RAFAKO S.A.

THE PBG GROUP

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31ST 2016

with the auditor's opinion

COPY NO. 1

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(PLN '000)

Statement of comprehensive income
for the 12 months ended December 31st 2016

	Note	*12 months ended Dec 31 2016*	*12 months ended Dec 31 2015*
Continuing operations			
Revenue		**738,227**	**989,296**
Revenue from sale of goods and services	13.1	735,758	987,274
Revenue from sale of materials	13.2	2,469	2,022
Cost of sales	13.4	(719,704)	(906,829)
Gross profit/(loss)		**18,523**	**82,467**
Other income	13.7	7,236	8,858
Distribution costs	13.4	(31,578)	(28,564)
Administrative expenses	13.4	(44,285)	(39,389)
Other expenses	13.8	(12,869)	(7,797)
Operating profit/(loss)		**(62,973)**	**15,575**
Finance income	13.9	2,616	13,403
Finance costs	13.10	(7,161)	(6,916)
Net gain/(loss) on disposal of a subsidiary		–	11,376
Profit/(loss) before tax		**(67,518)**	**33,438**
Income tax expense	14	5,277	(6,851)
Net profit/(loss) from continuing operations	15, 16	**(62,241)**	**26,587**
Other comprehensive income for period		**(822)**	**(487)**
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations		(129)	(233)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(129)**	**(233)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods			
Other comprehensive income due to actuarial gains/(losses)		(855)	(314)
Tax on other comprehensive income		162	60
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(693)**	**(254)**
Total comprehensive income for period		**(63,063)**	**26,100**
Weighted average number of shares	16	84,931,998	74,472,635
Basic/diluted earnings/(loss) per share, PLN	16	(0.73)	0.36

Racibórz, March 21st 2017

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

(PLN ‘000)

Statement of financial position

as at December 31st 2016

	Note	Dec 31 2016	Dec 31 2015
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	19	147,968	153,827
Intangible assets	22	11,058	11,488
Long-term trade receivables, other receivables and prepayments	24	284	6,392
Trade receivables		3	5,660
Other receivables and prepayments		281	732
Non-current financial assets		64,570	60,889
Shares in subsidiaries	23	29,349	25,032
Shares in other entities	23	227	229
Other non-current financial assets	25	34,994	35,628
Deferred tax asset	14.3	48,177	42,738
		272,057	**275,334**
Current (short-term) assets			
Inventories	26	13,039	18,804
Short-term trade receivables, other receivables and prepayments	27	294,144	312,470
Trade receivables		188,754	141,934
Income tax receivable		10,918	7,095
Other receivables and prepayments		94,472	163,441
Gross amount due from customers for construction contract work	12	172,387	276,703
Current financial assets		77,470	103,541
Short-term loans advanced	28.1	458	486
Other current financial assets	28.2	11,130	5,946
Cash and cash equivalents	28.3	65,882	97,109
		557,040	**711,518**
Non-current assets held for sale	21	7	119
TOTAL ASSETS		**829,104**	**986,971**

Racibórz, March 21st 2017

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

Statement of financial position

as at December 31st 2016

	Note	Dec 31 2016	Dec 31 2015
EQUITY AND LIABILITIES			
Total			
Share capital	30.1	169,864	169,864
Share premium	30.4	95,340	95,340
Reserve funds		131,301	104,716
Exchange differences on translating foreign operations		(69)	60
Retained earnings / Accumulated losses		(67,676)	21,843
		328,760	**391,823**
Non-current liabilities			
Finance lease liabilities	34.1, 38	2,662	3,111
Employee benefit obligation	33	21,773	23,500
Long-term trade and other payables		19,598	25,544
Trade payables	34.1	11,874	20,796
Amounts payable for tangible and intangible assets	34.1	16	112
Other liabilities	34.1	7,708	4,636
		44,033	**52,155**
Current liabilities			
Short-term trade and other payables		201,981	307,537
Trade payables	34.2	120,449	256,803
Amounts payable for tangible and intangible assets	34.2	954	1,790
Other liabilities	34.2	80,578	48,944
Current portion of interest-bearing borrowings	32	149,112	111,213
Other financial liabilities and finance lease liabilities	34.2, 38	1,616	1,278
Employee benefit obligation	33	1,994	1,973
Amounts due to customers and provisions for construction contract work and deferred income		101,608	120,992
Gross amount due to customers for construction contract work	12	76,992	90,378
Provisions for construction contract work	12	24,095	29,807
Grants	35	521	807
		456,311	**542,993**
Total liabilities		**500,344**	**595,148**
TOTAL EQUITY AND LIABILITIES		**829,104**	**986,971**

Racibórz, March 21st 2017

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

(PLN '000)

Statement of cash flows

for the 12 months ended December 31st 2016

	Note	*12 months ended Dec 31 2016*	*12 months ended Dec 31 2015*
Cash flows from operating activities			
Profit/(loss) before tax		(67,518)	33,438
Adjustments for:		13,386	(38,043)
Depreciation and amortisation	13.5	11,674	10,662
Foreign exchange gains/(losses)		(14)	(4)
Interest and dividends, net		4,267	4,322
(Gain)/loss from investing activities	28.2	569	(13,865)
(Increase)/decrease in receivables	17	22,670	135,996
Change in inventories		5,765	2,911
Increase/(decrease) in employee benefit obligations, excluding borrowings	17	(110,510)	(55,732)
Change in prepayments and accruals for construction contracts	17	85,218	(116,262)
Income tax paid		(6,444)	(4,768)
Other		191	(1,303)
Net cash from operating activities		**(54,132)**	**(4,605)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		1,089	323
Purchase of property, plant and equipment and intangible assets	17	(5,200)	(24,524)
Sale of subsidiary			48,000
Acquisition of shares in subsidiary		(4,317)	–
Dividends and interest received		6	16
Loans advanced		43	(403)
Repayment of loans advanced		–	31
Other		–	(1,440)
Net cash from investing activities		**(8,379)**	**22,003**
Cash flows from financing activities			
Proceeds from issue of shares	36	–	89,225
Payment of finance lease liabilities		(2,148)	(1,565)
Proceeds from borrowings		37,773	–
Repayment of borrowings	17	–	(18,570)
Interest paid	17	(3,121)	(3,578)
Bank fees		(821)	(1,051)
Other		(274)	1,135
Net cash from financing activities		**31,409**	**65,596**
Net increase/(decrease) in cash and cash equivalents		(31,102)	82,994
Net foreign exchange differences		(125)	(233)
Cash at beginning of period	28.3	**97,109**	**14,348**
Cash at end of period	28.3	**65,882**	**97,109**

Racibórz, March 21st 2017

Agnieszka Wasilewska-Semail	Krzysztof Burek	Jarosław Dusiło	Edward Kasprzak	Tomasz Tomczak	Jolanta Markowicz
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Statement of changes in equity

for the 12 months ended December 31st 2016

	Share capital	Share premium	Reserve funds	Exchange differences on translating foreign operations	Retained earnings/ Accumulated losses	Total
As at Jan 1 2016	**169,864**	**95,340**	**104,716**	**60**	**21,843**	**391,823**
Profit from continuing operations	–	–	–	–	(62,241)	(62,241)
Other comprehensive income	–	–	–	(129)	(693)	(822)
Distribution of retained earnings	–	–	26,585	–	(26,585)	–
As at Dec 31 2016	**169,864**	**95,340**	**131,301**	**(69)**	**(67,676)**	**328,760**
As at Jan 1 2015	**139,200**	**36,778**	**81,201**	**293**	**19,025**	**276,497**
Profit from continuing operations	–	–	–	–	26,587	26,587
Other comprehensive income	–	–	–	(233)	(254)	(487)
Distribution of retained earnings	–	–	23,515	–	(23,515)	–
Issue of Series J shares	30,664	58,562	–	–	–	89,226
As at Dec 31 2015	**169,864**	**95,340**	**104,716**	**60**	**21,843**	**391,823**

Racibórz, March 21st 2017

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

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NOTES

1. General information

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

The Company was established for an indefinite term.

The Company's full-year financial statements cover the year ended December 31st 2016 and include comparative data for the year ended December 31st 2015.

The Company's principal business activity includes:

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

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

The direct parent of the Company is PBG S.A. of Poznań.

2. Identification of consolidated financial statements

The Company has also prepared consolidated financial statements of the RAFAKO Group for the year ended December 31st 2016, approved for issue on March 21st 2017.

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

In the 12 months ended December 31st 2016 and by the date of authorization of these financial statements for issue there were no changes in the composition of the Company's Management Board.

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

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

In the 12 months ended December 31st 2016, there were no changes in the composition of the Company's Supervisory Board.

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As at the date of these 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 financial statements for the year ended December 31st 2016 were authorised for issue by the Management Board on March 21st 2017.

5. Company's investments

In the reporting period, the Company held investments in the following subsidiaries, jointly-controlled entities and associates:

Name and principal place of business	*Principal business activity*	*Ownership interest in the share capital (%)*	
		Dec 31 2016	*Dec 31 2015*
PGL-DOM Sp. z o.o. Racibórz	Real property activities with own property	100%	100%
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Construction and process design, urban planning	51.05%	51.05%
ENERGOTECHNIKA ENGINEERING Sp. z o.o.* Gliwice	Construction and process design, urban planning, engineering consultancy	69.13%	63.90%
RAFAKO ENGINEERING SOLUTION doo Belgrade	Process design, construction, industry, and environmental protection consultancy and supervision services	77%	77%
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	100%	100%
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.	100%	100%
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design , engineering and technology	100%	100%

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

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

As at December 31st 2015, the Company's share in total voting rights held in the subsidiaries was equal to the Company'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. held 40.00% of preference shares (57.14% of total voting rights); 43.48% of the shares (31.06% of total voting rights) were held by PGL-DOM Sp. z o.o.

On April 29th 2016, the Extraordinary General Meeting of RAFAKO Engineering Sp. z o.o. passed a resolution to increase the share capital from PLN 1,959,000.00 to PLN 3,555,500.00, i.e. by PLN 1,596,500.00, through an issue of 3,193 new shares with a par value of PLN 500.00 per share. The new shares were acquired pro rata by the existing shareholders, i.e.:

- RAFAKO acquired 1,630 shares with a par value of PLN 500 per share, and a total value of PLN 815,000; the shares were acquired in return for a cash contribution of PLN 4,317 thousand;
- PBG Oil & Gas Sp. z o.o. acquired 1,563 shares with a par value of PLN 500 per share, and a total value of PLN 781,500; the shares were acquired for a non-cash contribution with a total value of PLN 4,140 thousand in the form of an organised part of business.

Since the registration of the share capital increase at RAFAKO Engineering Sp. z o.o. on January 5th 2017, the respective interests held in the company by RAFAKO and PBG oil and gas Sp. z o.o. have not changed and amount to 51.05% and 48.95%, respectively.

On June 30th 2016, PGL DOM Sp. z o.o., a subsidiary, acquired from a minority shareholder 100 shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o., a subsidiary, for PLN 137 thousand, thus increasing its equity interest in the company to 47.83%.

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

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

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

On October 12th 2016, RAFAKO Engineering Sp. z o.o., a subsidiary, acquired from a minority shareholder 40 shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o., a subsidiary, for PLN 20 thousand, thus increasing its equity interest in the company to 41.74%.

6. Significant judgements and estimates

6.1. Professional judgement

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

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

Classification of leases where the Company is the lessee

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

Identification of embedded derivatives

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

Consortium agreements

Each time after signing a construction contract which is to be executed as part of a consortium, the Management Board evaluates the nature of the contract in order to determine the method of accounting for contract revenue and expenses.

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 Company made the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates presented in these financial statements may change in the future due to market developments or factors beyond the Company's control. Such developments or factors will be reflected in the estimates or assumptions as and when they occur.

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

Impairment of assets

At the end of a reporting period, the Company conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 12 months ended December 31st 2016 there were no indications of impairment.

For further information on asset impairment as at the end of the reporting period, see Notes 19, 24, 25, 26, 27 and 28.2 to these financial statements.

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods. The underlying assumptions are presented in Note 33.1. The change in employee benefit obligations in the reporting period resulted from recognition of current service costs, interest expense and benefits paid.

In the year ended December 31st 2016, in connection with the launch of the voluntary redundancy programme for the Company employees (for details, see Note 34.9), the Management Board resolved to recognise a provision of PLN 7,622 thousand to cover the estimated cost of the programme.

Deferred tax asset

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

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Company relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 48.

Depreciation and amortisation rates

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

Revenue recognition

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total contract costs increased by 10% in relation to the Company's original estimate, the revenue would decrease by approximately PLN 32.7m.

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

Revenue

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

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

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

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

Provision for expected contract losses

At the end of each reporting period the Company remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and expenses in the financial year are presented in Notes 8.23.6 and 12 to these financial statements.

Provision for costs due to late performance of contracts

The Company recognises a provision for liquidated damages arising from late completion if the probability of being charged for late contract completion is significant and the delay is due to the fault of the Company as a contractor. The amount of the provision reflects the amount of liquidated damages that may be charged for the delay. For details of provisions estimated in this manner, see Note 12 to these financial statements.

Provisions for warranty repairs

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

Impairment of financial assets

At the end of a reporting period, the Company makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the Company recognises an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of the fair value/recoverable amount of receivables from related parties in bankruptcy, see Note 42.

Uncertainty related to tax settlements

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

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

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

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

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

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

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

7. Basis of preparation of the financial statements

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

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

These financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the end of the reporting period, i.e. December 31st 2016.

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

An analysis of the Company's financial position should take into consideration the following: in the financial year ended December 31st 2016, the Company recognised revenue of PLN 738m and a net loss of PLN 62m; further, as at December 31st 2016, the Company's net current assets were PLN 101m (including cash of PLN 66m). The year-on-year decrease in revenue in 2016 was to a large extent attributable to the postponement of several small projects until 2017 and limited progress of the contract awarded in the second half of 2016 (construction of a biomass-fired co-generation unit composed of boilers with fluidised beds, biomass storage and feeder systems, and flue gas treatment system for JSC Vilniaus Kogeneracine Jegaine, with a value of EUR 150m, VAT exclusive). Also the operating margin decreased in 2016. However, the decrease was caused by recognition of material losses on three of the contracts executed during the period. One of the contracts was completed in 2016; with respect to the other two, the Group reviewed projected revenues from and costs of the contracts and revised down their measurement, which affected the operating margin.

As previously assumed, on June 30th 2016 the Company executed an annex with PKO BP S.A. to extend repayment of a PLN 150m facility until June 30th 2017; and an agreement with mBank under which the bank provided guarantees for the Jaworzno project. The Company also signed an annex with TAURON Wytwarzanie S.A. to accelerate delivery of the project's milestones. In line with the Management Board's assumptions, these measures had a positive effect on the Company's liquidity.

An important part of an analysis of the Company's financial condition is a forecast of profit or loss and cash flows for 2017 (and subsequent periods) prepared by the Management Board. The key assumptions of the 2017 forecast are presented below:

- Expected revenue increase − the assumption is based on the current value of the order book (which to a significant extent supports the revenue forecast) and acquisition of material new contracts. The Company also carried out a sensitivity analysis which revealed that if the budgeted revenue target is missed by 20% on the lower end, it will have no adverse effect on the Company's financial liquidity, given in particular that new contracts, in the initial execution phase, often require material expenditure, and given the amount of cash held as at the beginning of 2017. The Management Board is taking steps to deliver a net profit in 2017 and to further improve the Company's liquidity position. These plans assume that the existing contracts (which account for a significant portion of the forecast revenue) will be executed in line with original budgets, and that in 2017 the Company will acquire new contracts to fully deliver the budgeted revenue;
- Timely delivery and execution of the contracts in the Company's current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the Company's current order book, and the Company's ability to prevent any further increase in losses already recognised on some of the contracts;
- Continued efforts to maintain and expand the Group's order book,
- Flexibility of capital expenditure, which the parent should be able to materially reduce;
- Company's access to necessary financial guarantees is not materially limited by financial institutions; such guarantees are necessary to acquire and execute contracts, and to ensure that the Company has access to bank credit as a source of financing after June 30th 2017.

In 2016 the Company's revenue and financial result decreased year on year. However, having considered the structure of the Company's net current assets, the better-than-expected cash flows, the available balance of cash, the current backlog, and cash-flow projections for 2017, as at the date of these financial statements the Management Board did not identify any material threats to the Company continuing as a going concern in the foreseeable future. Accordingly, these financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

Despite the contraints discussed in Note 11.1.2, RAFAKO's financial condition is supported by the very sound financial position of E003B7 sp. z o.o., a subsidiary which executes around 88.7% of the Jaworzno 910 MW project with an approximate value of PLN 4.5bn. In 2016, the subsidiary delivered revenue of PLN 1.1bn and net profit of PLN 68m, had net current assets of PLN 103m, and identified no material risks to the execution of the project. After the reporting date (i.e. December 31st 2016), the Company and TAURON Wytwarzanie S.A. signed an annex to the Jaworzno contract and agreed to increase the contract price by PLN 71m and to extend the project completion date by eight months.

7.1. Statement of compliance

These financial statements have been 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 Company's activities, within the scope of the accounting policies applied by the Company there is a difference between IFRSs and the EU IFRSs.

The Company has elected the option, available if the EU-endorsed International Financial Reporting Standards are applied, to apply 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 Company applied IFRSs applicable to financial statements prepared for the year beginning on January 1st 2016.

7.2. Functional currency and presentation currency

The Polish zloty ("PLN") is the Company's functional and the presentation currency of these financial statements.

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

8. Significant accounting policies

8.1. Fair value measurement

The Company 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 Company.

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 Company 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 Company 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 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 Company 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.

8.2. Foreign currency translation

The Polish zloty is the functional and presentation currency of these 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 2016	*Dec 31 2015*
USD	4.1793	3.9011
EUR	4.4240	4.2615
GBP	5.1445	5.7862
CHF	4.1173	3.9394
SEK	0.4619	0.4646
TRY	1.1867	1.3330

8.3. Property, plant and equipment

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.

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.

Assets are depreciated with the straight-line method over the estimated useful life, as detailed below.

Asset 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 Company 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 Group's production facilities, a decision was made to classify the rights as an item of non-depreciable property, plant and equipment.

An item of property, plant and equipment is removed from the statement of financial position if it is sold or if the Group 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 Company 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.

8.4. 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. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any. Expenditure incurred on internally generated intangible assets, excluding capitalised development costs, is not capitalised and is charged against profits in the period in which it is incurred.

The useful lives of intangible assets are assessed by the Company 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 Company's intangible assets is presented 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 their derecognition from the Company's statement of financial position.

8.5. 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.

8.6. Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are recognised at historical cost net of impairment.

8.7. Leases

Finance leases which transfer to the Company 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.

8.8. 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 Company 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 Company 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 Company 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 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.

8.9. 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.

8.10. Recoverable amount of long-term assets

At the end of a reporting period the Company 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 is tested for impairment annually. The test performed as at December 31st 2016 did not reveal any impairment of the goodwill disclosed in the financial statements.

8.11. 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 Company 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:
   i. have been acquired principally for the purpose of being sold in the near future,
   ii. 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,
   iii. 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 2016, the Company recognised shares in listed companies 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 Company 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 Company:

- 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.

8.12. Impairment of financial assets

At the end of each reporting period the Company assesses whether there is any objective evidence that a financial asset or a group of assets is impaired.

8.12.1. 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 Company 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 Company 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.

8.12.2. 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.

8.12.3. 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.

8.13. 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.

8.14. Derivative financial instruments and hedges

The Company 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.

8.15. 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.

8.16. 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 advance payments made for future purchases of property, plant and equipment, intangible assets and inventories.

Advance payments are presented according to the type of assets to which they refer: as non-current or current assets, respectively. As non-cash assets, advance payments 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.

8.17. 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.

8.18. Share capital

Share capital is disclosed in the financial statements in the amount specified in the Articles of Association and disclosed 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.

8.19. Provisions

The Company 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.

8.20. 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.

8.21. Trade and other payables

Short-term 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 Company 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 Company 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.

8.22. Employee benefits

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

The Company 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 Company 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.

8.23. Revenue

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

8.23.1. Revenue from sale of merchandise and finished goods

Revenue is recognised when the significant risks and rewards of ownership of merchandise and finished 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.

8.23.2. 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.

8.23.3. 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.

8.23.4. Dividends

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

8.23.5. Rental income

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

8.23.6. Construction contracts

Construction contracts are business contracts associated with the Company's principal business activity, 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-price transactions 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 to determine the amount of revenue and expenses recognised in the 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.

8.23.7. 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 relates to 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.

8.24. Taxes

8.24.1. Income tax expense

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 Company 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.

8.24.1.1. 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.

8.24.1.2. 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 Company 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.

8.24.1.3. 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.

8.24.1.4. Assessment of tax uncertainties

If in the opinion of the Company it is probable that the tax authority will accept the company's approach to a tax matter or a group of tax matters, the company determines taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the company's taxation approach planned for or used in the company's tax return.

If in the opinion of a Group company it is improbable that the tax authority will accept the company's approach to a tax matter or a group of tax matters, the company reflects the effect of uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits and tax rates. The company reflects this effect using the best of the following methods:

- The company identifies the most probable scenario – a single amount selected from among possible outcomes;
- The company discloses the expected value − the aggregate of amounts multiplied by their respective probabilities;
- the company uses the "all-or-nothing" method.

8.25. Earnings/(loss) per share:

Earnings/(loss) per share for each reporting period are calculated as quotient of the earnings/(loss) for the given accounting period and the weighted average number of Company shares outstanding in the given accounting period.

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

The accounting policies applied in preparing the financial statements are consistent with the policies applied in preparing the Company's full-year financial statements for the year ended December 31st 2015, save for the effect of application of the following new or amended standards and interpretations effective for annual periods beginning on or after January 1st 2016.

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

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

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

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

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

    The amendments apply retrospectively and clarify that:

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

    The Company operates in a single market segment of Power and Environmental Protection Facilities. The Management Board assesses the Company's performance on the basis of its financial statements. Amendments to IFRS 8 had no effect on the manner of recognition and presentation of the operating segments.
  - Amendments to IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets*

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

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

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

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

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

- Amendments to IAS 24 *Related Party Disclosures*

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

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

- *Amendments to IFRS introduced as part of the 2012-2014 improvements cycle:*
  - Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

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

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

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

  - Amendments to IAS 34 *Interim Financial Reporting*

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

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

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

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

- Amendments to IAS 1 *Disclosure Initiative*

  The amendments clarify the existing requirements of IAS 1 concerning:
  - materiality,
  - aggregation and subtotals,
  - order of presenting notes,
  - presentation of information on an entity's share of other comprehensive income of equity-accounted associates and joint ventures.

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

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

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

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

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

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

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

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

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

- Amendments to IAS 16 and IAS 41 *Agriculture: bearer plants*
  The amendments pertain to accounting for bearer plants.
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*
  The amendments address the accounting for an acquired interest in a joint operation by the acquirer.
  The amendments apply prospectively for annual periods beginning on or after January 1st 2016, and the entity may elect to early adopt the amendments. The amendments apply retrospectively.
- Amendments to IAS 19 *Defined Benefit Plans: employee contributions*
  The amendment refers to contributions from employees or third parties, which should be included when accounting for defined benefit plans.
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: applying the consolidation exception*
  The amendments clarify which subsidiaries of an investment entity should be consolidated and should not be measured at fair value through profit or loss. The amendments also clarify that an investment entity which is a parent continues to be exempt from presenting consolidated financial statements. The exemption applies even when a subsidiary is measured at fair value through profit or loss by a higher-tier parent.
- and *Amendments to IFRS introduced as part of the 2012-2014 improvements cycle*:
  - Amendments to IFRS 7 *Financial Instruments: disclosures*
    I. Servicing contracts – the amendment clarifies that a servicing contract that provides for a fee for servicing a financial asset can constitute continuing involvement in the financial asset.
    II. Applicability of the amendments to IFRS 7 (issued in December 2011) to condensed interim financial statements.
    The amendments apply retrospectively for annual periods beginning on or after January 1st 2016, and the entity may elect to early adopt the amendments.
  - Amendments to IAS 19 *Employee Benefits*
    The amendment refers to determination of the discount rate.
    A company should apply the amendments as of the beginning of the earliest comparative period presented in the first financial statements reflecting such amendments. The effect of the application of the amendments should be reflected in the opening balance of retained earnings. The amendment has been effective since January 1st 2016, with an early adoption option.

10. New standards and interpretations issued but not yet effective

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

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

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

10.1. Implementation of IFRS 15

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

10.2. Implementation of IFRS 9

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

10.3. Implementation of IFRS 16

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

10.4. Implementation of other standards and interpretations

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

11. Operating segments

The Company operates in a single market segment of Power and Environmental Protection Facilities. The Management Board assesses the Company's performance on the basis of its financial statements.

In 2016, the Company commenced its internal reorganisation and plans to complete it in 2017. As at the date of issue of these financial statements, the processes which would enable the Management Board to assess the Company's performance by business units had not yet been fully implemented.

(PLN '000)

12. Construction contracts

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

The table below presents the effects of accounting for construction contracts, including revenue and costs of the contracts performed in the 12 months ended December 31st 2016 and December 31st 2015, 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 2016	*Dec 31 2015*
Contract costs incurred to date (cumulative)	2,965,209	2,678,101
Recognised profits less recognised losses to date (cumulative)	181,203	188,963
Contract revenue recognised by reference to the contract stage of completion (cumulative)	3,146,412	2,867,064
Progress billings (cumulative)	3,064,402	2,676,106
Gross amount due to customers for contract work (liability), including:	**(76,992)**	**(90,378)**
- advance payments received (liabilities arising from advances received)	(27,841)	(56,955)
- adjustment to advance payments received arising from amounts due from customers	26,048	56,861
- gross amount due to customers for contract work	(75,199)	(90,284)
Prepayments relating to accounting for construction contracts, including:	**172,387**	**276,703**
- gross amount due from customers for contract work (asset)	155,257	254,188
- contract acquisition cost and other accrued contract costs	17,130	22,515
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(4,856)	–
Provision for losses on construction contracts	(19,239)	(29,807)

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

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

12.1. Key contracts executed by the Company

12.1.1. Jaworzno Project

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

Accounting for the Jaworzno project:

For the purposes of project execution, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO subcontracted approximately 88.5% of the scope of work, with RAFAKO being directly responsible for 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 the boiler's HP components and a dust removal unit), scheduled mainly for 2015−2017.

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

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

In the consolidated financial statements, RAFAKO sets off project-related income, expenses and settlements between RAFAKO and the special purpose vehicle. In its separate financial statements, RAFAKO S.A. recognises only revenue and expenses related to its own scope of work, i.e. 11.5% of the total scope of work to be performed on the Jaworzno project. In its separate financial statements, the parent does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. − they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

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

12.1.2. Opole project

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

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

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

(PLN '000)

Accounting for the Opole project:

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

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

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

12.2. Provision for losses on construction contracts

The Company recognises provisions for anticipated contract losses in accordance with the methodology described in Note 8.23.6.8.23.6 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 2016	*Dec 31 2015*
Opening balance	29,807	36,087
Provision for the obligation	10,650	16,957
Reversal of provision for the obligation	–	–
Utilisation of provision for liability	(21,218)	(23,237)
Closing balance	**19,239**	**29,807**
Short-term as at	19,239	29,807
Long-term as at	–	–
	19,239	**29,807**

12.3. Provision for liquidated damages for late contract completion or failure to meet technical parameters guaranteed under construction contracts

The Company recognises provisions for liquidated damages if there is significant probability that such damages will be charged for failure to meet technical specifications provided for in the contract and covered by liquidated damages, or if the performance of a contract has resulted in infringement of third parties' interests. The amount of such provision depends on the amount of liquidatd damages provided for in the contract for failure to meet technical specification or from measurable value of the liability towards third parties.

During the 12 months ended December 31st 2016, the Company reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under several current contracts. Using the most recent contract data and based on settlements of completed contracts, the Management Board decided to recognise a PLN 13,509 thousand provision for costs of late performance. Following execution of an agreement with a significant customer to extend a contract completion deadline, a PLN 8,653 thousand provision for costs of late performance was reversed in the 12 months ended December 31st 2016.

(PLN '000)

	Dec 31 2016	*Dec 31 2015*
Opening balance	–	1,946
Recognition of provision for liability	13,509	–
Reversal/utilisation of provision for liability	(8,653)	(1,946)
Closing balance	**4,856**	–
Short-term as at	4,856	–
Long-term as at	–	–
	4,856	–

13. Income and expenses

13.1. Revenue from sale of goods and services

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Net revenue from sale of goods	686,869	946,550
including: from related entities	695	3,059
Net revenue from sale of services	44,111	41,064
including: from related entities	2,336	697
Revenue from sale of other goods	3,368	
- including to related entities	–	–
Liquidated damages	–	(136)
Realised exchange differences on trade receivables	892	635
Exchange differences on valuation of trade receivables	518	(839)
Net revenue from sale of goods and services, total	**735,758**	**987,274**
including: from related entities	3,031	3,756

The decrease in revenue in 2016 was primarily attributable to the postponement of several small projects until 2017, limited progress of a contract awarded in the second half of 2016, and decline in the value of the Company's order book. Lower sales were recorded on both domestic and international markets.

The decrease in RAFAKO's sales and separate net profit resulted largely from the fact that the Company is responsible only for approximately 11% of the value of the contract for the construction of a 910 MW supercritical unit at the Jaworzno III Power Plant, and its separate financial statements reflect only that share of the project. The remaining 89% of the contract is being implemented by an SPV, a wholly-owned subsidiary of RAFAKO S.A., which the Company had to establish to secure the guarantees necessary to execute the contract. The aggregate value of revenue and profit from the Jaworzno contract is disclosed in the consolidated financial statements only.

13.2. Revenue from sale of materials

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Revenue from sale of materials	2,469	2,022
including: from related entities	–	1
Net revenue from sale of merchandise and materials, total	**2,469**	**2,022**
including: from related entities	–	1

(PLN '000)

Revenue from sales to related entities is presented in detail in Note 42 to these financial statements.

Sales of particular product groups by market are presented in section 3.2 of the Directors' Report on the RAFAKO S.A.'s operations for 2016.

13.3. Revenue by geography

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Revenue from sales to domestic customers	574,478	868,732
including: from related entities	2,703	697
Revenue from sales to foreign customers	163,749	120,564
including: from related entities	328	3,060
Net sales revenue, total	**738,227**	**989,296**
including: from related entities	3,031	3,757

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

13.4. Cost of sales

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Depreciation and amortisation	11,674	10,662
Raw materials and consumables used	425,660	425,766
Services	218,025	331,766
Taxes and duties	6,504	6,663
Salaries and wages	129,788	140,704
Social security and other employee benefits	30,137	32,144
Business travel expenses	6,842	7,318
Advertising expenses	3,535	4,863
Realised exchange differences	883	624
Unrealised exchange differences	257	(978)
Cost of insurance	997	1,167
Other expenses	1,023	887
Recognition of inventory write-down	3,409	2,731
Total expenses by nature	**838,734**	**964,317**
Change in inventories, provisions, prepayments and accruals (including adjustment under IAS 11)	(45,227)	9,532
Work performed by entity and capitalised	(403)	(1,123)
Distribution costs (negative value)	(31,578)	(28,564)
Administrative expenses (negative value)	(44,285)	(39,389)
Cost of products sold	**717,241**	**904,773**
Cost of merchandise and materials sold	2,463	2,056
Costs of sales	**719,704**	**906,829**

The year-on-year decrease in cost of sales in 2016 was caused principally by lower revenue, accompanied by higher provisions for liquidated damages and an increase in provisions related to warranty obligations under the completed contracts.

(PLN '000)

Distribution costs mainly include contract acquisition cost as well as cost of promotion and advertising. This item also includes impairment losses on trade receivables. Distribution costs recognised in the Company's comprehensive income for 2016 (PLN 31,578 thousand) were primarily attributable to contract acquisition costs (PLN 26,263 thousand) and costs of promotion and advertising (PLN 4,954 thousand).

Administrative expenses in 2016 totalled PLN 44,285 thousand, having increased by PLN 4,896 thousand year on year. The year-on-year increase in administrative expenses is attributable mainly to higher costs of legal and advisory services, including costs of business support services and costs of reorganisation.

13.5. Depreciation, amortisation, impairment losses, exchange differences and inventories recognised in the statement of profit or loss

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Items recognised as cost of sales (cost of merchandise and finished goods sold)		
Depreciation of property, plant and equipment	7,677	7,189
Amortisation of intangible assets	1,398	1,478
Warranty provisions	7,728	78
Net foreign exchange differences	1,140	(354)
Inventory write-downs	1,625	7,793
	19,568	**10,951**
Items recognised as distribution costs		
Depreciation of property, plant and equipment	499	380
Amortisation of intangible assets	87	78
Impairment losses on trade receivables	217	331
	803	**789**
Items recognised as administrative expenses		
Depreciation of property, plant and equipment	1,878	1,395
Amortisation of intangible assets	135	142
	2,013	**1,537**

(PLN '000)

13.6. Employee benefits expense

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Salaries and wages, including:	132,535	143,388
- current wages and salaries expense	129,788	140,704
- other benefits, including post-employment benefits	2,069	1,386
- provision for bonuses	201	1,121
- provision for holiday entitlements	477	177
Social security	30,137	32,144
	162,672	**175,532**
Items recognised as cost of sales (cost of merchandise and finished goods sold)	123,555	138,630
Items recognised as distribution costs	11,183	10,119
Items recognised as administrative expenses	27,934	26,783
	162,672	**175,532**

13.7. Other income

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Income from liquidated damages	67	369
Reversal of provision for amounts due to the state budget	–	157
Reversal of impairment loss on non-financial assets	13	238
Gain on sale of property, plant and equipment	65	118
Grants	486	1,399
Compensations received	–	332
Income under sureties*	4,964	5,652
Reversal of impairment loss on other receivables	220	–
Income from sale of profit opportunity	355	–
Materials recovered from liquidation of property, plant and equipment	461	–
Other	605	593
	7,236	**8,858**

*In 2015, the Company executed a surety agreement whereby it provided an irrevocable and unconditional surety for proper performance of all of the subsidiary's contractual obligations; in 2016, income under the surety less discount was PLN 4,964 thousand (2015: PLN 5,652 thousand).

(PLN '000)

13.8. Other expenses

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Donations	895	1,041
Scrapping of property, plant and equipment	295	151
Scrapping of materials	536	82
Repairs of property, plant and equipment	180	98
Legal costs	263	86
Power Engineer's Day organisation cost	509	506
Provision for voluntary redundancy programme	7,622*	–
Amortisation of licensing fees	–	3,444
Recognition of provision for cost of litigation and disputed claims	1,066	1,206
Trade union expenses	391	–
Recognition of impairment loss on other receivables	114	–
Compensations paid	–	690
Other	998	493
	12,869	**7,797**

*In December 2016, the Company paid out benefits of PLN 528 thousand under the voluntary redundancy programme, thus reversing provision for the same amount; for details, see Note 34.9.

13.9. Finance income

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Interest on financial instruments, including: interest on loans, past due receivables, deposits, and bank accounts	33	2,737
Interest on security deposits provided	782	2,373
Net foreign exchange gains	1,232	125
Reversal of impairment loss on investments	–	3,639
Discount (long-term accounts receivable and payable)	567	3,916
Dividends	–	11
Reversal of provisions for finance cost	–	281
Other finance income	2	321
	2,616	**13,403**

For details of finance income and finance costs related to financial instruments, see Note 48.2.48.2

(PLN '000)

13.10. Finance costs

	12 months ended Dec 31 2016	12 months ended Dec 31 2015
Interest on financial instruments, including: interest on loans, borrowings, lease, and past due liabilities	3,530	3,590
Interest on employee benefits	713	670
Other interest	38	32
Bank borrowing fees	876	889
Discount (long-term accounts receivable and payable)	1,476	–
Cost on measurement of financial instruments	2	159
Provision for finance cost	522	1,335
Other finance costs	4	241
	7,161	**6,916**

For details of finance income and finance costs related to financial instruments, see Note 48.2.48.2

14. Income tax expense

14.1. Income tax expense

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

	12 months ended Dec 31 2016	12 months ended Dec 31 2015
Statement of profit or loss		
Current income tax	–	41
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	41
Deferred tax	5,277	(6,892)
Related to recognition and reversal of temporary differences	5,277	(6,892)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**5,277**	**(6,851)**
Deferred tax on other comprehensive income	162	60
Related to recognition and reversal of temporary differences	162	60
Income tax expense recognised in other comprehensive income	**162**	**60**

In the reporting period, the Company filed with tax authorities corrected corporate tax returns for 2013 and 2014, which resulted in a PLN 135 thousand overpayment of income tax for previous years. The principal reasons for the corrections were adjustments to revenue and tax-deductible expenses, deduction of donations, and increased amount of allowable loss for the tax year.

(PLN '000)

14.2. 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 year ended December 31st 2016:

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Profit before tax from continuing operations	(67,518)	33,438
	(67,518)	**33,438**
Tax at statutory tax rate of 19%	(12,828)	6,353
Non-tax-deductible costs (permanent differences), including:	1,455	4,195
provision for liquidated damages	186	693
write-off of receivables, classified as non-tax-deductible	11	1,169
charitable donations	170	198
cost of entertainment	–	123
production costs of foreign branch	50	687
realised foreign exchange losses – non-deductible costs	–	210
other	1,038	1,114
Non-taxable income (permanent differences)	(390)	(3,346)
Reversal of impairment loss on receivables from related parties	(137)	–
from liquidated damages	(103)	(371)
due to the use of non-taxable provisions	–	(1,707)
dividends received	–	(3)
other	(150)	(1,266)
Other	(86)	(308)
Tax loss not capitalised	6,572	–
Correction of previous years' tax	–	(42)
Tax at the effective tax rate of 7.62% (2015: 20.49%)	**(5,277)**	**6,851**
Income tax (expense) in the statement of comprehensive income	(5,277)	6,851
Income tax attributable to discontinued operations	–	–
	(5,277)	**6,851**

(PLN '000)

14.3. Deferred income tax calculated as at December 31st 2016

Deferred income tax calculated as at December 31st 2016 relates to the following items of the financial statements:

	Statement of financial position		*Statement of comprehensive income*	
	Dec 31 2016	*Dec 31 2015*	*Dec 31 2016*	*Dec 31 2015*
- investment reliefs	(2)	(3)	1	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,688)	(15,214)	(474)	(872)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,512	1,433	79	(385)
- difference between tax base and carrying amount of loans and receivables	1,125	604	521	95
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(20,504)	(42,673)	22,169	(21,515)
- difference between tax base and carrying amount of inventories	2,276	1,967	309	486
- provisions	17,504	16,511	993	(1,514)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	34	21	13	(54)
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	6	(6)	(9)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	37,064	60,609	(23,545)	10,321
- tax loss	17,083	602	16,481	602
- adjustment to costs of unpaid invoices	7,763	18,419	(10,656)	6,292
other	10	456	(446)	(280)
Deferred tax expense/benefit			**5,439**	**(6,832)**
Net deferred tax asset/liability, including:	**48,177**	**42,738**		
Deferred tax asset	48,177	42,738		
Deferred tax liability	–	–		

As at December 31st 2015, the Company recognised a single deferred tax asset on the 2015 tax loss of PLN 3,169 thousand.

In 2016, the Company recorded a tax loss of PLN 121,331 thousand. The Company assessed its ability to realise a deferred tax asset on account of a tax loss based on tax forecasts. In line with the prudent valuation principle, the Management Board decided to recognise a deferred tax asset on a tax loss of PLN 86,742 thousand. No asset on the 2016 tax loss of PLN 34,589 thousand was recognised.

15. Proposed coverage of 2016 loss

The Management Board recommends that the net loss of PLN 62,241 thousand for 2016 be covered from the Company's reserve funds.

(PLN '000)

16. Earnings/(loss) per share

Earnings/(loss) per share are calculated as the quotient of net profit/(loss) for the reporting period attributable to holders of ordinary shares of the Company and the weighted average number of ordinary shares of the Company outstanding in the period.

Net profit/(loss) and shares applied to calculate earnings per share:

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Net profit/(loss) from continuing operations	(62,241)	26,587
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(62,241)	26,587
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings per share	**(62,241)**	**26,587**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	84,931,998	74,472,635
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share	84,931,998	74,472,635
Earnings/(loss) per share		
– basic earnings/(loss) from profit/(loss) for the period	(0.73)	0.36

The Company does not present diluted earnings/(loss) per share for the 12 months ended December 31st 2016 as it does not have any dilutive financial instruments.

17. Significant items disclosed in the statement of cash flows

The PLN 22,670 thousand decrease in receivables disclosed in the consolidated statement of cash flows for the 12 months ended December 31st 2016 resulted mainly from:

- PLN (41,163) thousand increase in trade receivables,
- PLN (8,091) thousand decrease in receivables from the state budget (including VAT),
- PLN 21,423 thousand decrease in prepayments made,
- PLN 54,618 thousand decrease in security deposits receivable,
- PLN (5,195) thousand increase in receivables under sureties,
- PLN (13,644) thousand increase in disputed receivables,
- PLN (1,460) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in 2016, see Note 27.

The PLN (110,510) thousand decrease in liabilities disclosed in the consolidated statement of cash flows resulted mainly from:

- PLN (145,276) thousand decrease in trade payables,
- PLN 19,883 thousand increase in VAT liabilities,
- PLN (2,560) thousand decrease in retirement benefit obligations (net of actuarial gains/(losses)),
- PLN 201 thousand increase in provision for bonuses,
- PLN 292 thousand increase in provision for uninvoiced services and goods,
- PLN 7,728 increase in provision for warranty repairs,
- PLN 1,447 thousand increase in provision for holiday entitlements,
- PLN 7,094 thousand increase in provision for the voluntary redundancy programme,
- PLN 1,651 thousand increase in other liabilities.

The PLN 85,218 thousand change in accruals and deferrals as disclosed in the statement of cash flows resulted mainly from:

- PLN (1,359) thousand decrease in gross amount due from customers for contract work and the related accruals and deferrals,
- PLN (13,386) thousand decrease in gross amount due to customers for contract work,
  including:
  PLN 1,699 thousand increase in advance payments,
- PLN (5,712) thousand decrease in provisions for contract work,

For a detailed description of the decrease in provisions, see Notes 12.2 and 12.3.

The PLN 1,699 thousand change in prepayments in 2016 resulted primarily from recognition of some of received advance payments as revenue, in accordance with IAS 11 *Construction Contracts*.

The amount of PLN 5,200 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 4,009 thousand and capital expenditure on intangible assets of PLN 1,191 thousand. The expenditure on property, plant and equipment was primarily related to the modernisation of the Company's buildings and structures as well as purchase of plant, equipment and vehicles. Expenditure on intangible assets was mainly incurred to purchase licences and software.

The PLN 37,773 thousand inflow from borrowings disclosed under financing activities in the statement of cash flows resulted from the increase in debt under the credit facility provided by PKO BP S.A.

The Company's cash from financing activities was also affected by interest of PLN 3,063 thousand paid on the PKO BP credit facility (December 31st 2015: PLN 3,521 thousand) and of PLN 59 thousand paid on a loan received.

(PLN '000)

18. Assets and liabilities of the Company Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994, as amended, stipulates that every employer with more than 20 full-time employees is obliged to create a social benefits fund and make periodic (basic and post-employment) contributions to the fund. The objective of the fund is to finance the Company's social activities, loans advanced to its employees and other social expenditure.

	Dec 31 2016	*Dec 31 2015*
Assets of Company's social benefits fund:	4,112	3,858
Cash	3,816	3,511
Loans advanced to employees	296	347
Liabilities to Social Benefits Funds	(3,875)	(3,559)
Net balance	**237**	**299**

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Contributions to the Social Benefits Fund during the reporting period	2,449	2,554
	2,449	**2,554**

(PLN '000)

19. Property, plant and equipment

December 31st 2016	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2016	**9,295**	**83,125**	**52,413**	**7,012**	–	**1,982**	**153,827**
Purchases	–	–	–	–	–	3,077	3,077
Lease agreements	–	–	–	1,832	–	–	1,832
Liquidation/sale	(15)	–	(349)	(474)	–	–	(838)
Transfers from property, plant and equipment under construction	–	469	3,143	222	–	(3,834)	–
Exchange differences on translating foreign operations	–	–	(2)	–	–	–	(2)
Depreciation for period	–	(2,501)	(5,925)	(1,629)	–	–	(10,055)
Impairment of property, plant and equipment in period	–	–	1	12	–	–	13
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	102	12	–	–	114
Net carrying amount as at Dec 31 2016	**9,280**	**81,093**	**49,383**	**6,987**	–	**1,225**	**147,968**
As at Jan 1 2016							
Gross carrying amount	9,295	107,053	112,848	10,240	2,471	1,982	243,889
Accumulated amortisation and impairment	–	(23,928)	(60,435)	(3,228)	(2,471)	–	(90,062)
Net carrying amount	**9,295**	**83,125**	**52,413**	**7,012**	–	**1,982**	**153,827**
As at Dec 31st 2016							
Gross carrying amount	9,280	107,521	112,471	11,047	2,471	1,225	244,014
Accumulated amortisation and impairment	–	(26,428)	(63,088)	(4,060)	(2,471)	–	(96,046)
Net carrying amount	**9,280**	**81,093**	**49,383**	**6,987**	–	**1,225**	**147,968**

*Tangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 29.1

(PLN '000)

December 31st 2015	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2015	**9,288**	**81,066**	**44,095**	**5,349**	–	**3,008**	**142,806**
Purchases	–	–	539	2,272	–	18,165	20,976
Acquired in business combinations	–	–	20	17	–	–	37
Liquidation/sale	(16)	–	(482)	(705)	–	–	(1,203)
Transfers from property, plant and equipment under construction	21	4,456	13,902	812	–	(19,191)	–
Exchange differences on translating foreign operations	–	–	(2)	–	–	–	(2)
Depreciation for period	–	(2,397)	(5,577)	(990)	–	–	(8,964)
Impairment of property, plant and equipment in period	–	–	–	28	–	–	28
Other, including reclassification of property, plant and equipment to/from assets held for sale	2	–	(82)	229	–	–	149
Net carrying amount as at Dec 31 2015	**9,295**	**83,125**	**52,413**	**7,012**	–	**1,982**	**153,827**
As at Jan 1 2015							
Gross carrying amount	9,288	102,597	101,078	8,402	2,494	3,008	226,867
Accumulated amortisation and impairment	–	(21,531)	(56,983)	(3,053)	(2,494)	–	(84,061)
Net carrying amount	**9,288**	**81,066**	**44,095**	**5,349**	–	**3,008**	**142,806**
As at Dec 31 2015							
Gross carrying amount	9,295	107,053	112,848	10,240	2,471	1,982	243,889
Accumulated amortisation and impairment	–	(23,928)	(60,435)	(3,228)	(2,471)	–	(90,062)
Net carrying amount	**9,295**	**83,125**	**52,413**	**7,012**	–	**1,982**	**153,827**

(PLN '000)

20. Property, plant and equipment held under leases

As at December 31st 2016, the Company held and used under finance leases vehicles with a gross carrying value of PLN 8,049 thousand as at their purchase date.

The economic useful lives of those assets are consistent with the lease terms, ranging from 24 to 60 months. The Company depreciates leased assets with the straight-line method.

As at December 31st 2015, the Company held and used under finance leases vehicles with a gross carrying value of PLN 6,923 thousand as at their purchase date.

21. Non-current assets held for sale

As at December 31st 2016, the Company classified non-current assets worth PLN 7 thousand (December 31st 2015: PLN 119 thousand) as assets held for sale.

	Dec 31 2016	*Dec 31 2015*
Non-current assets held for sale, including:		
plant and equipment	7	107
motor vehicles	–	12
	7	**119**

22. Intangible assets

December 31st 2016	*Goodwill*	*Patents and licenses*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2016	**1,774**	**9,714**	**–**	**11,488**
Purchases	–	396	793	1,189
Transfers from intangible assets under development	–	424	(424)	–
Amortisation for the year	–	(1,619)	–	(1,619)
As at Dec 31 2016	**1,774**	**8,915**	**369**	**11,058**
As at Jan 1 2016				
Gross carrying amount	1,774	24,393	1,371	27,538
Accumulated amortisation and impairment	–	(14,679)	(1,371)	(16,050)
Net carrying amount	**1,774**	**9,714**	**–**	**11,488**
As at Dec 31 2016				
Gross carrying amount	1,774	25,213	793	27,780
Accumulated amortisation and impairment	–	(16,298)	(424)	(16,772)
Net carrying amount	**1,774**	**8,915**	**369**	**11,058**

*Intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 29.2.

(PLN '000)

December 31st 2015	Goodwill	Patents and licenses	Intangible assets under development	Total
Net carrying amount as at Jan 1 2015	**376**	**8,788**	**–**	**9,164**
Purchases	–	–	1,371	1,371
Transfers from intangible assets under development	–	1,371	(1,371)	–
Acquired in business combinations	1,398	1,253	–	2,651
Amortisation for the year	–	(1,698)	–	(1,698)
As at Dec 31 2015	**1,774**	**9,714**	**–**	**11,488**
As at Jan 1 2015				
Gross carrying amount	376	23,054	3,779	27,209
Accumulated amortisation and impairment	–	(14,266)	(3,779)	(18,045)
Net carrying amount	**376**	**8,788**	**–**	**9,164**
As at Dec 31 2015				
Gross carrying amount	1,774	24,393	1,371	27,538
Accumulated amortisation and impairment	–	(14,679)	(1,371)	(16,050)
Net carrying amount	**1,774**	**9,714**	**–**	**11,488**

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

- Licence for BENSON supercritical boilers, with a carrying amount of PLN 3,222 thousand as at December 31st 2016 (December 31st 2015: PLN 3,337 thousand); the remaining licence amortisation period was eight years from December 31st 2015;
- Licence for catalytic NOx reduction technology, with a carrying amount of PLN 540 thousand as at December 31st 2016 (December 31st 2015: PLN 716 thousand); the remaining licence amortisation period was three years from December 31st 2015.

Goodwill

As at December 31st 2016, the Company disclosed goodwill of PLN 1,774 thousand, recognised on:

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

- 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.

Test for goodwill impairment

At the end of the reporting period, goodwill was tested for impairment following acquisition of control of an organised part of the business of PBG AVATIA sp. z o.o. by RAFAKO. The test was carried out by an independent expert based on the present value of estimated five-year cash flows allocated to a separate cash generating unit (IT department) and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 7.63%. The test did not reveal any impairment indicator.

(PLN '000)

Development work

In the 12 months ended December 31st 2016 and December 31st 2015, the Company made no expenditure on development work.

Business combinations

In the 12 months ended December 31st 2016, the Company did not merge with another entity.

23. Shares in subsidiaries and other entities

	Dec 31 2016	*Dec 31 2015*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	29,349	25,032
Shares in other listed companies	209	210
Shares in other non-listed companies	18	19
	29,576	**25,261**

*Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 29.3.

In the 12 months ended December 31st 2016, following a share capital increase at a subsidiary, the Company recorded an increase in shares held by PLN 4,317 thousand. For details of the transaction, see Note 5 to these financial statements.

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

	Dec 31 2016	*Dec 31 2015*
Trade receivables, including:	3	5,660
Trade receivables from related entities	–	–
Trade receivables from other entities	3	5,660
Other receivables and prepayments, including:	281	732
Receivables on sale of property, plant and equipment and intangible assets	185	494
Security deposits	96	238
Total receivables (net)	**284**	**6,392**
Impairment loss on receivables	–	–
Gross receivables	**284**	**6,392**

25. Other non-current financial assets

	Dec 31 2016	*Dec 31 2015*
Loans advanced	–	–
Long-term deposits, including:	–	–
- deposits pledged as security for bank guarantees provided to the Company	–	–
Other non-current financial assets, including:	34,994	35,628
Arrangement receivables from related entity	24,071	29,900
Receivables under surety provided to subsidiary	10,923	5,728
	34,944	**35,628**

(PLN '000)

In the 12 months ended December 31st 2016,the Company remeasured receivables from PBG S.A., as described in detail in 42.

The change in receivables relative to the amount disclosed as at December 31st 2015 follows from measurement of the receivables at amortised cost, taking into account the assumptions and estimates described in Note 6.

In 2017, the Company converted arrangement receivables from a related entity into bonds, as described in detail in Note 42 to these financial statements.

26. Inventories

	Dec 31 2016	*Dec 31 2015*
Materials (at net realisable value)	13,039	18,804
At cost	25,017	29,157
At net realisable value	13,039	18,804
Total inventories, at the lower of cost and net realisable value	**13,039**	**18,804**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note29.4.

Inventory write-downs

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
At beginning of period	(10,353)	(7,792)
- write-down recognised	(3,409)	(2,731)
- write-down reversed	1,784	170
Balance at end of period	**(11,978)**	**(10,353)**

(PLN '000)

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

	Dec 31 2016	*Dec 31 2015*
Trade receivables, including:	188,754	141,934
Trade receivables from related entities	662	1,695
Trade receivables from other entities	188,092	140,239
Income tax receivable	10,918	7,095
Other receivables and prepayments, including:	94,472	163,441
Advance payments to related parties	–	52
Advance payments to other entities	3,163	24,534
Receivables from the state budget	5,192	13,283
Settlement of property insurance costs	675	726
Settlements with the Company Social Benefits Fund	237	299
Disputed receivables	13,944	300
Prepaid expenses	2,377	1,032
Security deposits	68,068	122,686
Receivables on sale of property, plant and equipment and intangible assets	343	426
Other	473	103
Other receivables from related entities	–	–
Total receivables (net)	**294,144**	**312,470**
Impairment loss on receivables	31,834	31,636
Gross receivables	**325,978**	**344,106**

*Trade receivables pledged as security for the Company's liabilities as at the reporting date are presented in Note 29.5

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

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

The Company's policy is to sell its products exclusively to customers who have successfully passed a credit verification procedure. As a result, the management believes there is no additional credit risk that would exceed the uncollectible debt allowance made for trade receivables.

Short-term trade receivables of PLN 188,754 thousand recognised in the statement of financial position as at December 31st 2016 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 68,068 thousand disclosed in the statement of financial position as at December 31st 2016 relate mainly to the following projects:

- construction of a biomass-fired unit – PLN 14,865 thousand,
- SCR system – PLN 8,139 thousand,
- replacement of component parts of a combustion chamber – PLN 7,411 thousand,
- SCR system – PLN 3,359 thousand.

The change in security deposits in the year ended December 31st 2016 was primarily attributable to a PLN 40,000 thousand cash deposit returned in connection with the construction of a power generation unit and payment of a security deposit of PLN 14,865 thousand on account of the construction of a biomass-fired unit.

Advance payments represented a significant portion of other receivables, and amounted to PLN 3,955 thousand as at December 31st 2016. The largest item was an advance payment received under a contract for construction of catalytic flue gas NOx reduction system, of PLN 1,499 thousand.

(PLN '000)

27.1. Impairment losses on trade and other receivables

	Dec 31 2016	*Dec 31 2015*
At beginning of period, including:	(31,636)	(40,294)
- on receivables from related entities	–	–
Recognition of impairment loss on trade receivables	(539)	(1,253)
Recognition of impairment loss on other receivables	(205)	(526)
Reversal of impairment loss on trade receivables	322	922
Reversal of impairment loss on other receivables	220	9,515
Use of impairment loss on trade receivables	4	–
Balance at end of period	**(31,834)**	**(31,636)**
- on receivables from related entities	–	–

In 2016, the Company recognised a PLN 91 thousand impairment loss on accrued liquidated damages.

In 2015, the Company reversed PLN 8,977 thousand of impairment losses on accrued liquidated damages.

Presented below is a breakdown of short-term trade receivables and other financial receivables which were past due as at December 31st 2016 and December 31st 2015, 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 2016	271,109*	255,565	11,593	3,784	6	143	18

**Including short-term trade receivables, short-term receivables on account of sale of property, plant and equipment and intangible assets, security deposits and disputed receivables*

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
Dec 31 2015	265,346	261,997	1,940	1,233	155	21	–

**Including short-term trade receivables, short-term receivables on account of sale of property, plant and equipment and intangible assets, security deposits and disputed receivables*

(PLN '000)

28. Current financial assets

28.1. Loans advanced

Loans	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Receivables under advanced loans*	
						Dec 31 2016	*Dec 31 2015*
Short-term loans							
Natural persons*	Representation on submission to enforcement under Art. 777.1.5	cash loans granted to finance payments for shares in a subsidiary	PLN	1Y WIBOR + margin	31-12-2016	35	80
RAFAKO HUNGARY**	Blank promissory note with a promissory note declaration	EUR 95 thousand cash loan to finance contract performance	EUR	1M LIBOR+margin	20-12-2017	423	406
						458	**486**

**related parties having personal links with RAFAKO S.A.*
***subsidiary of RAFAKO S.A.*

(PLN '000)

28.2. Other current financial assets

	Dec 31 2016	*Dec 31 2015*
Other current financial assets, including:	11,130	5,946
Advance payment to acquire the right to a loan	10,500	10,500
Impairment loss on advance payment to acquire the right to a loan	(10,500)	(10,500)
Arrangement receivables from related entity	11,130	5,946
	11,130	**5,946**

In the 12 months ended December 31st 2016, in line with prior assumptions, the Company recognised the current portion of receivables from PBG S.A. under other financial assets, as discussed in Note 42.42

The change in the receivables from PBG S.A. relative to the amount disclosed as at December 31st 2015 follows from the reclassification of receivables maturing on June 30th 2017 to short-term receivables.

In 2017, the Company converted arrangement receivables from a related entity into bonds, as described in detail in Note 42 to these financial statements.

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

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

28.3. Cash and cash equivalents

	Dec 31 2016	*Dec 31 2015*
Cash in hand and at banks	65,075	14,766
Current deposits for up to 3 months, including:	807	82,343
- deposits pledged as security for contingent liabilities	–	–
	65,882	**97,109**
including: restricted cash	1,277	2,153

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

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

(PLN '000)

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

29.1. Property, plant and equipment pledged as security

As at December 31st 2016, property, plant and equipment pledged as security for liabilities amounted to PLN 140,441 thousand. The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property); and for BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. under an 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).

	Dec 31 2016	*Dec 31 2015*
Mortgaged property, plant and equipment, including:	90,182	92,225
land	9,258	9,273
buildings and structures	80,924	82,952
Property, plant and equipment encumbered with registered pledge, including:	50,259	53,566
plant and equipment	48,935	50,793
motor vehicles	1,324	2,773
	140,441	**145,791***

*The amounts include property, plant and equipment classified as held for sale, of PLN 7 thousand (December 31st 2015: PLN 119 thousand).

29.2. Intangible items pledged as security

As at December 31st 2016, intangible assets worth PLN 10,688 thousand were pledged as security for the Company's liabilities (December 31st 2015: PLN 11,449 thousand). The intangible assets were pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. under 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).

29.3. Inventories pledged as security

As at December 31st 2016, shares for an amount of PLN 29,576 thousand (December 31st 2015: PLN 25,261 thousand) were pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. under 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).

29.4. Inventories pledged as security

As at December 31st 2016, inventories worth PLN 13,039 thousand were pledged as security for the Company's liabilities (December 31st 2015: PLN 18,804 thousand). The inventories were pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. arising under 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).

29.5. Trade receivables pledged as security

As at December 31st 2016, trade receivables were not pledged as security for guarantees and borrowings received by the Group (December 31st 2015: PLN 26,137 thousand).

30. Equity

30.1. Share capital

In the 12 months ended December 31st 2016, there were no changes in RAFAKO S.A.'s share capital and as at December 31st 2016 the share capital was PLN 169,864 thousand.

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

In connection with the issue of bonds by PGB S.A., the Company's main shareholder, a registered pledge was created over RAFAKO shares held directly by PBG (7,665,999 shares) and indirectly through Multaros Trading Company Limited, a subsidiary of PBG S.A. (34,800,001 shares) for the benefit of PBG S.A. bondholders.

30.2. Par value per share

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

30.3. Shareholders' rights

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

30.4. Share premium

In the 12 months ended December 31st 2016, there were no changes in the share premium, and as at December 31st 2016 the share premium was PLN 95,340 thousand.

In the 12 months ended December 31st 2015, following the issue of Series J shares, the share premium was PLN 62,862 thousand, while the direct costs of the issue were PLN 4,300 thousand. Following recognition of PLN 58,562 thousand as share premium, less the issue cost, the share premium totalled PLN 95,340 thousand.

30.5. Dividends paid

In 2016 and by the date of issue of these financial statements, the Company did not pay dividends nor did the Management Board declare such payment.

(PLN '000)

30.6. Capital management

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

	Dec 31 2016	*Dec 31 2015*
Share of debt in equity		
Total	328,760	391,823
Borrowed funds (bank and non-bank borrowings)	149,112	111,213
Total equity and liabilities	829,104	986,971
Capitalisation ratio (equity / total assets)	**0.40**	**0.40**

31. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A. at the end of the reporting period

Shareholder	*Number of shares*	*Number of voting rights*	*Ownership interest*	*% of total vote at GM*
PBG S.A. * **including:**	42,466,000	42,466,000	50% plus 1 share	50% plus 1 share
held directly:	7,665,999	7,665,999	9.026%	9.026%
held indirectly through Multaros Trading Company Limited ** (a subsidiary of PBG S.A.):	34,800,001	34,800,001	40.974%	40.974%
Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.**	8,048,507	8,048,507	9.480%	9.480%
Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.*/****, including:**	7,662,062	7,662,062	9.020%	9.020%
QUERCUS PARASOLOWY SFIO	5,791,025	5,791,025	6.820%	6.820%
Other	26,755,429	26,755,429	31.500%	31.500%

* Based on a notification of September 9th 2015.
** Based on a notification of July 30th 2015.
*** Based on a notification of September 10th 2015.
****As at March 6th 2017, the Investment Funds held 4,163,086 shares in RAFAKO and the same number of voting rights at its General Meeting, representing 4.90% of RAFAKO's share capital and the same percentage of total voting rights at its General Meeting.

(PLN '000)

32. Interest-bearing borrowings

As at December 31st 2016, the Company carried liabilities under bank borrowings.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under bank and non-bank borrowings*	
						Dec 31 2016	*Dec 31 2015*
Short-term bank borrowings							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts,* clause providing for debt set-off against RAFAKO's cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company	Renewable PLN 100m revolving facility***	PLN	1M WIBOR + margin	30.06.2017****	99,394	109,208
PKO BP S.A.	registered pledge over a set of movables and rights comprising the entire business of RAFAKO, all claims that may arise in relation to the advanced limit	PLN 50m revolving working capital facility	PLN	1M WIBOR + margin	30.06.2017****	47,713	–
						147,107	**109,208**
Short-term non-bank borrowings:							
PGL-DOM Sp. z o.o.*****	blank promissory note with a promissory note declaration	cash loan agreement for financing of day-to-day operations	PLN	1M WIBOR + margin	31.12.2017	2,005	2,005
						2,005	**2,005**

*The facility is secured by receivables under contracts executed by the Company.

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

***As at the date of issue of these financial statements, in accordance with the annex of June 30th 2016 to the credit facility agreement, the multi-purpose credit facility limit was PLN 200,000,000.00, including a PLN 100,000,000.00 overdraft facility.

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

*****A subsidiary.

The Company plans to extend the credit facility agreement for subsequent periods. The Company's credit standing should be analysed taking into account the information presented in Note 7.

33. Employee benefit obligations

33.1. Post-employment and other benefits

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

	Dec 31 2016	*Dec 31 2015*
As at Jan 1 2012	25,473	26,803
Interest expense	713	670
Current service costs	501	403
Actuarial (gains)/losses	854	314
Benefits paid	(2,714)	(2,717)
Reversal of provision for employee benefit obligations*	(1,060)	–
Closing balance	**23,767**	**25,473**
Long-term provisions	21,773	23,500
Short-term provisions	1,994	1,973

*In the year ended December 31st 2016, the Company reversed provisions for employee benefit obligations of PLN 1,060 thousand with respect to employees who declared to participate in the voluntary redundancy programme (for details, see Note 34.9).

The main assumptions adopted by the actuary as at December 31st 2016 and for the 12 months then ended and as at December 31st 2015 and for the 12 months then ended to determine the amount of the obligation were as follows:

	Dec 31 2016	*Dec 31 2015*
Discount rate (%)	3.1	2.8
Expected inflation rate (%)*	–	–
Employee turnover rate	5	5
Expected salary growth rate (%)**	2.81	2

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

Sensitivity analysis

Change of the discount rate by half percentage point:

	Increase (PLN '000)	*Decrease (PLN '000)*
Dec 31 2016		
Effect on the defined benefit obligation	(1,087)	1,180
Dec 31 2015		
Effect on the defined benefit obligation	(1,121)	1,336

(PLN '000)

34. Trade and other payables

34.1. Long-term trade and other payables

	Dec 31 2016	*Dec 31 2015*
Trade payables, including:		
Payables to related entities	100	55
Payables to other entities	11,774	20,741
	11,874	**20,796**
Amounts payable for tangible and intangible assets	16	112
	16	**112**
Financial liabilities, including:		
Finance lease liabilities	2,662	3,111
	2,662	**3,111**
Other liabilities, including:		
Unpaid bonus accrual	531	311
Provisions for warranty repairs	5,717	4,325
Amounts payable under voluntary redundancy programme	1,460	–
	7,708	**4,636**

34.2. Short-term provisions, trade and other payables

	Dec 31 2016	*Dec 31 2015*
Trade payables, including:		
Payables to related entities	4,972	9,235
Payables to other entities	115,477	247,568
	120,449	**256,803**
Amounts payable for tangible and intangible assets	954	1,790
	954	**1,790**

(PLN '000)

	Dec 31 2016	Dec 31 2015
Other liabilities		
VAT	21,301	1,418
Personal income tax	2,104	2,116
Social security liabilities	7,320	7,537
Other taxes, customs duties and insurance payable	5	72
Salaries and wages payable	6,987	6,952
Accrued holiday entitlements	3,553	3,076
Unpaid bonus accrual	6,765	6,784
Provisions for warranty repairs	13,936	7,600
Accrual for costs of uninvoiced materials and services	5,120	4,828
Accrual for audit fees	56	111
Provisions for other liabilities and disputed claims	5,802	7,000
Amounts payable under voluntary redundancy programme	5,634	–
Provision for penalty imposed by the PFSA	700	–
Other amounts payable to employees	398	279
Security deposits	289	144
Other	608	1,027
	80,578	**48,944**
Other financial liabilities		
Finance lease liabilities	1,616	1,278
	1,616	**1,278**

In provisions for other liabilities and disputed claims, the Company disclosed a provision for claims by the Company's customers relating to the services provided by the Company.

34.3. Liabilities under financial derivatives

As at December 31st 2016, the Company carried no open FX contracts with a negative fair value.

34.4. Amounts payable for tangible and intangible assets

As at December 31st 2016, the Company had commitments related to purchase of property, plant and equipment of PLN 970 thousand (December 31st 2015: PLN 1,895 thousand).

As at December 31st 2016, the Company was also party to certain agreements related to planned capital expenditure totalling PLN 331 thousand, which was not disclosed in the accounting books at the end of the reporting period.

(PLN '000)

34.5. 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 2016	*Dec 31 2015*
Opening balance	3,076	3,289
Provision for the obligation	477	3,076
Cost of benefits paid	–	–
Reversal of provision for the obligation	–	(3,289)
Closing balance	**3,553**	**3,076**
Short-term as at	3,553	3,076
Long-term as at	–	–
	3,553	**3,076**

34.6. Unpaid bonus accrual

The Company pays to its employees an annual bonus whose amount depends on the achievement by the Company of its 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, the Management Board, upon consultation with the Trade Unions, makes a decision as to the payment of a discretionary bonus to the Company employees. During the financial year, the Company recognises an accrual for the annual bonus in the amount provided for in the CBA, unless the Company's Management Board decides not to recognise the accrual. The Company also recognises an accrual for bonuses to project managers, which are paid upon completion of contracts.

	Dec 31 2016	*Dec 31 2015*
Opening balance	7,095	8,441
Provision for the obligation	6,560	6,066
Cost of benefits paid	(5,566)	(6,555)
Reversal of provision for the obligation	(793)	(857)
Closing balance	**7,296**	**7,095**
Short-term as at	6,765	6,784
Long-term as at	531	311
	7,296	**7,095**

(PLN '000)

34.7. Provision for warranty repairs

Provisions for warranty repairs are recognised based on estimates of expected and measurable costs of oversight, repairs and warranty works related to contractual commitments of the Company arising from completed construction contracts.

	Dec 31 2016	*Dec 31 2015*
Opening balance	11,925	11,847
Provision for the obligation	17,996	9,702
Costs of warranty repairs incurred	(10,268)	(9,624)
Reversal of provision for the obligation	–	–
Closing balance	**19,653**	**11,925**
Short-term as at	13,936	7,600
Long-term as at	5,717	4,325
	19,653	**11,925**

34.8. Liabilities under bank guarantees and sureties issued

The Company 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 arose under a credit agreement of June 25th 2008, reported by the Company in previous periods. The Company used the provision in 2015.

	Dec 31 2016	*Dec 31 2015*
Opening balance	–	745
Provision for the liability	–	66
Surety costs incurred	–	(811)
Reversal of provision for the liability	–	–
Closing balance	–	–
Short-term as at	–	–
Long-term as at	–	–
	–	–

34.9. Amounts payable under the voluntary redundancy programme

On November 15th 2016, the Management Board of RAFAKO resolved to launch a voluntary redundancy programme for the Company employees. The term of the programme was from December 1st 2016 to January 31st 2017.

The programme's objective was to adjust the level, structure and costs of employment at RAFAKO to the current market situation to avoid the need to initiate the collective redundancy procedure. The scheme was to cover around 200 employees and was addressed in particular to:

- employees at retirement age,
- employees who were entitled to pre-retirement protection,
- other employees meeting the requirements set out in the programme rules.

(PLN '000)

One-hundred and seventy-six employees applied to participate; 128 applications were approved and the final amount of the resulting obligations (fully provisioned for, charged to the Company's 2016 profit or loss) will be PLN 7,622 thousand.

	Dec 31 2016	*Dec 31 2015*
Opening balance		–
Provision for the obligation	7,622	–
Utilisation	(528)	–
Reversal of provision for the obligation		–
Closing balance	**7,094**	–
Short-term as at	5,634	–
Long-term as at	1,460	–
	7,094	–

34.10. Income tax payable

As at December 31st 2016 and December 31st 2015, the Company carried no income tax payable.

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 in these areas are relatively new in Poland, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within public administration bodies and between the public administration and businesses, leading to uncertainty and conflicts. Consequently, the 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 Company.

In the 12 months ended December 31st 2016, no tax inspections were carried out at the Company.

In the 12 months ended December 31st 2015, no tax inspections were carried out at the Company.

35. Grants

Grants recognised as at December 31st 2016 amounted to PLN 521 thousand. The grants 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; 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 'CO2 methanisation unit for storing electricity by producing SNG' executed 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 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 CCTV system; the grant was made in cash,

(PLN '000)

- Prevention activities of Powszechny Zakład Ubezpieczeń S.A. and InterRisk Towarzystwo Ubezpieczeń S.A., Vienna Insurance Group, under which the insurance companies co-finance the fire safety improvement programme in a production building of RAFAKO; the grant was made in cash,
- Municipal polygeneration system fired with biomass and refuse-derived fuel, a research project pursued in partnership with EXERGON Sp. z o.o. of Gliwice, TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, EQTEC of Spain, CEA Institute of France, and Atmostat of France; the grant was made in cash.

Grant settlements:

Purpose of the grant	*As at Jan 1 2016*	*Increase*	*Grants recognised as other income*	*Grants returned*	*Other decrease in grants*	*As at Dec 31 2016*
Modernisation of property, plant and equipment	153	57	(14)	–	–	196
Partial performance of research project	654	142	(471)	–	–	325
	807	**199**	**(485)**	**–**	**–**	**521**

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

In the 12 months ended December 31st 2016, the Company did not issue, redeem or repay any debt or equity securities.

In the 12 months ended December 31st 2015, the Company issued 15,331,998 allotment certificates (rights to shares) for Series J ordinary bearer shares, which were first traded on the main market of the Warsaw Stock Exchange on July 29th 2015. On September 7th 2015, the District Court of Gliwice, 10th Commercial Division, registered the Company's increased share capital of PLN 169,863,996.

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

37. Use of proceeds

Proceeds from the share issue carried out in 2015, of PLN 89,225 thousand, were used in 2016, of which:

- PLN 29,187 thousand was used as security for new financial instruments,
- PLN 11,309 thousand was used as financing support for new contracts,
- PLN 5,129 thousand was used to finance R&D work in 2016.

(PLN '000)

38. Liabilities under finance leases and rental contracts with purchase option

As at December 31st 2016, future minimum lease payments under finance leases and rental contracts purchase option and the net present value of minimum lease payments were as follows:

	Dec 31 2016		*Dec 31 2015*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	2,499	1,616	1,809	1,278
from 1 to 5 years	2,797	2,662	3,451	3,111
over 5 years	–	–	–	–
Total minimum lease payments	**5,296**	**4,278**	**5,260**	**4,389**
Less finance costs	(1,017)	–	(871)	–
Present value of minimum lease payments, including:	**4,278**	**4,278**	**4,389**	**4,389**
short-term	1,616	1,616	1,278	1,278
long-term	2,662	2,662	3,111	3,111

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

	Dec 31 2016	*Dec 31 2015*
Receivables under bank guarantees received mainly as security for performance of contracts, including:	207,835	235,544
- from related entities	–	–
Receivables under sureties received, including:	–	7,600
- from related entities	–	–
Promissory notes received as security, including:	25,289	26,667
- from related entities	11,536	13,204
Letters of credit	655	–
	233,779	**269,811**

	Dec 31 2016	*Dec 31 2015*
Commitments under bank guarantees issued mainly as security for performance of contracts, including:	200,609	201,181
- to related entities	–	–
Liabilities under sureties, including:	1,394,668	1,046,000
- to related entities	1,394,668	1,046,000
Promissory notes issued as security, including:	6,952	28,747
- to related entities	2,000	2,000
Letters of credit	–	–
	1,602,229	**1,275,928**

In 2016, RAFAKO S.A.'s contingent liabilities increased by PLN 326,301 thousand, mainly due to the increase in the amount of sureties. In the 12 months of 2016, guarantees (mainly performance bonds of PLN 107,950 thousand and bid bonds of PLN 45,745 thousand) were issued by banks and insurance companies to the Group's trading partners upon the parent's instructions. In this category of liabilities, the largest item was a performance bond of PLN 20,569 thousand issued in September 2016. Liabilities under sureties issued, of PLN 1,394,668 thousand, comprise a surety covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the Jaworzno project (construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant). The largest item among the guarantees which expired in 2016 was a EUR 3,000 thousand bid bond.

In 2016, the Company's contingent receivables decreased by PLN 36,032 thousand (mainly performance bonds), including a decrease of PLN 27,709 thousand in receivables under bank and insurance guarantees, a decrease of PLN 1,378 thousand in receivables under promissory notes, and a PLN 655 thousand increase in receivables under letters of credit opened for the Company. The largest item among the guarantees received in 2016 was a PLN 3,060 thousand performance bond. The largest item among the guarantees which expired in 2016 was a EUR 3,012 thousand advance payment guarantee.

40. Guarantees

As at December 31st 2016, the Company carried contingent liabilities under bank and insurance guarantees with a total amount of PLN 200,609 thousand, including:

No.	*Guarantee provider:*	*Guarantee amount (PLN '000)*	*Type of guarantee*
1.	BZ WBK S.A.	1,587	warranty bond
2.	DEUTSCHE Bank Polska S.A.	80	warranty bond
3.	T.U. Euler HERMES S.A.	2,956	performance bond, advance payment guarantee
4.	STU ERGO HESTIA S.A.	50,446	performance bond, warranty bond
5.	PKO BP S.A.	90,919	performance bond, warranty bond, advance payment guarantee, bid bond, retention
6.	UNIQA TU S.A.	1,825	warranty bond, bid bond
7.	TUiR WARTA S.A.	9,316	performance bond, warranty bond
8.	Generali TU S.A.	8,551	performance bond, warranty bond, advance payment guarantee
9.	InterRisk	26,997	performance bond, warranty bond, bid bond
10.	KUKE	7,309	performance bond, warranty bond
11.	mBank	623	performance bond
	TOTAL	**200,609**	

In most cases, the insurers' claims under the provided guarantees are secured by blank promissory notes with promissory note declarations, while the banks' claims are secured mainly by blank promissory notes with promissory note declarations and cash security deposits.

41. Litigation and disputes

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

On December 9th 2014, RAFAKO received a claim for payment of EUR 644.5 thousand from ESPD Environmental Solutions and Project Development GmbH of Vienna (ESPD). The Company'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 DeNOx units. RAFAKO'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 the Company was paid to ESPD, but RAFAKO S.A. remains in dispute, and on January 21st 2016 it filed an appeal against the award with the Court of Appeals in Katowice. In its judgment of November 18th 2016, the Court dismissed the appeal. The judgment is final and has been complied with by the Company.

On August 2nd 2016, RAFAKO received, as leader of the consortium (with OMIS S.A.) performing the contract for NOx reduction in OP-650 boilers No. 1, 2 and 3 at the Ostrołęka Power Plant B, a debit note for PLN 13,491 thousand from ENERGA Elektrownie Ostrołęka S.A. (ENERGA). The damages were charged by ENERGA for: i) late completion of assembly work, and ii) delay in commissioning of the unit. Subsequently, as a result of negotiations held between the parties, ENERGA decided to waive the second penalty in whole, which reduced the debit note amount by PLN 899,400. On September 20th 2016, the consortium filed an action with the Regional Court of Białystok for determining non-existence of the liabilities towards ENERGA in connection with non-performance or improper performance of the contract. On October 27th 2016, ENERGA sent a letter to RAFAKO and OMIS S.A. in which it notified them of deducting PLN 6,453,698.68, representing part of liquidated damages, from current payments due to the consortium under the contract. The deduction amount attributable to RAFAKO is PLN 4,177,451.83. The consortium refuses to accept the set-off, which it deems groundless given the contested grounds for charging the liquidated damages, which are now under litigation. In consequence, the consortium will amend its action to a demand for payment of the deducted amount with interest. Next, on November 4th 2016, the Regional Court of Białystok, as part of the pending litigation, decided to refer the case to mediation. The Court appointed a mediator and extended the mediation deadline until the end of March 2017. For detailed information on the current status of the litigation, see Note 50 to these financial statements.

On October 11th 2016, the parent filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, demanding payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of the amounts retained by Mostostal as a performance bond. The grounds for the claim were that the parties terminated their cooperation under the subcontractor agreement for design, delivery and erection of a grid, boiler and flue gas treatment system for two lines of the Thermal Waste Treatment Plant in Szczecin, concluded on December 18th 2012 (eventually, on July 7th 2016, RAFAKO submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project had been discontinued, Mostostal Warszawa S.A. was obliged to refund the amounts retained as a performance bond, because the contractual basis for providing a performance bond had ceased to exist. On October 19th 2016, the Regional Court of Gliwice issued a payment order for the full amount claimed by RAFAKO. On November 25th 2016, the Court received an objection against the payment order lodged by Mostostal Warszawa S.A. On March 20th 2017, the Company filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 plus statutory interest accrued from November 18th 2016, based on the invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. or Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the Company carried out a relevant survey of the work performed and delivered the results to the debtors. In the Company's opinion, it is only the amount of the claim that may be disputed – when awarded by the Court, it may ultimately depend on results of the survey carried out by a court expert.

42. Arrangement receivables from related entity

At the end of the reporting period, in the statement of financial position the Company recognised net receivables of PLN 35.2m from a related entity with respect to which a court issued a ruling to approve an arrangement with creditors and discontinue bankruptcy proceedings (gross amount of PLN 193.1m, net of impairment loss and amortised cost). The receivables were recognised in connection with the events described in detail in Note 47 to the full-year financial statements of RAFAKO for 2015. After the Bankruptcy Court's decision to approve the arrangement between PBG S.A. and its creditors, dated October 8th 2015, became final on June 13th 2016, the Company used the impairment loss on the above receivables for a total amount of PLN 156.9m. Under the arrangement, the date of the first cash repayment to the Company was set for June 30th 2016 and the remaining instalments were to be repaid on a semi-annual basis in 2016–2020. However, in accordance with the agreement made by the Company with PBG S.A. on November 8th 2016, the date of the first payment was postponed until November 28th 2016. On November 9th 2016, PBG S.A. announced that it had commenced the procedure to issue bonds offered to creditors which in accordance with the Arrangement were to have their claims satisfied as Group 1, 3, 4, 5 and 6 creditors (RAFAKO's receivables were recorded in Group 3, comprising creditors who are PBG S.A.'s subsidiaries).

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

(PLN '000)

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

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

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

   In accordance with the bond programme, as at the date of approval of these financial statements, PBG S.A. had issued bonds with a total value of PLN 472,447,600.00, of which PLN 38,849,200.00 was acquired by the Company after the end of the reporting period.

2. The bonds issued by PGB S.A. are secured bonds within the meaning of the Bonds Act. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (which represents 50% plus 1 share in RAFAKO's share capital), mortgages over PBG Group's properties (including one mortgage securing another financial liability of PBG S.A.), registered pledges over other assets of the PBG Group, sureties and declarations of voluntary submission to enforcement up to the amount of PLN 1,065,000,000.00. In the opinion of the Management Board, the provided collateral and the total amount payable under the bonds as at the date of these financial statements are sufficient to consider the receivables as recoverable.

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

Taking into consideration the successful completion of the voluntary arrangement process and performance of the arrangement by PBG S.A., the Management Board believes that Company's acquisition of bonds secured by a registered pledge on the Company shares and mortgages significantly changes the circumstances and prospects for recovery of the receivables, compared with December 31st 2015 and June 30th 2016 (described in the respective financial statements). Given the current circumstances (and taking into account the events subsequent to the reporting date, as described above), as at the date of these financial statements, the Management Board deems the risk of non-recovery of the receivables as minimal.

(PLN '000)

43. Related parties

In 2016 and 2015, the Company did not enter into any material transactions with related parties on non-arm's length terms.

Total amounts of related-party transactions executed in the 12 months ended December 31st 2016 and December 31st 2015 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.	2016	822	3,713	35,201*	1
	2015	138	20	36,015*	1
PBG Group companies:					
PBG oil and gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	2016	94	37,153	9	1,260
	2015	13	13,008	17	5,409
PBG Avatia Sp. z o.o.	2016	–		–	–
	2015	–	2,690	–	–
PBG ERIGO Sp. z o.o.	2016	14	–	7	–
	2015	3	–	3	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	2016	74	–	8	–
	2015	13	–	16	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2016	–	57	–	1
	2015	–	57	–	1
RAFAKO Engineering Sp. z o. o.	2016	1,018	6,638	1,046	2,176
	2015	137	1,064	1,066	1,019
RAFAKO Engineering Solution doo.	2016	–	3,189	–	2
	2015	–	737	–	123
RAFAKO Hungary Sp. z o.o.	2016	328	–	310	3
	2015	3,058	–	1,194	–
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2016	151	8,768	6	1,364
	2015	53	11,140	11	2,127
E001RK Sp. z o.o.	2016	7	240	–	25
	2015	6	326	–	25
E003B7 Sp. z o.o.	2016	1,019	7	11,109	10
	2015	335	–	5,767	–
RENG-Nano Sp. z o.o.	2016	3	–	–	–
	2015	–	–	–	–

Related party	12 months ended Dec 31	Sale to related parties	Purchase from related parties	Receivables from related entities	Liabilities to related parties
Entities related through personal links:					
PBG Foundation	2016	–	439	–	–
	2015	–	399	–	113
SWGK CONSULTING Sp. z o.o.	2016	–	59	–	–
	2015	–	596	–	100
Mostostal Energomontaż Gliwice S.A.	2016	–	–	–	102
	2015	–	18	–	372
Energoprojekt Katowice	2016	–	–	–	–
	2015	–	265	–	–
BPIL Grzegorz Kiczor	2016	–	185	–	37
	2015	–	–	–	–
Dwór w Smólsku	2016	1	201	–	25
	2015	–	–	–	–
Corporate Finance & IT Sp. z o.o.	2016	251	–	27	–
	2015	–	–	–	–
FCS Business Solutions Sp. z o.o.	2016	2	–	–	–
	2015	–	–	–	–
Primesoft Sp. z o.o.	2016	–	–	–	73
	2015	–	–	–	–

**The receivables from PBG S.A. described in Note 42*

43.1. Company's parent

As at the date of these financial statements, PBG S.A. was the parent of RAFAKO S.A.

As at December 31st 2016, 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).

43.2. Joint ventures

The Company is not a partner in any joint ventures.

43.3. Related-party transactions

In 2016, the Company 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 Company in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond or a blank promissory note. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

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43.4. 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 Company's Management or Supervisory Boards.

In the reporting and comparable periods, the Company did not enter into any transactions with members of its Management Board.

43.5. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the Company or the Company's related parties held by the management and supervisory staff as at December 31st 2016:

	Company	*Total number of shares*	*Par value of shares (PLN)*
Member of the management staff			
Edward Kasprzak	RAFAKO	2,000	4,000
Jarosław Dusiło	PBG S.A.	100	100
Tomasz Tomczak	PBG S.A.	3,250	3,250
Member of the supervisory staff			
Małgorzata Wiśniewska	PBG S.A.	3,279	3,279
Jerzy Wiśniewski	PBG S.A.	177,029,534	177,029,534

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

The Company does not operate any employee stock option plans.

43.7. Remuneration of the Company's senior management staff

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Short-term employee benefits (salaries and overheads)	10,351	9,043
Length-of-service awards	31	37
Termination benefits	–	19
Total cost of remuneration paid to key management staff	**10,382**	**9,099**

The remuneration paid to members of the Company's Management and Supervisory Boards for the year ended December 31st 2016 was as follows:

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	Base pay	*Awards*	*Other*
Management Board	**3,120**	**1,248**	**191**
Agnieszka Wasilewska-Semail	720	288	38
Krzysztof Burek	600	240	6
Jarosław Dusiło	600	240	8
Edward Kasprzak	600	240	5
Wiesław Różacki	–	–	103
Tomasz Tomczak	600	240	31
Supervisory Board	**1,008**	**–**	**1,344**
Jerzy Wiśniewski	240	–	600
Dariusz Sarnowski	228	–	–
Piotr Wawrzynowicz	–	–	504
Małgorzata Wiśniewska	108	–	240
Przemysław Schmidt	108	–	–
Adam Szyszka	108	–	–
Dariusz Szymański	108	–	–
Krzysztof Gerula	108	–	–
Total	**4,128**	**1,248**	**1,535**

The remuneration paid to members of the Company'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
Wiesław Różacki	–	–	488
Paweł Mortas	–	–	120
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
Adam Szyszka	108	–	1
Dariusz Szymański	58	–	–
Krzysztof Gerula	3	–	–
Total	**4,147**	**1,309**	**1,992**

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

The Company did not publish forecasts for 2016.

(PLN '000)

45. Agreement with qualified auditor or auditing firm qualified to audit financial statements, applicable in the periods specified above

The table below presents the remuneration paid or payable to the qualified auditors of financial statements for the years ended December 31st 2016 and December 31st 2015, by type of service:

Type of service	*Year ended Dec 31 2016*	*Year ended Dec 31 2015*
Mandatory audit of the separate and consolidated financial statements	200	200
Other services	–	235
Total*	**200**	**435**

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

46. Objectives and policies of financial risk management

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

The Company does not trade in financial instruments. The role of all financial instruments discussed in this section is to support the core business processes. The Company does not use financial instruments for speculative or other purposes not directly related to its principal business.

The Company's key financial risk is liquidity risk, discussed in Note 7

In 2016, the Company continued its PLN 150m overdraft facility agreement with PKO BP S.A., exposing it to interest rate risk that will impact the amount of finance costs paid by the Company in the following periods. Moreover, the credit facility's reference interest rate remained relatively low and constant.

Other types of financial risks to which the Company was exposed in the reporting period and continues to be exposed to currently are currency risk and interest rate risk. An overview of the risks is presented in Notes 48.1and 46.2.

The accounting policies applied by the Company with respect to derivative instruments are discussed in Note 8.11.

(PLN '000)

46.1. Interest rate risk

As at December 31st 2016, the credit facility agreement discussed above was the source of the Company's interest rate risk. Changes in market interest rates may trigger changes in the ammount of interest charged on the credit facility, as well as the amount of interest earned by the Company on its 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). The effect on the Company's equity is not presented.

	Increase/ decrease (percentage points)	***Effect on pre-tax profit/loss***
Period ended Dec 31 2016		
PLN	+ 1%	368
EUR	+ 1%	675
GBP	+ 1%	–
PLN	- 1%	(368)
EUR	- 1%	(675)
GBP	- 1%	–

	Increase/ decrease (percentage points)	***Effect on pre-tax profit/loss***
Period ended Dec 31 2015		
PLN	+ 1%	1,792
EUR	+ 1%	568
GBP	+ 1%	14
PLN	- 1%	(1,792)
EUR	- 1%	(568)
GBP	- 1%	(14)

46.2. Currency risk

Currency risk is a significant financial risk for the Company; the source of the risk are exchange rate movements, causing uncertainty as to the level of future cash flows denominated in foreign currencies. The Company'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 22.1% of the Company's invoiced revenue was denominated in foreign currencies, primarily the euro.

The Company's currency risk management strategy provides for the use of natural hedging to the largest possible extent. The Company seeks 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 contract singing, exclusively with accepted types of derivative instruments. As at December 31st 2016, the Company did not have any open hedge positions.

Given its expected revenue and expenses and the present structure of its net currency exposure, the Company refrained from entering into new hedging FX transactions for purchase or sale of foreign currencies within the limits set under its currency risk hedging policy. The Company periodically updates its currency positions and based on such update it makes decisions on hedging the positions.

(PLN '000)

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 mainly in the EUR, GBP, CZK, TRY, and RSD exchange rates, *ceteris paribus*.

	Exchange rate increase/decrease	*Effect on pre-tax profit/loss*	*Effect on net profit/loss*
Dec 31 2016 – EUR	+10%	8,673	7,025
	-10%	(8,673)	(7,025)
Dec 31 2016 – GBP	+10%	2	2
	-10%	(2)	(2)
Dec 31 2016 – CZK	+10%	3	2
	-10%	(3)	(2)

	Exchange rate increase/decrease	*Effect on pre-tax profit/loss*	*Effect on net profit/loss*
Dec 31 2015 – EUR	+10%	10,925	8,849
	-10%	(10,925)	(8,849)
Dec 31 2015 – GBP	+10%	143	116
	-10%	(143)	(116)
Dec 31 2015 – TRY	+10%	51	41
	-10%	(51)	(41)
Dec 31 2015 – CZK	+10%	2	2
	-10%	(2)	(2)
Dec 31 2015 – RSD	+10%	1	1
	-10%	(1)	(1)

46.3. Commodity price risk

The Company 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 commodity 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 Group manages the commodity price risk by seeking to ensure that its contracts with sub-suppliers are denominated in the currency of the master contract; that employers are responsible for procurement of materials; and that procurement contracts provide for fixed prices of deliveries. The Company does not enter into long-term contracts with sub-suppliers. The scope of supplies is determined and suppliers selected on a case-by-case basis, depending on current needs.

46.4. Credit risk

The Company's exposure to credit risk is closely related to its principal business activities. 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 significant payment delays. Providing credit to trading partners is an essential part of the Company's business. However, the Company undertakes a number of measures to mitigate the risk of trading with potentially unreliable customers. Each customer who wishes to trade on credit terms is subject to credit verification procedures.

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

For detailed information on receivables involving higher credit risk, see Notes 41 and 42.

(PLN '000)

46.5. Liquidity risk

The Company is exposed to liquidity risk arising from the mismatch of cash flow maturities under current contracts. The Company seeks to achieve the maximum possible 'self-financing' of its contracts; assuming timely payment of receivables, such arrangements significantly reduce the liquidity risk. The nominal amount of credit facilities available to the Company provides a strong buffer against any negative consequences of potential delays in payment of receivables. Since 2013, the Company has used external sources of financing. The credit limits available at banks, used to a significant extent, were sufficient to finance the Company's operations.

The Company's financial liquidity (going concern) in 2016 is discussed at length in Note 7 to these financial statements.

The table below presents the Company's financial liabilities by maturity as at December 31st 2016 and December 31st 2015, based on contract cash flows.

Dec 31 2016	*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	–	–	149,112	–	–	149,112
Lease liabilities	–	401	1,264	2,613	–	4,278
Trade payables and capital commitments	20,605	78,631	22,086	12,636	166	134,124
	20,605	**79,032**	**172,462**	**15,249**	**166**	**287,514**

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	–	–	111,213	–	–	111,213
Lease liabilities	–	314	964	3,111	–	4,389
Trade payables and capital commitments	29,437	177,237	51,887	21,988	598	281,147
	29,437	**177,551**	**164,064**	**25,099**	**598**	**396,749**

47. Derivative instruments

As at December 31st 2016, the Company did not carry any open positions in derivative financial instruments.

(PLN '000)

48. Financial instruments

48.1. 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 2016 and December 31st 2015.

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

Classes and categories of financial assets	*Carrying amount Dec 31 2016*	*Carrying amount Dec 31 2015*
Assets at fair value through profit or loss	–	–
Investment fund units	–	–
Derivative instruments	–	–
Available-for-sale financial assets	**209**	**210**
Long-term shareholdings	209	210
Loans and receivables	**317,536**	**314,295**
Trade receivables	188,757	147,594
Receivables on sale of property, plant and equipment and intangible assets	185	920
Other receivables	82,012	123,721
Loans advanced	458	486
Long-term deposits	–	–
Short-term deposits	–	–
Other non-current financial assets	34,994	35,628
Other current financial assets	11,130	5,946
Cash and cash equivalents	**65,882**	**97,109**
	383,627	**411,614**

Classes and categories of financial liabilities	*Carrying amount Dec 31 2016*	*Carrying amount Dec 31 2015*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**282,405**	**390,714**
Borrowings	149,112	111,213
Trade payables (including capital commitments)	133,293	279,501
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**4,278**	**4,389**
Liabilities under leases and rental contracts with purchase option	4,278	4,389
	286,683	**395,103**

(PLN '000)

As at December 31st 2016 and December 31st 2015, the Company held the following financial instruments measured at fair value:

December 31st 2016	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	–	–
Investment fund units	–	–	–
Derivative instruments	–	–	–
Available-for-sale financial assets	**209**	–	–
Long-term shareholdings	209	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

December 31st 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	–	–	–

(PLN '000)

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

12 months ended December 31st 2016	*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*	*Discount*	*Other*	*Total*
Financial assets									
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	2	–	–	–	2
- shares	Available for sale	–	–	–	2	–	–	–	2
Other financial assets (non-current), including:		–	–	154,057	–	–	(878)	–	153,179
- receivables under surety		–	–	–	–	–	(396)	–	(396)
- receivables from related entities	Receivables and loans	–	–	154,057	–	–	(482)	–	153,575
Other financial assets (current), including:		5	15	–	–	–	–	–	20
- short-term loans	Receivables and loans	5	15	–	–	–	–	–	20
Trade and other receivables	Receivables and loans	786	1,978	(198)	–	–	161	–	2,727
- trade receivables		4	1,410	(213)	–	–	142	–	1,343
- other receivables		782	568	15	–	–	19	–	1,384
Cash and cash equivalents	Receivables and loans	24	649	–	–	–	–	–	673
Total		**815**	**2,642**	**153,859**	**2**	–	**(717)**	–	**156,601**

(PLN '000)

12 months ended December 31st 2016	*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*	*Discount*	*Other*	*Total*
Financial liabilities									
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(3,193)	–	–	–	–	–	(876)	(4,069)
- loans bearing interest at variable rates	Other financial liabilities at amortised cost	(59)	–	–	–	–	–	–	(59)
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(3,134)	–	–	–	–	–	(876)	(4,010)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(204)	(4)	–	–	–	–	–	(208)
- liabilities under finance leases and rental contracts with purchase option	Other financial liabilities at amortised cost	(204)	(4)	–	–	–	–	–	(208)
Trade and other payables	Other financial liabilities at amortised cost	(846)	(1,140)	(241)	–	–	(819)	–	(3,046)
– trade payables		(133)	(1,114)	–	–	–	(814)	–	(2,061)
– other liabilities		(713)	(26)	(241)	–	–	(5)	–	(985)
					–				
Total		**(4,243)**	**(1,144)**	**(241)**	–	–	**(819)**	**(876)**	**(7,323)**

(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 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:		6	2	–	1,668	–	–	1,676
- long-term loans	Receivables and loans	6	2	–	4	–	–	12
- receivables under surety		–	–	–	(837)	–	–	(837)
- receivables from related entities	Receivables and loans	–	–	–	2,501	–	–	2,501
Other financial assets (current), including:		–	84	–	–	–	–	84
- short-term deposits	Receivables and loans	–	84	–	–	–	–	84
Trade and other receivables	Receivables and loans	4,935	29	8,658	1,363	–	–	14,985
- trade receivables		2,562	(204)	(331)	1,389	–	–	3,416
- other receivables		2,373	233	8,989	(26)	–	–	11,569
Cash and cash equivalents	Receivables and loans	169	(194)	–	–	–	–	(25)
Total		**5,110**	**(79)**	**8,658**	**2,872**	–	**11**	**16,572**

(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	(3,293)	–	–	–	–	(889)	(4,182)
- loans bearing interest at variable rates	Other financial liabilities at amortised cost	(60)	–	–	–	–	–	(60)
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(3,233)	–	–	–	–	(889)	(4,122)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(156)	(1)	–	–	–	–	(157)
- liabilities under finance leases and rental contracts with purchase option	Other financial liabilities at amortised cost	(156)	(1)	–	–	–	–	(157)
Trade and other payables	Other financial liabilities at amortised cost	(843)	354	–	(28)	–	–	(517)
– trade payables		(141)	377	–	(16)	–	–	220
– other liabilities		(702)	(23)	–	(12)	–	–	(737)
Total		**(4,292)**	**353**	–	**(28)**	–	**(889)**	**(4,856)**

(PLN '000)

48.3. Liquidity risk

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

December 31st 2016

Fixed interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	–	–	–	–	–	–	–
Variable interest							
Cash and cash equivalents	65,882	–	–	–	–	–	65,882
Loans advanced	458	–	–	–	–	–	458
Liabilities under finance leases and rental contracts with purchase option	1,665	1,609	811	193	–	–	4,278
Borrowings	149,112	–	–	–	–	–	149,107
	217,117	**1,609**	**811**	**193**	–	–	**219,730**

(PLN '000)

December 31st 2015

Fixed interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	–	–	–	–	–	–	–
Variable interest							
Cash and cash equivalents	97,109	–	–	–	–	–	97,109
Loans advanced	486	–	–	–	–	–	486
Liabilities under finance leases and rental contracts with purchase option	1,278	1,316	1,254	489	52	–	4,389
Borrowings	111,213	–	–	–	–	–	111,213
	210,086	**1,316**	**1,254**	**489**	**52**	–	**213,197**

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 maturity. Other financial instruments held by the Company, not presented in the tables above, earn no interest and are therefore not exposed to the interest rate risk.

49. Employment

In 2016, the average headcount in the Company was 2,045.

For a detailed description of changes in the employment structure, see section III.4 in Directors' Report on the Operations of RAFAKO S.A. in 2016.

50. Events after the end of the reporting period

After the end of the reporting period, no events took place that would affect RAFAKO S.A.'s financial results.

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

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

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

(PLN '000)

In the period from the reporting date to the date of issue of these financial statements, the Company's Management Board was engaged in negotiations with Energa Elektrownie Ostrołęka S.A. to reach an amicable settlement of the dispute presented in detail in Note 41. In the opinion of the Management Board, there is a chance to settle the dispute amicably.

These financial statements were authorised for issue on March 21st 2017 by virtue of the RAFAKO Management Board's resolution dated March 21st 2017.

Signatures:

March 21st 2017	Agnieszka Wasilewska-Semail	President of the Management Board	....
March 21st 2017	Krzysztof Burek	Vice President of the Management Board	....
March 21st 2017	Jarosław Dusiło	Vice President of the Management Board	....
March 21st 2017	Edward Kasprzak	Vice President of the Management Board	....
March 21st 2017	Tomasz Tomczak	Vice President of the Management Board	....
March 21st 2017	Jolanta Markowicz	Chief Accountant	....