a potential contractual penalty payable to one customer (PLN 28,359 thousand) and use of provision for delayed execution of contracts (PLN 13,445 thousand).

(PLN '000)

15. Income and expenses

15.1. Revenue from sale of goods and services

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Net revenue from sale of goods	1,489,414	1,130,694
including: from related entities	–	–
Net revenue from sale of services	58,995	63,606
including: from related entities	3,134	–
Net revenue from sale of other goods	–	–
including: from related entities	–	–
Gain /(loss) on realisation of derivatives	–	–
Gain /(loss) on valuation of derivatives	–	–
Contractual penalties	(136)	(13,445)
Realised exchange differences on trade receivables	635	(753)
Exchange differences on valuation of trade receivables	(839)	1,350
Net revenue from sale of goods and services, total	**1,548,069**	**1,181,452**
including: from related entities	3,134	–

In the 12 months ended December 31st 2015, the Group's revenue from sale of goods and services was PLN 1,548,069 thousand, i.e. PLN 366,618 thousand more than in the 12 months ended December 31st 2014. The revenue increase was mainly attributable to the recognition of a significant part of revenue from the performance of the Jaworzno contract (a 910 MW unit) by RAFAKO S.A.'s subsidiary special purpose vehicle.

Domestic sales saw an improvement, while sales to foreign customers declined.

15.2. Revenue from sale of materials

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Revenue from sale of materials	2,021	2,020
including: from related entities	–	–
Net revenue from sale of goods and materials, total	**2,021**	**2,020**
including: from related entities	–	–

The Group's core customer group comprises foreign and domestic suppliers of power engineering facilities as well as domestic and foreign commercial and industrial power plants.

Revenue from sales to related entities is presented in detail in Note 46.

Sales of particular product groups by market are presented in section 3.2 of the Directors' Report on the RAFAKO Group's operations for 2015.

(PLN '000)

15.3. Geographical structure of revenues

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Revenue from sales to domestic customers	1,426,858	1,008,608
including: from related entities	3,134	–
Revenue from sales to foreign customers	123,232	174,864
including: from related entities	–	–
Net sales revenue, total	**1,550,090**	**1,183,472**
including: from related entities	3,134	–

15.4. Cost of sales

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Depreciation and amortisation	12,569	12,838
Raw materials and consumables used	428,143	534,072
Services	813,688	406,660
Taxes and duties	7,259	6,565
Salaries and wages	166,264	151,808
Social security and other benefits	36,265	33,715
Business travel expenses	7,381	6,985
Advertising expenses	4,865	3,719
Unrealised exchange differences	(978)	1,457
Realised exchange differences	624	264
Cost of insurance	4,327	1,325
Other expenses	1,829	587
Total expenses by nature	**1,482,236**	**1,159,995**
Change in inventories, provisions, prepayments and accruals (including adjustment resulting from IAS 11)	22,983	(21,237)
Work performed by entity and capitalised	(1,789)	(743)
Distribution costs (negative value)	(29,416)	(31,483)
Administrative expenses (negative value)	(53,054)	(45,189)
Cost of products sold	**1,420,960**	**1,061,343**
Cost of merchandise and materials sold	2,055	2,020
Costs of sales	**1,423,015**	**1,063,363**

Cost of sales in 2015 amounted to PLN 1,423,015 thousand, with the Group's gross profit at PLN 127,075 thousand. The cost increase was principally driven by the significant increase in the Group's sales in 2015.

Distribution costs disclosed by the Group mainly include expenses incurred by the cost centres allocated to distribution cost in the cost accounting model (a significant part of which consists of payroll costs and advertising expenses). Such costs also include bidding costs and impairment losses on trade receivables. In the Group's statement of comprehensive income in 2015, distribution costs are disclosed at PLN 29,416, with the largest item being distribution costs net of reversed and used impairment losses of PLN 28,906 thousand (December 31st 2014: PLN 27,985 thousand).

(PLN '000)

15.5. Depreciation of property, plant and equipment and amortisation of intangible assets, impairment losses recognised in the consolidated statement of comprehensive income

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Items recognised as cost of sales (cost of merchandise and products sold):	10,427	10,813
Depreciation of property, plant and equipment	8,809	9,020
Amortisation of intangible assets	1,618	1,793
Impairment of property, plant and equipment	–	–
Items recognised as distribution costs:	458	477
Depreciation of property, plant and equipment	380	401
Amortisation of intangible assets	78	76
Items recognised as administrative expenses:	1,684	1,548
Depreciation of property, plant and equipment	1,541	1,410
Amortisation of intangible assets	143	138
Total depreciation and amortisation	**12,569***	**12,838**

*depreciation and amortisation presented above does not include amortisation/depreciation charges of PLN 264 thousand related to discontinued operations

15.6. Employee benefit expenses

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Salaries and wages, including:	166,264	151,808
current wages and salaries expense	164,877	145,305
other benefits, including post-employment benefits	1,387	6,503
Social security	36,265	33,715
	202,529	**185,523**

15.7. Other income

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Income from contractual penalties	369	1,539
Gain on sale of property, plant and equipment	1,090	790
Grants	1,423	174
Compensation received	373	244
Reversal of provision for amounts due to the state budget	157	990
Reversal of impairment loss on property, plant and equipment	238	–
Reimbursed cost of training of juvenile workers	–	553
Income from cancelled liabilities	–	960
Other	554	92
	4,204	**5,342**

(PLN '000)

15.8. Other expenses

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Loss on scraping of tangible assets	151	256
Loss on disposal of tangible assets	–	89
Donations and grants	1,044	500
Recognition of impairment loss on receivables	95	1,768
Repairs of property, plant and equipment	98	102
Scrapping of materials	–	38
Impairment of property, plant and equipment	49	419
Legal costs	94	119
Power Engineer's Day organisation cost	506	332
Past-due, cancelled and uncollectible receivables written off	–	20
Recognition of provision for future costs	1,206	5,014
Amortisation of licensing fees	3,444	–
Compensations paid	–	1,790
Costs of substitute performance	690	–
Other	713	613
	8,090	**11,060**

15.9. Finance income

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Interest on financial instruments	3,485	125
Interest on security deposits provided	2,373	5,333
Other interest	42	430
Reversal of provision for finance cost	281	–
Foreign exchange gains	586	497
Reversal of impairment loss on interest	3,639	55
Dividends	11	14
Discount (long-term accounts receivable and payable)	7,185	–
Other income	370	144
	17,972	**6,598**

15.10. Finance costs

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Interest on financial instruments	3,566	6,159
Other interest	756	990
Commission on bank borrowings received	907	1,246
Cost of financial instruments measurement	159	–
Net foreign exchange losses	–	156
Discount (long-term accounts receivable and payable)	5,632	1,246
Recognition of provision for finance cost	1,335	–
Other finance costs	257	103
	12,612	**9,900**

For details of finance income and finance costs related to financial instruments, see Note 57.2.

(PLN '000)

15.11. Items of other comprehensive income

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Exchange differences on translating foreign operations	(231)	56
Exchange differences on translating foreign operations attributable to non-controlling interests	(1)	(5)
Actuarial gains/losses	(314)	(5,005)
Income tax on other comprehensive income	60	950
	(486)	**(4,004)**

16. Income tax

16.1. Income tax expense

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

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Continuing operations		
Tax expense relating to continuing operations:		
Current income tax	(10,578)	(9,218)
Current income tax expense	(10,619)	(12,765)
Adjustments to current income tax from previous years	41	3,547
Deferred tax	(1,496)	3,399
Related to recognition and reversal of temporary differences	(1,496)	3,399
Adjustments to deferred tax from previous years	–	
Income tax expense in the consolidated statement of profit or loss	**(12,074)**	**(5,819)**
Deferred tax on other comprehensive income	60	950
Related to recognition and reversal of temporary differences	60	950
Income tax expense recognised in other comprehensive income	**60**	**950**

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Discontinued operations		
Tax expense relating to discontinued operations:		
Current income tax	(20)	(1,312)
Current income tax expense	(20)	(1,312)
Adjustments to current income tax from previous years	–	–
Deferred tax	31	372
Related to recognition and reversal of temporary differences	31	372
Adjustments to deferred tax from previous years	–	–
Income tax expense in the consolidated statement of profit or loss	**11**	**(940)**
Deferred tax on other comprehensive income		
Related to recognition and reversal of temporary differences	–	8
Income tax expense recognised in other comprehensive income	–	**8**

(PLN '000)

In the period covered by these financial statements, the Parent filed corrected corporate tax returns for 2009−2014, adjusting the taxable income by a total of PLN 220 thousand, which resulted in a PLN 41 thousand tax overpayment for previous years. The principal reasons for the corrections were recognition of amortisation expense on an intangible asset and corrections of previous years' costs of liquidated damages paid by the Parent in 2014.

In 2014, the Parent submitted to tax authorities corrected corporate tax returns for 2008−2013, adjusting the taxable income by a total of PLN 18,667 thousand, which resulted in a PLN 3,547 thousand tax overpayment for previous years. The principal reason for the corrections was the use of technological tax relief and adjustment to revenue and expenses on contracts completed in 2012−2013.

16.2. Reconciliation of effective income tax rate

The table below presents reconciliation of corporate income tax on pre-tax profit/loss computed at the statutory tax rate with corporate income tax computed at the effective tax rate for the years ended December 31st 2015 and December 31st 2014:

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Profit before tax from continuing operations	46,079	34,417
Profit before tax from discontinued operations	(66)	(3,874)
Profit (loss) before tax	46,013	30,543
Tax at Poland's statutory tax rate of 19%	8,743	5,804
Non-tax-deductible costs (permanent differences)	6,514	6,982
recognition of provision for contractual penalties	693	1,650
write-off of receivables, classified as non-tax-deductible	1,169	419
charitable donations	198	–
cost of entertainment	128	86
recognition of non-taxable provisions	–	12
due to loss of control over subsidiary	2,161	–
recognition of impairment loss on assets held for disposal	–	1,668
CIT correction	–	1,012
other	2,165	2,135
Non-taxable income (permanent differences)	(2,858)	(2,211)
from contractual penalties	(370)	(2,374)
non-deductible VAT on receivables	–	(840)
dividends received	(2)	(3)
due to the use of non-taxable provisions	(1,706)	–
other	(780)	1,006
Other	(294)	(269)
Correction of previous years' tax	(42)	(3,546)
Tax at the effective tax rate of 26.22% (2013: 22.13%)	**12,063**	**6,759**
Income tax attributable to continuing operations	(12,074)	(5,819)
Income tax attributable to discontinued operations	11	(940)
Income tax (expense) in the consolidated statement of comprehensive income	**12,063**	**6,759**

(PLN '000)

16.3. Deferred income tax calculated as at December 31st 2015

Deferred income tax calculated as at December 31st 2015 and 2014 relates to the following:

	Statement of financial position		*Statement of comprehensive income*	
	Dec 31 2015	*Dec 31 2014*	*Dec 31 2015*	*Dec 31 2014*
- investment reliefs	(3)	(4)	1	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(18,811)	(17,897)	(914)	(1,312)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,447	1,818	(371)	(23)
- difference between tax base and carrying amount of loans and receivables	1,209	598	611	(2,559)
different timing of recognition of revenue from sale of goods and services for tax purposes	(43,185)	(27,165)	(16,020)	2,920
- difference between tax base and carrying amount of inventories	1,981	1,516	465	252
- provisions	18,420	22,823	(4,403)	877
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	17	(17)	17
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	44	55	(11)	6
- different timing of recognition of cost of sales for tax purposes	63,105	50,687	12,418	2,492
- tax asset related to tax loss	974	338	636	(1,203)
- adjustment to costs of unpaid invoices	18,475	12,127	6,348	2,663
other	1,537	1,685	(148)	599
Deferred tax expense			**(1,405)**	**4,729**
Net deferred tax asset/liability, including:	**45,193**	**46,598**		
Deferred income tax attributable to discontinued operations			(31)	(379)
Deferred tax expense – continuing operations			**(1,436)**	**4,350**
Net deferred tax asset/liability, including:	**45,193**	**46,598**		
Deferred tax asset	47,796	49,536		
Deferred tax liability	(94)	(397)		
Deferred tax liability – discontinued operations	(2,509)	(2,541)		

In the year ended December 31st 2015, the Parent recognised a single deferred tax asset on a tax loss of PLN 3,169 thousand, which will be offset against profits in future reporting periods.

(PLN '000)

In the year ended December 31st 2012, the Parent recognised a single deferred tax asset on a tax loss of PLN 15,442 thousand. In 2013, the Parent reduced the asset by PLN 7,721 thousand, following a partial settlement of the tax loss. In the year ended December 31st 2014, the Parent settled the balance of the deferred tax asset following settlement of the remaining amount of tax loss.

17. Discontinued operations

The Parent sold shares in FPM S.A., as described in Note 2.

The operations of FPM S.A. represented a separate important line of the Group's business. Accordingly, the results of FPM S.A. were classified as discontinued operations as at December 31st 2014, in accordance with IFRS 5. Revenue generated by FPM S.A. in 2014 exceeded PLN 71m. RAFAKO S.A. sold the shares held for PLN 48m; additional transaction cost amounted to PLN 1,440 thousand. The value of FPM S.A.'s net assets sold was PLN 53m (following recognition of impairment loss of FPM's net assets). The value of the non-controlling interest was PLN 11.5m.

As of February 19th 2015, FPM S.A. was excluded from the RAFAKO Group, and its results in the period January 1st−February 19th 2015 are presented under discontinued operations. As at December 31st 2014, FPM S.A. was classified as a group held for sale and as discontinued operations.

FPM S.A.'s financial results for the period January 1st−February 19th 2015 and for the 12 months ended December 31st 2014 are as follows:

	Period ended Feb 19 2015	*12 months ended Dec 31 2014*
Revenue	8,574	71,309
Expenses	(8,649)	(66,631)
Profit/(loss) before tax	**(75)**	**4,678**
Finance income	27	493
Finance costs	(84)	(266)
Impairment of assets held for sale	66	(8,779)
Profit/(loss) before tax from discontinued operations	**(66)**	**(3,874)**
Income tax, including:	(11)	(940)
- current income tax	20	1,312
- deferred income tax	(31)	(372)
Profit/(loss) for the year from discontinued operations	**(55)**	**(4,814)**

(PLN '000)

As at December 31st 2014, FPM S.A. had the following key groups of assets and liabilities classified as held for sale:

	Dec 31 2014
ASSETS HELD FOR SALE	
Non-current (long-term) assets	**34,228**
Property, plant and equipment	28,670
Intangible assets	88
Goodwill	3,832
Non-current trade receivables	33
Non-current financial assets	1,605
Current (short-term) assets	**47,458**
Inventories	7,647
Trade receivables, other receivables and prepayments	7,046
Accruals and deferrals under construction contracts	5,308
Current financial assets	27,457
Impairment of assets held for sale	**(8,779)**
TOTAL ASSETS	**72,907**

	Dec 31 2014
LIABILITIES DIRECTLY RELATED TO ASSETS CLASSIFIED AS HELD FOR SALE	
Actuarial gains/(losses)	(34)
Non-current liabilities	**4,473**
Finance lease liabilities	1,020
Deferred tax liability	2,541
Provision for employee benefits	912
Current liabilities	**10,401**
Trade and other payables	9,682
Other financial liabilities	610
Provision for employee benefits	62
Amounts due to customers and provisions for construction contract work and deferred income	47
Total liabilities	**14,840**
TOTAL EQUITY AND LIABILITIES	**14,840**

(PLN '000)

Net cash flows of FPM S.A.:

	Period ended Feb 19 2015	*12 months ended Dec 31 2014*
From operating activities	531	4,993
From investing activities	(848)	(1,076)
From financing activities	(134)	(4,024)
Total net cash inflow/(outflow)	**(451)**	**(107)**

Earnings per share

	Period ended Feb 19 2015	*12 months ended Dec 31 2014*
Earnings/(loss) per share from discontinued operations		
Basic earnings/(loss) per share from discontinued operations	0.00	(0.07)

Immediately before FPM S.A. was classified as discontinued operations, the recoverable amount of its net assets attributable to the Parent was determined. The assets were found to be impaired. After the company's classification as discontinued operations, in order to recognize the assets comprised in the disposal group at fair value less costs to sell, it was necessary to recognize an impairment loss of PLN 8,779 thousand. This loss was accounted for in the statement of profit or loss in 'Net profit/(loss) for the year from discontinued operations'. In the 12 months ended December 31st 2015, the adjustment to the impairment loss was PLN 99 thousand.

18. Proposed distribution of profit for 2015

The Parent's Management Board recommends that the Parent's net profit for 2015, of PLN 26,587 thousand, be transferred to the Parent's reserve funds.

19. Social assets and liabilities of the Company Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994, as amended, stipulates that each employer with more than 20 full-time employees is obliged to create a Company Social Benefits Fund. Group companies create such funds and make periodic contributions thereto (the basic contribution and post-employment contributions). The Fund is designed to finance the Group companies' social activities, loans advanced to their employees and other social costs.

	Dec 31 2015	*Dec 31 2014*
Assets of the Group Companies' Social Benefits Funds	3,903	3,481
Cash of the Company Social Benefits Funds	3,538	3,051
Loans advanced to employees from the Company Social Benefits Funds	365	430
Liabilities of the Company Social Benefits Funds	(3,605)	(3,324)
Net balance	**298**	**157**

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Contributions to the Company Social Benefits Fund during the financial period	2,584	2,651
	2,584	**2,651**

(PLN '000)

20. Earnings /(loss) per share

Earnings/(loss) per share are calculated as the quotient of net consolidated profit/(loss) for the given accounting period attributable to ordinary shareholders of the Parent and the weighted average number of ordinary shares of the Parent outstanding in the period.

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

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Net profit/(loss) from continuing operations	34,005	28,598
Profit/(loss) from discontinued operations	(55)	(4,814)
Net profit/(loss)	33,950	23,784
Net profit/(loss) attributable to ordinary shareholders, applied to calculate earnings per share	**34,070**	**22,583**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings per share	74,472,635	69,600,000
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings per share	74,472,635	69,600,000
Earnings/(loss) per share, PLN		
– basic earnings from profit attributable to ordinary shareholders for the period	0.46	0.32
Earnings/(loss) per share from discontinued operations, PLN		
– basic earnings from profit attributable to ordinary shareholders for the period	0.00	(0.08)

The weighted average number of ordinary shares outstanding used to calculate basic and diluted earnings per share from discontinued operations (Note 17) is presented in the table above. The table below presents the profit/(loss) amounts used to calculate earnings per share from discontinued operations:

	12 months ended Dec 31st 2015	12 months ended Dec 31 2014
Profit/(loss) from discontinued operations	(55)	(5,520)
Net profit/(loss) from discontinued operations, attributable to ordinary shareholders, applied to calculate earnings per share	(45)	(5,520)

The Group does not present diluted earnings/(loss) per share for the 12 months ended December 31st 2015 as it does not have any dilutive financial instruments.

21. Significant items disclosed in the statement of cash flows

The PLN 22,157 thousand increase in receivables disclosed in the consolidated statement of cash flows for the 12 months ended December 31st 2015 resulted mainly from:

- PLN (34,701) thousand increase in trade receivables,
- PLN (13,277) thousand increase in receivables from the state budget (including VAT),
- PLN (13,478) thousand increase in prepayments made,
- PLN 39,543 thousand decrease in security deposits receivable,
- PLN 683 thousand decrease in receivables from sale of debt,
- PLN 1,177 thousand decrease in other receivables,
- PLN (2,104) increase attributable to discontinued operations.

For a detailed description of changes in security deposits and disputed receivables in 2015, see Note 32.

The PLN 106,566 thousand increase in liabilities disclosed in the consolidated statement of cash flows resulted mainly from:

- PLN 110,956 thousand increase in trade payables,
- PLN (1,247) thousand decrease in the provision for retirement benefits (net of actuarial gains/(losses)),
- PLN 2,094 thousand increase in the provision for bonuses,
- PLN (16,266) thousand decrease in the provision for uninvoiced services and materials,
- a PLN 840 thousand increase relating to discontinued operations,
- PLN 11,380 thousand set-off of income tax liabilities,
- PLN (1,191) thousand increase in other liabilities.

The PLN 41,794 thousand change in accruals and deferrals as shown in the consolidated statement of cash flows was mainly caused by:

- decrease in receivables relating to accounting for construction contracts and in gross amount due from customers for contract work of PLN 23,811 thousand,
- PLN (64,476) thousand decrease in gross amount due to customers for contract work, including:
- PLN 19,092 thousand increase in prepayments,
- PLN (2,382) thousand decrease in provisions for contract work,
- PLN 1,253 thousand increase attributable to discontinued operations.

For a detailed description of the decrease in provisions, see Notes 14.2 and 14.3.

The PLN 19, 092 thousand change in prepayments in 2015 resulted primarily from recognition of some of the prepayments as revenue, in accordance with IAS 11 Construction Contracts.

The amount of PLN 30,285 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 4,021 thousand and capital expenditure on intangible assets of PLN 26,264 thousand. The expenditure on property, plant and equipment was primarily related to the modernisation of the Group's buildings and structures as well as purchase of plant and equipment.

The PLN 18,970 thousand decrease in borrowings disclosed under financing activities in the consolidated statement of cash flows was caused by the repayment of the PKO BP credit facility.

The Group's cash from financing activities was also affected by interest of PLN 3,420 thousand paid on the PKO BP credit facility (December 31st 2014 PLN 6,435 thousand).

(PLN '000)

22. Property, plant and equipment

December 31st 2015	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2015	**23,773**	**89,529**	**46,140**	**6,370**	**358**	**6,029**	**172,199**
Transfers from property, plant and equipment under construction	21	5,341	16,588	866	–	(22,816)	
Acquisitions	3	323	1,262	2,634	483	19,142	23,847
Liquidation/sale	(19)	(79)	(534)	(713)	–	–	(1,345)
Exchange differences on translating foreign operations	–	–	(2)	(1)	–	–	(3)
Depreciation for the period	–	(2,756)	(6,845)	(1,298)	(96)	–	(10,995)
Loss of control of a subsidiary	–	(410)	(110)	(33)	–	(193)	(746)
Impairment loss for the reporting period	–	(6)	–	28	(17)	–	5
Acquired in business combinations	–	–	72	307	63	–	442
Other, including reclassification of property, plant and equipment to/from assets held for sale	(2)	(110)	(82)	229	–	–	35
Net carrying amount as at Dec 31 2015	**23,776**	**91,832**	**56,489**	**8,389**	**791**	**2,162**	**183,439**
As at Jan 1 2015							
Gross carrying amount	23,773	112,761	104,266	9,560	2,965	6,082	259,407
Accumulated amortisation and impairment	–	(23,232)	(58,126)	(3,190)	(2,607)	(53)	(87,208)
Net carrying amount	**23,773**	**89,529**	**46,140**	**6,370**	**358**	**6,029**	**172,199**
As at Dec 31 2015							
Gross carrying amount	23,776	117,716	119,113	12,024	3,465	2,216	278,310
Accumulated amortisation and impairment	–	(25,884)	(62,624)	(3,635)	(2,674)	(54)	(94,871)
Net carrying amount	**23,776**	**91,832**	**56,489**	**8,389**	**791**	**2,162**	**183,439**

*tangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 35.1

(PLN '000)

December 31st 2014	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2014	**28,371**	**107,438**	**56,297**	**4,172**	**325**	**1,324**	**197,927**
Transfers from property, plant and equipment under construction	–	666	4,015	138	–	(4,756)	63
Acquisitions	–	444	578	3,809	85	9,601	14,517
Liquidation/sale	(54)	(187)	(47)	(191)	–	–	(479)
Exchange differences on translating foreign operations	–	–	1	(2)	–	–	(1)
Depreciation for the period	–	(3,107)	(6,822)	(849)	(53)	–	(10,831)
Assets held for sale associated with discontinued operations (Note 17)	(4,559)	(15,643)	(7,895)	(433)	–	(140)	(28,670)
Other, including reclassification of property, plant and equipment to/from assets held for sale	15	(82)	13	(274)	1	–	(327)
Net carrying amount as at Dec 31 2014	**23,773**	**89,529**	**46,140**	**6,370**	**358**	**6,029**	**172,199**
As at Jan 1 2014							
Gross carrying amount	28,371	130,307	116,356	8,288	2,923	1,378	287,623
Accumulated depreciation and impairment	–	(22,869)	(60,059)	(4,116)	(2,598)	(54)	(89,696)
Net carrying amount	**28,371**	**107,438**	**56,297**	**4,172**	**325**	**1,324**	**197,927**
As at Dec 31 2014							
Gross carrying amount	23,773	112,761	104,266	9,560	2,965	6,082	259,407
Accumulated amortisation and impairment	–	(23,232)	(58,126)	(3,190)	(2,607)	(53)	(87,208)
Net carrying amount	**23,773**	**89,529**	**46,140**	**6,370**	**358**	**6,029**	**172,199**

(PLN '000)

23. Property, plant and equipment held under leases

As at December 31st 2015, the Parent and the subsidiaries held and used under finance lease assets with a gross carrying amount of PLN 7,261 thousand as at their acquisition date.

The economic useful lives of those assets are consistent with the lease terms, ranging from 35 to 60 months. Leased assets are depreciated by Group companies using the straight-line depreciation method.

As at December 31st 2014, the Parent and the subsidiaries held and used under finance lease assets with a gross carrying amount PLN 7,406 thousand as at their acquisition date.

24. Assets held for sale, unrelated to discontinued operations

As at December 31st 2015, Group companies classified property, plant and equipment worth PLN 1,063 thousand (December 31st 2014: PLN 1,231 thousand) as assets held for sale, unrelated to discontinued operations.

	Dec 31 2015	*Dec 31 2014*
Non-current assets held for sale, including:		
land	66	68
buildings and structures	852	872
plant and equipment	133	52
motor vehicles	12	239
	1,063	**1,231**

*intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 35.2

25. Investment property

As at December 31st 2015 and December 31st 2014, the Group held no investment property.

(PLN '000)

26. Intangible assets

December 31st 2015	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2015	**376**	**8,787**	**147**	**–**	**9,310**
Transfers from intangible assets under development	–	1,371	–	(1,371)	–
Acquisitions	–	–	362	1,371	1,733
Liquidation/sale	–	–		–	
Loss of control of a subsidiary	–	–	6	–	6
Acquired in business combinations	4,790	1,253	–	–	6,043
Impairment loss for the reporting period	(42)	–	–	–	(42)
Amortisation for the year	–	(1,698)	(141)	–	(1,839)
As at Dec 31 2015	**5,124**	**9,713**	**374**	**–**	**15,211**
As at Jan 1 2015					
Gross carrying amount	376	23,054	381	3,779	27,590
Accumulated amortisation and impairment	–	(14,267)	(234)	(3,779)	(18,280)
Net carrying amount	**376**	**8,787**	**147**	**–**	**9,310**
As at Dec 31 2015					
Gross carrying amount	5,166	24,393	735	1,371	31,665
Accumulated amortisation and impairment	(42)	(14,680)	(361)	(1,371)	(16,454)
Net carrying amount	**5,124**	**9,713**	**374**	**–**	**15,211**

*intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 35.2

(PLN '000)

December 31st 2014	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2014	**4,209**	**6,979**	**643**	**–**	**11,831**
Transfers from intangible assets under development	–	3,779	–	(3,815)	(36)
Acquisitions	–	–	223	3,815	4,038
Liquidation/sale	–	(172)	(423)	–	(595)
Assets held for sale associated with discontinued operations (Note 17)	(3,833)	–	(88)	–	(3,921)
Amortisation for the year	–	(1,799)	(208)	–	(2,007)
Other	–	–	–	–	–
As at Dec 31 2014	**376**	**8,787**	**147**	**–**	**9,310**
As at Jan 1 2014					
Gross carrying amount	4,209	20,075	1,642	173	26,099
Accumulated amortisation and impairment	–	(13,096)	(999)	(173)	(14,268)
Net carrying amount	**4,209**	**6,979**	**643**	**–**	**11,831**
As at Dec 31 2014					
Gross carrying amount	376	23,054	381	3,779	27,590
Accumulated amortisation and impairment	–	(14,267)	(234)	(3,779)	(18,280)
Net carrying amount	**376**	**8,787**	**147**	**–**	**9,310**

Intangible assets included patents, licences and software. The largest items were as follows:

- a licence for BENSON supercritical boilers, with a carrying amount of PLN 3,337 thousand as at December 31st 2015 (December 31st 2014: PLN 3,452 thousand); the remaining licence amortisation period was nine years from December 31st 2015;
- a licence for catalytic flue gas denitrification, with a carrying amount of PLN 716 thousand as at December 31st 2015 (December 31st 2014: PLN 891 thousand); the remaining licence amortisation period was four years from December 31st 2015.

Intangible assets held for sale

As at December 31st 2015 and December 31st 2014, the Group carried no intangible assets held for sale unrelated to discontinued operations.

Goodwill

As at December 31st 2015, the Group disclosed goodwill of PLN 5, 124 thousand, recognised on:

- acquisition of control of an organised part of business by subsidiary RAFAKO Engineering Sp. z o.o., the RAFAKO Group disclosed goodwill of PLN 3,392 thousand.

	Goodwill (PLN '000)
Value of property, plant and equipment	279
Value of cash	1,200
Value of low-cost items	74
Total fair value of net assets acquired	1,553
Total cost of the acquisition	4,945
Goodwill recognised on acquisition	3,392

- acquisition of control of an organised part of the business of PBG AVATIA sp. z o.o. by RAFAKO S.A., the RAFAKO Group disclosed goodwill of PLN 1,398 thousand.

	Goodwill (PLN '000)
Value of property, plant and equipment	36
Value of intangible assets	1,253
Liabilities	(187)
Total fair value of net assets acquired	1,102
Total cost of the acquisition	2,500
Goodwill recognised on acquisition	1,398

- accounting for a transaction under which, in 2007, RAFAKO S.A. purchased an organised part of business from Wyrskie Zakłady Urządzeń Przemysłowych NOMA INDUSTRY Sp. z o.o. w upadłości (in bankruptcy) – PLN 376 thousand.

As at December 31st 2014, the Group disclosed goodwill of PLN 376 thousand, which had arisen in connection with accounting for the acquisition by the Parent in 2007 of Wyrskie Zakłady Urządzeń Przemysłowych NOMA INDUSTRY Sp. z o.o. w upadłości (in bankruptcy) of Wyry – PLN 376 thousand.

Test for goodwill impairment

At the end of the reporting period, the Parent tested goodwill for impairment following acquisition of control of an organised part of the business of PBG AVATIA sp. z o.o. by RAFAKO S.A. The test was carried out based on the present value of estimated five-year cash flows and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 9.7%. The test did not reveal any impairment indicator.

At the end of the reporting period, a subsidiary tested its goodwill for impairment following acquisition of control of an organised part of the business by subsidiary RAFAKO S.A. The test was carried out based on the present value of estimated five-year cash flows and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 9.44%. The test did not reveal any impairment indicator.

Amortisation of patents and licences

During the 12 months ended December 31st 2015 and the 12 months ended December 31st 2014, patents and licences were amortised on a straight line basis over their economic useful lives of 2 to 10 years.

Development work

In the 12 months ended December 31st 2015 and the 12 months ended December 31st 2014, the Group made no expenditure on development work.

Business combinations

In the 12 months ended December 31st 2015, subsidiary RAFAKO Engineering Sp. z o.o. assumed control over an organised part of the business of a related entity PBG gas and oil Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), which was contributed to the subsidiary as a non-cash contribution with a total value of PLN 4,945 thousand. The organised part of business was acquired in exchange for shares in RAFAKO Engineering Sp. z o.o. The transaction was consistent with a strategic plan to create a maintenance service function within RAFAKO ENGINEERING Sp. z o.o. as part of the PBG Group.

As the condition precedent to the taking of control of the acquired business was met, the transaction was accounted for in accordance with IFRS 3 Business Combinations.

In connection with the transaction, as at December 31st 2015 the RAFAKO Group disclosed goodwill of PLN 3,392 thousand.

On October 30th 2015, the Parent acquired an organised part of the business of its related entity PBG Avatia Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), comprising movables, intangible assets and rights under agreements, for a total amount of PLN 2,500,000.00. The acquisition was made as part of the strategy aimed at standardising the IT processes and services across the PBG Group.

As the condition precedent to the taking of control of the acquired business has been met, the transaction will be accounted for in accordance with IFRS 3 Business Combinations.

In connection with the transaction, as at December 31st 2015 the RAFAKO Group disclosed goodwill of PLN 3,398 thousand.

In the 12 months ended December 31st 2014, none of the Group companies engaged in any business combination.

27. Participation in joint ventures

In the 12 months ended December 31st 2015 and the 12 months ended December 31st 2014, the Group was not engaged in any joint operations with other business entities.

(PLN '000)

28. Shares in other entities

	Dec 31 2015	*Dec 31 2014*
Shares in other listed companies	210	369
Shares in other non-listed companies	19	19
	229	**388**

*shares/interest pledged as security for the Company's liabilities as at the reporting date are presented in Note 35.3

29. Non-current trade receivables, other receivables and prepayments

	Dec 31 2015	*Dec 31 2014*
Trade receivables, including:	35,648	29,706
Trade receivables from related entities	–	–
Trade receivables from other entities	35,409	29,706
Other receivables and prepayments, including:	239	–
Prepayments under bank and insurance guarantees	–	–
Security deposits	239	–
Total receivables (net)	**35,648**	**29,706**
Impairment loss on receivables	–	–
Gross receivables	**35,648**	**29,706**

30. Other non-current financial assets

	Dec 31 2015	*Dec 31 2014*
Loans advanced	–	38
Non-current deposits, including:	–	–
- deposits pledged as security for bank guarantees provided to the Group	–	–
Other non-current financial assets, including:	29,900	33,344
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	24,854	27,717
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	5,046	5,627
Other non-current financial assets	–	–
	–	
	29,900	**33,382**

In the 12 months ended December 31st 2015, the Group remeasured the receivable arising from the return of shares in ENERGOMONTAŻ-POŁUDNIE S.A. and the receivable arising from a loan granted to HYDROBUDOWA S.A. due to changes in estimates and assumptions, as discussed in Note 44.

The change in the receivables relative to the amount disclosed as at December 31st 2014 follows from measurement of the receivables at amortised cost, taking into account the assumptions and estimates specified in Note 6.

(PLN '000)

31. Inventories

	Dec 31 2015	*Dec 31 2014*
Materials (at cost)	18,817	21,730
At cost	29,169	29,523
At net realisable value	18,817	21,730
Work in progress	–	–
At cost	–	–
Merchandise	–	–
At cost	–	–
At net realisable value	–	–
Finished products:	–	–
At cost	–	–
At net realisable value	–	–
Total inventories, at the lower of cost and net realisable value	**18,817**	**21,730**

*inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 35.4

Inventory write-downs

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
At the beginning of the period	(7,793)	(6,571)
Write-down recognised	(2,729)	(1,751)
Write-down reversed	170	331
Transfer to assets held for sale	–	198
Balance at end of period	**(10,352)**	**(7,793)**

(PLN '000)

32. Current trade receivables, other receivables and prepayments

	Dec 31 2015	*Dec 31 2014*
Trade receivables, including:	277,397	248,399
Trade receivables from related entities	17,581	–
Trade receivables from other entities	259,816	248,399
Income tax receivable	21,137	13,852
Other receivables and prepayments, including:	183,232	197,200
Receivables under prepayments made	34,469	20,991
Receivables from the state budget	22,589	9,312
Settlement of property insurance costs	800	975
Settlements with the Company Social Benefits Fund	301	160
Disputed receivables	300	300
Prepaid expenses	1,219	1,351
Security deposits	122,734	162,277
Receivables sold	–	683
Investment receivables	126	–
Other	694	1,151
Other receivables from related entities	–	–
Total receivables (net)	**481,766**	**459,451**
Impairment loss on receivables	32,393	40,862
Gross receivables	**514,159**	**500,313**

*trade receivables pledged as security for the Company's liabilities as at the reporting date are presented in Note 35.5.

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

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

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

Current trade receivables of PLN 277,397 thousand recognised in the consolidated statement of financial position as at December 31st 2015 relate to trading contracts with domestic and foreign contractors.

The amount of security deposit receivables as at December 31st 2015 changed mostly in connection with payments and repayments of security deposits under the following business transactions:

- repayment of a cash deposit retained as security for the performance of contracts for the design, construction and commissioning of a wet limestone-gypsum desulphurisation unit; security deposit amounts repaid in the 12 months ended December 31st 2015 totalled PLN 36,820 thousand;
- repayment of a cash deposit retained as security for the performance of a contract for the construction of a fluidised bed boiler; security deposit amounts repaid in the 12 months ended December 31st 2015 totalled PLN 6,064 thousand.

(PLN '000)

A significant item of other receivables was prepayments, which amounted to PLN 34,469 thousand as at December 31st 2015 and included:

- advance payments of PLN 2,357 thousand under a contract for the design, manufacture and delivery of a flue gas heating system,
- advance payments of PLN 4,889 thousand under a contract for the design, manufacture, delivery, installation supervision and commissioning of equipment and components of the catalytic flue gas denitrification system for OP-650 steam generators No. 4,5,6,7 and 8 signed with a domestic employer;
- advance payments of PLN 6,815 thousand under a contract for the design, delivery, installation and commissioning of a steam generator (new coal-fired project).

32.1. Impairment losses on trade and other receivables

	Dec 31 2015	*Dec 31 2014*
At the beginning of the period, including:	(40,862)	(58,253)
- on receivables from related entities	–	–
Recognition of impairment loss on trade receivables	(1,456)	(18,202)
Recognition of impairment loss on other receivables	(561)	(47)
Reversal of impairment loss on trade receivables, including:	946	14,704
- on receivables from related entities	–	–
Use of impairment loss on other receivables	9,531	5,280
Use of impairment loss on trade receivables	9	15,314
Decrease in impairment losses due to recognition of discontinued operations as assets held for sale	–	342
Balance at end of period	**(32,393)**	**(40,862)**
- on receivables from related entities	–	–

In 2015, the Parent reversed a PLN 9,531 thousand impairment loss on accrued contractual penalties.

In 2014, the Parent reversed a PLN 5,261 thousand impairment loss on accrued contractual penalties.

Presented below is a breakdown of current trade and other financial receivables which were past due as at December 31st 2015 and December 31st 2014, but were not considered to be irrecoverable and therefore no impairment was recognised in respect of them.

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
Dec 31 2015	436,082	430,137	3,221	2,420	216	81	7

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
Dec 31 2014	441,365	413,752	21,598	657	655	2,878	1,825

(PLN '000)

33. Current financial assets

33.1. Derivative instruments

As at December 31st 2015 and December 31st 2014, the Group carried no open FX forward contracts with a positive fair value.

The FX forward contracts were executed in connection with contracts denominated in the euro, based on terms commonly applied in such financial transactions.

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

33.2. Current deposits

As at December 31st 2015, the Group had PLN 70 thousand in short-term deposits with maturities ranging from three to 12 months.

The Group did not hold any short-term deposits as at December 31st 2014.

Current deposits comprise the Group's cash deposited with banks for various periods, ranging from three months to one year. The Group classifies its deposits as non-current or current assets, depending on their maturities.

33.3. Other current financial assets

	Dec 31 2015	*Dec 31 2014*
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)
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	4,943	–
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	1,003	–
	5,946	**–**

In the 12 months ended December 31st 2015, based on the adopted assumptions the Parent recognised under other financial assets the current portion of the receivable on the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A. and a receivable under a loan granted to HYDROBUDOWA S.A.

The change in the receivables relative to the amount disclosed as at December 31st 2014 follows from the measurement of the receivables at amortised cost, taking into account the assumptions and estimates specified in Note 6.2. Based on the adopted assumptions, in the 12 months ended December 31st 2015 the Parent recognised under other financial assets the current portion of the receivable on the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A. and a receivable under a loan granted to HYDROBUDOWA S.A.

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

In the 12 months ended December 31st 2015, the Group remeasured the receivable arising from the return of shares in ENERGOMONTAŻ-POŁUDNIE S.A. and the receivable arising from a loan granted to HYDROBUDOWA S.A., and presented in current receivables that portion of its receivables which – in accordance with the Arrangement made by PBG S.A. w upadłości układowej (in company voluntary arrangement) with its creditors – are to be paid on June 30th 2016. For more information, see Note 44.

(PLN '000)

33.4. Cash and cash equivalents

	Dec 31 2015	*Dec 31 2014*
Cash in hand and at banks	114,051	26,891
Current deposits for up to 3 months, including:	83,210	11,958
- deposits pledged as security for contingent liabilities	–	–
	197,261	**38,849**
including: restricted cash	2,153	1,370
Cash in hand and at banks allocated to discontinued operations (Note 17)	–	13,353
Current deposits for up to 3 months, allocated to discontinued operations (Note 17, including:	–	13,697
- pledged as security for contingent liabilities, allocated to discontinued operations	–	53
Cash in hand and at banks allocated to discontinued operations (Note 17)	–	**27,050**
including: restricted cash allocated to discontinued operations	–	53
Total cash	**197,261**	**65,899**

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

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

34. Other current non-financial assets

As at December 31st 2015, in the consolidated statement of financial position the Group separately disclosed 'Other current non-financial assets', which consisted of a PLN 5,676 thousand gross advance paid in connection with the acquisition of shares, as discussed in detail in Note 33.3. As at December 31st 2015, the Group recognised a PLN 5,676 thousand impairment loss on other current non-financial assets. Due to the status of the project as described in Note 33.3, the Parent's Management Board concluded that the risk of non-recoverability of the assets is significant and upheld its decision to recognise an impairment loss for the full value of the prepayment.

(PLN '000)

35. Assets pledged as security for Group's liabilities

35.1. Property, plant and equipment pledged as security

As at December 31st 2015, property, plant and equipment pledged as security for liabilities amounted to PLN 145,791 thousand. The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (the mortgage for a total maximum amount of PLN 300m on property of which RAFAKO S.A. is the owner or perpetual usufructuary, with the exception of residential property) and in respect of the repayment of BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement pledged as security for 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 registered pledge over a set of movables and rights).

	Dec 31 2015	*Dec 31 2014*
Property, plant and equipment mortgaged, including:	92,225	90,156
land	9,273	9,268
buildings and structures	82,952	80,888
Property, plant and equipment encumbered with registered pledge, including:	53,566	46,669
plant and equipment	50,793	44,120
motor vehicles	2,773	2,549
	145,791*	**136,825***

*the disclosed amounts include property, plant and equipment classified as held for sale, of PLN 119 thousand (December 31st 2014: PLN 266 thousand).

35.2. Intangible items pledged as security

As at December 31st 2015, intangible assets worth PLN 11,449 thousand were pledged as security for the Company's liabilities (December 31st 2014: PLN 8,788 thousand). The intangible assets are pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A. and BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement executed in order 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 registered pledge over a set of movables and rights).

35.3. Inventories pledged as security

As at December 31st 2015, shares in companies for an amount of PLN 25,261 thousand (December 31st 2014: PLN 25,420 thousand) were pledged as security in for liabilities under the multi-purpose credit facility agreement between the Parent and PKO BP S.A. (the mortgage) and for BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement executed in order 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 Jaworzno III 910 MW unit Project (a registered pledge over a set of movables and rights).

35.4. Inventories pledged as security

As at December 31st 2015, inventories worth PLN 18,726 thousand were pledged as security for the Company's liabilities (December 31st 2014: PLN 1,715 thousand). The inventories are pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A. and BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement executed in order 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 registered pledge over a set of movables and rights).

35.5. Trade receivables pledged as security

Trade receivables with a carrying amount of PLN 26,137 thousand were pledged as security in respect of guarantees and borrowings received by the Group as at December 31st 2015 (December 31st 2014: PLN 17,406 thousand).

36. Equity

36.1. Share capital

In the 12 months ended December 31st 2015, the Parent's share capital changed following the issue of 15,331,998 Series J shares with a par value of PLN 2.00 per share. Following the issue, the Company's share capital was increased by PLN 30,664 thousand, and amounted to PLN 169,864 thousand as at December 31st 2015. For a detailed description of the issue of Series J shares, see Note 41 to these consolidated financial statements.

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

36.2. Par value per share

All the shares have a par value of PLN 2.00 per share and have been taken up for cash contributions.

36.3. Shareholders' rights

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

36.4. Share premium

In the 12 months ended December 31st 2015, after the issue of Series J shares had been accounted for, the share premium was PLN 62,862 thousand, while the cost directly related to the issue was PLN 4,300 thousand. Following recognition of share premium of PLN 58,562 thousand, reduced by the issue cost, share premium totalled PLN 95,340 thousand. For a detailed description of the issue of Series J shares, see Note 41 to these consolidated financial statements (December 31st 2014: PLN 36,778 thousand).

36.5. Reserve funds

Reserve funds have been created from statutorily required transfers from profits generated by the Group in previous financial years, as well as from profit appropriations in excess of the statutorily required transfers. Reserve funds decreased by PLN 27,352 thousand as a result of disposal of a subsidiary and increased by 25,674 thousand, to PLN 112,715 thousand as at December 31st 2015, following a transfer of the 2014 earnings (as at December 31st 2014 reserve funds totalled PLN 114,393 thousand).

36.6. Translation reserve

The balance of translation reserve is adjusted for exchange differences arising from translation of the financial statements of a foreign subsidiary and a foreign branch of the Parent. As at December 31st 2015, translation reserve amounted to PLN -41 thousand (December 31st 2014: PLN 190 thousand).

(PLN '000)

36.7. Retained earnings / accumulated deficit and dividends paid

Following recognition of a PLN 34,070 thousand in net profit for the 12 months ended December 31st 2015, recognition of PLN -254 thousand in actuarial losses, disposal of a subsidiary for PLN 27,352 thousand, transfer of prior year profits of PLN 25,674 thousand to reserve funds, and accounting for business combinations of PLN 1,019 thousand, as at December 31st 2015 the Group's retained earnings amounted PLN 47,213 thousand (December 31st 2014: PLN 10,700 thousand).

In the 12 months ended December 31st 2015, Group companies did not pay any dividends.

36.8. Capital management

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

	Dec 31 2015	*Dec 31 2014*
Share of debt in equity		
Equity attributable to owners of the Parent	425,091	301,261
External capital (bank credit facility and loan)	109,208	128,527
Total equity and liabilities	1,251,218	1,146,562
Capitalisation ratio	**0.34**	**0.26**

36.9. Non-controlling interests

	Dec 31 2015	*Dec 31 2014*
Opening balance	12,193	11,136
Share in profit of subsidiaries	(121)	1,196
Dividend	–	(605)
Changes of equity structure at subsidiaries	4,055	466
Disposal of subsidiary	(11,452)	–
Closing balance	**4,675**	**12,193**

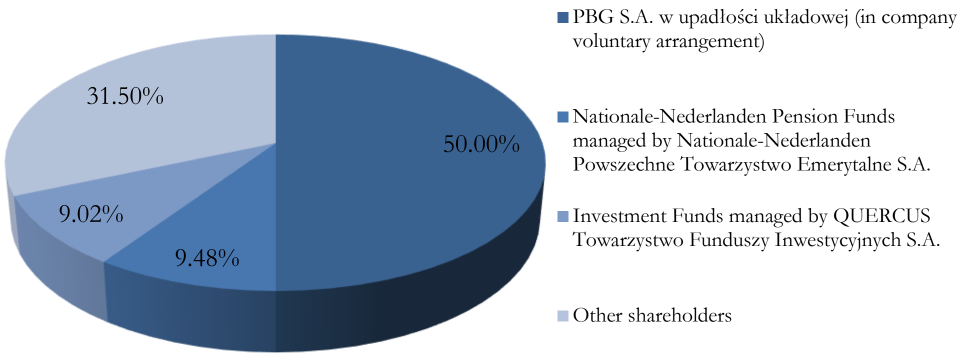
(PLN '000)

36.10. Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. (the Parent) at the end of the reporting period

Shareholder	*Number of shares (pcs.)*	*Number of votes attached to the shares held*	*Ownership interest*	*% of total vote at GM*
PBG S.A. w upadłości układowej (in company voluntary arrangement)* including:	42,466,000	42,466,000	50% plus 1 share	50% plus 1 share
held directly:	7,665,999	7,665,999	9.026%	9.026%
- held indirectly through Multaros Trading Company Limited ** (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)):	34,800,001	34,800,001	40.974%	40.974%
Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.**	8,048,507	8,048,507	9.480%	9.480%
Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.*, including:**	7,662,062	7,662,062	9.020%	9.020%
QUERCUS PARASOLOWY SFIO	5,791,025	5,791,025	6.820%	6.820%

* Based on a notification of September 9th 2015.
** Based on a notification of July 30th 2015.
*** Based on a notification of September 10th 2015.

Shareholder structure as at December 31st 2015



(PLN '000)

37. Interest-bearing borrowings

As at December 31st 2015, the Group companies' liabilities under borrowings were PLN 109,208 thousand. As at December 31st 2015, the bank debt ratio, calculated as the sum of borrowings to total equity, was 25%.

Current borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity date*	*Dec 31 2015*	*Dec 31 2014*
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts,* clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company	Renewable overdraft agreement of up to PLN 150 million***	PLN	1M WIBOR + margin	31.05.2016****	109,208	128,127
DZIERŻAWCA SP. Z O.O.*****	a blank promissory note with a 'protest waived' clause	loan	PLN	3.5% per annum	31.12.2015	–	400
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 500 thousand overdraft facility	PLN	1M WIBOR + margin	09.09.2015	–	–
						109,208	**128,527**

*The facility is secured by receivables under contracts executed by the Parent;

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

*** As at the date of issue of these consolidated financial statements, in accordance with the annex of April 29th 2014 to the credit facility agreement, the multi-purpose credit facility limit amounted to PLN 200,000,000.00, including a PLN 150,000,000.00 overdraft facility;

**** As at the date of issue of these consolidated financial statements, in accordance with the annex of May 29th 2015 to the credit facility agreement, the term of the facility and its repayment date were extended until May 31st 2016

***** Entity related through personal links; as at December 31st 2015 the loan was repaid in full.

The Parent plans to extend the credit facility agreement for subsequent periods. The Group's credit standing should be analysed taking into account the information included in Note 5, relating to continuation of the Group's operations.

38. Employee benefit obligations

38.1. Post-employment and other employee benefits

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

	Dec 31 2015	*Dec 31 2014*
As at Jan 1 2012	26,803	23,669
Interest expense	670	947
Current service costs	485	628
Actuarial (gains)/losses	314	5,048
Cost of benefits paid	(2,716)	(2,515)
Presentation change in connection with discontinued operations	–	(974)
Closing balance	**25,556**	**26,803**
Non-current provisions	23,552	24,907
Current provisions	2,004	1,896

The main assumptions adopted by the actuary as at December 31st 2015 and for the 12 months then ended to determine the amount of the obligation were as follows:

	Dec 31 2015	*Dec 31 2014*
Discount rate (%)	2.8	2.5
Anticipated inflation rate (%)*	–	–
Employee turnover rate	5	5
Anticipated salary growth rate (%)**	2	5

**No data in the actuary's report.*
** 2% in 2016 and in subsequent years

Sensitivity analysis

Change of the discount rate by half percentage point:

	Increase (PLN '000)	*Decrease (PLN '000)*
Dec 31 2015		
Effect on the defined benefit obligation	(1,121)	1,336
Dec 31 2014		
Effect on the defined benefit obligation	(1,301)	1,403

(PLN '000)

39. Trade and other payables

39.1. Non-current trade and other payables

	Dec 31 2015	*Dec 31 2014*
Trade payables, including:		
Trade payables to related entities	55	6
Trade payables to other entities	34,789	20,498
	34,844	**20,504**
Financial liabilities, including:		
Finance lease liabilities	3,686	2,254
	3,686	**2,254**
Other liabilities, including:		
Unpaid bonus accrual	311	333
Capital commitments	852	1,762
Provisions for warranty repairs	4,325	1,860
	5,488	**3,955**

39.2. Current provisions, trade and other payables

	Dec 31 2015	*Dec 31 2014*
Trade payables, including:		
Trade payables to related entities	6,330	4,813
Trade payables to other entities	394,512	299,413
	400,842	**304,226**
Capital commitments, including:		
Trade payables to related entities	–	–
Trade payables to other entities	2,663	8,619
	2,663	**8,619**

(PLN '000)

	Dec 31 2015	*Dec 31 2014*
Other liabilities		
VAT	1,783	4,580
Personal income tax	2,557	2,414
Social security liabilities	9,001	9,522
Amounts payable to the Tax Office	–	220
Other taxes, customs duties and insurance payable	103	349
Settlements with the Company Social Benefits Fund	–	3
Salaries and wages payable	8,572	8,842
Accrued holiday entitlements	3,659	3,780
Unpaid bonus accrual	11,237	9,121
Provisions for warranty repairs	7,600	9,988
Provision for uninvoiced services and materials	5,305	21,571
Audit provision	–	113
Liabilities under financial guarantees and sureties issued	–	745
Other amounts payable to employees	279	–
Other current accruals and deferred income	4,855	1,525
Provisions for other liabilities and disputed claims	7,000	5,667
Security deposits	144	613
Other	1,943	1,644
	64,038	**80,697**

Other financial liabilities		
Valuation of derivatives	–	–
Finance lease liabilities	1,542	776
Other financial liabilities	–	–
	1,542	**776**

In "Provisions for other liabilities and disputed claims" the Group included a provision for claims by the Group's customers.

39.3. Liabilities under financial derivatives

As at December 31st 2015 and December 31st 2014, the Group companies carried no open currency forward contracts with a negative fair value.

39.4. Capital commitments

As at December 31st 2015, the Group companies had commitments related to purchase of property, plant and equipment of PLN 3,515 thousand.

As at December 31st 2014, Group companies had commitments related to purchase of property, plant and equipment of PLN 10,381 thousand.

(PLN '000)

39.5. Accrued holiday entitlements

The amount of accrued holiday entitlements is calculated on a monthly basis based on the actual number of days of unused holidays as at the end of each month. One twelfth of the holiday leave due for the whole year, increased by any unused days of holiday leave due for prior periods, is allocated to each individual month of the financial year. The number of days thus calculated is then multiplied by the average daily rate applicable to a given employee, determined on the basis of their salary for the month for which the accrual is made, plus amounts due to the Social Insurance Institution.

	Dec 31 2015	*Dec 31 2014*
Opening balance	3,780	2,397
Acquisition of subsidiary		
Recognition of provision for liability	437	3,963
Presentation change in connection with discontinued operations	–	(263)
Cost of benefits paid	(558)	(2,317)
Reversal of provision for liability	–	–
Closing balance	**3,659**	**3,780**
Current as at	3,659	3,780
Non-current as at	–	–
	3,659	**3,780**

39.6. Unpaid bonus accrual

The Parent pays to its employees an annual bonus, the amount of which depends on the achievement of the Company's operating profit target. In accordance with the provisions of the Collective Bargaining Agreement (CBA), within 30 days of the date of authorisation of the full-year financial statements of Group companies, the Management Board, upon consultation with the Trade Unions, makes a decision as to the payment of a discretionary bonus to the companies' employees. During the financial year, Group companies recognise an accrual for the annual bonus in the amount provided for in the CBA, unless their Management Boards decide not to recognise the accrual. The Parent also recognises an accrual for bonuses to project managers, which are paid after completion of contracts.

	Dec 31 2015	*Dec 31 2014*
Opening balance	9,454	1,706
Recognition of provision for liability	11,036	9,722
Cost of benefits paid	(6,555)	(230)
Reversal of provision for liability	(2,387)	(1,392)
Presentation change in connection with discontinued operations	–	(352)
Closing balance	**11,548**	**9,454**
Current as at	11,237	9,121
Non-current as at	311	333
	11,548	**9,454**

(PLN '000)

39.7. Provision for warranty repairs

Provisions for warranty repairs are recognised as a result of estimating the expected and measurable costs of oversight, repairs and warranty works related to contractual liabilities of Group companies, arising from the completion of a construction contract.

	Dec 31 2015	*Dec 31 2014*
Opening balance	11,848	11,502
Acquisition of subsidiary	–	–
Recognition of provision for liability	9,702	13,950
Presentation change in connection with discontinued operations	–	(528)
Costs of warranty repairs incurred	(9,625)	(13,076)
Reversal of provision for liability	–	–
Closing balance	**11,925**	**11,848**
Current as at	7,600	9,988
Non-current as at	4,325	1,860
	11,925	**11,848**

39.8. Liabilities under bank guarantees and sureties issued

The Parent recognised a provision for the expected costs arising from a surety granted in respect of bank guarantees issued by ING Bank Śląski S.A. at the request of Fabryka Elektrofiltrów ELWO S.A. w upadłości (in bankruptcy). The Bank's claim against RAFAKO S.A. arises under the Loan Agreement of June 25th 2008, announced by the Group in its previous reports. The Parent used the provision in 2015.

	Dec 31 2015	*Dec 31 2014*
Opening balance	745	882
Acquisition of subsidiary	–	–
Recognition of provision for liability	66	195
Presentation change in connection with discontinued operations	–	(213)
Costs incurred	(811)	(119)
Reversal of provision for liability	–	–
Closing balance	–	**745**
Current as at	–	745
Non-current as at	–	–
	–	**745**

(PLN '000)

39.9. Income tax payable

	Dec 31 2015	*Dec 31 2014*
Corporate income tax	4	901
	4	**901**

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within public administration bodies and between those bodies and businesses, leading to uncertainty and conflicts. Consequently, tax risk in Poland is substantially higher than in countries with more mature tax systems.

Tax settlements may be subject to inspection for a period of five years from the end of the calendar year in which the tax payment was made. Such inspections may result in additional tax liabilities for the Group.

In 2015, no tax audits were carried out at the Parent or its subsidiaries.

In 2014, no tax audits were carried out at the Parent. A tax audit was carried out at E001RK Sp. z o.o. with respect to VAT. The audit did not reveal any irregularities which would result in penalties being imposed on the company.

40. Grants

As at December 31st 2015, grants received amounted to PLN 1,875 thousand. Grants received pertain to:

- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed the design, delivery and installation of natural gas detection and signalling systems for two gas furnaces at RAFAKO S.A.; the grant was made in cash,
- Research project 'Development of technologies for high performance zero emission coal-fired units integrated with CO_2 capture from flue gas,' carried out under the 'Advanced power generation technologies' strategic scientific research and development programme of the National Centre for Research and Development of Warsaw; the grant was made in cash,
- Research project 'Innovative low-emission technologies (DUO-BIO) for reconstruction of coal-fired power plants comprising 200 MW generating units' funded by the National Centre for Research and Development as part of the Applied Research Programme; the grant was made in cash,
- Research project to develop an innovative electrostatic method of reducing emissions of submicron particles in exhaust and flue gases, in particular from biofuel-fired sources (ELAGLOM) funded by the National Centre for Research and Development as part of the Applied Research Programme; the grant was made in cash,
- Research project 'CO_2 methanisation unit for storing electricity by producing SNG' pursued jointly with TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, AGH University of Technology, West Technology & Trading Polska Sp. z o.o. of Opole, EXERGON Sp. z o.o. of Gliwice, CEA Institute of France and a French-based company Atmostat; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to install a hydrocarbons detection system in RAFAKO S.A.'s paint and varnish storage facility; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to modernise and extend RAFAKO S.A.'s CCTV system; the grant was made in cash,

(PLN '000)

Settlements relating to grants:

Purpose of the grant	*As at Jan 1 2015*	*Increase in the period*	*Grants posted to other income in the period*	*Grants returned in the period*	*Transfer to discontinued operations*	*As at Dec 31 2015*
Modernisation of property, plant and equipment	21	136	(4)	–	–	153
Partial performance of a research project	1,050	1,367	(1,763)	–	–	654
	1,071	**1,503**	**(1,767)**	**–**	**–**	**807**

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

On May 13th 2015, the Management Board of the Parent passed resolutions to increase the Company's share capital within the limit of authorised share capital by not more than PLN 30,663,996, through the issue of not more than 15,331,998 Series J ordinary bearer shares with a par value of PLN 2 per share. Under the Private Placement Resolution, in accordance with the obligation set forth in Section 5 of Resolution No. 2 of the Extraordinary General Meeting of RAFAKO S.A. of March 24th 2014, the Management Board decided to offer Series J Shares to the Company's shareholders holding individually at least 10% of Company shares on the date of adoption of the EGM Resolution ("Entitled Shareholders") in a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, and to waive the pre-emptive rights of the Company's existing shareholders. Under the Open Subscription Resolution, the Management Board decided to offer Series J Shares by way of an open subscription within the meaning of Art. 431.2.2 of the Commercial Companies Code, with pre-emptive rights of the Company's existing shareholders waived, provided that a part or all of Series J shares have not been acquired by the Entitled Shareholders.

On June 9th 2015, the Company received representations from Eligible Shareholders in which each of them declared having no intention to participate in the Private Placement irrespective of the final terms and conditions thereof.

Following the open subscription, on July 21st 2015 the maximum number of Series J shares were allotted at the issue price of PLN 6.10 per share. On July 28th 2015, the Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (CSDP) resolved to register in its securities depository 15,331,998 allotment certificates (rights to shares, or PDA) in respect of Series J ordinary bearer shares, which were introduced to trading on the main market of the WSE on July 29th 2015.

On July 23rd 2015, the Company filed an application with the District Court of Gliwice, 10th Commercial Division of the National Court Register, for registration of the Company's share capital increase. Post registration, the Company's share capital will amount to PLN 169,863,996.

On September 21st 2015, the new shares were registered by the Central Securities Depository of Poland and introduced to trading on the WSE Main Market.

Use of proceeds

PLN 89,225 thousand of share issue proceeds were used in 2015, of which:

- PLN 4,090 thousand was used towards security deposits for new financial instruments,
- PLN 3,066 thousand was used towards financial services related to the execution of new projects,
- PLN 1,031 thousand was used towards R&D work in Q4 2015.

(PLN '000)

42. Liabilities under finance leases and lease agreements with a purchase option

As at December 31st 2015, future minimum lease payments under finance leases and lease agreements with a purchase option and the net present value of minimum lease payments were as follows:

	Dec 31 2015		*Dec 31 2014*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	1,542	1,542	758	758
from 1 to 5 years	3,686	3,686	2,265	2,265
over 5 years	–	–	–	–
Total minimum lease payments	**5,228**	**5,228**	**3,023**	**3,023**
Less finance costs	–	–	7	7
Present value of minimum lease payments, including:	**5,228**	**5,228**	**3,030**	**3,030**
current	1,542	1,542	776	776
non-current	3,686	3,686	2,254	2,254

43. Litigation and disputes

Below are described the key litigations and disputes in which the Group is involved.

On November 3rd 2009, RAFAKO S.A. brought an action for payment with the Regional Court of Warsaw, 20th Commercial Division, against ING Bank Śląski S.A. ('ING'). In the action, RAFAKO S.A. demanded a refund of approximately PLN 9m unlawfully enforced from its accounts by ING Bank Śląski S.A. On November 29th 2010, the court of first instance issued a ruling in which it awarded PLN 8,996,566.00, plus statutory interest and litigation costs, to be paid by ING Bank Śląski S.A. to RAFAKO S.A. The attorney of ING Bank Śląski S.A. filed an appeal against the ruling of the court of first instance. On October 12th 2011, the Court of Appeals in Warsaw, having completed hearings, did not find the claims raised in the appeal by ING Bank Śląski S.A. justified, but resolved ex officio that the court of first instance failed to consider the substance of the dispute, reversed the ruling and remanded the case for re-examination by the court of first instance. In its ruling of April 1st 2014, the Regional Court of Warsaw ordered ING to pay RAFAKO S.A. PLN 3,646,699.59 plus statutory interest for the period from November 3rd 2009 until the payment date. The court dismissed the remaining part of the claim. Both parties lodged appeals against the ruling. The amount awarded to RAFAKO pursuant to a final ruling of the Court of Appeals, issued on May 29th 2015, was PLN 3,636,226.62 plus statutory interest from November 25th 2009. The costs of the appeal proceedings were offset. The awarded amount was credited to the account of the Company in July 2015.

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

An action brought by Steinmüller Babcock Environment GmbH (formerly FISIA BABCOCK ENVIRONMENT GmbH) against RAFAKO S.A. was pending before the International Court of Arbitration at the International Chamber of Commerce in Vienna. The proceedings were initiated following the filing of a claim for payment of approximately EUR 3.8m in connection with a licence agreement relating to a wet flue gas desulfurization unit. The principal claim concerned payment of an allegedly outstanding licence fee. In RAFAKO S.A.'s opinion, the claim is groundless. RAFAKO S.A.'s stance was that the contract for the upgrade of four desulfurisation units, in relation to which the dispute arose, had been performed based on RAFAKO's proprietary technological solutions, without any licensed know-how. On December 18th 2015, the parties signed a final contract settlement agreement, which ended the dispute. Under the agreement, RAFAKO S.A. paid Steinmüller Babcock Environment GmbH EUR 800 thousand in three instalments. On February 12th 2016, the Parent received an official confirmation from the Arbitration Court that the proceedings in the case had been closed.

On December 9th 2014, RAFAKO S.A. received a claim for payment of EUR 644.5 thousand from ESPD Environmental Solutions and Project Development GmbH of Vienna (ESPD). The Parent's liability is alleged to arise out of the cooperation agreement signed between the parties, under which ESPD agreed to provide support for RAFAKO S.A.'s efforts to win contracts for flue gas denitration (DeNOx) units. RAFAKO S.A.'s stance is that the fee claimed by ESPD is not due since no services have been provided. On December 7th 2015, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw awarded the full claimed amount to ESPD. The amount owed by RAFAKO S.A. was paid to ESPD, but the Parent remains in dispute, and on January 21st 2016 it filed an appeal against the award with the Court of Appeals in Katowice. At present it is difficult to predict when the appeal will be considered by the Court.

44. Receivables from related entities in company voluntary arrangement

At the end of the reporting period, in the statement of financial position the Group recognised net receivables of PLN 35.8m from related entities in company voluntary arrangement.

On December 20th 2011, RAFAKO S.A. and PBG S.A. ("RAFAKO S.A. parent") of Wysogotowo concluded an agreement (the "Agreement"), under which RAFAKO S.A. acquired an interest in ENERGOMONTAŻ-POŁUDNIE Spółka Akcyjna ("EP") with its registered office at ul. Mickiewicza 15, Katowice. Under the Agreement, RAFAKO S.A. acquired 46,021,520 ordinary bearer shares in EP with a par value of PLN 1 per share and a total par value of PLN 46,021,520, representing 64.84% of the share capital and 64.84% of total voting rights at the General Meeting of the company, carrying the right to 46,021,520 votes attached to the shares. PBG S.A. sold the shares for PLN 160,154,889.60 (PLN 3.48 per share). The purchase price was paid on December 30th 2011. Following an analysis and taking into account the likelihood of RAFAKO S.A.'s additional payments and claims, the Company's Management Board determined the purchase price at PLN 160,154,889.60, plus transaction costs of PLN 557,363.40.

As a result of the above-mentioned transactions, ENERGOMONTAŻ-POŁUDNIE S.A. became a subsidiary of the RAFAKO Group.

The acquisition of shares in ENERGOMONTAŻ-POŁUDNIE S.A. was disclosed in the Group's financial statements for the financial year ended December 31st 2011 under cost of an investment in a subsidiary. The carrying amount of the investment as at December 31st 2011 was PLN 160,712.3 thousand. In accordance with the Group's accounting policy, the shares in the subsidiary were recognised at historical cost (net of impairment, if any).

On June 4th 2012, PBG S.A. filed a petition for insolvency. On June 13th 2012, the court granted the petition and PBG S.A. was declared to be insolvent in company voluntary arrangement.

On July 16th 2012, the Parent's Management Board received a letter from the Court Supervisor of PBG S.A. w upadłości układowej (in company voluntary arrangement) addressed to that company ("PBG"), informing PBG that the sale of 46,021,520 shares in ENERGOMONTAŻ-POŁUDNIE S.A. by PBG to RAFAKO S.A. on December 20th 2011 "as a legal transaction executed by the Bankrupt (PBG) for a consideration, within six months before the date of submitting the bankruptcy petition (i.e. June 4th 2012), with a related party in respect of which the Bankrupt (PBG) was a parent, is ineffective against its bankruptcy estate", in accordance with Art. 128.2 of the Bankruptcy and Restructuring Law (the "Letter"). The Court Supervisor requested the PBG Management Board to immediately take steps under Art. 134 of the Bankruptcy and Restructuring Law to effect a return transfer of 46,021,520 shares in ENERGOMONTAŻ-POŁUDNIE S.A. to PBG's account.

On August 7th 2012, the Parent's Management Board entered into an agreement with PBG S.A. w upadłości układowej (in company voluntary arrangement) of Wysogotowo for the transfer of shares in ENERGOMONTAŻ-POŁUDNIE Spółka Akcyjna of Katowice. The agreement provided for the transfer of 46,021,520 ordinary bearer shares in the company, with a par value of PLN 1 per share, representing 64.84% of the share capital and 64.84% of total voting rights at the General

Meeting of ENERGOMONTAŻ-POŁUDNIE S.A., carrying the right to 46,021,520 votes. The share transfer was registered in the brokerage account on August 7th 2012.

In accordance with the legal analyses available to the Parent's Management Board, as a result of PBG S.A.'s insolvency declared on June 13th 2012, the sale of shares in ENERGOMONTAŻ-POŁUDNIE S.A. by PBG S.A. to RAFAKO S.A. under the agreement signed on December 20th 2011 has become legally ineffective against the bankruptcy estate as of the date of the court's decision to declare PBG S.A. insolvent, i.e. as of June 13th 2012 (the date of loss of control). This means that the Parent is required to return the shares in ENERGOMONTAŻ-POŁUDNIE S.A. to PBG S.A. to include them in PBG S.A.'s bankruptcy estate, i.e. to procure that they are recorded in PBG S.A.'s securities account. This requirement arose by operation of law upon the declaration of PBG S.A.'s insolvency. Considering the above, having analysed the legal opinions on the ineffectiveness of the acquisition of ENERGOMONTAŻ-POŁUDNIE S.A. shares from PBG S.A. w upadłości układowej (in company voluntary arrangement), the Parent's Management Board resolved to submit to the procedure involving the return of the shares.

Given the ineffectiveness of PBG S.A.'s disposal of the shares in ENERGOMONTAŻ-POŁUDNIE S.A. to RAFAKO S.A., the Parent is entitled to claim a refund of the price paid for the shares. RAFAKO S.A.'s right to the refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A. results in the recognition, in the consolidated statement of financial position, of a receivable which was initially recognised at fair value by reference to the present value of the expected inflows. Accordingly, the fair value of the receivable was estimated taking into account the expected cash inflows to the Company, taking into consideration PBG S.A.'s arrangement proposals providing for a 31% reduction of the debt (for which no deferred tax asset was recognised) and the expected timing of the inflow of the first instalment of cash to the Company, assessed by the Management Board as June 30th 2015.

In the 12 months ended December 31st 2015, the Group remeasured the asset based on updated arrangement proposals of November 3rd 2014, put forward by PBG S.A. w upadłości układowej (in company voluntary arrangement), providing with respect to the first group of creditors (which includes RAFAKO S.A.'s claim) for repayment of PLN 500 thousand and an 80% reduction of the receivable in excess of PLN 500 thousand. The receivable will be repaid in semi-annual instalments over a period of five years beginning on June 30th 2016. The Parent's Management Board estimates that the first instalment will be paid by June 30th 2016. The value of the receivable determined based on the assumptions discussed above as at December 31st 2015, recognised under 'Other non-current financial assets' amounts to PLN 24.8m and under 'Other current financial assets' amounts to PLN 4.9m. The full amount of the claim, i.e. PLN 160,154,889.60, has been included in the proof of the claim to the bankruptcy estate of PBG.S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in *Monitor Sądowy i Gospodarczy* official gazette of June 4th 2013).

In addition, on January 10th 2012, the Parent entered into a loan agreement with Hydrobudowa Polska S.A. of Wysogotowo, under which RAFAKO S.A. granted Hydrobudowa Polska S.A. a cash loan of PLN 32m maturing in 12 months (i.e. on January 9th 2013) to finance the company's day-to-day operations. To secure the repayment of the loan, Hydrobudowa Polska S.A. issued a blank promissory note with a 'protest waived' clause to RAFAKO S.A., guaranteed by PBG S.A. and Multaros Trading Company Ltd., together with relevant promissory note declarations. RAFAKO S.A. is entitled to fill in the note with the amount of any overdue balance of the loan with interest, up to PLN 35,000,000 (thirty-five million zloty). The loan bears interest at an annual rate of 1M WIBOR plus margin. By the date of these financial statements, RAFAKO S.A. had not received any amounts from Hydrobudowa Polska S.A., either as repayment of the loan principal or interest.

On June 4th 2012, PBG S.A. and Hydrobudowa Polska S.A. filed petitions with the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, for declaring PBG S.A. and Hydrobudowa Polska S.A. insolvent in voluntary arrangement. On June 13th 2012, the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, declared PBG S.A. insolvent in voluntary arrangement. On June 11th 2012, the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, declared the bankruptcy of Hydrobudowa Polska S.A. by liquidation of its assets. Pursuant to Art. 124.2 of the Bankruptcy and Restructuring Law, following the declaration of bankruptcy of Hydrobudowa Polska S.A., RAFAKO S.A. is entitled to seek the return of the actually advanced loan, in accordance with the Bankruptcy and Restructuring Law. On October 26th 2012, the Parent's Management Board filed a proof of the claim in respect of the loan in the bankruptcy proceedings against Hydrobudowa Polska S.A. The loan is included in the list of claims acknowledged by the Official Receiver.

Taking into consideration the process of bankruptcy liquidation of Hydrobudowa Polska S.A., in order to seek the return of the loan amount, on September 21st 2012 the Management Board of the Parent filed the claim with the register of claims maintained as part of the PBG S.A. bankruptcy arrangement proceedings. In the 12 months ended December 31st 2015, taking into consideration current arrangement proposals (dated November 3rd 2014), the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A., assuming the repayment of PLN 500 thousand per one creditor and the 80% reduction of the receivable in excess of PLN 500 thousand (for which no deferred tax asset was recognised) as well as the expected timing of the first inflow of cash to RAFAKO S.A., assessed by the Company's Management Board as at June 30th 2016 (arrangement proposals provide for the repayment of the debt on a semi-annual basis over the period of five years). As at December 31st 2015, the value of the receivable determined based on the assumptions discussed above, recognised under 'Other non-current financial assets' amounts to PLN 5m and under 'Other current financial assets' amounts to PLN 1m. The full amount of the claim, i.e. PLN 32,915,787.40, has been included in the proof of the Company's claim to the bankruptcy estate of PBG.S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in *Monitor Sądowy i Gospodarczy* official gazette of June 4th 2013).

The total amount of receivables from the related entity (PBG S.A. w upadłości układowej (in company voluntary arrangement)), which results from the above-mentioned titles and is recognised in the statement of financial position, is PLN 35.8m. The recoverable amount of the claims depends on the terms of the arrangement with PBG S.A.'s creditors and on the possibility of fulfilment of that arrangement by PBG S.A. in the future. In its decision of October 8th 2015, the Bankruptcy Court approved the PBG Arrangement. However, as at the date of issue of these financial statements the decision is not final.

In the 12 months ended December 31st 2015, the measurement of the receivables contributed PLN 2,502 thousand (December 31st 2014: PLN 83 thousand) to the Group's net profit/(loss).

(PLN '000)

45. Changes in off-balance sheet items

	Dec 31 2015	*Dec 31 2014*
Off-balance sheet items under bank guarantees received mainly as security for performance of contracts, including:	585,065	505,928
- from related entities	–	–
Receivables under sureties received, including:	7,600	7,600
- from related entities	–	–
Promissory notes received as security, including:	22,160	14,208
- from related entities	8,134	980
Letters of credit	–	19,180
	614,825	**546,916**

	Dec 31 2015	*Dec 31 2014*
Off-balance sheet items under bank guarantees issued mainly as security for performance of contracts, including:	201,181	243,232
- to related entities	–	–
Liabilities under sureties, including:	1,046,000	1,046,000
- to related entities	–	–
Promissory notes issued as security, including:	28,798	27,612
- to related entities	–	–
Letters of credit	–	–
	1,275,979	**1,316,844**

In the 12 months of 2015, the Group recorded a PLN 40,865 thousand drop in contingent liabilities, including a PLN 42,051 thousand decrease in liabilities under bank guarantees, and a PLN 1,186 thousand increase in promissory notes issued as security. In the 12 months of 2015, guarantees (mainly performance bonds of PLN 42,973 thousand and bid bonds of PLN 12,107 thousand) were issued by banks and insurance companies to the Group's trading partners upon the Parent's instruction. In this category of liabilities, the largest item was a performance bond of PLN 11,090 thousand issued in September 2015. Liabilities under sureties issued, of PLN 1,046,000 thousand, relate to a surety for E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and valid until April 17th 2028, in connection with the project involving the 'Construction of new coal-fired generation capacities at TAURON Wytwarzanie S.A. − construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant −Power Plant II'. The largest item among guarantees which expired in the 12 months of 2015 was a performance bond of PLN 12,239 thousand.

In the 12 months of 2015, the Group recorded an increase of PLN 68,008 thousand in contingent receivables related mainly to performance bonds, including an increase of PLN 79,137 thousand in receivables under bank and insurance guarantees received, an increase of PLN 8,051 thousand in receivables under promissory notes and a decrease of PLN 19,180 thousand in receivables under letters of credit opened to the benefit of the Parent. The largest item among guarantees received in the first nine months of 2015 was a performance bond of EUR 10,041 thousand. The largest item among guarantees expired in the 12 months of 2015 were two advance payment guarantees of PLN 4,193 thousand each.

Guarantees provided by the Group

As at December 31st 2015, the Group carried contingent liabilities under bank and insurance guarantees with a total value of PLN 201,181 thousand, including:

No.	*Bank/insurer issuing a guarantee*	*Guarantee amount (PLN '000)*	*Type of guarantee*
1.	BZ WBK S.A.	17,953	warranty bond
2.	DEUTSCHE Bank Polska S.A.	1,157	warranty bond
3.	T.U. Euler HERMES S.A.	7,505	warranty bond
4.	STU ERGO HESTIA S.A.	19,366	performance bond, warranty bond
5.	PKO BP S.A.	279,667	performance bond, warranty bond, advance payment guarantee, bid bond, retention
6.	UNIQA TU S.A.	2,841	warranty bond, bid bond
7.	TUiR WARTA S.A.	9,316	performance bond, warranty bond
8.	Generali TU S.A.	2,250	performance bond
9.	InterRisk S.A.	10,662	performance bond, warranty bond, bid bond
10.	KUKE S.A.	20,166	performance bond, warranty bond, advance payment guarantee
11.	mBank S.A.	2,584	performance bond, warranty bond
12.	Bank Gospodarstwa Krajowego	172,286	performance bond, advance payment guarantee
13.	PZU S.A.	172,286	performance bond, advance payment guarantee
	TOTAL	**718,039**	

In the majority of cases, the claims of insurers providing financial guarantees on the Group's instruction are secured by blank promissory notes with promissory note declarations, while banks' claims are secured mainly by voluntary submissions to enforcement, blank promissory notes with promissory note declarations and cash security deposits.

(PLN '000)

46. Related parties

In 12 and 2014, the Group did not enter into any material transactions with related parties on non-arm's length terms.

Total amounts of transactions with related parties in the 12 months ended December 31st 2015 and December 31st 2014 were as follows:

Related party	*12 months ended Dec 31*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
Parent:					
PBG S.A. w upadłości układowej (in company voluntary arrangement)*	*2015*	138	75	36,060*	20
	2014	–	5,057	33,344*	1
PBG Group companies:**					
PBG Oil and Gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	*2015*	2,124	28,108	1,078	5,739
	2014	–	4,448	–	4,473
PBG Avatia Sp. z o.o.	*2015*	–	2,723	–	41
	2014	–	4	–	4
PBG ERIGO Sp. z o.o.	*2015*	3	–	3	–
	2014	–	–	–	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	*2015*	13	–	16	–
	2014	–	–	–	–
Entities related through personal links:					
PBG Foundation	*2015*	–	399	–	113
	2014	–	–	–	–
SWGK CONSULTING Sp. z o.o.	*2015*	–	596	–	100
	2014	–	46	–	–
SWGK KSIĘGOWOŚĆ Sp. z o.o.	*2015*	–	–	–	–
	2014	–	560	–	344
Mostostal Energomontaż Gliwice S.A.	*2015*	–	18	–	372
	2014	–	–	–	–

**The receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) described in Note 44*

(PLN '000)

47. Group's Parent

RAFAKO S.A. is the Parent of the RAFAKO Group.

As at the date of these consolidated financial statements, the parent of the RAFAKO Group is PBG S.A. w upadłości układowej (in company voluntary arrangement).

As at December 31st 2015, PBG S.A. of Wysogotowo held 50% + 1 ordinary share in the Company (9.026% of shares held directly, and 40.974% of shares held indirectly).

48. Joint ventures in which Group companies are partners

Group companies are not engaged in any joint ventures.

49. Related-party transactions

In 2015, the Parent and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Group in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are agreed. The related party must ensure that a contract is performed in accordance with the documentation, give a warranty for a specified period and provide security in the form of a performance bond issued by a bank. Related parties are also subject to standard contractual penalties, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

50. Transactions with other members of the Management Board and Supervisory Board

In the reporting and comparable periods, no loans were granted to members of the management or supervisory boards of Group companies.

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

51. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the Parent or Parent's related parties held by the management and supervisory staff as at December 31st 2015:

	Company name	*Total number of shares*	*Par value of shares (PLN)*
Member of the management staff			
Edward Kasprzak	RAFAKO S.A.	2,000	4,000
Jarosław Dusiło	PBG S.A. w upadłości układowej (in company voluntary arrangement)	100	100
Tomasz Tomczak	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,250	3,250
Member of the supervisory staff			
Małgorzata Wiśniewska	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,279	3,279
Jerzy Wiśniewski	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,881,224	3,881,224

52. Shares held by senior management staff under employee stock option plan

Group companies do not have any employee stock option plans.

53. Remuneration of the Group's senior management staff

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Short-term employee benefits (salaries and overheads)	12,405	10,733
Length-of-service awards	37	17
Post-employment benefits	–	–
Termination benefits	19	–
Other employee benefits	83	–
Total cost of remuneration paid to key management staff	**12,544**	**10,750**

The remuneration paid to members of the Parent's Management and Supervisory Boards for the year ended December 31st 2015 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**3,120**	**1,309**	**674**
Agnieszka Wasilewska-Semail	720	301	18
Krzysztof Burek	600	217	5
Jarosław Dusiło	600	292	5
Edward Kasprzak	600	292	5
Paweł Mortas	–	–	120
Wiesław Różacki	–	–	488
Tomasz Tomczak	600	207	33
Supervisory Board	**1,027**		**1,318**
Jerzy Wiśniewski	240	–	601
Dariusz Sarnowski	228	–	121
Piotr Wawrzynowicz	124	–	385
Małgorzata Wiśniewska	108	–	129
Edyta Senger-Kałat	50	–	–
Przemysław Schmidt	108	–	81
DARIUSZ SZYMAŃSKI	58	–	–
Adam Szyszka	108	–	1
Krzysztof Gerula	3	–	–
Total	**4,147**	**1,309**	**1,992**

The remuneration paid to members of the Parent's Management and Supervisory Boards for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**2,904**	**1,205**	**665**
Agnieszka Wasilewska-Semail	226	–	3
Krzysztof Burek	542	192	–
Jarosław Dusiło	542	240	–
Edward Kasprzak	542	199	–
Maciej Modrowski	234	199	140
Paweł Mortas	438	375	492
Tomasz Tomczak	380	–	30
Supervisory Board	**1,020**	–	**1,330**
Jerzy Wiśniewski	236	–	600
Dariusz Sarnowski	146	–	180
Piotr Wawrzynowicz	144	–	360
Małgorzata Wiśniewska	108	–	–
Agenor Gawrzyał	114	–	33
Edyta Senger-Kałat	108	–	–
Przemysław Schmidt	108	–	157
Adam Szyszka	56	–	–
Total	**3,924**	**1,205**	**1,995**

The remuneration paid to members of the Management and Supervisory Boards of DOM Sp. z o.o. (a subsidiary) for the year ended December 31st 2015 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**108**	**20**	–
Mirosław Dziedzic	108	20	–
Supervisory Board	**158**	–	–
Mariusz Łożyński	49	–	–
Jolanta Markowicz	39	–	–
Adam Górnicki	39	–	–
Wojciech Byczkowski	31	–	–
Total	**266**	**20**	–

The remuneration paid to members of the Management and Supervisory Boards of DOM Sp. z o.o. (a subsidiary) for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**99**	**30**	**–**
Mirosław Dziedzic	99	30	–
Supervisory Board	**123**	**–**	**–**
Mariusz Łożyński	47	–	–
Jolanta Markowicz	38	–	–
Adam Górnicki	38	–	–
Total	**222**	**30**	**–**

The remuneration paid to members of the Management and Supervisory Boards of RAFAKO Engineering Sp. z o.o. (a subsidiary) for the year ended December 31st 2015 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**206**	**–**	**–**
Alan Beroud	205	–	–
Rafał Damasiewicz	1	–	–
Supervisory Board	**97**	**–**	**–**
Krzysztof Burek	21	–	–
Jarosław Dusiło	19	–	–
Roman Karbasz	21	–	–
Agnieszka Wasilewska-Semail	17	–	–
Małgorzata Wiśniewska	19	–	–
Total	**303**	**–**	**–**

The remuneration paid to members of the Management and Supervisory Boards of RAFAKO Engineering Sp. z o.o. (a subsidiary) for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**175**	**–**	**–**
Alan Beroud	132	–	–
Tomasz Tomczak	–	–	–
Agnieszka Jaksik	43	–	–
Supervisory Board	**92**	**–**	**–**
Roman Karbasz	38	–	–
Maciej Modrowski	15	–	–
Grzegorz Podsiadło	34	–	–
Paweł Mortas	5	–	–
Total	**267**	**–**	**–**

The remuneration paid to members of the Management and Supervisory Boards of ENERGOTECHNIKA ENGINEERING Sp. z o.o. (a subsidiary) for the year ended December 31st 2015 was as follows:

PLN '000

	Base pay	Awards	Other
Management Board	**456**	**–**	**83**
Jan Miodek	204	–	41
Justyna Mirek	252	–	42
Supervisory Board	**53**	**–**	**–**
Krzysztof Burek	7	–	–
Maciej Kaczorowski	8	–	–
Tomasz Tomczak	19	–	–
Małgorzata Wiśniewska	11	–	–
Joanna Zwolak	8	–	–
Total	**509**	**–**	**83**

The remuneration paid to members of the Management and Supervisory Boards of ENERGOTECHNIKA ENGINEERING Sp. z o.o. (a subsidiary) for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	Awards	Other
Management Board	**432**	**–**	**62**
Jan Miodek	184	–	30
Justyna Mirek	248	–	32
Supervisory Board	**38**	**–**	**–**
Maciej Kaczorowski	11	–	–
Maciej Modrowski	5	–	–
Joanna Zwolak	11	–	–
Tomasz Tomczak	11	–	–
Total	**470**	**–**	**62**

The remuneration paid to members of the Management and Supervisory Boards of FPM S.A. (a subsidiary) for the two months ended February 28th 2015 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**102**	**–**	**6**
Piotr Dzierzęga	46	–	2
Marian Januszkiewicz	30	–	2
Maciej Solarczyk	26	–	2
Supervisory Board	**53**	**–**	**–**
Piotr Wawrzynowicz	13	–	–
Krzysztof Matysek	11	–	–
Krzysztof Jeremicz	11	–	–
Tomasz Tomczak	9	–	–
Edward Kasprzak	9	–	–
Total	**155**	**–**	**6**

The remuneration paid to members of the Management and Supervisory Boards of FPM S.A. (a subsidiary) for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**611**	**239**	**86**
Piotr Dzierzęga	276	110	16
Marian Januszkiewicz	180	90	41
Maciej Solarczyk	155	39	29
Supervisory Board	**294**	**–**	**–**
Piotr Wawrzynowicz	72	–	–
Krzysztof Matysek	63	–	–
Krzysztof Jeremicz	63	–	–
Tomasz Tomczak	48	–	–
Edward Kasprzak	48	–	–
Total	**905**	**239**	**86**

The remuneration paid to members of the Management and Supervisory Boards of PALSERWIS Sp. z o.o. (an indirect subsidiary) for the two months ended February 28th 2015 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**16**	**8**	**–**
Andrzej Bies	16	8	–
Supervisory Board	**14**	**–**	**–**
Piotr Dzierżęga	4	–	–
Marian Januszkiewicz	5	–	–
Józef Wojtuszek	5	–	–
Total	**30**	**8**	**–**

The remuneration paid to members of the Management and Supervisory Boards of PALSERWIS Sp. z o.o. (an indirect subsidiary) for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**96**	**18**	**950**
Andrzej Bies	96	18	950
Supervisory Board	**83**	–	–
Piotr Dzierżęga	25	–	–
Marian Januszkiewicz	28	–	–
Józef Wojtuszek	30	–	–
Total	**179**	**18**	**950**

The remuneration paid to members of the Management and Supervisory Boards of E001RK Sp. z o.o. (a subsidiary) for the year ended December 31st 2015 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**168**	**67**	–
Jakub Sitek	108	43	–
Rafał Damasiewicz	60	24	–
Supervisory Board			
Agnieszka Wasilewska-Semail	–	–	–
Krzysztof Burek	–	–	–
Jerzy Wiśniewski	–	–	–
Rafał Damasiewicz	–	–	–
Jakub Sitek	–	–	–
Total	**168**	**67**	–

The remuneration paid to members of the Management and Supervisory Boards of E001RK Sp. z o.o. (a subsidiary) for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**105**	–	–
Anna Wiktor	23	–	–
Jakub Sitek	62	–	–
Rafał Damasiewicz	20	–	–
Supervisory Board			
Agnieszka Wasilewska-Semail	–	–	–
Krzysztof Burek	–	–	–
Jerzy Wiśniewski	–	–	–
Rafał Damasiewicz	–	–	–
Jakub Sitek	–	–	–
Total	**105**	–	–

The remuneration paid to members of the Management and Supervisory Boards of E003B7 Sp. z o.o. (a subsidiary) for the year ended December 31st 2015 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**1,603**	**780**	–
Jarosław Dusiło	487	240	–
Edward Kasprzak	607	300	–
Alfred Seń	509	240	–
Supervisory Board	**1,104**	**540**	–
Krzysztof Burek	246	120	–
Tomasz Tomczak	246	120	–
Agnieszka Wasilewska-Semail	246	120	–
Jerzy Wiśniewski	366	180	–
Total	**2,707**	1,320	–

The remuneration paid to members of the Management and Supervisory Boards of E003B7 Sp. z o.o. (a subsidiary) for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**780**	–	–
Edward Kasprzak	301	–	–
Jarosław Dusiło	241	–	–
Alfred Seń	238	–	–
Supervisory Board	**605**	–	–
Paweł Mortas	71	–	–
Tomasz Tomczak	141	–	–
Jerzy Wiśniewski	207	–	–
Krzysztof Burek	115	–	–
Agnieszka Wasilewska-Semail	71	–	–
Total	**1,385**	–	–

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

The Group did not publish forecasts for 2015.

55. Information on agreement with qualified auditor or auditing firm qualified to audit financial statements

By a resolution of July 6th 2015, the Parent's Supervisory Board, acting in accordance with the authority afforded by the Company's Articles of Association, selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa of Warsaw, entered in the register of the National Chamber of Statutory Auditors under No. 130, as the auditor of the Parent's financial statements for 2015. The auditor was appointed in accordance with the applicable regulations and professional standards. The agreement with the auditor will be concluded for a period of time necessary to review and audit the financial statements of RAFAKO S.A. and the consolidated financial statements of the RAFAKO Group for the financial year 2015. In the past, Ernst & Young Audyt performed reviews and audits of the financial statements of the Company and the consolidated financial statements of the RAFAKO Group for 2002−2005 and 2011−2014.

On July 22nd 2015, the Company entered into an agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa for the review and audit of the separate and consolidated financial statements for 2015. The total remuneration payable to the auditor for the review and audit of the financial statements was agreed at PLN 200 thousand.

On December 15th 2015, the Supervisory Board of ENERGOTECHNIKA ENGINEERING Sp. z o.o., acting on the basis of the company's Articles of Association, resolved to appoint Kancelaria Biegłych Rewidentów Sp. z o.o. of Katowice, entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 1119, to audit the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. On December 22nd 2015, the company signed an engagement letter with Kancelaria Biegłych Rewidentów Sp. z o.o. for a review and audit of the company's separate financial statements for 2015. The total amount of remuneration payable to the auditor for performing the audit of financial statements was agreed at PLN 6 thousand.

On February 12th 2016, the Extraordinary General Meeting of RAFAKO Engineering Sp. z o.o. of Racibórz, in exercise of the authority given to it under the Articles of Association, appointed AUDYTORZY I DORADCY Spółka z o.o. of Katowice (registered address: ul. Mickiewicza 29, 40-085 Katowice, Poland) as the auditor of the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. In the past, DORADCA provided the company with services consisting in the review and audit of financial statements for 2014. On February 15th 2016, the company entered into an agreement with AUDYTORZY I DORADCY Spółka z o.o. for the review and audit of the company's separate financial statements for 2015. The total amount of remuneration payable to the auditor for the audit of the financial statements was agreed at PLN 11.9 thousand.

(PLN '000)

On September 29th 2015, the Supervisory Board of PGL–DOM Sp. z o.o., a subsidiary, acting on the basis of the authorisation provided for in the company's Articles of Association, resolved to appoint DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. of Lublin, entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 232, to audit the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. In the past, DORADCA provided the company with services consisting in the review and audit of separate financial statements for 2006−2014. On September 30th 2015, the company entered into an agreement with DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. to audit the company's separate financial statements for 2015. The total amount of remuneration payable to the auditor for the audit of the financial statements was agreed at PLN 7.5 thousand.

On August 4th 2015, acting on the basis of the authorisation provided for in the Polish Commercial Companies Code, the Extraordinary General Meeting of E003B7 Sp. z o.o., a subsidiary, resolved to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością spółka komandytowa of Warsaw, entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 130, to audit the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. In the past, DORADCA provided the company with services consisting in the review and audit of separate financial statements for 2014. On August 5th 2015, the company signed an engagement letter with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa under which the auditor was engaged to audit the company's financial statements for the year ended December 31st 2015 and the consolidation package for that year, and to review the interim consolidation package for the six months ended June 30th 2015. The total amount of remuneration payable to the auditor was agreed at PLN 174 thousand (VAT-exclusive).

The table below presents the remuneration paid or payable to the qualified auditors of financial statements for the year ended December 31st 2015 and December 31st 2014, broken by type of service:

Type of service	*Year ended Dec 31 2015**	*Year ended Dec 31 2014**
Mandatory audit of the separate and consolidated financial statements of the Parent	200	179
Other services	235	30
Total	**435**	**209**

***Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa*

(PLN '000)

56. Objectives and policies of financial risk management

The objective of the RAFAKO Group's financial risk management policy is to limit the volatility of the Group's cash flows and results of its core business operations to acceptable levels. The key financial instruments used by the Group include cash, current deposits, advanced loans, currency exchange transactions, overdraft facilities and leases. The main purpose of these instruments is to support and secure financially the day-to-day operations of Group companies by stabilising and neutralising liquidity, exchange rate and interest rate risks, and to ensure safe and effective investment of free cash. Other financial instruments, such as trade receivables and payables, arise in the course of Group companies' day-to-day operations and form their inherent part.

Group companies are not engaged in trading in financial instruments. The role of all financial instruments discussed in this section is to support the core business processes. Group companies do not permit the use of financial instruments for speculative or other purposes not directly related to their core operations.

The key financial risk to which the Group is exposed is liquidity risk, discussed at length in Note 5.

In 2015, the Parent was party to a PLN 150m overdraft facility agreement with PKO BP S.A., exposing it to interest rate risk that will have an effect on the amount of finance costs paid by the Company in the following periods. However, the Company's exposure to interest rate risk has decreased following the drop in the nominal amount of the credit facility. The base interest rate, determining the cost of the credit facility, remained relatively low and constant.

Currency risk and interest rate risk are other types of risk to which Group companies were exposed in the reporting period and continue to be exposed. An overview of this risk is provided in Note 56.2.

The accounting policies pursued by Group companies with respect to derivative instruments are discussed in Note 11.18.

56.1. Interest rate risk

As at December 31st 2015, the Group was party to a credit facility agreement, therefore its operations were exposed to credit risk and the risk associated with potential changes in interest rates. Changes in market interest rates may trigger changes to the interest charged on the credit facility, as well as the interest earned by the Group companies on their deposits. Sensitivities to such changes are analysed in the table below.

Sensitivity to interest rate risk

The table below presents sensitivity of pre-tax profit to reasonable movements in interest rates, assuming that other factors remain constant (deposits, advanced loans, bank credit facility, amounts payable under leases). The effect on the Group's equity is not presented.

	Increase/ decrease (percentage points)	***Effect on pre-tax profit/loss***
Period ended Dec 31 2015		
PLN	+ 1%	1,560
EUR	+ 1%	410
GBP	+ 1%	14
PLN	- 1%	(1,560)
EUR	- 1%	(410)
RSD	- 1%	(14)

(PLN '000)

	Increase/ decrease (percentage points)	Effect on pre-tax profit/loss
Period ended Dec 31 2014		
PLN	+ 1%	668
EUR	+ 1%	753
GBP	+ 1%	43
PLN	- 1%	(668)
EUR	- 1%	(753)
GBP	- 1%	(43)

56.2. Currency risk

The most significant type of financial risk to which the Group is exposed is currency risk, which arises in connection with exchange rate movements, causing uncertainty as to future cash flows denominated in foreign currencies. The Group's exposure to currency risk stems from the fact that a significant portion of its cash flows is denominated in foreign currencies. Changes in PLN exchange rates, especially if frequent and significant, may materially affect both profitability of contracts denominated in foreign currencies and the amount of currency translation differences on assets and liabilities denominated in foreign currencies and translated into PLN.

In the reporting period, more than 16.5% of the Group's invoiced revenue was denominated in foreign currencies, primarily in EUR.

The currency risk management strategy followed by Group companies provides for the use of natural hedging to the largest possible extent. Group companies strive to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. From 30% to 70% of the estimated net exposure to currency risk which is not covered by natural hedging is hedged at the time of transaction execution, exclusively with accepted types of derivative instruments.

As at December 31st 2015, the Group companies did not have any open hedging positions.

In view of the best bid choices made by Employers in material tenders and the expectation that the Group will evolve from net exporter to net importer in terms of its currency exposure, the Group did not enter into any new foreign currency sale contracts under its currency risk hedging policy. Once the final tender awards are known, Group companies will revise their currency positions and decide on entering into any hedging transactions.

The table below presents the sensitivity of the pre-tax profit/loss (due to changes in the value of monetary assets and liabilities) to reasonable movements in the EUR, GBP, RSD, and DKK exchange rates, with all the other factors unchanged.

	Exchange rate increase/ decrease	*Effect on pre-tax profit/loss*	*Effect on net profit/loss*
Dec 31 2015 – EUR	+10%	10,210	8,270
	-10%	(10,210)	(8,270)
Dec 31 2015 – TRY	+10%	192	156
	-10%	(192)	(156)
Dec 31 2015 – RSD	+10%	25	20
	-10%	(25)	(20)

(PLN '000)

	Exchange rate increase/ decrease	Effect on pre-tax profit/loss	Effect on net profit/loss
Dec 31 2014 – EUR	+10%	392	318
	-10%	(392)	(318)
Dec 31 2014 – GBP	+10%	366	296
	-10%	(366)	(296)
Dec 31 2014 – RSD	+10%	(11)	(9)
	-10%	11	9
Dec 31 2014 – DKK	+10%	(4)	(3)
	-10%	4	3

56.3. Commodity price risk

The Group is exposed to price risk, particularly the risk of increase in the prices of materials of strategic importance to its operations. The level of this risk is greatly determined by the conditions prevailing in the global commodities markets (including steel, precious metals, fuel and energy markets), which are affected by both exchange rate movements and producers' consolidation efforts intended to achieve joint control of prices. The commodity price risk management strategy envisages entering into contracts with sub-suppliers of materials and services in the master contract currency, arranging for procurement of materials by the customer, and entering into procurement contracts providing for fixed prices. Group companies do not enter into long-term contracts with sub-suppliers. The scope of supplies is determined and suppliers selected on an individual basis depending on requirement.

56.4. Credit risk

The RAFAKO Group's credit risk exposure is closely related to the core business conducted by Group companies. The exposure results from outstanding trade contracts and is related to the risk of occurrence of such credit events as the contractor's insolvency, partial payment of receivables, and material delays in payment of receivables. Providing trade credit to trade partners is an essential part of the Group's business. However, Group companies undertake a number of measures to mitigate the risk of entering into trade relations with potentially unreliable customers. Each customer who wishes to trade on credit terms is subject to credit verification procedures.

Customers who − based on the results of credit verification procedures performed by Group companies − are deemed financially unreliable, are required to provide appropriate financial security to mitigate the risk of their insolvency borne by the Group.

56.5. Liquidity risk

The Group is exposed to liquidity risk arising from the mismatch of cash flow maturities under ongoing contracts. The Group seeks to ensure positive cash flows, which − assuming timely payment of receivables − significantly reduces liquidity risk. The nominal amount of credit facilities available to the Group is sufficient to effectively prevent any negative consequences of potential delays in payment of receivables. Since 2013, the Parent has used external sources of financing. The credit limits available at banks, used to a significant extent, were sufficient to finance the Group's operating activities.

The Group's financial liquidity (going concern) in 2015 is discussed at length in Note 5 to the consolidated financial statements.

(PLN '000)

The table below presents the Group's financial liabilities by maturity as at December 31st 2015 and December 31st 2014, based on undiscounted contractual payments.

Dec 31 2015	*payable on demand*	*up to 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*over 5 years*	*Total*
Interest-bearing borrowings	–	–	109,208	–	–	109,208
Lease liabilities	–	377	1,165	3,686	–	5,228
Derivative instruments	–	–	–	–	–	–
Trade and other payables	46,059	300,553	51,887	40,185	517	439,201
Discount on liabilities	–	–	–	2,996	81	3,077
	46,059	**300,930**	**162,260**	**46,867**	**598**	**556,714**

Dec 31 2014	*payable on demand*	*up to 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*over 5 years*	*Total*
Interest-bearing borrowings	–	–	128,527	–	–	128,527
Lease liabilities	–	165	611	2,254	–	3,030
Derivative instruments	–	–	–	–	–	–
Trade and other payables	57,747	222,082	34,606	20,009	667	335,111
Discount on liabilities	–	–	–	1,489	173	1,662
	57,747	**222,247**	**163,744**	**23,752**	**840**	**468,330**

57. Financial instruments

57.1. Carrying amounts of various classes and categories of financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at December 31st 2015 and December 31st 2014.

The Group presents the particular classes and categories of its financial instruments at carrying amounts (their fair values approximate their carrying amounts).

Classes and categories of financial assets	*Carrying amount Dec 31 2015*	*Carrying amount Dec 31 2014*
Assets at fair value through profit or loss	–	–
Investment fund units	–	–
Derivative instruments	–	–
Available-for-sale financial assets	**210**	**369**
Long-term shareholdings	210	369
Loans and receivables	**471,839**	**474,134**
Trade receivables	312,806	278,105
Other receivables	123,037	162,577
Loans advanced	80	108
Non-current deposits	–	–
Current deposits	70	–
Other non-current financial assets	29,900	33,344
Other current financial assets	5,946	–
Cash and cash equivalents	**197,261**	**38,849**
	669,310	**513,352**

(PLN '000)

Classes and categories of financial liabilities	*Carrying amount Dec 31 2015*	*Carrying amount Dec 31 2014*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**548,409**	**463,638**
Borrowings	109,208	128,527
Trade payables (including capital commitments)	439,201	335,111
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**5,228**	**3,030**
Liabilities under leases and lease agreements with a purchase option	5,228	3,030
	553,637	**466,668**

As at December 31st 2015 and December 31st 2014, the Group held the following financial instruments measured at fair value:

Dec 31 2015	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	–	–
Investment fund units	–	–	–
Derivative instruments	–	–	–
Available-for-sale financial assets	**210**	–	–
Long-term shareholdings	210	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

Dec 31 2014	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	–	–
Investment fund units	–	–	–
Derivative instruments	–	–	–
Available-for-sale financial assets	**369**	–	–
Long-term shareholdings	369	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

(PLN '000)

57.2. Items of income, expenses, gains and losses recognised in the consolidated statement of profit or loss, by category of financial instruments

12 months ended Dec 31 2015	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/(losses)*	*Reversal /(recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial assets								
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	(159)	–	11	(148)
- shares	Available for sale	–	–	–	(159)	–	11	(148)
Other financial assets (non-current), including:		3	2	–	2,506	–	–	2,511
- receivables from related entities in company voluntary arrangement	Receivables and loans	–	–	–	2,502	–	–	2,502
- non-current loans	Receivables and loans	3	2	–	4	–	–	9
- non-current deposits	Receivables and loans	–	–	–	–	–	–	–
Other financial assets (current), including:		7	84	–	–	–	–	91
- current deposits	Receivables and loans	7	84	–	–	–	–	91
– certificates of deposit	At fair value through profit or loss	–	–	–	–	–	–	–
- receivables from related entities in company voluntary arrangement	At fair value through profit or loss	–	–	–	–	–	–	–
- advance payment to acquire the right to a loan	At fair value through profit or loss	–	–	–	–	–	–	–
Trade and other receivables	Receivables and loans	5,029	99	8,468	(2,399)	–	–	11,197
Financial derivatives, including:	At fair value through profit or loss	–	–	–	–	–	–	–
- currency forwards	At fair value through profit or loss	–	–	–	–	–	–	–
Cash and cash equivalents	Receivables and loans	861	(248)	–	–	–	–	613
Total		**5,900**	**(63)**	**8,468**	**(52)**	–	**11**	**14,264**

(PLN '000)

12 months ended Dec 31 2015	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/(losses)*	*Reversal/ (recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(3,233)	–	–	–	–	(907)	(4,140)
- non-current, bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(3,233)	–	–	–	–	(907)	(4,140)
- other current credit facilities bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
Other financial liabilities, including:	Other financial liabilities at amortised cost	(219)	(1)	–	–	–	–	(220)
- liabilities under finance leases and lease agreements with a purchase option	Other financial liabilities at amortised cost	(219)	(1)	–	–	–	–	(220)
Trade and other payables	Other financial liabilities at amortised cost	(871)	802	–	1,446	–	–	1,377
– trade payables		(142)	822	–	1,421	–	–	2,101
– other liabilities		(729)	(20)	–	25	–	–	(724)
– currency forwards	At fair value through profit or loss	–	–	–	–	–	–	–
Total		**(4,323)**	**801**	**–**	**1,446**	**–**	**(907)**	**(2,983)**

(PLN '000)

12 months ended December 31st 2014 *Financial assets*	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/(losses)*	*Reversal/ (recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	–	–	14	14
- shares	Available for sale	–	–	–	–	–	14	14
Other financial assets (non-current), including:		–	–	–	79	–	–	79
- receivables from related entities in company voluntary arrangement	Receivables and loans	–	–	–	83	–	–	83
- non-current loans	Receivables and loans	–	–	–	(4)	–	–	(4)
- non-current deposits	Receivables and loans	–	–	–	–	–	–	–
Other financial assets (current), including:		9	(78)	–	–	–	–	(69)
- current deposits	Receivables and loans	9	(78)	–	–	–	–	(69)
– certificates of deposit	At fair value through profit or loss	–	–	–	–	–	–	–
- receivables from related entities in company voluntary arrangement	At fair value through profit or loss	–	–	–	–	–	–	–
- advance payment to acquire the right to a loan	At fair value through profit or loss	–	–	–	–	–	–	–
Trade and other receivables	Receivables and loans	5,426	416	1,735	(1,349)	–	–	6,228
Financial derivatives, including:	At fair value through profit or loss	–	–	–	–	–	–	–
- currency forwards	At fair value through profit or loss	–	–	–	–	–	–	–
Cash and cash equivalents	Receivables and loans	453	756	–	–	–	–	1,209
Total		**5,888**	**1,094**	**1,735**	**(1,270)**	**–**	**14**	**7,461**

(PLN '000)

12 months ended December 31st 2014	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/(losses)*	*Reversal/ (recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(5,795)	–	–	–	–	(1,246)	(7,041)
- non-current, bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(5,795)	–	–	–	–	(1,246)	(7,041)
- other current credit facilities bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
Other financial liabilities, including:	Other financial liabilities at amortised cost	(41)	–	–	–	–	–	(41)
- liabilities under finance leases and lease agreements with a purchase option	Other financial liabilities at amortised cost	(41)	–	–	–	–	–	(41)
Trade and other payables	Other financial liabilities at amortised cost	(1,314)	(1,875)	–	24	–	–	(3,165)
– trade payables		(324)	(1,844)	–	25	–	–	(2,143)
– other liabilities		(990)	(31)	–	(1)	–	–	(1,022)
– currency forwards	At fair value through profit or loss	–	–	–	–	–	–	–
Total		**(7,150)**	**(1,875)**	**–**	**24**	**–**	**(1,246)**	**(10,247)**

(PLN '000)

57.3. Interest rate risk

The tables below present the carrying amounts of the Group's financial instruments exposed to the interest rate risk, broken by maturity.

Dec 31 2015

Fixed interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Non-current deposits	–	–	–	–	–	–	–
Current deposits	70	–	–	–	–	–	70

Variable interest							
Cash and cash equivalents	197,261	–	–	–	–	–	197,261
Loans advanced	80	–	–	–	–	–	80
Liabilities under finance leases and lease agreements with a purchase option	1,542	1,532	1,448	654	52	–	5,228
Bank overdrafts	109,208	–	–	–	–	–	109,208

Dec 31 2014

Fixed interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Non-current deposits	–	–	–	–	–	–	–
Current deposits	–	–	–	–	–	–	–

Variable interest	*<1rok*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	38,849	–	–	–	–	–	38,849
Loans advanced	70	38	–	–	–	–	108
Liabilities under finance leases and lease agreements with a purchase option	777	849	728	524	152		3,030
Bank overdrafts	128,127	–	–	–	–	–	128,127
Loans	400	–	–	–	–	–	400

Interest on financial instruments earning interest at variable rates is updated in periods of less than one year. Interest on financial instruments earning interest at fixed rates remains unchanged until the maturity of the instruments. Other financial instruments held by the Group, not included in the above tables, earn no interest and are therefore not exposed to the interest rate risk.

58. Employment

Between January and December 2015, the average headcount in the Group was 2,381.

For a detailed description of changes to the employment structure, see Section III.4 in Directors' Report on the Operations of the RAFAKO Group in 2015.

59. Events after the end of the reporting period

January 13th 2016 was the effective date of a conditional contract between a subsidiary E003B7 Sp. z o.o. ("SPV") and a Consortium comprising KOPEX S.A. of Katowice (Consortium Leader) and STAL-SYSTEMS S.A. of Wólka Pełkińska (Consortium Partner) for the supply and assembly of the steel structure of a building housing the turbine house, boiler house, bunkering room, LUVO and SCR, assembly of coal bunkers, as well as hoisting and laying of steam blowers in connection with the project 'Development of new coal-fired generation capacities at Tauron Wytwarzanie S.A. – Construction of a 910 MW supercritical power generating unit at the Jaworzno III Power Plant – Power Plant II', executed by RAFAKO S.A. and the SPV.

On February 24th 2016, E003B7 Sp. z o.o. ("SPV") (a wholly-owned subsidiary of RAFAKO) concluded with (i) Powszechna Kasa Oszczędności Bank Polski S.A. ("PKO BP"), (ii) Powszechny Zakład Ubezpieczeń S.A. ("PZU"), (iii) Bank Gospodarstwa Krajowego ("BGK") and (iv) mBank S.A. ("mBank" and collectively with PKO BP, PZU and BGK, the "Guarantors") an annex to the agreement of April 16th 2014 for the grant of bank and insurance guarantees to the SPV in connection with the project providing for the development of new coal-fired generation capacities at Tauron Wytwarzanie S.A. (the "Employer") − construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant − Power Plant II" (the "Jaworzno Project") performed by RAFAKO and the SPV.

Under the annex, mBank undertook to issue, in favour of the employer, (i) an advance payment bank guarantee of PLN 48m and (ii) a performance bond bank guarantee for the Jaworzno Project of PLN 126,334 thousand. Both guarantees were issued on February 26th 2016. Following the execution of the Annex and in connection with the change of the form of performance bond for the Main Contract with Tauron Wytwarzanie S.A., after the guarantees issued by mBank had been posted, the amount of PLN 40m deposited in cash by RAFAKO S.A. to secure performance of the Main Contract was returned to the Company by the employer. At the same time, the SPV received PLN 16.3m in retention monies.

In order to secure the Guarantors' (including mBank's) claims under legal recourse from the guarantees and performance bonds provided by the Guarantors, RAFAKO S.A. and the SPV made changes to the security arrangements and created security interests for the benefit of mBank identical to those created for the benefit of PKO, BGK and PZU, including in particular creating or changing the scope of the following security: (i) a surety for the SPV's liabilities under the Agreement, valid until April 17th 2028, provided by RAFAKO S.A. in favour of the Guarantors; (ii) a registered pledge over assets comprising the SPV's business; (iii) a registered and financial pledge over SPV shares representing 100% of the SPV's share capital and conferring the right to 100% of voting rights at the SPV's general meeting, held by RAFAKO S.A., and (iv) registered and ordinary or financial pledges over the SPV's and RAFAKO S.A.'s bank accounts and receivables connected with the Main Contract; as well as RAFAKO S.A.'s and the SPV's statements on submission to enforcement. All the registered pledges secure claims up to a maximum amount of PLN 1,300,000,000.

On March 10th 2016, the Parent received a decision on the following entries in the pledge register:

a) change of the pledge established by RAFAKO S.A. over the Parent's receivables from the Employer under the Jaworzno Project contract of April 17th 2014, pledged as security for the Guarantors' claims against RAFAKO S.A. arising from RAFAKO S.A.'s surety for the SPV's liabilities under the Guarantee Agreement,
b) change of the pledge established by RAFAKO S.A. over RAFAKO S.A.'s shareholding in the SPV, representing 100% of the SPV's share capital and 100% of votes at the SPV's General Meeting, pledged as security for the Guarantors' receivables from the Parent arising from RAFAKO S.A.'s surety for SPV's liabilities under the Guarantee Agreement,
c) change of the pledge established by RAFAKO S.A. over RAFAKO S.A.'s shareholding in the SPV, representing 100% of the SPV's share capital and 100% of votes at the SPV's General Meeting, pledged as security for the Guarantors' receivables from the SPV under the Guarantee Agreement;
d) change of the pledge established by the SPV over its receivables under the Project Account Agreement concluded between the SPV and PKO BP, pledged as security for the Guarantors' receivables from the SPV under the Guarantee Agreement;
e) change of the pledge established by the SPV over its claims against RAFAKO S.A. under the Jaworzno Project Subcontractor Agreement, pledged as security for the Guarantors' receivables from the SPV under the Guarantee Agreement;
f) change of the second ranking pledge established by RAFAKO S.A. over a set of the Parent's movables and rights, pledged as security for the Guarantors' receivables from RAFAKO S.A. arising from RAFAKO S.A.'s surety for the SPV's liabilities under the Guarantee Agreement.

On March 18th 2016, the Parent received a decision on the following entries in the pledge register:

a) change of the pledge established by Rafako over Rafako's receivables from the Employer under the Jaworzno Project contract of April 17th 2014, pledged as security for the Guarantors' claims against the SPV under the Guarantee Agreement;
b) change of the pledge established by the SPV over its receivables under euro bank account agreements, under the agreement concluded on September 8th 2014 between the SPV and BGK as the Pledge Administrator;
c) change of the pledge established by the SPV over a set of the SPV's movables and rights, under the agreement concluded on September 8th 2014 between the SPV and BGK as the Pledge Administrator;
d) change of the pledges established by the SPV over transferred cash payments constituting part of the amount of remuneration payable to RAFAKO S.A. for the performance of the Main Contract, and part of the prepayment payable to RAFAKO S.A. under the Main Contract, pledged as security for the Guarantors' claims against the SPV under the Guarantee Agreement.
e) change of the pledge established by the SPV over its receivables under bank account agreements, under the agreement concluded on September 16th 2014 between the SPV and BGK as the Pledge Administrator;

(PLN '000)

These consolidated financial statements of the RAFAKO Group were authorised for issue on March 21st 2016 by virtue of Resolution No. 29 of the RAFAKO S.A. Management Board dated March 21st 2016.

Signatures:

March 21st 2016	Agnieszka Wasilewska-Semail	President of the Management Board	....
March 21st 2016	Krzysztof Burek	Vice-President of the Management Board	....
March 21st 2016	Jarosław Dusiło	Vice-President of the Management Board	....
March 21st 2016	Edward Kasprzak	Vice-President of the Management Board	....
March 21st 2016	Tomasz Tomczak	Vice-President of the Management Board	....
March 21st 2016	Jolanta Markowicz	Chief Accountant	....